

Structural Transformation of the Nigerian Economy: A Policy Paper

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Table of Contents (Tentative)

List of Tables	3
List of Figures	3
List of Boxes	3
Abbreviations and Acronyms	4
Executive Summary	5
Introduction.....	12
Background	12
Brief Review of Previous Plans and Achievements.....	12
Objectives of the Paper.....	14
The Case for Transformation	15
Social and Economic Consequences of Non-Transformation	16
Structure of the Transformed Economy	17
Resources for Transformation.....	20
Recent Performance and Current Structure of the Economy.....	22
Output, Growth and Sectoral Analysis	22
Structure and Pattern of Trade	29
Capital Accumulation.....	32
Government and Private Consumption.....	34
Population Growth and Structure	35
Labour Force and Employment	38
Youth Unemployment	41
Migration and Urbanization	44
Human Capital and Technological Development	46
Informal Sector	50
Structural Transformation: The Experience of South-East Asia and Lessons for Nigeria	53
Indonesia versus Nigeria: Performance	54
Indonesia versus Nigeria: Major Policies and Interventions.....	59
The Transformation Agenda.....	61
Examining the Transformation Agenda	65
Way Forward.....	66

LIST OF TABLES

Table 1: Nigeria's key natural resources (2011).....	19
Table 2: Summary Features of the Envisioned Economy.....	20
Table 3: Recent Economic Performance.....	23
Table 4: Nigeria's Export 1997 to 2012.....	29
Table 5: Nigeria's Imports 1997 to 2012.....	31
Table 6: Intra-regional Trade Shares of ECOWAS Countries.....	31
Table 7: Fertility and child mortality rates 1999-2008.....	37
Table 8: Sectoral share of employment (1970-2008).....	39
Table 9: Unemployment (UNEM) and Labor force participation (LFPR) for 1999-2011 (%).....	41
Table 10: Labor Force, Job Growth and Unemployment during 2007-2011.....	41
Table 11: Unemployment Rate by Age Group and Gender 2009-2011.....	43
Table 12: Distribution of informal sector enterprises in Nigeria (2000 and 2009).....	50

LIST OF FIGURES

Figure 1: Sectoral contribution to GDP 1960 – 2010.....	26
Figure 2: Agricultural sector contribution to GDP for the period 2006 to 2010.....	27
Figure 3: Industrial sector contribution to GDP for 2006 to 2010.....	28
Figure 4: Capital-Labor ratio in manufacturing (1998–2003).....	33
Figure 5: Gross rate of investment per additional worker (1986 – 2010).....	33
Figure 6: Government and Private Consumption percentage of GDP.....	34
Figure 7: Annual population growth rates: Total, Urban and Rural.....	35
Figure 8: Sectoral distribution of employment 1970-2008.....	39
Figure 9: Unemployment rates by age group for 1999 to 2007.....	42
Figure 10: Urban and rural unemployment rates by age group for 1999 to 2007.....	43
Figure 11: Annual growth rate of urban population.....	44
Figure 12: Rural to Rural Migration.....	45
Figure 13: Rural to Urban Migration.....	45
Figure 14: R&D Expenditure as percentage of GDP in Selected African Countries 2007.....	48
Figure 15: Indonesia's export structure in 2010.....	58

LIST OF BOXES

Box 1: Best practices of technological development in Africa.....	49
Box 2: Nigeria and Indonesia: The role of political will.....	55
Box 3: Nigeria – Indonesia: The paradox of two giants.....	57
Box 4: Previous rural development efforts in Nigeria: Where did we err?.....	59
Box 5: Selected food production initiatives in Nigeria.....	60
Box 6: Do small holder farmers matter? The case of Kenya's tea sub-sector.....	67
Box 7: Political will and agricultural transformation: The Malawian maize experience.....	67
Box 8: Best practices in human capital development.....	71

APPENDIX

Appendix 1: Compendium of Sectoral interventions and Policies in Nigeria.....	76
Appendix 2: Allocation by Sector & MDAs under (2012-2015).....	82

Abbreviations and Acronyms

ASEAN	Association of Southeast Asian Nations
BRICS	Brazil, Russia, India, China and South Africa
CBN	Central Bank of Nigeria
DHS	Demographic and Health Survey
ECOWAS	Economic Community of West African States
GDP	Gross Domestic Product
ILO	International Labour Organization
IMF	International Monetary Fund
IOC	International Oil Companies
JVA	Joint Venture Agreements
NBS	National Bureau of Statistics
NEEDS	National Economic Empowerment and Development Strategy
NEMS	Nigerian Enterprise Manufacturing Survey
NEPA	Nigerian Electric Power Authority
NIP	National Implementation Plan
NLSS	Nigerian Living Standard Survey
NNPC	Nigerian National Petroleum Corporation
NV20:2020	Nigeria Vision 20:2020
OGIC	Oil and Gas Reform Implementation Committee
OPEC	Organization of Petroleum Exporting Countries
PGDA	Program on the Global Demography of Aging
PHCN	Power Holding Company of Nigeria
PIB	Petroleum Industry Bill
PSC	Profit Sharing Contract
R&D	Research and Development
RPED	Regional Program on Enterprise Development
SSA	Sub-Saharan Africa
TA	Transformation Agenda
TFR	Total Fertility Rate
WDI	World Development Indicators

Executive Summary

1. This paper seeks to establish a concrete case for structural transformation of the economy, lay out a vision of the transformed economy that takes the country's endowment and history into account, examine the direction, strength and weaknesses of the Transformation Agenda as well as previous efforts to transform the economy, and provide actionable recommendations for progress toward vision 20:2020.
2. The goal of the Transformation Agenda (TA 2011-2015) is broadly to tackle the problems of infrastructure deficit, rising recurrent expenditure, rising income inequality and high poverty and unemployment rates, and lay the foundation for high levels of economic growth and development necessary to achieve the long-term targets of NV20:2020. It is designed to build on the foundations of the First NIP (2010-2013) which is the first of three medium-term plans for achieving per-capita income of at least \$4,000 and GDP of not less than \$900 billion, which will place Nigeria among the 20 largest economies in the world, by year 2020.
3. Prior to the TA, the economy recorded impressive economic growth and gains in diversification away from oil and gas beginning from year 2000. Indeed, GDP growth in during 2006-2010 averaged 6.7 percent per annum and was driven by a combination of non-oil sector growth of 8.9 percent and oil sector decline of 2 percent. The combined share of agriculture and industry in GDP fell from 73 percent in the preceding decade to 67 percent during 2000-2010 so that the economy was back to its structure in 1960s.
4. The progress continued under the TA (2011-2010). Real GDP growth averaged 7.01 percent, non-oil sectors exceeded their growth targets, and the combined share of agriculture and industry in GDP fell to below 60 percent. However despite the strong growth, unemployment increased from 21.1 percent in 2010 to 27.4 percent in 2012 and poverty rate remained around 69 percent. In addition, crude oil and natural gas accounted for over

95 percent of export earnings and contributed more than 85 percent of government revenue, up from 94 percent and 70 percent respectively in the precious decade, leaving the economy more vulnerable to crude oil price and demand shocks than in the past.

5. Recent developments in the international oil markets pose substantial threats to the sustainability of the country's financial position. There are predictions that the United States, the largest consumer of Nigeria's crude oil may become the world largest oil producer by 2020. Key oil consumers including China and Brazil also hold substantial shale oil deposits. Thus, the present level of dependence on oil revenue for government finances is unsustainable. It is also clear that a youth unemployment crisis, perhaps a "Nigeria Spring," is looming if job creation continues at the prevailing rate. To avoid a disaster and reap a demographic dividend, the economy needs to be transformed.
6. Achievement of NV20:2020 requires sustaining and improving on the recent strong economic growth performance and moving the economy toward high productivity non-primary sectors as well as high value-addition components of all sectors. It is pertinent that the economy undergoes structural transformation, guided by lessons from countries with similar characteristics that have successfully transformed their economies.
7. The economy was most diversified in the 1970s when building and construction, wholesale and retail as well as services sectors expanded relative to the 1960s and recorded their highest shares of GDP. The oil boom of the early and late 1970s accounted for a drastic increase in the industry share of the economy and supported expansion of other non-agricultural sectors through infrastructure investments. There was hardly any attempt to diversify the economy during the 1980s and 1990s (the "lost decades") as agriculture and industry (dominated by oil and gas) accounted for 73 percent of GDP in both periods.

8. Agriculture share of GDP increased from 37 percent in 1999 to an average of 42 percent during 2002-2012, and non-oil share of GDP increased generally over the period. Although there is evidence of gradual diversification, the economy is slightly more resource (oil & gas) and commodity (agriculture) oriented now than in the 1960s: the combined share of crop production and crude oil in GDP which was 48 percent in the 1960s increased to 50 percent during 2011-2012. Crude petroleum alone accounted for 93 percent of the total industry value added, amounting to 21 percent of total GDP during 2000-2010 and placed crude oil as the second most important contributor to the economy, next to crop production. These shares fell to 76 percent and 14 percent respectively during 2011-2012 as a result of pipeline vandalization and oil theft rather than deliberate attempts to diversify away from oil.
9. Manufactured goods dominate Nigeria's imports from the rest of the world, a stark reflection of the ailing manufacturing sector. The United States and China are the dominant sources of imports. China is presently the dominant supplier of Nigeria's imports, especially manufactured goods while the United States and Netherlands remain the country's major sources of primary commodities and other petroleum related products.
10. Non-oil exports accounted for 78 percent of total exports in the 1960s, down to 9 percent in 1970s and further down to 3 percent in the 2000s. Petroleum and related products remain Nigeria's major export to the ECOWAS region, accounting for more than 85 percent since 1997. However, there has been a noticeable increase in export of manufactured goods to the region. ECOWAS is the major consumer of Nigeria's export of manufactured goods.
11. Trade liberalization within the ECOWAS region provides Nigeria with the opportunity to extend its market beyond domestic borders and strengthen regional integration efforts along product lines. While the noticeable increase in export of manufactures to the region provides an indication of a larger market for the country's manufactures, it is also pertinent that the agricultural

transformation and industrialization components of the Transformation Agenda take into account the characteristics of the regional market in selecting the areas of comparative advantage to promote.

- 12.** There has been an economy-wide decline in capital-labor ratio since the 1980s and the infrastructure deficit remains the principal disincentive to investment in physical capital. High cost of capital, high cost of energy, and high cost of operation associated with the poor state of infrastructure are the major impediments to investment in physical capital.
- 13.** Government consumption as a percentage of real GDP was an average of 5 percent during 1981-2000 but rose to 14.5 percent in 2004 and further to 33 percent in 2008. By 2011, it decreased slightly to 30.7 percent. The rising rate of government consumption of final goods and services is a reflection of the bloating of government which is not consistent with efforts to curb recurrent expenditure and maintain a culture of prudent public financial management.
- 14.** In contrast to global trend of slowing population growth rates since the 1990s, Nigeria's population growth increased slightly from 2.38 percent in 2000 to 2.52 percent in 2011, driven by rural northern part of the country. Total Fertility Rate (TFR) is higher in rural north and increased most in the same area.
- 15.** Nigeria is a young country where about 63 percent of the population is younger than 25 years. Estimates suggest that the economy needs to create 15 million new jobs by 2020 in order to reap the "demographic dividend" (Bloom *et al.*, 2010). Failure to achieve this raises the risk of social unrest as the youth population continues to rise.
- 16.** The share of total employment in agriculture decreased from 68 percent during 1970-1979 to 52.7 percent in 2000-2008. But this reduction of agricultural workforce is not being absorbed into manufacturing. Rather, it is the services sectors that are absorbing increased share of labor. Overall, youth unemployment, defined as unemployment among the labor force

aged 15-24, is the single most important driver of the nation's unemployment problem. More importantly however, because national unemployment is increasingly driven by rural unemployment, the youth unemployment is also more of a rural problem than it is urban. Youth labor is gradually shifting into rural areas where infrastructure and economic activities remain underdeveloped. This justifies the need to pay more attention to the rural areas.

- 17.** The difference in performance between Southeast Asia and Sub-Saharan Africa is particularly evident in the contrasts between Indonesia and Nigeria, countries regarded as regional economic giants in their respective sub-regions and share similar experiences. The two countries are both endowed with large populations, ethnic and cultural diversities, similar political history and political systems, similar climates and natural resource endowments – including crude oil reserves. Also, they share the “misfortune” of experiencing long periods of military governments and rank closely in terms of corruption.
- 18.** Nigeria's economy grew at 4.6 percent compared to Indonesia's 2.5 percent and achieved per capita GDP of almost one and a half times that of Indonesia during the 1960s. However the table began to turn badly for Nigeria in the 1970s. While the Indonesian economy grew at an average of 6.5 percent between 1971 and 1990, the Nigerian economy grew at merely 2.8 percent in the same period. Poverty rate in Indonesia declined from about 60 percent in the 1970s to a mere 14 percent in 1996. In contrast, poverty rate in Nigeria increased from less than 30 percent in the 1970s to 66 percent in 1986 and further to 78 percent in 1996.
- 19.** In the 1960s, both Indonesia and Nigeria were agrarian economies with their agricultural sector contributing 46 percent and 57 percent of GDP, respectively. By the 2000s, industrial production dominated Indonesian economy while the Nigerian economy remained dominated by agriculture. Indonesia is presently ranked as the 15th largest country in the world with

GDP of \$1.125 trillion in 2012, which is three times Nigeria's GDP in the same year). Also, unemployment and poverty rates in Indonesia were 6.7 percent and 12 percent, respectively. This is in contrast to Nigeria's unemployment and poverty rates of 24 percent and 62 percent, respectively. The pathways were clearly different.

- 20.** Indonesia pursued a development strategy focused on rural development; prioritized rural infrastructure and agriculture support through NDP (1969-1974) that allocated 30% of capital budget to agriculture; and commitment was sustained in subsequent development plans. They also pursued systemic devaluation of the rupiah during the oil boom era plus other export promotion strategies. They placed little or no restrictions on private sector investments, especially in foreign investments. As a result, agricultural productivity and value chains spurred labor intensive manufacturing in the 1970s.
- 21.** In contrast, Nigeria pursued a development strategy focused on industrialization and urban infrastructure; emphasized food sufficiency without the required rural infrastructure. The NDP (1970-1974) allocated only 10% of total budget to agriculture; the share of which fell to 6% in NDP (1975-1980). The country maintained the exchange rate despite overvaluation during the oil boom plus import substitution strategies, and pursued indigenization of foreign-owned enterprises under 1972 decree. As a result, agriculture growth was negative for most part of the 1970s and the economy shifted to oil exploration as mainstay.
- 22.** The overarching philosophy of the Transformation Agenda is to develop infrastructure and create sound macroeconomic environment for industrial development, and invest in the production of skilled and healthy workforce that will provide the required labor. However, instead of a rural focus, the transformation agenda is urban-biased. For example, the prominent priority of the power sector is to provide electricity in major cities and industrial areas

while the transport sector priorities focus exclusively on major inter-city and inter-state roads and bridges. In hindsight, the transformation agenda looks similar to the second and third development plan of the 1970s in light of allocation of resources.

23. The lesson from the Indonesian experience is that a clear focus on rural development with emphasis on agricultural productivity, value chains and the supportive rural infrastructure could unlock the potentials of the sector to spur industrialization. Urban infrastructure projects should focus on creating new cities to avert explosion of urban slums. There is need for renewed focus on skill development, research and development and improved governance of universities and research and extension institutions. Government should create incentives for the financial services sector to provide capital to entrepreneurs in agriculture in order to support the vision of the agriculture ministry to transform agriculture from a development-oriented sector into a business sector.

Introduction

Background

1. The Transformation Agenda (TA 2011-2015) of the Federal Government of Nigeria represents the medium-term plan of the present administration to address the challenges of growth and development. It is designed to build on the foundations of the First NIP (2010-2013) which is the first of three medium-term plans for achieving the long-term objectives and targets of Nigeria Vision 20:2020 (NV20:2020).¹
2. Nigeria is currently the 39th largest economy in the world, with a real GDP in PPP terms estimated at \$387 billion in 2012.² The country is a major oil producer supplying 2.7 percent of global output and 6.7 percent of the twelve-member OPEC output as at May 2013. In NV20:2020, Nigeria aspires to achieve per-capita income of at least \$4,000 and GDP of not less than \$900 billion, which will place Nigeria among the 20 largest economies in the world, by year 2020. To achieve this goal, the economy requires a growth of 13.8 percent per annum between 2010 and 2020.
3. The goal of the TA is broadly to tackle the problems of infrastructure deficit, rising recurrent expenditure, rising income inequality and high poverty and unemployment rates, and lay the foundation for high levels of economic growth and development necessary to achieve the long-term targets of NV20:2020.

Brief Review of Previous Plans and Achievements

4. Notably, these goals have been the focus of numerous visions and national development plans implemented since the country's independence in 1960. These include the first NDP (1962-1968) under the executive leadership of Nnamdi Azikiwe, the second NDP (1970-1974) and the third NDP (1975-1980)

¹The First NIP will be succeeded by the Second NIP (2014-2017) and the Third NIP (2018-2020)

²World Development Indicators (2013)

under General Yakubu Gowon, the fourth NDP (1981-1985) under President Shehu Shagari, the first to involve local governments. A one-year emergency plan was instituted in 1986 by the Babangida administration but was absorbed into the Structural Adjustment Program of 1986. Due to the rapid changes that characterized the economic environment in the late 1980s, five-year development plans were considered unsuitable and were replaced by three-year rolling plans. The idea of rolling plan was to revise the plan at the end of the first year. The first rolling plan (1989-1991) was revised into a second rolling plan (1990-1992) under the Babangida administration until 1996. The rolling plans were focused on reducing inflation and exchange rate volatility, maintaining infrastructure, achieving agricultural self-sufficiency, and reducing the burden of structural adjustment on the most vulnerable groups (Ihonvbere, 1991).

5. The development plans and initiatives implemented over a period of 40 years (1960-1999) failed to move the economy away from the structure inherited at independence, and that failure prevented achievement of inclusive growth. GDP growth fell from 4.5 percent in 1960-1969 to 2.8 percent during 1990-1999. The combined share of agriculture and industry in GDP increased from 67 percent during 1960-1969 to 73 percent during 1990-1999. Moreso, while industrial production was dominated by manufacturing in the former period, it was dominated by crude oil in the latter period, indicating that the economy was more dependent on primary production (crude oil and agriculture) in 2000 than in 1960. Poverty rate rose from less than 30 percent in the 1970s to 78 percent in 1996 and unemployment rate grew steadily from less than 2 percent in 1970 to 13 percent in 2000.
6. At the turn of the millennium, the new democratic government implemented a series of reforms and presidential initiatives in both primary and non-primary sectors of the economy to bolster growth and diversification. The period was marked by expansion of agriculture production as well as ICT, finance and

real estate as well as telecommunications. As a result, the economy recorded impressive economic growth and gains in diversification away from oil and gas beginning from year 2000. GDP growth in the period (2006-2010) averaged 6.7 and was driven by the non-oil sector which grew at an average rate of 8.9 percent per annum while the oil sector declined by 2 percent. The combined share of agriculture and industry in GDP fell from 73 percent in the preceding decade to 67 percent during 2000-2010 so that the economy was back to its structure in 1960. Unemployment rates hovered around 13 percent between 2000 and 2007 but rose to 21 percent by 2010. Poverty rate fell from 78 percent in 1996 but remains high at 69 percent in 2010; this amounts to a decrease of 9 percent over a 14-year period.

7. The economy recorded further progress under the period of the TA: real GDP growth averaged 7.01 percent, non-oil sectors exceeded their growth targets, and the combined share of agriculture and industry in GDP fell to below 60 percent during 2011-2012. However the structural constraints that bedeviled inclusive growth in the history of the country remained in place. Despite the strong growth, unemployment rose from 21.1 percent in 2010 to 27.4 percent in 2012 and poverty rate remained around 69 percent. During the period, crude oil and natural gas accounted for over 95 percent of export earnings and contributed more than 85 percent of government revenue, up from 94 percent and 70 percent respectively in the last decade. This leaves the economy more vulnerable to crude oil price and demand shocks than in the past.

Objectives of the Paper

8. In support of the Transformation Agenda and the NV20:2020, the objectives of this paper are to establish a concrete case for structural transformation of the economy, lay out a vision of the transformed economy that takes the country's endowment and history into account, examine the direction,

strength and weaknesses of the Transformation Agenda as well as previous efforts to transform the economy, and provide actionable recommendations for progress toward the vision.

The Case for Transformation

- 9.** Recent developments in the international oil markets pose substantial threats to the sustainability of the country's financial position. In particular, efforts by major consumers of Nigerian crude oil to reduce their dependence on foreign oil imply possible reductions in future demand. In particular, shale oil has emerged as a low-cost alternative to crude oil. There are predictions that the United States, the largest consumer of Nigeria's crude oil may become the world largest oil producer by 2020.³ In addition, key oil consumers including China and Brazil hold substantial shale oil deposits. The reality is that the government may not be able to fund its budgets from oil proceeds as demand fall in the near future as the present level of dependence on oil revenue for government finances is unsustainable.
- 10.** Despite recent impressive economic growth, poverty rates remain very high and unemployment rates have been rising. Unemployment among the youth population aged 15-24, the driver of aggregate unemployment, rose from about 25 percent in 2010 to an alarming 38 percent in 2011, and it is projected to exceed 40 percent in 2012. Given a population structure where the youth constituted 19 percent while children aged 0-14 made up 44 percent, it is clear that a youth unemployment crisis, perhaps a "Nigeria Spring," is looming if job creation continues at the prevailing rate. It was estimated that the economy needs to generate about 15 million jobs between 2011 and 2020 just to keep unemployment at the 2010 levels (Bloom et al 2010). However the economy actually shed a net of 42,000 jobs in 2011

³IEA World Economic Outlook 2012

(NBS 2012). To avoid a disaster and reap a demographic dividend, the economy needs to be transformed.

- 11.** Though impressive, recent economic growth was driven foremost by sectors of the economy where productivity remains low, namely agriculture and wholesale & retail trade. While agriculture is the foremost driver of growth, crop production accounted for about 89 percent of the sector between 2006 and 2012. Due in part to the Presidential Initiatives of the Obasanjo administration which emphasized and provided incentives for agricultural production, the economy began a structural shift of labor force out of wage employment into agriculture. Although earnings rose in the sector relative to other sectors, the growth in earnings was not driven by productivity but by factor accumulation (Haywood and Teal 2010). This type of structural shift and economic growth cannot be the basis for achieving the targets of NV20:2020.
- 12.** Achievement of NV20:2020 requires sustaining and improving on the recent strong economic growth performance and moving the economy toward high productivity non-primary sectors as well as high value-addition components of all sectors. It also requires that the sectors and subsectors that will drive economic growth take full advantage of the country's physical, human and environmental resource endowments in ways that enable the country to sustain high rates of inclusive economic growth. It is therefore pertinent that the economy undergoes structural transformation, drawing lessons from countries with similar characteristics that have successfully transformed their economies.

Social and Economic Consequences of Non-Transformation

- 13.** The consequences of not transforming are alarming. First, Nigeria is currently facing immense security challenges, especially from Boko Haram and other insurgent groups around the country, that are linked to rampant poverty and

unemployment. Failure to transform in ways that ensure inclusive or “shared” growth will simply heighten the security challenges as idle youth become impatient with the government. It is important to bear in mind that the Arab Spring, which was ignited as a result of self immolation by an unemployed graduate, was principally a consequence of high level of unemployment. Youth unemployment above 40 percent is itself a recipe for social upheaval, not to mention the potential that it may reach the 60s in the next five years at the current rate of increase.

- 14.** Second, an impending youth bulge combined with dwindling oil revenues in the near future means that demand for social services would increase and government will not be able to fund them adequately. This portends particular implications for spending on health and education which typically are the sectors that suffer most when governments attempt to cut expenditure. Because these are the most important drivers of human capital development, the country will regress on human development outcomes and it will be impossible to realize the targets of NV 20:2020.

What type of Transformation?

- 15.** The anticipated structural transformation should be driven by strong linkages between agriculture and industry: increased agricultural productivity and value chain development feeding the agro-allied and light manufacturing sectors. In response, urbanization rate will increase as a result of exit of labor from rural agriculture into new cities and metropolitan areas and population growth will decelerate as fertility rates fall due to improvement in rural health services as well as development of economic opportunities in rural areas.

Structure of the Transformed Economy

- 16.** As envisioned in the NV20:2020, agriculture share is expected to reduce to a maximum of 15 percent and the sector will be driven by high yield

production. However, this study projects that manufacturing sector will make up about 30 percent of the economy and will depend largely on local inputs. Similarly, the non-manufacturing components of the industrial sector, which comprises oil & gas and other mining activities as well as building and construction, is expected to contribute about 20 percent of the economy, while the services sector makes up about 35 percent (see Table 1). Given the plan to increase investment in human capital development it is likely that the services sector will be dominated by high skill and high tech activities.

- 17.** The share of each sector in employment is expected to reflect its share of output. Unemployment is expected to fall below 5 percent and poverty to remain under 10 percent. Small cities and metropolis together will account for 70 percent of the population, leaving only 30 percent in the rural communities.
- 18.** The population structure envisaged is such that the working-age population constitutes 70 percent of the population, bringing the dependency ratio from the current level of 86 percent down to 43 percent. To achieve this target, population growth is expected to fall below 2.0 percent and TFR expected to fall below 2 children per woman.
- 19.** To achieve the desired transformation, the current drift of labor from high productivity urban wage sector to low productivity rural agriculture must be reversed. However, the reversal will not be achieved by focusing on urban development to the detriment of rural areas, but by focusing on rural infrastructural development and creating high value-addition in agricultural value chains and spurring rural non-agricultural development. The bedrock of the transformation is to catalyze the manufacturing sector through agricultural productivity and value chain development in order for the economy to supply processed products to the world market.
- 20.** A rural development strategy needs to be combined with a strategy of upgrading semi-urban areas into cities and metropolis that will absorb labor

moving out of agriculture as the sector shifts into high productivity activities. This ensures that the country becomes more urbanized, not by having rural population emptied into existing cities, but by developing new cities out of existing small towns in a way that yields “urbanization from beneath.” This requires that infrastructure upgrade focus on these areas rather than focusing mainly on urban areas.

- 21.** To create inclusive growth, there has to be significant investment in the engines of endogenous growth, namely, education and health as well as research and development. This ensures that the working population is well equipped both to contribute to the transformation process and to benefit from the proceeds of transformation.

Table 1: Summary Features of the Envisioned Economy

Indicator	Current State (2011-2012)	Projection (2025-2030)
GDP Growth Rate (%)	7.01	13.8
Sectoral shares of the economy (%)		
Agriculture	40	15
Manufacturing	4.17	30
Mining and Construction	16.8	20
Commerce, Utilities and Services	39	35
Demographic Structure:		
Population Growth Rate (%)	2.52	2.0
Working age to population ratio	0.53	0.70
Total Fertility Rate	5.5	2.0
Urbanization Rate (%)	49	70
Unemployment Rate (%)	27	5

Resources for Transformation

22. Nigeria is endowed with a vast array of natural resources that can be tapped to provide the financial and budgetary requirements of the transformation process. Nigeria's petroleum reserves total about 37.2 billion barrels as at 2011 while production is estimated at 2.55 million barrels per day (see Table 2). Apart from new discoveries, the reserves will still support production until 2053 at the current rate of production. Similarly, Nigeria's natural gas reserves

are estimated at 186.8 trillion cubic feet, placing Nigeria among the top countries in the world in terms of gas reserves. At the current rate of production, the reserves will sustain production for the next 170 years.

23. While the focus has been on crude oil, the enormous reserves of natural gas could be exploited both for the purpose of boosting export earnings as well as an important source of electric power generation. Other natural resources include coal, limestone, bitumen, gold, tin and iron ore. However, these have not been fully exploited. While reserves estimates are not publicly available, an estimated 8.82 thousand short tons of coal, 180 metric tons of Tin and 50 thousand metric tons of Iron Ore were produced in 2011 (see Table 2). These natural resources could be exploited for the purpose of accelerating the structural transformation of the economy and achieving the targets of NV20:2020.

Table 2: Nigeria's key natural resources (2011)

Resource	Reserve	Production	Consumption	Exports
Natural gas	186.8 trillion cubic feet	1,107.48 billion cubic feet	190.70 billion cubic feet	916.78 billion cubic feet
Petroleum	37.2 billion barrels	2,550.35 thousand barrels per day (2010)	286.00 thousand barrels per day (2010)	2,340.59 thousand barrels per day (2010)
Coal	2.7 billion tons	8.82 thousand short tons	8.82 thousand short tons	44 thousand short tons (1999)
Tin	N/A	180 metric Tons	N/A	N/A
Iron Ore	10 billion tons	50 thousand metric tons	N/A	N/A

Source: World Fact Book and Federal Ministry of Mines and Steel Development (2012)

24. The country is also endowed with about 70 million hectares of arable land, of which only 37 percent was under cultivation by 2009.⁴ By bringing more fertile

⁴ Sourced from Trading Economics (2013) at <http://www.tradingeconomics.com/nigeria/arable-land-percent-of-land-area-wb-data.html>

farmland into cultivation, the agricultural sector could play a significant role in the transformation process by ensuring food security as well as providing the inputs required for development of manufacturing activities.

25. In terms of human resources, Nigeria is the seventh most populous nation with a population of 170 million as at 2012. With a working age population of more than 90 million and labor force participation of about 75 percent, the country is endowed with a large workforce that also provides a large market for goods and services. The population structure which has population aged 0-14 making up 44 percent of the population also implies that if the transformation effort goes well, Nigeria stands to reap enormous demographic dividend as the huge population under 15 years enter the labor force.

26. Nigerian population is projected to rise to 402 million by 2050. This will position the country as the fourth most populous nation, next to the United States in the third position.⁵ If fertility rates improve on recent trends, the working-age population is projected to reach 70 percent of the population by 2050 (Bloom et al; 2010), bringing the demographics and dependency ratio to a state that is comparable to the present United States. Indeed, if as part of the efforts, the agenda includes rural development as well as rural women-focused economic empowerment programs, these could push fertility rates further below current trends and the target of 70 percent working population ratio could be reached sooner.

Recent Performance and Current Structure of the Economy

Output, Growth and Sectoral Analysis

27. Real GDP in PPP terms which stood at \$124 billion in 1980 increased to \$387 billion in 2012. Real GDP grew at the average rate of 7.01 percent during 2011-2012. In comparison to the rest of the world, Nigeria outperformed the

⁵Population Reference Bureau Data Sheet (2012)

Emerging Markets and Developing Economies (5.75 percent), Sub-Saharan Africa (5.05 percent), and the global economy (3.6 percent). The growth performance also represents an improvement over 6.8 percent for 2006-2012 and 6.5 percent for 2001-2010. In general, economic growth since the turn of the millennium has been very impressive compared to the previous decades when average real GDP growth rates were 2.8 percent during 1991-2000 and 1.3 percent during 1981-1990.

- 28.** Consolidating on the gradual diversification of the economy away from crude petroleum since the turn of the millennium, economic growth was driven by wholesale and retail trade, agriculture and communications. These sectors contributed an average of 28.4, 27.6 and 24.4 percent respectively to the real GDP growth experienced during 2011-2012. This marks a swing from the situation during 2006-2010 when agriculture was the leading contributor to economic growth and wholesale and retail trade followed. Nevertheless, these imply that recent economic growth has been driven by the non-oil sector. The oil and gas sector declined at an average rate of 0.39 during the period.
- 29.** The manufacturing and solid mineral sectors are showing signs of increasing activities. The manufacturing sector grew at an average rate of 7.6 percent and contributed 4.5 percent of real GDP growth during 2011-2012. The solid minerals sector also grew at the average rate of 12.5 percent and contributed 0.37 percent of real GDP growth. The sector in particular exceeded the target under the TA which was set at 11.5 percent. This shows that perhaps the economy is beginning to tap into the other forms of mineral resources. Other non-agricultural sectors including building & construction and real estate exceeded their growth targets and contributed 3.6 and 2.7 percents of real GDP growth, respectively.

Table 3: Recent Economic Performance

	2006 to 2010	2011 to 2012
Real GDP Growth	6.70	7.01
Sectoral Contribution to GDP		
Agriculture	41.70	39.70
Industry	22.60	18.80
Wholesale & Retail	17.10	19.60
Building & Construction	1.80	2.10
Services	16.80	19.70
Sectoral Growth		
Agriculture	6.51	4.80
Industry	-0.06	1.50
Wholesale & Retail	13.44	10.50
Building & Construction	12.58	12.30
Services	10.43	13.50

Source: CBN Statistical Bulletin (Various issues).

30. Although there is evidence of gradual diversification, the economy is currently more resource (oil & gas) and commodity (agriculture) oriented than in the 1960s. Agriculture and industry accounted for about 66 percent of GDP during 1960-1969 and 2000-2010 but dropped to 59 percent during 2011-2012. Despite this reduction, both sectors are now more dependent on primary production than in the 1960s. Crop production share of agriculture value-added rose from 79 percent in the 1960s to 89 percent during 2006-2012 while crude oil share of industry value-added rose from 25 percent to 79 percent over the same period. More to the point, the combined share of crop production and crude oil in GDP which was 48 percent in the 1960s remained at 50 percent during 2011-2012.

- 31.** Value addition from building and construction, indicators of the level of infrastructure investments and other capital investments, expanded during the 1970s and declined sharply in the following decade and continued to decline afterwards. The sub-sector's contribution to GDP increased from 4.8 percent during 1960-1969 to 8.8 percent during 1970-1979, fell to 2.5 percent during 1980-1989 and remained at 1.8 percent during 1990-1999 and 2006-2010. The ratio increased slightly to 2.14 during 2011-2012.
- 32.** The economy was most diversified in the 1970s when building and construction, wholesale and retail as well as services sectors expanded relative to the 1960s and recorded their highest shares of GDP. Notwithstanding, the oil boom of the early and late 1970s accounted for a drastic increase in the industry (dominated by crude oil and natural gas) share of the economy relative to the 1960s and supported expansion of other non-agricultural sectors through urban-biased infrastructure investments. The agricultural sector grew at negative rates for most of the 1970s.
- 33.** There was hardly any attempt to diversify the economy during the 1980s and 1990s (these are commonly referred to as the "lost decades") as agriculture and industry (dominated by oil and gas) accounted for 73 percent of GDP in both periods (see Figure 1).
- 34.** At the turn of the millennium, the newly elected democratic government turned attention to agriculture and services (notably telecommunications and financial institutions). The result was an increase in agriculture share of GDP from 37 percent in 1999 to an average of 42 percent during 2002-2012, and the general increase in non-oil share of GDP over the same period.
- 35.** The services sector is currently driven by telecommunications subsector, which contributed 24.4 percent of real GDP growth in 2011-2012. The subsector is followed remotely by real estate services (2.65 percent) transport (2.59 percent), other services (2.25 percent), financial institutions (2.01 percent) and utilities (2.65 percent). Also, the sector grew at impressive rates

in the 2000s while its share of GDP increased to about 16 percent from 11.5 percent in the 1990s.

36. However, the industrial sector (dominated by oil and gas) did not keep pace with the rapid expansion experienced in the other sectors. Nevertheless, crude petroleum alone accounted for 93 percent of the total industry value added, amounting to 21 percent of total GDP during 2000-2010 and placed crude oil as the second most important contributor to the economy, next to crop production. Crude oil theft and pipeline vandalism in parts of the country during 2011-2012 reduced these proportions to 76 percent and 14 percent respectively. Thus, the negative growth of crude oil production and reduction in its share of GDP are not necessarily evidence of deliberate attempts to diversify away from oil. In fact, there is emphasis that the country needs to do more in terms of its diversification efforts.

Figure 1: Composition of GDP (1960-2012)

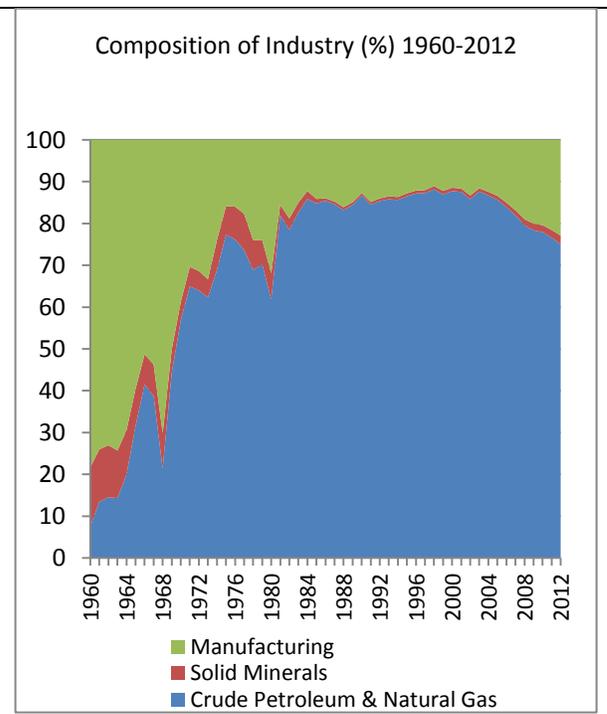
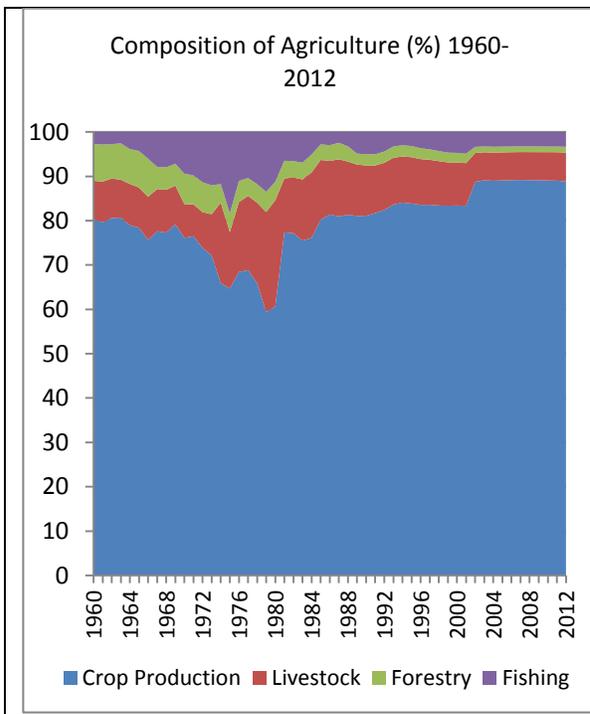
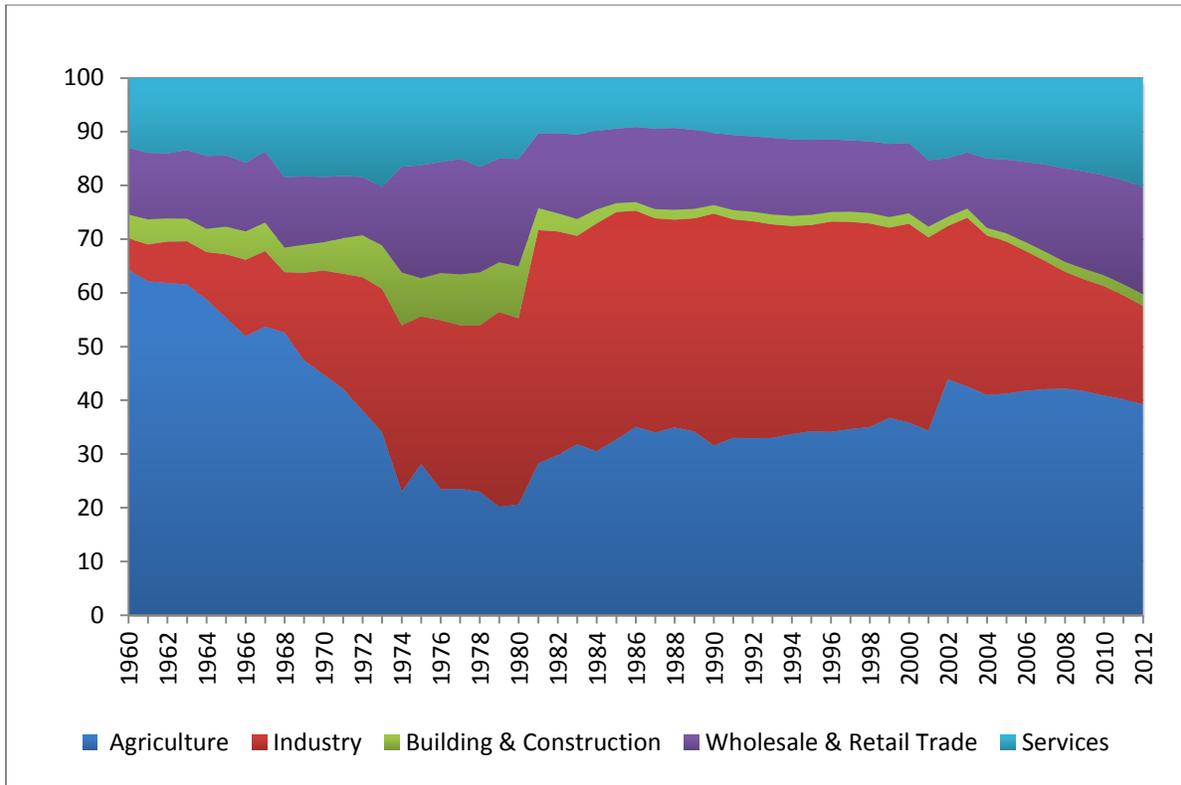
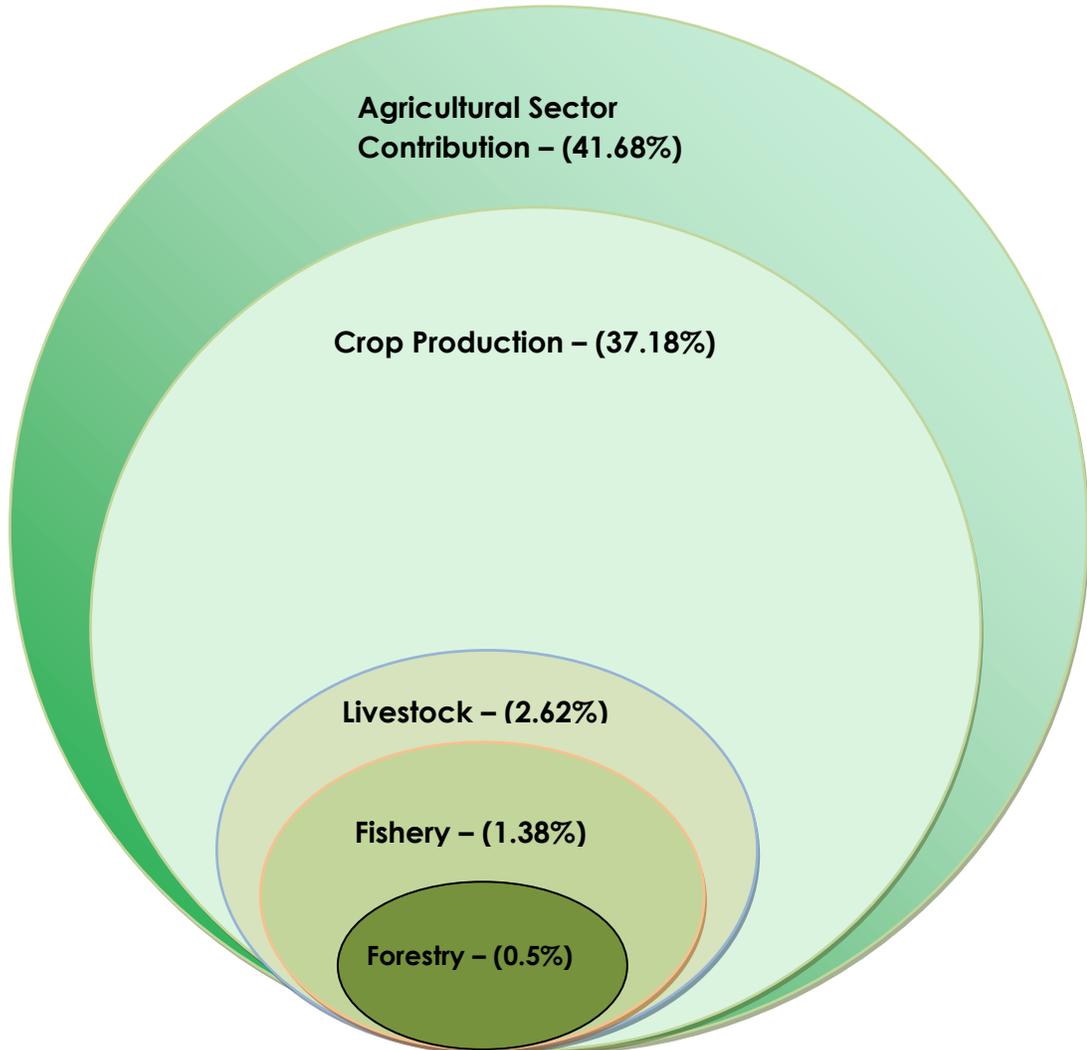
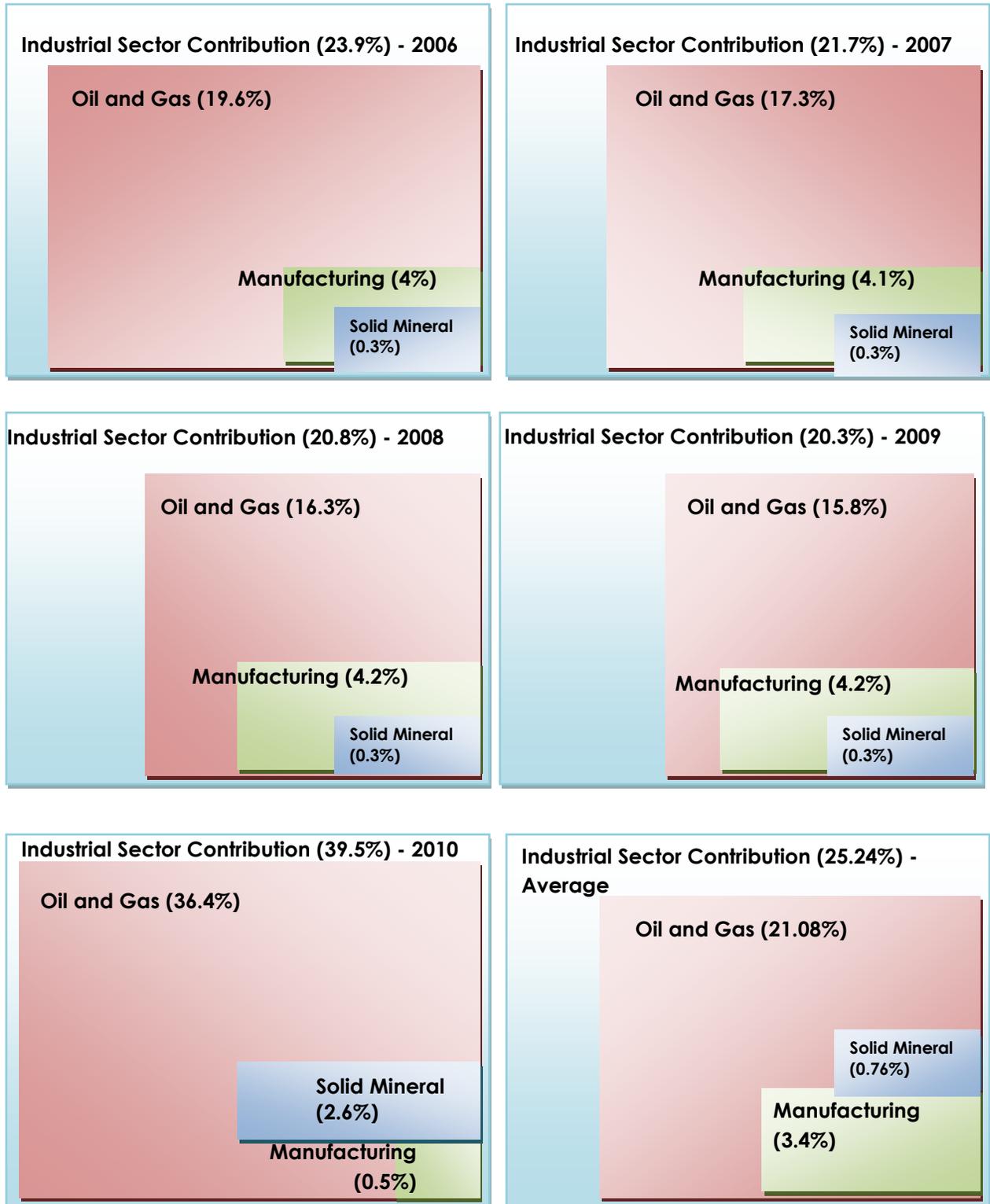


Figure 2: Agricultural Sector Contribution to GDP for the period 2006 to 2010



Source: Authors' computations from various issues of CBN Annual Report

Figure 3: Industrial Sector Contribution to GDP for 2006 to 2010



Source: Authors' computations from various issues of CBN Annual Report

Structure and Pattern of Trade

- 37.** Non-oil exports accounted for 78 percent of total exports in the 1960s. Due to the oil boom experience, there was a dramatic swing in the 1970s as the proportion of non-oil export decreased drastically to only 9 percent while oil export share increased to 91 percent. Subsequently, the share of the non-oil export has been declining to reach just 3 percent in the 2000s.
- 38.** United States was the main destination of Nigeria's export from 1997 to 2012, followed by India, Brazil and France (see Table 4). However, United States' share of Nigeria's exports dropped drastically from 46 percent during 2005-2008 to 29 percent during 2009-2012. However, this is as the United States is becoming the main destination for Nigeria's export of primary commodities (excluding fuel).⁶

Table 4: Nigeria's Export 1997 to 2012

Nigeria's Exports (Percentage contributions of major trading partners by products from 1997 to 2012)								
Product/Country		USA	China	India	Brazil	South Africa	France	ECOWAS
	Period							
Total (All Products)	1997 to 2000	38.51	0.68	10.70	4.02	0.85	5.12	6.03
	2001 to 2004	41.68	0.68	4.53	7.79	2.00	4.94	5.28
	2005 to 2008	45.84	0.80	8.36	7.17	2.24	4.03	5.13
	2009 to 2012	28.62	0.65	11.58	7.72	3.09	4.56	4.14
Primary Commodities excluding fuels	1997 to 2000	3.30	2.50	11.63	1.31	1.04	7.50	2.60
	2001 to 2004	3.66	2.50	4.62	0.03	0.68	10.45	8.44
	2005 to 2008	4.53	2.93	6.61	0.48	0.90	7.98	3.68
	2009 to 2012	6.77	2.29	4.74	0.97	0.67	6.12	5.57
Fuels (Petroleum and related products)	1997 to 2000	40.50	0.63	10.90	4.19	0.86	5.11	6.07
	2001 to 2004	43.62	0.63	4.64	8.20	2.08	4.81	4.80
	2005 to 2008	47.42	0.74	8.54	7.44	2.30	4.00	4.92
	2009 to 2012	29.99	0.59	12.00	8.14	3.24	4.54	3.73
Manufactured Goods	1997 to 2000	6.15	0.08	0.87	0.96	0.32	2.07	10.42
	2001 to 2004	13.81	0.08	0.59	1.53	0.38	5.34	24.37
	2005 to 2008	10.60	1.18	2.05	0.91	0.96	2.01	23.19
	2009 to 2012	7.78	2.65	5.54	1.23	1.05	2.98	19.93

Source: Authors' computation from UNCTADStat (2013)

⁶This sharp decline is not unconnected with the "shale oil phenomenon". The discovery of shale or light tight oil, which is a significant alternative to crude oil, has led to a reduction in the dependence on foreign oil by the US.

- 39.** ECOWAS is the major consumer of Nigeria's export of manufactured goods. However, India and other emerging countries have increased their share of these exports in recent years.
- 40.** Petroleum and related products remain Nigeria's major export to the ECOWAS region, accounting for more than 85 percent since 1997. However, there has been a noticeable increase in export of manufactured goods to the region.
- 41.** Nigeria's crude petroleum dominates intra-ECOWAS exports, followed closely by Cote D'Ivoire's export of agricultural products. On the import side, Cote D'Ivoire imported more products from the region than other members (see Table 6).
- 42.** Manufactured goods dominate Nigeria's imports from the rest of the world, a stark reflection of the ailing manufacturing sector. The United States and China are the dominant sources of imports, with the United States leading prior to 2005 and China thereafter. Imports from China as a proportion of total imports increased from 5.55 percent during 1997-2000 to 16.65 percent during 2009-2012.
- 43.** China is presently the highest supplier of Nigeria's imports, especially manufactured goods. However, the United States and Netherlands remain the country's major sources of primary commodities and other petroleum related products (see Table 5).
- 44.** Primary commodities (excluding fuel) dominated Nigeria's imports from ECOWAS up till 2000, but there has been a shift toward manufactured goods in recent times.

Table 5: Nigeria's Imports 1997 to 2012

Nigeria's Imports (Contributions of major trading partners by products from 1997 to 2012)									
Product/Country		USA	China	India	Brazil	South Africa	Netherlands	South Korea	ECOWAS
	Period								
Total (All Products)	1997 to 2000	11.61	5.55	3.73	3.81	0.95	4.76	2.14	2.24
	2001 to 2004	12.38	8.44	3.48	2.39	2.18	3.77	3.55	2.66
	2005 to 2008	11.34	13.58	3.64	3.78	2.26	7.33	4.98	2.79
	2009 to 2012	11.38	16.65	4.64	2.96	1.64	6.9	2.77	2.06
Primary Commodities excluding fuels	1997 to 2000	17.43	0.92	2.74	2.17	1.35	10.5	0.39	4.27
	2001 to 2004	19.22	3.46	2.77	1.11	2.85	8.59	2.02	4.89
	2005 to 2008	20.47	6	3.58	1.01	2.12	8.2	0.81	2.79
	2009 to 2012	12.03	6.99	2.27	1.84	1.27	5.17	0.34	2.62
Fuels (Petroleum and related products)	1997 to 2000	7.2	1.15	0.02	0.09	0.69	5.94	0.2	16.71
	2001 to 2004	2.65	1.19	0.47	0.38	1.31	3.49	0.23	4.14
	2005 to 2008	4.15	0.65	0.77	1.45	1.57	35.78	0.25	12.25
	2009 to 2012	13.38	0.49	2.77	0.12	0.3	38.13	0.45	7.87
Manufactured Goods	1997 to 2000	10.36	7.09	4.23	1.55	0.86	3.19	2.75	1.03
	2001 to 2004	11.69	10.69	4	0.91	2.11	2.47	4.37	1.91
	2005 to 2008	10.35	17.43	4.16	1.32	2.42	2.86	6.72	1.39
	2009 to 2012	10.63	23.06	5.81	0.99	2.03	1.62	4.04	0.79

Source: Authors' computation from UNCTADStat (2013)

Table 6: Intra-regional Trade Shares of ECOWAS Countries

Country		BEN	BFA	CIV	GHA	GMB	GIN	MLI	NER	NGA	SEN	TGO
Export Share	1995-2000	1.9	2.1	34.7	4.2	0.0	0.3	6.1	4.5	36.2	6.7	3.3
	2001-2005	4.1	3.5	30.8	4.3	0.0	0.4	1.9	2.5	36.9	7.9	7.7
	2006-2010	4.9	1.8	28.1	6.5	0.0	0.3	1.8	3.0	39.6	8.5	5.6
Import Share	1995-2000	5.2	8.7	23.0	18.5	1.2	3.6	12.4	4.5	9.8	8.7	4.5
	2001-2005	5.2	9.7	22.4	18.8	0.8	2.6	12.0	4.1	9.8	10.8	3.8
	2006-2010	6.1	8.6	24.4	20.5	0.7	1.1	13.0	4.0	12.7	7.6	1.4

Source: Salisu and Ademuyiwa (2012)

Note that BEN – Benin, BFA – Burkina Faso, CIV – Cote D'Ivoire, GHA – Ghana, GMB – Gambia, GIN – Guinea, MLI – Mali, NER – Niger, NGA – Nigeria, SEN – Senegal and TGO – Togo. Other countries were exempted due to insufficient data.

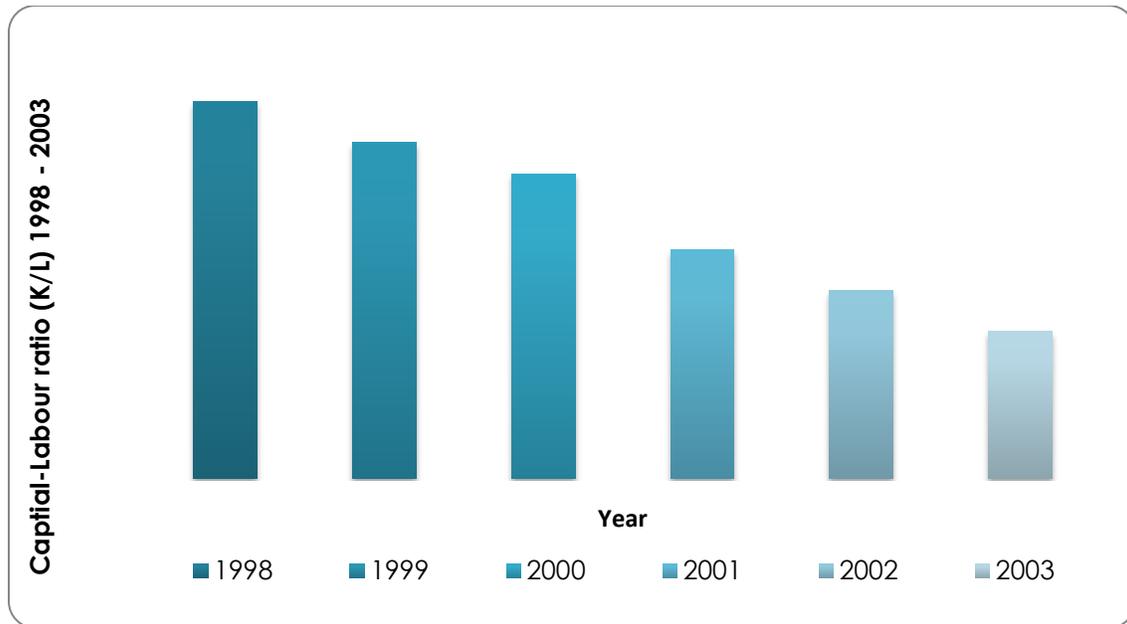
46. Trade liberalization within the ECOWAS region provides Nigeria with the opportunity to extend its market beyond domestic borders and strengthen

regional integration efforts along product lines. While the noticeable increase in export of manufactures to the region provides an indication of a larger market for the country's manufactures, it is also pertinent that the agricultural transformation and industrialization components of the Transformation Agenda take into account the characteristics of the regional market in selecting the areas of comparative advantage to promote.

Capital Accumulation

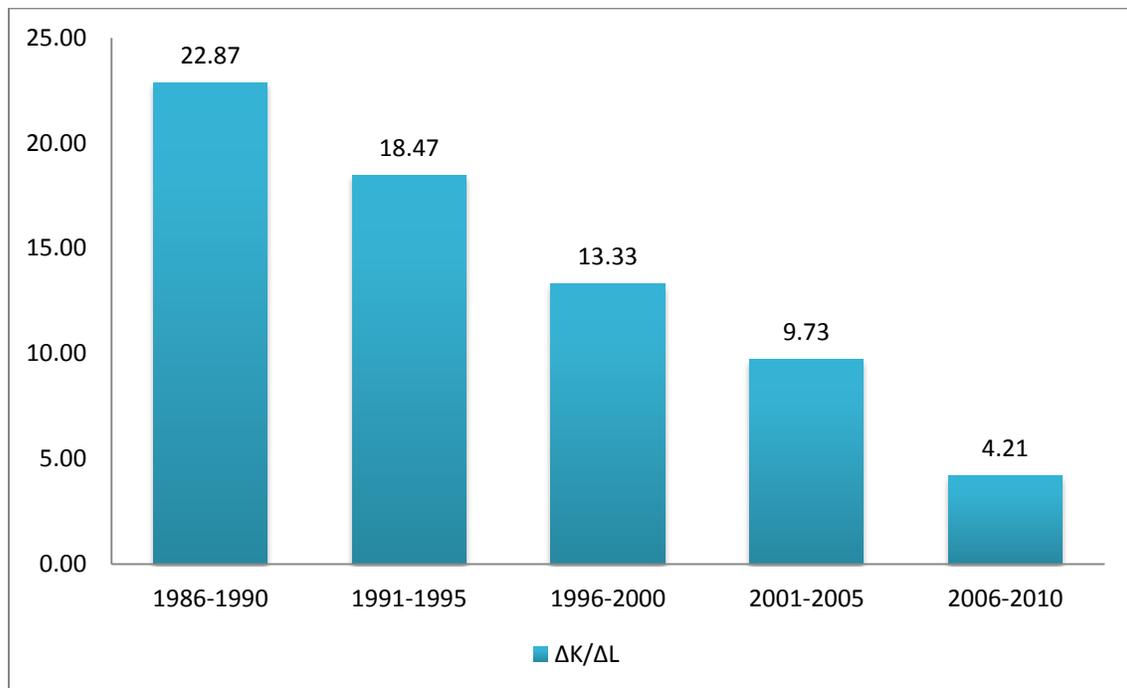
- 47.** There has been an economy-wide decline in capital-labor ratio since the 1980s and the infrastructure deficit remains the principal disincentive to investment in physical capital. This is consistent with the declining share of infrastructure activities since the 1980s as reflected by the contribution of building and construction to the GDP.
- 48.** Data from the NMES conducted over 1998-2003 show a sustained decrease in the capital-labor ratio (see Figure 4) in the manufacturing sector. Additional information from the survey indicates that high cost of capital, high cost of energy, and high cost of operation associated with the poor state of infrastructure are the major impediments to investment in physical capital.
- 49.** Also, data from the national accounts provided by the NBS and the WDI show that the gross rate of investment in capital relative to employment of labor in the entire economy has been decreasing since the 1980s (see Figure 5). This implies addition of workers accompanied by less than commensurate investment in capital, and such situation is a recipe for low wages and reduced rate of employment.

Figure 4: Capital-Labor Ratio in Manufacturing (1998–2003)



Source: Nigerian Enterprise Manufacturing Survey

Figure 5: Gross Rate of Investment per additional worker (1986 – 2010)

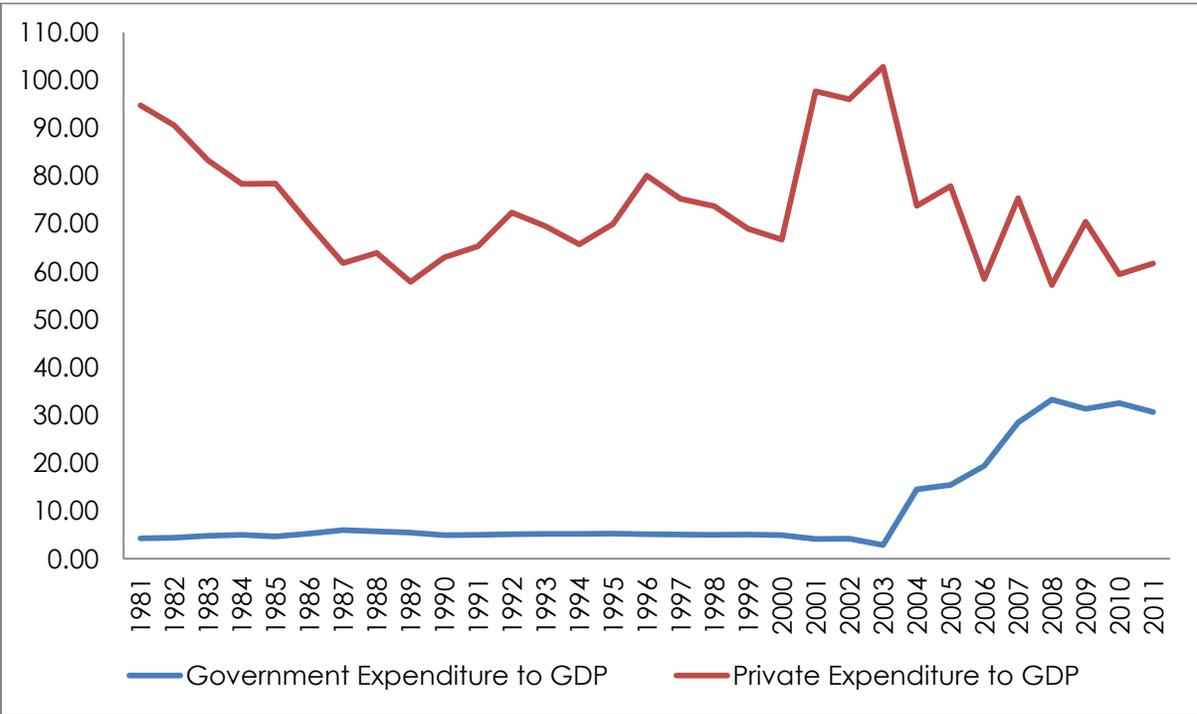


Source: WDI and NBS National Accounts (1981 – 2012)

Government Consumption

50. Government consumption as a percentage of real GDP was an average of 5 percent during 1981-2000 and fell to 3 percent in 2003. However, the rate rose astronomically to 14.5 percent in 2004 and climbed to 33 percent in 2008. The rate fell slightly to 30.7 percent in 2011 (see Figure 6). Meanwhile private consumption which reached an all-time high of 102 percent in 2003 fell sharply to 73.8 percent in 2004 and climbed to 33 percent in 2008. The rate fell slightly to 30.7 percent in 2011 (see Figure 6). Meanwhile private consumption which reached an all-time high of 102 percent in 2003 fell sharply to 73.8 percent in 2004 and further to 61.7 percent in 2011. The rising rate of government consumption of final goods and services is a reflection of the bloating of government which is not consistent with efforts to curb recurrent expenditure and maintain a culture of prudent public financial management.

Figure 6: Government and Private Consumption percentage of GDP

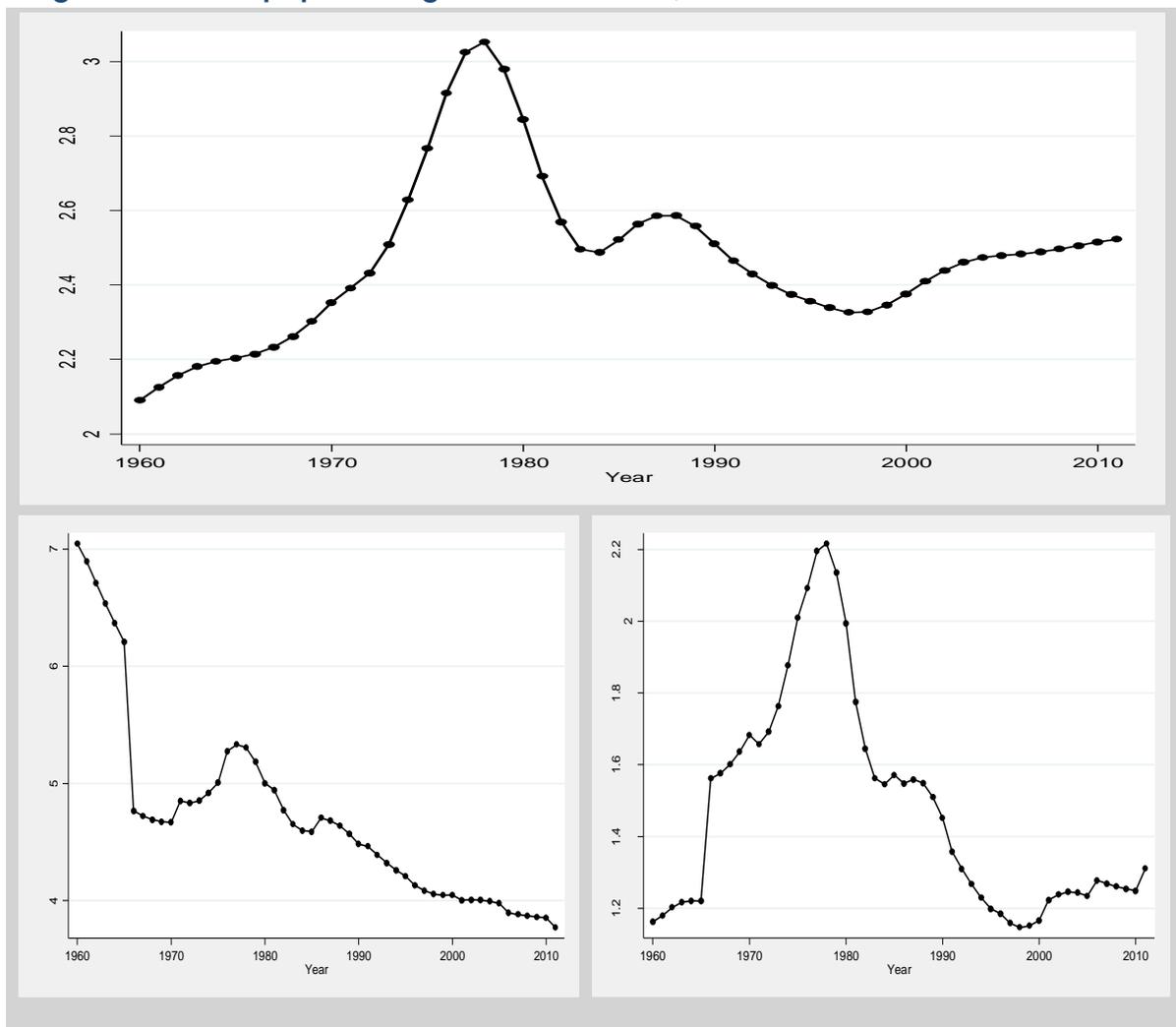


Source: CBN Statistical Bulletin 2011

Population Growth and Structure

51. In contrast to the global, East Asia and SSA trend of slowing population growth rates beginning from the 1990s, Nigeria's population growth increased from 2.38 percent in 2000 to 2.52 percent in 2011. When disaggregated by geographical settlements, it is observed that the rising growth rate is driven by rural population growth (see Figure 7). While urban population growth continued the declining trend that started since the mid 1980s, rural population growth has been rising since 1999.

Figure 7: Annual population growth rates: Total, Urban and Rural



Source: World Development Indicators

- 52.** High fertility rate is a major driver of population growth. Aggregate data from WDI shows that TFR, the average number of children a woman is expected to bear during her lifetime, declined slightly from a peak of 6.8 children per woman in 1980 to 5.5 children per woman in 2011 implying that for more than 50 years, TFR dropped by only one child. Table 7 shows a disaggregation of the changes in TFR between 1999 and 2008. The statistics show that TFR increased from 5.2 to 5.7 children per woman, and that the increase occurred mainly in the rural areas by approximately one child, from 5.4 to 6.3 children, while the urban rate only increased slightly from 4.5 to 4.7. Thus, while rural fertility rate is higher than the urban rate, it is also increasing at higher rates. Similarly, fertility rate is higher in the northern zones, particularly the North-east and North-west zones, and, in addition, the increase in fertility rate occurred mainly in the Northern geopolitical zones: North-west, North-east and North-central, while it remained nearly unchanged in the southern zones.
- 53.** Child mortality is one of the most important determinants of fertility. It is evident from Table 7 that child mortality is higher on average in the northern zones than in the southern zones. It also shows that national child mortality rate increased from 70 to 88 per 1000 children born between 1999 and 2008, and that the rate increased in the northern zones while it decreased slightly in the southern zones. The child mortality differentials are in line with fertility differentials across the regions, and also indicate a worsening of public health over the period. This could be the outcome of increased demand for public health services as the population increased and health expenditure did not increase commensurately.
- 54.** While the differences in fertility outcomes may explain rural population growth observed in the data, they are not sufficient to explain the decreasing rate of urban population growth; urban fertility rate increased slightly rather than decrease over the period. Other factors play active roles

in the decline in urban population growth rate. First, there has been a drift of labor from urban areas to rural areas following the emphasis on agriculture, beginning from 1999. For example, the proportion of the workforce engaged in rural agriculture increased from 30.8 percent in 1999 to 37.8 percent in 2006 (Haywood and Teal 2010) while the proportion engaged in urban wage employment decreased from 15 percent to 10 percent over the same period. The continued emphasis on agriculture may have helped to sustain the trend. Second, high rates of urban unemployment especially among the youth may have slowed down the rate of rural-urban migration.

Table 7: Fertility and child mortality rates 1999-2008

Indicator	Region	1999	2008
Total Fertility Rate (children per woman)	National	5.2	5.7
	Urban	4.5	4.7
	Rural	5.4	6.3
	North-West	6.5	7.3
	North-East	6.8	7.2
	North-Central	4.5	5.4
	South-South	n.a	4.7
	South-East	4.6	4.8
	South-West	4.5	4.5
Child Mortality Rate (per 1000)	National	70	88
	North-West	115	139
	North-East	104	126
	North-Central	36	62
	South-South	n.a	58
	South-East	66	64
	South-West	34	32

Source: Demographic and Health Surveys 1999-2008

55. In terms of age distribution, 44 percent of the population is aged 0-14, 19 percent is aged 15-24, 30 percent is age 25-54 years, 4 percent is aged 55-64 and 3 percent is above 64 years. The combined effect is that about 63 percent of the population is younger than 25 years, signaling an impending youth bulge. It implies that the youth unemployment crisis could worsen if job creation efforts are not accelerated.

- 56.** In the next 15 years, if TFR and dependency rates continue to fall, the working age population could expand significantly, as the present huge population of children get into the labor force. Thus, rapid economic progress is expected if economic growth becomes inclusive enough to ensure that sufficient jobs are created to enable the labor market absorb the inflow of new entrants. Recent projections suggest that Nigeria needs to create 15 million new jobs by 2020, just to keep employment rate steady as well as reap the “demographic dividend” (Bloom *et al.*, 2010).
- 57.** On the other hand, the potential demographic transition could imply that Nigeria's future is uncertain. With unemployment rate at about 27 percent (2012) and the present institutional weaknesses, it seems unlikely that the economy is capable of creating sufficient jobs to absorb the surge in the working population. Also, the infrastructural deficit, typified by the unreliable electric power supply, implies that creating 15 million jobs in less than a decade is rather ambitious. Thus the transition increases the risk of social unrest, as the youth population continues to rise.
- 58.** Life expectancy from birth increased from 39 years in 1960 to 52 years in 2011 but remains one of the lowest in the world. Given that the measure is influenced significantly by child mortality, this performance over a period of 50 years is an indication of the poor state of the health sector. This, in fact, is consistent with the high level of child mortality observed in the country. Also, age dependency ratio remains very high at 85.7 percent in 2011.

Labor Force and Employment

- 59.** The share of total employment in agriculture decreased from 68 percent during 1970-1979 to 52.7 percent in 2000-2008 (see Table 8). This is in line with data from household surveys conducted during 1999-2006, which estimated the share of employment in agriculture in 2006 at 52.5 percent. Along with this trend, the sectors that assumed larger shares of employment are

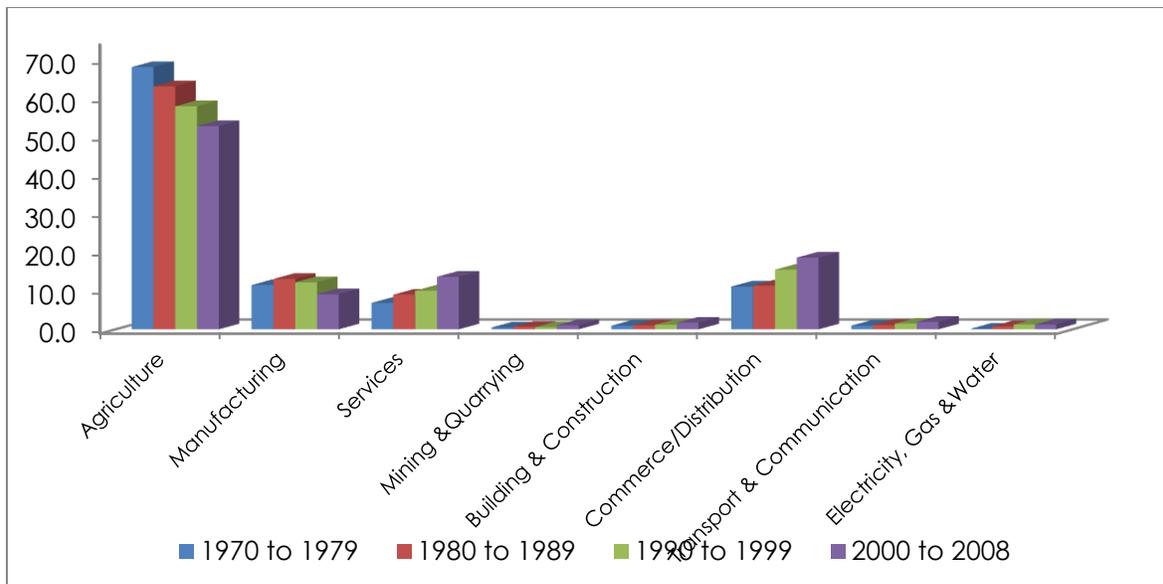
commerce and distribution, which increased from 11.1 percent to 18.6 percent, and services which rose from 6.9 percent to 13.6 percent. Manufacturing share of employment increased between the 1970s and the 1980s, but fell to 9.1 percent in 2000-2008.

Table 8: Sectoral share of employment (1970-2008)

Sectors/ Periods	1970 to 1979	1980 to 1989	1990 to 1999	2000 to 2008
Agriculture	68.0	63.0	57.9	52.7
Manufacturing	11.5	13.1	12.2	9.1
Services	6.9	9.0	10.0	13.6
Mining & Quarrying	0.5	0.7	0.6	1.1
Building & Construction	1.0	1.1	1.2	1.7
Commerce/Distribution	11.1	11.3	15.5	18.6
Transport & Communication	1.0	1.1	1.5	2.0
Electricity, Gas & Water	0.2	0.8	1.2	1.3

Source: Compiled from National Rolling Plan (1980 - 2003), NBS(Statistical Fact Sheets), NMB(Data File, 1970 - 2005)

Figure 8: Sectoral distribution of employment 1970-2008



Source: Compiled from National Rolling Plan(1980 - 2003), NBS(Statistical Fact Sheets), NMB(Data File, 1970 - 2005)

- 60.** Labor force participation rate remains stable at about three-quarters of the working-age population. This implies that the proportion of the economically active population (population ages 15-64 and not in school) that is not in the labor force has remained fairly constant at near 25 percent since 1999. Naturally, this group comprises the discouraged job seekers (those without work and not seeking work), full-time wives, those physically challenged and those otherwise unemployable. Due to rampant long-term unemployment, discouraged workers have assumed an increasing share of persons in this group in recent years. Also, as expected, evidence from Haywood and Teal (2010) shows that the share of women outside the labor force is at least twice that of men in the 2003/04 NLSS.
- 61.** During the period 2000-2007, unemployment rate was stable at around 13 percent (see Table 9). The stability of labor force participation and unemployment rates implies that jobs grew in line with the labor force during the period. Haywood and Teal (2010) show that the period 1999-2006 coincided with a structural shift of the labor force into agriculture and out of wage employment, and robust earnings growth in agriculture. Two critical events contributed to the decline in wage employment over the period 1999-2006: the first was the shift from wage employment to agricultural employment as a result of structural changes. The second was the retrenchment of workers in the public sector, without compensating job creation in the private sector.
- 62.** Underemployment, measured by the difference between the NBS unemployment rates⁷ and ILO unemployment rates⁸, decreased from 12.7 percent in 2003 to 9.2 percent of the labor force in 2007. This shows that economic activities became more intensified among the employed over the period.

⁷ Official unemployment rates provided by the NBS consider an individual as employed only if they work for forty hours during the reference period.

⁸ The ILO unemployment rates as well as the GHS and NLSS rates are computed on the basis of guidelines that classify an individual as employed as long as they work for at least one hour during the reference period.

Table 9: Unemployment (UNEM) and Labor Force Participation (LFPR) for 1999-2011 (Percentages)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
UNEM	8.2	13.1	13.6	12.6	14.8	13.4	11.9	12.3	12.7	14.9	19.7	21.4	23.9
LFPR	74.7	n.a	n.a	n.a	n.a	77.0	n.a	74.8	72.8	73.7	72.8	72.8	72.8

Source: Labor force participation and unemployment rates for 1999-2006 were obtained from Haywood and Teal (2010). Other statistics are from NBS

63. Job growth fell slightly short of labor force growth in 2007, causing the unemployment rate to increase slightly to 12.7 percent from 12.3 percent in 2006. The result was that about 0.46 million people became newly unemployed during the year. The job deficit widened immensely afterward, causing the unemployment rates to start trending upward and millions more workers becoming unemployed (see Table 10).

Table 10: Labor Force, Job Growth and Unemployment during 2007-2011

	2007	2008	2009	2010	2011
Labor Force Growth	3.2	3.2	3.2	3.2	3.2
Employment Growth	2.7	0.6	-2.6	1	-0.1
Newly Unemployed (millions)	0.46	1.59	3.32	1.51	2.13

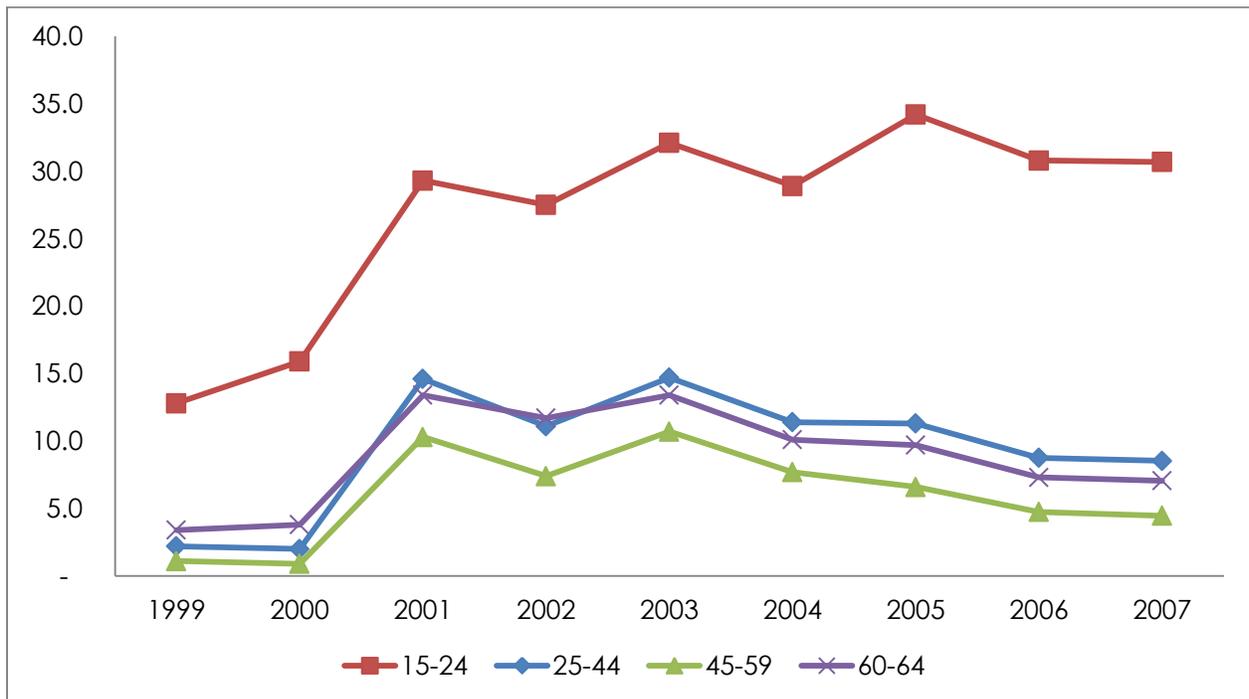
Source: Author's calculation from NBS (2013)
All figures are in percentages except otherwise indicated

Youth Unemployment

64. The stable unemployment rate from 2000 to 2007 is a combined effect of rising youth unemployment and falling adult unemployment rates. Unemployment rates fell almost similarly among rural and urban adult labor force. On the other hand, unemployment was stable among urban youth labor force while it increased among rural youth labor force (see Table 11).

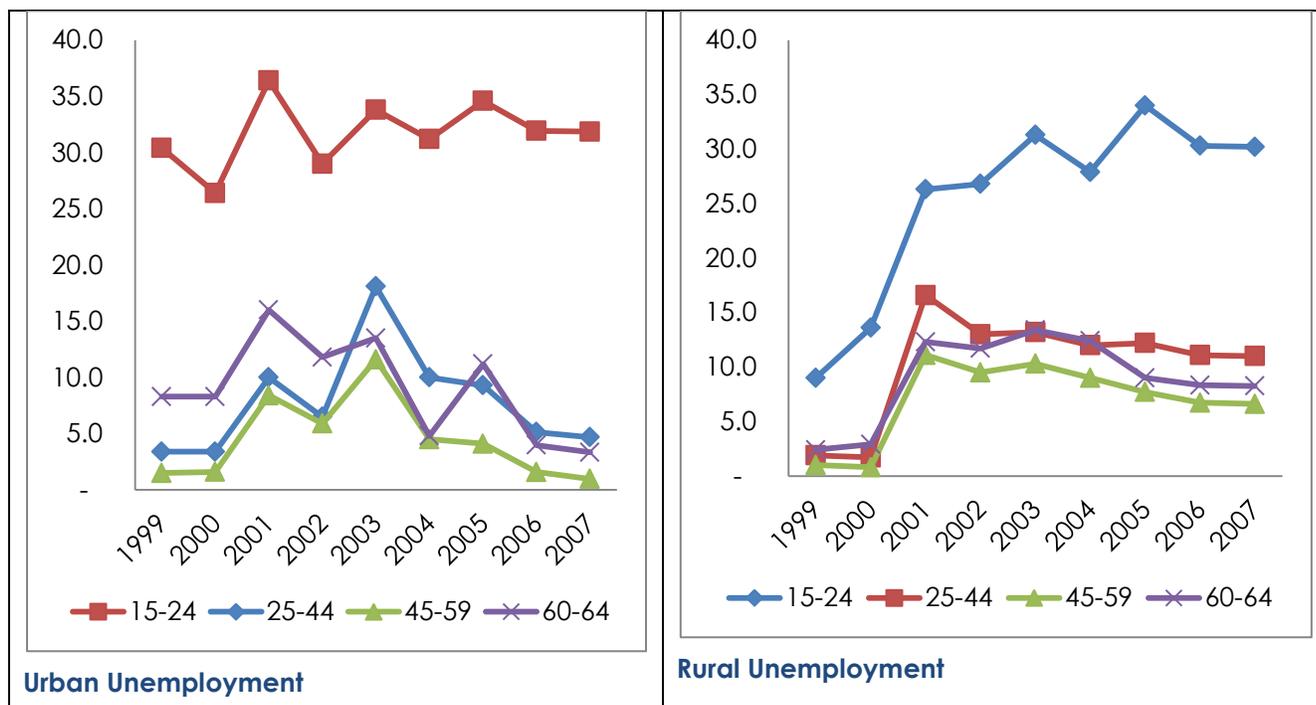
65. Overall, youth unemployment, defined as unemployment among the labor force aged 15-24, is the single most important driver of the nation's unemployment problem. More importantly however, because national unemployment is increasingly driven by rural unemployment, the youth unemployment is also more of a rural problem than it is urban (see Figures 9 and 10).

Figure 9: Unemployment rates by age group for 1999 to 2007



Source: NBS General Household Survey Reports

Figure 10: Urban and rural unemployment rates by age group for 1999 to 2007



Source: NBS General Household Surveys 1999-2007

Table 11: Unemployment Rate by Age Group and Gender 2009-2011

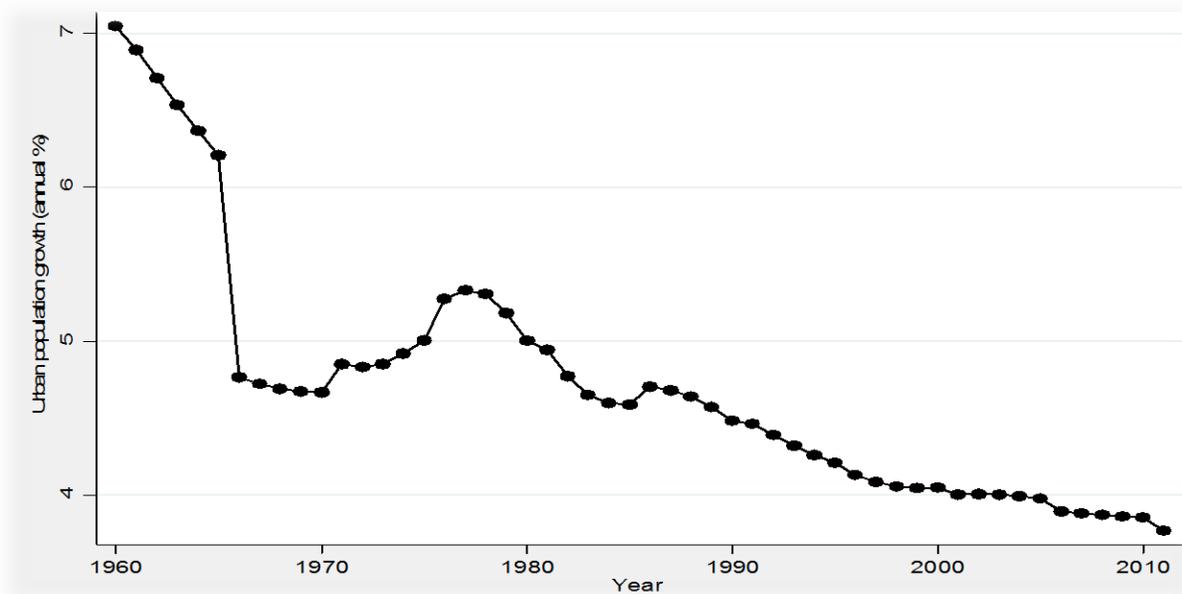
Age Groups	Urban			Rural			Total		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
15-24	49.9	26.0	33.5	39.6	24.8	38.2	41.6	25.2	37.7
25-44	16.3	22.7	16.3	17.3	19.6	24.1	17.0	20.7	22.4
45-59	10.0	20.8	12.5	12.1	19.3	19.6	11.5	19.9	18.0
60-64	18.2	22.5	17.8	16.2	20.6	22.1	16.7	21.3	21.4
National	19.2	22.8	17.1	19.8	20.7	25.6	19.7	21.4	23.9

Source: National Bureau of Statistics, 2011 Annual Socioeconomic Report and 2010 Review of the Nigerian Economy

Migration and Urbanization

66. According to the population figures from WDI, Nigeria is following the global trend of urbanization, having about half of its population (49.6 percent as at 2011) living in urban areas. This is a huge increase from the position at independence, when more than 80 percent of the population lived in rural areas.

Figure 11: Annual growth rate of urban population

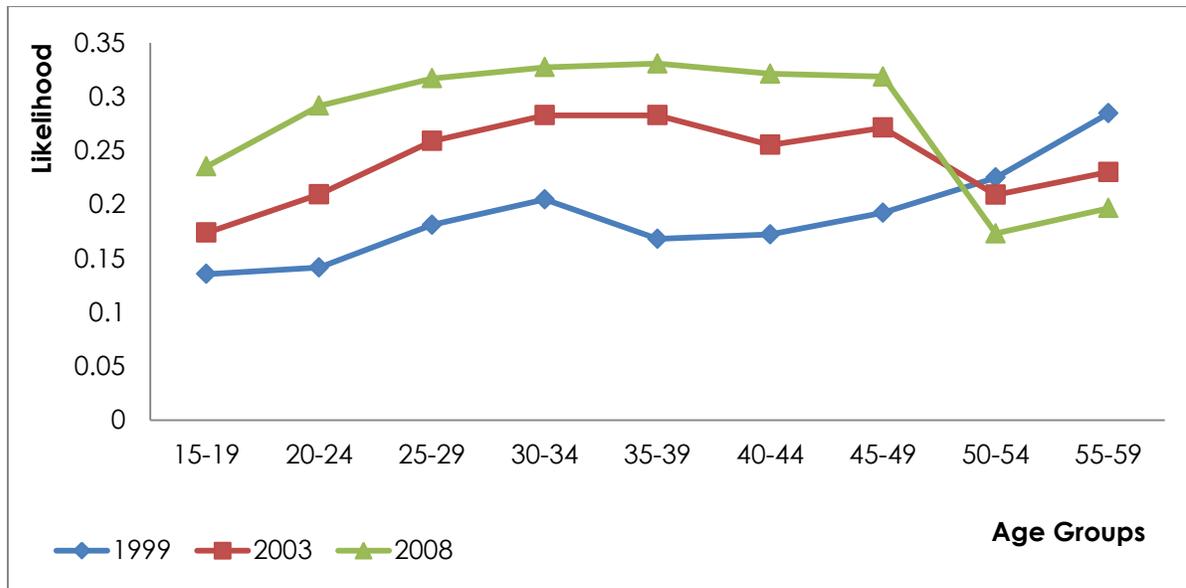


Source: World Development Indicators

67. However, the rate of urban population growth has been steadily declining over time, dropping below 4 percent since 2004, from about 7 percent and 5 percent in the 1960s and 1970s, respectively (see figure 11). The only period that urban population expanded at an increasing rate was the 1970s during the “oil boom” which witnessed huge expansion in economic activities, especially within the cities, and thus rapid influx of people from the rural areas in search of jobs.

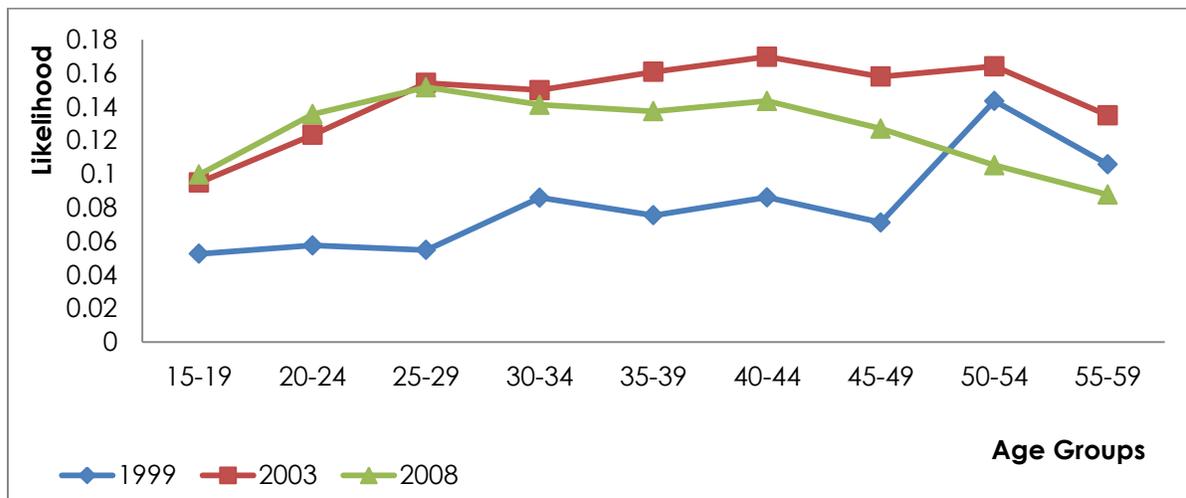
68. Data from household-level surveys show that the rate of rural-urban migration is stalling as internal migration is increasingly becoming a rural-rural phenomenon. Rural to rural migration has gained traction as the dominant form of migration during the last decade (see figures 12 and 13).

Figure 12: Rural to Rural Migration



Source: Demographic and Health Surveys (1999-2008)

Figure 13: Rural to Urban Migration



Source: Demographic and Health Surveys (1999-2008)

69.The implication of the foregoing is that labour, particularly youth labor, is gradually shifting into rural areas where infrastructure and economic activities remain underdeveloped. This justifies the need to pay more attention to the rural areas.

Human Capital and Technological Development

70.The appropriate skill-level required for the pursuit of rapid industrialization is currently under-supplied in the country. There is a general decline in the quality of university graduates and people with technical skills. In addition, there is a shortage of technical and vocational skills required for the growing sectors, particularly Building & Construction sector and Wholesale & Retail sector (Treichel, 2010). Thus there is skills-gap in the labour market, driven by the lack of public and private attention to technical and vocational education.

71.There is also the skills mismatch problem in terms of asymmetry between the skills available in the labour market and those in demand by employers. The subject/deGREE enrolment priorities and the content of the knowledge supplied by Nigerian institutions do not reflect the labour market demand. Empirical evidence shows an average skills mismatch of 60.6% among recent graduates, with communication, IT, decision-making, critical thinking, interpersonal relationship, and entrepreneurial, technical and numeracy usually required by employers, being seriously deficient (Oluyomi and Adedeji, 2012).

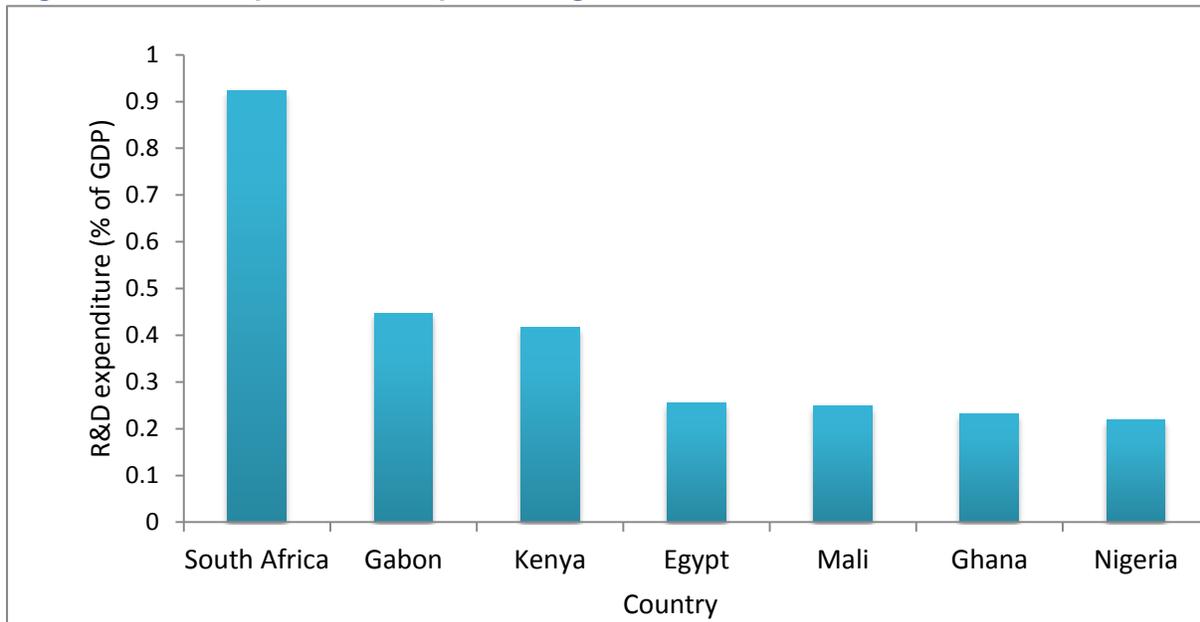
72.There are pervasive shortages of competent academic staff in higher institutions, particularly in science and technology faculties. This scarcity is driven by two factors: the ever-persistent brain drain where the most qualified professionals move to developed/rich countries in pursuit of higher wages and better working environment; and the deterioration of existing education facilities due to rising school-age population. A recent report of the Federal

Government Committee on Needs Assessment of Nigerian Public Universities (FRN 2012) show that there is currently a huge decay in physical infrastructure and gross shortages in academic staff, with largely degraded lecture theatres and laboratories, and student-teacher ratio of up to 363:1.

73. A key driver of the decay in higher education institutions in Nigeria is the lack of transparency in their management. The criteria for selection of vice chancellors that manage universities have been grossly politicized, as politicians rather than academics play key roles in their appointment. This results in a situation where universities are run by people that are subservient to politicians, rather than competent and visionary academics that will passionately seek to upgrade and maintain standards. Also, university lecturers are known to engage in various forms of illicit activities such as demanding payments in cash or kind from students to pass, compulsory sale of “hand-outs”, and frequent non-attendance of lectures. These activities reflect on the quality of graduates that emanate from these institutions. Thus in recent times, a typical university graduate passed through a process which deprived them of the appropriate learning facilities, constrained them to lecturers’ “hand-outs”, and weakened the incentives for knowledge acquisition.

74. The technological capability required to kick-start industrialization is currently in short supply. Similar to most African countries, the knowledge, skills and experience to bring about innovation in key sectors such as manufacturing is scarce in Nigeria. A common indicator of technological level/development of a country is the R&D expenditure. As at 2007, Nigeria lags behind quite a number of African countries with a share of R&D expenditure to GDP of 0.22%. The share of R&D to GDP in Gabon is twice that of Nigeria, while that of South Africa is more than four times that of Nigeria.

Figure 14: R&D Expenditure as percentage of GDP in Selected African Countries 2007



Source: World Development Indicators

75. The importance of technological development in achieving sustainable growth and reducing poverty cannot be over-emphasized. A key component of the Asian success in maintaining economic growth was rapid technological and industrial upgrading (Lin, 2012). The main challenges highlighted as impediments to Nigeria's success in technological upgrading include: shortage of skills in technology services, inadequate institutional capacity, and low investment in R&D, among others. Various government initiatives have been created to tackle these challenges, but with little success. Box1 throws light on three African countries that achieved considerable successes through industrial policies that promoted technological development.

BOX 1: BEST PRACTICES OF TECHNOLOGICAL DEVELOPMENT IN AFRICA

Three countries have made remarkable success in technological development: **Ghana, Kenya, and Tanzania**. Their main strategies towards technological upgrading were through industrial research institutions, cluster formation and export promotion. To promote science and technology, Industrial Research Institute, Industrial Research and Development Institute, and Tanzanian Industrial Research Organization were created by governments in Ghana, Kenya, and Tanzania respectively. These institutions have made considerable progress in the prioritization, planning, and allocation of resources for R&D to support their respective industrialization agenda.

The formation of clusters in these countries was key to promoting innovation, competitiveness, and collective efficiency in the production of various industrial goods, through joint cooperation and externalities. Thus through various degrees of government and private sector intervention, as well as development agencies, different clusters were formed: The Suame manufacturing cluster in Ghana; The Kamukunji metalwork cluster and the Lake Navivasha cut flower cluster in Kenya; and The Mwenge handicrafts cluster and the Keko furniture cluster in Tanzania. The clusters in Ghana were particularly successful in increasing production through effective inter-firm technical training and marketing provision (Oyelaran-Oyeyinka and Lal, 2006); while that of Kenya were instrumental to their increased presence in regional markets (ECA, 2011); and Tanzanian clusters achieved remarkable success in improving production techniques in coffee, tea, and rice (Foray, 2009).

In addition to clusters, export promotion policies through the creation of Export Promotion Zones (EPZ) played a key role in diversification of the export sectors, increase in manufactured exports, and provision of skilled labour in Ghana and Kenya (ECA, 2011).

The Informal Sector

76. Across the world, the informal sector plays important roles in tackling the problems of poverty and unemployment. This is particularly evident in the case of the Asian Tigers and countries in Southeast Asia. Recent expansion of this sector in Nigeria portends huge potentials for structural transformation, if well positioned. In Nigeria, informal enterprises are found in the production, non-financial services and financial services sub-sectors. The apprenticeship system plays an important role in the sector (especially in the production sub-sector) as it remains a major source of knowledge transfer. Table 12 shows that wholesale and retail activities dominate the sector, followed by manufacturing. However, other social services are gaining traction in the sector.

Activity Category	Percentage in 2000	Percentage in 2009
Manufacturing	30.1	16.0
Wholesale & Retail Trade	49.0	41.5
Financial Services and Intermediation	0.1	0.1
Education	0.4	0.2
Health	0.9	1.3
Other Social Services	8.0	10.9

Source: CBN/FOS/NISER, 2001 and Authors' computations from CBN, 2010.

77. The informal sector is particularly important to the economy in terms of both employment generation and contribution to GDP. Indeed, it is estimated that more than 90 percent of future youth employment in African countries would be located in the informal sector (Fluitman 2001)

78. A study by CBN/FOS/NISER (2001) and NBS (2010) estimates that the informal sector grew from 8.6 million enterprises employing about 12.4 million persons in 2000 to 13 million enterprises and a corresponding employment of about

54.6 million in 2009. Schneider (2002) estimates that the sector accounted for 57.9 percent of gross national product (GNP) in 2000, making it the largest in Africa, while Ogbuabor and Malaolu (2013) estimate the share of the sector to be between 53.6 percent and 77.2 percent of GDP during the period 1970-2010, and reaching about three-quarter of GDP in 2010. Thus, the Nigerian informal sector has demonstrated the capacity to grow. Therefore, government could focus on how to improve productivity in the sector to enable it to generate jobs for the unemployed youths in the economy.

- 79.** However, earnings, skills and other working conditions in the sector are inferior to the formal sector, and most of the people employed there are just managing to survive. Other factors that have inhibited the performance of the sector include inadequate power supply and other infrastructures, access to finance, limited forward and backward linkages with the formal sector, little or no attention given to the sector by government, ailing technical and vocational education institutions, among others.
- 80.** There have been concerns on how to improve productivity of the informal enterprises and relax the constraints to their growth through formal registration. Intuitively, this strategy has the potential effect of enabling informal firms to gain access to larger customer bases, become more profitable, expand their businesses and hire more workers.
- 81.** Empirical evidence suggests that only a few firms experience increase in profits after formalization and the benefits for job creation are far-fetched. Studies by de Mel, McKenzie and Woodruff (2012) in Sri Lanka and McKenzie and Sakho (2007) in Bolivia found that provision of information on how to register formally and reimbursing the cost of formalization did not incentivize registration and that registration increased profits for the mid-size firms in their sample (2-5 employees) but reduced profits for both the smaller and the larger firms. They found no evidence that registration provides increased access to finance and conclude that “very small firms are too small to

benefit from issuing tax receipts, while owners of large informal firms have high ability and can achieve a large customer base through their own business skills.”

- 82.** An alternative strategy is for the government to consider incentives for financial institutions to deliver financial and credit services to the informal sector. One major setback is that lenders do not have information about people outside of wage employment. The government could consider using the National Identity Management system to develop a credible information system that can provide the basis for developing credit information systems.
- 83.** Policymakers could also consider implementing skill development strategies in the sector both as a means of improving productivity and as a form of social protection in the sector. Many workers in the informal sector are immobile because they do not possess skills that are readily marketable in an economy that is transforming from low productivity to high productivity activities. Skill development is also central to ensuring that growth in the transforming economy would be inclusive.

Structural Transformation: The Experience of South-East Asia and Lessons for Nigeria

84. Economies of South-east Asian region present the best models of transformation successes in modern history and offer lessons for the Nigerian economy. Many SSA and South-east Asian countries started on similar growth paths in the 1960s but significant divergence has been witnessed since the 1970s. While the former struggled with different growth-inhibiting problems during these periods, the later made significant progress in food production, export-oriented industrialization, and more equitable distribution of income. The table below shows the development trajectories of Nigeria and a number of Asian economies.

Share of GDP (%)	Nigeria		Indonesia		Malaysia		China		South Korea	
	1960s	2000s	1960s	2000s	1960s	2000s	1960s	2000s	1960s	2000s
<i>Agriculture</i>	56.96	40.6	51.46	14.55	31.21	9.02	37.15	12.44	33.78	3.52
<i>Manufacturing</i>	6.53	3.97	9.00	27.8	9.48	27.94	29.02	32.37	15.57	27.21
<i>Services</i>	14.97	15.52	34.02	39.33	43.76	45.15	27.67	41.11	42.96	59.38

85. In the 1960s, manufacturing accounted for less than 10 percent of the economies of Nigeria, Indonesia and Malaysia. Starting from this initial structure, the manufacturing share of the economy tripled in Indonesia and Malaysia but halved in Nigeria. Although China already had a large manufacturing sector in 1960s and South Korea to a lesser extent, the share of manufacturing increased in China and nearly doubled in Korea. A

noticeable point is that among the Asian countries, the share of services sector grew more rapidly in countries that already had large manufacturing sectors in 1960s (China and South Korea) but grew more slowly in those countries where the share of manufacturing was small (Indonesia and Malaysia). More to the point, the share of agriculture fell rapidly in all the Asian countries.

- 86.** A number of factors account for the transition in the Asian economies. These include 1) favorable macroeconomic policies, 2) adoption of a developmental state approach where the state deliberately supports industrialization by means of active state-driven industrial policies, 3) focus on agricultural transformation and development of value chains while implementing policies favorable to labor intensive light manufacturing and providing the necessary infrastructure, and 4) human capital development especially in science and technology.

Indonesia versus Nigeria: Performance

- 87.** The difference in performance between Southeast Asia and Sub-Saharan Africa is particularly evident in the contrasts between Indonesia and Nigeria, countries regarded as regional economic giants in their respective sub-regions. Indeed, NV20:2020 used the projected size of the Indonesian economy (and partly the Polish economy) as a benchmark in setting targets. The rationale is that Nigeria shares past similarities with Indonesia. The two countries are both endowed with large populations, ethnic and cultural diversities, similar political history and political systems, similar climates and natural resource endowments – including crude oil reserves. Also, they share the “misfortune” of experiencing long periods of military governments and rank closely in terms of corruption indices.
- 88.** In the 1960s, Nigeria experienced a higher growth in GDP and per capita GDP (of about 4.6 and 2.5 percent, respectively) relative to Indonesia (which

grew at about 3.8 and 1.4 percent, respectively).⁹ In fact, Nigeria's per capita GDP was almost one and a half times that of Indonesia during this period.

89. While the Indonesian economy grew at an average of 6.5 percent between 1971 and 1990, the Nigerian economy grew at merely 2.8 percent in the same period. Poverty rate in Indonesia declined from about 60 percent in the 1970s to a mere 14 percent in 1996. In contrast, poverty rate in Nigeria increased from less than 30 percent in the 1970s to 66 percent in 1986 and further to 78 percent in 1996.

BOX 2: NIGERIA AND INDONESIA: The role of political will

Many reasons have been advanced for the growth differences experienced among African countries in the last three decades. Some include the effects of ethnic diversity (Easterly and Levine, 1997), geographical distribution (Collier, 2006), poor institutions (Easterly and Levine, 1997), and the low productivity of agricultural sector, among others.

While some of these arguments are tenable, a comparison of Nigeria and Indonesia shows that some of those factors might not be strong enough to inhibit economic growth and structural transformation. For example, both Nigeria and Indonesia have ethnic diversities with the later having about 350 ethnic groups (about 100 more than Nigeria) and arguably they both had poor institutions in early 1970s. Yet, Indonesia has transformed economically and presently ranks among the top 20 countries in the world (a position Nigeria only aspires to be in 2020). Therefore, what is required for an economy to transform structurally?

In all the successful transformations witnessed around the world one common driver is the presence of political will. In other words, transformation requires enduring commitment on the part of government and other appropriate authorities. Other determinants are the presence of a clear and implementable agenda, appropriateness of the policies in the agenda – especially taking cognizance of the structure of the economy and its resource endowment and the timeliness of such policies. Overtime, what seems to be lacking in the Nigerian context is the most important determinant – **political will**.

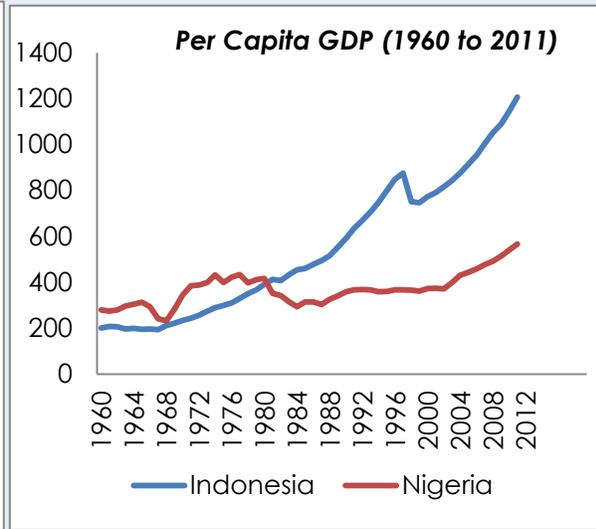
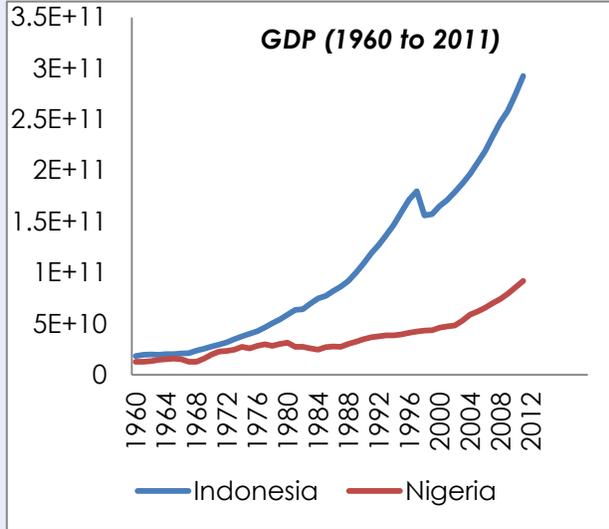
⁹ Data were sourced and computed from World Development Indicators (WDI, 2013).

- 90.** In the 1960s, both Indonesia and Nigeria were agrarian economies with their agricultural sector contributing 46 percent and 57 percent of GDP, respectively. By the 2000s, industrial production dominated Indonesian economy while the Nigerian economy remained dominated by agriculture. In terms of trade, exports of manufactured goods contributed about half of Indonesian exports (about 49 percent and 46 percent in the 1990s and 2000s, respectively) while crude oil exports still account for over 90 percent of Nigeria's total exports during the same period.
- 91.** Indonesia is presently ranked as the 15th largest country in the world with GDP of \$1.125 trillion in 2012, which is three times Nigeria's GDP in the same year). Also, unemployment and poverty rates in Indonesia were 6.7 percent and 12 percent, respectively. This is in contrast to Nigeria's unemployment and poverty rates of 24 percent and 62 percent, respectively.
- 92.** These statistics imply that Nigeria remains agrarian and mono-cultural in terms of exports, and population remains dominantly poor while Indonesia has become industrialized, diversified, and has achieved one of the lowest poverty rates in the world. The following figures demonstrate this.

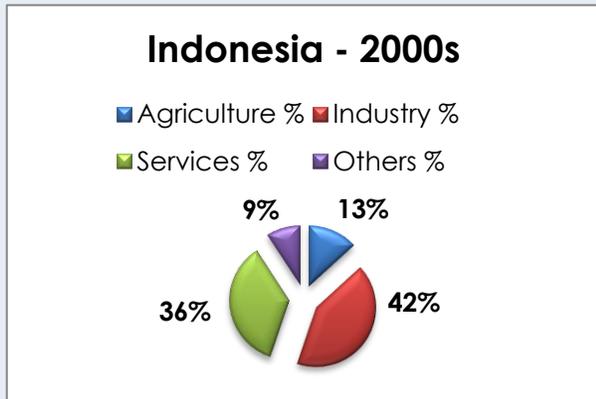
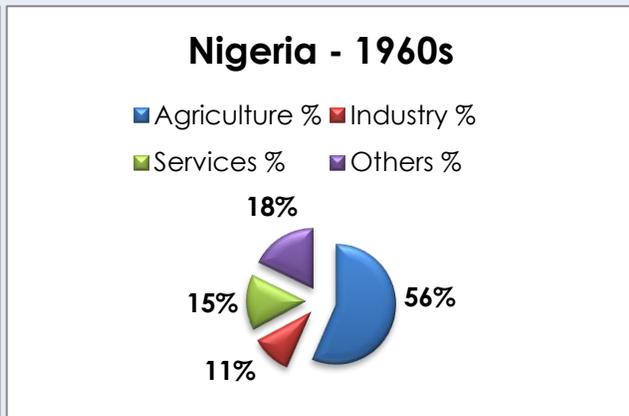


BOX 3: NIGERIA – INDONESIA: The paradox of two giants.

Economic Performance-There has been divergence in GDP since the 1970s while Per capita GDP diverged in the early 1980s.



Sectoral Transformation (1960s and the 2000s) - Nigeria remains agrarian while Indonesia has become industrialized with a huge services sector.



Indonesia versus Nigeria: Major Policies and Interventions

- 93.** The contrasts between the two countries, despite similarities in endowment and history, elicit questions about what went wrong. What did Indonesia do differently or are we doing similar things in different ways? Where did Nigeria get it wrong? Going forward, what lessons can Nigeria learn from the Indonesian experience?
- 94.** In agriculture, the Indonesian government of Suharto focused on rural development and attainment of pro-poor growth. The strategy was aimed at raising the productivity of small-holder farmers and improving their access to the domestic, regional and international markets. To achieve the objectives, the government invested heavily in rural infrastructure – roads, electricity, schools and health centers; provided agricultural inputs and subsidies; agricultural research and extension services; as well as commodity pricing and risk support infrastructure. This focus was reflected in the first NDP (1969-1974) where 30 percent of capital budget was allocated to agriculture. The level of commitment to rural development was sustained in subsequent development plans.

BOX 4: PREVIOUS RURAL DEVELOPMENT EFFORTS IN NIGERIA: Where did we err?

Recent data on the structure of the Nigerian economy – sectoral contribution, poverty, unemployment and population dynamics, reveals that the development of rural areas is salient to structural transformation. Although some programs were introduced to improve the quality of life among rural dwellers and provide rural infrastructure, there remains a huge infrastructural deficit in the rural areas. This is a clear indicator that the programs did not get it right.

For example, despite evidence of progress in terms of construction of rural roads and rural electrification, and increase in agricultural outputs, many of the objectives of the defunct Directorate for Food Roads and Rural Infrastructure (DFRRI) were not achieved.

Similar to other programs, the major problems of the directorate include lack of harmonization and effective co-ordination among the levels of government, embezzlement and mismanagement of funds. Therefore, it is recommended that subsequent rural development programs in Nigeria should be set up at the local or community levels and managed through effective coordination among the different levels of government.

95. Nigeria's agricultural policy emphasized self sufficiency in food production without the infrastructure necessary to produce similar results. Government programs provided subsidies and technical inputs such as agrochemicals, fertilizers, improved seedlings and capacity-building programs. Budget allocation to agriculture was 10 percent under the second NDP (1970-1974) and fell further to 6 percent under the third NDP (1975-1980). During the same period, the Nigerian government allocated 16 percent of the budget to the manufacturing sector in reflection of the prioritization of industry over agriculture (Henley et al., 2012). Thus, Nigeria's oil revenue was heavily invested in capital-intensive industrial projects and urban development during the 1970s. Many of the projects simply became "white elephants."

BOX 5: SELECTED FOOD PRODUCTION INITIATIVES IN NIGERIA

Operation Feed the Nation (OFN)

OFN was launched in 1976 in order to achieve food security across the nation by increasing local production and facilitating knowledge sharing between the farm and the gown (i.e. the academia) as students were expected to play active roles in the program. A prominent feature of the program was the encouragement of every citizen to cultivate a plot of land either partly or wholly, irrespective of discipline. Government did this through the provision of subsidized agricultural inputs and other forms of supports.

Some of the problems associated with the program were mismanagement of funds and diversion of inputs to individuals in authority, over-concentration of the implementation with the federal government, little or no farming knowledge by majority of the participants and lack of sustenance.

Green Revolution (GR)

GR was a major agricultural policy under the fourth National Development Plan (NDP) introduced in 1980. The objective of the programme was the attainment of self sufficiency in food production and to expand and diversify the nation's foreign exchange earnings through production and processing of export crops. Government supports for the program were in the form of provision of modern inputs such as high yielding varieties of seeds, credit facilities, fertilizers and tractors, among others.

Despite its laudable objective, the program did not record significant progress because of delay in execution, inadequate monitoring and evaluation of the projects leading to mismanagement of resources and they were short-lived.

- 96.** Sustained transformation of the Indonesian agriculture spurred industrialization through emergence of labor intensive export industries. This development was supported by market-friendly policies as well as export promotion strategies adopted by the government. For example, the Rupiah was gradually and systematically devalued during the period of oil boom when it was over-valued. The government also placed little or no restrictions on the private sector in terms of administrative procedures. Another important factor was the three decades of political stability.
- 97.** Sectoral sequencing was key to the different outcomes achieved by the two countries. While the Indonesian government focused first on development of agriculture alongside provision of the required infrastructure, and afterward created the conditions that supported further industrialization, the Nigerian counterpart focused on immediate industrialization without agricultural development and the infrastructure to support it. The first attempt to shift focus toward rural infrastructure was manifested in enactment of the Directory of Food, Roads and Rural Infrastructure (DFRRI) Decree of 1988 and subsequent laws that established the irrigation-focused National Fadama Development Project (NFDP) and the River Basin Development Authority (RBDA). A compendium of previous programs and projects is provided in Appendix 1.

The Transformation Agenda

- 98.** The key focus of vision 20:2020 is to place Nigeria among the top 20 industrialized countries in the world by the year 2020. The Transformation Agenda is a medium term plan towards the realization of this vision. It focuses on improvements in macroeconomic and public financial management, and development of physical infrastructure as a catalyst for diversification and rapid economic development.

- 99.** Priorities of the agenda are organized under different ministries of the federation namely finance and economy, power, agriculture, trade and investment, transport, works, education, aviation, health and governance/security. Each ministry has a given set of objectives within the transformation agenda.
- 100.** In terms of macroeconomic management, priority issues include speeding up the budgeting process, ensuring timely presentation to the National Assembly, reducing the share of recurrent expenditure in the budget and job creation through the Youth Enterprise with Innovation (YouWin) program and Community Service Scheme (CSS).
- 101.** In the real sector, priority areas include the potential growth drivers, with particular focus on Agriculture, Oil and gas, and manufacturing (Industry) sectors. The focus on Agriculture is to achieve food security through rapid import substitution, as well as export promotion.
- 102.** The comprehensive Agricultural Transformation Agenda under the Ministry of Agriculture and Rural Development has made considerable progress in reducing food importation and increasing export earnings. Also, domestic production has increased, as the production of rice, sorghum, and cassava has expanded significantly. Moreover, the idea to treat agriculture as a business will not only increase agricultural productivity but will help fast-track the transformation of the sector. The steps taken by the ministry include the following
- a. In an attempt to significantly increase food production, the Ministry of Agriculture, has made key interventions in the distribution of fertilizer and seeds, by allowing private sector participation, as well as targeted support to small holder farmers and young farmers. The effective distribution of these agricultural inputs is expected to increase food production, and possibly lead to self sufficiency in the production of rice and cassava.

- b. In view of the financial challenges faced by smallholder farmers in the sector, the ministry has initiated innovative approaches for financing agricultural activities through the value chain framework. The framework involves disaggregating the financial provisions according to various aspects of the value chain, to ensure that they align with the specific needs of each aspect. This allows the fitting of “round pegs in round holes”, as the specific financial demands of each value chain are matched with appropriate financial provisions. This approach is expected to improve the effectiveness of each financial initiative, unlike previous holistic approaches
- c. To promote capital investments in the sector, the government has adopted a policy of zero tariffs on agricultural equipment and agro-processing equipment, tax holidays for investors in staple crop processing plants.
- d. The government also adopted the strategy of protecting local agricultural and agro-processing industry through increase in tariffs on commodities that can be produced in Nigeria.

103. Priorities in Oil and Gas include increasing production capacity, especially in gas, for power generation and industrial use, improving domestic refining capacity and increasing private investment in the sector. The PIB recently submitted to the National Assembly aims at deregulating the upstream and downstream sectors among others, and its passage is expected to increase government’s stake in oil and gas proceeds without discouraging private investments. In terms of results, crude oil production has increased, local refining capacity has improved, and the incidence of crude oil theft has reduced slightly.

104. The key initiatives in the industrial sector, namely: the Nigeria Industrial Revolution Plan (NIRP) and the National Enterprise Development Plan (NEDP), aimed at improving productivity, have made progress in promoting

backward integration in key industries such as Sugar and automobile manufacturing, and providing venture capital for small, medium and micro enterprises (SMMEs). In addition, measures to promote trade and investment seem to have achieved success, as the economy recorded marked increase in the exports and some considerable rise in FDI inflow. However, the increase could be related to other factors rather than these initiatives.

- 105.** The two key socio-economic sectors, education and health, are also targeted in the Transformation Agenda, with the objective of promoting a knowledge-driven, skilled and healthy society. In the education sector, the agenda focuses on increasing access to education as well as improving the quality of learning. In the health sector, priorities include developing infrastructure to world-class levels, providing health coverage for 30 percent of the population, and reducing the incidence of transmission of polio.
- 106.** The key priorities under the infrastructure program are in power, transport and aviation sectors. The Transformation Agenda places emphasis on improving electric power through privatization and intensive up-scaling of infrastructure. Specifically, the power sector reform involves promoting deregulation in order to attract foreign and local investments; improving the distribution network and tariff regime to ensure a commercially viable framework; and enhancing the transmission capacity.
- 107.** In the transport sector, the key infrastructure priorities are major roads, railways, waterways, seaports and airports, with special emphasis on rehabilitating rail networks and constructing a modern railway track (Abuja-Kaduna). However, the pace at which these goals are pursued is rather slow, as the current government and private investment is insufficient to overcome the huge infrastructural deficit. In the aviation sector, considerable progress has been made by the Ministry of Aviation in rehabilitating airports, as well as improving navigation safety.

Examining the Transformation Agenda

- 108.** The overarching philosophy of the Transformation Agenda is to develop infrastructure and create sound macroeconomic environment for industrial development, and invest in the production of skilled and healthy workforce that will provide the required labor. This view is reflected in the budgetary allocations to the key priority policies, programs and projects of the agenda for 2012-2015 (see Appendix 2). Infrastructure projects are allocated the highest share of 28 percent of funds, followed by the real sector which is expected to receive 14 percent of total fund with agriculture and rural development expected to receive 7 percent. Next is the regional development (Housing, FCT and Niger-Delta) 12 percent and human capital development 10 percent.
- 109.** To what extent is this framework consistent with the current structure of the Nigerian Economy? The economy is predominantly agrarian and agriculture remains dominated by smallholder farmers with very low levels of productivity. The main constraints of agricultural development are infrastructural; lack of good roads, irrigation and storage facilities. More than half of the population resides in rural areas, youth unemployment is more endemic in rural areas than urban, poverty remains very severe in rural areas, and migration is increasingly taking a rural-rural dimension. These indicate that the pressing challenges of development and growth are increasingly becoming rural.
- 110.** However, the transformation agenda is urban-biased. For example, the prominent priority of the power sector is to provide electricity in major cities and industrial areas while the transport sector priorities focus exclusively on major inter-city and inter-state roads and bridges. In hindsight, the transformation agenda looks similar to the second and third development plan of the 1970s in light of allocation of resources.

- 111.** The lesson from the Indonesian experience is that a clear focus on rural development with emphasis on agricultural productivity, value chains and the supportive rural infrastructure could unlock the potentials of the sector to spur industrialization. In the case of Nigeria, the transformation agenda needs to have a bias for rural development. The present pattern of resource allocation does not reflect this need. Government should create incentives for the financial services sector to provide capital to entrepreneurs in agriculture in order to support the vision of the agriculture ministry to transform agriculture from a development-oriented sector into a business sector.
- 112.** In brevity, the Nigerian economy needs a transformation that enables self-sufficiency in food production, reduces vulnerability to commodity price and demand shocks by diversifying away from the primary products (agriculture, crude oil and gas) through value chain development in agriculture that could spur manufacturing, stimulates pro-poor economic growth through exploitation of the comparative advantage sectors, and achieves sustained growth in capital-labor ratio.

The Way Forward

- 113.** One major reason previous attempts at transforming the economy did not achieve their targets is implementation. Implementation of the vision 20:2020 must ensure that the programs demonstrate sufficient sensitivity to the structural constraints in order to engineer balanced development.

BOX 6: DO SMALL HOLDER FARMERS MATTER? The case of Kenya's Tea Sub-sector

Kenya is one of the largest producers of tea in the world and the largest exporter of same in Africa, with export earnings of about USD 1.34 billion in 2012. One impressive feature of this success story is the large contribution of small holder farmers who have been accounting for more than 60 percent of the total outputs of the sub-sector, since the year 2000. Some of the initiatives that resulted in these feats include the various land reforms embarked upon by the government since independence in 1963 and the creation of institutions – now mostly private sector driven, along the tea value chain. The Kenya Tea Development Authority (KTDA) provides institutional supports to about 500,000 small holder farmers in the form of extension services, marketing and processing services, among others while the Tea Research Foundation of Kenya (TRFK) supports research and the Tea Board of Kenya (TBK) regulates the sub-sector. Also, the government provides rural infrastructure for the transportation and export of produce abroad.

Although policies used to promote the Kenyan tea sub-sector are not flawless, an important lesson for the Nigerian agricultural transformation agenda is that small holder farmers can collectively make significant contributions to total output in the agricultural sector, especially for products in which they have developed expertise overtime such as cocoa, maize, cassava, corn, millet and sorghum. Therefore, government should provide adequate support to these farmers by granting them market access, providing pricing and risk supports, developing the products' value chain with little or no bureaucracies and improving rural infrastructure. Given that they form the majority, small holder farmers are vital to the transformation of Nigeria's agricultural sector especially since the agenda aspires to reduce poverty and raise the living standard of the rural dwellers.

BOX 7: POLITICAL WILL AND AGRICULTURAL TRANSFORMATION: The Malawian Maize Experience

One of the most cited cases of deliberate and consistent government political commitment to agricultural sector turnaround is the case of Malawi. In a bid to achieve food sufficiency and cease dependence on food aid, the late Malawian President Binguwa Mutharika implemented the Malawi Growth and Development Strategy (between 2006 and 2011), a program of massive fertilizer and seed subsidy, extension services and improved seedlings that benefited about 1.5 million farmers in 2004. Commitment to the program was demonstrated by sustained budgetary allocation to agriculture that remained at 11 percent in the 2010/2011 fiscal year. The cost of the program was reported to rise from 2.1 percent of GDP in 2004/2005 to 5.5 percent in 2008/2009. The result of this sustained commitment under the programme is the dramatic growth in corn production from about 1.22 million metric tons in 2005 to about 3.90 million metric tons in 2011. Presently, Malawi is the third largest exporter of corn behind South Africa and Zambia. Although the program was criticized for being expensive, it is widely credited with moving the country from depending on food aid into food surplus within a decade.

114. There is a need for active participation of the state at both national and sub-national levels. Many of the examples of transforming economies in South-East Asia and Africa involve active participation of the state and thrive on political will on the part of the government. Broad participation and policy coordination is required to ensure that infrastructure development is broad-based and lays the foundation for balanced development.

- a. The government needs to promote value chains and industrial clusters that can take advantage of the comparative advantage sectors and exploit emerging product markets. Some industries where comparative advantage was identified include fertilizers, petrochemical and organic chemicals, textiles, leather, pharmaceuticals, light manufactures, aquaculture and poultry, palm oil, food processing and beverages, cosmetics and plastics, among others. In this effort, government should give priority to the identified industries by removing binding constraints and facilitating private sector participation as well as strengthening existing industrial clusters. For example, Aba Textile and Shoe industries which were very fashionable and almost reached an advanced stage in the 1980s should be revived through appropriate incentives. There is also a need for government to adopt specific measures to encourage foreign direct investment and pay close attention to successful self-discoveries by private enterprises and support the scaling up of these industries.
- b. The government needs to actively monitor the transition from government-managed agricultural support systems to market-based system currently being pursued, in order to correct potential market failures and manage externalities. The markets for fertilizer

and other agricultural inputs require active monitoring and interventions to ensure that segments of farmers are not excluded.

- c. Review and implement trade policies favorable for industrial growth, especially for the vulnerable import competing sectors. Outright ban on importation of those lines of products has proved to be an inefficient way of protecting the domestic industry as it has encouraged smuggling through the neighboring countries. Instead, Nigeria should take advantage of the ECOWAS CET and impose the highest band on such goods. However, the importation of capital goods needed by the country's manufacturing sector should be encouraged. Nigeria can also benefit from the promotion of regional integration in ECOWAS.
- d. Government must also adopt exchange rate policies that keep the economy competitive in international trade. There should also be a mechanism to review on a regular basis, the level of competitiveness of the sectors and industries that are protected. Protections should gradually be phased out as production systems become more competitive.

115. The private sector could play more active roles in infrastructural development through PPP Initiatives. This is already taking place and yielding good results in the transport, housing and education sectors and is expected to be an important component of the oil and gas sector strategies. These initiatives could be extended to other areas of the economy such as the health sector.

116. There should be more emphasis on rural infrastructure and economic development. The main development challenges that the country faces, in terms of poverty, unemployment, population growth and public health problems are all rural-biased. Most of the previous transformation programs failed to deliver inclusive growth because while they recognized the

significance of rural challenges, they focused mainly on urban areas. For rural development resource allocation under the TA, is insufficient.

- a. Rural development programs must have a women-centered economic empowerment component that is designed to improve maternal and child health outcomes, and bring about reduction in rural fertility. One example is the extension of microcredit services to the rural areas on a wide scale. The neglect of rural health facilities also needs to be reversed as this is important for reductions in child mortality.

117. Urban infrastructure development projects should focus on creating new cities and metropolis. The time-honored principle for generating inclusive growth and balanced development is to take opportunities to where the people are. Rather than focusing on existing urban settings, the projects should place more emphasis on developing intermediate cities from current semi-urban towns. This strategy is needed to reverse the growth of urban slums and shanty towns across the country.

118. Renewed focus on skill development, research and development, and improvements in governance of universities and research & extension institutions. Human capital development and innovation capacity are very crucial determinants of the success or failure of the transformation agenda. The agricultural transformation program depends importantly on research and extension services, and all non-agricultural sectors, including the informal sector, are expected to transform into high-productivity activities requiring high-skill workers. To meet these needs, the following are necessary:

- a. The knowledge production institutions should be adequately funded and governed along the lines of best practices. The government should consider eliminating the influence of the State and politicians in the governance of universities, polytechnics, colleges of education, technical colleges and other educational

and training institutions. These changes are critical to self governance in the institutions, reversal of the brain-drain and reversal of the declining quality of education and technical skills in the country.

- b. Promote active partnership and coordination between the private sector and the educational institutions, and establish periodic revision of teaching and training curriculum to reflect the changing needs of the economy. This practice is critical to eliminating skill mismatches and ensuring that the skills required in transforming the economy are provided in the country.

BOX 8: BEST PRACTICES IN HUMAN CAPITAL DEVELOPMENT

In 2005, an initiative to reduce skills mismatch was implemented in Ghana by creating public-private partnership between the formal education sector and the private sector. The Ghana industrial Skills Development Centre was set up to provide demand-driven and industry-responsive training to employees of the specific industrial firms and young people in general. Thus on one hand the centre equips young people with the necessary skills for careers in industry and on the other hand it provides trainings that fit to the specific needs of employers.

A similar initiative was implemented by Ethiopian government in 2008 through a radical reform aimed at changing the bias of student enrolment into arts and humanities, to encourage enrolment in Science and Technology. The government decreed that universities should modify their curriculum to a 70:30 balance in favour of Science and technology. The rationale for the adjustment was to reduce the skills gap between the university graduates and the Ethiopian labour market demand. Also, the reform was based on the government assessment which showed that graduates in science-related disciplines had better employment opportunities than those of arts and humanities. Another basis for the reform was the idea that promoting the emergence of professionals in industry and technology was necessary for their goal of transforming into an emerging economy.

119. Sustain the progress already made in the areas of macroeconomic management. Recent reforms under the transformation agenda have

yielded results such as port reforms, redistribution of the government budget towards more capital spending, inflation and exchange rate stability and transparency in management of subsidy funds. These reforms should be deepened in order to guarantee the overall macroeconomic stability necessary for rapid structural transformation.

120. Undertake serious governance reforms and promote social changes that will allow reduction in government consumption and allow higher levels of savings and investments in physical and human capital. The transformation must be accompanied by institutional reforms that reduce the cost of governance to allow channeling of oil revenues into productive investments in the real sector rather than contemporaneous consumption. Although government consumption share of GDP has stabilized at around 30 percent, this level remains high. Efforts must be made to cut wastes as well as the bloated allowances paid to politicians. Salaries and allowances of the branches of government, especially the legislative arm, must be brought to line with the recommendations of the Revenue Mobilization and Allocation Committee (RMAC).

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APPENDIX 1: Compendium of Sectoral interventions and Policies in Nigeria

Agriculture Sector Policies

1. Although agricultural sector presently contributes about 40 percent of Nigeria's GDP, employs about 60 percent of its labor force in addition to recording impressive growth in agricultural production, the country is still dependent on food importation. Indeed, Nigeria was the largest net importer of rice in Africa and the second largest importer in the world in 2011.¹⁰
2. **Food Production Initiatives:** Programs including the Agricultural Development Program (ADP), Operation Feed the Nation (OFN), Green Revolution (GR), Presidential Initiatives on Agriculture (PIA) and the National Special Program on Food Security (NSPFS) focused on attainment of self sufficiency and efficiency in food crop production. Typically, these programs involved subsidies and technical inputs like agrochemicals, fertilizers, improved seedlings and capacity building programs. Some of these programs were discontinued mainly due to changes in administrations, while other problems faced include default in counterpart funding of programs, inadequate monitoring and evaluation leading to mismanagement of funds, misallocation of inputs and subsidies especially through the activities of middlemen.
3. **Agricultural Finance Initiatives:** Prior to SAP, the Government through CBN set concessionary interest rates and also mandated commercial banks to have more branches in the rural areas. After the deregulation of the economy, specialized institutions like the Nigerian Agricultural Insurance Company (NAIC) were established to increase supply and access to credit through concessional lending conditions. The Agricultural Credit Guarantee Scheme Fund (ACGSF) was introduced to mitigate the problem of adverse selection associated with lending to the sector for financial institutions. Some of the problems with these programs are the persistent lack of confidence of financial institutions in the sector, inadequate information about farmers, moral hazard problem on the part of farmers and the high cost of monitoring and recovering loans for financial institutions.
4. **Rural Development, Irrigation and Water Resources Initiatives:** The Directorate for Food, Roads and Rural Infrastructure (DFRRI) was established to provide basic infrastructure that guarantees conducive and profitable investment conditions for rural dwellers. Other programs focused on rural development,

¹⁰USAID Rice fact sheet 2011 – Nigeria Market

promotion of low-cost irrigation technology and integrated water resource development to boost economic potentials of water bodies. These include the National Fadama Development Project (NFDP) and the River Basin Development Authority (RBDA). While the Fadama project has been relatively successful culminating into its upscale and continuity, the other programs have faced setbacks. For example, the DFFRI was marred with problems of embezzlement and mismanagement of funds while the RBDA faced problems of policy inconsistencies as their functions were subsequently restricted to water resource management.

- 5. Pricing and Risk Support Initiatives:** After the abolition of the commodity boards, initiatives geared at reducing farmers' exposure to international commodity prices risk were established, including the conversion of the Abuja Stock Exchange to a multi-purpose Abuja Stock and Commodity Exchange for both financial and commodity futures. Also, three Agricultural Development and Marketing Companies were established for arable crops, tree crops and livestock and fisheries. Despite the laudable objective of these initiatives, lack of proper management and monitoring as in the case of Commodity Boards, hindered their success.
- 6. Land Use Reforms and Initiatives:** Owing to the challenges of traditional land tenure system, the Land Use Act was enacted in 1978 to vest the property right of lands on the Governors of the states. Expectedly, this will make it easier for the States to administer lands right to their highest valued use. While this initiative has the advantage of significantly reducing conflicts that stem from land ownership, it has been criticized for placing lands in the hands of highly placed persons or government officials at the expense of converting them to productive use by rural farmers. To this end, the National Agricultural Land Development Agency was established to give support to land development and promote better use of rural lands and their resources to raise the standard of living of the rural dwellers.
- 7. Agricultural Research and Extension Initiatives:** A significant milestone in improving agricultural production is the establishment of the Agricultural Research Council of Nigeria (ARCN), a body responsible for coordinating the activities of the 15 National Agricultural Research Institutes in Nigeria. Other major participants in the agricultural research environment in Nigeria include 66 tertiary institutions' faculties of agriculture and veterinary medicine and seven other government research agencies under the purview of other ministries. Despite recent increase in funding to agricultural research, problems like inadequate research facilities, high level of dependency on

government funding and inadequate participation of both profit and non-profit organizations, limits research and development in the sector. In terms of agricultural extension, the key institutions established were the Agricultural Development Projects (ADPs), Demonstration Farms and Rural Processing Centers. ADPs were reported to have performed very well but their performance was marred by dwindling funding and non-payment of counterpart funds by the governments which made the World Bank to also withdraw its funding of the project.

Manufacturing Sector Policies

- 8. Pre – Independence Era:** Little attention was paid to industrialization and there was no formal industrial sector policy to move the country towards industrial transformation. Rather, the industrial sector was dominated by few foreign firms like United African Company and John Halt whose interest was in how to trade and market their imported manufactured goods while Nigeria remained a cheap source of raw materials. It is not surprising therefore that most infrastructures put in place were mainly outward-looking.
- 9. First National Development Plan (The 1960s):** All the regions of the country pursued the import substitution industrialization (ISI) strategy, which was aimed at reducing the importation of goods that could be produced locally. This period witnessed upspring of import substituting companies in textile and apparels, cement, leather and footwear, tyres and tubes subsectors. Industrial Development Centers (IDCs) established in 1965 provided institutional and technical support to small scale participants in the manufacturing sector while the Nigerian Industrial Development Bank (NIDB) established in 1962 provided medium to long-term loans for larger investments. The government complemented these efforts through massive infrastructure projects such as the Kanji Dam (1964-1968) and the Port-Harcourt refineries (1965). Although the Nigerian manufacturing sector arguably had its best performance in this period, the ISI strategy did not particularly yield the expected outcomes. This was due to the inability of the domestic market to supply adequate inputs and raw materials needed by the manufacturing firms.
- 10. The Second and Third National Development Plan (The 1970s):** Development activities in the Nigerian economy were distorted by the 1967-1970 civil wars. Therefore, the focus of development plans in the 1970s was to rehabilitate, reconstruct the economy. This necessarily translated into an increased government investment in heavy national industrial projects during the

period. Some of these projects include: steel companies, petrochemicals, paper and pulp, fertilizers, machine tools and the signing of joint venture agreements for the establishment of vehicle assembly plants like Peugeot and Volkswagen in Nigeria. Of course, the increased government participation in the economy was aided by the unprecedented revenue derived from the oil boom witnessed during the period. A favorable investment climate attracted foreign capital and investment into the Nigerian economy and led to domination of the industrial sector by foreign-owned companies. The Nigerian government enacted the Nigerian Enterprise Promotion Act in 1972 to transfer foreign equity holdings to domestic private enterprises and attain a high level of indigenous participation. The government also constructed refineries in Warri and Kaduna and established the Nigerian Bank for Commerce and Industry (NBCI), Small Scale Industries Credit Scheme (SSICS) and the Federal Super Phosphate Fertilizer Company (FSFC).

11. The Fourth National Development Plan and the SAP Period (1980s and early 1990s): The IMF advocated SAP and three years Rolling Plans were adopted by the Nigerian government in 1986. The focus of these policies were mainly the reduction of government participation, deregulation of the economy including exchange rate and financial markets, removal of price controls and privatization of inefficient public enterprises, among others. Unfortunately, the exchange rate depreciation and unfavorable economic outcomes that emanated from these policies worsened the condition of industrial sector as their cost of production increased further. Perhaps in a bid to address this situation, the Nigerian government in collaboration with the World Bank established the World Bank SME II Loan Scheme and these funds were disbursed by the NIDB and selected participating banks under the supervision of the CBN. Other efforts made to rescue the manufacturing sector include establishment of Peoples Bank (1989), Community Banks (1991) and the Nigerian Export-Import Bank (1991).

12. Democratic Period (1999 to date): After the re-birth of democratic rule in Nigeria in 1999, the industrialization strategy shifted entirely from government participation to support for competition and private sector led growth as stipulated under the NEEDS. For this purpose, government established the Bank of Industry (2001), Small and Medium Enterprise Equity Investment Scheme (2001), the Small and Medium Enterprise Development Agency of Nigeria (2003) and Refinancing and Rediscounting Facility (2002), among others. The government privatized many state owned enterprises in the

manufacturing sector. The CBN set aside 500 billion naira to provide long-tenured liquidity to finance the real sectors of the economy. A total of 200 billion naira out of the sum was used for restructuring and refinancing of bank loans to the manufacturing sector at an interest rate of 7 percent and tenure of up to 15 years. A more recent development is the current administration's Industrial Revolution Plan, which aims at transforming the manufacturing sector with emphasis on linking research, development and innovation to enhance productivity in areas of comparative advantage such as agro-allied and agri-business, mining and mineral allied businesses.

Power Sector Policies

- 13.** Power sector policies in Nigeria dates back to the pre-colonial era (precisely 1929) when the Nigerian Electricity Supply Company (NESC) was established. The NESC later metamorphosed into the Electricity Corporation of Nigeria (ECN) in 1951. The ECN was responsible for the distribution and sales of electricity in Nigeria. Similarly, the Nigeria Dam Authority (NDA) was established in 1962 to develop Nigeria's hydro-power potential and thus it was in charge of generation and transmission of electricity from Shiroro and River Niger. These two state owned enterprises were merged to form the Nigerian Electricity Power Authority (NEPA) in 1972 in order to improve efficiency and strategically concentrate the responsibilities of power generation, transmission and distribution in one institution. Unfortunately, for almost four decades the Nigerian power sector (under NEPA) was grossly inefficient. Apart from the problems of corruption and mismanagement of resources, other major factors responsible for the poor state of the power sector are the monopoly of ownership and management of the sector by the Nigerian government, poor maintenance of equipment, sabotage, demoralized power sector employees and the influence of vested interests.
- 14.** The Electricity Power Sector Reform Act of 2005 is perhaps the boldest step aimed at transforming the power sector. The Act unbundled the monopoly of the (NEPA) in the generation, transmission and distribution of electricity and led to its transformation into 18 successor companies of the PHCN. With the contracting of Independent Power Producers (IPP), an additional 6000 megawatts of electricity is expected to be generated by 2014 out of which almost 3000 megawatts should be available by 2013. Already, an additional 1000 MW was generated from completed turbine units of the National Integrated Power Plants in 2012.

Oil and Gas Sector Policies

- 15.** The Nigerian oil and gas sector will likely remain the mainstay of the economy for a long time. Yet, there has not been any comprehensive policy framework for the regulation of the activities of the sector. Present policies have at best been targeted at certain activities. These policies mostly draw on the Petroleum Act 1969 which is dated in terms of addressing contemporary issues in the sector.
- 16.** Prior to 1973, activities in the Nigerian oil and gas sector were conducted solely by foreign multinational or (IOCs).¹¹ Government's role was limited to regulation until 1971 when it joined OPEC. OPEC requires members to play active roles in their oil and gas industry. With this, the government created the Nigerian National Oil Company (NNOC) which contributed to the operations of the sector through Joint Venture Agreements (JVAs) with IOCs. The Nigerian National Petroleum Company (NNPC) was later established in 1977 to succeed the NNOC and take charge of all its upstream and downstream activities.
- 17.** Another policy in the sector that is worthy of note is the Production Sharing Contracts (PSCs) as stipulated in the Deep Offshore and Inland Basin Production Sharing Contract Act No. 9, Laws of the Federation of Nigeria, 1999. This development was necessitated by dwindling resources of the country and the consequent inability of government to fund its share of the operations cost of JVAs. This is in addition to the technical and funding complexities associated with exploring acreages allocated in the deep and shallow offshore areas. Although the JVAs still dominate the sector, the PSCs removed the financial burden on government and reduced delay for operators.
- 18.** The federal government inaugurated the Oil and Gas Reform Implementation Committee (OGIC) in August, 2002 to provide a comprehensive institutional policy framework for the oil and gas sector. The recommendations of the OGIC in 2007 formed the basis for the first Petroleum Industry Bill (PIB) introduced in December, 2008. The bill has since gone through several revisions and representations and it is widely believed that if passed into law, it will go a long way in improving the fortune of the sector.

¹¹ These IOCs include Chevron, ExxonMobil, Total (formerly Elf Oil), Agip, Texaco and the dominant IOC in Nigeria, Shell.

APPENDIX2: Allocation by Sector & MDAs under Key Priority Policies, Programmes and Projects of the Transformation Agenda (2012-2015)

	2012 (N'million)	2013 (N'million)	2014 (N'million)	2015 (N'million)	Total 2012 -2015 (N'million)	Percentage share of Total
Real sector	228,519.80	251,450.73	267,722.37	272,562.77	1,020,255.67	14.17%
-Agriculture & rural Development	112,007.72	120,841.69	136,221.85	131,724.33	500,795.59	6.96%
-Water Resources	70,325.41	77,612.00	75,768.00	76,294.67	300,000.08	4.17%
- Commerce & Industry	14,534.90	16,156.17	16,413.36	16,975.56	64,080.00	0.89%
- Mines & Steel Development	12,901.77	14,340.87	14,569.16	15,068.20	56,880.00	0.79%
Physical Infrastructure	419,550.00	479,680.00	540,310.00	583,980.00	2,023,520.00	28.10%
-Transport	322,800.00	372,180.00	420,560.00	452,980.00	1,568,520.00	21.79%
Roads & Bridges	150,000.00	170,000.00	185,000.00	190,500.00	695,500.00	9.66%
FERMA (for Maintenance of Roads)	45,300.00	55,150.00	74,550.00	75,000.00	250,000.00	3.47%
Ports	2,750.00	2,980.00	3,210.00	2,860.00	11,800.00	0.16%
Aviation (excluding BASA Funds)	35,000.00	45,850.00	17,500.00	14,320.00	112,670.00	1.56%
Railways	89,750.00	98,200.00	140,300.00	170,300.00	498,550.00	6.92%
- Oil & Gas	18,750.00	22,500.00	24,750.00	32,500.00	98,500.00	1.37%
-Power	78,000.00	85,000.00	95,000.00	98,500.00	356,500.00	4.95%
Regional Development	229,113.71	243,315.74	193,186.77	174,922.65	840,538.87	11.67%
- Housing	41,647.71	47,615.74	54,183.24	59,537.65	202,984.34	2.82%
- Federal Capital Territory	142,466.00	105,700.00	35,600.00	4,004.00	287,770.00	4.00%
- Niger Delta	45,000.00	90,000.00	103,403.53	111,381.00	349,784.53	4.86%
Knowledge-Based & ICT	17,155.48	25,314.61	32,485.98	38,500.00	113,456.07	1.58%
Science and Technology	13,060.00	20,555.00	27,505.00	38,500.00	99,620.00	1.38%
Information Communication Technology	4,095.48	4,759.61	4,980.98	0.00	13,836.07	0.19%
Human Capital Development	89,420.75	186,140.51	194,910.58	225,646.98	696,118.82	9.67%
-Education	9,850.00	100,000.00	106,500.00	128,000.00	344,350.00	4.78%
-Health	45,310.00	54,000.00	60,000.00	70,000.00	229,310.00	3.18%
-Women & Social Development	7,103.45	7,519.03	7,129.33	6,619.58	28,371.39	0.39%
- Youth Development	11,833.61	10,270.42	6,285.14	6,812.41	35,201.58	0.49%
- Labour & Productivity	15,323.69	14,351.06	14,996.11	14,214.99	58,885.85	0.82%

General Administration	50,077.42	55,986.32	57,357.45	60,841.92	224,263.11	3.11%
Defence & Security	169,846.06	188,791.21	191,796.57	198,366.15	748,800.00	10.40%
GRAND TOTAL	1,203,683	1,430,679	1,477,769	1,554,820	5,666,952.	78.71%
Government Contribution to Bankable Projects					911,660.00	12.66%
Funds for Other Priority Projects not Listed					621,387.46	8.63%
Total Funds available					7,200,000.00	100.00%