## The Changing Structure of the Nigerian Economy

This book evaluates the general effects of the economic development strategies and policies which have been adopted by the various administrations, on the structure of the Nigerian economy since her political independence in 1960. The effects of the various development policies on the Nigerian economy are analysed through a sectoral approach, focusing on the agricultural, industrial, economic and social services, financial, government (or public finance) and external sectors.

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Central Bank of Nigeria

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CHAPTER

# 1

# INTRODUCTION

The primary purpose of this book is to evaluate the general effects of the economic development strategies and policies which have been adopted by the various administrations, on the structure of the Nigerian economy since her political independence in 1960. Economic development is defined conventionally in this text and it simply implies increased output, greater efficiency in output generation and changes in the technical and institutional arrangements by which it is produced and distributed. The structure of an economy, on the other hand, is the organizational and institutional framework which determines the forms of resource ownership, production and distribution of goods and services. Thus, the change in the structure of an economy in the desired direction should ensure the attainment of the overall objective of economic development. The effects of the various development policies on the Nigerian economy are analysed in subsequent chapters through a sectoral approach, focusing on the agricultural, industrial, economic and social services, financial, government (or public finance) and external sectors.

## 1.1 Perspectives of Nigeria's Economic Development, 1960-2007

The implementation of medium-term "development plan" has been the major framework which Nigeria has relied upon to restructure the economy

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since independence. Four national development plans were launched between 1962 and 1985. The First National Development Plan, 1962 - 1968 sought to put the economy on a fast growth path, by giving priority to agricultural and industrial development, as well as the training of high level and intermediate manpower. The Second National Development Plan, 1970-1974, was launched after the civil war, primarily to undertake reconstruction and rehabilitation of the infrastructure damaged during the war.

The Third National Development Plan, 1975-1980, was designed under a more favourable financial condition of huge oil revenues which accrued to the nation from the mid-1970s. It emphasized diversification, balanced development and indigenization of the economy. However, a significant portion of the plan was not executed because of unanticipated financial and executive capacity constraints. Thus, many key projects were carried over into the Fourth National Development Plan, 1981-1985. The execution of the fourth plan was also adversely affected by the unexpected collapse of the international oil prices soon after its inception. Thus, the volatility of the oil sector largely determined economic policy direction as well as the financial capacity to execute public investment programmes.

The adoption of the Structural Adjustment Programme (SAP), initially for two years (July 1986-June 1988), was the major response to the dwindling oil resources, macroeconomic policy distortions and the increasing need to diversify the productive base of the economy. The economy witnessed a number of policy reversals between 1988 and 1989 in an attempt to cushion the adverse effects of the belt-tightening measures implemented in 1986 and 1987. Consequently, some of the gains of economic adjustment in those two years were gradually eroded. From the start of the 1990s, the government shifted the instrument of economic transformation from the five-year plans to the three-year rolling plans as they were more flexible and amenable to periodic reviews. However, there was no appreciable improvement in the performance of the economy since the commencement of the rolling plans thus necessitating further economic reengineering for sustained growth. In the early 2000s, a comprehensive economic reform programme was initiated to fast- track economic growth. Central to the reforms was the Medium Term Expenditure Framework (MTEF), 2003 – 2005, which provide a macroeconomic framework to strengthen fiscal management and improve the planning and budgeting of public expenditure to curtail abuse and mis-allocation of resources.

One important aspect of Nigeria's economic development process since independence, is the role of the public sector vis-à-vis the private sector. A review of development planning experience in Nigeria reveals that government had been the prime mover of economic transformation. Government held firmly to the belief that it had to take the lead in guiding the structural transformation process of the economy. Apart from engaging in its conventional activities, it also invested in a wide range of production and distribution activities. The government also periodically intervened to remove imperfections and distortions that could impinge the market mechanism.

In terms of size, the private sector in the Nigerian economy is substantial. There are two components – the organized private sector and the informal sector. The organized private sector is comprised of public limited liability companies, private limited liability companies and partnerships, whereas the informal sector is consists of peasant farmers, petty traders and artisans. The organized private sector, although small in size, is the source of technological advancement in the economy. However, it is constrained by the undue intervention of the government in economic activity, unstable and uncertain macroeconomic environment fostered by policy distortions, inadequate infrastructure, weak institutions and poor executive capacity, as well as weak financial markets. The large informal segment, on the other hand, employs an estimated 70-80 per cent of the labour force and represents a major source of capital formation, particularly in the rural areas. It provides a cheap source of low level technical manpower to the organized private sector. Public policy has been unable to influence its performance very positively because of the large and fragmented nature of its structure, the lack of reliable information on the sector and the low level of education, training and technical know-how of the operators in the sector.

An economic system is a set of principles by which a society decides and organizes the ownership and allocation of economic resources. Basically, there are two extremes. The first is called the free-enterprise system and it is described as the economic system in which the means of production and distribution are privately or corporately owned and development is proportionate to the accumulation and reinvestment of profits gained in a free market. The other extreme is called socialism in which the means of producing and distributing goods and services is owned collectively or by a centralized government that plans and controls the economy. However, an economy that combines elements of both capitalism and socialism, which permits some individual ownership and regulation is referred to as a mixed economic system. Nigeria has remained a mixed economy over the years without appreciable growth and development. Consequently, the need to chart a new course informed the adoption of policies towards free market economy through deregulation and liberalization. Therefore, the adoption of policies of economic liberalization to promote a free enterprise economy and ensure full integration of the Nigerian economy into the global economy provided the basis upon which subsequent economic policies were anchored. Policies pursued were therefore geared towards the liberalization of the major sectors of the economy in order to enhance private sector participation, attract greater inflows of foreign investment required to bridge the savings-investment gap impeding the growth of the economy as well as to achieve internal and external stability. In other words, policies were directed towards ensuring a free-market system so as to allow the private sector play its role as the engine of growth, while the government performs the functions of creating sound and conducive macroeconomic environment. Some of the policy issues that dominated the economy between 1999 and 2006 include the following:

### Development of the Private Sector

A major issue was the policy towards the development of the private sector to play the leading role or serve as the engine of growth. In this regard, several government parastatals and enterprises were privatized to allow them to be owned and driven by private individuals for operational efficiency. In Nigeria, the private sector is too heavily dependent on government patronage. Private sector activity depends heavily on government contracts and the yearly release of capital allocations, which implies that the private sector is an appendage of government and, therefore, unable to contribute optimally to the growth of the economy. Hence, the capacity of the private sector to contribute to economic growth has been constrained by large debts owed to it by the three tiers of government, especially, the debt owed to contractors by the federal government. These debts reduce the ability of the private sector to increase employment and generate growth in the economy and contribute meaningfully to the attainment of the Millennium Development Goals. It is a well-known fact that the expectations of the public utilities as the anchor of economic growth has diminished considerably as they became drain pipes for public funds and instruments for exerting much pressure on government expenditures and for exacerbating fiscal deficits. Improved competitiveness is a prerequisite for benefiting from the ongoing globalization process especially in the areas of trade, finance and investment. This will require the innovativeness of and the existence of a conducive environment for the increased inflow of foreign direct investment. More importantly, the precarious fiscal position of the public sector arising from the economic crises of 1981, following the crash in crude oil prices, has aggravated the problem of the public utilities sub-sector as government found that it could no longer meet the huge resource requirements. Moreover, the aggregation of problems of inefficiency, low capacity utilization, obsolete equipment, lack of modern production technologies, weak and inept management and a high debt burden forced a rethink of governments position on public utilities. Consequently, liberalization and privatization were considered to ensure operational efficiency. (Ibeabuchi et al: 2003)

**Privatisation of Public Utilities**

As part of the measures to enhance the capacity of the private sector to drive the economy, government embarked on the privatisation of public utilities to enhance efficiency of these institutions through private sector participation. Consequently, National Council on Privatisation was set up to ensure proper implementation of the privatization programme. The policy of deregulation of major sectors of the economy which had been put in place since the Structural Adjustment Programme (SAP) in 1986 was sustained. Consequently, the communication sub-sector was the first to be privatized with the licensing of many global system for mobile (GSM) communication which led to the telecommunication revolution (Soludo: 2007). The deregulation of the down stream oil sector enhanced private sector participation and put an end to the incessant fuel crises that plagued the economy. These policies encouraged trade and investment as well as promoting growth of the economy. For instance, the liberalization of the service sector yielded significant results. The total number of hotel beds nearly tripled, from 12,900 in 1999 to 37,528 in 2003. Room occupancy rate also increased, from 71 percent in 1999 to 82.5 percent in 2003. The number of visiting foreign nationals nearly tripled, from 1,392 to 3,897, with an annual growth rate averaging 30.0 per cent in 2002 and 2003.

**Fiscal Reforms**

Nigeria's poor macroeconomic performance was largely driven by huge fiscal deficits. Fiscal reforms were therefore undertaken to address this issue. The oil price fiscal rule was introduced to curtail excessive government spending which has been the driver of liquidity overhang in the system. The excess crude account was therefore created to moderate expenditures by the three tiers of government against the backdrop of liquidity overhang. Monetization of the fringe benefits of the public servants and "Due process" in the procurement of goods and services were institutionalized. The ultimate goal is to reduce waste and fiscal deficits so as to achieve macroeconomic stability, a necessary condition for attaining internal and external stability.

### Rehabilitation and Construction of Infrastructure

Weak infrastructure is the major driver of rising cost of doing business in Nigeria. In order to tackle this problem, government embarked on massive rehabilitation and construction of new infrastructure. The development of the infrastructure was reinforced by the privatization programme and deregulation policy to enhance increased participation of the private sector in infrastructure development. Agencies for managing them were also restructured to make them perform efficiently. An enabling environment was created to further promote both domestic and foreign investments in the development of the infrastructure sub-sector.

### Development of Non-oil Exports

An important feature of the economic policy between 1999 and 2004 was the increased tempo of development of non-oil the export sub-sector to enhance the contribution of non-oil exports to foreign exchange earnings as well as to encourage the diversification of the economic base away from oil. The Gross Domestic Product (GDP) was expected to grow at 6.0 per cent per annum. Consequently, various measures were introduced to enhance the real sector productivity. In the agricultural sector for instance, the specific measures adopted included modernizing agricultural production, processing, storage and other practices by introducing new and improved seedlings. To achieve the target in the manufacturing sub-sector, the following steps were taken:- Implementation of the strategic industries initiatives that would ensure the diversification of the manufacturing base, privatization of the state owned enterprises, establishment of small and medium enterprises (SMEs) development agencies to promote the development of SMEs, the sourcing of technical assistance for industrialists in the area of technology and capacity building, intensifying of economic diplomacy to attract foreign investors, rationalization of development finance institutions for effective credit delivery and strengthening of the capital market. The Small and Medium Industries Equity Investment Scheme (SMIEIS) was established in 2001 to provide the much needed investment finance to the Small and Medium Industries (SMIs). This was in response to the need to fill the investment gap in the real sector of the Nigerian economy. The specific objectives of the scheme are: to facilitate the flow of funds for the establishment of new SMI projects; and reactivation, expansion and modernization or structuring of on going projects as well as to stimulate economic growth, develop local technology and generate employment. Other initiatives of the government to boost agricultural production include the set-up in 2001 of presidential committees on rice, cassava, edible oils and livestock with the objectives of accelerating output growth, identifying sub-sectoral constraints and proffering suggestions to aid policy formulation ; and the National Special Programme for Food Security (NSPFC) with the major objective of assisting farmers to achieve their potentials for increasing output and productivity and consequently their incomes on sustainable basis.

The presidential initiative on increased rice production was designed to arrest the rising rice import bills which stood at ₦96.012 billion in 2002 to meet domestic demand by 2006 and export by end of 2007. By 2007, it was targeted that 3.0 million hectares would be put under cultivation to produce 15 million tonnes of paddy or 9.0 million tonnes of milled rice. The initiative on cassava production and export was intended to raise the production level of cassava to 150 million tonnes by the end of year 2010. The programme was also expected to assist the country realize an income of US$5.0 billion per annum from the export of 37.6 million tonnes of cassava chips, pharmaceuticals, adhesives and other value added products. In the case of the initiative on vegetable oil, the objective was to attain self-sufficiency in vegetable oil production over a period not exceeding 3 years. Under this programme, attention was focused on the promotion of eleven scheduled oil seed crops over the period, among which are: oil palm, groundnut, soya beans, beniseed, cotton, sunflower, cashew, coconut and cocoa. Production target was set for each crop under the programme as follows: oil palm: one million hectares capable of producing 15million fresh fruit bunches;

groundnut: 15 million tonnes annually; soya bean: 670.000 to one million tonnes annually; and; seed cotton: one million tonnes over the plan period.

### Liberalisation of the Foreign Exchange Market

Another feature of the economic policy thrust was the liberalization of the foreign exchange market through the adoption of several policy measures including Retail Dutch Auction System (RDAS). The RDAS which was re-introduced in July 2002 was expected to achieve a stable value for the naira. The foreign exchange market was before than time characterized by a wide premium between the official and the Bureaux De Change (BDCs) segments, round tripping, excessive demand for foreign exchange as well as exchange rate volatility. The RDAS achieved its objective as the exchange rate instability and volatility were reduced to the barest minimum. The RDAS also encouraged sanity in the market as many erring banks were sanctioned for malpractices and unprofessional conduct. Following the successes of the RDAS, the Wholesale Dutch Auction System (WDAS) was introduced in February, 2006. The WDAS ensures further liberalization of the foreign exchange market which paved way for mainstreaming many parallel market operators into the official window. Consequently, WDAS resulted in the achievement of stable naira exchange rate as well as convergence of rates in the various segments of the foreign exchange market such that for the first time, the premium between the official and BDC rates was within the acceptable international limit of 5.0 per cent. The reform in the foreign exchange market accompanied with trade policy reforms was instrumental to the reintegration of the country into the global economy which paved way for increased inflows of foreign direct investment in the non-oil sector such as the communication sub-sector.

### Strategies to Reduce Debt Overhang

The increasing domestic and external debts have remained thorny issues in the development efforts of the country. Empirical evidence suggests that high external debt burden impacts negatively on economic growth. Iyoha

(2003) confirmed that an excessively high stock of external debt depresses investment and lowers the rate of economic growth in developing countries. Thus, a heavily-indebted country such as Nigeria needs to articulate creative strategies for bringing about debt reduction so that the high debt stock and the associated crushing debt-service burden would not impact too negatively on economic growth. Appropriate strategies to reduce the debt overhang which had been with the country since the 1980s became a focus of the policy thrust of the government. In this regard, government sought the forgiveness of the country's external debt through economic diplomacy. It also set up the Debt Management Office (DMO) to manage the country's debts. The combination of efficient management of Nigeria's debt portfolio by the DMO, economic diplomacy as well as commitment to the implementation of a home grown economic programme, culminated in the debt forgiveness of US$18.5 billion by the Paris Club of Creditors and the subsequent exit from Paris Club debts in 2006. The outstanding debt owed to the London Club of Creditors was also paid-off in the first quarter of 2007. The external debt position of Nigeria (Multilateral, Promissory Notes and others) as at end-Dec 2007 stood at US$ 3.62 billion which constituted more than 95.0 percent of the country's external debt.

**Pension Reforms**

The reform of the pension industry in Nigeria was necessitated by many problems confronting both the public and private sector pension schemes. The public sector operated largely the Defined Benefit – Pay As You Go (PAYG) scheme, which depended on budgetary provisions from various tiers of government for funding. The scheme became unsustainable due to lack of adequate and timely budgetary provisions and increases in salaries and pensions. There were demographic shifts due to rising life expectancies; thus pensioners live longer, which was a phenomenon that affected the support ratio. Pension administration had been largely weak, inefficient, less transparent and cumbersome. The private sector schemes had been characterized by very low compliance ratio due to lack of effective regulation and supervision of the system (Ahmad: 2006). Therefore, in order to redress the shortcomings of the erstwhile pension schemes, the Pension Act 2004 established a uniform, contributory, private sector managed and fully funded scheme for both the public and private sectors. The new scheme was designed to mitigate the problems of payments of pension benefits and ensure that everyone who has worked in either the private and public sector, receives his retirement benefits as and when due.

**Banking System Reforms**

The banking sector occupies a vital position in the financial system and plays a crucial role in the intermediation process through mobilizing funds from the surplus areas to the deficit sectors. However, in Nigeria the ability of the banking industry to play its role has been periodically punctuated by its vulnerability to systemic distress and macroeconomic volatility, making policy fine-tuning inevitable. Nnanna (2005) showed that, historically, the Nigerian banking industry had evolved in four stages. The first stage can be described as the un-guided laissez faire phase (19930-59), during which several poorly capitalized and unsupervised indigenous banks failed at their infancy. The second stage was the control regime (1960-1985), during which the Central Bank of Nigeria ensured that only "fit and proper" persons were granted banking license, subject to the prescribed minimum paid-up capital. The third stage was the Structural Adjustment Programme (SAP) or de-control regime (1984-2004), during which the neo-liberal philosophy of "free entry" was over stretched and banking licenses were dispensed by the political authorities on the basis of patronage. The emerging fourth stage is the era of consolidation (2004 to a foreseeable future), with major emphasis on recapitalization and proactive regulation based on risk-based or risk –focused supervision framework. Consequently, the banking system reforms were focused on the further liberalization of banking business; ensuring competition and safety of the system; and proactively positioning the industry to perform the role of intermediation and playing a catalytic role in economic development (Kama 2006).

### National Economic Empowerment and Development Strategy (NEEDS)

The NEEDS, was launched in 2003 was a major initiative to reposition the economy to meet the multifaceted challenges confronting the economy. The NEEDS is a home-grown economic programme targeted towards achieving a stable, predictable and sustainable macroeconomic environment; non-inflationary, non-oil GDP growth. It is a medium term strategy which aims at poverty reduction, wealth creation, employment generation and value re-orientation. It is a nationally coordinated framework of action in close collaboration with the State and Local governments (with their State Economic Empowerment and Development Strategy (SEEDS) and other stakeholders. The vision is to consolidate on the achievements in 1999-2003 and build a solid foundation for the attainment of Nigeria as the largest and strongest African economy. The NEEDS encompasses important structural reforms designed to enhance the transparency and accountability of public sector policies and institutions. In the process, it is expected that many deep-rooted macroeconomic and structural challenges will be addressed in order to restore macroeconomic stability and promote rapid and sustainable economic growth. The NEEDS document declares that the strategy is to be implemented by creating a conducive environment for business and foreign investment so as to ensure a government sector cum private sector partnership for growth. In particular, government's attention is to be focused on the provision of basic services and empowering the generality of Nigerians to take advantage of new opportunities while encouraging the private sector to become the engine of growth of the economy. People empowerment will especially focus on the areas of health, education, the environment, integrated rural development, housing, employment, gender mainstreaming, and youth development. The State Economic Empowerment and Development Strategy (SEEDS) of each State of the Federation are to be coordinated with NEEDS as a weapon to reduce poverty and underdevelopment in the country. In addition to the State and Local governments, the implementation of NEEDS will be predicated on a close collaboration and coordination between the Federal government and donor agencies, the private sector, civil society and non-governmental organizations (NGOs). NEEDS aims to restructure the government to make it smaller, stronger, better skilled, and more efficient at delivering essential services. It seeks to transform the government from a haven of corruption to an institution that spurs development and serves the people.

## 1.2 Objectives and Goals of Nigerian Economic Development

The objectives of the first development plan (1962-68), included the attainment of a minimum annual GDP growth rate of 4.0 per cent, through a target savings/investments ratio of 15 per cent of GDP. Investment priorities were set with agriculture, industry and the development of middle and high level manpower topping the list. The second development plan (1970-74), had the objectives of establishing the Nigerian nation state as: (a) a united, strong and self reliant; (b) a great and dynamic economy; (c) a just and egalitarian society; (d) a bright land full of opportunities for all citizens; and (e) a free and democratic society. The objectives of the third development plan (1975-80), did not differ from those of the second, except that in addition, it sought to achieve a significant reduction in the level of unemployment and enhance the diversification, and indigenization of the economy. The fourth plan (1981-85), sought to bring about greater improvement in the living conditions of the people. Among the specific objectives were: the reduction of the dependence of the economy on a narrow range of activities, and the development of adaptive and indigenous technology that could foster increased productivity. By 1986, the development planning approach was jettisoned in favour of the SAP. The objectives were to radically restructure and diversify the productive base of the economy, the pursuit of non-inflationary growth, privatization of public enterprises, deregulation of the economy and achievement of external balance. During the first two years of its implementation, these broad objectives were pursued with commitment. However, as adjustment fatigue set in, there was a relaxation of some measures thereafter.

In the early 1990s, Nigeria adopted the 3-Year rolling plan with the main objective of consolidating the gains of SAP. The rolling plans embraced the objectives of the previous plans with emphasis on restructuring the economy and improving policy implementation. To recapitulate, the objectives and goals of the various development plans, including the SAP and the rolling plans include:

(i) The achievement of an increased annual growth rate and higher per capita income;

(ii) The creation of greater opportunities for gainful employment within the public and private sectors such as would significantly reduce the rate of unemployment;

(iii) Enhanced capacity building; and documentation of the economy's resource endowments through the establishment of schemes for resource inventory surveys;

(iv) Diversification of the productive base and the promotion of balanced development between one part of the country and another, especially between rural and urban areas;

(v) The rapid development of top level, intermediate and technical manpower; and

(vi) The rapid improvement in the level and quality of social services and infrastructure.

In most of the plans, these goals and objectives were generally derived from the policy makers' perception of development. The first three goals were premised on the belief that development meant the capacity of the national economy, whose initial condition had been more or less static for a long time, to generate and sustain an annual increase in gross national product at rates ranging from 4 to 10 per cent. The fourth objective was informed by the need for equitable access of the people to the basic needs of life, while the fifth recognized the acute shortage of executive capacity for formulating, implementing and monitoring policies and projects. The last recognized that growth alone is not sufficient except it is accompanied by desirable changes in economic environment and socio-cultural values.

The NEEDS programme brought a fundamental change to the development approach of the Nigerian economy. It provides a global outlook to the numerous challenges of economic development in Nigeria. Specifically, the NEEDS programme is designed to achieve four main objectives: Wealth Creation, Employment Generation, Poverty Reduction and Value Re-Orientation. Each of these objectives is interwoven such that the pursuit of any of the objectives would lead to the achievement of the others. The objectives of NEEDS are to be achieved through the creation of conducive macroeconomic environment, increased participation of the private sector, promotion of domestic and foreign investments and economic empowerment especially gender mainstreaming. sustenance of a high, but broad-based non-oil GDP growth rate that is consistent with poverty reduction and employment generation, diversification of the production structure away from oil/mineral resources, ensuring international competitiveness of the productive sector as well as systematic reduction of the role of government in direct production of goods and strengthening its facilitating and regulatory functions. Some of the key instruments for achieving the objectives include privatization, de-regulation and liberalization, coordinated national sectoral development strategies for agriculture, industry (especially SMEs) and services (especially tourism), infrastructural development especially electricity, transport and water, effective regulatory regimes and targeted programmes to promote the private sector growth and development.

Essentially, the achievement of the objectives of the NEEDS programme rest on four key strategies:

Reforming the way government works and its institutions: The goal is to restructure, right-size, re-professionalize and strengthen government and public institutions to enable them deliver their services efficiently and effectively. It also aims at elimination of waste and inefficiency, and free up resources for investment in infrastructure and social services by Government. This implies that government and public institutions would be repositioned to deliver efficient services and create a conducive macroeconomic environment to make these institutions perform. In this regard, the reform is to encourage harmony between the monetary and fiscal policies framework.

Growing the private sector: NEEDS is a development strategy anchored on the private sector as the engine of growth--- for wealth creation, employment generation and poverty reduction. The government is the enabler, the facilitator, and the regulator. The private sector is the executor, the direct investor and manager of businesses. By allowing the private sector to thrive, NEEDS creates opportunities for employment and wealth creation. It empowers people to take advantage of these opportunities by creating a system of incentives that reward hard work and punish corruption, by investing in education, and by providing special programmes for the most vulnerable members of society. The private sector will be the engine of economic growth under NEEDS. It will be the executor, investor, and manager of businesses. The government will play the role of enabler, facilitator, and regulator, helping the private sector grow, create jobs, and generate wealth. Deregulation and liberalization will diminish governmental control and attract private sector investment. The key elements of this strategy include the renewed privatization, de-regulation and liberalization programme (to shrink the domain of the public sector and buoy up the private sector); infrastructure development especially electricity and transport; explicit sectoral strategies for agriculture, industry/SMEs; services (especially tourism, art and culture, and information/communication technology), oil and gas, and solid minerals. Other elements of this agenda include the mobilization of long-term capital for investment; appropriate regulatory framework; a coherent and consistent trade policy and regional/global integration regime; and specific interventions to encourage the development of some sectors. In collaboration with the States, a key strategy is to promote the emergence and flourishing of industrial clusters. In a global economy characterized by increasing agglomeration of industries, promotion of clusters to ensure economies of scale is an important element of the strategy. The small and medium enterprises (SMEs) are critical for employment generation, and therefore receive special attention under NEEDS. In addition, NEEDS seeks to promote the emergence of medium and large commercial farms, plantations, and industrial conglomerates that would harness the economies of scale and effectively compete in today's global market

Implementing a social charter for the people: In order to harness the full potentials of the citizenry, NEEDS aims at alleviating poverty through ensuring, functional, sound and qualitative health and educational systems, employment generation for the youths.. This is the overarching ultimate goal of NEEDS. With about 50 percent of the population as children, education is seen under NEEDS as the most important bridge to the future and a powerful instrument of empowerment. The HIV/AIDS epidemic is not just a social problem, it is a major threat to productivity and the economy. Effective health care delivery system, especially aspects directed at combating the scourge of HIV/AIDS and other preventable diseases (malaria and tuberculosis) is a key strategy for preserving a healthy workforce. Explicit programmes are directed at youth re-orientation and employment. The pension scheme which was in crisis was replaced with a contributory pension scheme to give the retired citizens a better life after retirement. Under NEEDS, reforms are ongoing to promote the emergence of a vibrant mortgage and housing development system that is led by the private sector. The priority given to agriculture (especially to improve the productivity of peasant farmers) is a key element of the poverty reduction strategy since over 50 percent of the poor are in agriculture. Another key strategy of the social charter is inclusiveness and empowerment. This is not just on the economic front, but deliberate programmes to give voice to the weak and the vulnerable groups through increased participation in decision-making and implementation, and laws and programmes to empower women, children, the handicapped, and the elderly. For example, NEEDS aims for a minimum of 30 percent representation for women in all aspects of national life wherever feasible.

Re-orientation of the people with an enabling African value system: It aims at revitalizing the African values through recognition for hard work and meritocracy as well as the institutionalization of due process, transparency and accountability. Public sector reforms would also aim to emphasize professionalism, selfless service, and efficiency (value-for-money). The anti-corruption measures, fight against the advance fee fraud, and strive towards greater transparency in public and private sector financial transactions will help to ensure accountability, and send the message that those who make money through illegal and illegitimate means have no hiding place. Part of the reform agenda is to ensure that hard work is rewarded and that corruption and rent-seeking are punished. The people will be empowered to hold public officials accountable through some Bill of Rights (especially the Right to Information Act). The people will be mobilized to re-emphasize the virtues of honesty, hard work, selfless service, moral rectitude, and patriotism. The National Orientation Agency (NOA) and their state counterparts will be strengthened to actively lead the campaign. Government will also encourage the civil society organizations, Community-based organizations, NGOs, private sector organizations, religious and socio-cultural-traditional organizations, etc to provide leadership in the campaign for a new value system. Agencies and organizations will be encouraged to take specific steps to reward excellence as the demonstration effect could help to motivate imitation of exemplary behaviour by others (NEEDS 2003).

## 1.3 Structural Changes as a Precursor of Economic Development

The most comprehensive perception of development is one that conceives it as a multi-dimensional process involving changes in structures, attitudes, and institutions, as well as the acceleration of economic growth, the reduction of inequality and eradication of absolute poverty. A precursor of such changes capable of fostering economic development is the ability of policy makers to induce desirable changes in the economic structure of any nation. Such policies must induce a wide range of changes in the entire social system, tuned to the diverse basic needs and desires of individuals and social groups within the system. Also, it should move away from a condition of life that is widely perceived as sub-standard and towards a situation or condition of life regarded as materially and spiritually better. A structurally satisfactory state

of development is one in which three core values representing the common goals sought by all individuals and societies are achieved. These are life sustenance, self-esteem and freedom. These relate to fundamental human needs which find their expression in almost all societies and cultures at all times.
A thorough understanding of the initial conditions and state of a nation is usually a precondition for setting an agenda for change. Consequently, this process of structural transformation should have as its overall goal the need to better the lives of the people of a nation with the following objectives:

(i) increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter, health and protection to all members of society. This should necessarily be accompanied by specific aspirations to foster rising per capita incomes, the elimination of absolute poverty, more employment opportunities and lessening income inequalities;

(ii) raise levels of living, in addition to higher incomes, as well as the provision of more jobs, better education and more attention to cultural and humanistic values. These would serve to enhance material well-being, generate greater individual and national self-esteem; and

(iii) expand the range of social choices to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation-states but also to the forces of ignorance and human misery.

It also involves an identification and adoption of economic systems consistent with both the overall economic aspirations, given the stage of development, the resource endowment of the nation, and the degree of the nation's dependence on other sovereign nations. The stage of development is usually typified by the economic structure which characterizes a nation at a particular point in time. According to Rostow (1960), economic structure can be classified according to the stage of development. Five such stages were identified: the traditional society, the pre-condition for take-off, the take-off into self-sustaining growth, the drive to maturity and the age of high mass consumption. The line between one stage of development and another cannot be clearly delineated. However, in many societies today, two systems exist which can be delineated into traditional, representing the old and native ways of doing things, and the modern, representing either imported or more technically efficient ways of fostering development. The systemic mode for bringing about these changes has come to be identified as economic systems, which range from pure socialism/communism to pure capitalism.

In concluding this section, it is essential to stress that the overall goal of development is to structurally transform the economy such that the quality of life would improve in such a manner as to enhance individual and group esteem both internally and externally, as well as expand the range of human choices, librating people from external dependence and servitude.

## 1.4 Justification for the Study

The literature on the Nigerian economy is quite substantial. However, greater part of it is focused on sectoral analysis albeit, with less comprehensive and current data. Consequently, very little information could be derived from it with regard to the macroeconomic and structural transformations which have taken place, especially, since the oil boom. The study by Olayide, et al. (1976), on the Nigerian economy is useful, although incomplete, as some sectors of the economy such as: health, education and water resources were not covered in the study. The attempt made by Olaloku, et al. (1979) in the book titled "Structure of the Nigerian Economy" was an improvement over the earlier works. The book provides a comprehensive outlay of the structure of the economy, incorporating information on the socio-economic services. However, like its predecessor, some key elements of the economy were not reflected in the book. Moreover, the statistical coverage ended in 1974.

The concern over structural maladjustment in the early 1980's following the deep recession and financial distress experienced in Nigeria, prompted Okongwu (1986) to analyse the structure of the Nigerian economy in a book titled "The Nigerian Economy: Anatomy of a Traumatized Economy With Some Proposals for Stabilization". The discussions were limited to sectoral analysis, viz: agriculture, manufacturing, energy, socio-economic services, as well as macroeconomic management and some general remarks, with very little statistical information to support the analysis. Kayode et al (1989) reviewed the structure of the economy since independence, in their work titled "Nigeria Since Independence: The First 25 years". However, specific emphasis was not given to socio-economic services and the external sector, while the analysis covered mostly between 1960 and 1985.

Several studies have emerged since the adoption of SAP in 1986. These additions have mainly attempted to x-ray the extent to which efforts to structure the economy were successful, especially in the areas of getting the incentives right through policy and institutional reforms. Although the attempt was not to document the structural changes, the works, however, laid the foundation for understanding the current structure of the Nigerian economy. Some of the works include: the report prepared by the Research Department of the Central Bank of Nigeria (May, 1993) titled "Perspectives of Economic Policy Reforms in Nigeria". The study reviewed Nigeria's pre-SAP economic policies and performance from 1960 to 1985, and identified major causes of the economic crisis which inevitably led to the adoption of the SAP. It appraised the fiscal, monetary, exchange rate, trade, and external public debt management policies initiated in the wake of the SAP. Also, it evaluated the aggregate macroeconomic and sectoral performance of agriculture, industry, external sector, infrastructure (such as construction, transportation and communication) and socio-economic services. Though some information on institutional developments in the financial sector, government revenue, expenditure profile, privatization and commercial programmes were provided under the appraisal of monetary and fiscal policies, the emphasis was on analysis of the SAP policies which were evaluated against its stated objectives. However, no attempt was made to analyze the degree of structural transformation that has taken place.

Synge (1993) in "Nigeria – The Way Forward" provides another review of the structure of the economy. Again, the major limitation of this work is its focus on the era of the structural adjustment programme. In fact, the data analysis was limited to the 1988-1991 period. The World Bank (1993) study "Nigeria Structural Adjustment Programme: Policies, Implementation, and Impact" reviewed the structural reforms. Among these were the SAP incentives, foreign trade and exchange rate policy, fiscal policy and public enterprise sector reforms. The performance evaluation of these policies centred more on the trend analysis of macroeconomic aggregates, while the sectoral performance that reflected the structural changes were only highlighted in terms of real and social services sectors. These included: manufacturing, agricultural, oil and gas sub-sectors, the labour market, poverty and basic social services. The statistical analysis covered the 1978-1992 period in some sectors, and 1985-1992 in others. In effect, the work provided inadequate information on any structural transformation that might have taken place.

Another effort at providing information on the performance of the structural adjustment programme was made by the International Monetary Fund (1997). Entitled "Nigeria-Experience with Structural Adjustment", the book provided background information on economic performance that necessitated the structural reform programme. Like the World Bank publication, it articulated the exchange rate, trade and tariff, fiscal, monetary and financial, external debt and public enterprise reforms. It also evaluated the effects of these reforms on sectoral growth and macroeconomic aggregates such as inflation, savings and investment, employment and wages, and external sector development, with respect to exports, imports, as well as financing of balance of payments deficits. The work lacked information on the structure of the Nigerian economy.

Sokol (1996) employed another approach in analyzing the Nigerian economy by suggesting market mechanism for prosperous economic growth. He attributed the slow growth of the economy between 1986 and 1992, to the overbearing role of the public sector and suggested free interplay of market forces for sustainable development in Nigeria. He criticized the model that was applied in the economy during the period in question, as the state has been at the commanding height of the Nigerian economy. He further suggested policy consistency and transparency, with viable macroeconomic stability, overall fiscal surplus, control of expenditure and management of external shocks as the major goals of the policy framework, and less resort to the Central Bank of Nigeria for financial accommodation. The weakness of the paper is the practicability of a market mechanism approach in a developing economy like Nigeria. The efficiency of market mechanism in resource allocation is evident; however, application of the mechanism in Nigeria is in question. Furthermore, given the Nigerian context, the major target of government policies should be on poverty alleviation. These and other issues are covered on sectoral basis in the various chapters in the book.

Ajakaiye, 2001 reviewed Nigeria's economic development between 1990 and 1999 with focus on the key features of the economy necessary for assessing the extent to which Nigeria's national economic development targets can be achieved. The key indicators examined were the structure and growth of output, income and expenditure, composition of investment expenditure, exports and imports and the relationship between national savings and investment. The challenge to stakeholders in Nigerian development on how to rekindle investment in the Nigerian economy in ways compatible with increased contributions of the secondary sector to output and employment, and increased growth rate of output and income, a diversified productive base, reduced dependence on oil and imports, and increased national savings which would propel increased investment were examined. The policy recommendations are that efforts should be made to extricate the low-savings-lower-investment trap, reduce the spread between bank lending rates and the savings deposit rates, eliminate the continuous depreciation of the currency as well as deliver credit and foreign exchange to producers, all of which will enhance growth and reduce unemployment. Indeed, this attempt on economic development in Nigeria was a fair one. It does not adequately cover the external sector. Issues such as the contribution of foreign direct investment, remittances among others as a panacea to economic development were not covered.

In addition, Iyoha and Oriakhi (2002) gave a comprehensive analysis of the evolution of the structure of the Nigerian economy from 1960-1997 taking into consideration the intricacies of the diversity of the economy. The period was divided into three sub-periods with explanations and discussions of the economic growth performance for each period in terms of market institutions, response of microeconomic agents to trade, agricultural and industrial policies and policy environment, government policies as well as the current political economy and governance. The study offers macro and sectoral perspectives on Nigeria's economic growth performance. It also ventures into the effect of SAP and financial deregulation on the economy. The study analyses the development in the financial and external sectors as well as in the financial institutions, and the trends in openness and urbanization over the entire period. The work covered mainly the evolution of the structure of the Nigerian economy and also examined the growth performance during the period reviewed without emphasis on the transformation of the economy that took place during the period of analysis. The study finally provides a comparative perspective by comparing Nigeria's sectoral shares with the "norms" obtained from cross-sectional studies of developing economies. The study gave a generally good examination of Nigeria with emphasis on the changes in sectoral contributions to production in the economy, as well as, Nigeria's determinants of growth performance given the intricacies.

At the Global Economic Governance Programme Annual Lecture, Okonjo-Iweala (2005) examined the implications of the reforms in

Nigerian in a global context and the implications of the reforms to the federal structure. The paper stressed that securing the benefits of the reform depends on how well the risks associated with globalization are managed, and how well integrated the Nigerian economy is with the rest of the world. It also gave a detailed background and overview of the Nigerian economy in terms of the current reform efforts, including the results and challenges of the reform. Furthermore, the key strategies and goals of the National Economic Empowerment and Development Strategy (NEEDS) were discussed. It stressed that the goal of the Nigerian reform is to set the economy on a path of sustainable growth and development and create a competitive economy. In conclusion, it suggested that more should be done to broaden and deepen reform in order to accelerate growth. However, the paper does not analyse structural transformation of the Nigerian economy, and the analysis covered 1999 to 2004.

The African Economic Outlook, (2006), highlighted the structure of the Nigerian economy. It explains recent economic developments, macroeconomic policies, and structural issues, taking into consideration the political and social conditions. It discusses the latest reform programmes, the National Economic Empowerment and Development Strategy (NEEDS) and the State Economic Empowerment and Development Strategy (SEEDS), with an assessment of the changes in the different sectors of the economy as a result of the NEEDS initiative. Accordingly, it indicates that since the introduction of the reform, Nigeria has made progress in consolidation of the banking system and deregulation of the communication sector. However, the transport-infrastructure services, social indicators, education system, corruption level and crime condition have not changed significantly, although there have been some slight improvements. It emphasized that economic reforms were aimed at generating a conducive environment for private investment by improving macroeconomic management, reforming the financial sector, encouraging institutional reforms, privatization and deregulation, and infrastructural development. In effect, achieving these will promote effective growth, poverty reduction, job creation, rural development and social safety nets for the poor.

Garcia et al (2006) gave an assessment of Nigeria's economic performance. It discusses the important results of the diagnostic analysis in three sections: Overview of the Economy; Private Sector Enabling Environment; and Pro-poor Growth Economy. The "Overview of the Ecoonomy", provides information on Nigeria's economic structure, macroeconomic performance, poverty and inequality, demographic and environmental conditions and indicators of gender equality. However, the weakness of the assessment is that it does not cover the diversity of the Nigerian economic structure adequately. It only focuses on a few selected sectors, which gives an insufficient assessment.

Okonjo-Iweala and Osafo-Kwaako (2007) reviewed Nigeria's recent experience with economic reforms and policy measures which were implemented. The paper examined the historical background, progress and challenges of the various components of the economic reform programs. These were categorized into: macroeconomic, structural and institutional and governance reforms. The authors noted that although Nigeria has made significant progress with its current reform program, many other challenges need to be addressed, including non-oil growth and employment generation, improvement of domestic business climate and institutions, increasing infrastructural investment, tackling youth restiveness in the Niger-Delta and increasing quality of social sector spending.

Indeed, all the SAP-related works have a specific focus, on macroeconomic stability. Also, other works focused on economic developments and reforms. Details of the changing structure of the economy associated with SAP and NEEDS reforms were not comprehensively analysed. In the light of these observed gaps, this study is designed to provide a more comprehensive information and detailed statistical analysis of the changing structure of the Nigerian economy since independence. The first edition of the book published in 2000 was widely accepted and acknowledged as the most authoritative work on the Nigerian economy. In this respect and considering the recent developments in the sectors of the economy in the last eight years, it became expedient for the Bank to revise and update the book.

## 1.5 Scope of the Study

The book is divided into eleven Chapters. Chapter 1 is basically introductory and gives the thrust of the study. Chapter 2 outlines the theoretical and conceptual framework of the study which falls within the realm of development economics. It defines the characteristics of the economy and the institutional arrangements. The chapter also examines the various processes of structural transformation unique to each economic system/structure and concludes with a discussion on the different attributes associated with the various stages of structural transformation in countries which are classified as under-developed, developing and developed countries.

Chapter 3 provides an overview of the structure of the Nigerian economy, highlighting the location and size of the country, and its geographical and demographic features. The chapter also discusses the pattern and trends of income distribution and developments in the educational, health and social institutions. Furthermore, it analyses the various natural resource endowments, as well as the dualistic nature of the economy, especially the agrarian, industrial, financial, foreign trade and exchange market structures. It examines the political structure, including the evolution of local, state and federal government, as well as other critical political developments. It further highlights the fiscal profile of the three-tires of government, with emphasis on the implications of fiscal federalism-revenue sharing and the National Conference. Other aspects covered are the sociological features, the structural transformation strategies of development planning and an assessment of the overall economic performance.

Chapter 4 focuses on the agrarian system, assessing its contribution to the Gross Domestic Product (GDP) and the national economy in general. It also covers the features of the sector such as: the ecological base; the farming systems, (ranging from shifting cultivation to intensive irrigated farming); the cropping systems; land use patterns; the human, as well as material resources base. Other issues discussed include the various agricultural policies such as the agricultural finance scheme, research and training, extension services, price and marketing policies; as well as rural, land, water resources and institutional developments. It discusses Presidential Commission/Initiatives to boost production and other initiatives by the Government. The various agricultural policies under the structural adjustment programme as well as those formulated from 1999-2006 were also examined. Furthermore, it covers structural changes in the agricultural sector with consideration on farming techniques, public/private participation, farming settlement models, incursion of foreign private investment in commercial farming, sub-sectoral developments over the years and employment generation. An assessment of agricultural sector performance from 1960 – 2006 with focus on output growth; sub-sectoral analysis of development; agricultural trade; and prices was conducted.

Chapter 5 addresses the evolution and structural characteristics of the industrial sector, focusing on the three sub-sector of manufacturing, mining, oil and gas as well as electricity. It reviews the trend, composition, investment and ownership structure, as well as the geographical/locational distribution of the manufacturing sub-sector. It evaluates the performance of the sub-sector relative to the GDP over the years and addresses the economic reforms introduced to promote its growth. The performance of export of manufactures, public sector industrial projects (refineries, petro-chemical plants, fertilizer plants, steel plants, pulp and paper plants), the development and growth of small and medium-scale enterprises, and the structural and growth of the manufacturing sub-sector are also discussed. The chapter also highlights developments in the energy sub-sectors, the ownership, production, transmission and distribution, as well as trends in electricity output over the review period.

The economic and social services sector is reviewed in Chapter 6. With respect to the education sub-sector, the chapter highlights its structure and the policies and systems of administration guiding the provision of pre-primary, primary, secondary and tertiary education in the country as well as problems militating against the educational system. The chapter also outlines the activities in the health sub-sector which include health coverage with respect to primary, secondary and tertiary health centres, number of medical personnel and facilities, health policies and programmes as well as its problems and prospects. It further examines and appraises developments of water resources; national housing fund scheme and finally deals with the patterns, trends, structure, problems and prospects of distributive trade; transportation (road, railway, air and water) and telecommunication systems in the country.

Chapter 7 evaluates developments in the financial sector, dating back to the colonial period, the post-independence institutional developments and the structural transformation that have taken place, in particular, banking industry consolidation programme and the implications of the July 6, 2004 reform are all discussed in details in this chapter. The activities of commercial, merchant and development banks; universal banking system; innovative institutions such as the Peoples and community banks; insurance companies and other non-bank financial institutions such as discount houses, finance companies, etc. introduction of higher denomination of the Naira, new clearing and settlement arrangements form part of the discussion in the chapter. It also examines the developments in the money and capital markets and other specialized financial schemes such as the World Bank-assisted small and medium-scale enterprises (SME) Apex Unit Loan Scheme, the Nigerian Export-Import Bank (NEXIM), the Export Stimulation Loan (ESL), Foreign Import Facility (FIF) and the Rediscounting and Refinancing Facility (RRF). It also reviews the various financial sector reforms since 1986, the achievements and the outstanding problems such as the distress in the sector, underdeveloped payments system, fraud through the establishment of the Economic and Financial Crime Commission, political and economic instability, problem of the CBN autonomy, inappropriate legal framework, etc. and offer suggestions for improving the performance of the sector.

The public sector and fiscal federalism are discussed in Chapter 8. It outlines Nigeria's fiscal operations which include, allocation of functions under a federal system, generation and distribution of revenue and the revenue allocation formula, including its changes overtime such as vertical and horizontal revenue sharing, derivation and agitation for resource control. It discusses in some details, the fiscal operations of the Federal, State and Local Governments. The domestic and external debt problems facing the government and the various approaches adopted to resolve them are highlighted. Recent developments including debt cancellation by both the London and Paris clubs are covered. The approach of fiscal management which requires the CBN to finance government's fiscal deficits, as well as the problem of coordination of inter-governmental fiscal relations is addressed. Finally, the chapter concludes with challenges, prospects and recommendations as well as strategies for achieving fiscal viability.

Chapter 9 deals with the external sector, outlining some conceptual issues and adjustment policies for attaining external sector balance. It also discusses the trend and structure of the sector, with emphasis on the current account which consists of exports, imports and invisible transactions; the capital transfers; the capital account which comprise portfolio and direct investments, short and long-term capital. It further examines Nigeria's foreign exchange market and exchange rate management system and the problems and constraints facing the external sector. The problems highlighted include the over-dependence on oil-export, low non-oil export receipts, unfavourable terms of trade, poor performance of the service sector, high debt service burden, inadequate flow of foreign capital, dual exchange rate. Other issues covered in the chapter, include the various external debt management strategies including the negotiation with the London and Paris Clubs, debt relief, debt conversion programme; as well as the problems of external debt overhang.

Chapter 10 addresses the informal sector, which was a major shortcoming of the earlier version of the study arising from data problem, therefore its inability to assess comprehensively, developments in the informal sector which cuts across the entire economy and which has expanded both in its scope and structure of operations over the years. The chapter focuses on conceptual issues on informal sector activities, assesses its size, structure and characteristics with particular attention to production and general merchandise as well as informal financial market. It also appraises the sector covering among others, effect of unofficial business activities on the economy, contributions of informal activities in production and merchandise trade, and performance of informal financial market and its impact on the economy.
The summary, conclusions and policy recommendations are presented in chapter 11.

## 1.6 Target Audience and Limitations

Given the comprehensive nature of the study, it should be of great appeal to a wide variety of readers. This is particularly so as it provides the missing links between previous studies on the subject and also because of its enormous information content. First, it should be of interest to the general reader interested in the dynamics of the economic structure and transformation process of the Nigerian economy. Such readers would also be delighted to know the reasons why certain policies succeeded and why others did not. Second, the book would be of tremendous value to students of economic development and applied economics, as well as academicians and social scientists in the various institutions of higher learning. This is because it provides some flesh to the available statistical data. Thirdly, policy makers will find the book relevant as it provides detailed information and analysis of the impact of major macroeconomic policy measures and strategies and the need for constant review and evaluation. Finally, the international community would find the book useful as it provides rich background information on the features of the changing structure of Nigeria's economy, with the hope that it will be of assistance in evaluating the nation's economy by those interested in investing in Nigeria or helping the country in any other way to confront its developmental challenges.

This book cannot hope to clear up all the issues relating to the changing structure of the Nigerian economy as it is subject to a number of limitations. The most important of such limitations is statistical information, which in most of the sectors is incomplete and in some cases difficult to assess. However, the quality, integrity, consistency and reliability of data used in the book are satisfactory as they were sourced administratively, from government agencies and institutions and in few cases results of previous surveys conducted by the National Bureau of Statistics (NBS), Central Bank of Nigeria (CBN) and Nigerian Institute of Social and Economic Research (NISER).