DEVELOPMENT OF THE NON-OIL SECTOR IN NIGERIA: CHALLENGES & LESSONS FOR LESS DEVELOPED COUNTRIES

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Abstract: The emergence of oil in the political economy of Nigeria brought structural changes which proved difficulty for policy makers to manage. Consequently, the economy became quite susceptible to external shocks due to over-reliance on Oil. Therefore, the development of the non-oil sector had been a major national objective of succeeding governments in Nigeria. This paper examines restructuring efforts of the Nigerian economy, the existing promising opportunities in the non-oil sector to indicate lessons for less developed countries. The paper concludes with policy options recommendation for viable private and public sector investments to catalyze the development of the non-oil sector.

1.0 Introduction

The Nigerian economy, at independence in 1960, was an agrarian economy with agriculture contributing significantly both to the gross domestic product (GDP) and over exports. The mainstay products at that time included, inter alia, cocoa, rubber, palm produce (palm oil and kernels) from southern Nigeria, and groundnuts and cotton from the northern part. Agriculture also provided the bulk of domestic food requirements, accounting for over 75% of employment and significantly contributing to Federal Revenues through export taxes and Marketing Boards' surpluses. However, over the years public policy actively sought to change the structure of economic activities inherited at independence as was evidenced in the industrialization policy adopted by the government from the mid-1950s. The various National Development Plans during the 1946-1985 periods bore eloquent testimony to the grand design of incumbent government in diversifying the economy (Obadan, 2003). All through the years of development planning, however, the unanticipated effects of the policies adopted to promote import substitution industrialization (ISI) as well as their failures to achieve the goals were apparent. Meanwhile, the emergence of oil in the political economy of Nigeria had aided the sudden transition of ISI to the unsustainable establishment of heavy industries with disastrous consequences. The industries were dependent on foreign inputs, spare parts and foreign technical expertise for operations and maintenance Oil, which only began to be commercially exploited in Nigeria in 1958, had, by 1965, started making appreciable contribution to fiscal revenues and exports and, by 1970, had displaced agricultural products as the major foreign exchange earner for the country.

The structural changes that the new oil economy introduced in Nigeria, since 1970, have proved difficult for policy makers to manage. A series of factors had conspired to create booms and bursts in world oil prices, which, in turn, created pronounced revenue instabilities that were alien when the country depended exclusively on agricultural exports for foreign exchange earnings. The oil booms of the 1970s came at a period Nigeria had limited domestic absorptive capacity, with the result that the oil windfalls financed consumption of foreign-produced goods, including new propensity for foreign foods, inefficient and unsustainable expansion of the public sector, and uncoordinated infrastructural development, especially urban services. The oil boom of the 1970s/80s also improved the creditworthiness of Nigeria (due mainly to the high level of accrued foreign reserves), permitting it to borrow massively from international capital markets from the late 1970s **(see Table 1**: Foreign Reserves & Debt Profile – 960 – 2000). Some of the borrowings were for project financing while others were general balance of payments support loans. This scenario actually led to the general view in government that there was bottomless treasury and, therefore, the need to develop the non-oil sectors was not a priority. This scenario has been variously described as the 'Dutch disease', 'resource curse, or 'the Yamani syndrome' (Soremekun.2013). The decline of the oil boom in the early 1980s, however, laid bare the unsustainable nature of the growth trajectory induced by the new oil economy and made evident the need for a rethinking and redesigning of Nigeria's development typology. Consequently, policies were then pursued that relied on various administrative mechanisms to arrest the decline in the economy and curtail balance of payments disequilibrium but these proved very unsuccessful. In 1986, the Structural Adjustment Programme (SAP), aimed at restructuring the economy, was recommended by the International Monetary Fund (IMF) and supported by the World Bank, was launched. The overriding goal of the programme was to diversify the economic base of the country, by reducing and totally de-emphasizing reliance on oil production through the development of the non-oil sector. After almost three decades of pursuing this programme, oil dominance of the economy has continued to grow in importance while the other promising real sectors of the economy that can make significant contributions to national output remain neglected and undeveloped. Our objective in this paper is to examine the challenges and indicate lessons to be learnt by other developing countries, from the development of the non-oil sector in Nigeria.

2.0 Current Structure of Production

The structure of economic activities in Nigeria currently is such that crude account for about 40% of GDP, over 95% of foreign exchange earnings, over 70% of Federal government revenue (Ezirim, et al, 2010). The contribution of agriculture had declined proportionately from the high levels of the 1960s although it has grown in absolute terms. Manufacturing, on the other hand, had stagnated and declined proportionately, reflecting the failure of the industrialization policies pursued over the years. The Central Bank of Nigeria 2011 report indicated a decline and stagnation of manufacturing sector: 7.9% (2009), 7.6 % (2010) and 7.6% (2011). In agricultural production, cash crops had declined reversing the past trend when Nigeria's export trade was dominated largely by non-oil products like rubber, palm produce, groundnuts and cotton have disappeared from the export list (Ogunkola, et al,2008); (see Table 2). This reflects many years of inappropriate policies, including overvalued exchange rates, inefficient agricultural infrastructure investments, misdirected credit policies, bad producer pricing policies and inadequate producer support policies. The misfortunes of the manufacturing sector arose largely from its high import-dependence for technology, machinery and spare parts as well as raw materials. Consequently, in the period of foreign exchange bottlenecks, the sector buckled. This also explains why the manufacturing sector could not survive the restructuring policies of SAP which involved trade liberalization, exchange rate depreciation, abolition of directed and subsidized credit, and removal of subsidies on targeted services provided by the government. Distribution and trade have grown but mainly concentrated on imported goods as local processing and manufacturing have not been expanding. Oil production has grown over the years, using foreign technology and finance, with the revenues accruing to the government through the derivation from rent and royalties, petroleum profits tax, and government's share of crude oil sales from joint venture production-sharing agreements with international oil companies. The linkages of the oil industry with the other sectors of the economy have been very minimal, as the bulk of domestic demands for refined petroleum products were still met through importation, due to limited refining capacity. Indeed, for much of the first decade of the 21st century, domestic consumption of petroleum products was solely and wholly met from imported refined products in spite of the fact that Nigeria is the fifth largest OPEC country.

3.0 History of Economic Diversification in Nigeria

Diversifying the economic base of Nigeria has been a major preoccupation of policy makers since independence. In this regard, the First National Development Plan (1NDP) of 1962—68 stated the policy goal as: "To achieve a modernized economy consistent with the democratic, political and social aspirations of the people". In subsequent development plans particularly, the Third and the Fourth National Development Plans (3NDP and 4NDP) as well as vision 20:2020, the imperatives of a modernized economy that is diversified and competitive were re-emphasized with strategic focus on securing increase in the supply of skilled manpower(3NDP and 4NDP); and development of technology and increased productivity (4NDP)

Sectorial objectives to achieve these broad national goals, intended to diversify the economy, were articulated and amply dispersed in the national plans in three key sectors:

Industrial Sector, Agriculture and Oil and Gas:

However, that Nigeria is still grappling with the issue of the development of the non-oil sector is a clear testimony to the failure of development planning in Nigeria. According to Bright (2010) a worrisome aspect of non-oil sector is the preponderance of raw agricultural product in the Nigeria's non-oil exports indicating lack of industrial capacity to process these outputs to higher economic value. Nevertheless, the national goals and the sectorial activities suggest promising opportunities for developing the non-oil sector in Nigeria. On the other hand, the contributory factors to the failure of development planning in Nigeria would indicate the challenges of the development of the non-oil sector. As is evident from the experience of Japan and Germany, the absence of envisioning and strategic planning orientation and commitment in Nigeria's development planning is a major reason for failure to achieve economic diversification. After thorough analyses of industrial and technological trends in the world economy, Japan and Germany after World War II, each decided to direct domestic economic development away from traditional industries (that needed to be protected) towards high technology consumer industries that were seen as the industries of the future (Drucker, 1980). Scooping through the contents of development plans of Nigeria one would see robust analyses of the internal domestic economy but shallow depiction of emerging global economic and technological trends. Furthermore, the plans did not utilize scenario planning and any evidence of the use of this only projected the continuation of the most recent economic trends (the most optimistic scenarios). But for an open economy like Nigeria, a more careful assessment of global economic trends was imperative because the bulk of the resources and forces crucial for plan success were external to the economy.

4.0 Factors Militating Against the Development of the Non- Oil Sector

The development of the non-oil sector has been a major national goal, expressed in the national development plans. Failure to achieve this goal is traceable to the factors that impeded plan implementation in Nigeria. Among these factors are the following:

- Poor performance of the economy. The successful execution of the plans depended on the realization of the planned flows of resources from good economic performance. The overly optimistic projections of resources flows, inflows and internally generated, that characterized the plans proved unrealistic due to a variety of factors. As for inflows, there was a general shortfall in development aid due to stringent requirements for projects support by donors and inadequate capacity in projects preparation. Despite episodes of commodity booms, export receipts still fell below expectation because OPEC quota constraints and inability of the country to develop other export products. Domestic tax efforts could also not be improved due to institutional bottlenecks and limited real growth in the economy. The behaviour of policy makers in the face of shortage of development resources aggravated the effects of these resource shortfalls. Through plan distortion., policy makers failed to ensure that actual expenditures on priority sectors remained as large as the proportion of planned spending on those sectors. Plan implementation in Nigeria also portrayed another undesirable feature, namely, plan indiscipline, which is the practice of executing projects not included in the plans (Ihimodu,1994). These were the hallmark of the military regimes that ruled the country for 28 years between 1966 and 1999.

- Inadequate executive capacity. According to Dean (1971), inadequate executive capacity is manifested in poor co-ordination among agencies of government; the failure of an agency to make decisions or take actions at the times required.; and in the failure to produce new information or to use information already available. The Nigerian bureaucracy did not possess the right quantity of personnel with the specific types of training and experience needed for these tasks. Also, the system of incentives that characterized the bureaucracy could not facilitate effective performance.
- The dominance of government in economic activities. Two major developments, the political economy of oil and the indigenization programme of the 1970s, fostered this. The dominance of oil in the export list for Nigeria meant that Nigeria moved away from the export of a broad range of agricultural products, where about 75% of Nigerians participated in production, to a commodity using foreign capital and technology for production with minimal Nigerian labour participation. Further more, the manner of expenditure of oil revenues created additional problems that did not promote the development of a viable private sector. Oil expenditures mainly funded non-traded goods, urban infrastructures and government consumption expenditures, and this led to contraction in traded-goods sector. As the private sector contracted, government became the major source of wealth accumulation, turning politics in Nigeria into a "fight to capture and privatize an enormous power resource" (Ake, 1993). The indigenization programme, which sought to transfer the ownership of foreign-controlled businesses to Nigerians, resulted in foreigners selling between 60% and 100% of their ownership stakes in companies to Nigerians, depending on the technical nature of the enterprises. The predictable outcome of this policy was the drying up of foreign investment inflows and the resort of federal and state governments to external

borrowing to fill the resource gaps. This further extended the public sector as federal and state governments ventured into areas where they were not competent to operate. This was an inefficient expansion of the non-oil sector not only because of the incompetence of the public sector as a manager of commercial enterprises but also because this led to the crowding out of investments that that would have been undertaken by the private sector at lower costs. Excessive public sector investment in Nigeria, in turn bred massive corruption, leading to over-inflation of project costs. For instance, the Nigerian public sector invested US$115 billion between 1973 and 1990, on projects that the private sector would have completed with US$35 billion (Summers, 1992).

- The resort to external commercial borrowing to finance balance of payments deficits and development projects created a heavy burden of external debt servicing (1982-2006) that did not permit adequate investment resources to be devoted to the development of the non-oil sector.
- Macroeconomic Instability. Successive post-independence civilian and military governments in Nigeria abandoned fiscal conservatism and embraced fiscal indiscipline. In their quest to expand development resources they created unsustainable fiscal deficits that were financed by money creation. This created a regime of high inflation, high interest rates and chronic balance of payments deficits. The policies to tackle these macroeconomic distortions created additional distortions. Administered interest rates, given high inflation, resulted in negative interest rates, which discouraged domestic savings, favoured over-investment in low-priority projects and encouraged capital flight. Price control regulations on producers and export bans reduced profits and the incentives to produce, leading to shortages of essential commodities. Also, the use of all kinds of administrative controls to restrict imports, such as import licensing, stringent exchange controls, imposition of prohibitive tariffs or import bans only served to increase effective protection of inefficient import-substituting industries.
- Political Instability, which was created by the abrupt

leadership changes, through military coups between 1966 and 1998, heightened uncertainty and country risk and discouraged domestic and foreign investments.

- Delayed democratisation. As democracy builds a large constituency to demand the implementation of good policies, the delay in returning the country to democratic governance after the military coup of 1966 contributed to insufficient diversification of the Nigerian economy. Delayed democratization stalled quick decentralization of decision-making, allowed the emasculation o f organisd labour (through the imposition of a regime of low wages and the muzzling of trade unions) and the continuation of human rights abuses. Human rights abuses made Nigeria ineligible for most aid from the Development Assistance Committee (DAC) member countries and dampened private investors' confidence and enthusiasm in the economy.

5. Government Policies to Restructure the Economy

According to Camdessus (1990), a successful economic restructuring programme would seek to achieve macroeconomic stability, structural reforms that would establish an appropriately decentralized system of decision making and responsibility, and an effective pattern of incentives to work, to save, and to invest. In addition, set up a regulatory framework to supervise and maintain the market infrastructure and to decide delicate and complex distributional issues; and, social security system to cushion the impact of adverse economic situation on the most vulnerable groups in the society.

The most radical attempt to restructure the Nigerian economy was the launching of the Structural Adjustment Programme (SAP) in 1986. The objectives of SAP, according to the Central Bank of Nigeria (1986) are to: restructure and diversify the productive base of the economy, achieve fiscal and balance of payments viability; reduce the dominance of unproductive investments in the public sector, and lay the basis for sustainable non-inflationary growth. However, the success of the structural adjustment programme in addressing the extant fundamental problems of the economy is quite minimal, besides, it brought other problems (Obadan,2003)

The policies pursued over the years in Nigeria to achieve economic restructuring have resulted in the following outcomes:

- Massive devaluation of the naira
- Minimal debt reliefs, in the form of debt rescheduling agreements with creditors

between 1986 and 2005 and thereafter in 2006/2007 a major debt relief after a debt buy-back.

- The establishment of the Nigerian Deposit Insurance Corporation (NDIC) in 1988 to handle the increased risks of bank failure following the deregulation of the banking system in 1987.
- The pursuit of export promotion programmes through such schemes as the Nigerian Economic Recovery Fund (NERFUND) to disburse export stimulation loans from the World Bank and the African Development Bank (AfDB) to SMEs, the establishment of the Nigerian Export-import Bank (EXIM) in 1990 and Export Processing Zones (EPZs) in the 1990s.
- Providing cheap and long-term financing for industrial projects through the establishment of Development Finance Institutions (DFIs), such as the Nigerian Industrial Development Bank (NIDB) in 1964, the Small Scale Industrial Credit Scheme (SSICS) in 1971, the Nigerian Bank for Commerce and Industry (NBCI) and the Nigerian Agricultural and Cooperative Bank (NACB) in 1973, the Peoples Bank in 1989, the Community Banks in 1990 and the Family Economic Advancement Programme (FEAP) in 1997.
- The common objectives of these DFIs include: Mobilise and channel domestic savings to profitable investment opportunities. Provide medium and long-term loans as well as guarantee loans from foreign sources. Receive foreign and international loans for on-lending to local enterprises. Provision of short-term advances and other commercial banking activities to disadvantaged groups. Provision of training and financial advisory services.
- The shortcomings of these credit and advisory services to the industrialists and entrepreneurs through the DFIs and other government-supported arrangements were: They were financed by annual subscriptions from the treasury. They were subject to the budget, accounting and audit controls applicable to other government departments. The permanent staff were civil servants and the methods of recruitment/conditions of service were similar to civil service. The DFIs were usually organized as divisions or major divisions

of one of the governmental departments. Obtained funding in form of loans at concessionary rates from government or from international capital market backed by government guarantees without accompanying responsibilities. Inadequate capitalization of the institutions. Financial repression policies with respect to commercial banks. Policy reversals.

- Use of directed credit, where government specified the proportion of commercial banks' credit that would go to certain preferred sectors.
- Promotion of small and medium-scale enterprises (SMEs). Informed by the colossal failure of big ISI enterprises and drawing from the transformative roles of SMEs in other countries, both industrialized and emerging, government undertook the promotion of SMEs in Nigeria. SMEs in Nigeria refer to enterprises with a minimum asset base of N300million (excluding land and working capital) and an employment size of between 10 and 300 workers. The major features of SMEs that recommend them for Nigeria include the following: They provide the environment for the development of indigenous entrepreneurial, technical and marketing skills. They serve as important source of raw materials and intermediate inputs for large-scale industries. They serve as a major vehicle for mobilization of savings and domestic capital formation. They use highly labour-intensive technologies. They act as catalysts for market competition because of the ease of entry and exit in the sub sector.
- Despite these unassailable arguments for promoting SMEs in Nigeria their record of performance has been dismal, for the following reasons: Undercapitalization. High import dependency and vulnerability to the vagaries of the international market. High mortality, arising from mismanagement, which is a function of pronounced dearth of technical, entrepreneurial and marketing skills. Lack of enabling environment for business success, arising from inconsistent government policies, inadequate infrastructure supply, and inadequate supply of business information. Restricted access to institutional credit and poor creditor protection rights.

- The transfer of formerly publicly owned enterprises to the private sector, with mixed success stories. While some have survived, others have gone under.
- The continued domination by the government of very critical enterprises and sectors, such as power, oil and gas, education, healthcare, railways and other infrastructure provision.

6.0 Promising Opportunities in the Non-Oil Sector

Drawing from the objectives of the failed Nigerian development plans, the current infrastructure supply deficiency in Nigeria and developments in the global economy, the following sectors appear most promising for developing a dominant non-oil economy:

- Downstream oil and gas. Petroleum refining easily stands out as the most promising segment of the oil and gas sector for private sector investments. There are presently four government-owned petroleum refineries, which are unable to supply the domestic refined petroleum requirements. The inappropriateness of government management of these refineries is evident in their frequent breakdowns and the incessant industrial unrests by workers in the oil sector, resulting in bottlenecks in the supply of petroleum products across the country. Domestic refining of domestically consumed petroleum products is one way of increasing the national content in the oil and gas sector, ensuring smooth internal flows of petroleum products and saving foreign exchange on refined petroleum products importation. Nigeria could also earn foreign exchange from the export of refined petroleum products. As a matter of fact, one of the existing refineries, that was commissioned in 1989, was conceived as an export refinery but it failed to produce for export. There is also the production of gas for industrial and household uses. There is as yet very minimal national investment in this area in the laying of the pipelines. Limited domestic refining capacity means that other products that are bye-products of petroleum refining and that can serve as industrial inputs are under produced.
- Agriculture and agro-allied manufacturing. Nigeria needs to return to its leading position in the export of cocoa, palm produce, ground nuts and rubber. The output of cocoa, for instance, fell from about 365,000 metric

tones in the 1950s to less than 240,000 metric tones in 2007. Domestic production of palm produce (palm oil and palm kernels) and ground nuts do not meet domestic demand for them. In fact, government was forced to lift the prohibition on imports of palm oil recently. Two major traded staples, rice and maize, also experience insufficient domestic production. Other major staples that are not normal items of international trade, such as beans, yam and cassava, are also not produced in adequate quantities to meet domestic requirements. Many factors explain the low productivity of Nigerian agriculture, including the dominance of production by subsistent peasant producers using traditional technology and low-yielding varieties of seedlings, dependent on the seasons for production, and having uneconomic farm sizes. There are few large-scale production units in Nigerian agriculture and since these provide adequate scope for reaping scale economies in production they point the way for future development of agriculture in Nigeria. The Kwara State government gave a big boost to commercial agriculture when it invited some of the displaced commercial farmers in Zimbabwe to establish commercial farms in that state. Agro-allied manufacturing to process the products of the commercial farms represents another advance in this direction.

- Manufacturing. The manufacturing sector in Nigeria has failed to grow beyond the "infant industry" stage, mainly because of lack of innovation in products and processes. None of the IS industries has been able to meet total domestic demand for their products. Despite the typically small size of plants at inception, the existence of high excess capacity due to high operating costs (high costs of raw materials, spare parts and machinery) threatens the viability of the enterprises. Many firms have closed down in the textile, tyre making, battery manufacture, shoe-making sub-sectors, amongst others. Efforts in the intermediate/capital goods manufacturing sub sector had been a colossal failure. There is no doubt that inadequate technical and managerial skills and the absence of indigenous technological base are additional factors responsible for the comatose state of Nigerian manufacturing. In the mean time, a manufacturing sector based on the processing of agricultural and solid mineral resources will be in a better position to overcome the inadequacies of the Nigerian manufacturing sector.

- Banking and financial services. Banking and other financial services (mainly insurance) came to Nigeria through foreign investment but along the line, indigenous investors joined the sector and have taken over. Financial repression policies pursued by the government over the years did much damage to the growth of the banking /financial services sector but things changed for the better with the banking /financial sector consolidation of 2004-2007. The banking sector consolidation required banks to have a minimum capital base of N25 billion by December 2005, up from N2billion in 2004 while the minimum capital for insurance companies became N2 billion for general, N3 billion for life, N5billion for composite and N10billion for reinsurance. Since then, Nigerian banks and insurance companies have grown and some have become strong regional, continental and global players and the financial sector has become well positioned to undertake big-ticket transactions. While global expansion is desirable as a way of reversing trade deficits in the current accounts of Nigeria's balance of payments, many indices still point to the fact that Nigeria is still under banked. One of these is the high level of interest rates in the country, which mirrors the inefficiency in financial intermediation. This has been cited as one major reason why the banking sector has not facilitated the expansion/development of the non-oil sector as it should. High interest rates mean that only the most promising of projects could be funded with bank loans, which being short-term in nature may not match the gestation period of most industrial projects. There were recent instances of high profile industrial enterprises that were nearly crippled by the burden of high interest cost on borrowed funds for expansion. High interest rates also contribute to high cost of domestic products, making them uncompetitive both in the domestic and foreign markets.

- Telecommunications. Until 2001, the telecommunications sector in

Nigeria was under a government monopoly, with very limited access, high cost and unreliable services. The deregulation of the sector started in 2001 with the auctioning of the Generalised System of Mobile Telecommunications (GSM) licences to three private sector enterprises, which were shielded from new competition until after six years. Since the expiration of this exclusivity period, new entrants have been licensed and telephone density has grown in a way unimaginable prior to 2001. The greatly improved access to telecommunications services, reduced cost due to competition, and greater reliability of services has enhanced the volume, variety and quality of services/production where telecommunications services comprise production inputs. It has also encouraged innovations in products in the services sector of banking, insurance, healthcare, education and public administration. It is instructive to note that the former government monopoly in the sector has been unable to compete and has died, defying even a privatization.

Notwithstanding the giant strides in the sector, considerable investment gaps remain in the provision of data transmission and other services to improve internet access by Nigerians, which in the information age would spur further economic growth.

- Transportation services (road/railways, shipping and aviation). It is common knowledge that bulk goods transportation over land is considerably less costly using the railways. But in Nigeria, the inability to modernize the railways, maladministration, due to public ownership, and inadequate funding stalled the efficient operation of the railway. The West-North and the East North lines effectively stopped running in the mid 1980s. Since then, there has been enormous pressure on the roads, for both bulk and passenger transport over long distances. The use of high-energy consumption, lower freight and passenger capacity vehicles on road transport has greatly increased transportation costs, contributing to the un-competitiveness of Nigerian products. The high cost of domestic transportation on roads is also a result of the limited domestic technology inputs in the sector, save the maintenance provided by auto technicians. The truck and passenger vehicle assembly plants set up in the late 1970s/early 1980s have either closed down or are continuing in unproductive operations. The implication of this is that the trucks/passenger vehicles used for road transport in Nigeria are virtually all imported. The aviation business in Nigeria is also yearning for more investment. The defunct Nigerian Airways had monopoly of domestic routes in the 1970s/early 1980s and competed with foreign airlines for foreign passenger traffic in and out of Nigeria. From the second half of the 1980s, the Nigerian Airways began to die and private domestic operators gradually took over its operations. However, due to the high capital intensity of the business and its high technical skills intensity, the poorly capitalized private operators with limited technical know-how, could not make much headway in the business. Many of the early entrants in the sector closed shop soon after set up while new operators have emerged. Despite increasing the minimum capital base for airline operators, existing firms have not attained the scale required for efficient operations. Nigeria's share of incoming/outgoing cargo/passenger traffic is still very minimal and the domestic market is still not adequately served because passenger volumes is still very low in relation to potential traffic due to high cost of air travels. As the aviation sector's contribution to African GDP is about US$10billion, we could expect aviation potential contribution to Nigeria's GDP to be at least US$3billion given that passenger volumes in Nigeria come only behind those of South Africa and Egypt, Indigenous shipping business is till in its infancy in Nigeria and we need investments in this sector to begin to take our own share of global shipping income.

- Human capital development. The bane of development in Nigeria has been poor human capital development. All the development plans had complained of inadequate executive capacity. In order to correct this, the different tiers of government have embarked on massive expansion of the educational sector. But due to poor attention to basic inputs in the education process, like quality teachers, teaching materials, incentive considerations, cost sharing, ownership of institutions, and quality assurance, through appropriate regulation and inspection, Nigeria has increased the quantity but the not the quality of the outputs of the educational system. Even at this, there is still high demand for enrolment at the various tiers of the educational system. Judging from the widespread poor funding of institutions, the public sector appears to have reached its optimum participation level in terms of the ownership of educational institutions. This suggests that future expansion must be private sector driven. In this regard, however, the most promising avenues for expansion appear to be in secondary and tertiary education, where public schools still dominate. Given the existing levels of enrolment in these institutions, there should be at least as many privately owned private secondary and tertiary institutions in Nigeria, as there are public institutions of that nature. Presently, 34 of the 94 universities in Nigeria are privately owned. A halt in expansion of schools at the secondary/tertiary level allows the government to focus on upgrading the quality of its existing schools while further expansion by the private sector in this sub sector increases competition among private schools while expanding access to such schools. Available data suggests that not up to 30% of the over one million candidates that seek university admissions every year succeed. Apart from meeting domestic manpower requirements, quality education system in Nigeria would also provide labour with appropriate skills for globalised market. As production of quality human capital is still a labour-intensive enterprise, Nigeria has comparative advantage in this and success here would increase our foreign exchange earnings through the remittance of labour incomes. As a result of producing the wrong type o f skills, Nigerian organizations and agencies spend at least N2.5 billion every year to buy and maintain computer software from abroad. The educational system needs to restructure to provide the skilled manpower to develop ICT infrastructure in Nigeria.

- Healthcare services. Good healthcare services are essential to support a productive labour force. There is still high incidence of preventable diseases while the mortality rate arising from simple diseases is still very high, all pointing to the limited coverage of Nigeria's healthcare system, the ineffectiveness of existing healthcare and the inefficiency of the system. Quite apart from the issue of facilities, personnel and organization, a very sore point is the high dependence of the sector on imported drugs, mirroring the dismal performance of Nigeria's pharmaceutical industry. One adverse effect of this is the high incidence of fake and adulterated drugs, which are imported from different parts of the world. Sadly, one major fallout of the poor business environment in the country has been the divesting from Nigeria of global pharmaceutical giants like Pfizer. The inadequacy of the healthcare system is further shown in the high incidence of overseas medical treatment for less complex diseases. These show that there is still considerable scope for private investment in the healthcare sector in Nigeria in order to support a vibrant labour force, thereby increasing productivity, reducing foreign exchange incurred in overseas medical treatment, and also earning foreign exchange from the export of medical services.

- Tourism. This is another sector where the potentials of the economy are far from being exploited, for a variety of reasons including lack of supportive infrastructure, insecurity of lives and property, limited tourism sites and the poor image of the country internationally. Apart from the basic infrastructure such as adequate supply of power and water, good telecommunications, and good transportation system, tourism development also requires adequate supply of standard hotels, a highly hospitable populace, well developed financial system, a good healthcare system, a diversity of formalized cultural events and the existence of functional duty-free shops. Empirical evidences clearly indicate that on many of these, the country still rank poorly.

7.0 Policy Recommendation

The development of the non-oil sector or the diversification of the economy has long been pursued as a development goal. Unfortunately, policies introduced to achieve this goal have not succeeded due to several lapses. Given the abundance of many promising sectors for viable private and public-sector investments, we recommend the following measures to catalyse the development of the non-oil sector:

- The synchronization of fiscal and monetary policies of the government in order to ensure macroeconomic stability and prevent recourse to extreme economic policies that distort incentives for profitable economic activities.
- Massive investments at all levels of government to upgrade regulatory capacity in all major markets/sectors of the economy to assure certainty of rules, full compliance by businesses with regulations and fair competition.
- Devising a commercial model of operation for publicly sponsored business intervention agencies as the public operating model hitherto used has woefully failed.
- Widespread use of the public-private partnerships (PPPs) scheme in providing basic infrastructure like power supply, water, transportation facilities and security.
- The re-organisation of Nigerian agriculture to encourage the emergence of large-scale production units that would leverage on modern technology and high-yielding seedlings to increase productivity.
- Redirection of industrialization strategy away from import substitution to export-promotion, based on the processing of agricultural and solid mineral products.
- Guided deregulation of strategic sectors such as power, oil and gas, aviation, rail services, etc.
- The revitalization and modernization of railway services, which stopped operations in the mid-80s/early 1990s.
- Improved efficiency in financial intermediation to reduce the high level of interest rates in the economy and increase the level of domestic savings.
- Improvement in the quality of the educational system to provide the basic skills and knowledge to power the domestic economy and enable it profit from economic globalisation. In this regard, the public sector in Nigeria should transit from ownership to effective regulation of educational institutions.
- Strengthening of creditor rights in our legal framework so that creditors could easily foreclose collaterals pledged for loans in instances of default.

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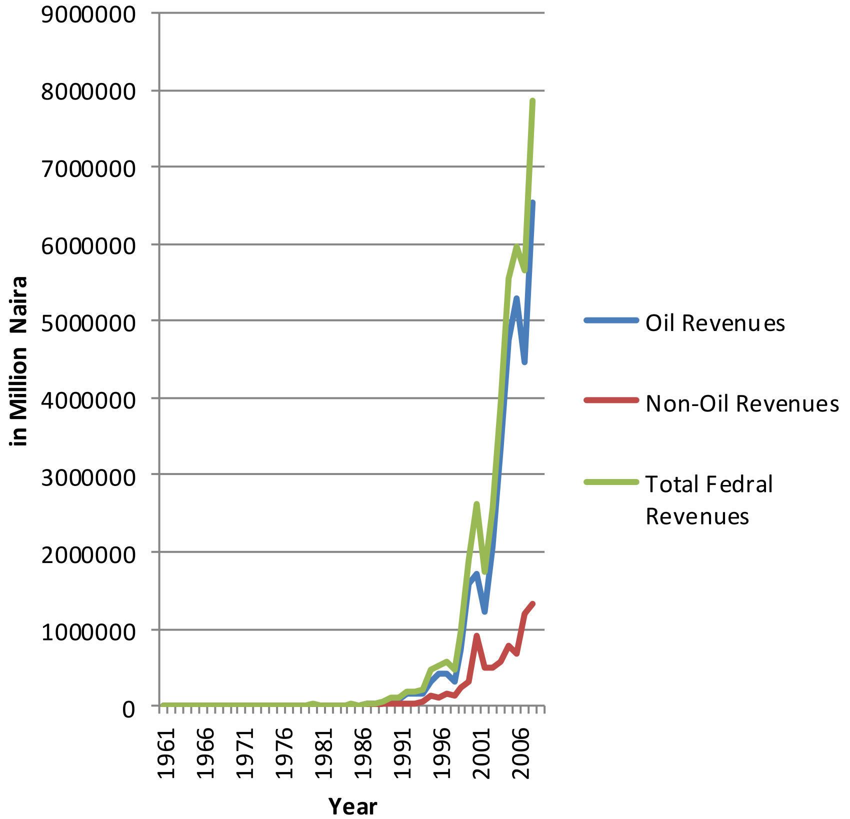
Figure 1: Oil & Non-Oil Contributions To Government Revenues (1961 -2009)



Year	Oil	Non-Oil
1960 – 64*	34.16	332.2
1965 – 69*	160.16	369.58
1970 – 74*	1979.6	357.68
1975 – 79*	6705.18	536.52
1980	13,632.3	554.4
1981	10,680.5	342.8
1982	8,003.2	203.2
1983	7,201.2	301.3

1984	8,840.6	247.4
1985	11,223.7	497.1
1986	8,368.5	552.1
1987	28,208.6	2,152.0
1988	28,453.4	2,757.4
1989	55,016.8	2,954.4
1990	106,626.5	3,259.6
1991	116,858.1	4,677.3
1992	201,383.9	4,227.8
1993	213,778.8	4,991.3
1994	200,710.2	5,349.0
1995	927,565.3	23,096.1
1996	1,286,215.9	23,327.5
1997	1,212,499.4	29,153.3
1998	717,786.5	34,070.2
1999	1,169,476.9	19,492.9
2000	1,920,900.4	24,822.9
2001	1,839,945.3	28,008.6
2002	1,649,445.8	94,731.8
2003	2,993,110.0	94,776.4
2004	4,489,472.2	113,309.4
2005	7,140,578.9	105,955.9
2006	7,181,085.6	133,595.0
2007	8,110,500.4	199,257.9
2008	9,659,772.6	247,839.0
2009	8,543,261.2	289,152.6
2010	10,639,417.4	396,377.2
2011	13,746,207.09	485,243.54

Table 2: Nominal Value of Nigerian Oil & Non-oil Exports during the Period 1960 - 2011 (in million Naira)

Sources: (1) Central Bank of Nigeria (2011) Annual Report
(2) Central Bank of Nigeria (2008), Statistical Bulletin
(3)National Bureau of Statistics (2009)
* = Average for 5-year period

Year	External Reserves	Foreign Debt Stock
1960 -64*	208.09	79.3
1965 - 69*	149.79	128.82
1970 – 74*	902.36	243.68
1975 – 79*	2808.64	790.64

1980	5,462	1,866.8
1981	2,442	2,331.2
1982	1,043	8,819.4
1983	224	10,577.7
1984	710	14,808.7
1985	1,658	17,300.6
1986	2,837	41,452.4
1987	7,505	100,789.1
1988	5,229	133,956.3
1989	3,048	240,393.7
1990	4,542	298,614.4
1991	4,149	328,453.8
1992	1,555	544,264.1
1993	1,430	633,144.4
1994	9,009	648,813.0
1995	1,611	716,865.6
1996	3,404	617,320.0
1997	7,222	595,931.9
1998	7,108	633,017.0
1999	5,425	2,577,374.4
2000	9,386	3,097,383.9
2001	10,267	3,176,291.0
2002	7,681	3,932,884.8
2003	7,468	4,478,329.3
2004	16,955	4,890,269.6
2005	28,279	2,695,072.2
2006	42,298	451,461.7
2007	51,333	431,079.8
2008	53,000	493,180.2
2009	42,383	590,441.1
2010	32,339	689,845.3
2011	32,600	896,800.0

Table 1: External Reserves, Foreign Debt Stock & Debt Relief of Federal Government of Nigeria as at Fiscal Year End (in million Naira)

Sources: Computed from:(1) Central Bank of Nigeria (2011), Annual Report
(2) Central Bank of Nigeria (2008), Statistical Bulletin
(3)National Bureau of Statistics (2009)

* = Average for 5-year period.