



# THE NIGERIAN ECONOMY AND EFFORTS TOWARDS ACCELERATED GROWTH

## PREAMBLE

The story of the post-independence economy of Nigeria, as most ex-colonial countries in Sub-Saharan Africa (SSA), is a mixed tale of good intentions, reforms, reversals and increased sense of the likely prolonged and lingering crisis of poverty and inequality. Good intentions derived from the recognition after independence that in order to shift emphasis from an economy predominantly based on primary agriculture (and commerce) to industry, the government would need to play a catalytic role (Eleazu, 1988). Successive national governments in Nigeria (including during the period of military intervention) subsequently prepared development plans, which continue to be used as a way of outlining the authority's development objectives and to demonstrate initiative in tackling the country's developmental challenges.

So far, Nigeria has had four 5-year development plans, a structural adjustment programme, two 3-year rolling plans and three vision/strategy documents covering the period between 1962 and 2020. Since then, the influence of government in the economy has been all pervading; in particular following the expansion of state and local governments after the civil war (1967-70). The three levels of government in Nigeria have not restricted themselves to the traditional areas of providing infrastructural support, law and order, but have made direct investments via their numerous

publicly owned corporations, companies, joint ventures and agencies in the direct production of good services. This has been facilitated by the advent of rising oil revenues in the early 70s as the Federal Government assumed the "commanding heights in the quest for purposeful national development and provide the leadership and honest administration necessary for the attainment of a national sense of purpose" (second NDP, quoted from Eleazu, 1988:99).

The most recent national plan, the Nigeria Vision 20:2020 is also characterised by similar high optimism. It seeks to accelerate the country's economic growth and position it on a path of sustained and rapid socio-economic development, thereby ensuring that Nigeria becomes one of the top 20 economies in the world by 2020. But the growth performance of the Nigerian economy, until recent past, has been widely erratic, and so were the outcomes of most of the development plans which were below expectation. The Nigerian economy is today at a critical juncture. Looking backward, average real GDP growth was about 4% per annum during 1960-2010, barely large enough to match population growth. The poor growth performance in the 1980s and 1990s mirrors a debilitating political economy characterised by political instability, distortive public sector dominance and failed efforts to deploy oil revenues for economic and human development.

Clearly, any hope of economic transformation during these decades would not have been reasonably supported by the erratic and abysmal growth performance. But, the last decade marked some positive turning point in the growth story. Real GDP growth surpassed 6% in most of the years during 2001- 2010, thereby renewing hopes for brighter longer-term prospects for growth and transformation of the economy. These hopes are however muted by the fact that recent growth improvements have not yielded desirable impacts in terms of poverty reduction, creation of jobs and better access to basic services.

## OVERVIEW OF THE PROCESS OF ECONOMIC AND STRUCTURAL TRANSFORMATION IN NIGERIA

The pathway of structural transformation in Nigeria largely reflects the stylized features characteristics of all countries going through modernization (Table 1). The share of agriculture in GDP declined sharply after independence, although this was not driven by industrial and service sector expansion but largely by the emergence of the petroleum and gas sector. This explains recent upward trend in the share of agriculture since 2000. Similarly, despite the inadequacy of available data (Sackey, 2010), they show that Nigeria experienced an increase in the share of employment in agriculture over the past 20 years, following a likely small decline in the first 25-30 years post-1960 (Table 2). It is estimated that the shares of the economically

active population in agriculture, industry and services in Nigeria were 70.8 percent, 10.4 percent and 18.8 percent respectively in 1960. These changed to 56.6 percent, 10.8 percent and 32.1 percent respectively by 1985. Comparable estimates for 2007 (the latest for which data are available) are 57.9 percent, 3.2 percent and 38.9 percent respectively (NBS, 2009). The increase in the employment share of the service sector is largely an expansion of the urban informal sector as a result of the failure of the industrial sector to grow. The recent rise in the share of employment of the agricultural sector may also be explained by the failure of the industrial sector to expand as well as the relative decline in the growth of the petroleum and gas sectors (by about 4.5 percent during 2005-2008). Despite the data limitations of Table 1, especially with respect to sectoral employment, the available evidence suggests significant productivity differential for agriculture, industry and services. Except for around 1960, agricultural productivity estimates for the economically active population are lower than those for both industry and services. Furthermore, the growth of agricultural productivity is lower than for industry, although exceeds that of services. Since the rural-urban movement was largely into the service sector (especially the informal sector), this implies a movement into a lower productivity sector with consequential negative implications for the economy and income disparity.

**Table 1:** Nigeria - Selected Indicators of Structural Transformation (in percentages, unless otherwise specified).

Indicator	1960	1970	1980	1990	2000	2009
<b>Share of GDP(constant prices)</b>						
Agriculture	64.3	44.7	20.6	31.5	35.8	42.1c/
Industry	5.8	19.4	34.6	43.2	37.0	22.0 c/
Services	29.9	35.9	44.8	25.3	27.2	35.9 /
(of which, building and construction)	4.5	5.2	9.7	1.6	2.0	1.8 c/
(of which, wholesale and retail trade)	12.4	12.2	20.0	13.4	13.1	17.3 c/
<b>Share of Employment (EAP) a/</b>						
Agriculture	70.8	69.8	54.0	43.0	59.5	57.9
Industry	10.4	12.8	8.0	7.0	2.8	3.2
Services	18.8	17.2	38.0	50.0	37.7	38.9
<b>Real GDP per Sector EAP (Naira)d/</b>						
Agriculture	106.6	112.2	378.6	5315.7	5271.9	10258.4
Industry	66.0	265.5	4293.6	44750.8	115649.3	97012.7
Services	186.6	364.8	1168.7	3666.1	6310.1	13046.3
<b>Demographic Transition</b>						
Fertility Rate b/	6.5	6.6	6.9	6.6	5.8	5.2
Birth rate (per 1000)	47.6	47.4	48.8	46.0	42.3	39.3
Death Rate (per 1000)	25.9	23.6	20.2	19.9	17.8	16.2
Annual Population Growth	2.2	2.3	3.0	2.6	2.4	2.3
Annual Urban Population Growth	7.1	4.6	5.2	4.6	4.1	3.8
Urban Share of Total Population	16.2	22.7	28.6	35.3	42.5	49.1
Agglomeration index e/	4.8	6.9	9.6	12.2	13.5	14.9

Sources: NBS (2009), CBN (2010), World Bank (2010), and AfDB (2010).

Rural-urban migration, urbanization and demographic transition accompanied these sectoral changes. Between 1960 and 2009, the urban share of total population increased dramatically from about 16.2 to 49.2 percent. In absolute terms, the urban population increased from 6.86 million in 1960 to 73.18 million in 2009. By growing in excess of 4 percent per year, the urban population doubled at almost every fifteen years.

The rate of growth, higher than those experienced in other sub-Saharan African countries, may be explained by three phenomena: First, high internal migration is historically determined by climatic patterns in the northern part of the country, soil degradation in eastern Nigeria and internecine war in the southwestern part of the country. Second, the emergence of petroleum and gas, which substantially increased urban wages and served as a “urban pull factor”; and thirdly, post-independence political conflicts that ushered in the development of many states and accompanying state capitals.

The associated demographic transition was however less dramatic. Nigeria has undergone a modest demographic

transition exhibited by reduced birth rates (per 1000 people) from 47.6 in 1960 to 39.8 in 2009 (though the rates actually increased in the 1970's and 1980's when it exceeded 48). Death rates have fallen consistently from about 26 (crude deaths per 1000 people) in 1960 to about 16 in 2009. The faster falling death rates and modest falling birthrates have seen Nigeria's population growth spurt from about 45.1 million in 1960 to 74.5 million by 1980; further increasing to 124.8 million in 2000 and its current estimated population of 154.7 million in 2009. Fertility rates remain very high.

The emerging characteristics of the rural-urban transformation process point to development policy failures (especially with respect rural development) which have led to undesirable consequences, including the inability of agriculture to generate sufficient wealth to sustain the rural community and to underpin the industrial development process. Understanding the divergence of the outcomes between the transformation process in Nigeria and the theoretical postulates may help sharpen the policy making process for development.

**Table 2:** Share of Employment in Key Sectors to Total Employment (in Percentage)

Data Source	Year	Employment in Agriculture	Employment in Industry	Employment in Services
ILO	1983	33.60	5.70	56.50
ILO	1986	46.90	7.50	43.70
NBS	2003	59.49	3.33	31.02
NBS	2004	59.26	3.32	31.30
NBS	2005	58.64	3.39	31.92
NBS	2006	58.64	3.39	31.92
NBS	2007	57.89	2.89	33.04

#### Notes:

- Data for 1960 and 1970 derived from Dike (1991, table 2.2); those for 1980 and 1990 are derived from AfDB (2010); and those for 2000 and 2009, which actually refer to 2003 and 2007, are estimated from NBS (2009). Employment refers to economically active population (EAP) and definition of sectors may differ among sources.
- Births per 1,000 women ages 15-19 years.
- Refers to 2008.
- Real GDP series were compiled from 1960-73 using 1962/63 constant basic prices; 1974-80 using 1977/78 constant basic prices; and 1981-2008 using 1990 constant basic prices. As such, there are two major breaks in the series for 1960-2009, hence the substantial jump in the 1980 estimate. In the absence of employment data, estimates of labor productivity are made on the basis of economically active population (EAP).
- Refers to population in urban agglomeration of more than 1 million (as a percentage of total population); from World Bank World Development Indicators (WDI).

## CENTRAL MESSAGES AND THE WAY FORWARD FOR POLICY MAKING

The critical messages related to the structural transformation process as revealed in this study are:

■ The economic history of Nigeria is characterized by missed opportunities for growth. Nigeria failed to leverage the resource boom of the late 1970s to achieve fast and sustained growth. Also, the productivity improvements in agriculture which was necessary to fuel industrial expansion did not materialize. Instead, the oil boom fostered the misguided policy of import substitution which was short-lived and did not produce productivity improvements in industry. As such, long-term growth has been erratic.

□ The demographic transitions took place, albeit rather weakly, despite the inability of the structural transformation process to develop opportunities for sharing the fruits of growth with all Nigerians. Instead, wide disparities in access to resources and subsequent income levels emerged. The failure to develop various infrastructural sectors has led to movement of the population to a common geographical point of convergence urban centers. About one half of Nigerians live in urban areas, of which about 43 percent live in poverty. The absence of growth and development in the rural areas feeds the migration flows to urban areas, giving birth to peripheral suburbs burgeoning around already congested metropolis. The informal service sector (akin to subsistent agriculture) has become the fastest growing economic activity.

□ The quality of government deteriorated as most plans failed to achieve their goals and accountability requirements dawdled. Policy inconsistencies and

reversals reflected unclear national agenda.

## THE WAY FORWARD

Given its quest to join the top 20 advanced countries in the world, what are the key elements of the development agenda that need to be followed to bring structural transformation on course? From the central messages of this analysis,

■ The first priority is to seek fast and sustainable growth in the context of an appropriate macroeconomic framework.

□ Second, reform of agriculture, which currently provides the livelihood of close to 60 percent of the population (Table 2), along with rebirth of the rural economy, is suggestive from the findings of the review. Without agriculture, industrial growth, which is a key element of modernization, may be stunted.

□ Third, dealing with infrastructure limitations stands critical for achieving the key objectives of the preceding two themes.

▮ Fourth, growth will mean little to the estimated 80 million Nigerians that lived in poverty in 2004 if they are not given the opportunity to access its benefits. For most of them, better human capital formation mechanisms and improved markets in which to sell that capital, will be the answer.

▮ Finally, it will be necessary to deepen the decentralization process in an effort to deal with democracy and governance concerns emerging from increased urbanization and pervasive informality.

This Brief is excerpted from AIAE Research Paper 7 “Towards Accelerated Growth and Transformation of the Nigerian Economy: Missed Opportunities, Existing Prospects and the Way Forward”. The study was carried out by James Sackey.

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