CHAPTER 6

Leadership, Policy Making, and Economic Growth in African Countries: The Case of Nigeria

Milton A. Iyoha

Nigeria's economic performance since Independence in 1960 has been decidedly unimpressive. It is estimated that Nigeria received over $228 billion from oil exports between 1981 and 1999 (Udeh 2000), and yet the number of Nigerians living in abject poverty—subsisting on less than $1 a day—more than doubled between 1970 and 2000, and the proportion of the population living in poverty rose from 36 percent to 70 percent over the same period. At official exchange rates, Nigeria's per capita income of $260 in 2000 was precisely one-third of its level in 1980 (World Bank 2005). Meanwhile, during this period Nigeria's external debt rose almost continuously, as did the share of its gross domestic product (GDP) owed annually in debt service.

Nigeria's story is one of missed opportunities and, more specifically, of misspent natural resource rents. Basically, Nigeria failed to surmount the two fundamental challenges generally faced by natural resource dependent economies:

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- Addressing the culture of corruption and rent seeking created by the availability of "easy" oil rents, which reduces the incentives to create wealth by productive work and
- Managing the economy in a way to build and enhance competitiveness of the non-oil sector in the face of large inflows of oil revenues.

Thus, corruption is an important part of the story, as is a pervasive lack of transparency and accountability in governance under military dictatorships. Above all, serious mistakes have been made in macroeconomic management, notably including a Dutch disease–generating syndrome in which policy makers erroneously treated favorable but transitory oil shocks as permanent.

The Political Economy of Economic Growth in Nigeria

Nigeria's poor economic performance during the 1960–2000 period is attributable to several political economy factors, including especially the following:

- The dominance of military despotism in governance[1] during most of the period (see table 6.1)
- Acute regional rivalry and ethno-religious fragmentation, and
- Leadership (both military and civilian) motivated by extreme regional bias resulting in what Fosu has dubbed an "adverse redistribution" syndrome (Fosu 2008).

1 A careful examination of the economic outcomes shows that Nigeria does not fit well into the "Structural Model" of "The Logic of Authoritarian Bargains" proposed by Desai, Olofsgard, and Yousef (2007). In Nigeria's case, little or no economic gain was present to compensate for the political rights relinquished to the military dictators.

Table 6.1. Executive Transitions

Year	Leader	Mode of Assumption of Office
1960	Sir Abubakar Tafawa Balewa	Elected
1963	Nnamdi Azikiwe	Establishment of Republic with Azikiwe as president
1966	Johnson T. U. Aguiyi-Ironsi	January coup
1966	Yakubu Gowon	July coup
1975	Murtala Mohammed	Coup
1976	Olusegun Obasanjo	Coup
1979	Shehu Usman Shagari	Elected
1983	Muhammadu Buhari	Coup
1985	Ibrahim Babangida	Coup
1993	Ernest Shonekan	Selected head of interim national government in August 1993
1993	Sani Abacha	Palace coup in November after a federal high court declared the interim national government unconstitutional
1998	Abdulsalam Abubakar	Selected mainly because of unexpected demise of Sani Abacha
1999	Olusegun Obasanjo	Elected
2003	Olusegun Obasanjo	Elected
2007	Umaru Musa Yar'Adua	Elected

Source: Compiled by the author, 2008.

These three issues are interrelated and intertwined. This chapter suggests that Nigeria's failure to effectively harness and utilize its resource rents resulted mainly from distributional struggles between ethno-regional interests, and that imprudent macroeconomic policies in particular were motivated by the single-minded attempt by Northern political leaders to transfer resources from the Southern to the Northern part of the country (see table 6.2).

Note that in the 1960s the economy relied heavily on export-driven primitive agriculture, small- to medium-scale manufacturing, and petty

Table 6.2. Regional Bias in Oil Revenue Allocation

Leader	Notable Actions on Oil Revenue Sharing
Alhaji Tafawa Balewa (1957–66)	Supported the construction of the first Port Harcourt refinery by Shell B.P. in 1965. Established several industries in the Northern part of Nigeria (Funtua Seed Cotton Mill, Arewa Textile Mill, and others).
General J. T. Aguyi-Ironsi (1966)	No notable action.
General Yakubu Gowon (1966–75)	Yakubu Gowon Dam in Kano. Established the Volkswagen and Peugeot plants in Lagos and Kaduna. Responsible for the construction of dual road network across the country. Built the national stadium and the national arts theater in Lagos. Carved out 12 states from the original four regions in 1967. Established the Nigerian Agricultural Bank with headquarters in the North. Seized the offshore oil and made it federal property without regard to state of location.
General Ramat Murtala Muhammed (1975–76)	Created additional seven states out of the existing 12 to make 19 in 1976. Set up the machinery for the movement of the federal capital territory from Lagos to Abuja. Completed the fertilizer plant in Kaduna.
General Olusegun Obasanjo (1975–79)	Initiated the construction of the Ajaokuta Steel Company, Delta Steel Company, Aladja, and established the Oshogbo Steel Rolling Mill, Nigerian Machine Tools Limited, Oshogbo, and the Katsina and Jos Steel Rolling Mills. Ensured the takeoff of the Warri refinery in 1978. Reduced the oil royalties and rents due to the state of origin from 50 to 30 percent.
Alhaji Shehu Shagari (1979–83)	Established the Aluminum Smelter Company of Nigeria at Ikot Abasi in 1983 to make up for several industries located in the North by his administration, including the Kaduna refinery, which started operation in 1980. Completed an additional steel plant and three rolling mills at Ajaokuta. Reduced the share of oil royalties and rents to state of origin from 30 to 2 percent.
General Muhammadu Buhari (1984–85)	Probed and detained several corrupt military governors and ministers. Reduced the share of oil royalties and rents to state of origin from 2 to 1.5 percent.
General Ibrahim Badamosi Babangida (1985–93)	Increased the share of oil royalties and rents to state of origin from 1.5 to 3 percent. Established the Oil Mineral Producing Area Development Commission in 1992. Established the Federal Environmental Protection Agency in 1985, with headquarters at Abuja. Created two additional states (Akwa Ibom and Katsina) and several local government councils. Built Toja Bridge in Kebbi, established Jibia Water Treatment Plant and the Challawa Cenga Dam in Kano. Moved the seat of the federal government to Abuja on December 12, 1991. Annulled June 12 election results. Commissioned Ajaokuta Steel Company. Introduced the SAP in 1986. Created 11 more states with a bias toward the North.
Chief Ernest Shonekan (August 1993–November 1993)	No notable action.

Table 6.2. Continued

Nigerian Leaders	Notable Actions on Oil Revenue Sharing
General Sani Abacha (1993–98)	Created six new states and 181 new local government councils with a heavy bias toward the North on December 5, 1996. Looted the Nigerian Treasury; initiated the vision 2010 economic blueprint for Nigeria; promulgated Decree No. 18 in 1994 to support the trial of the executives of failed banks.
General Abdulsalam Abubakar (1998–99)	Granted autonomy to the Central Bank of Nigeria in the formulation and implementation of monetary policies. Established the Independent Electoral Commission and facilitated the handover of power to a civilian administration in 1999.
Chief Olusegun Obasanjo (1999–2007)	Established the Niger Delta Development Commission and increased the 3 percent for oil-producing states from the federation account to 13 percent to enhance development and solve ecological problems. Introduced the Universal Basic Education Program to enhance the literacy level of Nigerians. Introduced the Independent Corrupt Practices Commission to check fraudulent financial activities of Nigerians. Resuscitated the National Fertilizer Company in Kaduna and (Onne) Port Harcourt.

Source: Iyoha and Oriakhi 2008.

trading. However, with crude oil becoming the dominant product among Nigeria's exports, political elites and their administrations failed to harness the receipts from oil for a proper diversification of the export base of the economy. Instead they engaged in capital flight (see table 6.3) and massive importation of consumer goods, to the detriment of the balance-of-payments position.

Ethnic affiliations and nepotism acted over time to constrain the growth process: between 1960 and 2000, the majority of leaders directed their attention to the diversion of state resources—public investments, infrastructure improvements, public sector employment—to the regions that constituted their political base. This phenomenon is central to the political instability that has been a permanent feature in Nigeria since the 1960s, with dire consequences, including the discouragement of foreign investment and the encouragement of capital flight and brain drain.

Table 6.3. Capital Flight, 1972–89

Year	Capital Flight (in millions of dollars)	Year	Capital Flight (in millions of dollars)
1972	106.4	1981	2,132.3
1973	636.1	1982	–3,805.8
1974	325.0	1983	2,016.1
1975	119.8	1984	–169.8
1976	124.8	1985	3,569.4
1977	2,490.0	1986	5,502.9
1978	508.4	1987	5,814.6
1979	–86.3	1988	1,043.8
1980	2,713.3	1989	–2,997.0
Total 1972–89	**32,801.3**		

Source: Ajayi 2000: 232.

The continued importance of oil rents in Nigeria's economy mirrors their importance as a flash point for political conflict. Nigeria is a striking example of what Sachs and Warner (2001) have labeled the "natural resource curse": the systematic tendency for narrowly specialized primary commodity exporters to grow more slowly than countries with more diversified exports. Where did Nigeria's natural resource rents end up, if not as productive domestic investments capable of supporting economic growth? One answer is in capital flight: virtually all the former military rulers amassed huge fortunes in foreign bank accounts. It can indeed be argued that the political environment of military rule rewarded rent-seeking activities, bribery, and corruption.

Another answer is that domestic investment, particularly by the public sector, was often highly inefficient. Ethnic rivalries encouraged Northern political elites to ignore the Southern part of the country, where oil resources originate, in favor of developing the North. In pursuance of this goal, many costly mistakes were made regarding the location of investment projects. The leaders appeared to be unduly interested in redistribution of resources, which, of course, could be favorable to growth—especially in cases in which it reduces polarization. However, its effect might be perverse if it increased polarization, especially in cases in which government officials used redistribution as a mechanism to reward their cronies or regional constituencies that were often ethnically defined. This latter form, adverse redistribution, could be vertical as well.

This is what happened in Nigeria between 1960 and 2000 when the incumbent governments engaged in adverse redistribution as a mechanism of shoring up their respective power bases, usually based on ethnicity. It may therefore be postulated that Nigeria perfectly illustrates the challenges of natural resource management under conditions of ex ante ethno-regional polarization. As emphasized by Iyoha and Oriakhi (2008), Nigeria rushed to independence as an uneasy federation of a militarily powerful but economically weak interior (the North) and two smaller coastal regions, each home to a dominant ethnic group.[2] Oil hardened regional political identities, replacing the North's development agenda with one of continued political domination and placing issues of revenue allocation at the center of political competition—to the detriment of economic growth. This point has also been forcefully made by Suberu (2001). Relying on the communiqué of a major national conference on Nigerian federalism, Suberu (2001: 9) concluded that Nigeria's federal system was perched precariously on a

2 Nigeria is composed of more than 250 ethnic groups. The following are the most populous and politically influential: Hausa and Fulani, 29 percent; Yoruba, 21 percent; Igbo (Ibo), 18 percent; Ijaw, 10 percent; Kanuri, 4 percent; Ibibio, 3.5 percent; and Tiv, 2.5 percent. There are three dominant ethno-linguistic groups: Hausa/Fulani, Yoruba, and Igbo, which account for 68 percent of the total population. In terms of geographical location, the Hausa/Fulani live in the North, and the Yorubas and Igbos live in the South (with the Yorubas occupying the Southwest and the Igbos the Southeast coastal areas). In terms of religious breakdown, Muslims account for 50 percent of the population, Christians for 40 percent, and indigenous practitioners for 10 percent. The Hausa/Fulani are mainly Muslims, whereas the Yorubas and Igbos are mainly Christians.

"weak productive base" because of the preoccupation of local, religious, and ethno-regional interests with redistributing a shrinking national cake rather than producing a bigger one. According to Suberu, ethno-regional conflict continues to express itself in a wide variety of ways, including ongoing debates over the rules for intergovernmental sharing of revenues, calls for further subdivision (or amalgamation) of the 36-state structure, frequent repudiation of population census figures that appear to favor a particular section of the country, and debates over the "federal character principle," which constitutionally mandates the equitable representation of states in federal public services and institutions.

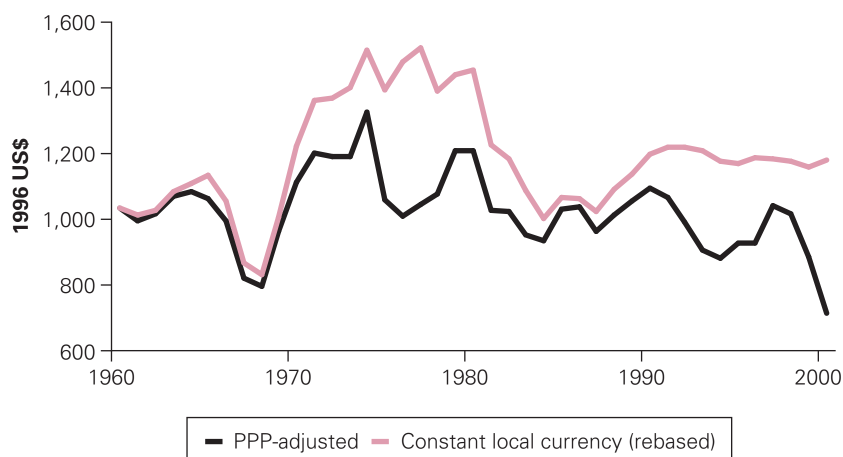
A common feature of these struggles is the tension that they bring out between politically motivated redistribution and economic efficiency. Several reasons have been adduced, for example, for requiring roughly proportional representation of states in some important political positions and in recruitment into the senior echelons of the federal Civil Service: a leading one is the relative educational backwardness of the Northern part of the Nigerian Federation. However, although this imbalance provided an equity rationale for educational investment in the North, the argument for proportional recruitment seems clearly weaker given its potentially discouraging effect both on bureaucratic efficiency and on educational investment within Nigeria as a whole. As this example suggests, distributional conflict has acted over time to reduce the drive for growth and development of the Nigerian economy, both directly, via the misallocation of existing resources (and their wastage via court cases, work stoppages, and ethnic clashes), and indirectly, via the undermining of incentives for productive new investment.

Economic Outcomes

Nigeria's long-run growth performance has been extremely poor. For the 1960–2000 period, real income per capita grew at only 0.43 percent per year at constant domestic prices (figure 6.1). The importance of economic growth for poverty reduction has been established by numerous empirical studies and has recently been underscored by the phenomenal progress of China and other countries in East Asia and the Pacific region. In Nigeria, the consequence of long-run stagnation in average income was a sharp cumulative increase in poverty, both in terms of absolute numbers and as a share of the overall population.

As indicated in figure 6.1 and table 6.4, Nigeria's long-run stagnation has occurred in a context of acute short- to medium-run volatility. Nigeria was a poor country at independence in 1960, with a per capita income in constant 2000 U.S. dollars of less than $250 at official exchange rates (about $1,000 in PPP-adjusted terms). Real per capita income rose impressively between 1960 and the mid-1970s, with the exception of a brief but sharp interruption immediately before and during the civil war of 1967–70. In the mid-1970s, income fluctuated with little overall trend, but then it plummeted in 1981 with the onset of an acute economic crisis.

Figure 6.1. Real GDP per Capita, 1960–2000



Source: World Bank 2006c.

Table 6.4. Per Capita Real Income and Its Growth Rate (U.S. dollars)

Pre-Liberalization Era			Economic Liberalization Era			Democratic Era		
Year	Level	Growth Rate	Year	Level	Growth Rate	Year	Level	Growth Rate
1965	318.60	—	1987	287.70	–3.59	2001	338.0	1.9
1966	297.00	–6.78	1988	307.20	6.78	2002	359.0	1.8
1967	243.60	–17.98	1989	320.02	4.17	2003	438.0	6.8
1968	234.20	–3.86	1990	336.50	5.15	2004	528.0	3.8
1969	283.05	20.86	1991	342.64	1.82	2005	653.0	3.4
1970	344.30	21.64	1992	342.60	–0.01	2006	808.0	3.3
1971	382.60	11.12	1993	340.10	–0.73			
1972	384.70	0.55	1994	330.60	–2.79			
1973	394.20	2.47	1995	328.90	–0.51			
1974	425.95	8.05	1996	333.40	1.37			
1975	392.20	–7.92	1997	333.20	–0.06			
1976	415.45	5.93	1998	330.60	–0.78			
1977	427.67	2.94	1999	325.90	–1.42			
1978	391.10	–8.55	2000	331.60	1.75			
1979	404.99	3.55						
1980	409.18	1.03						
1981	344.51	–15.80						
1982	332.96	–3.35						
1983	305.50	–8.25						
1984	281.83	–7.75						
1985	299.90	6.41						
1986	298.40	–0.50						

Source: World Bank 2005.

Between 1981 and 1984, real output fell at an average annual rate of nearly 6 percent. The Structural Adjustment Program (SAP) adopted in 1986 brought about temporary relief, with real growth averaging over 5 percent per year between 1988 and 1990. The 1990s, however, witnessed nearly complete stagnation, with average income growing at a rate of less than half a percentage point per year.

Note that although the growth rate of real income per capita averaged 0.43 percent between 1960 and 2000, it averaged a robust 3.4 percent between 2001 and 2006, and the average growth rate of real per capita income was an outstanding 4.2 percent between 2003 and 2006. The first decade of the twenty-first century therefore showed an unprecedented growth spurt in Nigeria. Accordingly, these years will be studied carefully in this chapter to determine the roles played by leadership, policy making, the quality of economic policies, and institutions.

The next section will examine Nigeria's economic growth performance between 1960 and 2000, with special emphasis on the reasons for the dismal record. The following section will investigate the reasons for the rapid growth during the 2001–06 period. Particular attention will be given to the economic reform program of the Obasanjo administration, and specific policies that were implemented will be discussed. Also, the key role of leadership will be highlighted. Next, the analysis will be devoted to a further study of the roles played by leadership, policy making, the quality of policies, learning, and institutions in the growth outcomes of the entire period. The last section provides a summary and concluding remarks.

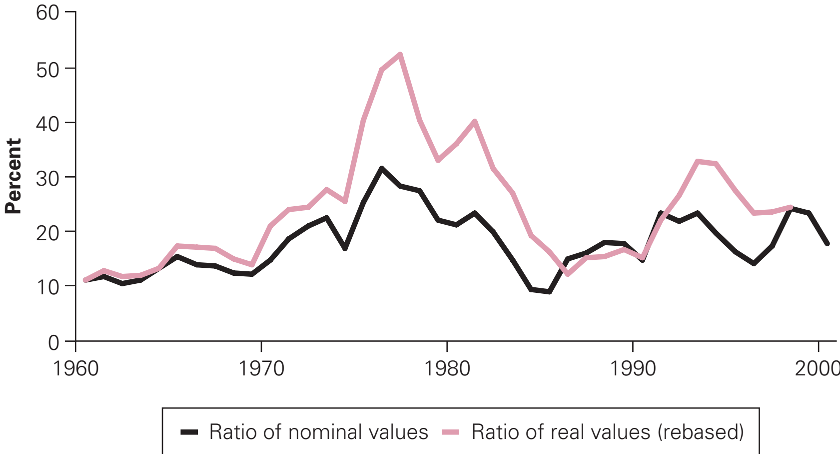
Nigeria's Economic Growth Performance, 1960–2000

This section begins by examining the impact of investment on income growth during the 1960–2000 period.

Aggregate Investment

Figure 6.2 shows the ratio of investment to GDP in Nigeria for the years under study. A comparison of figures 6.1 and 6.2 shows a distinct co-movement of real GDP per capita with the aggregate investment share. Both variables fall sharply during the civil war and again, after a protracted boom, during the economic crisis of the early 1980s. Consistent with the dominant share of the public sector in total investment, revenues from oil exports seem to have served as an extremely powerful driver of the overall investment rate. Because investment has a domestically produced component, changes in the investment share affect growth both from the demand side and from the supply side. Short-run aggregate demand effects of oil-financed investment are readily apparent in figure 6.1. Sustained impacts on productive capacity, in contrast, are less evident, consistent with severe inefficiencies in the allocation of domestic investment, documented below.

Figure 6.2. Investment as a Share of GDP



Source: World Bank 2006c.

To fully explain the economic events of the 1960–2000 period, it was found desirable to split the period into two subperiods, with the line of demarcation given by the initiation of major economic reforms under the aegis of the 1986 SAP. These periods will be referred to as the pre-liberalization era (1960–86) and the economic liberalization era (1987–2000).

The central objective of Nigeria's SAP was to restructure and diversify the productive base of the economy to reduce dependence on the oil sector and on imports. The main SAP measures included deregulation of the exchange rate, trade liberalization, deregulation of the financial sector, rationalization and privatization of public sector enterprises, and adoption of appropriate domestic pricing policies (by eliminating subsidies), especially for petroleum products (Federal Government of Nigeria 1986).

Originally planned to last for only two years (July 1986 to June 1988), the SAP period was extended several times to allow for the phased introduction of the requisite policy reforms and provide a period within which results could come to fruition. In policy analysis, therefore, the SAP epoch is now generally taken to cover the period from 1987 to 1992. Unfortunately, the SAP did not deliver all the benefits that its protagonists promised. Deregulation and liberalization improved conditions for agriculture and led to positive developments in the financial sector and to an economic growth spurt during the first few years of SAP. As of the early 1990s, however, little evidence was at hand that reforms had transformed the overall climate for growth. Indeed, overall economic growth differed only marginally between the two periods, amounting to 0.18 percent during the period of economic controls and 0.80 percent during the liberalization era. Additionally a drastic fall in public sector employment took place, which served to lower the welfare of the citizenry. However, it should be noted that, as indicated in figure 6.1 and table 6.4, the intertemporal pattern of

growth differs markedly—with the first period characterized by a massive boom and bust cycle and the second by protracted stagnation following an initial burst of growth. However, although 1986–87 marks the outset of a cumulatively substantial reorientation of economic policy in Nigeria, the legacies of the earlier period, combined with the continued realities of political conflict, prevented any fundamental transformation of the growth environment through the end of the century.

As already mentioned, the continued importance of oil rents in Nigeria's economy mirrors their importance as a flash point for political, ethnic, and regional conflict. Nigeria is indeed a remarkable example of what Sachs and Warner (2001) have labeled the "natural resource curse," that is, the systematic tendency for countries highly dependent on the exportation of a single primary commodity to grow more slowly than countries with more diversified exports. Given Nigeria's peculiar circumstances, it turned out that a significant proportion of Nigeria's natural resource rents ended up in capital flight[3] because virtually all the former military rulers amassed huge fortunes in foreign bank accounts. Also, it turned out that domestic investment, particularly by the public sector, was often highly inefficient. Ethnic rivalries encouraged Northern political elites to ignore the Southern part of the country, where oil resources originate, in favor of developing their constituencies in the Northern part of the country, albeit inefficiently. Thus, in pursuance of this ethnic and sectional goal, many costly mistakes were made regarding the location of investment projects, for example, the Ajaokuta Steel Mill and the Kaduna refinery.

Periodization

For each of the two major subperiods—the pre-liberalization era of 1960–86 and the liberalization era of 1987–2000—this section undertakes a detailed study of the determinants of growth performance, focusing in turn on economic policies and outcomes at the macroeconomic and sectoral levels, the changing institutional organization of key markets, the response of microeconomic agents to the policy environment, and the political economy of policy and governance.

Nigeria's Growth Performance: 1960–86

The pre-economic liberalization period was characterized by what Collier and O'Connell (2006) call "soft controls," reflecting direct government intervention in prices and often quantities in key markets throughout the economy. National planning was in the ascendancy, with rapid economic development to be brought about through a series of fixed-term National Development Plans. During the pre–civil war period, growth in per capita income was moderate, driven by agricultural exports (mainly cocoa, groundnuts, palm oil, and rubber) and the massive drawdown of foreign

3 Data given by Ajayi (2000) show that between 1972 and 1989 capital flight from Nigeria amounted to $32.8 billion. For yearly amounts, see table 6.3.

exchange reserves and Marketing Board surpluses accumulated during the Korean War agricultural export boom of the 1950s. Growth accelerated sharply after the civil war, driven mainly by petroleum exports, but then these, as we have seen, collapsed under the weight of falling oil prices during the first half of the 1980s.

Oil already accounted for 57.5 percent of total exports in 1970, but by 1977 it accounted for 93.3 percent (Iyoha 1995). During the boom, balance of payments surpluses and buoyant government revenues led to a major expansion in government expenditures, including capital expenditures. Commendably, much of the federal government's recurrent spending during the 1970s went into educational expansion. The Western and Eastern regions had already introduced Universal Primary Education to the Southern parts of the country, but during this period the Northern region introduced free primary and secondary education and even adopted a program of awarding overseas scholarships to its indigenes. The percentage of the federal government budget devoted to education was between 5 percent and 10 percent in the 1970s as compared to less than 1 percent committed by the colonial government (Central Bank of Nigeria 2002). The number of federally owned universities expanded from one to six during the period.

Investment, and particularly public investment, rose very sharply during this period: in 1976 the aggregate investment–income ratio was an impressive 31.5 percent whereas the public investment–income ratio amounted to 24.4 percent. The absence of sustained growth in the Nigerian economy despite these high investment rates is partly traceable to the inefficiency of the public sector's investment response. As Bevan, Collier, and Gunning (1992: 2) observe, the public investment response was intertemporally inefficient both in terms of its ultimate magnitude and in terms of the domestic investments undertaken. The ideal response to an export price boom is to invest the proceeds in income-earning assets abroad and to repatriate them only as the economy develops domestic investment projects with a social rate of return at least as high as that of the nation's overseas portfolio. Nigerian policy makers succeeded initially in accumulating international reserves, but public investment programs were then pushed rapidly and with little concern for efficiency. Policy makers fell prey to a vision of import-substituting industrialization that was already discredited at the time, allocating vast sums to public-sector megaprojects (including two steel mills built at a cost of some $11 billion) that were never able to compete in world markets.

Although this period was dominated (from the civil war forward) by military rule, the brief periods of civilian rule in between—1979 and 1983—did not bring greater coherence to economic policy in Nigeria. Instead, although military administrators had depended heavily on the civil service to initiate and implement economic policies, the civilian administration of President Shehu Shagari saw a drastic reduction in the powers of the civil service and an increase in rent-seeking activity. Maximization of political

support through patronage became the order of the day. Patronage was made easier by increasing the number of states and by failing to enforce legal rules against corruption. Kickbacks appear to have increased the costs of investment projects dramatically: the contract for the construction of a dam, for example, which had been concluded by the military government for $120 million, was renegotiated by the civilian government for $600 million (Bevan, Collier, and Gunning 1992: 8).

Over the full period of the oil boom, the excessive and highly inefficient public investment response is consistent with successive governments having viewed the boom as effectively permanent. Bevan, Collier, and Gunning (1992) observe that it was not until after the fall of oil revenues in 1980–81 that the Nigerian government recognized the transitory nature of the shock. During the period of military government, however, the public investment strategy reflected in addition the capital-accumulation dogma of the civil service, whereas during the civilian period public investment became a focal point for patronage and corruption. Thus, throughout the period, the oil-financed investment boom contributed little to the underlying growth process of the economy.

Nigeria's Growth Performance: 1987–2000

The SAP and post-SAP periods were marked by deregulation and economic liberalization. However, the success of market liberalization was constrained throughout by haphazard implementation, frequent policy reversals, weak institutions, and the regional redistribution syndrome. Thus, in spite of a determined effort to deregulate and liberalize both the real and financial sectors of the economy, the average rate of economic growth barely exceeded that of the pre-liberalization period.

The performance of the manufacturing sector was extremely poor during this subperiod. Although weak growth in domestic aggregate demand may have played some role, the more fundamental problem appears to be a consistent failure to meet price and quality competition from imports at the more modest levels of protection afforded by post-liberalization policies. The high price of domestic manufactures reflects, among other influences, inordinately high energy costs, inefficient and old equipment, and inadequate infrastructure. Other constraints that have been identified as militating against output growth are the incidents of civil and religious disturbances in some parts of the country, as well as the general insecurity of lives and property arising from banditry and armed robbery (Central Bank of Nigeria 2002). The issue of poor infrastructure, however, bears particular emphasis. The supply of electricity is erratic and unreliable, with frequent power outages, load shedding, and power rationing. The erratic nature of the power supply has forced high-income households and businesses to purchase generators at prohibitive initial and operating costs. The failure of infrastructural services extends to the areas of water supply and telecommunications. All these issues have implications for the cost of producing manufactured goods and by extension the competitiveness of domestic industry.

The SAP introduced in 1986 constituted the institutional framework for the design and application of trade and commercial policies for a substantial part of the 1987–2000 period. The government abolished Commodity Boards and deregulated the pricing and marketing of agricultural commodities. The import and export licensing system was also abolished, and the number of import-prohibited items reduced. In 1988 the desire to provide a more stable and predictable tariff regime prompted the introduction of tariff reform. Hence, a tariff structure expected to last seven years was initiated. A variety of incentives were introduced to promote non-oil exports and foreign direct investment, including duty and tax concessions.

Toward the end of the 1980s, the continuation of economic distress led to the introduction of a new set of reform-oriented measures, some of which were a direct reversal of measures introduced under the SAP. Selected crops and their derivatives were placed under an export prohibition list, to lower food prices and stimulate the output of agro-allied industries. The 1988 tariff reform was reversed before its seven-year expiration period, through amendments implemented in 1989, 1990, and 1991. In 1994 the Abacha government pegged the exchange rate at N22 to the U.S. dollar, a direct reversal of the move to a market-determined exchange rate. These policy reversals (possibly triggered by political pressure from vested interests that had lost windfalls they formerly gained from rent seeking under the regime of controls) acted over time to undermine the supply response to economic reforms.

From the early 1980s to the inception of the SAP in 1986, it became obvious that the agricultural sector could not keep up with domestic demands for food and raw materials. In addition to creating of the Directorate for Foods, Roads and Rural Infrastructure in 1986, the government developed an agricultural policy as part of a sectoral Perspective Plan up to the year 2005. The Perspective Plan stressed the introduction of financial policy measures to improve credit allocation to the agricultural sector, and in pursuance of this objective, new financial institutions were established, including community banks and the Peoples Bank of Nigeria. The removal of price distortions under the SAP, however, probably bore the greatest responsibility for the revival of agricultural production after 1986. Aggregate output of the agricultural sector grew by 7.5 percent per year between 1986 and 1996, a rate significantly higher than during the pre-SAP period.

In the attempt to correct "government failures" in the agricultural sector, SAP policies and measures apparently paid less attention to the possibility of market failures. Thus although SAP reforms greatly reduced the output price distortions facing Nigeria's farmers, they also removed government input subsidies to the sector—subsidies that may have been justifiable as a means of encouraging the adoption and diffusion of yield-enhancing technologies (for example, seed varieties intensive in fertilizer).

The SAP introduced broad-based regulatory and institutional reforms in the financial sector with a view to deregulating the system and creating a level playing field for the growth and development of financial institutions,

markets, and instruments. In 1992 bank-by-bank credit ceilings were lifted and replaced by Open Market Operations as the primary method of monetary management. Interest rates, which had previously been administratively fixed, were left to market forces through the removal of all controls on bank deposit and lending rates. Although controls were reintroduced in 1991 and between 1994 and 1996, interest rates on deposit and lending were decontrolled again in October 1996. In 1997 the Central Bank of Nigeria (CBN) was vested with the control and supervision of all commercial, merchant, and community banks; the Peoples Bank of Nigeria; finance companies; discount houses; primary mortgage institutions; bureaux de changes; and all development banks. In 1988 the Nigerian Deposit Insurance Corporation was established to complement the regulatory and supervisory role of the CBN. It was set up to provide deposit insurance and related services for banks, to promote confidence in the banking industry. The Securities and Exchange Commission (SEC), which had been established in 1979, was strengthened by the SEC Decree of 1988 to perform its role of effective promotion of an orderly and active capital market.

Other major changes in the Nigerian financial system during the 1987–2000 period include the promulgation of the Failed Banks (Recovery of Debt) and Financial Malpractices in Banks Decree No. 18 of 1994, aimed at prosecuting those who contributed to the failure of banks and to recover the debt owed to the failed banks. In 1994 the CBN inaugurated the Financial Services Regulatory Coordinating Committee to coordinate and standardize the regulatory policies of all financial institutions in the system and evolve cooperation among regulatory agencies. In 1995 three decrees to further regulate the financial system were promulgated: Money Laundering Decree No. 3, Nigerian Investment Promotion Commission Decree No. 16, and Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree No. 17, which established an autonomous foreign exchange market.

Financial sector reforms during this period led to the expansion of the number of banks and financial institutions. They also significantly reduced government domination of the capital market and enhanced its capitalization. The value of new issues of securities rose steadily, from N399.9 million in 1988 to N10,814.0 million in 1997. This gives an average annual rate of growth of 36.6 percent in nominal terms. However, given that the average annual rate of inflation was 36.9 percent during the subperiod, hardly any growth was seen in the value of new issues in real terms. Also, the number of listed securities increased from 180 in 1985 to 264 in 1997. In spite of the increase in the number of banks in the economy, however, the ratio of savings to GDP declined steadily over much of the liberalization period, from 16.0 percent in 1988 to 7.8 percent in 1997. At least through the early 1990s (figure 6.2), investment remained below its levels in the early 1970s. The basic structure of the financial system changed very little, as commercial banks continued to dominate institutionalized savings, providing about 80 percent of total savings. Despite some progress, the overall performance of the Nigerian financial system was not impressive, especially with the many

cases of bank distress reported between 1989 and 1996. The number of banks classified as distressed increased from 8 to 52, and the licenses of five banks were revoked. The CBN also took over the management of 17 distressed banks in 1995 and one in 1996.

In recognition of the lack of access to credit by many citizens who sought to be self-employed, the federal government introduced a policy to liberalize access to credit. To this end, the Peoples Bank of Nigeria was established in October 1989, and the community banks were established in 1990. Other programs introduced to boost employment include the National Directorate of Employment and Mass Agricultural Projects in seven states of the federation in 1993. The Family Economic Advancement Program was introduced in 1997 to empower locally based producers of goods and services and potential entrepreneurs in the cottage industries through the provision of loans and training, and the acquisition of skills.

With the adoption of SAP, the foreign exchange market was completely liberalized, and the exchange rate largely left to market forces. To enhance the smooth operation of the foreign exchange market, bureau de change offices were introduced in 1989 to handle small-scale foreign exchange transactions based on funds from unofficial sources. Possibly succumbing to pressure from vested interests whose opportunities for rent seeking had been blocked by the reforms, the Abacha government reversed exchange-rate reforms and pegged the naira for a wide range of transactions starting in 1994. In 1995 the government formalized its reversal by adopting a policy of "guided deregulation." Given ongoing Nigerian inflation, foreign exchange available at the pegged rate was increasingly overvalued, and the black market premium skyrocketed. The exchange rate remained effectively pegged until 1998, although restrictions on external payments began to be lifted even in advance of the devaluation of 1999.

The Babangida administration introduced the SAP in 1986 and was responsible for its initial implementation. The efforts of this administration were hampered by continuous declines in oil revenues and increases in external debt, as well as by its commitment to an unending program of political transition. The quality and consistency of economic policy management declined sharply. The government yielded to domestic political pressures and, despite repeated official pronouncements that it would continue with reforms, could not sustain the original objectives of the SAP. Ad hoc policies were implemented instead, to meet short-term expediencies. The most serious issue was irresponsible fiscal behavior, primarily in the form of excessive spending—mainly to shore up dwindling political support and pacify the government's constituency. The early 1990s were thus characterized by rising fiscal deficits, increasing poverty, and mounting discontent, a situation that resulted in several anti-SAP protests, riots, and strikes. The SAP led to a major decline in expenditure on the social sector and created a new class of the poor. It forced down capacity utilization in industry, from an average annual rate of 53.1 percent between 1981 and 1985 to 39.8 percent between 1986 and 1993. It may also have contributed

to the widespread distress in the banking system, which destroyed the confidence of the public in the financial system and caused hardships to bank customers (Iyoha 1996).

Economic Performance in the Third Republic, 1999–2006

For the first two years after the return to democratic rule in 1999, the Nigerian economy continued to report poor overall economic performance, contrary to the hopes and expectations of Nigerians, donor partners, and the entire international community. It was widely expected that with the dawn of democratic revival in Nigeria, economic growth would resume and accelerate, leading to a significant reduction in poverty. Unfortunately, this did not immediately happen, and economic growth continued to be lackluster and unprepossessing. Indeed, the poor growth performance of the economy during the first two years of President Obasanjo's first term made it clear that fundamental economic reforms were warranted. Additionally, in the new millennium, it became necessary to make a concerted attempt to actualize the U.N.'s Millennium Development Goals. Thus, starting in 2001, the government began to introduce economic reforms. In 2003, having consolidated his political position and keen to deliver the "dividends of democracy," the president decided to formalize, systematize, and intensify the reform program. His government therefore began to implement a comprehensive reform program known as the National Economic Empowerment and Development Strategy (NEEDS).

Nigeria's Growth Performance, 2001–06

According to the document issued by the Nigerian government, NEEDS is a nationally coordinated framework of action in collaboration with the state and local governments and other stakeholders to reduce poverty. Indeed, NEEDS is Nigeria's homegrown equivalent of a World Bank poverty reduction strategy. In effect, the State Economic Empowerment and Development Strategy of each state of the federation is to be coordinated with NEEDS as a weapon to reduce poverty and underdevelopment in the country. In addition to the state and local governments, the implementation of NEEDS will be predicated on a close collaboration and coordination between the federal government and donor agencies, the private sector, civil society, and nongovernmental organizations. As articulated by the Nigerian authorities, poverty reduction is the core objective of NEEDS. Accordingly, NEEDS includes interventions and policies aimed at poverty reduction, and the policies are intended to benefit virtually all segments of the Nigerian society.

NEEDS also encompasses important structural reforms designed to enhance the transparency and accountability of public-sector policies and institutions. In the process, it is expected that many deep-rooted

macroeconomic and structural challenges will be addressed to restore macroeconomic stability and promote rapid and sustainable economic growth. The NEEDS document declares that the strategy is to be implemented by creating a conducive environment for business and foreign investment so as to ensure a partnership between the public and private sectors for growth. In particular, government's attention is to be focused on the provision of basic services and the empowerment of Nigerians to take advantage of new livelihood opportunities while encouraging the private sector to become the engine of growth in the economy. Empowerment of people will especially focus on the areas of health, education, the environment, integrated rural development, housing, employment, gender mainstreaming, and youth development.

NEEDS has also become an umbrella organization for the various poverty eradication programs established by the Obasanjo administration since its inception in 1999. Chief among these programs is the National Poverty Eradication Program (NAPEP), which was established in 1999. The objectives of NAPEP include the following:

- Poverty eradication
- Economic empowerment of the citizenry, especially women
- Provision of skill acquisition for youths and reduction of unemployment among youths
- Provision of universal basic education to all Nigerians
- Revitalization of agriculture as a means of raising the incomes of rural dwellers and
- Provision of motorable roads in rural areas to enhance evacuation of produce to markets.

To summarize, the comprehensive reform programs have been implemented in four main areas: Macroeconomic Reform, Structural Reform, Governance and Institutional Reform, and Public Sector Reform. Under the Macroeconomic Reform Program, government adopted a prudent oil price–based fiscal rule, introduced a Medium-Term Expenditure Framework and a Medium-Term Sector Strategy, improved implementation of monetary policy by the Central Bank, undertook a bank consolidation exercise to strengthen the financial sector, adopted trade liberalization policies, and undertook the privatization of some government enterprises. Under the Structural Reform Program, there has been a bank consolidation exercise to strengthen the financial sector, implement trade liberalization reform, encourage deregulation of the economy, and promote privatization of some government enterprises. Under Institutional and Governance Reforms, the government introduced the Due Process mechanism in public procurement, adopted the Extractive Industries Transparency Initiative, and established the Economic and Financial Crimes Commission and Independent Corrupt Practices Commission to address corruption in public offices. Under the Public Sector Reforms, there has been a restructuring of some government agencies and an increased focus on improving service

delivery, an anticorruption drive, and civil service reform. For a more detailed discussion of the economic and structural reforms adopted, see Okonjo-Iweala and Osafo-Kwaako (2007).

It should be pointed out that improvement in oil revenue management and monetary policy implementation was complemented by better debt management strategies. In particular, the erstwhile stubborn problem of external debt overhang was successfully resolved. During the 2003–06 period, Nigeria's external debt stock was drastically reduced.

Arising largely from a successful debt relief agreement with the Paris Club of creditors, Nigeria's external debt stock fell dramatically from $35.9 billion in 2004 to approximately $5.5 billion in 2005, after award of a comprehensive debt relief package on its $30.4 billion Paris Club debt. As explained by Okonjo-Iweala and Osafo-Kwaako (2007: 11), the unprecedented debt relief package involved payment of outstanding arrears of $6.4 billion, a debt write-off of $16 billion, and a debt buyback of the remaining $8 billion (at a 25 percent discount) for $6 billion.

The improvement in macroeconomic policy making in the post-2003 period has started to yield identifiable dividends. Real GDP growth has improved, averaging 7.1 percent per year since 2003. Similarly, inflation has improved, falling from over 20 percent in 2003 to below 10 percent in 2006. Foreign exchange reserves have skyrocketed from about $7 billion in 2002 to approximately $45 billion in 2006, and total external debt fell from $35 billion in 2003 to under $5 billion in 2006 (table 6.5). Since 2003 the non-oil sector, which provides livelihoods for the majority of Nigerians, has grown at 5.9 percent annually, accelerating to 7.4 percent in 2004 and to 8.2 percent in 2005. In 2006 the growth rate of the non-oil sector reached 8.9 percent. Growth of the non-oil sector has been largely driven by growth in agriculture and the global commodity boom. Foreign direct

Table 6.5. Economic Performance Indicators, 2001–06

	For the Year Ending December 31					
Indicator	2001	2002	2003	2004	2005	2006
Real GDP	4.7	4.6	9.9	6.6	6.2	5.6
Oil sector	5.2	(5.7)	23.9	3.3	0.5	4.7
Non-oil sector	4.5	8.3	5.2	7.8	8.2	8.9
Oil production	2.2	2.1	2.3	2.5	2.5	2.5
Gross national savings (% of GDP)	5.3	3.5	7.2	18.4	19.4	20.6
Inflation rate (%, Dec.-over-Dec.)	16.5	12.2	23.8	10.0	11.6	8.5
GDP per capita ($)	530.7	539.1	620.7	673.0	847.1	1,114.0
Population (million)	118.8	122.4	126.2	129.9	133.5	140.0
Population growth rate (%)	2.8	2.8	2.8	2.8	2.8	2.3
Life expectancy at birth (years)	54.0	54.0	54.0	54.0	54.0	55.0
Adult literacy rate (%)	57.0	57.0	57.0	62.0	62.0	67.0

Source: Central Bank of Nigeria 2007.

Table 6.6. Nigeria—Foreign Investment Inflows, 2001–06

Year	Foreign Direct Investment $ (billions)	Portfolio Investment $ (billions)
2001	1.18	0.827
2002	1.87	0.134
2003	2.00	0.147
2004	1.87	0.350
2005	2.30	2.860
2006	4.40	—

Sources: Economic Associates 2007; World Bank 2006a.
Note: — = not available.

investment (FDI) inflows into the country have ballooned, exceeding $5.16 billion in 2005 (table 6.6). Foreign investment has occurred not only in oil and gas but also in the telecommunications, transportation, and banking sectors. It can be convincingly argued that the relaxation of the external debt constraint brought about by the Paris Club debt relief package has contributed to the observed increase in FDI inflows and portfolio flows.

Leadership, Policy Making, and Economic Growth, 1960–2006

It is now increasingly accepted in the development literature that leadership, policy making, the quality of economic policies, and good institutions play important roles in bringing about rapid growth in developing countries. This section shall analyze the differential effects of leadership, institutions, and policy making on economic growth during the dismal 1960–2000 period and during the successful 2001–06 period. It will show that good policy making and high-quality economic policies during the 2001–06 period largely account for the rapid growth during the period. In turn, good leadership largely accounts for the effective and consistently good economic policies during the period.

Leadership and Macroeconomic Policy Making, 1960–2000

Thirty of the first 40 years after independence in Nigeria were spent under the heavy-handed rule of military dictators and despots. Much of the failure of policy and the lack of development have been attributed to the abnormal situation in which a country was denied democracy and the rule of law, but rather was forcibly subjected to military misrule. Unfortunately, the quality of leadership was low because the military establishment was led by poorly educated and often ill-trained soldiers. During much of this period, there was the problem of ethno-religious violence and a vicious struggle for resource control. Although oil resources were located in the South, the leaders (military and civilian) were usually from the North. These Northern leaders were bent on transferring the oil resources to develop the North.

This regional redistribution syndrome resulted in an unending tribal and religious strife during most of the period. The development conundrum was exacerbated by the fact that many of the military rulers were corrupt. Thus, the nation's oil resources were stolen when they were not misspent on "white elephant" projects in the Northern parts of the country.

The quality of economic policy making was also poor. Given the prevailing orthodoxy that industrialization was a prerequisite for rapid economic growth, the aim of government was to promote industry and manufacturing through import substitution, using development planning. Between 1962 and 1985 the country used the approach of fixed medium-term plans. Four Development Plans were adopted and implemented:

First National Development Plan, 1962–68
Second National Development Plan, 1970–74
Third National Development Plan, 1975–80
Fourth National Development Plan, 1981–85

During the era of development programming, macroeconomic management policies were used as the key tools for achieving plan objectives. However, in the end, the policy of import-substituting industrialization failed. The discovery of oil and its predominant position after 1974 soon led to the relative neglect of agriculture, but the oil boom lasted only until 1982.

With the end of the oil boom in 1982, Nigeria found itself in a quagmire of economic problems. The internal problems included recession, inflation, high unemployment, and rising fiscal deficits, while the external problems consisted of chronic current account and balance-of-payments deficits, an escalating external debt stock, and a crushing debt-service burden. Ample evidence of sectoral disequilibrium was also present, as demonstrated by the destruction of the agricultural sector, the stunted development of the industrial sector, a lop-sided dependence on the oil sector, and the repression of the financial sector. Between 1982 and 1986, the government made a valiant attempt to combat the economic crisis by adopting various austerity measures, as reflected particularly in the Economic Stabilization Act of 1982 and the National Economic Emergency Act of 1985. However, because of the fundamental nature of the economic and financial disequilibriums, the government found that mere austerity without structural adjustment constituted an inadequate response to the economic crisis. Matters came to a head in early 1986 when the world oil market collapsed and the price of oil fell by over 50 percent. With Nigeria's earnings from petroleum exports tumbling from approximately $25 billion in 1980 to $6.4 billion in 1986, trade arrears piling up, and international credit lines drying up, the nation was on the verge of economic collapse.

Accordingly, in July 1986 the government adopted the SAP to bring about a fundamental restructuring of the economy to ensure its long-term survival. Unfortunately, the SAP policy of economic liberalization and deregulation did not succeed, mainly as a result of poor implementation and

policy inconsistency. In the manufacturing sector, there was a weak supply response by private-sector firms to the incentives offered by SAP policies. This limited response has been ascribed to several factors including, especially, the infrastructure deficit. Poor infrastructure availability, particularly in the power and transportation sectors, has militated strongly against private-sector production. Table 6.7 gives comparative infrastructure data for Nigeria, South Africa, and other sub-Saharan countries. An examination of the data shows that a wide gap exists between the availability of electricity in Nigeria (82 kilowatts per capita) and in South Africa (3,793 kilowatts per capita) (Okonjo-Iweala and Osafo-Kwaako 2007). The problem of poor and directionless leadership also continued. Thus, in the end, economic growth performance during the liberalization period was only marginally different from what was recorded during the preceding period of economic controls. Table 6.8 shows data for sectoral shares in output since 1960, and table 6.9 for sectoral annual growth rates in output from 1960 to 2006. Table 6.10 provides data on the exchange rate, and table 6.11 gives data on the terms of trade.

Table 6.7. Selected Data on Infrastructure

Infrastructure	Nigeria	South Africa	SSA	LIC	HIC
Electric power consumption—kW per capita (2001)	82	3,793	456	317	8,421
Road-to-population ratio—1,000 km per million people (1995–2001)	1.1	8.5	2.6	—	—
Paved primary roads—percent of roads (1995–2001)	30.9	20.3	13.5	1,692.9	—
Telephone—mainlines per 1,000 people (2002)	6	107	15	28	585
Access to sanitation—percent of population (2000)	54	87	54	43	—
Access to safe water—percent of population (2000)	62	86	58	76	—

Source: World Bank, World Development Indicators, various years.
Note: HIC = high-income countries, LIC = low-income countries, SSA = sub-Saharan Africa.

Table 6.8. Sectoral Shares in Output, 1960–2006 (percent)

Year	Agriculture	Industry	Manufacturing	Services
1960	63.85	7.68	3.81	28.47
1961	61.83	8.29	4.10	29.88
1962	61.92	8.76	4.41	29.32
1963	61.20	9.03	4.66	29.73
1964	57.88	9.67	4.69	32.45
1965	54.90	12.47	5.43	32.64
1966	54.94	12.32	5.38	32.74
1967	55.40	11.78	5.50	32.81
1968	51.65	10.79	5.65	37.56
1969	49.49	15.56	6.35	34.95
Average 1960–69	57.31	10.64	5.00	32.06

Table 6.8. Continued

Year	Agriculture	Industry	Manufacturing	Services
1970	41.28	13.76	3.67	44.95
1971	40.04	17.34	3.38	42.61
1972	38.27	19.94	3.90	41.79
1973	35.14	25.09	4.04	39.78
1974	31.83	35.24	3.33	32.93
1975	31.73	28.50	5.03	39.77
1976	29.12	32.27	5.06	38.60
1977	29.57	31.42	4.57	39.01
1978	30.48	33.33	6.53	36.18
1979	28.65	37.82	8.79	33.52
Average 1970–79	33.61	27.47	4.83	38.91

Year	Agriculture	Industry	Manufacturing	Services
1980	20.63	45.57	8.38	33.80
1981	26.91	37.58	9.18	35.51
1982	30.84	33.33	9.55	35.82
1983	33.22	29.73	9.90	37.05
1984	37.77	27.78	7.82	34.45
1985	37.31	29.18	8.74	33.51
1986	38.66	26.00	8.73	35.34
1987	36.68	33.31	6.76	30.01
1988	40.60	30.83	7.52	28.57
1989	31.34	43.19	5.29	25.47
Average 1980–89	33.40	33.65	8.19	32.95

Year	Agriculture	Industry	Manufacturing	Services
1990	32.71	41.37	5.54	25.92
1991	30.43	45.57	5.90	24.00
1992	23.80	58.26	4.32	17.94
1993	24.16	58.65	4.00	17.18
1994	28.57	50.24	4.94	21.19
1995	31.61	46.68	5.36	21.71
1996	30.70	49.17	4.84	20.12
1997	33.63	44.79	5.08	21.57
1998	38.98	33.43	5.24	27.58
1999	36.56	35.24	4.89	28.20
Average 1990–99	31.11	46.34	5.01	22.54

Table 6.8. Continued

Year	Agriculture	Industry	Manufacturing	Services
2000	28.81	43.55	4.01	27.63
2001	30.60	47.78	3.89	21.62
2002	31.18	43.80	4.58	25.02
2003	26.41	49.37	3.99	24.21
2004	16.61	56.93	3.68	26.45
2005	16.9	56.2	3.79	26.9
2006	17.5	54.0	3.79	28.4
Average 2000–06	24.0	50.2	4.12	25.75

Sources: World Bank 1999, 2006c; *Economist* Conferences 2007.
Note: Shares may not add up to 100 percent because of rounding.

Table 6.9. Sectoral Annual Growth Rates, 1960–2006 (percent)

Year	Agriculture	Industry	Manufacturing	Services
1960	—	—	—	—
1961	–3.0	29.6	18.8	–1.9
1962	3.6	18.3	12.4	0.9
1963	8.3	14.5	29.1	8.6
1964	–0.4	18.8	–4.2	5.8
1965	0.6	49.6	–28.3	–4.7
1966	–7.0	9.1	70.6	–4.6
1967	–15.5	–20.0	–14.3	–12.1
1968	–1.5	–19.9	5.5	9.2
1969	15.0	79.3	31.5	7.9
1970	17.5	54.4	27.9	20.8
1971	5.2	32.9	–3.1	8.5
1972	–7.3	19.3	23.9	3.3
1973	8.9	–1.2	11.3	13.5
1974	10.4	17.2	–3.3	8.2
1975	–10.4	–13.7	23.6	20.6
1976	–1.6	23.5	23.4	5.4
1977	6.8	5.0	–49.6	7.0
1978	–8.6	–3.7	13.7	–5.7
1979	–3.0	18.9	46.9	2.4
1980	4.9	–2.2	28.1	5.1
1981	–16.5	–10.1	15.1	–5.7
1982	2.5	–4.2	12.9	2.5
1983	–0.3	–14.7	–29.4	2.8
1984	–4.8	–0.5	–11.2	–11.1
1985	16.8	5.3	19.9	6.2

Table 6.9. Continued

Year	Agriculture	Industry	Manufacturing	Services
1986	9.2	–5.7	–3.9	7.3
1987	–3.2	–2.9	5.1	6.1
1988	9.8	9.9	12.8	10.0
1989	4.9	9.0	1.6	8.6
1990	4.2	6.3	7.6	15.0
1991	3.5	8.6	9.3	2.1
1992	2.1	0.3	–4.8	6.9
1993	1.4	–0.8	1.2	5.4
1994	2.4	–2.8	1.6	0.5
1995	3.7	1.2	4.6	2.3
1996	4.1	6.0	2.4	3.0
1997	4.2	1.5	0.9	4.9
1998	4.0	–1.7	–5.4	1.8
1999	5.2	–2.5	2.1	0.7
2000	2.9	6.1	3.5	4.0
2001	3.8	2.6	5.2	3.3
2002	4.2	–8.0	13.7	6.6
2003	6.5	22.4	6.2	6.9
2004	6.5	4.6	3.7	6.9
2005	8.2	4.8	3.9	6.5
2006	8.0	0.1	–1.4	10.5

Sources: World Bank 1999, 2006c; *Economist* Conferences 2007.

Table 6.10. Exchange Rate, 1965–2006

Year	Exchange Rate	Year	Exchange Rate	Year	Exchange Rate
1965	0.7142	1979	0.6040	1993	22.0654
1966	0.7142	1980	0.5468	1994	21.9960
1967	0.7142	1981	0.6177	1995	21.8953
1968	0.7142	1982	0.6735	1996	21.8844
1969	0.7142	1983	0.7244	1997	21.8861
1970	0.7142	1984	0.7665	1998	21.8861
1971	0.7142	1985	0.8938	1999	92.3381
1972	0.6579	1986	1.7545	2000	101.6973
1973	0.6579	1987	4.0160	2001	111.2312
1974	0.6302	1988	4.5370	2002	120.5782
1975	0.6155	1989	7.3647	2003	129.2224
1976	0.6266	1990	8.0383	2004	132.888
1977	0.6447	1991	9.9094	2005	131.300
1978	0.6353	1992	17.2984	2006	127.400

Sources: World Bank 1999, 2006c; *Economist* Conferences 2007.

Table 6.11. Terms of Trade, 1980–2005

Year	Terms of Trade	Year	Terms of Trade
1980	181.25	1993	59.41
1981	192.00	1994	56.12
1982	163.63	1995	55.56
1983	155.17	1996	86.90
1984	154.54	1997	65.09
1985	143.48	1998	43.88
1986	70.27	1999	59.60
1987	72.60	2000	100.00
1988	60.94	2001	88.90
1989	75.71	2002	89.92
1990	88.51	2003	101.94
1991	74.39	2004	122.35
1992	65.04	2005	125.00

Sources: World Bank 2006a, c.

Leadership, Policy Making, and Institutions: 2001–06

Apart from the sustained commodity export boom (as exemplified by skyrocketing oil prices) in the new millennium, the main explanation for the exemplary economic growth performance in Nigeria was leadership. Going hand-in-hand with improved leadership was the adoption and implementation of good economic policies (as exemplified by NEEDS). Some analysts question whether the Nigerian economic reforms are truly "home grown" as claimed by their architects. The issue is moot because although parts of the reform program are "orthodox"—conforming to Williamson's (2003) "Washington Consensus"—the program was nevertheless adopted without prodding from the International Monetary Fund or World Bank and was not supported by a loan from either of the two Washington institutions. Although NEEDS has both state-level and local government–level components, it has yet to be as fully embraced by the subnational units as it has been embraced at the national level. It seems clear that economic reform is more likely to promote sustainable growth over time if it is also enthusiastically implemented at the subnational level. Thus, a priority of any future government should be the extension of these economic reforms to the subnational units.

Good governance and institution building have also been part of the Nigerian success story. The Obasanjo government introduced a "fiscal rule" to delink public expenditures from oil revenue earnings, thus effectively insulating the domestic economy from internationally transmitted business cycles. An attempt is being made to institutionalize this by passing a Fiscal Responsibility Act. Other useful reforms in this area were the establishment of a due process mechanism for public procurement and the adoption of the Extractive Industries Transparency Initiative as a means of promoting

transparency in the oil and gas sector. Two anticorruption agencies, the Independent Corrupt Practices and Other Related Offences Commission and the Economic and Financial Crimes Commission, were also established to promote accountability and good governance. It may well be true that without good governance other reforms have limited impact, because good governance includes issues such as the absence of rent-seeking behavior, transparency, accountability, proper enforcement of property rights, and the rule of law. Good governance thus plays a critical role in attracting investment to a country, improving productivity and competitiveness, promoting political stability, and in the end contributing to rapid economic growth.

Summary and Concluding Remarks

This study of Nigeria's growth experience will conclude by referring briefly to a resource-rich African country at the other end of the growth tables. Botswana reported an average real GDP growth rate of 11 percent between 1982 and 1989 and 7.5 percent between 1990 and 2000. Nigeria grew at 3.7 percent between 1960 and 2000. Thus, Nigeria's average real GDP growth rate was one-third that of Botswana's in the 1980s and one-half that of Botswana's in the 1990s. However, Nigeria's average growth rate of 7 percent between 2003 and 2006 is close to what was reported by Botswana during the 1990–2000 decade. This buttresses the belief of many that given Nigeria's abundant human and natural resources, its average growth rate could approximate that reported by Botswana if good macroeconomic policies are consistently implemented. Table 6.12 shows that Nigeria's average per capita real income growth compares favorably with the world average during the 2001–06 period but was well below the world average during the 1960–2000 period. Table 6.13 provides data indicating that the primary sector contributed 50.6 percent to GDP growth during the 2001–05 period but is expected to contribute 64.9 percent to GDP growth during the 2006–10 period. In contrast, the secondary sector, which contributed 16 percent to GDP growth during the 2001–05 period, will contribute only 6.5 percent to GDP growth during the 2006–10 period.

Table 6.12. Comparative Real per Capita GDP Growth Rates

Region	1980–2000	2001–05
World	2.2	3.1
Developing countries	2.4	5.1
Emerging market economies	2.6	5.0
Industrial countries	2.1	1.4
Nigeria	0.4[a]	4.2[b]

Sources: IMF World Economic Outlook Database (September 2006) and author's calculations.
a. 1960–2000.
b. + 2003–2006.

Table 6.13. Growth Outlook, Sectoral Contribution to GDP Growth (percent)

Economic Sector	2001–05	2006–10
Primary	50.6	64.9
Crops	35.5	39.8
Oil and gas	11.1	21.7
Livestock	2.4	2.1
Fishing	1.6	1.3
Secondary	16.0	6.5
Electricity	8.5	3.2
Manufacturing	5.2	2.9
Construction	2.3	0.4
Tertiary	33.7	22.4
Wholesale and retail trade	16.3	10.5
Financial institutions	7.6	4.0
Telecommunications	4.4	4.5
Road transport	3.9	2.1
Real estate	1.5	1.3

Sources: 2001–05, Bureau for National Statistics; 2006–10 forecasts, Economic Associates 2007.

Finally, it must be noted that the manufacturing sector is still very weak. Although it contributed 5.2 percent to GDP growth in the 2001–05 period, it is expected to contribute only 2.9 percent to GDP growth during the 2006–10 period. Clearly, then, policy makers still have much work to do to significantly increase the contribution of manufacturing to GDP and GDP growth in Nigeria.

Why, then, did Nigeria fail to develop between 1960 and 2000 in spite of the enormous amount of petrodollars that it received starting in the early 1970s? The simple answer is that Nigeria's petrodollars were misused, misspent, and mislaid. As proximate causes for these outcomes, this chapter has stressed in particular poor leadership and governance combined with ineffective macroeconomic policies during the 1960–2000 period. Also important was the acute regional ethno-religious rivalry in the polity. The issue of poor leadership and governance should not be underestimated, because during most of the first 40 years after independence, Nigeria was governed by leaders excessively motivated by narrow ethnic and sectional loyalties and who lacked the intellect required to develop viable strategies for sustained growth and development in a pluralistic and multiethnic country such as Nigeria. In short, the country did not have a pro-development leadership in its first 40 years of existence. As has been argued, the situation has changed for the better since 2000. If this goes on, Nigeria has a chance finally to take its place among the rapidly growing countries of the world.

It is now accepted in the development orthodoxy that policies can matter profoundly for development outcomes. This chapter has argued that by and large, between 1960 and 2000, Nigeria's policy choices were poor, and the

reforms that sought to correct them starting in the mid-1980s were plagued by inconsistencies, reversals, and a general lack of policy coherence. In contrast, the reforms adopted in 2003 were consistent, and an attempt has been made to implement them in a coherent manner. The main difference has been a focused and committed leadership

During the last few decades of the twentieth century, uncertainty in the Nigerian economy was brought about as much by social and political instability as by macroeconomic policy errors. A case in point was the early 1990s, when the nullification of presidential election results by General Babangida brought about an acute political crisis and proved a harbinger of major policy reversals. Deeper institutional problems of governance still remain, including a lack of grassroots participation in politics, malfunctioning formal political institutions, and inadequacy of democratic structures. Resolution of these stubborn social and political problems will go a long way in reducing perceived uncertainty and increasing confidence in the stability of the Nigerian economy. In turn, this will clear the way for a return of flight capital and an increase in both domestic and foreign investment, as well as the sustenance of rapid economic growth in the years ahead.

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