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Structural Transformation and Inequality: Evidence from Nigeria*

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ABSTRACT *This article highlights that the persistent high levels of poverty and inequality are being mainly propelled by the structure of the Nigerian economy and the inability of annual public expenditure, despite its large size, to guarantee improved access to functional facilities and social services. It also illustrates how the emerging structural transformation, led by the services sector, needs to be consolidated and properly managed in order to promote sustainable development, including the eradication of poverty and the reduction of inequality.*

KEYWORDS *development; Gini coefficient; human development index; millennium development goals (MDGs)*

Introduction

Nigeria is undoubtedly richly endowed with human and non-human resources. Hence, it has the potential of being one of the most-developed economies in the world. Yet, in spite of series of development plans and macroeconomic reform programmes spanning about four decades, the country still ranks very low in terms of human development indicators. A new dimension that has arisen in recent years is the co-existence of high annual growth rates with high rates of unemployment, as well as widespread poverty and inequality among the citizenry. This has earned the country the stigma of the paradox of a rich nation, poor people (Ariyo, 2006).

However, some necessary, perhaps sufficient, conditions not only can foster structural transformation, but could also realize beneficial developmental effects. Furthermore, an objective determination of the nature and extent of relationship between structural transformation, poverty and inequality, in any particular country, remains an empirical issue. This is the rationale for this article, which attempts to provide relevant research evidence bearing on the issue, using Nigeria as the contextual focus. Towards this end, the second section describes the concept and characteristics of structural transformation, while the third section chronicles the various development initiatives over the past three decades or so in Nigeria. A trend analysis of some macroeconomic indicators is presented in the fourth section, followed by a presentation of evidence on the nature and extent of inequality in Nigeria in the fifth one. The last section offers the summary and concluding remarks.

Structural transformation: concept and characteristics

Structural transformation refers to change in the dominance of the traditional sector to a more active role of the modern sectors in the productive activities of the economy (Naiya, 2013). This entails a process whereby the economy shifts from a predominant reliance on traditional (agricultural) sector towards modern (industrial and services) sectors, especially in terms of output and employment. Two basic conditions are required for achieving successful, development-inducing structural transformation.

First condition is, the modernization of smallholder agriculture and its integration into the fast-growing agribusiness chains that can capture the rapidly increasing demand for urban food. Second, there is the need to renew the industrialization strategies to promote enterprise creation and growth in the agribusiness and manufacturing sectors, in order to raise the rate of labour absorption and productivity levels outside of agriculture (WCAO, 2012).

In summary, a truly structurally transformed economy displays the following characteristics (Timmer, 2012; Naiya, 2013):

- Declining share of agriculture in gross domestic product (GDP) and employment
- The rise of a modern industrial and service economy
- The rapid process of urbanization as people migrate from rural (agricultural work) to urban areas (manufacturing and exports)
- Demographic transition from high to low rates of births and deaths

These should ordinarily lead to higher economy-wide productivity levels, and progressively rising incomes in the rural agricultural sector towards the level of incomes in the modern sector (Badiane, 2012). However, evidence shows that such transformation with enhanced productivity may not ordinarily happen in African countries, Nigeria inclusive. Indeed, the nature and quality of structural transformation in the African environment may even aggravate the problem of poverty and inequality (Herrendorf *et al.*, 2013).

An overview of development initiatives in Nigeria

Successive governments in Nigeria have initiated various growth or development initiatives over three decades. They were initially anchored on demand management policies aimed at achieving macroeconomic stability, as a step towards promoting sustainable growth. Attention eventually shifted directly towards achieving the structural transformation of the Nigerian economy. We summarize in Table 1, the various initiatives (over the period 1982–2012), their policy thrusts, the timing of their introduction, as well as the duration of their implementation.

Some general observations articulated in the literature and informed by hands-on experience, are applicable to these initiatives. They centre on the following issues:

- Some of these initiatives were externally induced rather than driven by perceived national needs. Hence, their design and/or implementation lacked effective popular participation and citizens' ownership (Ariyo, 1996)
- The hastily implemented, short-term-oriented initiatives were expected to address long-term development issues. This mismatch not only eroded the realization of their desired impact, but also aggravated the problem of poverty and inequality in the polity (Ariyo and Jerome, 1999, 2005; Ariyo *et al.*, 2006; Odusola, 2006)

However, reliable evidence is required for an objective assessment of the differential and/or cumulative impact of these initiatives on structural transformation, poverty and inequality. Relevant evidence is provided in the following section.

Nigeria's performance indicators: a trend analysis

We have considered some indicators on Nigeria as appropriate for this purpose. These are trend data on selected economic performance indicators; the structure of the economy in terms of sectoral contribution to GDP; material poverty and inequality.

Table 1. *Growth/development initiatives in Nigeria (1980–2012)*

S/No	Name of initiative	Date introduced	Main policy thrust	Duration (Year)	Remarks
1.	Economic Stabilization Programme	1982	Demand management	1	
2.	Structural Adjustment Programme	1986	Deregulation of the economy (framework)	2	
3.	Privatization Programme	1988	Sale or commercialization of public enterprises	6	
4.	Guided deregulation/ privatization Programme	1993	Reviewed framework of deregulation/privatization programme	6	
5.	Vision 2010	1997	Public, private partnership, national planning	—	Jettisoned by new civilian administration in 1999
6.	Poverty Reduction Strategy Paper	2002	Output-driven fiscal operations, popular participation in planning/ budgeting (never concluded)	—	Not concluded
7.	New Partnership for Africa's Development (NEPAD)	2004	Sustainable development driven by regional integration and good governance	—	Not implemented as an independent programme
8.	Millennium Development Goals (MDGs)	2005	Sustained poverty and inequality reduction, through adequate empowerment	On-going	Emphasis on rehabilitation and reconstruction of project but less attempt to structural transformation of institutions, processes and service delivery, posing potential threats to sustainability of the spirit and gains of the agenda
9.	National Economic Empowerment and Development Strategy I (NEEDS I)	2004	Eradication of extreme poverty	3	
10.	NEEDS II	2006	Amendment to NEEDS I	—	Concluded but not implemented
11.	7-Point Agenda	2007	Wealth creation, infrastructure development, policy review	3	Partial implementation as budget priority items

Table 1: (*Continued*)

S/No	Name of initiative	Date introduced	Main policy thrust	Duration (Year)	Remarks
12.	Vision 2020	2010	Long-term planning	2	
13.	Transformation Agenda	2012	Rehabilitation of public utilities, and facilities, public-private partnership	On-going	

Source: Compiled by the Authors

Macroeconomic performance indicators

The selected indicators are expected to shed light on the overall quality of the nation's economic performance, over the years. In this regard, Table 2 shows that the nation's high real GDP growth rate of more than 6 percent since 2006 was largely driven by the increasing contribution by the non-oil sector. This was in spite of a declining rate of manufacturing capacity utilization. It is also noteworthy that this high growth has co-existed with increasing rates of unemployment (which was even allegedly grossly understated) and double-digit inflation. This suggests the non-inclusiveness of the growth process, and raises questions about the quality of the persistent high growth rates, which may not translate into noticeable and commensurate improvement in human welfare.

Structure of the economy and structural transformation in Nigeria

A tread profiling of sectoral contribution to GDP will shed light on the structure of the economy, and the existence (or otherwise) as well as character of its structural transformation. Figure 1 presents the relevant details for Nigeria between 1981 and 2013.

Figure 1 shows that the increasing role of agriculture as largest contributor to GDP up to the year 2000 started declining until the industrial sector, which hitherto was in second place, became the largest contributor as from year 2012. However, this inter-sectoral relationship was significantly altered by the rebased GDP figures released in 2013, in which services, industry and agriculture contributed 50.22, 25.81 and 23.96 percent, respectively, to GDP (National Bureau of Statistics, 2013).

The relative impact on inequalities by each sector therefore awaits further evidence, but recent developments suggest some issues of interest and/or concern. The portrayed figures indicate an emerging structural transformation, which may be led by either the services or industrial sector. The sharp decline in the contribution of industry from 46.08 percent to a rebased figure of 25.18 percent in 2013 therefore calls for concern,

Table 2. *Key macroeconomic indicators*

Period	Real GDP	Oil sector growth	Industry/utilization capacity	Inflation rates	Unemployment
1981–1983	−1.4	−3.2	62.2	17.2	N/A
1984–1986	3.6	6.1	40	10.3	N/A
1987–1989	4.8	4	42.2	38.8	N/A
1990–1992	4.6	6.7	40.1	21.7	7.4
1993–1995	1.2	—	32.3	62.3	7.4
1996–1998	3.4	3.6	31.8	45.6	7.5
1999–2001	4.7	2.9	37.8	30.6	7.6
2002–2004	14	10.9	55.7	13.9	7.7
2005–2007	6.1	−2.8	53.8	10.6	7.6
2008–2010	7	−0.2	54.9	12.3	7.6
2011–2013	6.9	−0.4	N/A	10.3	7.5

Source: Central Bank of Nigeria (2013)
Note: N/A means data not available

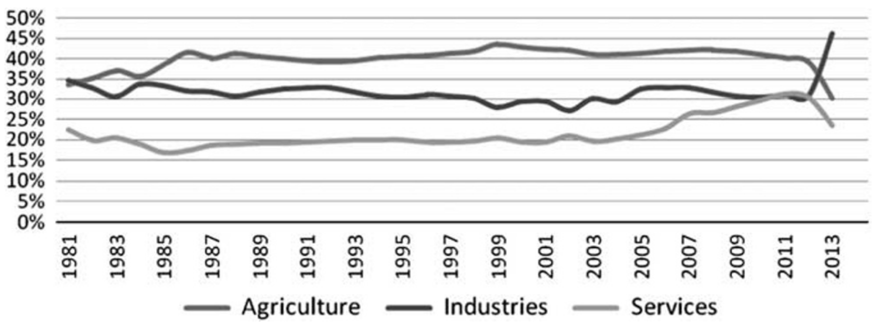

Figure 1: Components of Nigeria's real GDP (1981–2014)
Source: Drawn from data obtained from Central Bank of Nigeria (2013)

since, traditionally, industry plays a leading role in an emerging structurally transformed economy.

Inequality in Nigeria

Inequality essentially refers to natural or human-induced phenomena that place one person at a disadvantage relative to another. The latter arises mainly through policies and/or processes that precipitate unfair access, patronage or sharing of benefits. It is a major cause of various forms of deprivation that incapacitate affected citizens from engaging productively in a nation's economic, political and social processes. Table 3 shows the trend in annual material poverty (deprivation) nationally and spatially in Nigeria. The data reveal a fluctuating but generally worsening trend that is more severe in the rural areas, and in the three Northern geo-political zones.

The findings suggest that none of the development initiatives highlighted earlier had any enduring positive impact on the poverty situation in the country. In particular, it is instructive to note that the situation deteriorated across the board since the implementation of the Millennium Development Goals (MDGs) began in 2005. This appears surprising, given that the country's implementation record was adjudged good and/or strong in at least 8 out of the 13 components of the MDGs

Table 3. *Incidence of poverty by local and zones (1980–2010) (in percentage)*

Levels	1980	1985	1992	1996	2004	2010	2013
National	27.2	46.3	42.7	65.6	54.4	69.0	64.2
Urban	17.2	37.8	37.5	58.2	43.2	61.8	52.2
Rural	28.3	51.4	46.0	69.3	63.3	73.2	73.4
Geopolitical zones							
North Central	32.2	50.8	46.0	64.7	67.0	67.5	
North East	35.6	54.9	54.0	70.1	72.2	76.3	
North West	37.7	52.1	36.5	77.2	71.2	77.7	
South East	12.9	30.4	41.0	53.5	26.7	67.0	
South South	13.2	45.7	40.8	58.2	35.1	63.8	
South West	13.4	38.6	43.1	60.9	43.0	59.1	

Source: National Bureau of Statistics (2012); 2013 figures are obtained from World Bank (2013)

relevant at national level, as shown in Table 4. A similar view applies to legions of poverty alleviation programmes all over the country.

Many observers often attribute the observed ineffectiveness to inadequate funding of the MDGs and other poverty alleviation programmes; hence the clamour for increased public expenditure. To the contrary, Figure 2 shows an inverse relationship between sustained spectacular increases in annual public expenditure and continual deterioration in the relative change in Human Development Indicators (HDI) in Nigeria – reinforcing the paradox that sees Nigeria as a rich nation with many poor people.

The effect of this scenario on aggregate index of inequality is shown in Figure 3, which reveals an absence of any improvement in the severity of inequality among the populace since 2004. The mutual consistency in the behaviour of the three indicators of poverty and inequality suggests the need for a total transformation of the nation's policy formulation, design, financing and implementation processes. This is with a view to not only realizing the target growth trajectory, but also and more importantly, desirable human welfare enhancement that is sustainable.

Summary and concluding remarks

This article has revealed that the structural transformation of the Nigerian economy is just emerging, its real character is yet to be ascertained. Hence, an objective assessment of the transformation's impact on inequality cannot be undertaken for now. Furthermore, while the old time series data showed industry as the new leading contributor to the Nigerian economy, the rebased GDP figures credited the services sector with this feat. This raises questions on the reliability of the underlying data and the validity of the seeming emergence of structural transformation.

Also, the chosen indicators confirmed that none of the reform programmes implemented over three decades, including the MDGs, had any enduring significant positive impact on the twin problems of poverty and inequality in the country. This suggests that the deficiencies that precipitated this ineffectiveness should be identified, and not be allowed to infest the emerging structural transformation process. It is in view of these, among others, that we suggest the following for active consideration by all concerned.

First, the literature shows that every development-oriented structural transformation has been led by the industrial sector in several countries, including Indonesia, Malaysia and Taiwan. However, if the services sector was to play this role in Nigeria, there is need for an in-depth appraisal of its underpinnings, and implications for sustainable development, as well as poverty and inequality reduction.

Second, it is important to properly integrate the MDG programme, and indeed its successor,

Table 4. *Snapshot of Nigeria MDGs status*

	Possibility of meeting target	Magnitude of support by the policy environment
MDG 1: Eradicate extreme poverty and hunger		
Target 1A: Halve, between 1990 and 2015, the proportion of people living in extreme poverty	Unlikely	Good/Fair
Target 1C: Halve, between 1990 and 2015, the proportion of people who suffer from hunger	There is potential	Strong
MDG 2: Achieve universal primary education		
Target 2: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	Likely	Strong
MDG 3: Promote gender equality and empower women		
Target 3: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015	There is potential	Strong
MDG 4: Reduce child mortality		
Target 4: Reduce by two-third, between 1990 and 2015, the under-five mortality rate	There is potential	Strong
MDG 5: Improve maternal health		
Target 5: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio	Likely	Strong
MDG 6: Combat HIV/AIDS, malaria and other diseases		
Target 6A: Have halted, by 2015, and begun to reverse the spread of HIV/AIDS	There is potential	Strong
Target 6C: Have halted, by 2015, and begun to reverse the incidence of malaria and other major diseases	Likely	Strong
MDG 7: Ensure environmental sustainability		
Target 7A: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	Unlikely	Weak
Target 7B: Halve, by 2015, the proportion of the population without sustainable access to safe drinking water and basic sanitation	There is potential	Good/Fair
Target 7C: By 2020, have achieved a significant improvement in the lives of at least 100 million slum dwellers	Unlikely	Good/Fair

Table 4: (*Continued*)

	Possibility of meeting target	Magnitude of support by the policy environment
MDG 8: Develop a global partnership for development		
Target 8D: Deal comprehensively with the debt problems of developing countries	Likely	Strong
Target 8F: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications	Likely	Strong

Source: Federal Republic of Nigeria (2013). Nigeria Millennium Development Goals 2013 Report. Abuja: National Planning Commission

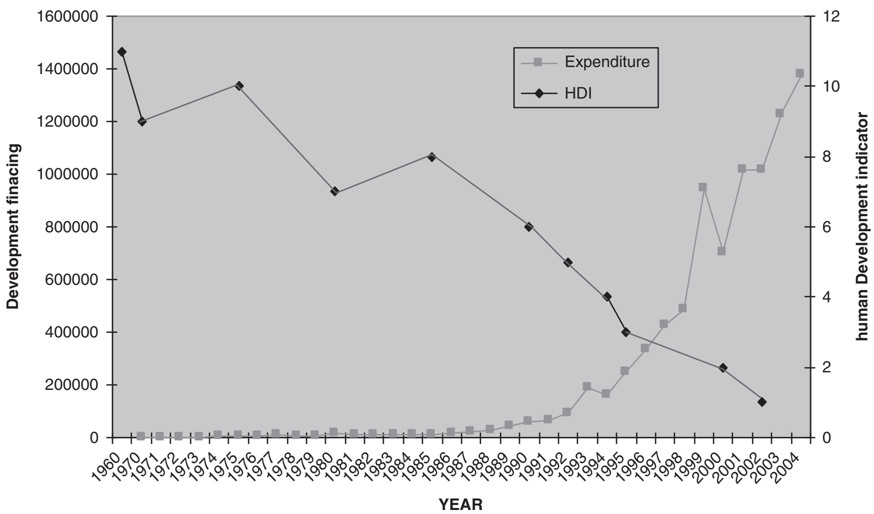

Figure 2: Public expenditure and change in human development index
Source: Ariyo (2006)

the Sustainable Development Goals (SDGs) into the national planning and macroeconomic management framework, rather than being treated as a stand-alone. By doing so, MDG/SDG-related issues will be prioritized in national planning, budgeting and implementation. Furthermore, it is important to improve upon the management of the demand and supply sides of the MDG/SDG programme in Nigeria.

Third, the overall quality of fiscal operations determines, to a large extent, the realization of any national policy target, such as structural transformation, the economic health of the nation and the welfare of the citizenry. Findings reported in this article underscore a felt need for fundamental reform that will guarantee the sort of fiscal operation that can promote and sustain the desired structural transformation and its beneficial effects. Finally, we need to realize that attaining development or any national goal such as structural transformation is a matter of choice, one that requires planning and implementation with a sense of purpose and determination. This calls for a properly structured, inclusive long-term planning framework, whose implementation can yield desirable structural transformation within a defined time horizon. It is also important to complement this with the requisite national behavioural and attitudinal re-orientation, which is probably the most important condition that Nigeria must

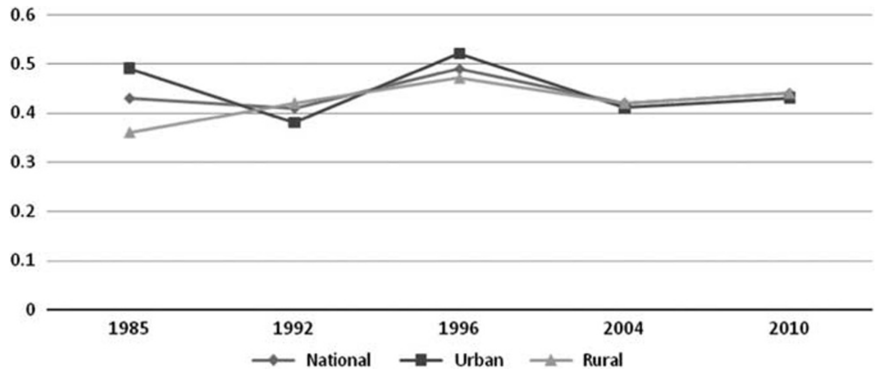

Figure 3: Inequality (measured by Gini Coefficient) in Nigeria

satisfy before it can achieve its structural transformation goal and indeed to any of its developmental aspirations. Suffice to emphasize that both purpose-driven national planning and implementation, as well as national attitudinal/behavioural orientation conducive to goal achievement, are the traits of successful, structurally transformed economies.

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