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Revamping and Sustaining Nigeria Economy: A sector by sector approach

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Abstract

For more than two decades Nigeria economy is prostrate owing to economic recession of the 80s and poor management of the resources of the nation by successive leaders. This led to the collapse of both the private and public sectors of the economy. Many industries closed shops, while others lacked raw materials for production, some produced below capacity, foreign reserve dropped and foreign trade slowed down. The link was and still is large scale poverty and unemployment in the land. For foreign trade to be vibrant, and to ginger our economy, we needed to borrow within and without to cope with the domestic demands in social and economic spheres. Nigeria has to borrow from International Monetary Fund (IMF), Paris and London Clubs. The paper uses available literature on issues affecting the economy since the 1980s to date. It also discovers that there is lack of political will to put the economy on the path of sustainable development for reasons such as corruption and political instability. To reverse the trend, government and private individuals must pay attention to revamping not only the agricultural sector of the economy, but also its health, energy and infrastructural facilities. It also recommended that youth and women empowerment, research and development as well as security matters be given adequate attention.

Introduction

The Nigeria Economy was sustained initially by agriculture and later by oil since independence. The shift from soil to oil created a bloom in the GDP but was quickly dislocated after the oil recess in the 1980s. This unexpected global misfortune in the oil economy forced Nigeria to go into borrowing to keep the economy sustained. However, loans from the big multinational financial institutions such as IMF, Paris and London Clubs had the ability to revamp the prostrate state of the Nigerian economy, if not for the fact that it was misappropriated by various leadership.

Despite the fact that many countries in Latin America and Asia have been able to use loans to revamp and sustain their economies, the Nigerian situation became an exception and borrowing snowballed into sorrowing. The huge interest attached with these loans coupled with the fact that it was not properly used for its intended purpose threw Nigeria economy into an abyss of depression. However, with the cancellation of the debt, it is believed that the huge sum of money (about $ 30 billion) that would have gone into repayment should now be used to revamp the Nigeria economy by diversifying into other non-oil sectors and to tackle the energy, health and security problems. This challenge has the tendency of placing Nigeria on a sound footing to be one of the best economies by 2020. This paper precisely addresses this dimension to revamping the nation's economy by refocusing on the various sectors of the economy.

Background to Nigeria's Economic Problems

Nigeria was and is still an agrarian society. At the time of independence in 1960, all of the country's future dreams of becoming a great nation hinged solidly on the productivity of agriculture which, did well enough to give to the dreams of transforming Nigeria into a modern and industrial state. The country was self-sufficient in food with agriculture contributing 70 percent to Gross Domestic Product, (GDP) and over 80 percent to exports. About 90 percent of the population were employed in the agricultural sector which provided, the raw materials for home industries and for export. It has remained the largest revenue earner for most Nigerians living and doing business in the rural areas who form more than 80 percent of the country's population (Mohammed, 1987:29). Export crops were cocoa, groundnut, cotton, benniseed, rubber, palm oil and kernel, among others. By 1966, agriculture contributed only about 60 percent of the country's total exports against 80 percent at Independence. And by 1971 crude oil became the commanding height of the Nigerian economy accounting for about 74 percent of GDP (Igiebor, 1987:21). The contribution of the industrial sector, amounted to less than 10 percent of the GDP (Babarinsa, 1987:21).

The oil boom of the 1970s brought with it a lot of contradictions and fundamental changes in the Nigerian economy. Such contradictions stemmed from the country's economy being heavily dependent on crude oil export as the main source of foreign earning and government revenue. So, by 1980s the oil sector which Nigeria economy anchored, showed signs of infirmities. On the other hand, the agricultural sector could not compete at the international market owing to overvalued naira exchange rate, inadequate pricing policies, rural urban migration and neglect arising from the oil syndrome. In this connection, the share of the agricultural sector in GDP fell rapidly from 40 percent in the early 1970s to 20 percent in 1980. Low productivity in the agriculture sector became so disturbing and acute that Nigeria became heavily dependent on imported food and agro-allied industrial inputs (Edame, 2001:80; Ode, 1994:28). For instance, by 1983, food importation amounted to 16 percent of total imports. Rice import

alone later gulped ₦172.1 million, or 26 percent of total imports (Ode, 1994:28). Moreover, other contradictions spotted was that, the structure of policy incentives and controls encouraged import-oriented production and consumption patterns with little incentives for non-oil exports.

The decline of agriculture was hastened by other obstacles such as the Land Use Act of 1978 which fragmented peasant land holdings or even dispossessed peasant farmers of land entirely. The arrival of the absentee big time farmers also caused social dislocations. The Peasants became poor competitors with the rich farmers. Peasants also found it difficult to obtain loans from banks because they had no collaterals. In that corollary, oil boom encouraged rapid urban development. The construction industry received a big boost and the allure of the big cities drew the youths away from the rural areas. As they moved into the cities in search of jobs, labour available in the farms was declining. The old, weak and infirm left behind could not engage in serious production activities (Mohammed, 1987).

Closely following that, from the mid 1981 the world oil market started to show signs of weakness and finally collapsed with time. The world market failure marked the beginning of large scale economic crisis in Nigeria. Oil export dropped abysmally and that reflected in decline in foreign exchange receipts and the government revenue. For example, crude oil exports dropped from the daily average peak of 2.2 million barrels per day (mbd) in 1979 to 1.23 and 1.0 in 1981 and 1982, respectively, and had remained at below 1.3 million barrels per day. On the other hand, crude oil export prices which rose rapidly from US $ 20.94 per barrel in 1979 to US $ 36.95 in 1980 and US $ 40 in 1981 dropped to US $ 29 in 1983 and to US $ 14.85 in 1986. The immediate result was that, foreign exchange receipts which rose form US $ 15.7 billion in 1979 to a peak of US $ 24.9 billion in 1980 fell to US $ 17.2 billion in 1981, US $ 12.8 billion in 1982 and US $ 10.1 billion in 1986. With that scenario, external reserves fell sharply and foreign debt mounted in the face of rising imports; government deficits widened and efforts at containing the adverse developments created some other serious and raking problems such as economic depression, rising prices in commodities and unemployment (Edame, 2001:181).

With the situation at hand, she was lured not only into the courts of the credit agencies of Europe but also into the net of the international capital market.

The Crude Oil Economy and the beginning of Nigeria problems

In 1973, with the rise in price of crude oil in international market as a result of the Israelis-Arab war, more money came into the economy. Nigeria benefited immensely and agriculture began to decline abysmally. And for the first time, the country's revenue from exports began to be calculated in billions of naira, thus provided the country with an unprecedented financial means to get whatever it wanted. The immediate result was a boom in imports which included food, raw materials for industries and manufactured goods (Igiebor, 1987:21). In this connection, some infant industries had to compete with the importation abroad. For instance, textile industries suffered in the face of competition for foreign materials. That marked the gradual decimation of textile industries in Nigeria till date (Mohammend, 1987).

The crude oil economy not only lure Nigeria into the debt trap, it also diverted the country's attention from developing other sources of revenue (example agriculture and industry) and created an insatiable taste for foreign consumer and industrial goods. With the booming oil revenue, Nigeria imported everything under the sun, including, sand and sawdust. Imports of machinery and equipment for industries accounted for 50 percent of total imports. Because foreign exchange for imports was cheap to obtain, industries never bothered to find their inputs locally or develop local expertise and technology. That led the manufacturing sector to import up to 70 percent of its inputs (Ode, 1998; Offiong, 1980). In all, the non-oil sector was declining.

Over dependence on imports, neglect of local production, salary reviews as a result of oil boom among others led to quantum leaps in domestic price levels from the 1970s. The average inflationary rate which was 10.2 percent in the period 1969 – 1974 rose slightly to 21 percent in 1981 and 39 percent in 1984. Exchange rate did not rise with inflation, and because it was suppressed by government control, there was a distortion in the economy by reinforcing demand for imports and discouraging savings and investment. The combination of all these problems which had their roots in the 70s threatened to ground the economy in the late 1970s and early 80s.

Nigeria's first loan from the Paris Club was in 1964, when she took US $ 13.1 million from the Italian government for the building of the Kainji – Niger Dam. Since then external borrowing by Nigeria was very insignificant 1971 – 1993 marked the beginning of big borrowing by governments at the state and federal levels. Thus Nigeria raised its second loan of US $ 1 billion in January 1978 and the third loan of US $ 750 million in November of the same year. A series of other loans totaling N776.29 million was also taken in 1979. By 1985, the country's total external debt had risen to US $ 17 billion (Ode, 1994). By 1982 Nigeria was unable to pay the loans it borrowed. Interests increased, penalties rose and crises begun. Between 1985 and 1998 Nigeria had failed to service her loans to the Paris Club, because of the later's refusal to reduce the debt burden. By 2004, Nigeria's debt was US $ 36 billion. Interests was accumulating and Nigeria spends more on interest than Health and Education. This hindered the achievement of the millennium Development Goals (MDG).

Measures taken to put the Economy on sound footing from 1970s to 1980s

There were measures taken by Obasanjo Administration, Shehu Shagari and Muhamadu Buhari to revive the economy but it appeared as a scratch on the

problem. These measures included Operation Feed the Nation (OFN) of 1976, the promulgation of the Land Use Decree 1978, establishment of the Nigerian Agricultural and Cooperative Bank (NACB) in 1978, import restriction and outright ban on luxury imports, import in 1981, licensing and indigenisation programme of 1972; the Green Revolution and the Austerity Measures of 1981. It is worrisome to note that all these measures never yielded the desired economic effect due to the lip-service paid by government towards the implementation of these policies. Besides, corruption undermined the effective implementation of the policies.

Strategies for Revamping and Sustaining Nigeria Economy

Economy here connotes any specified collection of interrelated set of market and non-market products. That is the pooling of resources through production to satisfy the needs of the people. However, Economy is all about people. People make the economy move. It then follows that when people are not producing the economy cannot function. To revitalize the Nigerian economy the following measures have been severally recommended as distilled from the works of Otutodunrin (2001), Akpan (2005) and Majirioghene (2008).

Health

Nigeria's population is not healthy at all. Because the population is not healthy, that explains the reasons for low productivity which in turn has a surmountable effect on the growth of the Nigerian economy. There are two main killer diseases that are disturbing the population – Malaria and HIV/AIDS. Malaria weakens individuals and makes many to waste man hours by keeping them in beds thus reducing productivity. Besides about 46 percent of an average household income is expended on treatment of malaria, the disease is a major cause of poverty in Nigeria. Nearly 30 percent of adults are down with this illness (Nigerian Journal of Pharmacy, 2005)4. Health is wealth, hence when the labour force is sick, the economy cannot function optimally.

It is estimated that about 4 million Nigerians are living with HIV/AIDS, and about 5.8 percent are adults and of productive ages. The effect is heavy on the economy (Akpan, 2007). Nigeria is ranked 111 out of 146 countries with poor health care facilities.

Therefore, to adequately sustain the economy, malaria, HIV/AIDS and other related diseases should be given adequate attention and tackled by the government at all levels. Medical treatment be made free by the government. Since majority of Nigerians in the productive sector cannot afford the high cost of medical treatment within and outside Nigeria. Our hospital/clinics be equipped well to reduce traveling abroad for medical treatment-thus saving foreign exchange.

Youth and Women Empowerment

Budgetary provision for youth and women economic empowerment should be increased with a view to increasing production, providing employment opportunities and promoting local governance. Women are known to be engaged in the production of the largest bulk of food in Nigeria. Youths too need empowerment, hence all levels of government should realize that the youths of today are the leaders of tomorrow. These youths ought to be empowered so as to contribute to the economy positively. And when empowered there would be security and peace for the society to grow. Women should have access to financial resources to enhance economic and professional employment. For instance, in the United States, women create twice as many enterprises as men, and the job creation at enterprises owned by women is larger than that of men in the top 500 companies (Gogoy, 2005). That if American women can achieve that, Nigeria women can equally do so, hence these women should be empowered just as the America women are empowered by America Government and well-to-do individuals.

Gas flaring

Gas is money within and outside Nigeria. About 90 percent of this gas is flared. This paper suggests that the excess gas flared should be converted for domestic and industrial use. This would create employment, reduce poverty and assist to ginger the economy.

Agriculture

The agricultural sector of any economy is a base on which other sectors anchor. It is the base for food security, raw materials, employment and for foreign exchange. Today agriculture has lost its pride of place. However, to reclaim the lost position.

- every household should own a farm and grow crops that conform to the geographical needs.
- School leavers including non professional graduates from tertiary institutions should be encouraged to take up farming as a career; government as a matter of urgency should recruit and assist this group through provision of loans. These loans should be guaranteed through banks.
- Farm extension workers, agents assist them through monitoring for better productivity.

The land tenure system is inimical to agricultural expansion and for agriculture to return to its former glory, it should be legislated against. The Land Use Act should as well be reviewed through an enabling law to allow people who have interest in farming have access to land for development.

Subsidy

In the same corollary, the government should heavily subsidize agriculture for increased food production for local needs and for export in USA. For instance, the average farmer producing wheat for export, enjoys government subsidises 25 times as much as the total average per capita income in the 42 countries classified by World Bank as "Low Income", and more than three times the average per capita income of middle income countries of South East Asia and Latin America. Indeed, 5 percent of the farmers in America produced for home consumption and surplus for export (Levit, 1985: 24). The Nigerian government should borrow leaf from this.

Research and Development (R & D)

There is need for government and private individuals to encourage research and development. Research and Development based on the United Nations Standard be adhered to by government. The United Nations recommended that developing nations set aside at least 2 percent of their GDP on Research and Development. Also, the Organization of African Unity (OAU) now African Union (AU), in this Lagos Plan of Action of 1980 recommended that member states commit at least 1 percent of their GDP to Science and Technology. Science and Technology has a big role to play in agricultural development. Between 1985 and now Nigeria's percentage of GDP commitment to R & D lingers between 0.1 percent and 0.6 percent. Comparatively industrialized countries such as Britain, Japan, Germany and USA that have attained development devote not less than 2.5 percent of their GDP to R & D. Korea and Taiwan devote as high as 15 percent for R & D (CBN, 1994: 977; Akpan, 2005). Nigeria should emulate these countries.

The Energy Sector

Power is perhaps the engine or the nucleus in which economy revolves. The production of goods and services as well as information dissemination at whatever scale, are all dependent on the availability and reliability of energy supply. In this era of globalization, power is necessary for use in industries, telecommunication, etc. Put differently modern industrial and commercial activities (including artisanships, trading, restaurants, cold room operators) depend on regular energy supply. The CBN (2006: 83-84) specifically notes that in 1997, Nigeria generated about 4,000 Megawatts (MW) of electricity; in 2007 it dropped to 2,800 MW and in 2008 it further dropped to 1,680 MW. This condition tends to slow down the economy in all perspectives, and contributes to high inflation because of the use of private power (mainly from generating sets) by industries, and artisans.

However, whichever way the power is generated – nuclear, thermal, hydro- the functions should be taken over from government. In other words, Power Holding Corporation of Nigeria (PHCN) be wholly privatized. Privatization would enhance effective management, availability and regular supply of power in the areas of need. What would help to stimulate the economy and sustain its stability power supply as it would enhance productivity level and thereby boost the economy. There should be real sector investment on energy. The building of Independent Power Plants in each State of the Federation would assist to solve the problem of electricity.

Nigeria should abolish the importation of fuel without increasing the pump-price of fuel (kerosine, petrol and diesel). This will assist to reduce inflation and stimulate the economy. It would also assist to conserve foreign exchange for the country.

Re-engineering Peasants through Soft Loans

Another strategy is that, there should be a commitment to utilize local expertise in cooperatives, small-scale enterprises, cottage industries. This group should be assisted with soft loans repayable in few years, perhaps between 5-10 years with or without collateral; but should be properly monitored to ensure effective applications.

Nigeria as a nation did not plan well in the running of its economy. The misnomer was caused by the poor leadership over the years. If our economy was not dislocated, the country would not have sought for assistance from the International creditors who later made nonsense of the nation.

By canceling or relieving Nigeria of the debt burden by the multilateral institution meant a lot for Nigeria. Nigeria did not enjoy the "IDA Status: (a status conferred on countries by the World Bank and which deems a country poor enough to be entitled, for e.g. to concessional debt relief). IDA status was conferred on Nigeria by the Bank after the G8 Finance Ministers in London. Nigeria was recognized as one of the poverty stricken nations as far back as 1980s. Nigeria was to pay back to her creditors (Paris Club) Us $ 12 billion. Clearing arrears and buying back part of the debt will mean large negative transfers in the short term.

Indeed, every year, Nigeria had to pay large sums of money in interest payment and principal repayments on this stock debt. The bill for that kept increasing, and she was paying US $ 1.8 billion annually since 1999, (approximately $ 1 billion to Paris Club creditors and $ 0. 8 billion to multilateral and commercial creditors). The accommodation of arrears and associated penalty charges created the paradox whereby Nigeria's total stock of debt has been increasing year by year, despite the fact that it has been repaying debts, and has not borrowed anymore money from Pairs Club creditors. Thus, this $1 billion

paid on debt service to the Paris Club represents 70 percent of the total education budget and 110 percent of the combined federal and state health budget.

Development of infrastructural facilities

The quality of infrastructural facilities in the country remain dismal. Many roads whether Trunk A or B are inaccessible or not motorable in most parts of the year, because of poor maintenance or outright neglect. Railway is near non functional, our airports do not wear the reality of the period, our seaports are non-functional and some have been abandoned such as the Calabar Port.

Roads should be opened to link major food areas, industrial and commercial towns; railways be improved as done in advanced economies. In other words, infrastructural facilities should be improved and privatized for proper maintenance. Proper and functional infrastructure is one of the indices for development. The current public private partnership initiative for infrastructural development is a right step which should be nurtured to reality.

Security

One of the thorny issues today in Nigeria is the problem of insecurity. For a long time now the Niger Delta region of Nigeria is one of the 'hot beds' of the world because of the activities of the cult-men and militia that have taken the Nigerian state to ransome. The Niger Delta provides 90 percent of the foreign earning for Nigeria. The militias are smoking, blowing up oil installations, kidnapping and holding the oil workers hostage. Many companies have withdrawn their services. Besides the activities of militia are the armed robbery manace that have taken over our cities and villages, making lives difficult for some dwellers. Banks, private homes, highways are targets. There is also the issue of incessant communal clashes, electoral violence and other related disturbances.

The strategy that can solve this insecurity problem is to hold the village heads, clan heads, Paramount rulers the Governors of each state responsible for any insecurity in their domains. These people know how to go about maintaining peace where they have control.

Secondly, the government at the federal level should provide social security for those who are not employed to have a sense of belonging. All these are far reaching measures that can revamp the Nigeria economy if puritanically implemented.

Conclusion and Recommendations

Nigeria's economic problems which spanned form 1980s was a result of poor planning and misplacement of priorities through poor leadership. To revamp the Economy now, Nigeria must return to agriculture, priority must be given to health, education, energy supply, industrialization, security, poverty reduction and also improvement on infrastructural facilities. With the relief from the multilateral agencies, the money which would have gone for debt servicing will be ploughed back on education, health, reduction on poverty, industrialization, etc.

Indeed, the money saved from external debt servicing should be ploughed into poverty reduction programmes, boosting agriculture, health care and education, to meet the United Nations Millennium Development Goals (MDGs).

The reduction or cancellation would improve the country's credit-worthiness in the eyes of investors, thereby improving confidence and promoting private sector development in the country (Okonjo – Iweala, 2006).

From all indications, it is our considered view that if the country's leadership is improved, and policies of government not undermined, measures suggested for revamping the economy adhered to, economy will 'pick' up. Also attention should be paid to security to allow for foreign investment flow. If these are achieved Nigeria may become one of the 20 strongest economies in the world by 2020.

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