

Diversification of the Nigerian Economy for Sustainable Development: Issues and Challenges



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ABSTRACT

The paper examines the diversification of Nigerian Economy for sustainable development: issues and challenges. The main objective of this paper is to explain how the Nigerian economy engulfed in the problem of Dutch disease and how it can be diversified and sustained through plethora of several resources endowed rather than over depending on oil and gas. This paper uses time series data obtained from CBN Statistical Bulletin, to provide a thorough assessment of the sectoral contribution to GDP based on economic sector of the Nigerian economy from 1960-2010. The paper explained that Nigerian economy is faced with the symptom of the Dutch disease syndrome looking at its over reliance on oil revenue and real sectors have not been accorded much concern and their contributions are low towards GDP. The paper also pointed out some of the challenges facing the diversification of the Nigerian economy, and give measures that will help in diversifying the economy which include: exploring other mineral resources, transforming and boosting the Agricultural sector, and strengthening the manufacturing sector among others.

Keywords: Diversification, Dutch disease, Sustainable economic development.

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1. INTRODUCTION

Despite the fact that Nigerian economy has been witnessing a relatively impressive growth rate over the years and which is averagely put at 6 %, the growth is non-inclusive and fails to translate into employment generation. The problem is not far-fetched as it is largely due to the dominance of oil and gas sector which account for less than 5 % of the total employment. The reason for this low intake of labor is capital – intensive nature of the sector requiring more capital as opposed to labour – intensive nature of other sectors such as agriculture and manufacturing.

The nation throughout last year witnessed dwindling output due to volatility of the oil and gas sector as well as other factors. For instance “in the first quarter production stood at 2.2 mbpd (million barrels per day) valued at ₦2, 612,066.21 million. In the second quarter it decreased to 2.21 mpdp, valued at ₦2, 633,328.61. The third quarter had a swift decline as 2.15 mbpd valued at ₦2, 328,257.79 million was produced. A sharp rise was witnessed in the fourth quarter i.e. 2.08 m caused mainly by some repairs to pipelines (Okeke, 2015).

The aim of this paper is to explain how the Nigerian economy engulfed in the problem of Dutch disease can be diversified and sustained through plethora of several resources endowed rather than over depending on oil and gas. The rest of the paper is structured thus; section two clarifies concept of diversification, sustainable development and Dutch disease; section three presents highlights on Nigerian economy and challenges of diversifying the economy; section four deals with ways of diversifying Nigerian economy and finally section five concludes the paper.

2. CONCEPTUAL CLARIFICATION OF TERMS

2.1. Diversification

The concept of diversification refers to the process of developing alternative sources of revenue of an economy. The term refers to channeling the resources of a nation to the best alternative uses (Ayeni, 1987). According to Chugozie, Anthony and Chukwudi (2015) economic diversification refers to broadening the range of economic activities both in the production and distribution of goods and services. It is a process that helps and immunises a country from the volatility of a single commodity. Diversification in other words means to save from the booming sector and reinvest in the lagging sector. Therefore, the term can be operationalised to connote enhancing the efficiency of existing resources as well as discovering or exploring new resources that are untapped (Aliyu, 2012).

2.2. Sustainable Economic Development

According to Report of World Commission on Environment and Development, the concept of sustainable economic development entails effective implementation of long term economic policies and programmes that will consistently benefit all generations of people in an economy. Similarly, also the concept refers to a set of development programmes that meet the target of human needs satisfaction without violating long term natural resources capacities and standard of environmental quality and social equity.

2.3. Dutch Disease

The term was originally coined in 1977 during the decline and misfortunes in the manufacturing sector of Netherlands caused by discovery of natural gas deposits in the 1960s. It is nowadays used to refer to detrimental effects of the discovery of any valuable natural resource leading to neglect of the other sectors of an economy. The Dutch Disease affects an economy in two ways first by causing resource movement from some sectors of the economy to the other and second; by inducing a spending effect that boost the real exchange rate of the currency thus making importation cheap and exportation expensive hence kills the domestic industries (Harrison, 1993).

3. HIGHLIGHTS ON THE NIGERIAN ECONOMY AND CHALLENGES OF DIVERSIFYING THE ECONOMY

3.1. Brief on the Nigerian Economy

Nigeria popularly referred to as the giant of Africa is located in West Africa. It has a total landmass of 923,768 square kilometers. It is positioned between longitude 3⁰ and 15⁰ east; and latitude 4⁰ and 14⁰ north. Its neighbors are Benin Republic by the west, Cameroon by the east, Niger and Chad by the north and is bounded by Atlantic Ocean by the south.

The nation is bestowed with diverse landscape consisting a lowland, plains highlands and plateau. Two major rivers Niger and Benue flow in the country making a 'Y' shape, converging at Lokoja and draining into the Atlantic Ocean.

The nation lies completely within the tropics and has two main vegetation zones. There are two major seasons – the wet and dry season. Based on the 2006 census, the total population of Nigeria stood at 140 million with a growth rate of 3.2 % and average life expectancy of 54 years.

The nation got its independence from Britain in 1960. Prior to the discovery of oil, the main economic activity was agriculture and other occupations were secondary. The other occupations are distributed across crafts, arts and other manufacturing activities as dictated by local skills and resources. With the discovery of oil, the composition of GNP and GDP changed drastically implying shift from agriculture to mining and financial services sectors.

Table-1. Sectoral Contribution to GDP

S/No.	Economic Sector	1960 to 1970	1971 to 1980	1981 to 1990	1991 to 2000	2001 to 2010
1.	Agriculture	55.8	28.5	32.3	34.3	41.1
2.	Industry	11.3	29.1	41.0	38.6	26.7
3.	Manufacturing	6.6	7.3	6.1	4.9	4.0
4.	Petroleum and Gas	3.7	20.4	34.4	33.4	22.4
5.	Construction	4.8	8.3	2.3	1.8	1.8
6.	Wholesale and Retail	17.8	17.6	14.5	13.7	14.6
7.	Services	15.3	16.5	16.5	9.8	15.8
	Total	100	100	100	100	100

Source: CBN Bulletins various years.

From Table 1 it can be observed that from 1971 – 1976 during the regime of General Yakubu Gowon the nation acquired lot of resources to the extent that the problem of the country then was not money but how to spend it. Subsequently, the shocks in the oil prices led to decline in the economic growth leading to introduction of Structural Adjustment Programme in 1986 during the regime of General Ibrahim Badamasi Babangida.

The nation is endowed with abundant mineral human and natural resources. It has over 37.2 billion barrels of proven oil reserves and 187 trillion cubic feet of natural gas reserves. The country is the fifth largest oil exporting country within organization of Petroleum Exporting Countries (OPEC) and produces 2.46 million barrels per day. It is evidently clear that the country is mono-cultural largely relying oil export which is put at 95 % of total exports and which also contributed over 80 % of government revenue. Ironically, despite its crude

oil, the country imports petroleum products for its domestic consumption which amounts to subsidy payment of over US \$4 billion annually.

3.2. Challenges of Diversifying Nigerian Economy

There are many factors that pose challenges to the efforts of diversification of the Nigerian economy. The challenges are as follows:

- i. **Poor infrastructural facilities:** It is undoubtedly apparent that for economic diversification to take meaningful effect these should be infrastructural development which is a necessary condition. According to [World Bank \(2005\)](#) over two – thirds of Nigeria's population resides in rural areas where infrastructural services such as water, energy and telecom come at a relatively high cost compared to more urbanized location. These problems constitute serious bottle neck and barrier to economic diversification because they increase the cost of doing business.
- ii. **Over dependence on Federal Revenue Allocations, Low productivity and low tax base:** The macroeconomic orientation in Nigeria as observed by many scholars is such that the mainstay of the economy is federal allocation and people have less productivity coupled with poor attitude of tax collection. These combined problems do not warrant economic diversification. The psychology of an average Nigerian is hinged on sharing the national cake i.e. Oil wealth with little or no focus on how to explore other avenues to improve the economy.
- iii. **Corruption (poor governance and weak institutions):** The country is bedeviled with endemic corruption which has eaten deep into the moral fabrics of the society. Despite various efforts through policies, programmes and anti-graft institutions and bodies such as EFCC, ICPC, etc, there are still fresh cases. Corruption poses serious challenges to diversification because the resources that are supposed to be channeled to various – sectors of the economy are thwarted through illegal leakages. The poor corporate governance from the side of leaders and weak government institutions and parastatals also do not favour diversification. [Aliyu \(2015\)](#) lamented that though the Nigerian constitution declared corruption and abuse of office as crimes in sections 98, 116 and 406, regrettably the sanctions to check them are hardly enforced. Consequently, people gradually lost confidence in the police and judicial system since most cases of corruption are settled out of court or sometimes the buck stops at police station with plenty possibilities of maneuvers and kickbacks to nip cases in the bud. By implication one can see that the resources released for diversifying the economy may end up in the pockets of corrupt people.
- iv. **Illiteracy and poor educational system:** Diversification of the economy requires expertise, innovation and skills. Similarly, research and experiments are required in order to explore potentialities of various sectors of the economy. In Nigeria there are many illiterates who have no formal education at all. Similarly, the educational system in the country is geared towards bureaucracy rather than productivity. It is not surprising to see many graduates that are not usable at all due to poor training they obtained. Some students are simply after acquisition of certificates than skills and productivity.

v. **Absence of Effective Public Expenditure Management and Financial Discipline:**

Budgeting has over the years been considered simply as a routine and estimates on paper which in most cases are not strictly followed. Funds meant for developmental projects in various sectors of the economy are mismanaged and wasted sometimes in political campaigns or awards of dubious contracts.

4. WAYS OF DIVERSIFYING THE NIGERIAN ECONOMY

Rather than over reliance on petroleum, the economy can be diversified for sustainable development. The strategies for diversifying the economy include the following:

- i. **Exploring other solid minerals:** The country is rich in solid minerals over 34 which are confirmed and identified but unfortunately only 13 are mined, processed and marketed (FGN, 2014). Nigeria possesses large reserve of tin to the tune of 3 billion tones. Coal also is available in many identified coalfields in Enugu and Kogi State. Zinc/Leads are also available in some states of the country. In order to harness the potential of the mining sector and diversify the economy in other mineral deposits the government needs to provide various incentives such as private. Public partnership and respond to the new and global development in the sector. The sector can generate employment and grow wealth for more than five million people (FGN, 2014) and it contributes averagely 0.37 % to GDP.
- ii. **Transforming and Boosting of the Agricultural Sector:** This sector has played and continues to play vital role in the growth and development of the nation. Before the discovery of oil the nation relied heavily on agriculture for domestic consumption of agricultural products and exports to obtain foreign exchange. The geographical location of the nation and its weather and climatic condition make it possible for the nation to have various form of soil suitable for different kind of agricultural products. Therefore to diversify the economy and set it on the path towards sustainable development the sector has to be transformed. Agricultural loans as well as subsidies should be provided to farmers to boost their morale. There is need to commercialise agriculture and bring private sector to play key role so as to stimulate private sector- led growth for job and wealth creation. Mechanized farming should replace the use of crude implements and traditional methods that are still found in different parts of the country. Similarly, commodity marketing boards should be re-introduced to strengthen exportation of agricultural products such as cocoa, rubber, palm produce, cotton, groundnuts, etc.
- iii. **Strengthening the Manufacturing Sector:** Manufacturing sector is also one of the real sectors that generate economic growth. The sector comprises various industries spread across areas like food and beverages, cement and building materials, electricity, petro chemicals, bottling and brewing (FGN, 2014). In order to strengthen and diversify this sector governments at all levels should ensure that credits are provided to small, medium and large scale firms so that adequate goods and services would be produced and employment also generated thus stimulating growth in the gross domestic products (GDP).
- iv. **Anti-Corruption Campaign:** In order to ensure that resources are channeled to the course they are meant for; corruption should be effectively fought with sincerity and honesty. The current efforts by the current regime of introducing treasury single account (TSA) will check embezzlement and stealing of

public funds. Similarly EFCC, ICPC and related bodies should be encouraged and motivated to apprehend and sanction corrupt people irrespective of their ranks and positions. The effort of the current regime in apprehending looters and making them to refund looted funds will mobilise funds that can be used in growing the economy.

- v. **Recognising the Role of Third Sector:** Most developing nations are characterized by mixed economic system comprising both public and private ownership and use of resources. Nigeria is also experiencing this mixture of public and private arrangements. Recently there is growing concern from scholar that in addition to public and private sector there is another third sector which can promote diversification of the economy and ensure inclusive growth; and this sector comprises of unconventional arrangements such as cooperative, endowments (*waqf*) and other voluntary organizations (Molla, Murad and Alam, 2013). In the same vein Todaro and Smith (2009) also recognized the role of what they termed as “citizen sector” or civil society comprising voluntary organizations, Non-governmental Organizations (NGOs) which according to them engage in social innovation and development due to their potentialities in social problem solving.

Nigeria is blessed with many voluntary and self-help organizations cooperate societies, etc. most of them are too informal and unregistered. Therefore if government assists these sectors by extending finance to them they can be more productive and innovative and promote growth of the economy.

- vi. **Ensuring effective public expenditure management:** Over the years the three tiers of government in Nigeria have been exhausting their allocation in a given year through frivolous and unjustified spending irrespective of the situation of the oil price – high or low. This led to instability and distortions. Therefore, there is need to migrate to a system of budgeting that is more efficient, transparent and cautious. In this regard the current attempt of introducing Zero-Based Budgeting may be more favorable to diversification of the economy because it justifies all expenditures made and it starts from the scratch. Budget should also be more realistic as to the resource – base of the economy and also fluctuations of global market.

5. CONCLUSION

So far in this paper we have highlighted the Nigerian economy and explained that it is caught in the Dutch disease syndrome looking at it's over reliance on oil revenue. The paper reviewed some concepts such as diversification, sustainable development and Dutch disease. Issues and challenges of diversification in the Nigerian context are also discussed as well as ways of mitigating them. At this juncture, we can conclude that presently the country is facing symptoms of Dutch disease where real sectors have not been accorded much concern and their contributions are low towards GDP. We can conclude that though the Dutch disease appears to be rooted in Nigeria, it is still curable at least in the long run if appropriate policies are sincerely and honestly implemented and government demonstrates political will to overcome the syndrome.

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