

Sanusi Lamido Sanusi: Growth prospects for the Nigerian economy

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1. Introduction

Nigeria's economic aspirations have remained that of altering the structure of production and consumption patterns, diversifying the economic base and reducing dependence on oil, with the aim of putting the economy on a path of sustainable, all-inclusive and non-inflationary growth. The implication of this is that while rapid growth in output, as measured by the real gross domestic product (GDP), is important, the transformation of the various sectors of the economy is even more critical. This is consistent with the growth aspirations of most developing countries, as the structure of the economy is expected to change as growth progresses.

Successive governments in Nigeria have since independence in 1960, pursued the goal of structural changes without much success. The growth dynamics have been propelled by the existence and exploitation of natural resources and primary products. Initially, the agricultural sector, driven by the demand for food and cash crops production was at the centre of the growth process, contributing 54.7 per cent to the GDP during the 1960s. The second decade of independence saw the emergence of the oil industry as the main driver of growth. Since then, the economy has mainly gyrated with the boom-burst cycles of the oil industry. Government expenditure outlays that are dependent on oil revenues have more or less dictated the pace of growth of the economy. Looking back, it is clear that the economy has not actually performed to its full potential particularly in the face of its rising population.

In general, economic growth and population growth rates are very close that the margin cannot induce the required structural transformation and economic diversification. The Nigerian economy has grossly underperformed relative to her enormous resource endowment and her peer nations. It has the 6th largest gas reserves and the 8th largest crude oil reserves in the world. It is endowed in commercial quantities with about 37 solid mineral types and has a population of over 150 million persons. Yet economic performance has been rather weak and does not reflect these endowments. Compared with the emerging Asian countries, notably, Thailand, Malaysia, China, India and Indonesia that were far behind Nigeria in terms of GDP per capita in 1970, these countries have transformed their economies and are not only miles ahead of Nigeria, but are also major players on the global economic arena. Indeed, Nigeria's poor economic performance, particularly in the last forty years, is better illustrated when compared with China which now occupies an enviable position as the second largest economy in the world. In 1970, while Nigeria had a GDP per capita of US\$233.35 and was ranked 88th in the world, China was ranked 114th with a GDP per capita of US\$111.82.

The major factors accounting for the relative decline of the country's economic fortunes are easily identifiable as political instability, lack of focused and visionary leadership, economic mismanagement and corruption. Prolonged period of military rule stifled economic and social progress, particularly in the three decades of 1970s to 1990s. During these years, resources were plundered, social values were debased, and unemployment rose astronomically with concomitant increase in crime rate. Living standards fell so low, to the extent that some of the best brains with the requisite skills to drive the developmental process left in droves to other nations, and are now making substantial contributions to the economic success of their host countries.

However, since 1999, the country returned to the path of civil democratic governance and has sustained uninterrupted democratic rule for a period of 11 years. This in itself is a great achievement and gives reason for hope in a country that has been burdened with almost three decades of military rule. It has provided an opportunity to arrest the decline of the past and provide the launch pad for the take-off into an era of sustainable and all-round economic development. The successive civilian administrations since 1999 have committed to tackling the daunting challenges. Economic growth has risen substantially, with annual average of 7.4 per cent in the last decade. But the growth has not been inclusive, broad-based and transformational. Agriculture and services have been the main drivers of growth. The implication of this trend is that economic growth in Nigeria has not resulted in the desired structural changes that would make manufacturing the engine of growth, create employment, promote technological development and induce poverty alleviation. Available data has put the national poverty level at 54.4 per cent. Similarly, there has been rising unemployment with the current level put at 19.7 per cent by the National Bureau of Statistics (NBS). Furthermore, the country lags behind her peers in most human development indicators. For example, while China and Thailand are on the 5th and 22nd positions, respectively, on the 2009 Global Hunger Index, Nigeria was ranked 46th. This can be traced largely to the huge infrastructure deficit, rising insecurity, mass corruption and widespread poverty.

1.2 Problem statement

In the light of the poor performance of the economy since independence despite the huge mineral, material and human endowment, as well as the accelerating dynamics of the global economy, what are the prospects of the economy in the short-to-medium term? In other words, can the Nigerian economy move from the historical sluggish growth trends to a vibrant growth path that can transform the structure of the economy and enable her to attainment the vision enunciated under Vision 20:2020 and launch her into the league of advanced economies?

1.3 Objectives and structure of the paper

This lecture, therefore, seeks to examine the growth prospects for the Nigerian economy in the short-to-medium-term perspective, in the light of its relatively poor economic performance since independence and her abundant natural and human resources. Following this introduction, section 2 shares some thoughts on economic development, while section 3 reviews the Nigerian economy in perspective, through policy regimes to the nature and structure of the economy and performance trends. The challenges facing the Nigerian economy are discussed in section 4, while the economic prospects are discussed in section 5. Section 6 concludes the lecture.

2. Some thoughts on growth and development

Every nation strives for development. Economic progress is merely a component of development but development goes beyond pure economics. In an ultimate sense, development must encompass more than the material and financial side of people's lives. Development is, therefore, a multidimensional process involving the reorganization and reorientation of the entire economic and social systems. In addition to improvements in incomes and output, it typically involves radical changes in institutional, social and administrative structures, as well as in popular attitudes and in many cases even customs and beliefs.

The post World War II literature on economic development has been dominated by four major and, sometimes, competing strands of thought: (a) the linear-stages- of-growth model, (b) theories and patterns of structural change (c) international dependence revolution, and

(d) the neoclassical, free-market counterrevolution. I will review each of these in what follows.

The stages of growth model of development, was advocated by an American economic historian W.W. Rostow (1960). He propounded that it was possible to identify all societies, in their economic dimensions, as lying within one of five categories: the traditional society, the preconditions for take-off into self-sustaining growth, the take-off, the drive to maturity and the age of high mass consumption. He further stated that one of the principal strategies of development necessary for take-off was the mobilization of domestic and foreign savings to generate sufficient investment to accelerate economic growth. This view assumes that domestic and foreign savings only are sufficient for growth. The theory was supported by the Harrod-Domar model (1939; 1946) which demonstrated that countries with higher savings ratio are expected to grow faster than those with lower rates and that the main obstacle to or constraint on development is the relatively low level of new capital formation in most developing countries. In practice, however, it has been observed that the mechanisms of development embodied in the theory of stages of growth do not always work. This is not because savings and investment are not a necessary condition for growth but because they are not a sufficient condition. Savings and investment will propel growth if and only if such other conditions as integrated commodity and developed financial (money and capital) markets, highly developed infrastructure, well-trained and educated workforce, the motivation to succeed, and an efficient government bureaucracy/institutions, etc. are prevalent.

The proponents of the structural change model instead, focus on the mechanism by which underdeveloped countries transform their economies from a heavy emphasis on the traditional subsistence agriculture to a more modern, more urbanized and more industrially-diverse manufacturing and service economy. One of the earliest best known theoretical models of development that focused on this was W. Arthur Lewis (1950). According to the Lewis model, the underdeveloped country consists of two sectors: a traditional, over populated rural subsistence sector characterized by zero marginal labour productivity, implying that some labour could be withdrawn from the sector without loss of output, and a highly-productive modern urban industrial sector into which labour from the subsistence sector is gradually transferred. Critics of this model however, observe that in the absence of a set of interrelated changes in the economic structure of a country, transition from the traditional economic system to a modern one would be impossible, notwithstanding the huge accumulation of capital, physical and human resources. Structural change involves virtually all economic functions, including the transformation of production and changes in the composition of consumer demand, international trade and resource use.

The Lewis model has also been criticized on grounds of the unrealistic nature of some of its assumptions. In the first place, it is unrealistic to assume that the rate of labour transfer and employment creation in the industrial-sector is proportional to the rate of the industrial sector capital accumulation. Much as it is plausible to assume that the faster the rate of capital accumulation, the higher the growth rate of the modern sector and the faster the rate of new job creation. It is, however, possible that the profits in the modern-sector are invested in more sophisticated labour-saving capital equipment rather than just duplicating the existing capital as is implicitly assumed in the Lewis model. Again the assumption that surplus labour exists in the rural areas while there is full employment in the modern sector is unrealistic as contemporary research indicates that there is little general surplus labour in rural areas. In the same vein, the assumption of a competitive modern-sector labour market that guarantees the continued existence of constant real urban wages up to the point where the supply of rural surplus labour is exhausted is unrealistic. One striking feature of the urban labour market and wage determination in almost all developing countries is the tendency for the wages to rise substantially over time both in absolute terms and relative to the rural areas even in the presence of open modern-sector unemployment and low or zero marginal productivity in agriculture. Institutional factors such as labour unions' bargaining power, civil service wage scales, and multinational corporations' employment practices constitute

distortions in the labour markets. In all, when one considers the labour saving bias of the modern technological transfer, the existence of substantial capital flight, the widespread dearth of trained rural surplus labour, the prevalence of urban surplus labour, the Lewis two sector model, though very valuable as an early conceptual framework for development process, requires considerable modification to fit the reality of contemporary developing nations.

Given the failure of the Lewis model to meet the challenges of the realities of contemporary developing countries, the International-Dependence Revolution model which relies on the belief that developing countries are beset by institutional, political and economic rigidities, both domestic and international, and are caught in a dependent and dominance relationship with rich countries. There are three streams of thought within this general approach: ***the neoclassical dependence model, the false paradigm model and the dualistic development thesis***. The neoclassical dependence model attributes the existence and continuance of underdevelopment primarily to the historical evolution of a highly marginal international capitalist system of rich country-poor country relationships. It states that the co-existence of rich and poor nations in an international system dominated by such marginal power relationships between the centre (the developed countries) and the periphery (the LDCs) renders efforts by poor nations to be self-reliant and independent difficult and, sometimes, even impossible. It went further to state that certain groups in the developing countries, including landlords, entrepreneurs, military rulers, politicians, merchants, salaried public officials and trade union leaders, who enjoy high incomes, social status and political power, constitute a small elite ruling class and work to perpetuate the international capitalist system of inequality. The false-paradigm model which attributes under-development to the faulty and inappropriate advice provided by well-meaning but often uninformed international "experts" from developed country assistance agencies and multinational donor agencies.

The Dualistic-Development Thesis postulates that the world is made up of dual societies, of rich nations and poor nations and, in developing countries, pockets of wealth within broad areas of poverty. This concept of dualism embraces four key arguments:

- i. Different sets of conditions of which some are "superior" and others "inferior" can co-exist in a given space;
- ii. This coexistence is chronic and not merely transitional;
- iii. The degrees of superiority or inferiority do not show any signs of diminishing, but have an inherent tendency to increase; and
- iv. The interrelations between the superior and inferior elements are such that the existence of the superior elements does not pull up the inferior ones.

These theories and many others like them are not without their shortcomings but, as is usual of theories, they are merely representations of reality and not reality itself. The critical message from them is that development is multidisciplinary and that notwithstanding their shortcomings, each of them still captures some aspects, at least, of the challenges of contemporary developing countries. Developing countries can be categorized into the stages of development proposed by W. W. Rostow but that fact does not guarantee the highest growth rate to any country that mobilizes the most savings and investment. The Lewis model emphasizes structural transformation which admittedly is a challenge to many developing countries. However the assumption on the surplus labour in the rural area and that of automatic employment for such labour from the agricultural sector, the quality of labour, notwithstanding, is unrealistic. The International-Dependence Revolution emphasizes the dependence of poor countries on their rich counterparts both with respect to financial aid and technical support. At least the recent global meltdown has shown that there is some benefit in not always following the advice of the "experts". In all, therefore, for a developing country most of the models are important but the selection of which to apply in a particular economy should be done with great caution.

3. Nigerian economy in perspective

3.1 Policy regimes

The Nigerian economy has undergone series of changes over time with different policy regimes. Prior to 1986, a medium-term “development plan” was adopted as a major framework for developing and restructuring the economy. The First National Development Plan, 1962–1968, was developed to put the economy on a fast growth path. The plan gave adequate priority to agriculture and industrial development as well as training of high-level and intermediate manpower. However, the disruptions to economic activities during the period later paved way for broader economic policies for reconciliation and reconstruction. Thus, the Second National Development Plan, 1970–1974, was launched primarily to reconstruct and rehabilitate infrastructure that had been damaged during the civil war. Thus, the government invested a lot of resources into the construction and rehabilitation of infrastructure as well as improving the incomes of the people.

The Indigenization Decrees of 1972 and 1974 put the commanding heights of the Nigerian economy in the hands of Nigerians within the context of nationalism. The Third National Development Plan, 1975–1980, was designed under a more favorable financial condition of huge oil revenues that accrued to the nation from the mid-1970s. However, the execution/Implementation of the Fourth National Development Plan, 1981–1985, was affected by the collapse of the international oil prices. In 1982 the government introduced the Economic Stabilization Act as an immediate reaction to dwindling oil earnings and major external sector imbalances. This was aimed at reducing government expenditure and conserving foreign reserves in order to improve the country’s balance sheet. It was however found that there was need for a more fundamental reform to compliment the austerity measures. In 1986, the government accepted the International Monetary Fund-sponsored Structural Adjustment Programme (SAP). The SAP aimed at removing cumbersome administrative controls and creating a more market-friendly environment underpinned by measures and incentives that would encourage private enterprise and more efficient allocation of resources. One might argue the SAP recorded some measure of success. However, some of the gains of the SAP were eroded following the increased spate of policy reversals between 1988 and 1989.

Up to 1990, the economy witnessed some gains which were associated with increased deregulation and liberalization in economic management. However, owing to policy slippages, there was a reversal of trends in major macroeconomic aggregates thereafter, resulting from policy reversals and inconsistencies. Generally, frequent policy inconsistencies and reversals that characterized the period under review created distortions in the economy and were further compounded by external shocks, including the external debt overhang. Overall, SAP failed to realize the goals of creating wealth and promoting sound economic development as most of the policies were terminated prematurely or reversed out rightly.

The experimentation with deregulation and liberalization was truncated in 1994 with the advent of a military government. Thus, the Federal Government reregulated the economy, by capping exchange and interest rates due to high nominal interest rates that reached an all-time high of 48.0 per cent in commercial banks and 60.0 per cent in non-bank financial institutions. These rates were in turn driven by the high rates of inflation at 48.8 per cent in 1992 and 61.3 per cent in 1993. As there was no clear economic strategy for the rest of the decade, the monetary policy implementation became ineffective to check expansionary fiscal operations. In addition, weak institutions and an unfriendly legal environment reduced the benefits that would have accrued to the economy. However, the scenario changed in 1999, with the return of democratic governance in the country. Democratic governments have introduced series of reforms that were aimed at redressing the distortions in the economy and to restore economic growth following the period of economic decline. In 2004 the government’s economic agenda was formally launched and tagged the National Economic Empowerment and Development Strategy (NEEDS).

3.1.1

Within the context of the Central Bank of Nigeria (CBN), a medium-term policy framework adopted since 2002 was to free monetary policy implementation from the problem of time inconsistency and minimize over-reaction to temporary shocks. However, periodic amendments are constantly made to the policy guidelines in the light of developments in the financial markets and performance of the economy. Thus, in 2005, some new reforms were introduced as "amendments and addendum" to the 2004/2005 monetary policy circular. Even though, emphasis on techniques and instruments to achieve these objectives continually changed over the years, the authority has continued to sanitize and restructure the financial sector. Thus, in 2004 the banking sector consolidation was initiated aimed at recapitalizing the banks and ensuring a sustainable and stable financial system that would support the real sector of the economy.

3.1.2 *On-going banking sector reforms*

Perhaps, a pertinent question to ask at this juncture is: why we have embarked on another banking sector reform four years after the previous one was begun. The recent global financial crisis strained the gains that were made in the Nigerian financial services sector from the 2004/2005 banking sector consolidation. The experience in the industry, however, followed the global trends. The global financial crisis adversely affected the Nigerian financial services sector, particularly the banking sector. Indeed, a section of banking industry was badly affected as some banks were in grave condition and faced liquidity problems, owing to their significant exposure to the capital market in the form of margin loans and share-backed lending, which stood at about N900.0 billion as at end-December, 2008. The amount represented about 12.0 per cent of aggregate credit of the industry or 31.9 per cent of shareholders' funds. Furthermore, in the wake of the high oil prices, a section of the industry that was extensively exposed to the oil and gas sector was also badly affected. As at end-December, 2008, banks' total exposure to the oil industry stood at over N754.0 billion, representing over 10.0 per cent of the industry total and over 27.0 per cent of the shareholders' funds.

The excessive exposure resulted in some weaknesses, notably liquidity problems, exhibited by some of the banks towards the end of 2008. As part of its liquidity support, the CBN Discount Window was expanded in October 2008 to accommodate money market instruments such as Bankers' Acceptances and Commercial Papers. As at June 2009, the banks' total commitment under the Expanded Discount Window (EDW) was over N2,688.84 billion, while the outstanding commitments was over N256.0 billion, most of which were owed by less than half of the banks in operation. When the CBN closed down the EDW and, in its place, guaranteed inter-bank placements, it was observed that the same banks were the main net-takers under the guarantee arrangement, indicating that they had more deep-rooted liquidity problems. Further investigation by the CBN identified eight interdependent factors as the main origin of the crisis in the banking sector. These include:

- Sudden capital inflows and macroeconomic instability
- Poor corporate governance and character failure
- Lack of investor and consumer sophistication
- Inadequate disclosure and lack of transparency
- Critical gaps in regulatory framework and regulations
- Uneven supervision and enforcement
- Weaknesses within the CBN
- Weaknesses in the business environment

It was against this background that the CBN moved decisively to strengthen the industry, protect depositors and creditors' funds, safeguard the integrity of the industry and restore public confidence. In that regard, the CBN replaced the chief executives/executive directors of the banks identified as the source of instability in the industry and injected the sum of N620.0 billion into the banks in an effort to prevent a systemic crisis. Arrangements were also made to recover non-performing loans from banks' debtors, while guaranteeing all foreign credits and correspondent banking commitments of the affected banks. Furthermore, the Bank proposed the establishment of the Asset Management Corporation of Nigeria (AMCON). The AMCON Act was passed by the National Assembly and signed into law by the President. The AMCON as a resolution vehicle is expected to soak the "toxic assets" of the banks. Members of the Board of Directors of AMCON have also been cleared by the Senate while the Board itself has been inaugurated and held its first meeting to chart the way forward towards the attainment of its mandate.

The CBN is also collaborating with the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) to reduce the cost of transactions, particularly bond issuance so as to diversify funding sources away from banks, as well as attract more foreign portfolio investors into the sector. Efforts are also being intensified towards strengthening regulatory and supervisory framework and enhancing monitoring of the operations of the deposit money banks (DMBs) to ensure that they remain safe, sound and healthy.

To further engender public confidence in the banking system and enhance customer protection, the CBN established the Consumer and Financial Protection Division to provide a platform through which consumers can seek redress. In the first three months of its operation, about 600 consumer complaints were received by the Division which was a manifestation of the absence of an effective consumer complaints resolution mechanism in banks. The CBN has also issued a directive to banks to establish Customer Help Desks at their head offices and branches. In addition, the CBN has commenced a comprehensive review of the Guide to Bank Charges with a view to making the charges realistic and consumer friendly. Furthermore, the Consumer and Financial Protection Division is expected to commence a programme of consumer education and enlightenment and is also collaborating with the Consumer Protection Council on the review of the Consumer Protection Council Act No. 66 of 1992, to regulate and enforce discipline in the market.

The CBN has taken steps to integrate the banking system into the global best practices in financial reporting and disclosure through the adoption of the International Financial Reporting Standards (IFRS) in the Nigerian Banking Sector by end 2010. This is expected to enhance market discipline, and reduce uncertainties which limit the risk of unwarranted contagion. The CBN is also, closely collaborating with other stakeholders like the Nigerian Accounting Standard Board (NASB), Federal Ministry of Finance (FMF), NDIC, SEC, and NAICOM; PENCOM, Federal Inland Revenue Service (FIRS), and the Institute of Chartered Accountant of Nigeria (ICAN), among others, towards ensuring a seamless full adoption of IFRS in the Nigerian banking sector by 2012. These efforts are being pursued under the aegis of the Roadmap Committee of Stakeholders on the Adoption of IFRS in Nigeria inaugurated by the NASB and facilitated by the World Bank.

The universal banking (UB) model adopted in 2001, allowed banks to diversify into non-banking financial businesses. Following the consolidation programme, banks became awash with capital, which was deployed to multiples of financial services. In effect, the laudable objectives of the UB model were abused by operators, with banks operating as financial supermarkets to the detriment of core banking practices. To address the observed challenges, the CBN has reviewed the UB model with a view to refocusing banks to their core activity of intermediation. Under the new model, banks would not be allowed to invest their capital or depositors funds in non-bank subsidiaries, while banks with such investments would be required to either divest or spin-off the businesses to holding companies that will be licensed by the CBN as other financial institutions. The three classes of deposit money banks being proposed are: International banks, National banks and Regional banks.

In addition to the reforms in the banking sector, the CBN has also focused attention in facilitating economic development in Nigeria through its developmental role and in recognition of the fact that the financial sector needs to support real sector activities to enhance the future prospects of the Nigerian economy. In this regard, the CBN has taken the lead in the financing of the real sector and infrastructure projects, and enhancing credit to the real sector. A N500.0 billion fund was established out of which N300 billion is for power/infrastructure and aviation sectors and N200.0 billion for the refinancing/restructuring of banks' existing loan portfolios to manufacturers/SMEs. Also, a N200 billion Small and Medium Enterprises (SMEs) Credit Guarantee Scheme was created to complement the earlier N200 billion Commercial Agricultural Fund for loans to farmers. Thus far, the CBN has released over N190.0 billion out of which N130.0 billion has been disbursed, out to the manufacturers/SMEs at a fixed rate of 7% through the Bank of Industry (BOI) and deposit money banks.

3.2 Nature and structure of the Nigerian economy

Nigeria is the single largest geographical unit in West Africa. It occupies a land area of 923,768 square kilometers and lies entirely within the tropics with two main vegetation zones; the rain forest and Savannah zones, reflecting the amount of rainfall and its spatial distribution.

Structurally, the Nigerian economy can be classified into three major sectors namely primary/agriculture and natural resources; secondary – processing and manufacturing; and tertiary/services sectors. The economy is characterized by structural dualism. The agricultural sector is an admixture of subsistence and modern farming, while the industrial sector comprises modern business enterprises which co-exist with a large number of micro-enterprises employing less than 10 persons mainly located in the informal sector. The agricultural sector has not been able to fulfill its traditional role of feeding the population, meeting the raw material needs of industries, and providing substantial surplus for export. Indeed, the contribution of the sector to total GDP has fallen over the decades, from a very dominant position of 55.8 per cent of the GDP in 1960–70 to 28.4 per cent in 1971–80, before rising to 32.3, 34.2 and 40.3 per cent during the decades 1981–90, 1991–2000 and 2001–2009, respectively (Table 1). The fall is not because a strong industrial sector is displacing agriculture but largely as a result of low productivity, owing to the dominance of peasant farmers and their reliance on rudimentary farm equipment and low technology. Another feature of the sector is under-capitalization which results in low yield and declining output, among others.

Table I
Sectoral contributions to GDP

Activity Sector	1960-1970	1971-1980	1981-1990	1991-2000	2001-2009
1. Agriculture	55.8	28.4	32.3	34.2	40.3
2. Industry	11.3	29.1	41.0	38.6	28.4
3. Manufacturing	6.6	7.3	6.1	4.9	3.9
4. Building & Construction	4.8	8.3	2.3	1.8	1.8
5. Wholesale & Retail Trade	12.8	17.6	14.5	13.8	14.0
6. Services	15.3	16.5	9.8	11.5	15.5
TOTAL Value Added	100.0	100.0	100.0	100.0	100.0
Diversification Index	0.2	0.4	0.4	0.4	0.3

Source: National Bureau of Statistics

The industrial sector comprises the manufacturing, mining (including crude petroleum and gas) and electricity generation. Prior to independence in 1960, the Nigerian economy was mainly agrarian. On attainment of independence, the Nigerian government embarked on the

programme of transforming the country into an industrial economy. The Nigerian manufacturing sub-sector is made up of large, medium and small enterprises, as well as cottage and hand-craft units. In spite of spirited efforts made to boost manufacturing output and various policy regimes, manufacturing has not made any significant contribution to the growth of the economy. Industry as a whole contributed only 11.3 per cent of the GDP in 1960–70, growing significantly in the next two decades to a high of 41.0 per cent in 1981–1990, owing largely to the crude petroleum and gas production during the decades. The contribution contracted to 38.6 per cent in the 1990s and further to 29.4 per cent during 2001–2009. These numbers, in fact, belie the poor contribution of the manufacturing sub-sector to aggregate output in Nigeria compared with its peers in Asia and Latin America. Indeed, the contribution of the manufacturing component has on average been below 5.0 per cent in the last two decades. Even the relatively high contribution of oil sector to the industrial sector contribution is being driven largely by crude production and not by the associated “core industrial” components like refining and petrochemicals. The contribution of wholesale and retail trade and services has more or less remained stable while that of building and construction rose sharply from 5.3 per cent in the 1960s to 8.3 per cent in the 1970s, but fell consistently, thereafter, to 1.8 per cent during 2001–2009. During and some few years after SAP, the main manufactured exports were textiles, beer and stout, cocoa butter, plastic products, processed timber, tyres, bottled water, soap and detergents as well as iron rods. However, some of these products have disappeared from the export list owing to poor enabling environment.

The components of the mining sub sector in Nigeria are crude petroleum, gas and solid minerals. Prior to the advent of petroleum minerals such as coal and tin were the main mineral exports. However, with the emergence of crude oil, the relative importance of solid minerals diminished. Indeed, since the 1970s, the largest mining activity has been crude oil production, which became dominant in terms of government revenue and export earnings. Lately the production of gas has gained increased attention, as the export potential of gas has reduced the dominance of crude oil.

3.3 Performance trends

The average growth rate of real GDP, which was 5.9 per cent in the period 1960–70, rose to 8.0 per cent in 1971–73 (Table 2). The Nigerian economy expanded rapidly, as oil production and export rose phenomenally. However, activities in the service sub-sector were relatively modest even though marketing and advertising, which covers distributive trade, lagged behind. The average GDP growth rate later dropped to 3.2 per cent during 1976–80. This level was sustained in the period 1982–90 following improved performance in agricultural and industrial sub-sectors.

Table 2
Average growth rate of real GDP
(Percentages)

Period	Real GDP
1960 - 1970	5.9
1971 - 1973	8.0
1976 - 1980	3.2
1982 - 1990	3.2
1991 - 1998	1.9
1999 - 2007	8.3
2008 - 2009	6.3

Sources: National Bureau of Statistics

Suffice it to state that GDP responded favorably to the economic adjustment policies of the eighties during which the SAP and economic liberalization were adopted. Thus, annual GDP grew from a negative 0.6 per cent in 1987 to 13.0 per cent in 1990. However, the average growth rate of real GDP dropped to 1.9 per cent during 1991–1998. This was in spite of the favorable developments in the agricultural and services sub-sectors of the economy. Real GDP growth rate rebounded to 8.3 per cent during the period 1999–2007, reflecting improved economic policy of NEEDS era. Despite the decline in real GDP growth rate to 6.3 per cent in the period 2008–2009, the major drivers remained agriculture, wholesale and retail trade, and services sectors. Indeed, the last decade has been a period of rebirth as affirmed by almost all macroeconomic indicators (Table 3). But the growth rate has not been high enough to push down the poverty profile.

Table 3
Selected macroeconomic indicators

INDICATOR	2003	2004	2005	2006	2007	2008	2009	Average
Real GDP growth rate	9.57	6.58	6.51	6.0	6.5	6.4	6.7	6.2
inflation(y-on-y)	13.9	15.4	17.9	8.5	6.6	15.1	12.0	13.3
Growth in M2	24.97	12.26	34.61	30.6	44.2	58.0	17.1	31.8
Current account balance/GDP	6.95	17.62	28.23	18.5	11.8	17.5	11.9	13.4
FDI(US\$ billion)	2.0	1.86	4.98	13.9	5.6	5.8		4.3
External reserves (US\$ billion)	7.47	16.95	28.3	42.3	51.3	53.0	42.4	27.0
Exchange rate (end-period)	129.4	133.5	132.15	128.2	117.9	132.5	149.58	125.8
External debt(US\$ billion)	3.3	3.5	2.0	3.5	3.6	3.7	3.9	3.21

Source: CBN Annual Report and Statement of Accounts Various Issues

In deed, the Nigerian economy has not experienced remarkable transformation and restructuring. Equally important is the indication that since 1999, Nigeria has become a trading outpost for goods produced elsewhere with little domestic transformation of the output of primary sectors by the secondary sector. This is particularly so since the Nigerian agriculture is really peasantry and the high contributions of tertiary sector to output suggest that the sector is not really servicing the Nigerian economy but, indeed, the economies of her trading partners. Thus, the Nigerian economy is still dominated by the primary sector, followed rather closely by the tertiary sector with the contribution of the secondary sector remaining insignificant. Little wonder the diversification index remained below 0.4 per cent through the review period, the barrage of reforms notwithstanding.

The Nigerian economy is import dependent with very little non-oil exports. It relies heavily on crude oil and gas exports with other sectors trailing far behind. For example, crude oil accounts for about 90 per cent of foreign exchange earned by the country while non-oil exports account for the balance. The economy is, therefore, susceptible to shocks in the oil industry. In recent times, these shocks have been caused by either developments in the International crude oil market or the restiveness in the Niger Delta region of the country. Agriculture and other mining (besides oil and gas) have been abandoned to the rural poor. Economic and social infrastructure, especially power is grossly dilapidated. The power sector

is generally recognized as a binding constraint on Nigerian economy. Poor corporate governance, both in the public and private sectors have led to high incidence of corruption and inequity in income distribution.

**Table 4
Composition of Nigerian exports**

Component	2004	2005	2006	2007	2008	2009
Oil Exports	97.5	98.3	97.8	97.9	99.0	95.8
Total Non oil Export	2.5	1.7	2.2	2.1	1.0	4.2
Non oil						
Agric	33.0	41.9	37.8	39.7	58.3	46.9
Minerals	2.0	4.0	8.5	6.3	7.7	6.7
Semi-Manufactured	48.9	40.6	37.9	39.4	17.0	29.2
Manufactured	5.0	9.8	11.1	10.3	8.7	9.1
Other Exports	11.2	3.9	4.7	4.3	8.3	8.1

Source: CBN Annual Report and Statement of Accounts Various Issues

**Table 5
Composition of exports in selected developed and developing countries 2000**

Countries	Export as a % of GDP	% share of primary commodities	% share of manufactured goods
Developing Countries			
Malaysia	110.0	20	80
Indonesia	40.7	46	54
Jamaica	19.6	30	70
Philippines	53.2	59	41
Bangladesh	11.9	9	91
Nigeria	48.7	99	1
Venezuela	27.2	88	12
Sri Lanka	33.0	25	75
Kenya	15.9	77	23
South Korea	37.8	9	91
Togo	25.0	82	18
Mexico	29.0	15	85
India	8.3	24	76
Brazil	9.4	46	54
China (excl. Hong Kong)	23.1	12	88
Developed Countries			
United Kingdom	19.8	17	83
United States	7.9	17	83
Japan	10.2	6	94

Source: World Bank, 2001 World Development Indicators (Todaro and Smith, 2003)

A review of the statistics from comparable countries shows that the share of primary commodities in total exports is 20.0 percent for Malaysia, 24.0 per cent for India, 12.0 per cent for China. For developed countries it is 17 per cent for Britain and America and 9 per cent for Japan. In Nigeria, the primary sector contributes 99 percent of exports with only 1.0 per cent coming from the secondary sector.

3.4 *Growth drivers*

In Nigeria, Agriculture dominates the primary sector, which dominates the entire economy. The population of the country has grown by about 150.0 per cent between 1963 and 2006, approximately 3.75 per cent per annum. A simple calculation shows that for the per capita income to remain the same as in the 1960s, every sector of the economy should at least have grown by the same percentage. But the agricultural sector – the mainstay of the economy – has declined in its contribution to the GDP, manufacturing has declined, building and construction has also declined, while the wholesale and retail trade as well as the services sectors have remained almost the same as in the 1960s. Applying the Harrod-Domar model, this implies that assuming a capital-output ratio of 5.0 per cent and a savings ratio of 15.0 per cent, the economy would grow at 3.0 per cent. Of course, the savings ratio depends on the difference between the population growth rate and the growth rate of the GDP (the economy). Table 2 shows an average growth rate of real GDP of 5.3 per cent in the period 1960–2009. If the average population growth rate of 3.8 is deducted from 5.3, we are left with a GDP growth rate of 1.5 per cent out of which no meaningful savings can be made. In effect, the economy has not been growing in real terms over the years. For Nigeria to make a quantum leap, the economy has to grow by at least double digit rates for a sustained period of time.

4. Challenges facing the Nigerian economy

The picture painted above is a consequence of many challenges facing the Nigerian economy. In what follows, I will discuss these challenges in greater detail.

Nigeria is a mono-product economy with the bulk of government revenue coming from oil exports which is susceptible to shocks in the international oil market. Moreover, many other solid minerals with which the country is richly endowed with remain generally untapped. More fundamentally, the economy has disproportionately relied on the primary sector (subsistence agriculture and the extractive industry) without any meaningful value addition. In light of this, the little growth recorded in the economy, thus far, has been without commensurate employment, positive attitudinal change, value reorientation, and equitable income distribution, among others. These could be attributed to poor leadership, poor implementation of economic policies, weak institutions, poor corporate governance, endemic corruption, etc. The challenge, therefore, is how to deploy/manage the receipts from the oil and gas exports to achieve the highest value for money in the economy; develop on a sustainable basis, the many untapped solid minerals; improve agricultural productivity by cultivating more of the available arable land with improved technology; process and preserve primary produce with the aim of increasing value addition; manufacture the basic durable and non-durable goods needed by Nigerians and the West African sub-region, market and ultimately looking at export such goods and sustain manufacturing by providing the core industries; and remain competitive by developing and improving on the investment climate of the country. These challenges have remained largely unresolved owing to the myriad of problems:

- i. **Macroeconomic challenges:** The Nigerian macroeconomy is still characterized by structural rigidities, dualism and the false paradigm model. Generally, the sectors of the economy are in silos to the extent that the primary sector does not relate meaningfully with the secondary sector and the same for the secondary and the tertiary sectors. Agricultural produce end up as final consumer goods as only a small

quantity is processed or used as raw materials for local manufacturing industries. Also, the produce of the extractive industries are exported in their raw forms without local value addition. Given the higher incomes in the oil and gas sub-sector of the extractive industry, attention is concentrated there to the almost total neglect of the mainstream economy. Consequently, the economy is broken into the very rich (relying on the oil and gas industry) and the very poor (relying on the mainstream economy) with almost a complete vacuum in-between these two. The false paradigm model also plays out in the economy in the sense that while the few very wealthy group clamour for relevance in the context of "expert" advise, the very poor suffer from ignorance, disease and malnutrition. Thus, there is no structural change and, hence, the attitudinal changes expected of economic transformation are absent.

- ii. ***Infrastructural challenges:*** one The main challenges' facing the economy is poor economic and social infrastructure: bad roads, erratic power supply, limited access to portable water and basic healthcare, and much more. Building a vibrant economy or restoring growth to a sluggish economy takes resources. To ensure long-term growth and prosperity, Nigeria must use its resources wisely, invest in advanced technology and rebuild the infrastructure without which the economy will not gain from the "power of productivity". A nation enjoys higher standards of living if the workers can produce large quantities of goods and services for local consumption and extra for export. The deficiencies in the economy lead to low productivity, poor quality products and non-competitiveness in the global market place.
- iii. ***Poor institutions and corporate governance:*** Another important challenge to sustainable economic growth in Nigeria is lack of effective institutions and good governance. These factors have been hindering various efforts and reforms of the government to stimulate economic growth for sustainable development in Nigeria. The prevalence of weak institutions and poor corporate governance as well as poor ethical standards in most public and private organizations, hinder the attainment of the goals of economic policies in the country. Poor corporate governance has adversely affected the quality of institutions to the extent that public and private institutions are used for selfish interests, thereby, making regulation and law enforcement ineffective.
- iv. ***Corruption challenges:*** Although corruption is a global scourge, Nigeria appears to suffer particularly from it. Everyone appears to believe that the nation has a "culture of corruption". Over the years, Nigeria has earned huge sums of money from crude oil, which appears to have largely gone down the sinkhole created by corruption. In an article, "Oil giant that runs on grease of politics," Nigeria was described as a rich nation floating on oil wealth "but almost none of it flows to the people" (San Francisco Chronicle, March 11, 2007). Corruption has denied Nigerians the value of the petro-dollar that has accrued to the country over the years. The failure of infrastructure, political and ethical standards as well as moral and educational standards can easily be traced to corruption.
- v. ***Low quality of education:*** Education is an important factor in economic growth and development. But the nation's educational system has been facing myriad of challenges, which prevent the country from achieving its economic objectives. The problems include inadequate funding and planning and management, inadequate infrastructure, irrelevance of curricula to industrial needs, and inadequate commitment on the part of students and teachers, among others. All these have combined to hinder the production of a high quality work force to propel the economy (UNESS for Nigeria: 2006–2015). As Dike (2006) noted, the state of a nation's educational sector, among other things, determines the economic health of the nation.

- vi. **The Dutch disease:** Since the oil price boom of the early 1970s, the country abandoned the agricultural and industrial sectors of the economy to the old and weak. Both the public and private sectors of the economy concentrate their efforts in the oil and gas industry to the extent that the mainstream economy is denied funding, requisite investment and even managerial capabilities. Thus, the mainstream economy has become uncompetitive globally while the country has turned into a trading outpost for foreign companies. This has hindered the much-needed transformation of the economy in the last four decades.
- vii. **Poor investment climate:** The consequence of all that have been said above is the poor investment climate in the economy that has rendered the economy uncompetitive. In the absence of adequate infrastructure (power, roads, water, etc.) the cost of doing business in the country remain high, forcing to neighboring countries even companies that had existed in Nigeria for upwards of four decades.

5. Prospects for the economy

Having reviewed the growth performance of the Nigerian economy and the challenges facing it, the next appropriate question to address is whether the prospects are bright for the economy. The answer to this question depends on the policies articulated for the medium-to-long term and the seriousness with which they are implemented. Indeed, it has been projected that by the year 2050, Brazil, Russia, India and China, usually referred to as the BRIC countries, would have a combined economy that is bigger than the group of six (G6) industrialized countries – USA, Japan, Germany, UK, France and Italy. In addition, in 2005 “Global Economics” Paper No. 134 published a list of eleven countries that could have the BRIC effect and achieve global economy-giant-status by 2025. The countries include: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey and Vietnam. In the projection of Goldman Sachs, only about 11 countries may have bigger economies than Nigeria by 2050. It is clear that the Nigerian economy has great potential; all that is required is a policy framework that can jump-start it. Nigeria can leverage on its sizeable population, with a relatively highly-educated and enterprising workforce and its richly endowed economic potentials: physical, human and natural resources. Nigeria is the 8th largest producer of crude petroleum in the World and has the 6th largest deposit of natural gas in the World. Therefore, the potentials in the oil and gas sectors, agriculture and manufacturing, telecommunications and tourism, among others brighten the growth prospects of the country. Nigeria is also a major growth pole in the West African sub-region and the African continent, and so has enormous geo-political and strategic advantage that if leveraged upon would foster growth.

Having said this, economic growth, especially in a developing country like Nigeria, must be people-oriented. Therefore, pro-poor policies and those that improve on the welfare of a majority of the people should be emphasized. In this connection, in the light of the contribution of the agricultural sector to the growth of the real GDP, developments in the sector are likely to impact the people the most. Therefore, to realize the full potentials of the agricultural sector, the value-chain of the sector has to be explicitly targeted for growth. Thus, while food production is improved through improved utilization of fertilizers and improved seedlings, implying greater research efforts, further mechanization of the sector should be pursued. This is likely to enable the release of surplus labour from the sector without sacrificing food security. Processing is another level of the value-chain that has been abandoned over the years. It will not only encourage the farmers to produce without fear of organic wastes or price decline, it would also excite research and development in the sector as well as foster entry into international markets. These efforts have to be complemented by appropriate trade and tariff policies that would protect the local operators from unhealthy competition from abroad. Already a lot of efforts have been made, including those by the Central Bank of Nigeria, aimed at improving the funding of the sector at affordable costs. Among the newest financing incentive to agriculture is the Nigeria Incentive – based Risk Sharing framework for Agricultural lending.

This model of financing agriculture is different in many ways from the current financing models which have not yielded the desired impact of making adequate credit available to the sector. NIRSALE is a demand driven credit facility rather than the current supply driven funding. It would adopt a value chain approach to lending as banks would be free to choose which part of the value chain they would be interested in lending to. It would build the capacity of the banks to engage and deliver loan, reduce counterpart risks facing banks through innovative crop insurance products, reward performance in agricultural lending, and would be managed with performance based incentives. NIRSALE would be tailored along the already developed model of the Impact Investing Fund for African Agriculture (IIFAA) based on Nigeria's financial and agricultural development requirements. It would pool together the current resources in CBN's agricultural financing schemes and other investors funds and transfer these into the five components of the programme but managed outside of the CBN. In other words, existing agricultural support frameworks like CACS, ACGS, ACSS and NAIC, etc would be assessed, modified and integrated into five components.

Specifically, the objectives of the programme include:

- Stimulate innovations in agricultural lending;
- Encourage banks that are lending to the sector;
- Eliminate state dependency by banks for deploying loanable funds to agriculture;
- Leverage DMBs balance sheet for lending into agriculture; and
- Ensure risk sharing approach that will build a business approach where banks share in the risk of lending to the sector.

In achieving these objectives, there would be five integrating components to ensure increased bank credit to the agricultural sector, ensure systemic change and reward performance based on evidence using market driven incentives. These five pillars would work together in an integrative way to change the way banks lend to agricultural sector. The five major components of this programme are: Risk Sharing Facility (RSF), Insurance Component (IC), Technical Assistance Facility (TAF), Bank Incentive Mechanism (BIM) and Agricultural Bank Rating System (ABRS). Thus, agriculture can grow by as high as 12.0 per cent or more in the near-term and beyond, if appropriate environment and incentives are put in place, along with the funding needs of the sector.

The industrial sector also has great potential for growth. The major challenge is adequate infrastructure, especially power. The Central Bank of Nigeria has also taken a bold step in this regard in addition to the efforts of the Federal Government. While efforts are made to revive the ailing core industries (iron and steel, petrochemicals, aluminium, etc.), the small and medium industries should be encouraged to venture into the production of the basic non-durable goods needed by the teeming population in Nigeria and in the sub-region. The industrial research institutes have many findings that need to be commercialized. The solid minerals sub-sector also should be opened up for more aggressive exploitation. The link between the oil and gas industry and the rest of the economy should be strengthened through a more effective implementation of the local content policy. Industry, especially manufacturing, would, thus, be able to contribute as much as 16.0 per cent to GDP and the solid mineral sub-sector 20.0 per cent in the near-to-medium term from 7.9 per cent and 12.8 per cent in 2009, respectively. The oil and gas industry can be grown through its greater integration with the rest of the economy. Gas utilization at both the industrial and domestic fronts can be expanded while utilization for power generation is further encouraged by the establishment of more thermal power plants. Far reaching reforms in the Petroleum Industry will help to enhance the gains from the oil and gas industry. Sustained peace in the Niger Delta area would guarantee that Nigeria's OPEC quota is met at the current price. Thus, the contribution of the oil and gas industry to the economy may recover from negative 1.33 per cent in 2009 to positive 4.0–5.0 per cent in the near-to-medium term.

With improvements in the agricultural and industrial sectors and the resultant improvement in household incomes, the building and construction sector and the wholesale and retail trade sectors would blossom and contribute as high as 24.0 and 22.0 per cent to the GDP in the near-to-medium term from 12.3 and 11.3 per cent in 2009. The services sector is another source of life for the Nigerian economy. The telecommunications sub-sector continues to drive that sector. Improvements in power supply would increase the output of the sector. The local content of the sector can also be improved upon. Nigerians are already gaining knowledge in the area and inclusion of more of the aspects of technology in school curricula would help to deepen knowledge and value addition to the industry. Thus, this sector can grow by up to 45.0 per cent in the near-to-medium term from 34.2 per cent in 2009. The transport sub-sector is another sub-sector that appears to have been abandoned. However, in the recent past, the government has stepped up efforts towards its revival. It can, therefore, increase its contribution to the GDP from 2012 and beyond.

The positive outlook that has been painted above, however, is predicated on the sustained implementation of the various reform initiatives that have been articulated for the various sectors of the economy and the programmes/policies enunciated in the Vision 20:2020 document. Rehabilitation of the dilapidated infrastructure and development of new ones are an integral part of the reforms that should drive future prosperous Nigerian economy. In the event that the sectoral targets are achieved in the near-to-medium term and beyond, the GDP is capable of growing by up to 13.0 per cent per annum during this period, from the 2009 level of 6.7 per cent. Once the economy is able to jump-start, it is likely to boom, given massive resources that are currently lying idle and untapped. Furthermore, we should not discount the influence of the political environment in the whole process of launching Nigeria into league of industrialized nations by 2020.

In summary, this growth prospect can be achieved and sustained if:

- The balance of trade is persistently positive, as it has been in the last five years;
- External reserves can be substantially built up to boost the credit worthiness of the economy and attract foreign investment;
- Efforts are sustained to maintain peace in Niger Delta to boost crude oil and gas output;
- Electricity supply is increased to 15,000–25,000 Mwh between now and 2020, to boost manufacturing capacity utilization and activities in other critical sectors;
- The banking sector reforms and efforts to resolve liquidity challenges are sustained to channel credit massively to the real sector of the economy;
- Government sustains the current reforms in the various sectors of the economy to achieve rapid growth and development;
- We increase agricultural output barring adverse weather conditions, with continued implementation of various government programmes, especially preserving, processing and marketing activities;
- We sustain the growth in the services sector, by increasing the local content of the industry and by expanding the tele-density of the country;
- We deregulate the downstream petroleum sub-sector and encourage the setting up of private refineries;
- Diversify the economy away from primary products and away from crude oil and natural gas;
- Improve other key economic and social infrastructure; and
- Sustain the subsisting democratic governance.

The global environment for development has changed quite significantly in recent years, with the rapid growth in world trade, capital flows and information and communications technology. Nigeria can benefit from these changes by providing a more conducive investment climate in the country.

6. Conclusion

The prospects for growth in Nigeria are very bright going by the achievements recorded during the last ten years and the current reforms in the various sectors. However, for Nigeria to consolidate these economic gains and move higher in the frontlines of growth and development, it must deepen reforms that improve human capital, promote high-quality public infrastructure, and encourage competition. The pillars to sustain this consolidation must include a firm fiscal policy, transparent fiscal operations, development-oriented monetary and exchange rate policies, strengthening of the financial sector and strict adherence to the rule-of-law and respect for the sanctity of contract as well as commitment to fighting corruption and corrupt practices. In all of these, Nigeria has opportunity for progress. We must break away from the past to deliver a new Nigeria that the future generations of Nigerians would be proud of. Our electoral process must not only be credible, but must be seen to be credible, since robust economic performance necessarily requires a robust political environment to happen.

I thank you all for your attention.

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