VOLUME 2

BOOK 2

CONTENTS

CHAPTER ONE

Introduction to the Book

1. What are the Economic Groups?

(a) The idea of economic groups arose from the need to expand and deepen the work of the CSF Groups on Global Competitiveness. The Committee realised that to be able to provide concrete ideas concerning ways of promoting the country's global competitiveness, it was necessary to examine in greater detail, the functioning of the domestic economy. This is because it is largely the way the domestic economy functions that determines how competitive a country will be both internally and externally.

(b) To examine the functioning of the economy, the Committee had to look carefully at its structure and the way the structure of the economy affects its performance. This meant specifying and examining the major lines of economic activity or sectors of the economy, the characteristics of each sector, the ways in which the sectors are interrelated, and the factors that determine the observed interrelationships among the sectors. Seventeen major sectors were specified, and the task of examining each sector was assigned to a specific group of members of the Committee. These groups are referred to, in this report, as the Economic Groups.

2. *The Economic Groups*

There are 17 subjects covered under the second wave of groups, commonly referred to as the Economic Groups. These subjects cut across sectors and issues in the Nigerian economy. The groups have been classified into four main categories as follows:

(a) Macro-Economic System

(i) Monetary Policy
(ii) Fiscal Policy
(iii) International Trade
(iv) Policy Process

(b) *Real Sectors*

(i) Agriculture
(ii) Industry

(iii) Trade and Distribution
(iv) Solid Minerals
(v) Upstream Petroleum
(vi) Downstream Petroleum

(c) *Development Issues*
(i) Poverty Alleviation
(ii) Rural development

(iii) Small and Medium Scale Enterprises
(iv) Infrastructures

(d) *Funding and Capital Mobilization*

(i) Banking and Finance
(ii) Debt Management
(iii) Capital Markets

These groups are briefly described below:

(a) Macro-Economic System

The focus of this group is on the macro-economic environment and the policies that shape this environment. A stable macro-economic environment, both in domestic a external sectors, is a *sine qua non* for achieving rapid and sustainable economic growth. Stability in macro-economic variables such as, inflation, monetary aggregates, employment, balance of payment, etc, engenders investors' confidence, allows for better planning of all economic activities, and above all, leads to inflow of foreign investments. This can only be achieved if the policies that influence these variables are mutually re-enforcing, stable and progressive. The Committee **-** focused attention on 4 main areas: monetary policy, fiscal policy, international trade and policy process. These areas comprising the macro-economic system are brief described below:

(i) *Monetary Policy*

Optimal management of monetary policy instruments can significantly contribute price stability which ensures the preservation of the internal and external values the domestic currency and economic growth. This is central to modern exchange economies. One of the objectives of the Vision 2010, is to come out with a plan that generates and sustains an economic growth rate of between 6-10% p.a. with; inflation rate of between 3-5% p.a. The role of monetary policies in ensuring that the inflation target is achieved by the year 2010 is very crucial. The Committee focused on how this role of maintaining price stability has been performed in the past, the current position, the experience of other countries with economies almost similar to Nigeria and how the role can be more effectively performed in future.

(ii) *Fiscal Policy*

Fiscal policy is the use of the government's taxing and spending powers to manage the economy. Usually the objectives of such macro-economic management include the promotion of economic stability, growth, employment and socio-economic equity (income distribution). These objectives are very key to improving the standard of living and social harmony of the Nigerian citizenry, both part of the objectives of the vision 2010 project.

The Committee examined how government used these powers in the past and how it should be used in future in a manner consistent with the objectives of the Vision 2010. The Committee examined the tax system, its components and administration; the structure and levels of government revenue and expenditure; the practice of fiscal federalism and the part each of these features has played in the present state of the economy. The Group identified the changes required and made recommendations on how to enhance the effectiveness of fiscal policy in the management of the national economy by the year 2010.

(iii) *International Trade*

The Committee examined the external sector of the Nigerian economy, involving, both exports and imports. There are many advantages a country can derive from engaging in active international trade. These benefits include economic growth, employment, improved international relations, etc. Many super-economies of today do not rely on their domestic markets alone to grow, but continuously look outside their borders for market opportunities. This is why the country's external image is very important and crucial in the drive to grow the export market.

The focus of the Committee on international trade is aimed at determining how Nigeria's export market can be expanded to enhance her economic growth. The Committee identified global factors that can boost a country's share of international trade, and examined the extent to which these factors are present in Nigeria. Finally, it indicated the specific measures that can promote such factors in Nigeria. In doing these, the Committee examined the experiences of other countries, particularly the recent an success stories of the South East Asian countries.

(iv) The Policy Process

The Committee realised that the issue of the formulation and implementation of public policies is of uttermost importance. The Committee recognised that if the objectives of the Vision 2010 are to be achieved, effective public policy formulation and implementation are key factors. Thus, it examined all aspects of policy process: agencies involved, coordination, timing, etc., and made recommendations for an effective public policy management, as we approach the year 2010.

(b) Real Sectors

The real sectors consist of all the sectors that are directly engaged in production and distribution of goods and services. They constitute the core of economic activities upon which other sectors depend. The term covers economic activities such as industrial production, agriculture, mining, trading, etc. The Committee identified the following sub-sectors:

(i) *Agriculture*

It is common knowledge that agriculture is a vital sector of the Nigerian economy. It has played and continues to play important roles in the economic life of Nigerians. It provides employment and thus income, supplies food and raw materials to the industries, ensures foreign exchange earnings, etc. Currently, it is the largest employer of labour and the highest non-oil contributor to the GDP. Before the advent of oil, agriculture was the mainstay of the Nigerian economy and remains the best potential to grow her economy, outside oil. The task of the Committee on Agriculture was to make recommendations on how this potential can be exploited and thus contribute to the well-being of Nigerian citizenry. The Committee examined its functioning and identified the changes that are needed to strengthen to achieve 'accelerated agricultural production to ensure food self-sufficiency and the provision of major raw materials' by the year 2010.

(ii) *Industry*

The capacity to design and manufacture desired goods holds the key to economic transformation. Manufacturing activities transformed the economies of Western Europe and, in the same way, similar activities are today transforming the economies of some East Asian countries. It is for this reason that countries seeking to transform their economies have sought to develop manufacturing capabilities. Unfortunately the efforts of successive Nigerian governments to promote the development of manufacturing capabilities in the Nigerian economy have failed to produce the desired results.

The task of the Committee in this area was to examine every facet of the sector in order to identify what needs to be done to make it generate in the country, the positive changes it is generating in the more successful countries. This involved examining the country's policies with respect to the manufacturing sector, the strategies and specific measures by which the policies are pursued, the ways in which the policy measures have been implemented, and the approaches of some of the more successful countries. The recommendations include specific targets and a time-frame for implementation.

(iii) *Trade and Distribution*

This sector consists of the activities involved in the exchange and transfer of goods and services to the point of need. In view of the pervasiveness of trade and distribution, the quality of the activities is particularly important. Thus, the focus here is on how to improve the quality of trade and distribution and its contributions to the growth and transformation of the economy.

(iv) Solid Minerals

Solid minerals are naturally-occurring substances derived from the earth's crust and upper mantle which are of economic value to man. Examples are mineral fuels like coal and bitumen; metallic minerals like iron, lead, and gold; structural and building materials like limestone and gypsum; chemical minerals like salt; and industrial and manufacturing materials like asbestos and phosphate. The economic value of the minerals derives from their use in a variety of productive activities. Therefore, the promotion of solid minerals production affects human welfare both directly and indirectly.

The Solid Minerals Group was assigned the task of examining issues relating to the development and exploitation of solid mineral resources in the country in order to suggest strategies by which the sector will be made to contribute much more significantly to the nation's gross domestic product (GDP) than it is doing at present. In doing, this the group examined government policy with respect to the sector, the relevant laws and regulations, the relevant infrastructure, the incentives provided for investments in solid minerals production, and the effects of all these on the level of activity in the sector. The report stresses the need for an appropriate environment for the development of activities in the sector.

(v) *Upstream Petroleum*

The upstream petroleum sector of the economy is made up of 'all activities relating to the acquisition of concessions, exploration, discovery and production of crude oil and gas and their treatment, transportation and delivery to designated export terminals or otherwise to refineries or other processing plants'. Because of the place of petroleum in the structure and functioning of the economy, it is particularly important that the upstream petroleum activities are effectively and efficiently carried out.
The Group on the Upstream Petroleum sector embarked on an examination of the issues that affect the operations of the various activities in the sector. This involved assessing the institutional arrangements pertaining to activities in the sector, reviewing current operating practices, examining the agreements that guide activities and practices in the sector and assessing the effects of the arrangements, and conducting country comparisons. From these, the Committee put forwards some specific measures by which efficient and optimally developed upstream petroleum sector may be achieved.

(vi) *Downstream Petroleum*

The downstream petroleum sector of the economy consists of 'all activities which follow after crude oil or gas is gathered at the inlet of a processing plant including~ refining, petrochemicals, gas treatment and conversion, marketing, transportation of petroleum products and ancillary services related thereto'. It is the operations of the enterprises in this sector of the economy that determine, for instance, whether or not there will be enough fuel for transportation, industrial and house-hold needs Thus, it is important that the sector operates effectively and efficiently if the entire economy must function well. The Committee examined the issues that are involved in ensuring that the enterprises in the sector operate more effectively and efficiently than before. And, as in the case of upstream sector, the work of the Committee involved examining the regulations that guide activities and operating practices, assessing the effects of the regulations, and conducting country comparisons, among others.

(c) *Development Issues*

The economic groups included in this category focus on issues and sectors that require special attention for socio-economic development. For example, the way the nation's public utilities are structured and operated is of great importance to the overall efficiency of the economy and the well being of the Nigerian citizenry. Today, most Nigerians are dissatisfied with the quality of service offered by utilities. Another important subject under this group is poverty. The major focus is how this can be eradicated or at the minimum alleviated. More details are provided.

(i) *Poverty Alleviation*

A reduction in the level of poverty in the society is one of the components of development. For this reason, it was considered necessary to carefully examine the issue. The Committee began by defining poverty in order to be able to assess the severity of the problem in the country. This involved estimating a poverty line for the country - a level of income below which one would be unable to meet his/her basic needs - and using the estimated line to determine the proportion of the population that can be said to be poor.

The estimated poverty line is N3,290.00 per person per month at current (1997) prices, or N 13,462.00 per month for a family of five. The Committee used the limits to estimate the level of poverty in the society. It examined the characteristics of the problem, identified its major causes and assessed past efforts at combating poverty in the country. The suggestions for dealing with the problem take into account its regional (i.e. rural-urban) distribution.

(ii) *Rural Development*

The issue of rural development is of paramount importance in the government's effort to transform the Nigerian society. The reason for this is that most Nigerians live in rural areas. The Committee established that the rural population constitutes about 62% of the total population of the country. Also, it was shown that over 70% of the nation's poor are rural dwellers, and that *95%* of the extremely poor are in the rural areas. Thus, to be able to improve the living conditions of the majority of Nigerians, the rural areas must receive a special attention. It is for this reason that a specific group was assigned the task of looking into the problems of the rural areas.

The Group identified the key factors that contribute to rural backwardness in the country, including in particular the quality of education, land tenure, and productive skills. It examined previous efforts to transform the rural areas, identified the factors that were responsible for the failure of past efforts, and proposed some new approaches to the problem. The Committee attaches particular importance to institutional framework for the implementation of rural development programmes.

(iii) *Small and Medium Enterprises (SME 's)*

The focus of this group is on small and medium enterprises and the important roles they play in a developing economy like Nigeria's. As a major employer in the informal sector, the Committee considers this sector very crucial to the industrialisation of our economy. Despite its potentials, the sector largely remains undeveloped. This group examined the issues relevant to this sector and made recommendations on how to realise the potentials of the sector.

(iv) *Infrastructure*

The state of the infrastructure is crucial for development; it affects both economic activities and social life. The task was to examine the state of infrastructure in the country and suggest ways of improving the facilities to support the desired level of socio-economic development by the year 2010. The Committee examined the relevant issues in detail and identified the specific measures that need to be taken. Specific targets and strategies are suggested for action.

(d) Funding and Capital Mobilisation

This category of economic groups focus entirely on Nigeria's financial sector. If the lofty goals of the vision 2010 are to be achieved, a properly functioning financial system is essential. The financial sector mobilises funds and channels these funds for use in the productive (real) sectors. How efficiently and effectively this function is performed has important implications for economic growth and development.

Another important issue considered here is debt management. How the public debt is managed has important implication for the fiscal operations of the State and the functioning of the government. Issues like how much of the current earnings should be devoted to meeting current debt obligation depends on the debt management strategies adopted by the State. This issue was exhaustively discussed by the group and recommendations were made towards an effective debt management.

(i) *Banking and Finance*

Banks are important for the functioning of a modern economy because of their financial intermediation role. How they are organized and managed is of great significance to the work of the Committee. The task, therefore, was to suggest ways by which the banking and finance sector of the economy could be made more effective in servicing the economy than it has been so far.

The Committee identified the key issues on which policy should be focused. These include bank management, funding, lending policies and practices, the structure of the industry, distress in the system, and the regulatory framework. The Committee undertook an in-depth investigation of each of these issues, including the factors that determine the current state of affairs. The recommendations indicate actions that should be taken in the short-term and in the medium and long-term.

(ii) *Capital Markets*

This refers to the markets for long-term funds. The importance of the market lies in the fact that it provides funds for long-term projects. If the lofty goals of Vision 2010 are to be achieved, enormous investment spending must be undertaken. It is only the capital markets that can undertake the type of financing that will be required. Therefore the capacity and efficient functioning of this market is of great importance to the work of the Committee. The group examined the Nigerian market and recommended steps to make the market effectively perform its role in the Nigerian economy.

Public debt has serious implications for the functioning of the economy. Huge public debt imposes heavy strain on the current resources of a State and a diversion of resources away from investments in growth-generating activities. In addition, public debts may lead to loss of control over domestic economic policies. For these reasons, public debt has to be carefully managed.

The Committee analysed the issues involved in Nigeria's debt overhang and suggested ways of achieving the size and structure of public debt that would not constrain the growth and development of the country. To do this, the Committee carried out a detailed analysis of the nation's debt problem, including the composition, the resulting debt burden, and the current efforts to deal with the problem. The report on this issue contains important new ideas for more effective management of the nation's debt. The reports of each of this economic groups are presented in the ensuing pages in this report.

3. *Overall Process Adopted*

The Economic Groups employed analytical tools in carrying out their tasks. Each group held brainstorming sessions during which they considered global and local scenarios. The Groups examined the interrelationships among the sectors of the economy and major economic issues, and investigated the implications of the interrelationships for the society.

For each group, the procedure involved the three broad steps which were explained in an earlier volume, namely 'Where we are', Where we want to be' by the year 2010, and 'How to get there'. For agriculture, for instance, the Group established and analyzed the present state of the sector (i.e., where we are), specified what the state should be by the year 2010 (i.e., where we want to be), and suggested the strategies by which the desired state would be attained (i.e., how to get there). At each stage of the proceedings, each group reported back to the plenary session of the Committee in order to give other members the opportunity to comment on and make inputs to the work. The Groups also benefited from ideas from the general public through specific seminars and workshops and a large volume of memoranda.

The next stage was an appraisal of the work of each group, this time under the four consolidated groups introduced earlier, namely Macro-economic Issues, The Real Sectors, Development Issues, and Capital Mobilization. The idea was to provide an opportunity for further examination of the work of the groups in order to reach broad consensus on the core objectives and the strategies to be adopted, taking into account the interrelationships among the sectors and issues being addressed. The core objectives and strategies arrived at are discussed in the relevant chapters.

4. Link to Other Books

This book is the second of the five books in Volume II. It represents the work of the Committee on economic issues and sectors, which together with other books in this and other volumes provide a basis to prepare and present the Final Reports contained in Volume I.

The works of the Committee were in three waves. The first wave was the work on the Critical Success Factors, reports of which are contained in Book I of this Volume. The second wave was the work on the economy, the Group Reports of which are in this book while the reports on third wave of activities are in books and 4 to this volume.

Except for the summaries of the Economic Reports contained in this Book, no attempt was made to either add or delete any material from the Group Reports. The Group Reports are included in this Book as submitted to the Secretariat.

5. Approach to Reading this Book

The Economic Groups' Reports presented in this Book are organized in six chapters. The arrangement follows the broad groups outlined in section after the general introduction in this first chapter; the second chapter presents the macro-economic issues. Chapter three contains the reports on the groups of enterprises in the real sectors of the economy, chapter four deals with general development issues, and chapter five presents the reports concerning capital mobilization. The last chapter, chapter six, presents the major conclusions of the various group reports. The conclusions are presented in the form of highlights to facilitate reading.

PART TWO:

MACRO-ECONOMIC SYSTEM

1. Overview

(a) One of the goals of any government is to promote sustainable economic growth. Crucial to the attainment of this goal is macro-economic stability. Which involves broad issues that affect the economy as a whole. Such issues include monetary policy, fiscal policy, international trade and the overall policy process. These issues are important because they determine the state of the economy at any point in time. For instance, they determine whether or not there will be an appropriate environment for business activities and, therefore, whether or not the economy will function well enough to produce the desired levels of output, employment and prices, all of which are crucial for social welfare.

(b) Specifically, the reports in this chapter address such policy issues as the budget management, foreign trade, inflation, money supply, interest rates and lending by financial institutions, exchange rates, and the overall policy process the making, implementation, and evaluation of public policies. The interplay these policy issues affect the functioning of the economy. In particular, interplay of such macro-economic issues as inflation, interest rate, exchange and budgetary discipline will determine the direction of the economy and also determine whether or not the economy will be strong enough to permit the act needed to promote social well being. A stable macro-economic policy encourage~ better planning and engenders investors' confidence in the economy.

(c) In any country, monetary policy is handled carefully because of its impact on the economy especially its effect on inflation. The analysis focuses on the institution~ framework for the formulation and execution of monetary policy because of the part framework plays in the effectiveness of any policy. The report also examines the objectives of monetary policy and the instruments by which the objectives pursued. Specifically, it observed that monetary policy in the country shifted time from the era of direct monetary control to indirect monetary control. overall monetary policy objectives of reducing inflation, stimulating output employment growth, strengthening external sector and ensuring exchange stability remained consistent. The indirect monetary control emphasises the use of Open Market Operation (OMO) for trading in government securities treasury bills, treasury securities and eligible development stocks). instruments of OMO include discount rate, required reserves (cash and liquidity ratio), moral suasion, exchange and interest rate movements and transfer of public sector accounts between the Central Bank of Nigeria (CBN) and commercial banks. To further liberalise the economy, the government deregulated interest rate, removed sectoral lending by banks, abolished cash ratios and maturity profiles for merchant banks and lifted the ban on Bills for Collection.

Fiscal policy, on the other hand is concerned with the use of government expenditure, revenue, taxation, tariff, budget management and federal finance, among other measures to promote economic growth, stability and social equity. The focus however, is on the quality of policy measures and the degree of complementarity between fiscal policy and the other tools of macro-economic management. The analysis covers five main fiscal policy issues, namely: taxation, level and structure of expenditure, revenue structure, fiscal federalism and budget policy. Generally, fiscal policy in the country is characterised by lack of fiscal federalism resulting in the concentration of more funds in the hands of the federal government, thus depriving the states and local governments of their statutory revenues. It is also characterised by late release of funds for capital projects and inadequate monitoring of budget performance. In addition, public enterprises are inefficient and are not effectively contributing to revenue collection while states and local governments are characterised by low internal revenue generation, a situation which makes many of them to engage the services of tax contractors and consultants to assess and collect taxes and levies.

International trade involves the exchange of goods and services among nations. It plays a crucial role in the economic and social development of any nation through the expansion of the potential market available for products. The Committee identifies a positive correlation between international trade and the wealth of nations as evident in the role and influence of Britain in world trade during the British empire, the U.S. during the post World War II period, Japan in the 1970s and 1980s and today the Asian Tigers' booming economies. It identifies the existence of a strong domestic market, an attractive investment climate, an adequate productive capacity and the ability to produce internationally competitive products, as the factors that combine to enhance a country's position in international trade. It then examines Nigeria's performance with respect to each of the identified trade-enhancing factors to determine what needs to be done to establish the country as a strong trading nation by the year 2010. The Committee paid particular attention to the industrial policy, product quality, export incentives, export/import procedures, and private sector public sector cooperation.

Another important issue in macro-economic system is Policy Process. It is about the ways in which public policies in general are formulated and implemented, that is the input to public policies, the articulation of such policies, their implementation and the monitoring and evaluation of policy measures. These factors also determine the quality of the outcomes of public policies. T Committee identified that the country has a record of articulating clear policies frequently failing to effectively complete the implementation process generally because of a lack of proper machinery for the effective implementation of policies In many cases however, policies were statements of intention that did not lead implemented actions. It also identified that policies have suffered from poor coordination, while rapid turn-over of top government functionaries has led policy inconsistencies and lack of clear direction, resulting in a culture of short-termism in policy implementation. Above all, the credibility of many go~ policies has suffered greatly due to the time lag between their pronouncements and~ the commencement of implementation. Thus, the Committee observes that implementation failures have led to a considerable waste of resources as well failure to meet development targets.

CHAPTER TWO

MONETARY POLICY

1. *Introduction*

The role of monetary policy in the proper functioning of any economy is widely recognised by all national governments. Not only does it provide the lubricant for the engine of the economy, it is also central to the operations of modern exchange economies. The optimal management of monetary policy contributes significantly to price stability which ensures the preservation of the internal and external values of the domestic currency and general economic growth. This general principle has guided successive governments in Nigeria in designing and implementing sound monetary policies.

The Monetary Policy group of the Vision 2010, in line with the general guidelines, has focused on the role of monetary policy - "Where We Are, Where We Want to Be and How to Get There" in attaining the vision of improved standard of living for all Nigerians by the year 2010. This report presents the views and recommendations of the group to the Vision 2010 Committee. The rest of the report is broadly divided into six sections so as thoroughly to discuss the group's mandate. Section II reviews Where We Are as a country today in monetary management and the underlying factors, while section compares Nigerian practices with those of the rest of the world. Section IV discusses current issues in monetary policy, while Section V presents the group's vision on the direction in which monetary policy should go in order to attain the overall objectives of the Vision 2010. The policy recommendations needed to achieve the group's vision are presented in Section VI. The report is concluded in Section VII.

WHERE WE ARE

2. The practice of monetary policy in Nigeria has gone a long way from the era of direct monetary control to the present liberalised environment anchored on indirect method of monetary management. Though the emphasis of monetary policy has changed from time to time, the objectives of monetary policy have remained those of reducing inflation; stimulating output and employment growth; strengthening external sector performance and ensuring continued Naira exchange rate stability.

Under the current technique of indirect monetary control introduced on 30th June 1993, the open market operation for trading in government securities (treasury bills, treasury securities and eligible development stocks) forms the main instrument of liquidity management. Other complementary instruments include discount rate, required reserves (cash and liquidity ratio), moral suasion, exchange and interest rate movements, transfer of public sector accounts between the Central Bank of Nigeria (CBN) and commercial banks, and foreign exchange operations. Prior to this, direct instruments of monetary control mainly in the form of credit ceiling and allocation, stabilisation securities and mandatory treasury bills were in vogue.

As part of the efforts at liberalising the financial system:

(i) interest rates have been deregulated;
(ii) sectoral lending has been removed;
(iii cash ratios and maturity profile for merchant banks have been abolished; (iv) ban on bills for collection has been lifted.

In contrast, the power of the CBN to design and implement monetary policy has been severely eroded by the promulgation of the Central Bank of Nigeria (Amendment) Decree 3 of 1997 which introduced the following policy measures:

- a part-time Chairman of the Board of Directors other than the Governor;
- 11-member Board of Directors dominated by non-executive members;
- a CBN Governor reporting to the President through the Minister of Finance; and
- a borrowing arrangement which requires CBN Governor to negotiate terms with the finance ministry.

The perceived weakness of the above arrangements is that it can easily compromise monetary control in the face of political pressure.

Currently, a number of commercial and merchant banks in financial distress increased from eight in 1989 to 53 in 1996, a situation which poses problems for financial management. In response to the systemic distress in the banking industry, the government has enacted elaborate policies and pursued several distress resolution options.

As a result of improved fiscal management, the growth in monetary aggregates has declined considerably. Consequently, the naira exchange rate has stabilised while inflation tumbled from 72.8 per cent in 1995 to 29.3 percent as at end of 1996. The Statistical Appendix shows the trends of major macro-economic indicators which point to a general move towards macro-economic stability.

An important monetary policy development which deserves attention is the phasing out of the 50 note erroneously attributed to inflation. In reality, consumers can spend money only when they have it, irrespective of their denominations. The denomination of money does not add to the growth of the stock of money which has bee empirically shown to be strongly correlated with inflation. The absence of higher naira denominations increases the cost of cash handling.

3. Comparative Study on Central Bank Autonomy and Economic Performance

In order to articulate coherently where the country should be and how to get there by the year 2010 in terms of monetary policy contributions, selected Central Bank - Government arrangements and the effect of these arrangements on economic performance were reviewed. The results of the analysis are presented in sub-section III.1 and III.2.

(a) Institutional Arrangements

Generally, the design, implementation and outcome of monetary policy depend on the relationship between the central bank, the executive arm of government and the legislature. Some central banks have a very high level of legal independence in law and practice (e.g. Germany) while others have a high level of legal autonomy but not in practice as in many developing countries. The reverse is also true in some developed countries. According to Cukierman, Webb and Neyapti, actual, as opposed to formal, central bank independence depends not only on the law, but also on other factors such as informal arrangements between the central bank and other parts of government, the quality of the bank's research department and the personality of the individuals in the bank and the (rest of the) government.

Selected factors which have a bearing on central bank - government relationship that have been reviewed, where available, include formal monetary policy responsibility, conflict resolution arrangements, statutory objectives, monetary policy accountability, role and composition of central bank boards, appointment and dismissal of central bank management and directors, limits on financing government, central bank budgetary independence and constraints on the use of monetary policy instruments. After reviewing the CBN, the European Central Bank and System of Central Banks were analysed as a model of a modern central bank, followed by those of industrial and developing countries.

(i) *Nigeria*

Central Bank of Nigeria

- *Formal Monetary Policy Responsibility*

  The Governor of the Central Bank of Nigeria (CBN) reports to the Head of State through the Minister of Finance.

- *Conflict Resolution Arrangement*

  In case of a serious disagreement on monetary policy between the Ministry of Finance and the CBN, the CBN would convey such disagreement to the Head of State through the Minister of Finance and the decision of the Head of State on such matters will be final.

- *Statutory Objectives*

  The CBN has multiple monetary policy objectives, namely, to reduce inflation; stimulate output and employment growth; strengthen external sector performance; and ensure naira exchange rate stability.

- *Monetary Policy Accountability*

No formal mechanism is in place.

- *Role and Composition of Central Bank Boards*

  The CBN board has a two-tier structure. One has management role (board of governors) while the other has decision-making powers (board of directors). The board prepares central bank's annual budget, formulates monetary and credit policy, determines the naira exchange rate and handles other functions as ma~ be required.

  There are 11 government-appointed board members with a part-time chairman of the board of directors, while the governor is the chief executive and chairman of the board of governors. There are four executive members of the board o directors while the rest are non-executive members.

- *Appointment and Dismissal of Management and Directors.*

  The governor and the three deputies are appointed by the government for a five year term of office renewable once, while the directors are appointed for three year term, renewable once for three years. The Governor can be removed ~ found to be of unsound mind, incapable of performing his or her duties, guilt~' of a serious misconduct, and convicted of a serious offence.

- Limits on Financing of Government

  The CBN may grant temporary advances to the federal government in respect o temporary deficiency of current budget revenue at such rate of interest as tb bank may negotiate with the ministry. The advance is limited to 12 1/2 per ceil of the recurrent budget revenue which should be repaid before the end of th year. Failure to do so can lead to a stoppage of subsequent advances.

- Central Bank's Budgetary Independence

  The CBN submits its budget proposal to the government through the Minister Finance to the Head of State for review and approval.

- Constraints on the Use of Monetary Policy Instruments

  The bank needs government approval on policy initiatives and submits monetary policy proposals to the government.

(ii) The Maastricht Treaty (1992) and the Creation of a European System of Central Banks (ESCB) and a European Central Bank (ECB).2
(A Model of a Modern Central Bank)

The Maastricht Treaty of the European Union sets-out provisions for a system of national central banks and a European central bank for the European Union. The treaty expects national governments to implement a set of rules that would ensure long term price stability through a system of independent central banks shielded from short term political pressures.

By 1994, Belgium, Italy, France, the Netherlands, Spain and Greece had either amended or were in the process of amending their central bank laws in order to meet the requirements of the treaty. Recently in 1997, the Bank of England was reported to have been given greater independence, including the operational responsibility to set interest rates.

The 10 major goals set out for compliance by each country are:

- Statutory Objective(s): The primary objective of the ESCB shall be to maintain price stability. In addition, the ESCB shall support the general economic policies in the community.

- Functions of the ESCB The ESCB shall:

  - Define and implement the monetary policy of the community;

  - Conduct foreign exchange operations consistent with the provisions of the treaty;

  - Hold and manage the official reserves of the member states; and

  - Promote the smooth operation of the payment system.

- Financing of Government Deficits via Central Bank Credit

  Outright prohibition of credit to the public sector and its agents, and direct purchase of debt instruments.

- Terms of Office

  The statutes of the national central banks shall, in particular, provide that the term of office of a governor of a national central bank shall not be less than five years.

- Appointment and Dismissal Procedure

  There is no provision on the manner of appointment but provides that a governor may be relieved from office only if he no longer fulfils the conditions required for the performance of his duties or if he has been guilty of a serious misconduct.

- Liaison with Government and Conflict of Interest

  The treaty provides that neither the European central bank nor a national central bank nor any member of their decision making bodies shall seek or take instructions from community institutions or bodies or from any government of the member States. On the other hand, member state governments shall undertake not to influence the ECB or ESCB.

- Accountability

The central banks are accountable to the European parliament and other institutions. The concept of the accountability includes explanation or justification of actions or policies.

- Professional Secrecy

  Members of the governing bodies and the staff of the ECB and the ESCBs shall be required, even after their duties have ceased, not to disclose information of the kind covered by the obligation of professional secrecy.

- Auditing: Audited by independent external auditors.

- Financial Year: Shall begin on the first day of January and end on the last day of December.

Selected Country Central Bank Arrangements prior to the 1992 Maastricht Treaty 3.

(iii) *Institutional Arrangements.*

- *Germany*

  The Bundesbank (German's Central Bank)

- has formal independence;
- determines monetary policy;
- supports the general economic policy of the German government.

- *Switzerland*

The Swiss National Bank.

- constitutionally independent in determining monetary policies;
- consults with the Government before implementing policies.

- *France*

The French Central Bank.

- Not independent;
- Government decides the stance of monetary policy through the Ministry of Finance.

- *United Kingdom*

Bank of England.

- The Chancellor of the Exchequer is responsible for monetary policy;
- The Treasury has the power (so far apparently unused) to issue formal but unpublished directives to the Bank of England;
- The treasury determines the overall thrust of monetary policy, while the Bank of England implements.

- *United States of America*

U.S. Federal Reserve System and Board.

- Independent of the executive arm in determining and implementing monetary policy;
- but report to US Congress twice a year;
- Congress retains the right to instruct the Federal Reserve Board;
- there are continuous consultations.

- *The Netherlands*

The Netherlands Bank (NB).

- Government has the right to issue formal directives to the NB;
- the NB has the right of appeal to the Crown;
- in practice the NB has a high degree of independence in determining m policy.

- *Japan*

Bank of Japan (BQJ)[4]

- Has wide powers to formulate and implement monetary policy vested in a Policy Board;
- close co-operation with the Ministry of Finance;
- the Minister retains a directive power under the BOJ legislation (but this has been used).

- *New Zealand*

Reserve Bank of New Zealand (RBNZ)
RBNZ has responsibility for:

- formulating and operating monetary policy in line with published policy targets agreed between the governor of the RBNZ and the Minister of Finance and directed toward the RBNZ's statutory objective of price stability;
- Government has the right to override, temporarily, the RBNZ's statutory objective, or to negotiate revised policy targets;
- the RBNZ is required to consult with and give advice to the government.

(iii) *Resolution of Conflict Arrangement*

No clear formal arrangement for Bundesbank, Swiss National Bank and U.S.A Federal Reserve

- Netherlands and New Zealand have legislation on conflict resolution.

(iv) *Statutory Objectives*

Need for clear and non-conflicting objective.

- general reference to promoting welfare (Bank of England, Bank of Japan);
- defined in terms of means or functions, rather than ends e.g. regulating money and credit (Bank of France);
- statutory macro-economic objective - stability in the internal and external values of the currency(Germany, the Netherlands, and New Zealand).

(v) *Monetary Policy Accountability and Monitoring*

- The ability of the public to monitor the performance of monetary policy and directly or indirectly hold accountable those responsible for its formulation and implementation;

- Transparency in monetary policy and in the relationship between central bank and the political leadership. e.g. New Zealand Reserve Bank governor's quantitative arrangement is based on published policy targets to be achieved during the governor's term of office-performance contract between the governor and the minister.

- monitoring through bi-annual "policy statements" to the minister and also tabled in parliament.

Bank of England and Bank of France with no formal independence

- lack strong accountability arrangement in terms of the direction of monetary policy;
- the Minister of Finance and the government as a whole bear responsibility for formulation and implementation of monetary policy;
- In UK, a parliamentary committee oversees all aspects of policy
- Parliamentary examination is rare in France.

Bank of Japan (BOJ) is under the supervision of the MOF and reports annually to parliament through the ministry

The Netherlands Bank reports to Bank Council, chaired by a royal commissioner, accountable to the crown.

In the US, the legislature has important roles.

- The Federal Reserve Bank reports to congress half-yearly.

The central banks of Germany and Switzerland are not formally accountable to any arm of the government. The Bundesbank publishes annual reports for tin public but not presented to the government or to parliament.

The Swiss National Bank (SNB) reports annually to its shareholders (which do no include the federal government).

(vi) *Role and Composition of Central Bank Boards*

The role and composition of central bank boards influence the nature of th relationship between central banks and governments. They provide a forma channel for the government to exert some influence directly and indirectly oi central bank decisions.

Board structures- two to three tiers.

- the U.S. and Germany have two tiers;
- one level supervisory;
- one level decision making (executive) body.

- *Switzerland*

- three tiers;
- additional tier - the bank committee, a sub-committee of the bank council, for more detailed supervisory role.

- *The Netherlands*

- The third tier, the Bank Council, advises the minister on the guideline that the NB should follow.

France, Japan, New Zealand and the UK have executive committees for day-to-day management but are not specifically established by the legislature. In New Zealand, responsibilities of directors are very clearly defined.

In all cases, the government effectively appoints the majority if not all of members of the of these bodies.

- there may be advisory board members representing the government
- two non-voting such members in Japan;
- Government representative in Germany can request that a board decision be temporarily deferred.

(vii) *Appointment and Dismissal of Management and Directors*

Government has the primary role in the appointment of directors and management. The level of interference depends on the level of independence. For the two least independent central banks - the head of state appoints either on the recommendation of (UK) or in consultation with (France) the Prime Minister or cabinet and without formal reference to other parties.

- *UK*

- the governor and deputy governor have five-year terms;

- Directors have staggered four-year terms.

- *France*

- Directors have staggered six-year terms; the governor and deputies have indefinite terms which range between five and seven years in practice.

- *Japan*

- the cabinet appoints the governor and vice-governor and the board members for staggered four-year terms with the approval of both houses of parliament. The executive and the minister also appoint a number of directors.

- *New Zealand*

- government appoints directors for staggered five-year terms;
- Government appoints the governor on the recommendation of the board.

- *Netherlands*

Individual members of the governing and supervisory boards are appointed by the government on the joint recommendation of the current members of the boards for staggered seven-year terms (governing board members) and four years for supervisory board members.

- *United States*

- Board members are appointed by the President subject to Senate approval for 14 -year term;
- Chairman and vice-chairman of the Federal Reserve are appointed by the President, subject to Senate confirmation from the ranks of the board members In practice, the
- President, subject to senate approval, can appoint an individual a board member and chairman when a vacancy exists;
- Presidents of regional reserve banks are appointed by the regional bank board' who are representing commercial banks and the Federal reserve boards;
- The Presidents of the regional reserve banks and the federal boards form the Federal Open Market Committee (FOMC).

- *Switzerland*

- Governor and two deputies are appointed by the Senate on the recommendation of the full supervisory board(council) for six-year terms. The bank council members are elected by shareholders and appointed by the federal government

- *Germany*

The German President appoints the president of the Bundesbank and up to eight members of the directorate (executive body), on the nomination of the federal government after consultation with the bank council (the supervisory body comprising the directorate and the 11 Land Bank presidents). The Land Bank presidents are appointed by the Federal President on the nomination of the federal parliament, on terms based on recommendations from provincial governments after consultation with the bank council.

- *Removal*

  Directors or governors can generally be removed for relatively technical cause such as bankruptcy, criminal offences, major conflicts of interest, etc.

- The government of New Zealand can remove the governor, deputy and direct for unsatisfactory performance in relation to achieving agreed policy targets;
- Germany and the United Kingdom have no legislation on grounds for dismissal

- Japan: the governor and vice-governor can be dismissed by the cabinet for policy reasons, but board members cannot;
- France: no limit, on President's ability to remove incumbents;
- The United States: The President may remove board members "for cause";
- The Netherlands: Government may remove incumbents on the recommendation of the board for a justified cause.

(viii) *Limits on Financing of Government*

This has to do with the extent of legal constraints on central bank funding of the governments. Limits are effective mainly with independent central banks.

- Germany, Switzerland and the Netherlands;
- Legislation sets strict limits on direct central bank credit to government;
- Allows government paper to be acquired in course of open market operations;
- Germany sets fixed limit on absolute DM direct Bundesbank credit to government since 1967; secondary market purchases only for monetary control.

- *Japan*

- Fiscal law prevents Bank of Japan from direct purchases of longer-term new issue government securities.
- No barrier to BOJ advances to government and secondary market purchase of government debt.

New Zealand, the United States and the United Kingdom, have no specific legal limits.

France - limits are agreed between the Bank of France and the minister and presupposes the approval of parliament.

(ix) *Central Bank Budgetary Independence*

Most of the central banks have substantial financial independence from government across all their functions and irrespective of the degree of monetary policy independence. They determine their own expenditures, issue their own liabilities to fund their expenditures and have no revenue constraint on their spending.

(x) Constraints on the Use of Monetary Policy Instruments

Generally, monetary policy independence could be seriously impaired if the central bank does not have no freedom to adjust instruments of monetary policy as it deems fit and without the need for approval by the government. More independent central banks have no problem with this provision while it could be a problem for others. In particular, some developing countries' monetary policy independence may be limited by a lack of well-developed financial markets and money market instruments.

The case of the use of reserve requirements:

- *New Zealand*

- Legislation needed for the re-introduction of the reserve requirements.

United Kingdom and the Netherlands Reserve requirements could be varied either in agreement with bankers or through government approval.

- *France*

- Reserve requirements could be changed by government approval through tli National Credit Council.

- *Japan*

- Finance Minister's approval needed for variations within statutory limits.

- *Germany and the United States*

- The central banks have the freedom of varying the reserve requirements.

4. Latin American Experience - The Case of Chile, Argentina and Venezuela.

(a) *Statutory Objectives*

The central banks of Chile and Argentina have the primary objective maintaining the value of the currency. The objectives of the Central Bank Venezuela (CBV) are multiple, namely, to create and maintain monetary, credit and exchange conditions that encourage the stability of the currency, foster economic equilibrium, promote the ordered development of the economy ensure the continuity of the country's international payments.

(b) *Responsibilities in Formulating Policies*

(i) Argentina

The CBA shall not be subject to orders, directives or instructions issued by the executive in fulfilling its objectives as set by the congress.

(ii) *Chile*

The Central Bank of Chile (CBC) takes into account government's general economic policy stance when adopting its decisions.

(iii) *Venezuela*

The board approves bi-annual monetary policy guidelines, while foreign exchange policy is set in agreement with the executive branch of government.

(c) *Co-ordination of Economic Policy*

(i) *Argentina*

The CBA law allows the Minister of Economy or his representative to take part in the meetings of the board of the CBA with the right to be heard but not to vote. The bank is also required to advise the ministry of economy and the congress on all matters relating to the foreign exchange system. The law does not recognise the possibility of conflicts.

(ii) *Chile*

Has formal provisions for policy co-ordination and conflict resolution. The Minister of Finance may attend board meetings without the right to vote, but he also may propose to the board orally or in writing the adoption of specific decisions and the board is required to deal with such proposals at the following session. The Minister of Finance also has the right to suspend the application of any decision or resolution that the board may adopt during the session he is attending for a period not exceeding 15 days unless the other members of the board insist on its application. The suspension can be dealt with in an extraordinary session. Any interested person may lodge an appeal with the Court of Appeal of Santiago against any decision, regulation, resolution, order or instruction in the performance of CBC's functions.

(iii) *Venezuela*

CBV is to co-operate with the government in the co-ordination of monetary and fiscal policies and must render an opinion to the Ministry of Finance when the public sector plans to issue debt instruments. The CBV law also establishes a General Assembly of the CBV, made up of a minister or ministers designated by the President of the republic, to represent the government in its capacity as the only stock holder of the central bank. The general assembly meets bi-annually am is empowered to review the results of monetary policy activities. No legal arrangement on dispute resolution.

(d) *Central Bank Accountability.*

(i) *Argentina*

The President of the CBA appears before a Commission of Congress at least once a year to render a report on the developments in monetary, foreign exchange an financial policies. The CBA also publishes an annual report and a weekly amount of unrestricted international reserves that support its base money - the main indicator of CBA's activities. External auditors appointed by the executive wit the senate's agreement audit the CBA. Its accounting operations and budget monitored *ex-post* by the external agencies providing control of the public sector.

(ii) *Chile*

The CBC must inform the president of the republic and the senate of any general rules and policies that it may establish in the exercise of its powers. The board must present to the Minister of Finance and Senate each year before September 30 an assessment of progress made in implementing policies and programmes for the current year and proposals for the following calendar year.

(iii) *Venezuela*

During the bi-annual general assembly, the CBV board presents a report on the bank's operations. The information is also made available to the congress public. The CBV is subject to inspection and supervision by the $super_1$ of banks. The CBV operations are subject to expert review by the Comptoller General of the republic.

(e) *Limits on Financing the Government*

(i) *Argentina*

The CBA is prohibited from granting loans and guaranteeing or endorsing bills of exchange and other obligations of the national government, provinces municipalities and other public institutions. The CBA may finance, on a basis, the national government by buying, at market prices, negotiable instruments issued by the national treasury.

(ii) *Chile*

Except in times of external war, the CBC may not finance public sector operations.

(iii) *Venezuela*

The CBV may not finance direct public sector operations. Its open market operations should only be for the purpose of monetary control as approved by its board of directors.

(f) *Rules Governing Central Bank Boards (Appointment and Dismissal)*

The board of the CBA is appointed by the executive with the approval of the senate. Directors serve a six-year term and may be re-appointed. The board is composed of the chairman (the President of CBA), deputy chairman and eight directors. They cannot hold any other position with the exception of teaching. They may be dismissed by the Executive with the prior consent of the committee of congress for failure to fulfil the provisions contained in the CBA charter.

(ii) *Chile*

The board of the CBC is composed of five members appointed by the president of the republic by decree, issued via the Ministry of Finance with approval of the senate. The board members serve for 10 years and may be re-appointed. The President appoints the governor (president) from among the board for a five - year term. Board members are not to take any other jobs except teaching or a position in a non-profit, non-paying job. The president of the republic can remove a board member with prior consent of senate for inability to fulfil his statutory obligations. The board member can appeal to the senate.

(iii) *Venezuela*

The president of the CBV is appointed by the President of the republic with approval by at least two-third of the senate members. The boards of directors is composed of six members designated by the president of the republic, three of them working full time. One of the directors is selected from the public sector. The Minister of Finance may not serve as a director. The terms of directors are staggered for a period of six years. The President of the republic in resolution with the Council of Ministers may dismiss the president and directors of the CBV due to:

(i) serious losses to the capital of the CBV or to the republic; and

(ii) failure to perform the responsibilities of their positions. The decision, along with the supporting explanation, must be published.

5. *Asian Experience*

(a) *India*

(i) Reserve Bank of India

- Board of directors - made up of the governor, four deputies and other 10 directors. All members are nominated by the central government.
- Tenure of board members - four years; governor and deputies - five years and may be re-appointed.
- Salaries and remuneration are determined by the board of directors and approved by the federal government.
- The governor and his deputies and other directors can be removed any time by central government with no obligation to report to parliament.

(ii) *Relationship with Government*

• Total control - no restriction on government borrowing

In practice

• Appointees are retired civil servants
• Subordinate to government.

6. *African Experience*

(a) Zambia

(i) Bank of Zambia

- Governor appointed by the President after consultation with the I~ Finance for five-year term, can be re-appointable.

- One deputy
- Governor answerable to his board of directors
- Six directors appointed by the Minister of Finance and may be removed by him for good cause.
- Three-year term
- General responsibility to protect the internal and external values of the Zambian currency.
- The minister directs the bank in writing after consultation with the governor.

(b) Tanzania

(i) Bank of Tanzania

- Board of directors consists of the governor as the chairman, a deputy governor, treasury official and between eight and 10 directors.
- Governor and deputy are appointed by the President while other board members are appointed by the Minister of Finance.
- Once appointed, they (governor and deputy) cannot be removed from office unless disqualified for corrupt practices or insanity
- The board determines policy; approves its budget, etc.
- Governor and deputy manage policy.
- Policy thrust - promotion of credit and exchange conditions conducive to the rapid growth of the national economy.

(ii) Relationship with Government

Salaries and other emoluments of the governor and deputy are determined by the President

- Autonomous institution but overseen by a government agency. *(iii) Responsibility for monetary policy formulation*

  Monetary and other policies of the Bank of Tanzania (BOT) have to be within the economic policy framework of the country. Plans are approved by the government. The BOT reports to the Minister of Finance on implementation and general developments in the economy. In practice, the BOT exercises a considerable degree of freedom in implementing its policies. Government financing is limited to one-sixth of the annual budget revenue of the government and the total amount of government securities to be held by the bank at any time are not allowed to exceed the limits that may be set forth in the annual finance and credit plans. The degree of independence of the Bank of Tanzania from government depends on how the personalities involved from both institution (BOT and Ministry of Finance) interact with each other.

(c) *Egypt*

(i) Central Bank of Egypt (CBE)

- Board of directors - consist of governor as the chairman, board, the deputy governor as the vice-chairman, the chairmen of public sector commercial bank representatives of each of the Ministries of Economy and Economic Co-operation and three persons.
- Salaries fixed by a presidential decree
- Appointments are for a term of four years and may be renewed.
- The governor may not be removed during his term of office.
- The board is vested with the powers of managing the bank's affairs in regulation of monetary, banking and credit policies and the supervision of implementation.
- approves the financial plan of the CBE. Its decision is final.

(ii) *Objectives:*

To regulate the monetary, credit and banking policies, and to execute s policy in accordance with the general plan of the state with a view to develop the national economy and maintaining the stability of the Egyptian currency.

Relationship between the Bank and the Government

The bank enjoys considerable autonomy and is empowered to adopt such administrative systems as usually followed by banking norms, and is not bound by administrative and financial rules and regulations given by the Government the public sector. No provision in the banking act which empowers government to give directives to the CBE as to the monetary policy pursued or to be adopted.

(d) *Botswana*

Management by board of directors - governor, deputy governor and four others

(i) Central Bank of Botswana

(ii) *Objectives: Multiple*

- *Promotes and maintains internal and external monetary stability, and efficient payments mechanism*

- *Fosters monetary, credit and financial conditions conducive to the orderly balanced and sustained economic development; and assists in so far as it is not inconsistent with the objectives as set out in above, and ensures the attainment of national economic goals.*

(iii) *Bank-Government Relationship*

- Governor and deputy appointed by the President for terms not exceeding five years and may be re-appointed.
- Board consists of governor as chairman, deputy governor and four directors. The directors are appointed by the Minister of Finance for terms not exceeding four years

and are also eligible for re-appointment. The tenure of board members is protected; they can be removed for a cause substituted by an ad hoc tribunal. Government directs the bank on policy issues and informs the national assembly. The bank has full policy and administrative autonomy in its dealings with the banks and other financial institutions. Government financing is limited to 20 per cent of its average ordinary revenue over the preceding three years.

7. Effect of Central Bank Independence on Economic Performance

Generally, the degree of autonomy enjoyed by a central bank influences the type of policies it pursues and the outcome of those policies. Various efforts[5] have been made to classify central banks in terms of independence and how it affects economic performance. Some of the indicators were created from indices based on central bank laws and the rate of turnover for central bank governors. When these indices were used to evaluate the performance of key economic indicators it was found that:

(i) cross-country variation in inflation could be explained by the degree of autonomy for central banks in industrial countries,

(ii) legal independence of central banks industrial countries reduces inflation because of its limiting effect on credit expansion to the public sector in those countries;

(iii) countries with less independent central banks grow at a slower rate than others;

(iv) developing countries with politically vulnerable central banks have lower investment demands;

(v) high turnover of central bank governors increases the incidence of inflation in developing countries as opposed to the level of legal independence; and

(vi) high variation of ex-post real deposit rate and low average deposit are strong indicators of a weak central bank.

It should be noted that while price stability can be achieved by other policies sue pegging domestic currency to that of a country with stable prices (Argentina to dollar; Francophone African countries to French Franc); in reality, the degree of independence of the central bank is still very important in implementing the exchange rate arrangement. Tables 1 - 3 show the growth in narrow money (Ml), inflation rates and growth in GDP for selected industrial and developing countries in the W(The trends have a strong relationship with the empirical studies cited above and recent trend towards the choice of price stability as the main objective of monetary policy.

8. ISSUES IN MONETARY POLICY

A stable macro-economic environment is crucial for long-term sustainable growth. In turn, the stability of the macro-economic condition depends domestically on p stability and externally on the exchange rate. Monetary policy plays a pivotal role ensuring such stability. The pertinent question, however, is, what exactly is the goal of monetary policy and how is this goal to be achieved? In addressing this issue is usual to make a distinction between ultimate policy objectives and proximate pa instruments.

Ultimately, economic policy aims at raising the welfare of the people broadly through increasing economic growth, promoting employment, maximising price stability enhancing balance of payments viability. Over the years, there has evolved, at in the industrial world, a broad consensus that the primary objective of monetary policy should be the attainment and maintenance of monetary stability an particular, price stability. In many developing countries, governments have adjusting their economic policies, especially monetary policy to meet specified a inflation rates, generally aiming at achieving single digit inflation rate while a same time wanting double digit real output growth rates. The desire to pursue inflation level often leads some countries to be tenacious about anti-inflationary measures even in the face of economic recession. This policy stance is supported by the public which has, over the years, become averse to the risk high inflation entailes, especially in terms of widespread poverty; and conversely the public's general view that relatively low inflation is a positive factor in economic growth.

Proximate policy instruments are variables directly controlled by the monetary authorities, such as changes in the portfolio of the central bank, normally through the Open Market Operations (OMO) or variations in reserve requirements or adjustments in interest rates at which the central bank will conduct its operations (e.g MRR). These instruments may be direct or indirect depending on the degree of the deregulation in the financial system.

(a) *Linkages*

The linkage between these proximate policy instruments and ultimate objectives are complex and indirect. For this purpose, analysts have found it convenient to focus on some intermediate targets (or intermediate variables) which are either money or credit-based and are considered stable and therefore have a predictable link to the ultimate objectives.

An intermediate target is a variable that is closely linked to the ultimate target of policy (e.g inflation) that is influenced by changes in the instruments of policy. Such intermediate targets may be monetary or credit aggregates. In some instances, the exchange rate, the rate of growth of GDP etc. may serve as intermediate targets or indicator variables. An indicator or information variable in this context is one that role' provides signals on the direction of development that may necessitate policy fine-tuning. Increasingly, central banks, notably those with highly developed financial sue, systems, tend to move away from monetary aggregates (Ml, M2), to some other variables such as credit aggregates. This shift is, to a considerable extent, influenced by technological developments and financial innovations, especially the emergence of near-money substitutes, which has significantly weakened the link between monetary aggregates and the ultimate variable. The operational variable is typically short-term interest rates. It has been suggested) - that under a floating exchange rate regime, the use of a Monetary Condition Index , (MCI) as the operational target for policy instead of short-term interest rate may be preferable. The MCI is the combination of the short-term interest and the exchange rate less their value in a base period. It measures the degree, the ease or tightening in monetary condition from a given date. Canada has made use of MCI as an operational targets in its monetary policy. In the intervening period between now and 2010, this variable could be relevant in Nigeria depending on the evolution of the oft financial system. The distinction between intermediate and operational variables focuses on the relative speed with which an instrument impacts on a targeted variable. Thus, while the effect of short-term interest rates as an operational variable is almost instantaneous, effect on monetary aggregates tends to spread out over longer periods. Intermediate target is typically a nominal variable that can function as a nominal anchor to system, a function which operational variables such as short-term interest rate will be able to provide. While a monetary authority must have an instrument and ultimate target, it does not necessarily need to have an intermediate or an operational tar (e.g. US.).

Indicator or information variable provides leading or concurrent information potential movements in the ultimate variable (or a variable linked to the ultimate tar~ or variable but to be controlled). For example, certain interest rate spreads (4 spread between short-term and long-term rates) may contain information about movements of GDP, which in turn may signal possible inflationary pressures. The same applies to a widening spread between official and parallel market rates under fixed exchange regime, or a multiple exchange rate system.

(b) Instruments of Monetary Policy
Broadly, there are two techniques of monetary policy, viz, direct control w~ may be quantity rationing and include fixed interest rates, setting ceilings credit, and the use of directed credit into the preferred sectors of the economy. Until the introduction of SAP in 1986, monetary policy in Nigeria was dominated by the use of direct controls.

The other technique is the indirect instruments of control. While the control as already noted is based on quantity rationing, indirect instruments rely on price mechanism, largely through market-based interest rates and O~ complemented by reserve requirements. OMO relies on the existence of effective money market - primary and secondary. In other words, the mark should be deep and broad with a variety of marketable instruments, all of w assume a liberalised/deregulated financial system.

(c) Policy Environment
The development of a money market, in turn, presumes financial deregulation albeit appropriately sequenced in order to deepen and broaden the money m and thus enhance the effectiveness of monetary policy in achieving final stability.

Inappropriate sequencing of deregulation, that is one which is out of tune the reform of monetary instruments may compel the authorities to resort to adhoc instruments of control such as stabilisation securities or other measures that may weaken the effectiveness of monetary policy. Furthermore, in such a situation monetary policy instruments may encounter difficulties in dealing with sustained large fiscal deficits or for that matter, with balance of payments surpluses. This could result in pressures on domestic price level and the exchange rate.

(d) The Need for Secondary Markets
The existence of deep and active secondary markets should enable monetary operations to be conducted independently of debt management. Over-reliance on the primary issue markets, as is currently the case tends to strain co-ordination between monetary and debt management authorities. Thus, the effect of large treasury bill issues on interest rates has sometimes made the authorities unwilling to sell enough bills to meet monetary objectives.

At present, the lack of a well-developed money market seems to be constraining OMO. The constant shortage of supply of treasury bills could be the result of fiscal prudence or tight securities holding requirements imposed on financial institutions which cause available supply to be tightly held or institutional constraint on domestic debt issuance for deficit financing. In such a situation, the excess liquidity situation will seem to be irresponsive to the use of OMO.

(e) *Issuing Central Bank's Own Securities*

Inadequacy of instruments has been one of the main reasons for the proposal that the central bank should issue its own marketable instruments. For example, of some central banks, including that of New Zealand, have relied on their own bills in the conduct of monetary policy. Of course, there is a risk that the strategy may impede rather than enhance the deepening of the financial markets, especially if such bills lack credibility. It also has its cost in that it may result in the central bank running a quasi-deficit with expansionary implications.

(f) *Policy Objectives and Intermediate Targets*

As already indicated, a major function of an intermediate target is to serve as an explicit nominal anchor aimed at avoiding unidirectional policy errors but must ensure that policy actions do not push the price level (the primary or ultimate objective) off its long-term trajectory. Broadly, there are two types of intermediate targets, one of which can be chosen at a given time, that is monetary aggregates, rationale of which is based on money-channel transmission mechanism. These include narrow and broad money such as Ml and credit aggregates, that is, total credit to the domestic economy. This is sometimes, for convenience, divided into:

(i) Credit to government or Public Sector Borrowing Requirements (PSBR); and
(ii) credit to the private sector. The use of credit aggregates is based on credit channel transmission mechanism.

In the Nigerian situation, monetary aggregates have been used largely because of the view that the demand for money is stable in relation to income. There is empirical evidence to confirm this. In particular, Ml has been extensively used but with the rapid growth of quasi-money (i.e. near money substitutes especially following the introduction of SAP in 1986, emphasis shifted to (broad money). On the other hand, the IMF tends to focus more on credit aggregates. Given the view that budget deficit is facilitated by credit to economy, especially, credit to government, the control of credit aggregates becomes the intermediate target.

Some countries, rather than focus on intermediate targets, monitor developments and such indicator variables as the CPI, WPI or asset prices. In the w developed financial systems such as in the U.S., the tendency is not to focus any particular intermediate targets but rather on indicator or information variables, e.g CPI, WPI, Asset prices, GDP etc. The pattern established in more developed countries may become relevant to Nigeria in the context Vision 2010, facilitated by technological developments, financial innovation the impact of financial globalisation.

(g) Criteria for Determining the Intermediate Targets

While there are no hard and fast rules for determining whether intermediate targets should be based on money-channel or credit-channel as a rule of thumb, the following attributes may provide a useful guide:

(1) the intermediate variable should be closely and reliably related to the ultimate target of policy. In the Nigerian case, monetary aggregates seem to be closely related to inflation objective;

(2) the intermediate variable should contain information about the movements o target of policy; and

(3) the intermediate variable should be closely related to the operating target (or instrument) over which the central bank can exert control (MRR with monetary aggregate).

In essence, there is the need to compare the relative stability of each type of intermediate target with income and ascertain the relative importance of money-demand and credit-demand shocks as well as relative degree of control that the central bank can exert over selected aggregates. In doing this, sight should not be lost of the relevance of credit aggregates as attached tables on monetary and credit aggregates show that both are closely related to inflation.

(h) Rules vs Discretion

Procedures for controlling the intermediate targets, whether monetary or credit aggregates, are assumed to be based on the so-called fixed rules or on the authorities? discretion. The central issue is whether rules should be applied to determine the time path of the intermediate variable in question or whether discretion would provide a better policy guide. The rules approach, depending on the situation and, in particular, on the stability of particular aggregates, may enhance the predictability of monetary policy.

Discretion, on the other hand, stresses the importance of policy adaptability in an uncertain environment. The reasoning here is that variations in monetary conditions reflect shifts in demand and supply that are often a result of a variety of factors. Thus, given that the effects of monetary policy depend on the nature of the disturbance, the policy response is best determined by discretion. It is largely for this reason that the U.S., Japan and others have at varying times used discretionary approach. Japan in particular favours pragmatic approach based on the exigence of the situation. Instead, these countries focus on indicator variables, including interest rates, the slope of the yield curve and commodity prices. In the Nigerian case and in the context of Vision 2010, discretion-cum f rules should apply to reflect developments in the financial system.

9. Where We Want To Be In Monetary Policy

The primary objective of monetary policy should be that of maintaining price stability. An inflation target of 2.0 per cent, also chosen for the year 2010, can be achieved based on the following periodic targets.

Year	Percent
1997	15
2000	6
2004	4
2007	3
2010	2

The inflation targets agreed by the group are contingent on the following assumptions.

(a) It is assumed, given the growth rates of the GDP over the period. There are, therefore, exogenously determined as far as the Vision 2010 Committee on monetary policy is concerned.

(b) It is also assumed, given the budgetary situation. In the case of a balanced budget, the situation is relatively consistent with the inflation objective;

(c) A budget-deficit situation is also consistent, provided the financing deficit is not through the banking system and in particular, the central

(d) As a corollary, it is assumed that the central bank is sufficiently to be able to use available instruments to effectively defend the inflation target. In particular, the CBN has power to decline to government.

(e) Given the relative stability of M2 monetary aggregate, the group believe M2 should be the focus of intermediate target. In particular, the emergence of many instruments of quasi-money characteristics makes M2 -appropriate.

(f) Because of this stability, it is possible, at least, in the short run, to follow the rules approach to guide the movements of the intermediate targets. 1 inflation target is fixed at, say, 6 per cent, a fixed rules approach monetary aggregates (e.g. M2) implies that its average growth rate during period should not be more than 6 per cent provided the variations in smooth out nominal income changes. Of course, over time, due in technological developments and financial innovation in the system, a greater variability in the intermediate aggregate variable, the fixed approach may need to be combined with discretionary approach, as practised in many countries. The following matrix emerges from assumptions:

MONETARY POLICY MATRIX

YEAR	Q1	Q2	Q3	Q4			Average Inflation
		M2		M2	YIY	B=	
	M2		M2			R-T	
2000	6	6	6	6	YIY		6
2004	4	4	4	4	YIY		4
2007 3	3	3	3		YIY		3
2010 2	2	2	2		Y/Y		2

Note:(1) YIY = Growth rate of output is fixed
(2) B = R-T Budget position

The, rationale for the price stability objective of monetary policy is that empirical studies in Nigeria and elsewhere have establish a strong relationship between growth in money supply and inflationary pressures. Figure 1 shows the fluctuations of the growth in narrow money supply (Ml) and inflation in Nigeria between 1986 and 1996, which also shows the lagged relationship between the two variables. Similarly, the control of inflation has salutary effects on economic performance due to its positive impact on business investment and human welfare. In addition to recent studies on the phenomenon, Figure 1 also shows the relationship between changes in inflation and real economic growth as measured by the growth in GDP for Nigeria (1986 - 1996). During the period, it will be observed that real economic growth increased when inflation subsided. Thus, the pursuit of the objective of price stability not only enhances economic growth but also maintains a stable purchasing power of the naira (stable currency). Though the monetary literature recognises a possible short-term trade-off between price stability objective and unemployment, the longer term benefits have always been the driving force in the fight against inflation.

10. How To Get There

The ability of a central bank to maintain price stability in general and for the CBN to attain the inflation targets depend on the powers it has to manage monetary policy without political interference. The comparative studies in section III of this report show that the general trend in central bank-government relationship is towards greater central bank autonomy because those countries with central banks which are independent on monetary matters have been more successful in managing inflationary pressures e.g. Germany and New Zealand. Allan S. Blinder, a former vice-chairman of the board of governors of the United States Federal Reserve System, suggested the reasons for the observed trends thus (page 10): 6

“..... the effects of monetary policy come with long lags. So, to conduct monetary policy well, you must look far in the future and then wait patiently for the results. Farsightedness and patience, I dare say, are not the strong suits of the political process in a democracy. But they are absolutely essential to pursuing a successful monetary policy.

... inflation-fighting has the characteristic cost-benefit profile of a long investment: You pay the costs of disinflation up front; and you reap the benefits inflation - only gradually through time. So, if politicians were to make policy on a day-to-day basis, they would be sorely tempted to reach for short-gains at the expense of the future - this is, to inflate too much. Aware temptation, many governments wisely depoliticise monetary policy by authority to unelected technocrats with long terms of office, thick insulation hurly-burly of politics and explicit instructions to fight inflation.

... the conduct of monetary policy is at least somewhat technical. It is a bit shooting a rocket to the moon, though not nearly as exact. Very few elected in this or other countries have much understanding of how monetary mechanism works, of the long lags that I have mentioned, or a variety of technical details about monetary policy. So countries can probably get higher monetary policy by turning the task over to trained technicians, subject, of this is important in my view, to political oversight.?

In relation to this fact, the Maastricht treaty (1992) on European Central expects national governments to implement a set of rules that would ensue price stability through a system of independent central banks shielded from political pressures. In the same spirit, the Council of Ministers of the Organisation of African Unity (OAU) in Cairo, Egypt, called on African governments in 1 enact specific legislation to enhance the autonomy of central banks on monetary and the supervision and regulation of the financial system.

Hence, the Central Bank of Nigeria should be granted autonomy to allow it monetary policy to achieve the goals set by Government. In particular,

(i) The governor of the CBN should be the chief executive and chairman board of directors;

(ii) The governor should also be of cabinet rank and report directly President and Head of State;

(iii) Appointment of the governor and other members of the board should the President, while that of the governor should be confirmed by the or parliament;

(iv) In turn, the central bank governor should be accountable to the government in achieving its set targets;

(v) Term of office for the governor and other executives should be for six years staggered and renewable once for a maximum period of six years to overlap the term of office of political administration (s);

(vi) The composition of the board of directors should be structured in favour of executive members; and

(vii) The central bank board should have the budgetary independence to implement government's set policy targets.

On a related issue, while there is the need for continued co-operation between the fiscal and monetary authorities, there should be clear separation of powers between
al the two such that no advances by the CBN to the public sector should be allowed. Besides, the government should borrow from the financial markets at market-determined rates. The importance of this recommendation is based on the well known link between monetary instability and central bank financing of government's fiscal operations. More importantly, the government should continue with the prevailing fiscal discipline.

To maintain a sound financial system, the government should expedite the financial system distress resolution efforts so as to facilitate the process of financial intermediation. Also, higher denominations of the naira should be introduced to minimise costs imposed on the economy.

11. CONCLUSION

The Monetary Policy group reviewed Nigeria's present position in the practice of monetary policy in Nigeria, compared this practice with those of other countries and identified important issues for improving the way monetary policy is practised in the country. The group observes that monetary policy has been generally liberalised. However, it notes that the institutional framework for the design and implementation of monetary policy has steadily been constrained. Specifically, recent laws on the Central Bank of Nigeria have strong potential for hampering its operations and the effectiveness of monetary policy.

CHAPTER THREE

FISCAL POLICY

Where We Are

The signal given by the sharp drop in Nigeria's oil revenue fortunes from 1982 it clear that the country needed to diversify its revenue sources instead of relying on oil revenue.

In 1982, some austerity measures were introduced, and the level of Govern expenditure reduced. In 1986, Structural Adjustment Programme (SAP) introduced to stem the downturn of the economy and since then, the country has in search of a sustainable solution to the poor performance of the economy.

SAP actually brought a massive devaluation of Naira, the Nigerian currency with corresponding productivity. The naira became unstable against other currencies. There was continuous deterioration in capacity utilization manufacturing industries across the country and new ventures were becoming difficult to come by whilst some of the existing ones went under over time. The current situation is that Nigeria has become poorer. Many individuals are gradually u to meet their basic economic or social needs as wages and remuneration had be very poor and inadequate. Existing corporate bodies are finding it difficult to and new investments are not coming on stream as expected, especially for investments.

Furthermore, there is a high level of unemployment. Many banks have been distressed because of mismanagement and corruption while some have col1~ Existing infrastructure are deteriorating because of poor maintenance. Drug trafficking and crime have increased. Both foreign and domestic debt over has remained heavy.

In order to correct these problems, Nigeria needs a comprehensive macro-economic package that would move the country forward socially and economically and pr growth. Such package would include some fiscal policies that would blend complement the macro-economic package.

This report therefore takes a look at Nigeria's Fiscal Policies within the contexts "Where We Are", "Where We Want To Be" and "How To Get There".

2. Core Objectives

Fiscal policy is the use of Government management, federal finance management which include:

- Promoting economic ~
- Promoting economic
- Promoting economic

Other tools of macroeconomic management include monetary policy, incomes policy and exchange rate policy. All these together with fiscal policy must complement one another to maintain stability continuous basis.
include:

This report is divided into five parts:
- Taxation
- Level and structure of expenditure

- Revenue structure
- Fiscal federalism
- Budget balance

3. Taxation

Nigeria's tax system today can be described as follows:-

- It is gradually moving towards lower tax regime in both Corporate and Personal Income Tax. Corporate tax rate has moved from *45%* to *35%* in 1993 and 30% in 1996 while scale rates of Personal Income Tax has also been reduced to a scale of 5-25% in 1996. However rates of corporate and personal income tax are still considered not low enough to enlist the required level of compliance from tax payers and to promote economic growth.

- Data and information collection and collation are generally poor.

- Enterprises and individuals do not keep proper records, thus making accurate tax assessment difficult.
- Administration of taxes in terms of total coverage of taxable persons and correct assessment is still weak especially at the state and local government levels.

- There is corruption in the administration of taxes and duties.

- There are now 25 taxes approved for collection between the federal and of government.

- States are now in the habit of employing tax contractors and consultants to help them assess and collect taxes and levies. The methods used by some agents are harsh, unprofessional and discouraging to tax payers. This trend is considered not conducive to the growth of voluntary compliance which is in the rest of the world.

- In spite of the fact that the tax legislation is handled by the federal authority, there are departures at the state levels from the statutory provisions in the methods of assessment and collection. The Joint Tax Board meant to harmonise the laws and the practice is often unable to correct this. This has led to arbitrariness harassments and even closure of business premises in some states. This is destroying the cooperation and compliance by tax payers.

- Inadequate manpower, tools and machinery for the ever increasing challenges and difficulties in tax administration.

(b) TARIFF

- The 7 year tariff tenure now in place is commendable. The coding is in 11 international practice.

- The IDR system of assessment of customs duty computed by appointed based inspection agents is what obtains now while customs officers concentrate on only examination with other agents at the ports.

- Professional accountants are now responsible for the collection of duties as the port reforms in 1996. However, there is controversy over their role collection at the ports.

- Some tariff rates on items of finished products imported have been slashed importation rates of the raw materials used in local manufacture of such products have been increased to the detriment of local manufacturers of such products e.g. pharmaceuticals and motor vehicles.

- There are too many processes in clearing imports and each process source of bureaucratic delay and gives room for corruption.

- There is a lot of pilferage of goods at the ports thereby complicating tax administration at the ports.

- Refund and duty draw-back is inefficient especially in VAT.

- Although the tariff range has been reduced from 0-300 to 0-150, this is considered trend still too high and too wide.

- There are at least 26 categories of products now subject to excise duties of between 5 and 40% which increases cost of goods to consumers.

§ VAT, even though young, appears to be successful in terms of revenue.

(c) ‘Level and Structure of Expenditure

- Government is not spending enough on economic and social services, and there is inefficiency in government expenditure operations.

- There is also a lot of inefficiency in the sectoral content of government expenditure.

- The practice of transparency and accountability has not permeated all tiers of government.

- Total expenditure of the three tiers of Government, excluding parastatals, as a percentage of GDP was about 34% between 1993-95.Although the private sector accounts for the balance of 66%, the sector does not have commensurate influence on economic decisions.

- Federal Government annually accounts for about *75* % of total government expenditure, state is 18% and local government 7%. This shows overcentralisation of power and spending in the Federal Government.

§ Since the early 1990’s expenditure on transfer payments (mainly servicing of foreign debt service charges) now accounts for about 50% of total federal expenditure. This situation has to be redressed. Nigeria’s public expenditure trend over the years ranges between 12% and 34% of GDP which is the same as in some developed countries. However, these countries spend theirs on welfare and is social goods and services while Nigeria spends a good part of its public expenditure on debt payment. The sectorial content of public expenditure as it is now cannot help or stimulate growth as long as the debt overhang remains serviced, leaving less fund to spend on economic, welfare, social goods and services.

- The recurrent/capital expenditure ratio has averaged 55:45. Recurrent expenditure is like working capital in the private sector, but there has been a trend to n recurrent expenditure in favour of capital expenditure with the negative implications of governments' inability to maintain assets, provide service~ facilities. This has led to a generally poor maintenance culture and a high rate of new capital ventures many of which have remained uncompleted or abandon both federal and state levels.

- Approved funds for budgeted expenditure are not released in time.

- There is also no serious monitoring of the quality of expenditure.

(d) Revenue Structure

- Oil revenues still account for a sizeable portion of federal revenues but the I has declined from about 80%-20% in the 1980s to about 60-40% by 1997. shift has not been due to growth of the non-oil sector of the economy but of it has come from VAT and inflation revenue (e.g Interbank Foreign Exchange Market, IFEM, proceeds).

- Non-oil sector is neglected and is making insignificant contribution.

- Incentives to non-oil sector are not working satisfactorily and therefore re from that sector is not flowing into the economy as it should be.

- Public enterprises expected to generate revenue are not doing so enough largely due to inefficiency especially in revenue collection which is sometimes due to government policies.

- The conversion of oil revenue at 22 to the dollar instead of the market r shortchanging government revenue and distorting revenue structure.

(e) Balanced Budget

- Government is gradually moving towards annual balanced budget eliminating budget deficits, but the surpluses being declared of recent need to be backed by more open accounting and budgetary procedures.

- Government is still doing business using dual exchange rate.

- Deficits and consequential domestic debt incurred over the years still remain large and unpaid.

§ Funds approved in the budget in a year are not released promptly and fully especially for capital projects.

- Monitoring of budget performance is not done regularly enough.

- The ratio between recurrent and capital expenditure is not realistic. The implication of this is that maintenance of structures is neglected while new capital ventures are preferred.

(f) Fiscal Federalism

- Section 49(1) of the 1979 Constitution and section 163(1) of the 1995 Draft Constitution stipulate that “All revenues collected by the Government of the Federation shall be paid into the Federation Account for sharing between the three tiers of government, except Federal Government Independent Revenue.” Over the years, there has been departures from this provision. There has been a unilateral up-front appropriation of portions of revenue for Federal Government projects thereby concentrating more funds in the hands of the Federal Government and depriving the state and local Governments of their statutory revenue. The stability of Nigerian federalism will be considerably enhanced if the revenue allocation formula is strictly adhered to.

- The unilateral monetisation of part of dollar earnings at the exchange rate of 22 to the Dollar and the balance at the rate of 80-85 to the dollar further compounds the inadequacy of revenue accruing to the Federation Account and this deprives IL the States and Local governments of more revenue.

- Internally generated revenues of states and local governments are relatively low due to low economic activities and poor tax administration at those levels.

- The taxes and levies at all levels of government have now been harmonised to check the hitherto multiple taxes and levies which created harsh environment for business.

4. Where We Want To Be

(a) Taxation

- Continuous movement towards low tax regime to attract investments and improve compliance.

- A tax policy framework that is predictable and maximises tax revenue necessarily creating a harsh tax climate that would drive investors away or out of business or drive enterprises towards evasion.

- An effective redress and refund system eliminating arbitrariness and con

- An efficient administrative machinery.

- Adequately trained, well equipped and motivated personnel

- A corruption free administrative machinery.

- An efficient tax administration that brings all taxable persons under the paying their due taxes promptly without obstacles and with appropriate sanctions for defaulters.

- A Federal Inland Revenue Service and Customs Service highly status, fully autonomous in day- to- day administration of taxes or” reporting directly to the Minister of Finance for purposes of harmonic fiscal policies vis a vis other policies while the minister sets targets and c standards.

- A tax regime that shifts emphasis to consumption tax as opposed to direct tax. A system which is not only more efficient but more equitable and less offensive.

- A business friendly clearing procedure at the ports for all imports in facilitate tax collection and reduce clearing cost.

- Generally low customs and excise duties regime to discourage evasion and stimulate growth.

- Appropriate legislation plus proper tariff to prevent dumping of poor goods.

- Tax incentives wherever introduced should put Nigeria, as much as possible in a competitive advantage and be easy to administer, and easily claimable

(b) Level and Structure Of Expenditure

- Government expenditure should be concentrated on the provision of economic and social goods and services e.g. infrastructure, security, education, and rural development, leaving other activities to the private sector.

- A smaller well trained, highly motivated and remunerated public sector to improve productivity.

- Greater accountability and transparency in expenditure in all tiers of Government.

- Rationalise government expenditure to ensure greater value for money.

- Elimination of government expenditure on commercialised public sector activities and removal of all monopolies from the public sector to make them competitive and more efficient.

(c) Revenue Structure

- Diversified economy which does not depend on oil revenue but maximises revenue from productive non-oil sectors.

- States and Local Governments revenue to be less dependent on revenue from federation account or multiple taxes but derive from improved economic growth and better administration of taxes.

(d) Balanced Budget

- At the minimum, Nigeria should maintain a balanced budget.
- Where there has to be a deficit, it should not exceed 3 % of GDP and it should be financed from the capital market rather than by CBN.

- If Nigeria must borrow, such borrowing should be backed by corresponding productive assets which can repay the debt.

(e) Fiscal Federalism

- Allocation of revenue from the Federation Account to be commensurate with the powers and responsibilities devolved to the states and local governments.

- Government should comply with the constitutional provisions on re allocation.

5. How to Get There

(a) Taxation

- Staff all tax authorities with highly trained and well motivated professional personnel.

- Improved funding of tax authorities and the Customs Service to a level of 3 to 5 % of targeted annual revenue to ensure efficient administration.

- Amendments to tax laws should be made effective immediately amendments are made.

- There should be continuous review of tax laws, tax incentives, tax rates, side by side with other macroeconomic factors to ensure an appropriate and efficient fiscal policy from time to time.

- A unified, effective and unbiased tax administration at all levels of In this connection, in order to avoid the existing situation where states impose levies and taxes illegally and try to enforce them quickly before called to order, a single tax authority devoid of local, ethnic or political should be introduced whilst the usual diversified revenue efforts and of each tier of government remains unimpaired. This is the trend in many states.

- There should be specialised judges in the high courts to deal with revenue promptly and effectively to enhance more tax compliance and respect for

- Avenues for prompt redress for those aggrieved in taxation and tariff shot up in all revenue collecting establishments.

- All international agreements such as Double Taxation Agreements, should be honoured, and existing ones should be reviewed to ensure Nigeria takes due advantage of the provisions.

- The country's tax incentives must be internationally competitive. All such tax incentives must be cleared with the Federal Minister of Finance on the advise of the head of the tax administration. Current tax incentives must be promptly treated when claimed.

- The country's ports must be cleared of obstacles, touts, corruption and any other form of malpractices. Port charges should also be internationally competitive and reasonable.

§ The Customs officers and those on duty at the ports must exhibit friendliness and willingness to assist rather than hostility or extortion of users. This would reduce cost of clearing goods at the ports.

§ The Nigerian Investment Promotion Council should be set up immediately and must be prompt in dealing with applications so as to attract more foreign investors into Nigeria.

- Incentives at the Export Processing Zone (EPZ) should be made readily available and promptly implemented. The objective of making EPZ a “One Stop Centre” for the approval of all incentives should be actualised.

- Excise duties must not erode the competitiveness of local industries, so the Committee recommends its abolition and in its place an appropriate differential VAT rate especially on tobacco and alcohol.

§ Tariff on finished goods and their corresponding raw materials should be fixed in all such a way as to encourage local production.

(b) Level and Structure of Expenditure

- The ratio of overall government expenditure to GDP should not exceed 30%. To achieve this as from 1998 regardless of revenue windfalls overall expenditure a should grow at an annual rate that is below that of the GDP.

- Commensurate resources should be committed to recurrent expenditure vis-a-vis capital expenditure so that existing government services and facilities can generate maximum output whilst enjoying regular maintenance.

- The level of our expenditure for debt payment as a percentage of total budget is too high. A more comfortable level should be negotiated to free more funds for social goods and services.

- Beginning from 1998 there should be drastic curtailment of expenditure on image laundering, unnecessary public ceremonies, indefensible foreign aid an in foreign lands. Such expenditure however whenever made mus national objectives while the country’s own house must be kept in o~

- Beginning from 1998 government at all levels should desist from creating more parastatals and Ministries and existing ones should be rationalised. The number and types of ministries should be limited, if possible, by statutory provisions.

- As from 1998 states and local governments should be allowed significant in taking their expenditure decisions.

(c) Revenue Structure

- The present revenue structure can only change if the country’s macro-management succeeds in diversifying the economy and the dominance of oil is reversed or replaced by non-oil revenue. There is no magic about revenue inflow; it has to flow from economic success factors.

- All export drive, economic growth strategies in agriculture, gas, solid etc, when they start showing success, revenue from them sources would flow to all levels of government.

    - All incentives necessary to encourage growth and even first time investors in non-oil sectors should be put in place now and implemented. Explore the possibility of reducing government investment in the oil industry without effects on revenue.

- All the three tiers of government have been allocated areas of revenue in the constitution which they can tap, therefore effective collection machineries must be put in place to maximise collection at all levels. The Federal Inland Revenue Service should take initiative to assist in setting up effective as and collection machineries at all levels.

- Accelerate attempts to diversify the country's economy e.g petrochemical and solid minerals and quickly make efforts to ensure revenue flow from these sectors.

(d) Budget Balance

- Approved funds in budgeted expenditure should henceforth be released to spending agencies fully and timely as part of budget administration for effective implementation.

- The current domestic debt overhang should be gradually repaid to restore credibility in the budgetary system.

§ Continuous monitoring of expenditure releases ensuring quality and value for money.

(f) Fiscal Federalism

§ Establish efficient tax administration at all levels of government

- Eliminate all unilateral deductions from the Federation Account that deprive the other tiers of government of their statutory revenue.

§ Adhere strictly to the statutory allocation of revenue from the Federation Account

§ Ensure all tiers of government do not encroach on one another's sources of revenue.

6. CONCLUSION

Fiscal Policies cannot be static but must be constantly reviewed in relation to other macro-economic policies in place from time to time to ensure a conducive economic environment for growth, efficiency, healthy competition, and good productivity.

CHAPTER FOUR

INTERNATIONAL TRADE

1. Introduction

(a) Definition and role of International Trade

Simply put, international trade is defined as the exchange of goods and services take place between two nations. International trade plays a crucial role economic and social development of any nation by facilitating economies through expanding the potential market available for a product. The source of the wealth and influence of any great or developed nation today can be traced t~ and influence that nation has had or is having in international trade. The rise and fall of empires can directly be linked to their role or influence in international trade. The British empire during the era of colonialism, the United States of America during post world war II, Japan in the 70's and 80's and today, the Asian T booming economies based on the role- and influence they had or are I international trade, through the market opportunities provided for imports a capacity based on high quality and competitively priced manufactured products.

International trade also engenders the acquisition of knowledge, ideas, technology through the importation and adaptation of such from more societies and also provides a stimulus for production and demand by bringing in investments.

Above all, unimpeded international trade promotes competition which is required to guarantee the maximum welfare of consumers.

A country's role in international trade is measured by the volume of two viz, imports and exports. Of course, a country's ability to buy (imports) is highly influenced by its capacity to sell (export) to be able to pay for the imports. Since it is always desirable to be a net creditor, countries strive to e~ positive balance of payments i.e. net exports are greater than net imports. scenario and the critical role of international trade, countries have sought years to ensure that while increasing their participation in international trade are maximised while imports are minimised, thus giving rise to protectionism, trade conflicts and subsequently the General Agreements on Tariffs and Trade Q succeeded by the World Trade Organisation (WTO).

(b) Key Players in International Trade

The key players in international trade and their roles include:

(i) The independent countries that buy and sell between one another.
(ii) International multilateral finance institutions (World Bank, IMF).

These act not only as sources of credit but also as credit rating agencies for needy countries. Thus, countries with substantial trade imbalance and debts, that need credit from suppliers to be able to continue economic activities its require clearance from such institutions.

(iii) World Trade Agreement (GATT/WTO):

The General Agreement on Tariffs and Trade (GATT) was established in 1947 by countries from all over the world which accounted for about four-fifth of total international trade. The GATT was made to guard against problems arising from protectionism, with the aim of negotiating substantial reduction in customs tariff and eliminate discriminatory practices in international trade.

The GATT was succeeded in 1995 by the World Trade Organisation (Uruguay rounds) which went further than GATT in reducing tariff in a broader spectrum of areas. This coupled with the growth of membership to 126 countries reflect the importance the international community places on free trade.

(iv) Creditor Groups (e.g. London Club, Paris Club):

These are associations of rich creditor nations mostly western developed countries formed in response to the third world debt crises and with the aim of collectively putting pressure on debtor nations to pay their debts by reducing their manoeuvring ability and the leeway to play one creditor against the other.

(v) Economic Blocs

Are regional organisations formed by neighbouring countries with the aim of increasing their potential markets, productivity through economies of scale,
and bargaining ability with trading partners. Examples include:

- ASEAN: Association of South East Asian Nations
- EU: European Union
- NAFTA: North American Free Trade Association
- ECOWAS: Economic Community of West African States.
- LAIA: Latin American Integration Association

(c) Factors that Facilitate Success in International Trade

Over the centuries, as society has progressed, different factors have combined to facilitate a nation's success in international trade. In the pre-industrial era, corn of the trading routes and or command of the sources of commodities played critical roles. In today's technological and information age, these factors are different and can be divided into four broad categories. These categories and the factors' them are:

(i) Ability to produce:

One of the most critical areas today is the ability to produce. A fundamental law of nature is that one produces before being in a position to cons Also, today manufactured products and services constitute about 97% of while primary products command only -3% for developed economies.

The factors here are:

- Production/Manufacturing capacity
- Technological skill and knowledge

- Infrastructure

(ii) Ability to compete in the global market place:

It is not enough to produce, a country has to able to compete with other countries.

The factors here include:

(iii) Ability to attract capital for investment:

Investment is a sine qua non for production. The factors here include:

- Macro-economic stability

- Relationship/influence with international trade promotion and finance institutions.
- Investment rules and regulation
- Law and Order/Security
- Political stability.

(iv) Ability to consume:

This adds to the attraction for investments. Factors here include:

- High income per capita
- Population

(a) Strategies for Developing Industrialisation

The key factors in determining a country's position in international trade are the ability to produce and to compete in the global market place. Due to historical advantages the tripod of Western Europe, Japan and North America had a near monopoly on these factors. This, coupled with the declining importance/prices of primary commodities which are the domain of third world countries, led to a situation where the third world became consumer nations of what the developed countries produced. This, inevitably led to the third world debt crises. In the quest to resolve this problem, two strategies (philosophies) have been development by the third world countries over time.

(i) The first of these is the Import Substitution Jndustrialisation (ISI) strategy. This development strategy was pioneered by the Economic Commission for Latin America (ECLA) in the early 1950's. The aim here was to substitute imports from developed countries with locally manufactured products, by erecting high tariff barriers and the government investing in all industries to produce locally. This philosophy was eagerly embraced by third world countries including Nigeria. The experience of Latin American countries and other developing countries has shown that the 151 proved to be a disaster. Protected industries became inefficient, foreign investments stayed away. Without the appropriate technology to produce raw materials, the economies became import dependent, currencies were over valued, the debts increased and real income/GPD plunged. In many regards Nigeria is still struggling with the effects of the ISI today.

(ii) In early 1980's the East Asian economies began to pursue a second alternative, an

Export Oriented Industrialisation strategy, where the economy is opened to foreign investments, with the sole aim of producing for the export market. This strategy was influenced by several factors.

First, the ISI had failed. Second, there was the recognition that the out of the debt crises, was to stimulate exports. Third the debt c being used by the IMF and World Bank to pressure the third world to liberalise their economies and lastly, the phenomenal success which has pursue this policy aggressively since the end of the won

Given the success of the East Asian countries, it is increasingly fel second strategy is a better alternative. Nigeria seems to have realise and some attempts have been made to provide incentives for Expo far, this remains at best, a half hearted ineffective attempt, without a re-think of the industnialisation philosophy and therefore dismantlii structures while substituting them with export oriented structures.

The above introduction sets the stage for discussing the rest of this report, on where are we, where we want to be, and how to get there in international trade.

2. WHERE WE ARE

In establishing where; the country is in international trade, there need to establish its share of international trade, establish the structure and also examine where the is on the factors that facilitate international trade. Also, comparisons with developed and developing countries will be down where possible to show t of work needed to be done, and to assist in setting target for where we country to be.

(a) Nigeria's share of International Trade

The charts I and II below show the regional shares of global trade and countries share of world trade in 1993 respectively (see appendix 3 for detailed date).

(Charts please).

The key messages from these charts are:

(i) Despite having about 20% of the world population, Sub-Saharan Africa is a marginal participant with about 2% of total world trade.
(ii) Nigeria, the second largest contributor behind South Africa in this sub-region, is currently an insignificant player, consistently contributing less than 0.3% to world trade.

This compares unfavourably with other developing countries like Thailand with about 1.1 % and Malaysia out about 1.3%

(b) Structure Of International Trade

Table I below shows the structure of Nigerian export trade between 1970 and 1995.

Agnic.	**PdM/SM Agric**	**Textile**	**Min. Pdts (Oil)**	**Manuf. PdM**	**Other Manuf.**
1970	36	0	2	62	1	0
1972	1.5	0.1	0.1	98	0.2	0
1973	1.6	0.1	0.1	97.7	0.2	0
1974	1.9	0.1	0.1	97.5	0.4	0.3
1975	1.8	0.2	0.2	97.5	0.4	0.3

Source: **CBN**

In 1970, Nigeria's principal exports were primary commodities, which accounted for 36% and mineral products predominantly crude oil, which accounted for 62%. By 1992, this structure had changed dramatically, with crude oil accounting for a staggering 98%, while agricultural products had virtually disappeared, accounting for a meagre *1.5%*. This trend has continued to date. Other exports are virtually non-existent.

The key messages from these charts are:

Table II below compares Nigeria's export trade with some selected countries Table III shows the trend and projection of Malaysia's exports.

Table II

Structure of Export Trade/Comparisons (1993)

	Fuel & Mm.	Primary Commodities	Mach & Equip	Manufactg	Textile
Nigeria	97.7	1.6	0	0.3	0.1
Malaysia	14	21	41	24	6
Indonesia	32	15	*5*	48	17
Japan	2	1	68	29	2
S/Africa	16	11	8	66	3

Source : (World Development Report)

Table III

Structure of Malaysian Exports

	Agric & Forestry	Mining	Manufacturing
1980	44.9	32.7	22.4
1990	23.4	16.2	60.4
2000	13.3	4.9	81.8
2010	4	1	95

Source : **Source (Malaysia Vision 2020**

Nigeria clearly stands out, with fuels constituting about 97% of exports. Nigeria is one of the few countries in the world where a primary product cc well over *95%* of export trade. In contrast, the other countries show presence in manufacturing. Of note are Indonesia and Malaysia, both of which have similar natural resources like Nigeria. Both show strong presence in manufacturing which constitutes about 64% (manufacturing and machine and transport equipment) and *52%* for Malaysia and Indonesia respectively. Table III also show that ~ has made concerted effort to restructure her export trade, de-emphasising agriculture and forestry products and mining while emphasising manufacturing. Agriculture and forestry declined from 44% in 1980 to 23.4% in 1990 and is projected to further decline to 4% by 2020. Mining also declined from 32.7% in 1980 to 16.2% in 1990 and is also projected to further decline to 1 % by 2020. On the other hand, manufacturing grew from *22.5%* in 1980 to 60.4 in 1990 and further projected to grow to 95% by 2029%. This captures the essence of the strategic thrust of export trade of all develop and developing nations, in recognition of the fact that more value is created by exporting value added products instead or primary products.

(c) Factors that facilitate International Trade

(i) Production/Manufacturing Capacity

Nigeria is currently very weak in this area. This is clearly shown in Table IV below, which compares Nigeria's structure of production with some selected countries. Agriculture still accounts for over *35%* of GDP while manufacturing accounts for about 6%.

Table IV

Structure of Production (1993)

	Agnic.	Industry	Manf.	Services
NIGERIA .	33.5	.33.5	11.0	5.0
MALAYSIA	43.0	25.0	19.0	41.0
INDONESIA	5.6	22.0	23.0	24.0
S. AFRICA	24.0	42.0	56.0	
JAPAN				

***Source:* World Development (1993)**

(ii) Technological Skills and Knowledge

This is currently very weak. Refer to CSF group on S E & T for details.

(iii) Infrastructure

This is currently very weak. Refer to economic group on infrastructure for details.

(iv) Product Quality

Currently, Nigerian manufactured products are of poor quality comp~ global standards. This was clearly depicted at an international works] export trade development in Nigeria held on 25th February 1997 in La the trade development consultant to the European Commission who that:

• Nigerian manufactured products are of poor quality and cannot compete in the European markets.

• Nigeria product standards are not internationally accredited. The SU Organisation of Nigerian (SON) needs to do a lot to attain international standards.

(v) Comparative Advantage

Comparative advantage is essential for developing international competitiveness in any particular area. Hitherto, comparative advantage could be derived raw materials, labour or location. However, in the post industrial information, comparative advantage is being derived from technology Japanese have proved profoundly. Still, Nigeria has strong comparative advantage in mineral (petroleum) and cash crops (rubber, cocoa, groundnut). What is required is the acquisition and development technological skills, the capital and management to turn these areas into industrial bases.

(vi) Industrial Policy

As noted earlier, Nigeria's industrial policy is still based on the substitution industrialisation strategy, where government invested heavily on all industries, in a bid to minimise import of finished products. This which has been inconsistent and poorly implemented over the years, been successful. It has also been observed that this policy, from the ex~ of third world countries, has proven to be a failure.

(vii) Export Incentives

Though, there are some realisation of the need to provide export incentives in Nigeria (see appendix 4.4 for a comprehensive list of export incentives available in Nigeria), little success has been achieved so far for a variety of reasons. As enumerated recently by the President of MAN in a paper delivered at the Vision 2010 Workshop on international trade. These reasons include:

• They are too numerous (about 17) and most have not been in operation since inception.

• Others are administered with frustrating tardiness and inefficiency.
• Involvement of many agencies have clogged their effective operations.

• More importantly, the various agencies set up to actualise these incentives have remained ineffective. These agencies include the Nigerian Export Promotion council NEPC, NEXIM, the Calabar Export Processing Zone and arms of the Ministry of Commerce and Tourism. The reasons for this situation includes inadequate funding, weak management, poor planning, inconsistency in policies and non co-ordination of efforts between the various agencies.

• In addition, no effort seems to have been made to target specific industries for a concerted export incentive drive.

That no meaningful success has been achieved in the export drive is a testimony to the failure of these incentives and the responsible agencies.

(viii) Government/Private Sector collaboration

Currently, there is no active collaboration between the government and the private sector. Instead, due to historical reasons, government and government agencies view the private sector as exploiters and opportunists, who must be controlled.

The lessons from the experience of Japan and the Asian Tigers show that there is a strong government/private sector collaboration for economic competitiveness. The government sets direction, gives incentives, provides facilities and does everything to ensure that the private sector gains international competitiveness. The government in essence, acts as the cheer leader. All government agencies from the ministries to the customs and security work actively to promote their companies.

(ix) Tariff Structure

Currently Nigeria has one of the most un-competitive tariff structures in West Africa, due to the multiciplicity and duplication of taxes/levies (goods from Cotonou are about 16% cheaper than imports through Nigerian ports.

(x) Export/Import Procedures

Import/export procedures remain difficult and tardy. Though a concerted to address this situation has been made through the recent port reforms, the problems seem to be compounding (refer to Appendix 4.3. pap Importation Process, Today and 2010).

(xi) World Class Entrepreneurs
There are few, if any Nigerian entrepreneurs who can build internationally competitive business enterprises. World class ambitious and entrepreneurs have served in many countries, as veritable channels for international competitiveness. The countries actively encourage these entrepreneurs and assists them in building international competitive ii In turn, these entrepreneurs are ambitions, have long term focus and serve as ambassadors of their countries.

(xii) Availability and Accessibility of Information

Obtaining information in Nigeria on any activity remains a tortuous there is dearth of information. Where available, it is disjointed, scattered and several agencies and mostly unreliable.

(xiii) Macro-Economic Stability

Nigeria is well known for instability of macro-economic policies.

(xiv) Relationship/Influence with International Finance Institutions.

(xv) Recognising the critical role these institutions play in international c and finance, countries go out of their way to develop and nurture relationships with them, irrespective of their political/ideological inch

(xvi) Investment Rules and Regulations

Given the international competition for investment, countries are competing attract foreign investments by putting in place appropriate enabling laws.

Nigeria, though striving to make improvements, still maintains laws that do not encourage foreign investments (see CSF group on competition for details).

(xvii)Law and Order

Respect for laws are a necessity for attracting and retaining investments. Nigeria, currently does not have a good reputation for respecting investment in the laws. The judicial system is not often followed in settling disputes. Companies are harassed by local, state and federal security and revenue collection agencies. Government unilaterally takes board decisions, even in companies where it is a minority shareholder. Though government has recognised this problem and recently made some patriotic efforts to put in place necessary laws to attract foreign investments.

(xviii) High Income per Capital/GDP

Nigeria is currently one of the poorest countries, with one of the lowest per capital income in the world. (see Sustainable Economic Growth in C.S.F. reports for details).

Income per capital (1993)

Nigeria	Indonesia	Ghana	Malaysia	Avg.S/S.Africa
$280	$880	$430	$3140	$500

3. WHERE WE WANT TO BE

(a) Introduction

To frilly establish “where we want to be” by the year 2010, there is need to define an overall vision of international trade. Then establish target for market share and structure of export trade. We will also define where we want to be in the various factors that facilitate success in international trade, drawing from where we are and the experience of other fast growing developing economies.

In order to do this, it is necessary to first, project the volume of world trade by 2010 based on recent trends and three growth scenarios (high, medium and low). Then we will set a target for Nigeria viz. Other developing countries, and determine the volume implications for this target.

In the last decade, the growth in world trade has exploded growing faster than ever before. Between the periods 1965-1980, 1981-1989, 1990-1994, world trade grew at *5.7%,* 4.2 % and 10.2% per annum respectively (Data sources: World Development Report, and Malaysia Vision 2020). This is attributable to the explosion in East Asian economies, India and some other third world countries in Latin America.

Table V

	1991 ($B)	2010 ($B)		
		High (7.3%)	**Medium (5.0%)**	**Low (4.5%)**
Imports	3,508	13,371	8,865	8,095
Exports	3,336	12,424	8,429	7,69S
Total	6,844	20,103	17,294	15,795

Source: **World Development Report**

(b) The vision of Nigeria's International Trade by the year 2010. The group defined the vision as follows:

By the year 2010, Nigeria must have established a strong and growing in international trade, with an investment climate comparable with the most attractive in the world.

(c) Market Share Projections and Implications

In 1991, Nigeria had about 0.2% of world trade while Malaysia]
1.3%. Malaysia is hoping to grow this to 1.48% by 200 and 2.73% So what should Nigeria's target be?

A projection of 1.0%, 1.3%, *1.5%* share for Nigeria's trade under world trade growth scenarios is shown in table VI below:

Table VI

1991($b) Nigeria 2010 Scenario ($b)

Nigeria	Malaysia					
(0.2%)	(1.3%)	1.0%	1.3%	*1.5%*		
		261.0	339.4	391.6		High
18.6	69.5	172.9	224.8	*259.5*		***Medium***
		158.0	205.3	236.9		Low

In 1995, Nigeria's total trade, was a meagre of $19.9 billion, with the oil sector accounting for $12.2 billion and non oil sector accounting for $7.7 billion. In setting a target therefore, this reality need to be borne in mind. Under this circumstance and given Malaysia's target, the group has set a conservative target of 1.0% under the medium growth projections. This implies a total import/export of $173 billion and an annual growth of about 16% in Nigeria's international trade between 1995 and
2010.

(d) Structure of Exports

Table VII below shows the target structure of exports for Nigeria for the year

2010

Table VII

	1970	**1995**	**1998**	**2000**	**2004**	**2006**	**2008**	**2010**
Agric	36	1.8	2.0	4.0	5.0	5.0	8.0	8.0
M/SM Agric	0	0.2	0.5	2.0	6.0	8.0	10.0	15
Crude Oil	62	97.4	96.0	90.5	83.0	76.5	69.5	62
LNG	0	0	0	1.0	2.0	4.0	4.0	5
O/MINI	0	0	0	.5	1.0	1.5	2.0	2
Manufac.	1	.7	1.5	2.0	3.0	5.0	6.5	8
-EPZ								
-Petro Chem.								

The objectives of this target structure are:

- Reduce dependence on crude oil exports

- Diversify and increase exports of value added products, leveraging on the natural resources where the country has competitive advantage. These areas include:

- M/SM Agric. (i.e. manufactured/semi-manufactured agricultural products)

- LNG (i.e. Liquefied Natural Gas)

- 0/Mining (i.e. other minerals e.g. tin, coal, and other solid minerals) Petrochemicals.

The implications for Nigeria in terms of volume are shown in table VIII follows.

Table VIII

	1995	1998	2000	2004	2006	2008	2010
Agric	0.19	0.28	0.62	1.54	2.25	5.36	7.98

M/SM Agric	0.02	0.06	0.31	1.85	3.60	6.70	14.97
Crude Oil	10.4	12.4	14.04	*25.54*	34.46	46.6	61.87
0/Mining	0	0	0.16	0.62	1.8	2.68	4.99
Manufac	0.07	0.19	0.31	0.92	2.25	4.36	7.98
-EPZ							
-PetroChem							
Total	10.6	412.9	*15.53*	30.8	45.04	67.04	99.7

Assumption: Total exports will grow at *5%* between 1995 and 1997, between 1998 and 2000, 17% between 2001 and 2002, 20% between 2002 and 2005 and 22% between 2006 and 2010 to achieve an annual average of 16.

CHAPTER FIVE-POLICY PROCESS

The Policy Process Sub-committee was required, within the context of Vision 2010, to develop a policy process for Nigeria, which would be sustainable in the foreseeable future. Policy is an official statement which is based on relevant analysis and consultations and which sets out specific aims and objectives. A policy identifies the resources required in realising its goals as well as those needed for implementation of the policy. A policy establishes a time frame for implementation and monitoring and evaluation machinery.

There are two major levels of policy, the first being the general or strategic level that defines broad guidelines and involves a number of agencies, departments and sectors. The second, more specific level of policy, focuses on individual sectors such as transport, education, housing, etc. Such policies are usually originated by the agency responsible for that particular sector.

The Committee believes that as a fundamental principle, the basic thrust of both levels of policy must be consistent. Moreover, sectorial policies must always take account of the general, strategic policy objectives.

WHERE WE ARE

Nigeria has a record of articulating clear policies but failing to effectively implement such policies. Policy statements have, therefore, in many cases, tended to be mere statements of intention which do not generally lead to implemented actions. These implementation failures have led to a considerable waste of resources as well as the failure to meet development targets. In the political sphere, though the current transition to civil rule programme was articulated a long time ago, the legal instruments governing elections have only been recently enacted. As a result, the various state judiciaries responsible for setting up election tribunals were not been give enough time to set up such tribunals.

Though general development strategies have been produced from time to time with clear priorities, as in the various rolling plans, these priorities have often been abandoned or changed long before the end of the plan period. Rather than pursue long-term development strategies, funds have frequently been allocated in an arbitrary manner, sometimes due to pressures and running contrary to previously articulated long term goals.

Government policies have also been poorly coordinated. There are inconsistencies in interpretation between different tiers and agencies of govern Sometimes policy pronouncements which directly affect particular institutions been made without consulting those institutions. The National Planning Community, which should perform the policy coordination function, is constantly struggling in respect with other agencies of government such as the Presidency and the Mb of Finance. Furthermore, individual ministries and agencies sometimes do not the National Planning Commission to perform its role as the overseer of govern policy. The use of parallel structures to implement government policies such as task forces, has also hindered policy coordination.

The rapid turnover of people in positions of authority has often led to inconsistency and a lack of clear direction. There has been a history of short-term in the implementation of policies while the transient interests of temporary occupation of power have often overridden long term national interests. Sometimes, p01 which are going well or which have not been given sufficient time to yield result~ changed abruptly by new governments. This has adversely affected the ability of private sector to develop its own long-term plans.

A related problem is that too many policy matters, including foreign exchange interest rate policies and tariff adjustments are often dependent on the annual budget process. As a result, government agencies and businesses generally make decisions between the end of September and the announcement of the following year's budget. Conventionally, the annual budget is expected within the first few days of January, but in the last few years, announcement of budget has delayed for upward of one month and this has compounded the private sector's problems. The cumulative effect of all these factors is that we run at best a nine-month economy. Gazettes reflecting tariff adjustments made within the budget are invariably not available to operators for several weeks and this leads to uncertainties and arguments applicable tariffs between Customs and importers often resulting in high demurrage costs.

In many other instances, major policy pronouncements are made before the measures, such as laws, gazettes, circular, feasibility studies, etc, are put in place for their full implementation. This results in a time lag between the pronouncement and the commencement of implementation a factor which damages the credibility of government policies.

The politicisation of the highest levels of the civil service has affected the ability of the civil servants to give impartial and professional advice to government and this has had detrimental effects on the policy process. Furthermore, the lack of equitable remuneration structure within the Civil Service has not only affected the quality of people attracted to the service, but has also lowered the morale of civil servants, while encouraging corruption.

There is a vast number of academic and government research institutions capable of providing valuable input into the policy process, but these institutions generally suffer from inadequacy of funding and sense of direction to the detriment of the quality of OW advice they can provide, the work of research institutions is sometimes not properly coordinated in the context of government's policy objectives. There is therefore, the need to ensure proper integration between the policy process and the work of these institutions.

3. Where We Want to Be

By the year 2010, we would like to be in a situation where:

(a) General macro-policy directions, both political and economic, are clearly he articulated by the apex level of government

(b) A proper coordinating and monitoring agency for government policies is in place nd

(c) There is a well-integrated policy process, which ensures proper consultation before policies are made and full sustained implementation when policies have been articulated

(d) A stable policy environment is in place

(e) A professional public service, able to provide impartial and professional advice to to government, is in place

General Policy Direction

The apex body at the highest levels of government should have responsibility for articulating a general policy direction for the country in both the political and economic realms. This policy direction should be clear and should have a long term perspective. Further, this general policy direction should define broad

How to Get There

(a) General Policy Direction

The apex body at the highest levels of government should have responsibility for articulating a general policy direction for the country in both the political and economic realms. This policy direction should be clear and should have a long-term perspective. Further, this general policy direction should define broad national priorities. An example of a general policy direction would l~ transform Nigeria from a mono-cultural economy to a diverse one. This W(entail making agriculture and industry national priorities and ensuring that! receive priority resource allocation. The apex body should also responsibility for ensuring that its general policy direction is being followed that short term ends do not subvert long term policy aims.

(b) Coordination and Monitoring of Policies

Directly below the apex political body, there should be a coordinating body, which should be responsible for initiating the detailed policies based on general policy direction provided by the apex body. This coordinating body would make due consultations on proposed macro-policies, set policy objectives, devise actions, identify and prioritise resources, provide guidance for the various agencies of government involved in the implementation of policy, and set a time frame for policy implementation. For example, if the nation’s strategic objectives is to diversify the economy by developing agriculture and industry would be the responsibility of the coordinating body to identify what actions to be taken in order to achieve this objective, such as the provision of incentives to investors in specific agricultural or industrial ventures, the removal of constraints to new investments, the simplification of regulatory mechanisms,

It would also continuously monitor and evaluate policies including the macro-policies initiated by it, and sectoral policies initiated by various ministries agencies. It would have responsibility for ensuring that sectoral policies do not conflict with the general long term objectives of government policy.

The Committee recommends that this body should report directly to the H State or Head of the government and should have sufficient political authority to ensure that there is a relationship between funding levels and the long priorities of the nation. Funding should not be allocated on the basis amount of pressure applied by a particular ministry or agency but on the of national priorities. Proposals for funding by various ministries and agencies would be presented to this coordinating body for analysis and approval. coordinating body should also ensure that budgetary estimates of government revenue are conservative, and that as much as possible, funds allocated to specific sectors are released in good time.

In addition, there should be regular meetings and a steady exchange of information between agencies of government in order to enhance coordination. The use of parallel structures to implement government policies should also be discontinued and the money spent on such structures should be used to improve the Civil Service.

(c) Well-Integrated Policy Process

No policy statement should be made without proper consultation with all the relevant parties and without first having an implementation mechanism in place. Policy pronouncements should be followed up immediately with implementation measures such as the dissemination of laws, gazettes and circular or the setting on the up of agencies.

Our research institutions should be rationalised and adequately-funded to improve their contribution to the policy process. Research institutions should also be given clear policy research tasks and provided with adequate resources to carry out their assignments. They should be integrated into the policy development process so that their input is available to policy makers in good time.

(d) A Stable Policy Environment

Policy decisions should no longer be taken on annual basis as part of the annual budget pronouncements. Instead, policy decisions should be made and targets set on a long or medium term basis, with periodic adjustments made as necessary. For instance, tariff and tax adjustments as well as interest and exchange rate policies should be announced on a medium or long term basis, not annually.

Where possible, policy changes should be promulgated well in advance of implementation dates so that businesses can make the necessary adjustments to their plans in good time. The Committee recognises, however, that in exceptional cases, for example where individuals could take financial advantage of policy changes, announcing policies well in advance could be detrimental to the national interest.

(e) A Professional Service

Professionalism and integrity should be the hallmark of the civil service. In this regard, the Committee notes that the Ayida Panel on Reform of the Civil Service recommends measures to promote professionalism, which should be addressed. Compliance with rules and regulations should be enforced at all levels of the service.

Remuneration of Civil Servants should also be improved as a matter of urgency. Training facilities for civil servants, including institutions such Administrative Staff College of Nigeria (ASCON), should be strengthened and well-funded. As a matter of deliberate policy, the nation should invest in creating a large pool of experienced Civil Servants.

CHAPTER SIX

SUMMARY OF CONCLUSION

Against the backdrop of the macro-economic issues, the Committee observed that the problems of the system lie mainly with the kinds of policies that are in place and the ways in which policy measures are implemented. Accordingly, the Committee agreed on some core objectives and the strategies by which the objectives should be pursued. These are summarised as follows:

The Core Objective

The general objective of macro-economic management is the attainment of economic growth, employment, and price stability. To achieve these, each of the policy issues has to be carefully designed and focused.

- Monetary Policy: The primary objective is the maintenance of price stability.
- Fiscal Policy: The objective is to promote growth and employment.
- International Trade: The objective is to have a strong and growing position in international trade.
- Policy Process: The objective is to have a policy process that ensures proper consultation, articulation, implementation, coordination, and monitoring of government policies.

The Strategies

- *Monetary policy objective: Maintenance of price stability*

i. Grant greater autonomy to the Central Bank of Nigeria to enable it achieve policy targets set by government.

ii. Cooperation between the fiscal and monetary authorities and clear separation of powers between the two

iii. Government should borrow from the financial markets at market determined rates.

iv. Government should maintain fiscal discipline.

(b) *Fiscal policy objective: Promote growth and employment*

i. Maintain low tax regime and efficient and corrupt-free tax administration.

ii. Ensure effective and timely budget implementation

iii. Monitor budget expenditure releases to ensure quality and value for mo

iv. Growth of public expenditure must not exceed the growth of the real combined with a shift to productive expenditures e.g Infrastructure, education, health, etc.

v. Revenue allocation system must ensure equitable revenue for all the tiers of government and must comply with the constitution.

vi. Review and strengthen the fiscal incentives to promote the revival sustenance of relevant SMEs.

vii. Allow significant autonomy for states and local governments on expenditure decisions.

• *International trade objective: Strong and growing position in international*

i. Review, strengthen and effectively implement the export incentives for visible and invisible trade.

ii. Improve and strengthen mechanisms for ensuring high quality of manufactured products and raw materials.

iii. Create and operate one-stop agencies for all information and enlightenment regarding Nigeria’s import and export trade, combined with strong representation in Nigerian embassies.

iv. Establish more EPZs

v. Re-orientate ports, customs, immigration to see entrepreneurs as partners in progress.

vi. Review and strengthen the fiscal incentives to promote the revival and sustenance of relevant SMEs.

vii. Provide incentives for Nigerians to go into high value businesses and m

viii. Review, simplify and improve the export/import procedures to minimize cost and facilitate an enabling environment for Nigeria’s international trade.

ix. Enhance the value added of Nigerian exports.

• *Policy process objectives. Proper consultation, articulation, implementation, coordination and monitoring of policies.*

i. Government should set clear strategic policy directions

ii. Have a coordinating body responsible for ensuring proper consultation, coordination, monitoring and prioritisation of resources for the implementation of government policies.

iii. Ensure prompt publication of circulars, laws, gazettes and their wide dissemination.

iv. Create stable policy environment by ensuring that policies are made on a long or medium-term basis, with periodic reviews as necessary.

v. Funding of plans and projects shall be on the basis of national priorities.

vi. Ensure consultation with all relevant parties before pronouncement of policy statements.

vii. Abolish the use of parallel structures to implement government policies.

CHAPTER SEVEN

AGRICULTURE

INTRODUCTION

1. Nigeria is endowed with substantial natural resources. These include 30.2 million hectares of arable land, 12 million hectares of fresh water sources, covering kilometres of coastline and significant ecological diversity which enables the country to produce a wide variety of crops, and livestock, forestry and fisheries products. Backed by oil wealth, Nigeria has a potential to become one of the strongest agricultural economies in Africa. Nigeria's 1991 population, estimated to be 8 million, is growing at a rather fast rate of 2.83% per annum. Based on the pres demographic trends the population is expected to double by the year 2013. T poses a significant threat to the agricultural potential of the country, especially ii currently experiencing rapid depletion and poor management of existing resources.

MACROECONOMIC POLICIES

2. The fundamental objectives of macro-economic policies in Nigeria have been expand the economy's productive base, and provide price stability, self-reliance social equity. The achievement of these goals has been pursued through van national development and rolling plans. From 1970 to 1985, the economy, long dominated by the oil sector, was highly vulnerable to oscillating petroleum prices in the international markets. The government s Inconsistent import policies, unrealistic exchange rate, and industrial policy based on imported raw materials, rising fiscal and trade imbalances and the mounting international debt, all have a significant negative impact on economic growth. For instance, cheap agricultural imports depressed, domestic production.

3. From 1986 to 1996, a Structural Adjustment Programme (SAP) was introduced to correct these economic policy distortion. In pursuance of this, agriculture regarded as an essentially private sector business with the government playing o supportive roles. Some elements of SAP included (i) diversification of Nigerian economy to promote non-oil exports; (ii) promotion of agricultural production exports; (iii) liberalisation of external trade; (iv) promotion of self-sufficient food; (v) industrial raw materials production; and (vi) rationalisation of the count fiscal and monetary policies.

9. The GDP which had been declining at the rate of 2% per annum registered a positive growth rate of 5% per annum during this period. However, the overall objectives of the reform have not been fully achieved, as petroleum currently provides nearly 90% of the foreign exchange earnings and 80% of government revenue. Furthermore, the present economic environment is marked by low capacity utilisation in nearly all industries, deteriorating purchasing power, curtailed public services and a lower per capita GNP which

has declined from US $1,000 in 1980 to just a little over US $340 in 1992.

AGRICULTURAL SECTOR POLICIES

10. In order to provide the enabling environment for the agricultural sector to fulfill its roles, federal government, from time to time, introduced various policy initiatives. The major agricultural policies of Nigeria enunciated in 1987 are reviewed briefly below.

Agricultural Pricing Policy

There are five basic objectives of Nigeria's agricultural pricing policy, that farmers obtain remunerative prices for their products, that prices and income should be stabilised for farmers, that the prices of Nigeria's agricultural commodities be competitive in the international market in order to expand agricultural exports, that agricultural imports do not enjoy undesirable comparative price advantages over local commodities and that agricultural commodity prices be in parity with those of non-agricultural commodities in Nigeria (FMANR, 1987). In pursuit of these objectives, several instruments were deployed:

(i) Government intended to use the exchange rate policy to achieve a realistic exchange rate for the Naira so that favourable price regimes would exist for Nigeria's agricultural products in the international market. The Naira remained very strong until the currency was depreciated during SAP. Before then, farmers received relatively low prices for commodities, especially cocoa. The official producer prices for cocoa were, on average, about N488 per tonnes in the 1970, N 1,258 per tonne between 1977 and 1984 and N 1,550 per tonne between 1985 and 1986 period, whereas the international prices of cocoa for the same years were about 10 - 20% higher. The government appropriated the difference as public revenue from produce export tax.

(b) Prices of agricultural input were subsidised to make input easily accessible to small-scale farmers and, in the process, encourage farmers to adopt improved production practices and new technologies.

The benefits of the subsidy scheme did not fully accrue to the small-scale far because of the malpractice perpetrated by distributing agencies especi government functionaries, who diverted large quantities of subsidised inp especially fertilizers and other agro-chemicals, to underground markets where farmers had to buy at prices much higher than the subsidised rates. Moreover, input were never available in sufficient quantities or at easily accessible locations to the farmers.

(iii) Government applied the minimum price guarantee scheme to assure far of floor prices and the purchase of their products in case the open market failed absorb the quantities of products offered for sale.

12. The minimum guarantee prices were fixed at levels which did adequately provide incentives to the farmers, so the strategy failed to serve as incentive for increased production. As a result of these factors, the agricultural pricing policy made minimal impact. Neither the prices of input nor those output, remained moderate or stable. Price inflation fuelled by macro-economic policies, especially during the SAP era, affected the prices of farm inputs and output so that both farmers and consumers faced escalating prices in the input and out; markets.

Agricultural trade Policy

13. The agricultural trade policy sought to promote agricultural exports and production of food and raw materials to discourage importation. To achieve these objectives, four major strategies were proposed.

(i) The first was trade liberalisation, which involved removing all administrative controls on Nigeria's external trade.

(ii) The second strategy was export promotion. Various incentives v~ introduced to increase export crop production, discourage commodity smuggling and promote legal trading across the borders, by utilising the domiciliary foreign exchange system and providing support services to agricultural commodity exporters.

(iii) The third strategy was backward integration, which emphasised industries establish their own farms for the production of raw materials.

(iv) Fourth, the government was to discontinue direct production and r partial or total privatisation of its farms.

14. The agricultural trade policy was partially successful. The early years of SAP gave rise to significant improvements in non-oil exports, with cocoa leading the agricultural exports. The private sector took total control of agricultural exports and established a network of agricultural export enterprises, financed by private capital. Unfortunately, much of the cocoa exported from Nigeria was found to be of poor quality and so failed to attract good prices in international markets.

15. The industrial sector, using agricultural commodities adopted backward integration and established large plantations from which they sourced such raw materials as maize, sorghum and wheat, the importation of which was banned to promote local production. In addition to direct production by private firms, contract out grower organisations were set up, whereby groups of farmers were assisted through input and credit advances to produce certain crops, which were later, purchased by the sponsoring company. The arrangements did not achieve the desired results because production on some of the large-scale farms established by companies was grossly ineffective, resulting in a substantial loss of capital. These losses were compounded by problems with the out-growers who failed to honour contractual agreements with industries.

Agricultural Land Policy

16. The objectives of agricultural land policy include establishing an acceptable land tenure system to discourage land fragmentation and make land accessible to all persons and to ensure that land allocation procedures promote optimal use and land conservation. The instruments to achieve the land policy objectives include government control of the process of land acquisition; modification of the Land Use Decree of 1978 so as to control land use and management within each state of the federation; and payment of compensation for economic crops and structures on acquired land. These government policies have not elicited any change in the traditional land tenure system. None of the strategies specified have been implemented and all the problems associated with gaining access to farm land still continue

for farmers and would-be farmers, several years after the land policy was decreed.

Agricultural Credit Policy

The primary objective of the agricultural credit policy was to increase the volume of formal credit in rural areas so that small-scale farmers could have access to loans to finance agricultural production and to test new technologies. The methods specified to implement the policy include the creation of institutions to provide agricultural credit direct to farm operators; concessionary interest rates to reduce the cost of capital with respect to agricultural loans agricultural credit guarantee schemes to secure commercial bank loans for agriculture to the tune of 75% in case of def by agricultural borrowers the prosecution of the rural banking scheme through establishment of branches of banks in the rural areas and the imposition of credit quotas and portfolio-ceiling devices requiring agriculture. This quota, for inst increased from 4% in 1970 to 20% in 1980 and was about 15% between 1990 1994.

18. Unfortunately, the various financial institutions have not been able to ext much credit to the farm sector. This is largely due to inadequate funds for lo~ high overheads and transaction costs. A high rate of default among borrowers also made agricultural loans less attractive to commercial banks.

Infrastructure Development Policy

19. The provision of infrastructure was part of the general rural development policy aimed at making basic amenities accessible to rural communities to facilitate production and the orderly conduct of rural enterprises. The goal was to improve the living conditions in rural areas, enhance social and economic activities and stem the tide of rural-urban migration.

20. Improvements in infrastructure and rural development have been prosecuted through several institutions and programmes. The Directorate of Food, Roads Rural Infrastructure (DFFRI) was created to provide rural roads, wells boreholes. Rural health centres and rural market development are being hand by state and local government authorities. Under the Agriculture Development Programme (ADP) system, roads and other facilities are being provided to enhance input distribution and the evacuation of farm produce. The Better Life Programme targeted at rural women, was to provide better facilities for post-harvest process activities.
These various efforts have failed, however, to make the desired impact as a re of financial constraints, poor implementation of programmes, frequent change administrative apparatus and poor maintenance of facilities provided.

AGRICULTURE RESOURCE BASE

Land Use Pattern

21. Nigeria's total land area is estimated at 92.36 million hectares, extending from latitude 4014'N to Latitude 13'48'N and Longitude 2042'E to Longitude 14040'E. The land use pattern is given below in table 1

Table 1: Land use pattern in Nigeria

Land Use	Area	% of Total

	(million ha)	
Arable land	28.2	31
Fadama	2.0	2
Permanent Crop land	2.5	3
Pasture	28.3	31
Forest & Wood land	10.9	12
Water bodies (rivers/lakes/reservoirs)	13	14
Others	7.5	8
TOTAL	**92.4**	**100**

Source: Federal Ministry of Agriculture

22. Agricultural land use involves three broad systems of production, traditional rotational fallow agriculture, semi-permanent or permanent agriculture, based on intensive farming and mixed farming i.e. crop/livestock agriculture. Due to rising population pressure and diminishing land availability, the rotational fallow system is fast declining.

Soils

23. The FAO has classified soils into five major classes in declining degrees of productivity. Table 2 uses this classification to assess Nigerian soils. None of the Nigerian soils falls in the high productivity class, *5.5 %* of the soils have good productivity, and 32% are rated medium. Over 60% are classified as having low productivity. These have low productivity due to inadequate moisture retention capacity and low organic matter content.

Table 2: Productivity potential of Nigerian Soils

FAO Soil Classes	Soil Type	Area km2	Area % of Total	Location
High Productivity Good Productivity	Hydromorphic/alluvial soils	50,400	*5.52*	Flood plains of large rivers, fadamas, lake Chad, etc
Medium Productivity	Ferruginous tropical soils	289,200	31.72	Widely found in Ogun, Oyo, Kwara, Bauchi and Borno; found less extensively in Sokoto, Kaduna, Niger, Benue and Plateau
Low Productivity	Vertisols: Lithosols; Regosols	423,600	*46.45*	Southern parts of the forest zone of Nigeria; parts of Benue, Plateau, Kwara, Borno and Kano
Low Productivity	Reddish brown; and ferralitic soils	148,800 912,000	16.31 100.00	Sokoto, Kano and Adamawa. Extensive also in Ogun, Oyo, and Ondo

Source: Original Data from FAO and reported in 1979. An Agricultural Atlas of Nigerian Climate And Natural Vegetation

24. The climate of Nigeria is largely tropical, characterised by high temperature, high humidity and intense heat. In some areas in the north, the mild winter, permits the growing of winter crops such as wheat, during the cool harmattan period between December and February. Rainfall patterns show a south-north gradation, declined from over 3,550mm in the Niger Delta in the south to about 250mm in the Sahel zone in the north. Topographic effects create local rainfall pattern in high altitude areas of Jos Plateau, Mambila Plateau, and the Adamawa Mountains where rain varies between 1,016 and 2,000 mm. On the basis of rainfall, the country is divided into broad climatic regions, namely, very humid, humid, sub-humid and semi-arid. Within each region, however, substantial variation exists with respect to amount and pattern of rainfall, altitude, soil types of vegetation, which permit further division these regions into sub-regions.

(i) Very humid and humid regions cover about 14 million hectares (Osinowo, 1992) These extend from the mangrove swamps of the coastal areas, passing through lowland forest belt and terminates in the northern limits of the derived savannah vegetation belt. The rainfall ranges from 3,500 mm to 2,000 mm per annum. Most of the land in this region is cultivable. The region includes: Lagos, Ogun, 0yo, Osun, and Akwa-Ibom states. Erosion is a serious problem in the region and soils are highly weathered and infertile. The major tree crops of the region are cocoa, oil palm, rubber, kola nut, citrus, and plantain. Major arable crops are roots and tubers (yam, cassava and coco yam), cereals (maize and rice) and grain legumes or pulses (cowpea and pigeon pea). The region provides about 79% of the exploitable timber *of* Nigeria (FMANR, 1992).

(ii) The sub-humid region lies to the north of the humid zone covering six states namely: Niger, Kwara, Kogi, Plateau, Benue and Taraba states. It occupies about 43 million hectares. About *75 %* of the arable area is not cultivated due to low population density. The region thus offers the largest scope for expansion of cultivated areas in the future. The vegetation consists of open forest in the south and Savannah grassland in the northernmost part of the zone. Rainfall ranges between 2,000 mm and 1,000 mm. This region produces large quantities of yam, cassava; sweat potatoes, sorghum, maize and rice. Cowpea, soybean, groundnut, onion and sugar cane are also produced here.

(iii) The semi-arid region which also includes and sub-regions occupies the northernmost parts of Nigeria, encompassing about 35 million hectares. It covers the states of Sokoto, Kebbi, Katsina, Kaduna, Kano, Yobe, Borno, Adamawa, Jigawa and Bauchi. The semi-arid regions have Sudan and sahel savannah types of vegetation, mainly consisting of grasses and woody plants. Desertification is one of the major problems. Average annual rainfall varies between 500 mm and 1,000 mm per annum, and may be as low as 200 mm in its northern limits. At least 90% of the land in this zone would require irrigation in order to achieve its full production capacity in vegetables, rice and wheat. Other important crops grown in the region are millet, sorghum, cowpea, groundnut and cotton. Also this region is the major producer of livestock and gum Arabic.

Forest Resources

25. Forest (forest land, mangrove and forest plantation) cover about 10.9 million hectares, or about 12% of Nigeria’s total land area. About 2% of the forest are classified as productive forest. The bulk of Nigeria’s 7.95 million hectares forest reserve land is situated in the savannah zone. Generally, however, savannah vegetation has few commercial timber species. The wood species most commonly found in the savannah are useful for pole and fuel wood. The lowland forest zone provides the bulk of Nigeria’s industrial wood. Yield is estimated around 1 00M3 per hectare. By 1993, Nigeria had established 81 0,000 hectares of forest plantation (FOS, *1995).*

26. The availability and distribution of wildlife resources depend on the ecology of the landscape. Nigeria’s forests are rich in flora and fauna and are valuable for medicine and bush meat. National parks and games reserves gazetted and prop cover a total of over 33,000 square kilometres. At present there are six national in the country. Yankari, Gashaka-Gumpti, Cross River, Kainji, Lake Chad Basin Old Oyo National Parks.

Live Stock Resources

The estimate of livestock resources as reported by Rim (1993) indicates that there 14 million cattle, 34 million goats, 22 million sheep, 4.4 million pigs, 1million donkeys, 103 million indigenous poultry and 15 million commercial (exotic) P0 in the country. About 90% of the cattle and 70 to 80% of the goat and population are found in the semi-arid and sub-humid regions. These regions contain 28 million hectares (nearly 80%) of savannah range land. Although, climatic condition in the humid zone favours the availability of herbage and almost all the year round, livestock production particularly cattle is hampered by presence of tsetse flies, although, recently some areas are reported to have cleared of this insect pest. The main livestock species found in the humid pigs, goats, sheep and poultry.

28. The natural fish resources of Nigeria are found in 312,246 square of EEZ (Exclusive Economic Zone), 53,300 square kilometres of territorial and nearly 120,000 square kilometers of inland fresh water in major rivers, reservoirs. The average annual output of the marine capture fisheries is estimated at about 156,000 metric tons from coastal and brackish waters and 105,000 metric from inland waters (FOS, 1995). Potential annual output of pelagic fin fish tuna) are estimated at about 1 0,000 and 20,000 metric tons. The fresh resources are expected to yield about 6.46 million metric tons of fish annually 2 extensive management. Thus, given the favourable land and water environment. The development of fish farming could substantially increase the total fish prod the country.

29. The surface water in Nigeria is provided by Rivers Anambra, Benue,. River, Donga, Gongola, Hadejia, Imo, Kaduna, Katsina-Ala, Komadugu, Marigu, Mada, Mungo, Ngodela, Niger, Ogun, Oni, Osun, Osse, Sokoto, Yewa and Zamfara. The annual discharge is estimated to vary between 193 billion cubic metres. This network of rivers constitutes the basis of the River

Water Resources
Development Authorities (originally 1 in number), which are the foci of several major agricultural development projects. The quantity of underground water has not yet been estimated. However, about half of the country is underlain by crystalline ingenuous and metamorphic rocks of the basement complex, which are relatively impermeable except where fissures occur. This suggests that Nigeria may have limited renewable water resources. Both surface and underground water provide opportunities for irrigation. Total potentially irrigable area is estimated at two million hectares (World Bank, 1978). However, as yet, limited advantage has been taken of this irrigation potential and presently, only 830,000 hectares of cultivated area is under irrigation.

AGRICULTURAL ZONES

30. The federal government in 1987 divided the country into five agricultural zones (North West, North east, South West, South East, and Central) for the purpose of establishing farming systems research and linking the research closely to extension activities. In each zone, a research institute was assigned the responsibility to coordinate on-farm research activities. To develop research strategy-thrusts under the proposed National Agricultural Research Strategy Plan, the zones were studied with respect to socio-economic characteristics, farming system, agricultural production potentials and comparative advantages and farmers' technological needs. These studies have provided the basic information needed for identifying appropriate research objectives and research priorities for different zones. The detailed characteristic of each zone is discussed in appendix 1.

FARM ORGANIZATION

31. Farm holdings in Nigeria fall into three broad categories. Small holders (0.1- *5.99* hectares) with 81% of the total farm holding, medium holders (6 -9.99) hectares with 14% of the total farm holdings, and large holders (10+ hectares) with only *5%* of the total farm holdings. The small holdings provide 95 % of total crop output while medium and large

holdings provide only 5 *%*. Small scale farms tend to be family based and labour intensive; have limited access to institutional credit (i.e. they receive only *5%* of agriculture loans) and are concentrated in the humid region of the South with high population density. Medium and large-scale farms are found more in the sub-humid and semi-arid regions in the north, where the population density is relatively low and farming is more commercially oriented.

AGRICULTURAL RESEARCH

The National Agriculture Research System (NARS) comprises the following major institutions:

1. national agricultural research institutes (NAR1s);
ii. agricultural universities and agricultural faculties in universities;
iii. agricultural development projects (ADPS) of the FMANR;
iv. international agricultural research institutes (IARCS); and
V. some private organisations.

(a) National Agricultural Research Institutes (NAR1s): Agricultural research is principally carried out by 18 NAR1s. Six of them deal with arable crop forestry and tree crops, three livestock, two fisheries, and one each of extension, processing and storage. Each of these has a national mandate for research specific crop or area of a sub-sector. In addition, five of these have responsibilities with respect to on-farm research and transfer of new technology farmers through the Agricultural Development Projects (ADPS) which constitute main extension organisation of the states ministries of agriculture.

(b) Agricultural Universities and faculties: Agricultural research is also undergone by some three universities of agriculture and 20 faculties of agriculture in federal state universities.

(c) Agricultural Development Projects (ADPS) of The FMANR: These p have been established in all the states and are responsible for providing a research and extension services for all aspects of agricultural production which jointly supported by the World Bank, federal and state governments.

(d) International Agricultural Research Centres (IARCs): Five IARCs sup by Consultative Group on International Agricultural Research (CGIAR) operate country.

(e) International Institute for Tropical Agriculture (IITA) has its headquarters in Nigeria. So also are the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) International Livestock Research Institute (ILRI), International Rice Research Institute (IRRI), and the West African Rice Development Association (WARDA).

(f) Private organisation: Some Non-Governmental Organizations (NGOs) are involved in research. Sasakawa Global 2000 is an NGO whose main objective transfer technology to small scale farmers. It operates in Kano, Kaduna and Ii in the production of wheat and maize.

AGRICULTURAL EXTENSION SERVICES:

33. The agricultural extension system in the country has undergone a number of restructuring before the present Unified Agricultural Extension (UAE) system came into operation. Prior to the introduction of the UAE, extension was the responsibility of the State's Ministries of Agriculture and Natural Resources (SMANR). This was effected through the ministries' staff in the various departments in collaboration with the Agricultural Extension and Research Liaison Services (AERLS) (now NAERLS). search *is* The AERLs supplied information on technology generated from the research institutes. It assisted in training the extension staff of the ministries through workshops and the Uension,in-service training on the technologies and extension methods to be used.

34. The UAE is based on the Training and Visit (T&V) system of extension, the to main features of which are professionalism, single line of command, concentration of the efforts, time bound work, field and farmers-oriented, continuous training of the extension agents and linkage with research. UAE is a system under which parallel extension activities carried out by different agencies, was replaced by the provision taken of integrated extension system under a single line of command, through the and Agricultural Development Projects (ADPs). Under this system a single Village Extension Agent (VEA), backed by relevant Subject Matter Specialists (SMSS) is the contact for dissemination of all agricultural technologies. Area of coverage of projects extension advice includes crops and livestock production, agro-forestry, fisheries, soil and water conservation practices and animal traction.

35. Each state ADP in the country now operates throughout its state of domain. All the states in the federation are now operating under one or other programmes ported named: Multi-State Agricultural Development Project 1, 11, and Ill, (MSADP 1, in the MSADP 11 and MSADP 111) the National Agricultural Technology Support Project (NATSP) and the National Fadama Development Project (NFDP), or in a combination of the programmes. There are 34 Colleges and Schools of Agriculture centrally in coordinated by the National Board for Technical Education (NBTE). These schools and colleges train intermediate level workers.

RESEARCH-EXTENSION LINKAGE AND DELIVERY SYSTEM

36. The research-extension linkage that has evolved over time in Nigeria, has on-farm adaptive research (OFAR), monthly technology review meetings (MTRMS) and small plot adoption technique (SPAT) as its main activities. These activities are undertaken jointly by the zonal research institutes, The National Agricultural Extension and Research Liaison Services, (NEARLS), Federal Agriculture Coordinating unit, (FACU) and Agricultural Development Projects (ADPs). On-farm research has been particularly successful with crops, while in other sub-sectors, methodologies are yet to be fully established. Generally, in-depth well qt impact studies are lacking.

THE FEDERAL MINISTRY OF AGRICULTURE AND NAUTRAL RESOURCES

The Federal Ministry of Agriculture and Natural Resources (FMANR) responsibility of formulating agricultural policy, coordinating and planning agricultural programmes, and implementing developmental programmes through its functional divisions and parastatals. It is headed by the Honourable Minister who is Chairman of the National Council for

Agriculture (NCA). The NCA Commissioners of State's Ministries of Agriculture and Natural Resources (SMANR) as members. The 1979 constitution places agriculture in the concurrent list it a joint responsibility of both the federal and state governments.

ROLE OF AGRICULTURE IN THE ECONOMY

38. Agriculture is expected to play the following four major roles in the economy:

(i) To provide food for the people, with the aim of attaining self-sufficient food production and securing national food security.

(ii) To provide raw materials for local industries. By producing in raw materials, agriculture is expected to expand the industrial base, thereby gem employment and income and at the same time reduce the dependence of industries on imported inputs.

(iii) To provide foreign exchange by exporting commodities such as cocoa, palm oil, groundnut, cotton, hides and skin and shrimp and with more developed agro-processing industries, to export semi-processed materials.

(iv) To provide employment for the majority of population living in the rural

39. Although these roles had been assigned to agriculture, even before independence, it was only in 1987 that these roles were enunciated in the document on Agricultural Policy of Nigeria (FMANR, 1987)

PERFORMANCE OF THE AGRICULTURE SECTOR

Food Security

40. The agricultural sector by and large, has not been able to deal effectively with the problem of food security for the Nigerian people when viewed from the standpoints of the nutritional status of Nigerians, household food security and food prices.

Table 4 shows the growth rate of total food production between 1970 and 1993. In the five-year period between 1970 and 1975, the average annual growth rate of total food production was -1.74%. Between 1976 and 1980, total food production further declined showing a negative growth rate of 4.41 %. It should be recalled that the 1970 - 1980 period coincided with the oil boom era during which the high demand for food the was met by cheaper food imports, financed by earnings from petroleum exports. As all a result of the availability of cheaper and higher quality imported food items, e.g. rice) and wheat, consumers bought imported foods and shifted away from locally produced foods. This discouraged the production of food crops beyond subsistence levels and led to rural-urban migration.

41. By the early 1980s however, foreign exchange difficulties arose from the decline in petroleum export earnings. These economic shocks occasioned some extreme policy responses, such as a total embargo on the importation of cereals and other selected food products. As imports declined, consumers were compelled to patronise local food items. Farmers responded favourably to the selected demand for local food ,and as a result, both the total and per capita food production increased

substantially between 1981 and 1985. This trend continued through the 1986 - 90 period due to the continued high demand and high food prices. Consequently, total food production rose to *14.55%* between 1986 and 1990. Subsequently, the high cost of production caused by high prices of fertilisers and agro-chemicals, as well as the high cost of labour made it difficult for farmers to acquire the complementary input necessary to sustain this growth rate in food production. Thus, between 1991 and 1993, the growth rate of the total food production was just 5.71% representing about a third of the growth rate of the preceding period (i.e. 1986 - 1990).

Table 4: Percentage growth of total food production in Nigeria 1970-93

Period	**Total food production**
1970-75	(1.74)
1976-80	(4.41)
198 1-85	9.31
1986-90	14.55
199 1-93	5.71

Source: CBN Statistical Bulletin (various issues)
*Note:**Grain equivalents of maize, millet, sorghum, rice, wheat, yam and cassava

42. Meanwhile, the problems of malnutrition, household food insecurity am to food in Nigeria are still serious, despite the apparent improvements production, especially since the beginning of the 1980s. For instance, data f 1990 National Demographic and Household survey conducted by FOS indicate that there is a serious malnutrition problem as 43 % of children under five have growth; 36% are underweight and 9% are wasted. The seriousness of the s can be better appreciated if it is realised that the corresponding figures for with stunted growth in Ghana, Zimbabwe and Brazil are 29, 30 and 29% respectively. Regarding household food insecurity, an analysis by the World Bank concluding 18 million Nigerians lived in households that were food insecure in 1988. Ii of access to food, a good proxy for this is food price inflation. Available data FOS show that between 1986 and 1990, food price inflation averaged Z Between 1991 and 1994, this increased to 34.3%, implying that the Nigerian’s access to food has been worsening since 1986, improved agricultural production notwithstanding.

Supply of raw materials

43. The supply of agricultural raw materials from domestic sources manufacturing industries has been grossly inadequate. Until the late 198(manufacturing sector was geared towards processing imported raw materials favourable import policies. Furthermore, the fixed exchange rate prevailed during this period and the consequent over valuation of the Naira imports of equipment and raw materials cheaper relative to local substitutes. result, imports of agricultural raw materials as a proportion of total imports, averaged 11.42% between 1971 - 1975, increased to 15.04% between 1976 -reaching a peak of 21.94% between 1981 - 1985. Thereafter, imports of agric’ raw materials dropped to 13.60% during the next 5 years period and rose slightly during the 1991 - 94 period, to an average of 14. 13%.

44. The liberalization policies introduced in 1986 as a major component ongoing Structural Adjustment Programme (SAP), were expected to encourage, industrial demand for local

agricultural raw materials. Specifically, the po1icie~ expected to alter the relative prices by making imports more expensive, thereby encouraging the industries to look inwards and patronise local substitutes. A the same time, high prices were expected to encourage farmers to increase o However, industrialists could not automatically shift to local raw materials because of the high cost of re-tooling necessary to use these indigenous input. On the hand, farmers could not respond significantly to these incentives because of the cost of inputs, and their subsistence level of operation, as well as the limited to suitable credit, necessary for purchasing simple tools and farm input. Contrary to expectation, food manufacturers are operating at less than 40% of installed in food capacity, 36.37% in 1993 (Okeke, 1995). Estimates of the shortages in agricultural raw materials provided by the Raw Material Research and Development Council (RMRDC) early in 1995 indicate significant shortfalls of several million metric tons of cereals (particularly rice and wheat), oil (soybean and palm oil), livestock products and industrial crops (rubber, sugarcane, coffee, etc). While several agro-industrial processors attempted to solve the problem of raw materials shortages through the strategy of backward integration, the high cost of equipment and materials have that severely limited their success. This explains why local sourcing of raw materials by termsfood manufacturers declined from 72.4% in 1990 to 57.89% in June, 1993 (MAN, from various years).

Employment Generation & GDP

45. Nigerian agriculture mainly comprise smallholder farmers, who still use traditional farming practices. The heavy dependence on manual labour and the limited income, have made farming unattractive and have contributed to the reluctance of young people to go into agriculture and remain in the rural areas. Furthermore, rural areas lack the physical and social infrastructure which make life tolerable for young people. Invariably, this virile segment of the rural population has continued to migrate to urban centres, which they perceive as having better socio-economic prospects. Thus, Nigerian agriculture has not been able to fulfill the expectation of serving as a direct source of employment for a growing labour force. It has also been unable to generate indirect employment opportunities because of its weak linkage with the modern industrial sector, occasioned by the inadequate supply of industrial raw materials.

46. From the national income perspective, available data from CBN show that the agricultural sector's contribution to the GDP which was N24.4 billion in 1981, grew at an average annual rate of 3.24% to reach N27 .78 billion by 1985. Between 1985 and 1990, the average annual growth rate almost doubled to reach 6.14%. This development is attributed to the initial effects of SAP and good weather. However, between 1990 and 1993, although the agriculture sector of the GDP increased from N35.28 billion to N37.78 billion, in monetary terms it achieved an average annual growth rate of 2.31 % - about a third of the growth rate recorded in the preceding period. This reduction in the growth rate is attributable to the high cost of farm input, poor infrastructure and storage facilities, an inefficient marketing system and weak demand for agricultural goods due to the general decline in real income.

Source Of Foreign Exchange Earnings

47. In the 1 960s, Nigeria depended mostly on foreign exchange earnings from agricultural exports. During most of the 1960 - 1970 period, agricultural exports on the average accounted for nearly 62% of the total value of estimated at N355 million (or about US$400 million, based on the average exchange that prevailed during the period) per annum. It can, therefore,

be concluded between 1960 and 1970, agriculture successfully played its role as a foreign ex earner. In the 1971 - 80 period, the export of petroleum gained prominent earnings from this source dwarfed the contribution of agriculture whose contribution in absolute terms declined to about N3 17 million which was 1ess than 10% of total export earnings. In the 1981 - 90 period the trend remained the despite the sharp fall in petroleum export earnings. The abrogation of mar boards in late 1986 and the resulting elimination of price distortions in the agricultural export sub-sector led to a slight increase in foreign exchange earnings between and 1989. However, this effect was short lived because of the high cc production, falling international prices and high inflation, which discourage sustained production of agricultural export crops, especially from 1990.

CONSTRAINTS TO DEVELOPMENT OF THE AGRICULTURE

The Committee deliberated extensively on the constraints to development agriculture. The major issues addressed are listed below and are discussed in details below:

i. Technology development and delivery
ii. Input Supply
iii. Labour
iv. Infrastructure
v. Land Tenure and Acquisition
vi. Macro-economic and Agricultural Policy
vii. Marketing
viii. Profitability
ix. Capital
x. Environmental Protection
xi. Information
xii. Government investment and financing

TECHNOLOGY DEVELOPMENT AND DELIVERY:

Research

49. Agricultural research is conducted primarily by the 18 national agricultural research institutes (NAR1s), some major universities and the international development research centre. While some progress has been made in implementing agriculture research policy directives, the overall impact of agricultural research in increasing food security and building a vibrant economy has been limited. This is due in part to the following reasons:

i. Absence of long-term research strategies coupled with ineffective planning and prioritisation of research programmes, which resulted in very thin spread of research funds over a large number of projects.

ii. Absence of a mechanism for coordinating the various research activities across institutions in the country, culminating in ineffective utilisation of well trained the early 1980s, there has been a substantial decline in the allocation of manpower.

iii. Since the early 1980s there has been a substantial decline in the allocation of financial resources to research, which has significantly curtailed the research capacity of these institutions. The NAR’s have major infrastructure problems, which include lack of water, electricity and modern communication. In US dollar term, funding in 1990 is

10% of what is was in 1970.

iv. While there has been some progress in generating improved technologies, which are being used by the farmers, technology-development focus has largely been on individual commodities or species, and inadequate attention has been paid to the smallholder farmer's complex-production system and the socio-economic environment.

v. There has also been insufficient pro-active research on agricultural sectoral policies and as a result the macro-economic environment has failed to provide adequate incentives for investment in agriculture and for the rapid adoption of new technologies by the farmers.

50. The National Agricultural Research Project (NARP) launched in 1991, with World Bank assistance has two major thrusts. (a) Development of a national agriculture research system (NARS) through a number of initiatives aimed at improving the organisation and management of research, including the preparation of a National Agricultural Strategy Plan. (b) Focus on strengthening the NAR is by enhancing their operational capacity through the rehabilitation of their infrastructure, purchase of equipment, funding priority projects and strengthening collaboration with international organisations and institutions in the country. The World Bank funding runs out in 1998.

Extension Services

The technology delivery system is based almost entirely on the T&V (training and visit) methodology and has been extended to all the states under World Bank financed Agricultural Development Projects (ADPs). The T&V me so far has largely concentrated on the crop sub-sector; only recently have activities been enlarged to include livestock, fisheries and forestry sub-sectors. ADPs are responsible for 95 % of all the extension services carried out in the con Its cost effectiveness and appropriateness, however, for different regions various production systems in comparison to other extension methodologies be properly ascertained. Since T&V requires a large investment, there is about its long-term sustainability after the eventual cessation of World Bank funds.

52. There is very poor coordination between the Local Government (LGAS) and the ADPs and the state Ministry of Agriculture. Little extension is currently undertaken by LGAS. Their extension activities have been largely ii to procurement and distribution of farm input (mainly fertilisers and seeds). is shortage of manpower in some of the ADPS. Only a few have achieved the EA-Farm Family Ratio of 1:1,000. The linkage is very weak.

53. The implementation of the unified extension system has resulted in significant achievements in crop yields and adoption behaviour, but very little is on livestock, agro-forestry and fisheries extension. The Research-Extension-F: Input-Linkage System (REFILS) had operational problems such as inadequate improved-seeds for distribution to farmers, inadequate vehicles for input distribution, lack of personnel for fisheries component, frequent breakdown of available ye and high cost of repairs, slow rate of fabrication of energy saving prototype equipment and lack of protocols for recommended technologies for non-crop components u of REFILS, the Nigerian farmer has very low productivity. While a maize g in an agriculturally developed country harvests an average of 10 tons per hectare local maize grower gets only 1 tons. A potato grower gets 80 tons per hectare gets *5-7* tons. While 1 kg of exotic (foreign) mango can give 3 litres of juice in 15 kg of local mango to produce the same quantity of juice of inferior taste.

Training

54. There are three universities of agriculture, 20 universities. Agricultural faculties, several national and international research institutes, agricultural departments, and 34 colleges and schools of agriculture in Nigeria coordinated by the National Board for Technical Education (NBTE). The graduates are negatively affected by incessant strikes, poor orientation infrastructure and funding.

INPUT SUPPLY

55. The use of fertilizer in the country in crop production systems has assumed increasing importance, particularly in cereals and irrigated crops. In 1993, the total supply of various fertilisers, primarily NPK and urea, amounted to 1.59 million metric tons. Of this, 0.747 million metric tons was produced in Nigeria, according to the Fertiliser Procurement and Distribution Division of the Federal Ministry of Agriculture and Natural Resources. Fertiliser is distributed through official channels and subsidized to the tune of 75 % of the market cost in order to encourage its use by smallholder farmers. However, as a result of inadequate distribution processes, there has emerged a thriving parallel market for fertiliser where it is sold for as much as thrice the official price. To rectify this situation, the federal government recently decided to end the subsidy and allow fertiliser to be imported with nominal customs duties. (see budget). The main problems faced by farmers with respect to fertilisers are their high prices, their untimely supply in inadequate quantities and the lack of information on which fertilizer is best suited to their crops and soil types.

56. The use of agricultural chemicals, which are mainly imported, is virtually confined to large-scale farmers. This is due to the high cost of imported chemicals and their uncertain benefits under mixed cropping systems. The supply of vaccines required by small-scale livestock producers is also inadequate. These small-scale livestock producers who depend largely on a free-range system for feeding their animals, purchase vaccines from government institutions and from private sources even at a relatively high cost. Likewise, fishermen purchase fishing gear, craft and other input from the open market where prices are often high and the quality is not guaranteed.

Farm Implements

57. Small-scale farmers depend almost entirely on traditional hand tools, which are inefficient. The improved tools developed by research institutes are not in use due to the absence of commercial production, as well as the unavailability of requisite capital to purchase them by the farmers. Animal traction is being increasingly accepted, particularly in the north and central zones, where the tsetse fly is not a serious problem. Again, the lack of development and commercialisation of multipurpose implements has hampered the spread of animal traction.

Seeds, Seedling, Stock and Feeds

58. There is a dearth of multiplication facilities. Genetically superior stock, and seedlings are not in widespread use. Farmers are generally reluctant to better varieties. No systematic process for improving pastures is in place. are also problems with periodic replanting of trees such as cocoa, rubber and cashew etc.

Pesticides, Pests & Disease Control

59. Pest control service is not functional and has a questionable response ability to a major locust invasion. There is inadequate research into much cheaper traditional methods.

LABOUR:

60. Nigeria's agricultural production is highly labour intensive. Over 90% tasks in non mechanised production systems depend on human labour, and mechanised production systems, between 50 and 60% of the tasks depend on h labour (Olayide, 1981). According to Olayemi (1980) family labour constituted 76% of farm labour. Generally, males are responsible for land clearing, ridging~ weeding, while women undertake the processing and marketing of farm produce the children may also help in weeding, harvesting, bird scaring and the tending of cattle, sheep and goats. Hired labour has become important in farm opera~ especially during the peak periods of the various farming activities. Nevertheless rapid rural-urban migration of the youths and the resultant dwindling of active I labour force has become a major constraint to expanding agricultural product From the historical perspective, however, the movement of labour away I agriculture as a result of rural-urban migration was relatively gradual between I and 1970. During this period, young school leavers went into public and industrial sector employment, which was concentrated in the urban centres. In the 1970s, deployment of earnings from petroleum export in urban construction industries created employment for unskilled labour. The resulting massive rural-urban migration depleted rural areas of agricultural labour.

61. In the 1980s when there were reverses in petroleum and construction activities urban employment dropped. While some of the migrants returned to rural a many of them did not, and as a result labour shortages in the village have remained endemic. Consequently, farming sector wage rates have been on the increase, from a mere NO.45 per man-day in the 1970 - 1975 period, to nearly N65.0 (man-day in the 1991 - 1994 period, making hired labour increasingly unaffordable to the small-scale farmer. More recently, these wage rates have increased fur Meanwhile, agricultural labour productivity has become increasingly low because households largely comprised fairly old people and very young children and the farmers lack improved hand tools and implements, which would enable them to raise change their yields. In some regions (central zone), the farmers are unable to cultivate all the There land. In this regard, it is important to note that although researchers have developed a number of prototype hand tools and multipurpose implements suitable for animal traction, these have not been commercialised, and are not available. At the same time, family labour continues to dwindle, as farmers' wives take to more lucrative occupations, such as trading while the children spend more time in school and apprentice vocational training. Labour shortages constitute a major constraint to agricultural production in Nigeria; labour shortages of varying degrees occur in different regions due to the unequal population

distribution in the country and cultural preferences. Moreover, the perceived better economic opportunities in the urban centres have tended to fuel rural-urban migration, contributing to the problem of scarce labour on the farms.

INFRASTRUCTURE:

62. The lack of rural infrastructure (such as feeder roads, rail transportation, expensive toll expressways, modern communication, electricity, storage, packaging and processing facilities) has been discussed exhaustively. Where they exist they are poorly maintained. Farmers still depend largely on rain for water. Where dams were built the irrigation canals from the dams to the farms were not.

LAND:

Land Tenure

63. The prevalent land tenure system has a number of disadvantages for moving the agriculture from the subsistence level to market-oriented production. The severity of the land tenure problem is more pronounced in the south, where land is usually owned by the family and the system of inheritance tends to perpetuate fragmentation of holdings among male heirs of land-owning families. Population pressure in the south has added to the restrictions imposed by the land ownership pattern and has led to reduced land/person ratio, shortened fallow periods, reduced soil productivity and increasing environmental problems (NEST, 1991). In the north, the lack of ownership rights (land belongs to the community) creates a disincentive for long-term investment. The rapid rate of urbanisation and the associated encroachment on arable land by the urban dwellers for settlement, infrastructure and industrial purposes are gradually reducing the total area of land suitable for agricultural production.

Land Acquisition and Land Preparation

Land acquisition is complicated, creating poor climate for investment. There h level of government ownership of land and excessive bureaucracy over land Titles to land are difficult to obtain and in some cases multiple titles exist. The problems with affordability of capital requirement for land clearing and preparation.

POLICY:

Agriculture Policies

65. The design of macroeconomic policies in Nigeria over the years has f on ensuring stability in the macro-aggregates, namely, employment, prices income. Little attention was paid to the plight of agriculture under such policy regimes. Thus, the fiscal, monetary, trade, exchange rate and incomes policy designed for economic stability invariably had adverse effects on agriculture, leading to the weakening of the much desired linkages between agriculture and industry. These policies, especially those of the oil boom era of the 1970s, tended to reorient the household demand for agricultural food items towards imported substitutes. This discouraged agricultural production beyond subsistence level. Furthermore, liberalisation policies embarked upon from the late 1980s which were designed to restore macro-economic stability and growth, resulted in the high cost of major agricultural input, especially the imported inputs, leading to a reduced profitability of agricultural enterprises. On the other hand, the falling real income of consumers weakened the effective demand for all goods and services, including agricultural products. As a result, the plight of the agricultural sector has not changed fundamentally under the liberal economic policy regime.

66. At the sectoral level, the lack of specialisation by the various levels of government has complicated the situation. Specifically, there has been an unnecessary duplication of effort, as all levels of government have tended to concentrate on similar rural development programmes. This situation also encourages the mis-allocation resources, as lower levels of government continuously orientated their local policies and programmes to suit the pan-territorial federal agricultural programmes, regardless of the dictates of their ecological zones. Poor data quality for agricultural sector planning, as well as the poor implementation of agricultural policies and programmes have also adversely affected the performance of the sector.

Macro-economic-Agriculture Sector Policy Interactions

67. The evidence suggests that due to a lack of synergy between macroeconomic and sectoral policies, macro-economic policies have not been able to s macroeconomic stability, external balance or a diversified economic base.

Consequently, there are serious inconsistencies between macro and sectoral policies thereby giving conflicting signals to the farmers. The poor performance of the economy at macro and agricultural sector levels, is a reflection of the paucity of macro-economic policy research on the imperatives of a suitable macro-economic environment for orderly development of the agricultural sector. This situation must be reversed if agriculture and, as a result, the whole economy, is to return to the path of sustainable non-inflationary growth and development.

68. Although the agricultural sector contributes 40 per cent of GDP, its overall performance has generally not fulfilled expectations and has not kept pace with the growing needs of the population. As a result, the per capita food production growth rate declined from 1991 - 1993 as compared to the previous period. Similarly, the country continued to import agricultural raw material which accounted for almost 24 per cent of total imports in 1990. Agricultural exports contributed nearly 62 per cent of total exports in the early seventies, but now these account for less than 10 per cent, and, as a result, the Nigerian economy has become totally dependent on oil.

MARKETING:

69. In Nigeria, the crop marketing process takes place primarily at the farm gate or in periodic rural markets (Akande, 1993). Women are mostly involved in food crop and fish marketing, but they mainly sell their products in nearby markets. The prices of goods sold at the farm gate, or in the periodic markets are determined through haggling. Smallholder farmers usually lack authentic information about prevailing market prices, which puts them at a great disadvantage in the haggling process. Generally, prices are low at harvest time, rising as the season advances, peaking at planting time when demand for seeds is added on to the regular demand for consumption purposes. However, farmers are unable to take advantage of the higher prices as they are usually

compelled to sell most of their produce at harvest time due to lack of storage facilities, poor roads from the rural areas and the need for cash income. As a result, the advantage of higher profit margins available in distant urban markets generally accrues to the middlemen.

70. Livestock and fish marketing follow a similar pattern. Cattle are brought by middlemen from their owners in rural markets and disposed of in large city markets. The artisan fishermen sell their fresh fish immediately after landing, while smoked fish is sold in the periodic rural markets. Fishermen also suffer from the same marketing constraints as the crop farmers. From the foregoing, it is clear that inadequate physical infrastructure and storage facilities, as well as low returns to farmers from agricultural enterprises are the major marketing constraints confronting the farmers in Nigeria, even though the prevailing prices of agricultural products in the urban areas may be high. With specific reference to physical infrastructure, most important constraints are poor feeder roads, access roads, boats services. Rural feeder roads are only seasonally motorable, hindering mo input to the rural areas and outward movement of farm produce to the mar resulting high transport costs, which are added to the cost of input make it expensive, while the middlemen pass on the higher transport costs to the f offering lower farm-gate prices to them. Poor transport facilities also increase losses of perishable crops. All these factors combine to depress farm income.

71. Farmers cannot usually take advantage of prevailing high prices produce due to the collusive behaviour and discriminating pricing practices by traders and middlemen. This situation is made worse by the lack of marketing in from extension agents and the lack of farmer organisations and cooperatives could collectively bargain for better commodity prices. According to Adekanye (1988), nearly *85%* of the profit margin is taken by the middlemen, which is above the cost incurred by them on transport and sales operations.

PROFITABILITY:

72. Agriculture has been an “occupation of culture” which has kept scrapping a living on land holdings which they consider their heritage. The c fragmentation of limited arable land among generations of land-owning fan communities still prevalent in 20th century Nigeria, discourages more entrepreneurial attitudes, such as selling of land or using land as a source of rental income in urban areas. While larger cash crop farmers can boost their profits via exchange earnings, the smallholder farmers constellation of meagre surpluses small per head.

73. Economically, while the peasant farmer produces *95%* of all the food and non-food products for urban consumption, his level of integration into the economy in food distribution, export, value added processing, etc., is very limited. The pi production capabilities are grossly undermined by the sheer number of small p thus, it is impossible for. the individual farmer to be a force in the economy non-peasant investors bulk the peasant’s fragmented holdings and reap the be the economies of scale. Thus the motivation for increased commercial scale as the benefits do not accrue to the farmer but at post-production mostly to farmer. Today, farmers’ incomes are subject to seasonal peaks and rural-urban terms of trade are grossly skewed against the rural producer and a perpetual cycle production with increasing land input crisis forces farmer into perpetual subsistence orientation.

The average farmer being cyclically constrained into poor relations with the rest of the economy, continues to believe that he is a potential recipient of government largesse. While farmer's share of crop prices are often as low as 30% of market prices marketers, transporters, store and warehouse owners, as well as market men/women, earn significant profits from their vertical relationship with the farms. This lack of economic power confers farmers and rural dwellers with an insignificant political voice and also results in ineffective cooperation among farmers, in off farm-level operations which add value to production. Elsewhere in the world, collective action has given farmers a political platform on which they can call for meaningful intervention for collective needs. Without successful attempts to amalgamate power, both to pursue their economic interests through to the policy level and to create a strong hold of enterprises germane to agriculture, the farmer's plight will continue to be a beggar-giver relationship. Cooperatives generally lack accountability and, are highly politicised with individualistic tendencies. There is inadequate government supervision and overseeing.

CAPITAL

74. The involvement of government in agricultural financing is through fiscal and monetary policies. The most important aspect of fiscal policy, is government expenditure on agriculture, while the essential components of monetary policy are credit control measures such as loan portfolio requirements, loan guarantees, regulation of rural branch banking concessional rates of interest and granting moratoriums.

Government Expenditure on Agriculture

75. Expenditures on agriculture increased pari passu with the general increase in capital budgets for the whole economy, especially after 1973 when there was appreciable increase in petroleum revenue. From 1974 to 1992, the share of agriculture to total recurrent expenditure was less than 1%. In 1993, there was the first significant rise to 1.8 % and thereafter to 3.7% in 1994. With regard to federal government's capital allocation to agriculture, the share of the sector to total capital budget fell from 6% in 1991 to *5%* in 1992 before rising to 13% in 1993. In respect of capital expenditure, the share of agriculture to the overall capital expenditure averaged *3.5%* in the past *5* years. Between 1985 and 1993, the actual capital expenditure persistently fell below budget (see table *5).* The instability of government expenditure and the wide margins by which expenditures are missed are often associated with delays and disruptions in agricultural project implementation and provision of critical infrastructure.

Table *5:* Share of Agriculture in Total Federal
Government Expenditure

Credit Policy & Agricultural Financing

76. Intervention in the credit market has been an important component of government involvement in agriculture financing. The intervention is based assumption that (i) credit shortage is a major bottleneck causing low land and productivity; (ii) scale expansion and adoption of innovations in farming me increases the farmers need for credit; (iii) little savings capacity exists in rural where majority of the farmers live; and (iv) the seasonal nature of the farm production and income create a need for short to medium-term loans.

77. The establishment of Nigerian Agricultural & Cooperative Bank (NACR) in 1973, the Agricultural Credit Guarantee Scheme (ACGS) in 1977, and 4 involvement of trading banks, credit units in state ministries of agriculture, state credit corporations and World Bank assisted Agricultural Development Projects in the supply of credit portray the concern of government for improved agricultural financing. In the 1960s, with relatively low inflation, and with agriculture based mainly indigenous production systems, capital constraint was not severe and was met largely through informal borrowing. The relatively small amounts of credit that these sources could provide were secured at usurious interest rates, but they were timely and required no collateral. Recent credit policy encourages greater involvement of banks in agricultural financing. The banks increased their credit allocation to agriculture response to the deregulation of interest rates. The share of agriculture in the to loan portfolio of commercial and merchant banks persistently fell below the prescribed minimum during the regime of interest rate control, whereas with interest q deregulation, credit allocation exceeded the prescribed minimum.

Table 6: Share of Agriculture in Total Commercial Bank Loans

Table 7: Share of Agriculture in Total
Merchant Bank Loans

78. Small holder farmers are not able to source credit from formal sources due lengthy administrative procedures, high cost of funds (interest, commissions and other bank charges) and stringent conditions. The establishment of the People's Bank Community Bank has not significantly. solved the problem of lengthy administrative procedures, stringent conditions and the high cost of credit. Consequently, only of the total volume of loans from formal sources goes to small-scale farmers and the rest is diverted to state agencies and large-scale farmers. It is reported that about 90% of smallholder farmers in the northeast region still depend on informal sources for their credit needs.

Agricultural Insurance

79. In order to make agricultural production and investment fairly stable, the effects of natural hazards beyond the control of the farmer must be minimised. The Nigerian Agricultural Insurance Scheme (NAIS) has served as a reasonable collateral for rural credits. The scheme has enabled farmers to purchase inputs and expand their production and because it also minimizes the effects of production risks, loan recoveries have been improved. The major constraints of the scheme are: (i) heavy financial requirement for logistics, publicity, staff emoluments, operating costs, the computer equipment, infrastructure, etc.; (ii) general apathy of the public towards insurance and lack of responsiveness of insurance companies; (iii) ineffective communications network

ENVIRONMENTAL PROTECTION:

80. Resource degradation is already being manifested as a result of population pressure, commercial exploitation, lack of access of the poor to required resources and inadequate education of the populace on the danger posed by uncontrolled utilisation of natural resources. The intermittent occurrence of droughts has tended to accelerate desertification particularly in the upper northern areas of Nigeria, endangered human

and livestock populations and rendered large tracks of land unusable. Desert encroachment on agricultural land is currently being addressed through a national afforestation programme in Sokoto, Kebbi, Katsina, Kano, Jigawa, Borno and Yobe states.

81. Another important issue with which the country is faced, is the rapid deforestation of the tropical forest for fuel wood and logging, land clearing for expansion of agricultural area, and overgrazing. Deforestation enhances water runoff, resulting in erosion, and exposing large tracks of land to direct solar radiation, reducing its productive capacity sharply. Forest area in Nigeria has declined by 30% between 1980 and 1990 and deforestation continues at an estimated rate of 2.7% per annum, far out-pacing the rate of afforestation (ODA, 1994.) In the forest region, under heavy tropical rains, soil erosion has greatly limited farm size and the amount of land available for farming Erosion is particularly severe in the thickly populated areas of Anambra and Enugu states and in Ondo state. Land fragmentation and bush fallow system tend to expose large tracks of land to erosion and soil degradation. Also, large-scale farming which involves mechanisation and use of heavy agricultural machinery and equipment, has added to soil degradation

82. The most serious environmental hazards of petroleum exploitation in Nigeria are associated with oil spillage and gas flaring. A 1,581 oil spills, involving about 2 million barrels of oil, occurred in Nigeria between 1970 and 1982 (NEST, 1991). The environmental impact of oil spills in includes the destruction of fish and other aquatic life, destruction of devastation of agricultural land, and pollution of rivers, wells and other drinking water. Natural gas flaring is causing substantial environmental the areas around the oil wells, leading to the abandonment of agricultural Household pollution is traceable largely to cultural practices in food preparation and water disposal. Solid waste is perhaps the most serious environmental Nigeria has to contend with, especially in the urban areas.

83. For the past 50 years, increased agricultural production in ii countries has resulted from the intensive use of fossil energy and inorganic ground water irrigation, high-yielding plant and animal hybrids, the new being genetic engineering with yet more surprises to unfold. It has however realised that this new technology, while serving man's short-term needs, problems that have far-reaching environmental consequences. For instance, yielding plants varieties are exacting in fertilisers, spray chemicals and particularly water. They have therefore been a mixed blessing for some South-East countries where their use for the green revolution is gradually depleting ground reserves and causing salinisation of arable land 10.

84. Efforts at agricultural development so far seems to have favoured I well-known capitalistic option of intensive use of chemical fertilisers, high yielding plant varieties, and medium-to-large scale irrigation systems, to the neglect of affordable and environment friendly practices as appropriate crop rotation, the farm residues as manure, fodder and energy source. It is known that the opt~ combination of crop rotation, green manure and chemical fertilisers can reduce latter's requirements by half for a similar crop production level attainable by the use of chemical fertilizers alone (Tiezzi, Mercheftini and Ulgiati 1991). Yet the survey conducted in 14 states in 1995 and 1996 for the NIR/Al - Agriculture Rural Development Programme show that about the only "improved" input for conservation known to some respondents is chemical

fertilisers, while fallow cultivation remains the dominant farming practice while land erosion and I burning were cited as the most prevalent environmental problems.

85. Over the past several years, many programmes aimed at environmental degradation have been initiated with substantial Government funding and donor assistance. These include the arid zone afforestation programme launched in Sokoto in 1976, the World Bank supported afforestation programme of the~ 4th Development Plan , the EUIFGN Katsina Afforestation Project (1987-1993), the establishment of national parks to preserve bio-diversity, the creation of shelterbelts research Stations for arid zone afforestation. These programmes with emphasis on afforestation, may have been addressing the symptoms rather than the root causes of environmental degradation; they seem to be reactive rather than proactive, in the sense that they intervene after environmental damage has occurred.

86. The government established the Federal Environmental Protection Agency (FEPA) to coordinate all national activities in the management of the Nigerian environment. The agency has identified growing human population, improper land use, deforestation, destruction of wildlife and protected areas, poor sanitation and waste management and improper use of agricultural chemicals as the major areas of concentration for mitigating the impact of these activities on the environment. FEPA set up regulations for guidance of various institutions and agencies, and established five associated centres; the University of Lagos for human resource capacity building, the University of Agriculture, Abeokuta for forest biodiversity and conservation, the University of lbadan for toxic waste management, the University of Maiduguri for drought and desertification and the Federal University of Technology, Minna for climate change. The selection of a sixth centre for soil and coastal erosion is yet to be finalised.

INFORMATION:

No organised system of information sharing and where system exists, it is not effectively extended to farming communities. There is inadequate linkage to farming community. Overall research is limited by weakness in basic Science, Engineering and Technology, and dearth of journals from research institutes, universities and association. There is also a lack of meteorological information and climatic and weather forecasts.

87. In 2010 AD Nigeria should be fully self sufficient in basic food and there should be national food security. There will be significant increase in the number of medium and large size farms and the small farmer will be highly productive and have a high propensity to increase the size of his holdings. The 2010 farmer will match the productivity of his counterparts in agriculturally advanced nations 11. There will be complete elimination of harvest wastage (currently estimated at about 40%) due to lack of storage facilities. By the year 2010 AD, the farm input and services should be fully liberalised, efficient and competitive. Supplies of fertiliser, pesticides, seeds, farm machine and equipment, etc. would be fully domesticated and controlled by Nigerian entrepreneurs of impeccable reputation and managerial ability. production would have moved away from largely traditional production practised a modem approach with significant doses of modern input and practices. Farming would be purely a business concern operated and managed by young, dynamic literate entrepreneurs. Mechanical innovation of intermediate sophistication, developed and mass produced at home, with a much lower capital-labour ratio, would don the production landscape.

88. Agriculture in 2010 AD will provide raw materials for local industry Agricultural processing and manufacturing ventures would be fully dependent on raw materials, producing nutritious foods, affordable to all income groups. Nigerians will also produce in sufficient quantity and quality to meet local industrial den all non-food produce such as rubber, wood, cotton, hides & skin, etc. in which the country has comparative advantage. By producing industrial raw mate agriculture is expected to expand the industrial base, thereby generating employ and income, and at the same time, reduce the dependence of local industries on imported input. Self-sufficiency would not only be achieved but surpluses, be of their quality and international standard would find markets in many parts of and beyond.

84. In 2010 AD, Nigeria will once again be a leading exporter of primary agricultural commodities and semi-processed raw materials. The level of production will be so high that after providing for basic food security and all requirements the high quality surplus available for export will yield significant foreign exchange. Considerable foreign exchange will be earned by exporting commodities such as cocoa, rubber, palm oil, groundnut, soya beans, cashew, ornamental p1ant; fruit, vegetables, cotton, wood, hides and skin and shrimp. Export will also drive knowledgeable about the major export markets for his commodities, his development of industries to process raw materials for export. The farmer competitors and will be supported by the various High Commissions and Embassies in creating markets and marketing his wares. -

85. Agriculture currently provides employment for the majority of the populace living in the rural areas. However, as the farmer's productivity increases, labour shift from farming to agro-allied industries and farm services. The increase demand for basic and processed food stuffs, export produce and raw material for 1 industries will drive this shift to agriculture related business, local manufacturing processing as well as supporting services industries. A highly sophisticated I marketing and distribution system would have emerged in Nigeria by 2010 AD. This system would be efficient, have low distribution costs, be consumer oriented, driving increased farm output of raw commodities, facilitating increased activities and labour absorption and creating a competitive price regime. Adequate storage practices and facilities would be available to support an expanding agricultural economy. There would in 2010 AD be an effective national and regional crop, plant, livestock and fishery disease and pest control authority. All killer diseases and pests would be eradicated or effectively controlled throughout Nigeria and the West African sub region.

Goals

91. For the current state of Nigerian agriculture to achieve the vision described in the previous section, radical departures from historical patterns or substantial alteration of social and economic systems must take place. The goals of agriculture are summarised as follows:

(i) To produce food and agro-allied products at competitive price 13 and in sufficient quantities for local consumption 14, industries and export.

(ii) To generate employment by the rapid expansion of the agricultural, agro-allied an associated service industries.

Strategies

92. The Vision 2010 Committee recommends that the following strategies be adopted to achieve the goal. Detailed action to be taken to support these strategies is detailed in paragraph 93.

(i) Protect development and growth by aligning macroeconomic policies to support the overall objectives of the agricultural economic sector.

(ii) Encourage the rapid expansion of private agro-allied service companies which provide technical, supply and support services to farm holdings.

(iii) Create an enabling environment to attract local and foreign investment and facilitate growth in the sector, e.g. by providing incentives, credit, insurance, infrastructure, education, rural development, effective loan recovery system, etc.

(iv) Increase productivity by applying improved management and technology, utilising improved input and equipment and by improving the effectiveness of extension services.

(v) Expand productive hectarage through land reforms and by granting investors access to large holdings.

(vi) Encourage utilisation of agricultural produce for raw materials in industries and encourage export oriented enterprises.

(vii) Conserve natural resources and protect the environment through the ado of modern practices which reduce soil degradation and deforestation.

Actions

93. The actions to be taken to support the strategies are discussed in the folio sections. Each strategy is preceded with an abstract explaining in more detail thrust and implication of adopting the strategy.

(i) Protect development and growth by aligning macroeconomic policies to sup the overall objectives of the agricultural economic sector. The thrust *of* section is the necessity for a thorough consideration of the connection between the country’s macroeconomic policies and the agriculture sector.

(a) The current level of devaluation of the Naira is conducive to growth in agricultural sector as it makes imports more expensive and exports competitive. The policy to reduce duties on importation of agricultural input be followed with aggressive export promotion, policies and practices designed significantly improve productivity.

(b) The habit of substantial lead time, rather than time lag should be cultivated budget announcements to allow for the necessary details, documentation a authorisation, given the seasonality and time bound nature of agriculture.

(c) Not only should the government increase the share of allocation to the agriculture sector the wide margins between budget allocation and actual disbursement should be eliminated. High standard, high quality, and high impact appraisal techniques should be put in place to enhance data reliability and ethical conduct.

(d) In 1988 banks increased their credit allocation to agriculture, in response deregulation of interest rates, contrary to expectations. The share of agriculture in the total loan portfolio exceeded the prescribed minimum. Such policy should be continued.

(e) Government policy should encourage private sector participation in all sub-sectors of agriculture, either directly or in joint ventures, where the private joint venture partner is the operator. The government should privatise all its holdings agriculture and related businesses such as fertiliser plants, sugar plantations, factories, etc., provide the enabling environment and step back and let the sector grow.

(ii) Encourage the rapid expansion of private agro-allied service companies which provide technical, supply and support services to farm holdings. The major essence of this strategy is to encourage increased private sector participation in enterprises that provide services to farm holdings, e.g. food processing, preservation, packaging, marketing, distribution and retailing, efficient and competitive supply of input such as fertilisers, insecticides, seedlings, feeds, etc (these are important activities that encourage farmers to produce food on a sustainable basis). Increased investment in such services will stimulate and maintain economic growth, provide additional employment, bring about greater economic diversity and stability within the agricultural sector and will stimulate progress in other sectors of the economy which provide services such as repairs, maintenance, transportation, financing, etc.

(a) Completely liberalise the fertiliser distribution channel.

(b) Encourage participation of individuals, corporations, cooperatives and associations in development of primary and secondary processing both for value added and preservation.

(c) Encourage mechanisation. Improve financing for farmer and farm equipment services. Privatise all government owned commercial farm services, develop the cooperatives to be in a better position to obtain financing or to pool costs for mechanisation. Publicise the fact that there is demand gaps for these services which the private sector can fill.

(d) Privatise all government holdings in industries concerned with production of farm inputs such as fertiliser plant, planting materials, agro-chemical, and farm equipment. Privatise all government commercial agricultural holdings, such as sugar industries and plantations.

(e) Promote design and dissemination of appropriate technologies that will be capital saving, labour intensive easy to operate, and affordable.

(f) Industrial end users of agricultural research output should be encouraged to participate in agriculture research.

(g) Government should gradually disengage from active clinical veterinary practice and encourage private sector practice.

(h) Publish details of raw material imports and associated costs on a periodic Focus on those items that can be produced in each agricultural zone. Government and private sector should put in place necessary infrastructure to reduce the prices of agricultural produce to below the cost of imports.

(i) The government should provide incentives to encourage private investments (i) the provision of marketing infrastructure and building privately managed abattoirs (ii) livestock production and processing through establishing diary and poultry cattle ranches, beef processing and poultry feed plants, etc; and (iii) animal h care services and livestock input distribution.

(iii) Create an enabling environment to attract local and foreign investors and facilitate growth in the sector, e.g. by providing incentives, credit, insurance infrastructure, education, rural development, effective loan recovery system, Government should be a facilitator and systematically withdraw from direct operation of enterprises. It should create an environment conducive to investment entrepreneurship. Private sector cannot fund dam, power supply and r economically, because of the high capital outlays required, If such things considered necessary for the development of the sector then the government should provide them. Similarly, the government is primarily responsible for the provision of meteorological and climatic data, afforestation, and desert control, pollution erosion control, and education.

(a) Improve credit facilities and insurance. Ministries of Agriculture and Finance should assist agricultural sector to secure long-term loans at low interest rates. Viable financing policy implementation, credit in cash and kind, strong monitoring by the ministry and an effective loan recovery system are necessary.

(b) Expedite the establishment of agricultural development fund to cover shortfalls in financing agricultural research and extension.

(c) Provision of annual subventions and grants to NACB, community banks peoples banks to enhance cheap credit to the rural sector.

(d) Promotion of formation of viable cooperatives and other farmers groups.

(e) Appropriate funding of NACB to enable it shoulder the arduous responsibility providing timely and affordable credit facilities to the multitudinous farming population in Nigeria. With appropriate funding, should come significantly improved management focus on results and high ethical standards.

(f) Control risk better by insurance schemes.

(g) Implement of the Strategic Grains Reserve Programme to store excess grains and provide for National Food Security Stock.

(h) Provide price support mechanisms such as grain purchase at an acceptable minimum price. Determine the minimum intervention purchase price to provide price stabilisation for benefit of both producers and consumers

(i) Establish a commodity exchange market alongside a “buyer of last resort mechanism” to engender appropriate price incentives for the active farming
~ population.

(j) Government and food producers should finance programmes that popularise local foods and increase internal and external demand.

(k) The government must improve rural infrastructure and maintenance of irrigation facilities, roads, railways and jetties. Government must fund infrastructure development. The PTF should spend on basic rural infrastructure, especially in predominantly agricultural communities.

(1) Irrigation must complement rain fed agriculture. Develop down stream structures including canals distribution systems to the farmers for existing capacity. Seek private sector participation. Promote storage of excess rainwater.

(m) The focus should be on small to medium sized dams to be fed by small tributaries. The water from these dams can be used for irrigation, potable water supply and fishery. Water and environmental quality monitoring and evaluation should be made an integral part of dam development. Repairs and maintenance should be carried out on existing dams and associated facilities.

(n) The current government subsidy relationship with farmers prevents successful irrigated agriculture as it breeds complacency among beneficiaries. There is a need to transform project implementation modes through upgrading the farmer’s participation in implementation. Monitor and evaluate irrigation project performance and establish effective demand management and water pricing procedures.

(o) Strengthen irrigation extension services with education and training of extension staff, and research into water management under irrigated conditions.

(p) A guided subsidy scheme linked to its marketing to encourage larger hold of target crops. Access to critical input (credits in kind) should be redeemed sales proceeds.

(q) Producers are interested in knowing how prices they offer to traders cornpare with prices in other areas. Traders are interested in information on market conditions in terminal markets (volume of animals sold, speed of sales, import date, p movements, etc.). Wholesale butchers are interested in wholesale and retail prices terminal markets. The government should link up with the private sector to ensure such information is generated and made available to end users in a timely manna

(r) Strengthen the fisheries research institutes for continuous assessment Nigeria’s fishery resource. Also strengthen all agencies involved in collection, compilation, storage and retrieval of fisheries data

(s) At the federal level, attention will be focused on stock assessment, extension and liaison services, data gathering and analysis, bilateral or multi-lateral collaboration, negotiation of fishing rights agreements and surveillance activities well as taking adequate care of environmental issues.

(t) There is a need for effective data generation and information dissemination system through the strengthening of the agricultural data bank and information management system. Capacity building is equally vital in this regard.

(iv) Increase productivity by applying improved management and technology utilising improved inputs and equipment and by improving the effectiveness extension services. The main focus of this strategy is to significantly efficiency and effectiveness of extension of research to farmer, fisherman pasteuralist and to ensure the availability and affordability of inputs (ie. Irrigation, fertilizer, chemical, seedlings, etc,) that are sometimes necessary for the n technology to work

(a) It is accepted that the extension services 15 are not very effective or Extension being the pivot of technology dissemination, the government must stronger steps to make it more efficient and effective. The government should improve staff welfare, training, recruitment and funding. If employees are not paid enough take care of their families or do not have the tools to perform their jobs, the job not be performed satisfactorily. The structure should also be simplified v significant coordination with local government areas.

(b) A review of input distribution system to ensure that farm input get to farmer in the right quantity, right quality and at the right time.

(c) Livestock technologies appropriate for Nigeria should be developed. More often, the cost of increases in the input exceeds the value of increased output.

(d) An appropriate way of extending livestock technologies to pasteuralist and smallholder producers needs to be developed. The UAES has not worked well for livestock producers. Also it is necessary to replace traditional stock by embarking on cross breeding to produce stocks that will be fast growing, high yielding but will not lose ruggedness and adaptability to harsh local climate and disease.

(e) The government should encourage integration of crop/livestock production. Livestock production thrives as a secondary industry, depending on the output and by-products of crop farming such as maize, oilseed cakes and forage crops, for input.

(f) Abandoned government livestock projects and facilities should be privatised.

(g) Government should continue to play a leading role in the control of epidemic livestock diseases (e.g. rinderpest, contagious bovine pleuropneumonia, rabies, tuberculoses, anthrax), plant diseases and pests within Nigeria and in the sub-region.

(h) Focus on targeted and demand driven research and effectively extend to farmers. Although, the NARP research projects are targeted, the process of extension to the farmer is not effective.

(i) Currently stakeholders, research, extension workers and farmers hold Monthly Technical Review Meetings (MTRM5). The number of MTRMs should be reduced from monthly to quarterly due to the low level of technology generation and to share costs.

(j) There should be more focused research programmes in the development of improved technology in fish farming and fish trawling. Strengthen fishery extension services to provide close support to artisan fishermen, in addition to the construction of fishing infrastructure like landing jetties, rural electrification of fishing communities to facilitate fish preservation.

(k) Provide proper management and improve of the inherent fertility of Nigerian soils by appropriate agro-forestry/cropping systems.

(1) Provide adequate funding of research system to enable it cope with the challenge of providing improved crop varieties and livestock breeds.

(m) Improve the productivity and quality of agricultural produce by increasing effectiveness and focus of farm extension services and agricultural infrastructure, increase the availability and affordability of farm input.

(n) Further address the issue of production loss and harvest wastage, due to I absence of adequate and appropriate storage facilities. Intensify research ft appropriate storage and preservation methods for crops in the various zone

(o) Increase farm productivity and output through greater availability of improved technology including, mechanisation, pesticides, fertilisers and improved varieties.

(p) A special allocation should be made to all agricultural research institutes collaboration with a strengthened agricultural liaison services, to mass-produce hybrid seeds and other forms of improved planting materials. Ensure that in~ such as fertilisers and pesticides are made readily available to enable have full genetic potentials of these materials.

(q) Land should be allocated under the NALDA scheme to farmers interest the production of hybrid and improved seeds and seedling.

(r) In line with the placement of agriculture on the concurrent legislative list, funding of agricultural extension under the unified Extension System of Agricultural Development Programmes (ADPs) should be the joint of the three tiers of government. This is crucial in view of the~ withdrawal of the World Bank from the funding of ADPs in Nigeria.

(s) Rain-fed agriculture is no longer adequate to sustain the required productivity. The provision of downstream structures for existing paramount. The focus should be on large numbers of small to me dams rather than on large multi purpose dams which will need a long time, huge resources to complete. Encourage agriculture as an inexpensive system of irrigation.

(t) Nomads should be settled and crops such a sweet potatoes, pumpkins, leg and yam should be promoted for livestock feed. Resettlement of should be pursued with vigour together with the production of fodder livestock feeds.

(u) Targets have been set for the following commodities: Grains (maize, sorghum, rice, wheat and acha), Roots and Tubers (cassava, yam, sweet potato, Irish potato, and coco-yam), Pulses (groundnut, cowpea, soybean), Plantain, Banana, Vegetables, and

Industrial crops(cotton, cocoa, coffee, sugarcane, palm kernel, sheer nut, rubber, ginger, melon, beni-sed, tobacco, oil palm, and coconut). The relevant agencies should appraise yearly production and levels of attainment of targets, analyse variances and take corrective action where problems are identified.

(v) The following have been identified as important tree crops: Oil palm, cocoa, rubber, cashew, gum Arabic, citrus, and mango. Production of these crops should be accelerated by (i) privatising all government owned plantations, (ii) producing high quality seeds and seedlings and selling to farmers at subsidised prices , (iii) providing incentives to encourage rehabilitation of productive acreage and replanting old and moribund ones, (iv) strengthening extension delivery by better focus and training of subject matter specialists, and (v) providing effective monitoring and evaluation systems.

(v) Expand productive hectarage through land reforms and grant investors access to large holding. The small holder farmer accounts for over *95* % of the total food produced in the country. This situation has to change. Strategies must increase the small farmers productivity and farm size. It must also encourage a new crop of younger better-educated farmers.

(a) Increase support to medium and large scale farms and encourage consolidation of subsistence holdings.

(b) Encourage adjacent farms to share costs of major input and lease land.

(c) Enhance land values by encouraging land exchanges between farmers and financial investors

(d) NALDA services should be demand driven. NALDA should concentrate on land preparation and to open up large hectares of land for land owners and landless farm investors where its services are required.

(e) Encourage wood and paper mills to embark on large scale pulp and wood plantation programmes.

(t) Review the land use decree to reduce problems associated with land tenure and make land more easily available.

(g) Better application of the 1993 decree on Nigerian Cooperative Societies and sorghum, rice, wheat and acha), Roots and Tubers (cassava, yam, sweet potato, Irish potato, and coco-yam), Pulses (groundnut, cowpea, soybean), Plantain, Banana, Vegetables, and Industrial crops(cotton, cocoa, coffee, sugarcane, palm kernel, sheer nut, rubber, ginger, melon, beni-sed, tobacco, oil palm, and coconut). The relevant agencies should appraise yearly production and levels of attainment of targets, analyse variances and take corrective action where problems are identified.

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(f) Review the land use decree to reduce problems associated with land tenure and make land more easily available.

(g) Better application of the 1993 decree on Nigerian Cooperative Societies and provision of technical and support services by the Ministry of Agriculture and cooperatives such as: (i) cooperative education and training; (ii) self help schemes; (iii) youth employment programmes; and (iv) produce market The idea is to encourage cooperatives formation, especially by small ho farmers and focus assistance on them.

(vi) Encourage utilisation of agricultural produce for raw materials in 1 industries, and encourage export oriented enterprises 16. If the count serious about massive increases in agricultural produce to meet the materials needs of local industries and export, then significant investments be made and radical restructuring must be effected in the system to completely eliminate the impediments. If we want to be a leading exporter of agricultural produce then exports must be taken seriously.

(a) NEXIM should give special export services and export financing to I producers and joint venture rural entrepreneurs to export agricultural products and agro-based industrial products.

(b) The Ministry of Foreign Affairs should identify and aggressively pursue fore markets for raw and semi-processed agricultural produce and communicate line ministries and private sector with a view to assisting local farmers to in standards and increase productivity. A conceded inter sectoral effort required.

(c) Develop traditional and non-traditional agriculture export produce.

(d) The Ministry of Agriculture through the research institutions should assist exporter by providing superior exotic seed, seedlings, and stock of international standards.

(e) The risk of irregular supply of agricultural produce, both for local industry for export should be reduced by investment in effective irrigation systems.

(f) Inadequate infrastructure is an impediment to production of agricultural produce for local industries and for export, largely because its impact on co of production. The government to enable the produce be price competitive must provide necessary infrastructure.

(g) There should be rehabilitation of cash crop plantations.

(i) Promote export of tertiary products such as saw wood, plywood, to particleboard and finished products like furniture rural marketing. V (vii) Conserve natural resources and protection of the environment through the holder adoption of modern practices, which reduce soil degradation and deforestation. The need for massive increase in agricultural production is necessary to meet the needs of an increasing population, local industry and export. Present in local agricultural practices and options for environmental conservation in may not conducive to the attainment of sustainable food security and poverty alleviation the raw in the long run. Alternative options are needed which this section will attempt must to define.

(a) The most prevalent problems are soil degradation and deforestation with the attendant desert encroachment. The full involvement of the farmer, the herdsman, fishermen or rural dwellers, through a voluntary process from to large design to implementation is a prerequisite. The goals of sustainability have to produce be achieved through a participatory “bottom-up” approach as opposed to the “top-down” approach used in most projects.

(b) The behaviour of rural people in respect of desired sustainability is not always ate with understood by those desiring to assist. Being poor, their immediate survival to meet forces them to adopt short-term strategies which may be inimical to long term effort is sustainability. A full understanding of the reasons behind such strategies and acceptable alternatives are essential in solving environmental degradation problems.

(c) In the case of land degradation, a thorough understanding of the farming system, both in its biophysical and socio-economic aspects is required. Solutions national should provide both long-term sustainability benefits to the community and short- term benefits, accruing directly to the farmers concerned to help them meet immediate survival needs. These may be targeted food aid (food for work) or subsidised loans that may be available to purchase input if the farmers pursue certain conservation strategies.

(d) In this participatory approach to environmental conservation, public and private institutions, including NGO5, CBOs should be involved. Public institutions should be responsible for the formulation of environmental policies as well as strategies to create public awareness of environmental problems. Along with the NGOs and CBOs, they could assist the affected communities in the identification and implementation of strategies to solve them.

generating activities such as agro-tourism, agro-processing, handicraft metal work for the fabrication of simple farm implements, can help relieve strain on farm and forestry resources and thereby contribute to the maintenance or regeneration of the environment

(f) Promotion of fuel-gas by rural dwellers is to be encouraged to re deforestation. Forests harvesting must be replaced with replanting 2 to 1.

(g) Enforce appropriate legislation aimed at promoting forest conservation protection of the forest resource for effective and sustainable use. Appropriate incentives are necessary to encourage private forestry

(h) There is need for better protection against uncontrolled commercial (logging activities. The pricing/tax on commercial logging should be designed discourage a rate of exploitation that is persistently higher than the rate regeneration.

(1) Develop fast growing tree species through research and produce viable and seedlings for distribution.

(I) Ensure that fuel wood consumption is not unduly influenced by pricing competing fuels.

CHAPTER EIGHT

INDUSTRY

INTRODUCTION

1. The economic transformation of the western world was made possible by the major innovations that came out of the industrial revolution [beginning in the mid 18th century]. Over the last few decades, especially since the end of the second world war, the economic bases of the developed western countries have been further consolidated with industrialisation. The economies of the East Asian countries, however, have witnessed faster rates of transformation within the last three decades. The speed of transformation has been and continues to be rapid in an unprecedented historical manner. The success of the East Asian countries is equally attributable to industrialisation.

2. Clearly then, industrialisation is the engine for sustained long-term economic growth. Rapid productivity growth and rising standards of living are among the benefits enjoyed in countries that experience rapid industrial growth. The importance of manufacturing is demonstrated clearly by the parallel performance of global Gross Domestic Product (GDP) and Manufacturing Value Added (MVA). Since the 1 960s both GDP and MVA have grown in parallel reflecting the evolution of the developed countries economies which account for over *75* percent of both world GDP and MVA.

3. The United Nations Lima Declaration of 1975 had set a target of 25 % of MVA share for developing countries. It is projected that developing countries will by 2005 have exceeded this target with a share of MVA of 30 *%.* Manufactured goods presently account for about

60% of total exports of developing countries from *5 %* in 1970 and 22% in 1993. A projected share of *35%* of world export of manufacturing by developing countries is expected by 2005. For developing countries, growth and exports have originated largely from technological mastery of labour-intensive/traditional sectors.

4. Table 1 shows that developing countries produce 43% of leather articles, 39% of footwear, *32.5%* of wearing apparel and 24.6% of rubber products of total world output in 1994. Table 2 shows export of Developing Market Economies (DMEs) where again they dominate the traditional sectors and electronics. Table 3 shows details of country shares of manufactured products. It is against this global context that Nigeria's industrial vision should be charted. It is instructive for instance that from toys alone Taiwan made over US $3 billion dollars, Korea US *$7.5* billion in. articles, Hong Kong US $9 billion in wearing apparel (about a third of - GDP) between 1990 - 91. The Committee suggests that Nigeria, given its can compete in the traditional sectors. The industrial policies and strategies of over the last three decades have been largely the same as the developing economies of East Asia. Like these countries, Nigeria started with the objective of major strategies adopted were: industrialisation to restructure its national economy, which at that time was basically agrarian, for faster development and also to enhance economic self-reliance.

(i) Import substitution
(ii) Diversification of the industrial base
(iii) Enhancement of value - added through the promotion of basic and in goods industries
(iv) Local-resource-based and export-oriented industrialisation
(v) Improvement of technological skills

5. These objectives and strategies of the country's early development were continued under the Structural Adjustment Programme (SAP) but complementary shift from public sector to private sector led growth. A presentation of the country's industrial policies and strategies during the first development plans spanning the period 1962-85 and the post SAP period to E shown on Appendix 1. A summary of achievements as well as what went wrong included in the diagram. Despite the laudable objectives and strategies pursued Nigeria, its achievement has been very poor and unsatisfactory. With an increase in globalisation of industry, driven by information technology, it is imperative for economy desirous of sustained economic growth and self-reliance to deepen the industrial content through increasing contribution of MVA. Understanding this gap industrialisation, and suggesting how to fill the gap, has been the focus of d Committee.

TABLE 1

ESTIMATES OF WORLD PRODUCTION SHARE FOR DEVELOPING COUNTRIES FOR MANUFACTURING SECTOR 1975 AND 1994 (PERCENTAGES)

ISIC	Product Group	Weight in 1994	1975	1994
323	Leather and fur Products	.08	22.5	43.00
321	Textiles	7.8	26.8	40.6
324	Footwear	.8	20.0	39.0

322	Wearing apparel	7.4	14.5	32.5
372	Non-ferrous metal	1.9	13.0	26.0
355	Rubber Products	1.5	19.8	24.6
351	Industrial Chemical	5.5	14.0	21.0
311	Food manufacturing	5.4	16.1	20.9
356	Plastic Products	2.5	16.1	16.8
331	Wood & Cork Products	1.2	13.1	15.6

SOURCE: UNIDO State of World Industry and Outlook for the Post -period.

TABLE 2

EXPORTS OF DEVELOPING MARKET ECONOMIES (DME)
(US $ MILLION)
Developing Market Economies

			Annual Growth	
Product Sector	Total	Share of World	DME	World
Textiles	*25*, 332	33	12	±4
Apparel	40, 537	45	11	
Leather & Articles	21859	43	10	+4
Electronics				
Office	24933	21	38	+21
Consumer	26701	29	15	+4
Machinery	34905	25	15	+2
Plastics	11053	14	19	+9
Plywood & Veneer	4430	47	8	+2
Furniture & Parts	4010	13	13	+3
Toys sporting goods, etc.	6945	34	8	

SOURCE UNIDO (1995)

TABLE 3
MAJOR SUPPLIERS OF MANUFACTURED PRODUCTS (1990-91) IN US$ MILLION; SHARES AND GROWTH RATES 1980-91 IN %)

	Country and Position					
Produce						Share of DME (%)
	First	Second	Third	Fourth	Fifty	
Textiles	Korea	Taiw 5450	PGK2666	HK 1857	India 1626	67
Apparel	HK 8858	Kor 5243	Taiw 3553	Thai 3023	Turk 2690	58
Leather & Articles	Kor 7478	Taiw 3747	Bra 1439	Thai 1325	Indon 914	69
Office Electronics	Sin 9378	Taiw 7081	Hk 1942	Kor 2030	Thai 1676	89
Consumer Electronics	Taiw 5163	Sing 6892	Kor 6377	Mal 3808	Hk 2044	90
Electronic Machinery	Kor 8264	Taiw 6692	Mal 5517	Sing 6453	Hk 2273	83
Plastics	Taiw 3784	Kor 1345	Hk 1183	Sing 1092	S. Arab 795	74
Plywood & Veneer	Indon 2906	Mal 444	Sing 215	Taiw 170	Braz 139	87
Toys, Sporting goods, etc.	Taiw 3288	Kor 1124	Hk 665	Thai 517	Sing 284	85

Source UNIDO
Note Leather articles consists of luggage and handbags, apparel and footware.

WHERE WE ARE - NIGERIA'S CURRENT INDUSTRIAL STATE Small & Declining Contribution to Gross Domestic Product (GDP)

7. At independence in 1960, the sector accounted for 3.2% of GDP. The agricultural sector contributed the largest proportion to the country's GDP up to the year 1979. Significant growth was achieved in the manufacturing sector. The sector grew at a yearly average rate of *17.5%* during the 1970-79 decade, with a industrial contribution to GDP sometimes exceeding *15%* during this period. In spite of the political crisis and the ensuing civil war that Nigeria experienced from 1967 to 1970, the sector's growth during that period was remarkable. With the considerable revenue generated from petroleum export, Nigeria was able to finance major industrial projects employing the Import Substitution Industrialisation strategy(ISI). Large scale projects such as steel, petrochemicals, pulp and paper and machine tools were embarked upon. It was the hope of planners that these core projects will generate inter-industry linkages, provide employment and ultimately lead to a diversification of the economy. However, this expectation was not to be met as almost all the projects experienced cost overruns and delays. With the collapse of the oil market and subsequent reduced earnings from petroleum export, oil-induced growth slowed down markedly.
8. Subsequently, the sector's contribution to GDP began to record a decline from the 1980s, to the present time. The 1982 figure of 11.2% declined to as low as 6.9% in 1995. Average

yearly contribution of the sector to the economy during these years was only 8.2%. (See figure 1 for illustration.) This is quite low compared to the East Asian tigers. For instance, in South Korea, the share of manufacturing in GDP rose from 10.8% in 1960 to 31.9% in 1975; that of Malaysia grew from 7.0% in 1960 to about 20% in 1980, while the figure for Philippines rose from 12% in 1970 to over 20% in 1977.

Rapidly Declining Growth Rate

9. As already indicated, there was significant growth in the manufacturing sector in the post-independence years up to 1979. Between 1970-79, average annual growth rate achieved was *17.5%.* However, in the periods 1980-89 and 1990-95, there were sharp declines to average annual growth rates of 6.4% and -2.4% respectively. As alarming as these declining growth rates were, the picture becomes worse when we review the achievements in individual years are reviewed. In some years, Nigeria had growth rates as high as 33.6% (1987) while in other years, negative growth rate was as high as - 26.3%. Detailed yearly analysis reveals episodic growth whereby positive growth rate in one year, during the period 1980-1995, was often followed by a negative growth rate in the immediate following year. In comparison, the East Asian economies of South Korea, Malaysia and Philippines achieved average annual rates of 7% (1960-1975), (1960-1980), and (1970-1977), respectively in periods.

Low Capacity Utilisation

10. The nation’s manufacturing capacity utilisation rate, similar to performance indicators, has been experiencing a decline. From a high figure of 73 in 1980, the sector declined to 29.3% in 1996. Indeed, within the two years of I to 1983, there was a rapid decline of about 24% in manufacturing capacity. are wide variations in capacity utilisation (CU) across sub sectors. Natural resources based enterprises such as foods processing and other agro-related groups operated, average, higher capacity utilisation, while import dependent sectors such as ye assembly and electronic/electrical sub sectors experienced much lower capacity utilisation. Figure 2 illustrates the trends.

Structural Weakness

11. The sector is dominated by light consumer goods industries. There is v little activity in the areas of intermediate, capital goods, and engineering industry which generate the most inter-industrial linkages as well as being a source economy-wide innovations.

Low Export Component/High Import Dependence

12. The manufacturing sector contributes less than one per cent to total expo In comparison, South Korea achieved a manufacturing to exports rate of 90.5% 1981 from 19.5 % in 1962, while primary production to exports rate fell to 9.5% fro *80.5%* during the same period. Figures 3 & 4 depict the situation in percentage monetary terms. The sector is highly dependent on imported input as well technical manpower. There is limited conversion of local raw materials and lack emphasis on training of domestic labour to acquire high technical skills. The see also depends almost entirely on imported machinery, equipment and spare parts.

REASONS FOR CURRENT STATUS OF MANUFACTURING SECTOR

13. It was noted that the country’s past industrialisation policies and strategies were similar

to those pursued and used by the East Asian economies. However, comparison to these economies' industrial achievements, Nigeria has done very poorly. The reasons for the poor achievement needs to be understood if we are to find solutions to our industrialisation problems. The reasons include the following: growth (I) Poor Implementation of Plans n these Poor plan implementation is a factor that has hindered Nigeria's industrialisation.

There have been wide gaps between government's plans as pronounced in the development plans and actual activity. For example, under the First to Third other Development (1962-1980), the average actual capital expenditure rate for the period was *59%* of planned expenditure. For the manufacturing sector in particular, 73.3% average actual was only 5.4% compared to planned expenditure of 10.6% of total C 1981 capital expenditure.

(ii) Oil Boom Distortions

The economic distortions of the oil boom, strengthened import-dependence, weakened capacity industrial linkages and reduced local value added as well as raised industrial costs.

(iii) Inadequate Infrastructure

The nation's infrastructure in the vital areas of power, communication, transport Very (roads, airports, etc.) and water supply are not adequate. The existing ones are tries characterised by poor maintenance, poor services and unduly high tariffs arising from e of monopoly by the relevant parastatals. Notwithstanding these, consumers are made to pay very high installation and running charges for the poor services rendered. The result is that industries get involved in huge compensatory investments estimated at 25% of capital costs for medium/large concerns.

(iv) Lack of Enabling Environment

The environment in which investors and industries operate has been very difficult.

The following are some of the elements of the Nigerian environment.

(a) Political Environment

The political environment has been one of instability characterised by a history of coups and counter coups, rigging of elections, acknowledged deviations in the practice of federalism, overwhelming dominance of the central government, lack of good governance, lack of transparency and accountability, among others.

(b) Legislative Environment

A weak legislative environment may well be due to the political environment.

Laws are made without wide consultations and with little input from the p sector: regular use of retroactive laws, ouster clauses, and delay in court judgements as a means of dispute settlement, etc all act as disincentive to investment.

(c) Macro-economic Environment

Although relative macroeconomic stability has been achieved in recent move the economy had always suffered high inflation and sharp exchange movements thus engendering high industrial costs, falling real incomes, poor consumer demand.

(d) Policy Inconsistencies

This is especially so with regard to fiscal and monetary policies trade p tariffs and incentive schemes which discourage both domestic and private investments.

(e) Bureaucratic Delays

This is most noticeable in issues of land allocations, issuance of license granting of required approvals, administration of incentives, e Consequently, genuine industrialists are discouraged. The overbearing attitude of government officials in their dealings with external persons and organisations also discourages industrialists.

(f) Law Enforcement & Crime Prevention Machinery

Delays in prosecutions and litigations, high costs of justice, perceived lack of independence of the judiciary, inefficiency of the law enforcement regulatory agencies such as the Police, the Customs, NAFDAC and SON.

(g) Lack of Information

A high degree of information deficiency exists due to the non-availability of relevant statistical data. When information does exist, it is often incomplete unreliable.

(v) Funding

In addition to the disincentive to invest due to a lack of enabling environment. Funding for industries has been severely limited due to the factors explained below:

(a) Domestic Investment - For individuals, disposable income has shrunk significantly while for industries, real net income is negative or when positive, very marginal. The hyperinflation syndrome of recent years has also significantly discouraged savings. Again, structural distortions in the financial markets have negatively impacted on the long term end of financing to the industry, the capital market.

(b) Direct Foreign Investment - Past restrictions on foreign ownership of assets and exchange control restrictions hindered the inflow of funds from overseas. Although these restrictions have been removed legally, there are still practical difficulties as evidenced by paucity of investment outlets. This may well be due in part to non-privatisation of key corporations, retention of monopoly status by these corporations and stringent licensing requirements in our laws.

(vi) Technology

At the moment, there is lack of appreciation of the great impact of information technology on industrialisation as high import duties are currently being charged on computer hardware and software despite the nation’s relative computer illiteracy. The impact of technology on industrialisation has become more pronounced as a result of the accelerating rhythm of information and other emerging technologies.

(vii) Industrial Input

There is as yet no sufficient base for the provision of industrial inputs such as raw materials and labour. Basic industries such as agro-processing, petrochemicals, chemicals, metallurgical and cement do not produce enough to meet local demand.

(viii) Shrinking Markets

Due to the high levels of inflation witnessed in the last two decades, coupled with high unemployment rates, consumer purchasing power has been curtailed significantly in the domestic market. This has led to high stock levels of unsold goods in warehouses. Exports to ECO WAS markets have been similarly hindered in addition to problems of colonial alliances, particularly within the Francophone countries.

(ix) International Competitiveness

Quality and packaging issues arise when comparing standard of goods in Nigeria to international standard. Admittedly, low standard of the goods arises partly due to sub-standard technology (equipment & skills and ineffective regulation. However, another key factor is production costs as a result of inadequate infrastructure and lack of environment.

YEAR 2010 - WHERE WE WANT TO BE

The Vision

14. The group's vision for Nigeria by the year 2010 is: To be the L Industrial Economy in Africa and a Significant World Industrial Player by the 20 10. This is an ambitious vision, particularly when considered from a perspective, but it captures Nigeria's our aspiration in this area as a nation, group is strongly of the view that Nigeria has the natural capability to realise vision. To achieve this vision, it is anticipated that the manufacturing industry

(a) Contribute at least 25 % to the GDP which itself is envisioned to grow 10% per annum.
(b) Produce high quality goods at prices competitive in the international markets.
(c) Be strongly linked to agriculture, petrochemical and steel industries
(d) Have high, sustainable and self-sustaining growth.
(e) Be restructured to achieve a shift away from the dominance of light goods industries to the production of capital goods, intermediate goods engineering industries.
(f) Be driven by an active full-fledged industrialisation programme, Strategic Management of Industrial Development in Nigeria master plan.

15. Considering the industrial aspirations captured above, Nigeria would reached the take-off stage to being a significant world industrial player by 2010.

Specific Targets

(c) Be strongly linked to agriculture, petrochemical and steel industries

16. In addition to the above general statement of vision, the group has established quantitative, measurable targets to specifically define and establish this vision. In doing this, it took cognisance of the achievements of the East Asian tigers - South Korea, India, Indonesia, Singapore, Thailand, Malaysia and the Philippines - during their initial take off stages between 1960-1975.

Manufacturing & The Economy

17. In targeting where Nigeria should be in manufacturing activity by the year 2010, the country's primary concern is on the need to increase the share of manufacturing in GDP such that manufacturing growth can have an appreciable impact on GDP growth as in the case of the newly industrialised countries. A close analysis of these countries' achievements during their critical transformation stage reveals the following characteristics:

(a) Ascendancy of manufacturing over initially predominant primary production in relative share in GDP.

(b) Following from (a) and the consistency in implementation of established industrial master plan, there was a much higher growth rate, indeed incredible growth rate exceeding 20% in some cases, of manufacturing output than that of other productive sectors.

(c) Manufacturing became the dominant sector in export expansion.

(d) Domestic demand expansion made the largest contribution to the growth of the sector at the initial stage.

(e) Export expansion overtook import substitution as the next major driver for growth of manufacturing output. That is, at a stage in their industrial transformation, the impact of import substitution as a growth driver diminished.

(t) There was a restructuring of the manufacturing sector with a successful diversification from light consumer goods industries to intermediate, capital goods and engineering industries. This boosted input-output linkages and competitiveness.

1. Against these factors, Table 4 and figures *5* and 6 the phased targets for the manufacturing sector vis-à-vis the economy. It is expected that growth in the sector will be accompanied by shifts in subsectoral composition of output in favour of high growth areas. Table *5* shows the expected shifts in sub-sectoral composition of manufacturing output (see also Figure 7). In addition, the sector is expected to achieve capacity utilisation of about 90% by 2010 from its current level of *32.5%* (1996).

The activities required to be undertaken in order to achieve these targets are shown in Table6.

TABLE 4

PROJECTED GDP AND MANUFACTURING OUTPUT: 1997 - 2010

	1996 Actual	1997 - 2000 Projected	2001 – 2005 Projected	2006 - 2010 Projected
GDP (N'Billion at 1985 Prices)	106.7	134.0	193.3	302.9
ANNUAL GROWTH RATE (%)	3.25	7.0	9.0	10.0
MANUFACTURING(N'BILLON	7.2	20.1	38.7	75.7
SHARE IN GDP (%)	6.7	15.0	20.0	25.0
ANNUAL GROWTH (%)	0.7	29.2	14.8	14.8
ANALYSIS OF SUB-SECTORS IN GDP (%)				
(I) BASIC NEEDS INDUSTRIES				
1. Food, Beverage and Tobacco	2.27	4.56	5.57	6.33
2. Textile&Apparel	1.12	2.24	2.74	3.11
3. Building Materials	1.10	2.20	2.69	3.06
(II) BASIC INDUSTRIES				
4. Non-Metallic Products	0.88	2.17	3.00	3.95
5. Basic Chemicals	0.48	1.20	1.66	2.18
6. MetallicProducts	0.25	0.62	0.86	1.13
7. Transport Equipment	0.05	0.13	0.18	0.24
(III) EXPORT-ORIENTED INDUSTRIES	0.75	1.88	3.30	5.00

TABLE *5*

SHIFTS IN SUB - **SECTORAL COMPOSITION OF MANUFACTURING** OUTPUT (%)

	1996	1997 - 2000	2001 - 2005	2006 - 2010
I. FIRST GENERATION INDUSTRIES				
1. Food, Beverages and Tobacco	32.90	30.40	27.85	25.32
2. Textile & Apparel	16.33	14.93	13.70	12.44
3. Building Materials	15.94	14.67	13.45	12.24
SUB-TOTAL	65.07	60.00	55.00	50.00
[II] BASIC INDUSTRIES				
4. Non-Metallic Products	12.76	14.47	15.00	15.80
5. Basic Chemicals	8.00	8.00	8.30	8.72
6. Metallic Products	4.14	4.14	4.30	4.72
7. Transport Equipment	0.87	0.87	0.90	30.00
SUB-TOTAL	**24.06**	**27.50**	**28.5**	**30.00**

[III] EXPORT-ORIENTED				
INDUSTRIES	10.87	12.50	16.50	20.00
SUB-TOTAL	**10.87**	**12.50**	**16.50**	**20.00**
GRAND TOTAL	**100.00**	**100.00**	**100.00**	**100.00**

TABLE 6

ACTIVITY TARGETS ACCORDING TO SECTORS AND PHASES OF IMPLEMENTATION

SECTORS	1997-2000	2001-2005	2006-2010
FIRST GENERATION	Pursuit of Domestic Self	Intensification fo Self-	Achievement of full
INDUSTRIES	Sufficiency and	Sufficiency efforts and	Self-Sufficiency in
		Launching of Export more	
		Aggressive Export	these Sectors and
1 .Food, Beverages and	Expansion Drive	Drive	Consolidation of
Tobacco			Expansion
2.Textiles & Apparel	Rehabilitation and	Consolidation of Progress	
3. Building Materials	Resuscitation of	on Rehabilitation and	Achievement of full
BASIC INDUSTRIES	Companies through	Launching of Export	Domestic Self-
4.Non-Metal	Aggressive Privatisation	Expansion Drive and	sufficiency and
	Manufacturing	and Launching of	Commencement of
	Aggressive Export		
5. Basic Chemicals	Strategic Industries	Strategic Industries	Expansion Drive Full
6. Metal Manufacturing	Initiative	programme	realisation of All Key
7. Transport Equipment		strategic Industries	
EXPORT-ORIENTED	Commencement of	Expansion of Exports	
INDUSTRIES	Export Expansion of	from Sectors 1,2 & 3 and	Achievement of full
	Sectors 1,2 and 3	Commencement of	Major Exporter Status
		Export from sectors 3,4,5	in all seven Sectors

*** NOTE: This refers to the provision in the 1997 Budget for Protocol**

Agreement to be concluded with the Government by private companies to invest in basic and strategic industries.

Structure of Manufacturing Industry

As earlier indicated, there is a need to restructure the manufacturing industry. It is expected that there will be a structural shift from:

a) Production of light consumer goods to
b) The production of intermediate goods, capital goods and engineering machines.

The targets established to achieve this vision are listed in Table 7 below:

Table 7
Present and Future Structure of Manufacturing Industry in Nigeria

RELATIONSHIP	1996 ACTUAL	2010 TARGET
I Capital goods to Total Manufacturing Output	<20%	>30%
ii. Capital Goods to Consumer Goods	<40%	70-100%
Engineering	*<5%*	*10-15%*
iii. Machinery to Total Manufacturing Output		
iv. Capital Goods Imports to Consumer Goods Imports	<100%	> *150%*
v.Engineering Machinery Imports to Capital Goods Imports	<50%	>30%

19. The targets set for manufacturing sector shown earlier derived from a combination of the desired growth rate of GDP, the country's perceived resources and performance of the East Asian newly industrialised countries in the early stages of their economic transformation.

Manufacturing output is expected to increase (at constant 1984 prices) from =N=7.2billion in 1996 to ~N~75.7billion in 2010, that is, from 6.9% of GDP in 1996 to *25%*. To achieve this, the annual growth rate is envisioned to rise radically from 0.7% in 1996 to 28% per annum in the period 1997-2000 and stabilise at 14.8% per annum for the period 2001-2010. Share of manufacturing exports is expected to grow from 0.6% to 20%. Capacity utilisation will radically improve from current 32.2% to 90% with effect from 1998 and maintained at this level up to 2010. Structural changes are also expected to occur within the manufacturing sector with steady diversification from import-substitution consumer goods industries to intermediate, engineering and export-oriented industries. Considerable effort is therefore required to achieve the manufacturing targets for the year 2010 given the dynamism at which changes in GDP and its various components will be taking place simultaneously. Substantial investment in manufacturing activity will also be needed in order to achieve the 2010 targets.

20. On the basis of average capital/output ratio during the period 1993-1996, the estimated yearly incremental investment in manufacturing during the period 1997- 2010 has been projected. At the prevailing autonomous exchange rate of =N=85/US$1, the total minimum incremental investment required is =N=385.475 billion, that is, US$4.535 billion. It is anticipated that *75%* of the incremental investments will come from the private sector split into *55 %* from the local private sector and 20% through foreign direct investment. The public sector is expected to contribute the remaining 25 % through direct funding of such basic industries as petrochemicals, iron and steel, and pulp and paper, as well as indirect concessionary financing of private sector enterprises using appropriate financial intermediaries. The Nigeria Industrial Development Bank (NIDB) is expected to continue to play a pivotal role in the mobilisation of funds to finance private sector projects and the promotion of joint ventures between indigenous and foreign investors.

21. Having established the desired manufacturing targets for the year 2010, there is the urgent need to evolve and articulate strategies on how to get there. It is noteworthy that strategies in themselves do not lead to success unless properly communicated and implemented. The strategies designed by the Industry Group are articulated below.

DIRECTIONS ON HOW TO ACHIEVE TARGETS

(i) Short Term Actions

There is a need to rejuvenate the economy in the short term without bringing about an increase in the rate of inflation. The aim is to improve consumer purchasing power and spur manufacturing growth in order t the economy a jump from its current dormant state. To do this, we
recommend the following measures.

(a) Reduction in Direct Taxation Rates

Drastic reduction in the rates of direct taxation and placement of greater~ reliance on indirect taxation should be pursued. This will improve consumer purchasing power, curtail demand for non-essential and luxury goods and reduce the tax rate applicable to high-income earners which effectively increases savings. Some of the options (which are not mutually exclusive) that may be adopted are:

- Improvement in personal income tax relief, for instance, the present amount of N2, 436 per annum is very unrealistic. With the high cost of accommodation in some state capitals, many employees have had to move farther away from their places of work, thereby increasing their transportation costs. Also, as most employees use their personal cars ml course of their employment thereby incurring wear and tear, it should be considered to grant them capital allowances.

- Abolition of excise duties on products that currently attract 10% or less, al drastically reducing the rate applicable to products in the high tax brackets,
- Abolition of income taxes for low income earners by stepping up the threshold from =N= 10,000 to at least =N=25,000.

- Expansion of top rate tax band to = N = 200,000. This means that only people with taxable income of = N = 200,001 and above should pay the rate of personal income tax of 25 %.

- Increase the rate of value added tax for certain goods distinguished as luxurious e.g. motor cars above 2.0 litres, designer personal goods, etc. and non-essentials such as cigarettes, alcoholic and non-alcoholic beverages etc. This measure will curtail consumption in this area, enhance foreign exchange available and focus production on essential products. The loss of revenue to the states consequent upon the above measures will be compensated for with the increased VAT collections. This also implies that the tax collection machinery for the various tiers of government will need to be improved upon to reduce the incidence of tax evasion.

- Allowing for accelerated depreciation of fixed assets of manufacturing businesses such that 50-100% can be written off in one year.

- Extension of the period for which losses sustained in manufacturing business can be carried forward from 4 years to 6-8 years.

- Reduction and harmonisation of corporate income taxes (including scrapping of education tax).

These measures will facilitate additional capitalisation by the industry to fund investments in new technology that should result in lower unit costs and improved quality, and to take advantage of emerging medium term opportunities.

(b) Review of Public Sector Wages Carry out an unpublicised review of public sector wages which at the moment remains very poor. To complement this exercise will be an objective and progressive restructuring of the public service with a view to implementing a phased reduction in numbers.

4.1.3 Reduction in Inflation Rate

Maintain the policy and target of low inflation rate.

Patronage of Nigerian-Made Goods

Encourage the patronage of made-in-Nigeria products with the government leading in this direction. Simultaneously, the Standards Organisation of Nigeria must be geared to do a lot more in the areas of certifying products of international standard and clamping down on producers of inferior goods.

Selective Protection of Local Industries

Give adequate and time-bound protection to local industries on a selective basis, especially for growth - oriented and strategic industries with multiplier effects. While we advise a policy of trade liberalisation to open up our industries to international competition, this must be done with caution and prudence. It is noteworthy that even the highly industrialised and technological G7 countries do not pursue a policy of 100% trade liberalisation. It is therefore in the interest of the nation to protect local industry that is at its infancy stage from foreign goods. Some of the measures to be taken are:

- Consistent and transparent application of tariffs payable on imported machinery and raw materials.

- Differentiation and drastic reduction of duties payable on imported raw materials and completely - knocked - down (CKD) parts for use by 1 producers in comparison to duties on imported finished goods. This I especially so for automobile, engineering and capital goods industries high domestic value added industries such as textiles.

- Relative elimination or drastic reduction in smuggling and dumping

- A restructured, reinforced and relatively corrupt free Customs Services.

- Stiffer sanctions including longer jail terms and confiscation of personal corporate properties of persons involved in or aiding smuggling.

- An anti-dumping law should be promulgated - and a National Anti-Dumping Commission to be established - to prevent dumping. In addition to the Standards Organisation of Nigeria should carry out public enlightenment campaigns on standards and the dangers of inferior imports and their presence in the market.

(t) Increase Economic Ties & Diplomacy

Urgent steps should be taken to strengthen existing economic ties and I new ones especially within the African & Middle East markets. Nigerian embassies and missions should be tasked to spearhead economic diplomacy by arranging for foreign investors to visit Nigeria to explore investment opportunities and identifying emerging opportunities in their respective locations.

(g) Elimination of Bureaucratic Bottlenecks

Urgent steps must be taken to eliminate or drastically reduce the bureaucratic bottlenecks often encountered by genuine investors. Few examples of such bottlenecks are in respect of:

• Acquisition of industrial land and transfer of title.
§ Obtaining excise license from the Customs Service

• Registering and obtaining approvals from various agencies such as NAFDAC, FEPA, CAC, NEPC, etc.

• Claiming incentives most of which are already approved by local government for manufacturers.

§ The multiplicity of government ministries and agencies to deal with for virtually any industrial activity to be or already being undertaken by
• investors. It is advised that government should establish a One-stop centre through: for the processing and granting of various approvals, licenses and claims for incentives.

Indeed, a 'Total Quality Management' approach is urgently required in the and administration of government ministries, agencies and parastatals to ensure implementation of government policies and the achievement of set objectives.

(h) Summary

Although the group has proposed the above as short-term measures, it should not be regarded that the application is a one-time action. Application is continuous throughout the vision period, though reviews will occasionally be necessary to align actual performance with the desired goals. It is expected that the implementation of the above measures will bring about:

• Improved domestic consumer demand, which will increase capacity utilisation. In turn, this will stimulate growth in manufacturing output in relation to GDP.

• The standard of living of the average Nigerian will be improved.

• Domestic savings and investment will increase and be directed more towards manufacturing industry.

• Activity in the manufacturing sector will be boosted with new entrants from the local private sector.

• The purpose, visions and strategies of Vision 2010 will be more easily discerned and accepted as being genuinely motivated. The usual attendant skepticism Nigerians have for government's programmes will evaporate due to the new and improved lease of life the above measures will bring a Consequently, the ground would have been prepared for easy acceptance of the medium/long term measures to be implemented.

(ii) Medium/Long Term Measures

Having given the manufacturing sector the required jump start, it is necessary to quickly put in place medium/long term actionable solutions to achieve objectives for the year 2010. The changes required are dynamic for the reason that many long established paradigms of the Nigerian economy have to be shifted, and simultaneously too. We highlight below the ma actions that would be required to achieve a rapid and sustained growth in the industry.

(a) Provision of Adequate Infrastructure
The problem of inadequate and poor infrastructure and support services should address and remedied. This problem is one of the major factors leading to production costs in Nigeria and causing locally produced goods not to be competitively priced with international standard. By addressing this problem, expected that there will be a sharp reduction in the cost of doing business in Nigeria. This translates into increased consumer demand and capacity utilisation. Pending privatisation, the maintenance and upgrading of major utility corporations such as power, communications, water and transport should pursued under experienced management appointed on merit. The major functions of NEPA for instance should be operated by different independent organisations. Communications should be stepped up substantially for both rural and urban areas. Radical transformation of the transport system is equally required - road networks to be expanded and old ones properly maintained, safe and clean airports, waterways, etc. Yearly targets must established and monitored in respect of these corporations with sanctions the management for non-performance.

• (privatisation of these corporations to facilitate efficiency in service delivery at reasonable prices. Guided privatisation is advocated to ensure that these corporations do not fall into the control of a few unscrupulous persons who will use the existing monopoly status (of the corporations) to exploit consumers.

• Opening up the various utilities sectors particularly the power and telecommunications sectors to competition. In order to do this, existing laws must be reviewed to abrogate monopoly clauses and allow for easy entry to the sector. New entrants should be given some support by the government due to the capital intensive nature of these industries. A Monopolies and Anti-Trust Commission should be set up to ensure fair play and competition between existing and prospective service providers.

§ Government should pioneer or mobilise the private sector to invest in the provision of adequate and up to date infrastructure to facilitate access to good quality and relevant information via the information super highway.

• The quality of our roads, railways and waterways in both urban and rural areas should be improved upon to enhance asset utilisation through faster turnaround times and to reduce transportation cost.

• Provision of electricity should be deregulated and subdivided into Generation, Transmission & Distribution.

• Communication facilities service range should be increased and upgraded in the urban areas. Rural areas should be provided with at least basic telephone.

Substantial Incremental Investments

As earlier indicated, the minimal incremental investment required to achieve the manufacturing targets for 2010 is about US$5b (at current prices). About 80% of this amount is expected to come from internal sources (private sector *55%* and public sector *25%)* while the remaining 20% will be direct foreign investment. Clearly, while direct foreign investment is a desirable and necessary source, our initial focus should be on domestic savings.

Domestic Savings

The current climate for domestic savings is very poor due to limited disposable income to majority of the people. The hyperinflation witnessed in recent years has further worsened the disposition to save. Conscious effort will therefore have to be made to spur domestic savings. Some of the measures to be taken are:

• Increasing disposable income of the populace through a reduction in direct taxation on income and by an unrelenting pursuit of a single digit inflation rate.

• Proper balancing and interplay of savings interest rate with inflation rate to ensure positive real returns to savers.

• Broadening and deepening of the national capital markets through reforms, proactive prudential regulation and the development of a market for long term funds. A reference rate for long term funds should be created through long dated government bonds, which do not exist at present.

• Improvement of financial sector skills through training programmes of international standard. At the moment, very little training is being done at this level by financial sector operators due to the prohibitive costs. The Industrial Training Fund should be structured and encouraged to assist in the training of this sector especially with respect to sourcing for international faculties who can be brought to Nigeria. This should be done in consultation with participating financial institutions and the costs shared between the government and the participating companies

• Speedy address of current and future distress in the financial sector and enforcement of sanctions on erring market operators to restore and maintain confidence.

• Influence direction of credit to manufacturing activities through incentives to providers of funds - banks, investors, etc. This can be achieved through:

• Granting withholding tax rebates on interests and dividends earned from manufacturing investments.

• Provision of 50 to 70% government guarantee on facilities granted to selected high growth industries.

• Provision of interest subsidy on facilities obtained for manufacturing activity.

(d) Direct Foreign Investment In order to attract this much needed source of funding, the following actions are recommended in addition to actions taken to spur domestic savings:

• Pursuit of an aggressive economic diplomacy policy and improving the nation's image abroad. It is equally necessary that we realign our country with her traditional trading partners whilst seeking new relationships.

• Create an enabling environment for inflow of investments and for businesses to thrive.

• Enhancement of the country's international competitiveness and credit rating through effective and mutually agreeable debt management with existing and future creditors.

• Minimal restrictions on foreign ownership of assets.

§ Free capital movement

• Liberalisation of trade balanced with minimal protection of selected sectors of local industries.

• Exemption of income earned abroad and repatriated by Nigerians from taxation. This is to encourage Nigerians abroad to bring home more of their foreign currency earnings without fear of double taxation. This exemption should be particularly directed at Nigerians working in foreign countries but with whom Nigeria does not have Double Taxation Relief Agreement.

(e) Creation of an Enabling Environment

• This is a crucial factor which explains its pervasiveness. An enabling environment breeds succour, confidence, creativity and use of initiatives among the populace generally, and it is a sine qua non for promoting investments and economic growth. Many elements constitute the phrase "enabling environment" and these we must seek to establish in our polity.

• Political Stability Some of the actions required for this are:

• An elected government established and operated on the basis of a widely accepted constitution.

§ Election into public offices that are not accompanied with rigging, selection or rejection of candidates by electoral agency, disfranchisement either by omission or commission and general acrimony.

• Accountability and transparency in governance.

• Peaceful transition between succeeding governments.

• Macroeconomic Stability

This is measured by the consistency in pronouncements and application in relation to:

• Fiscal and monetary policy

• Inflationary controls

• Tariffs

• International trade regulations such as in import duty requirements (IDR), inspection of imports/exports, foreign exchange market, documentation, etc.

• Policy Consistency

This relates to the general gamut of government policies. Government should do what has been pronounced that she will do without material deviations. Non-implementation or frequent and unnecessary changes send out negative signals of policy inconsistency, inadequate planning & preparation, and deliberate interference to give undue advantage to some persons or groups. This challenge requires government to plan adequately before arriving at and pronouncing policies. Minimum time frames should also be set within which policies will remain unchanged.

• Total Quality Management in Government Administration Efficient and highly professional civil service.

• Law & Order

This is fully treated by other subcommittees.

• Independent Court System
The role of the judiciary is also fully covered by other subcommittees

§ General Actionable Solutions

• Additional Port Clearance Reforms

• Abolition of Dual Exchange Rates

• Direct Grants
The achievements of government with the recent port reforms should be sustained by simplifying the port clearance process even further to reduce lead times (with positive impact on the carrying cost of stocks) with a forty-eight hour clearance and by improving the security situation at the ports. In addition, port charges should be reduced to harmonise them with international rates and a one-stop customs entry process should be established.

The existing dual exchange rate should be abolished to achieve transparency and accountability in resource allocation in the public and private sectors.

Direct grants should be given to deserving companies in selected high growth sectors. The criteria for qualifying for such grants should be clearly spelt out and remove as much as possible use of discretionary powers by bureaucrats operating the scheme. Some of the factors for qualification include location of plant in rural areas, achievement of minimal export sales, production of standard goods at internationally competitive prices and development cost portion of proven researches.

• Industry Funding Using Development Banks

Enhancement of the pivotal role of development banks such as NIDB, NICB, NEXIM & NERFUND through increased funding (recapitalisation), restructuring and closer monitoring. In this regard, adequate use must be made of credible consultancy firms and institutional organisations such as World Bank and International Finance Corporation in carrying out the restructuring and monitoring exercises.

• Establishment of Private Specialised Banks

In a similar vein, government should encourage the private sector (banks, industries and individuals) to syndicate the floating of industry banks and venture capital banks whose credits must be solely for manufacturing concerns. This can be achieved by giving generous tax incentives, grants and government guarantee on approved lending.

• Easy Access to Landed Property

Abolition of Governor's consent on land transactions to facilitate easy acquisition of property and mortgaging to obtain finance for investment. State governments should be encouraged to provide easy and cheap access to land, particularly developed industrial land. These governments should be enlightened about the benefits their individual states will enjoy, in the long run, from higher tax revenues as a result of increased manufacturing output.

• Simplified Immigration Process

Simplifying the approval process for expatriate quotas and visas to genuine investors.

• Greater Participation of the Private Sector

Broader and deeper involvement of the private sector should be sought in reaching policies affecting the industry. In addition, the approval and implementation processes of the nation~s various industrial policies should, as much as possible be devolved closer to private operators within this sector.

• Human Capital

The human capital base deriving from formal tertiary, vocational, technical, secondary and primary education must expand considerably, and be made more relevant to the needs of industry. While formal training is imperative, industry in the new global context will demand highly specialised skills consistent with the new Information Technology (IT) - driven development.

• Codification of Existing Tax Laws

There should be a strict codification of existing tax laws and an empowerment of the Joint Tax Board [JTB] as the final authority on interpretation of the tax code. Further, the unconstitutionality of the use of tax consultants by state and local governments should be declared.

SEQUENCING HOW TO GET THERE

22. Attaining the status of an industrialised state requires that Nigeria fulfils three minimum conditions which are empirically derived. The conditions are:

(i) That industry in Nigeria will contribute *25* % to Gross Domestic Product (GDP) by the year 2010.

(ii) That industrial employment will increase from under 10% to 20% of the labour force by 2010.

(iii) Export of manufactures will move from about 0.6% to 8% minimum by the year 2010.

23. The implication of this will be that the structure of industry will shift rapidly to take Nigeria from a light consumer goods producer to an economy that produces and exports intermediate goods by 2010. It is also expected that by the year 2010 and beyond Nigeria will be exporting capital goods in specific areas particularly agro-related machinery. In terms of sequence of development, it is envisioned that the trajectory shown in figure will play out fully. The following are the sequence

- 1998-2003:

Completely master the process and product technologies relating to consumer goods manufacturing.

- 2003-2005:

Promote the acquisition and mastery of technologies in specific agricultural and agro-related industries and develop the full-range of products in these areas by the year 2005. The target sectors specified under SMID are:

- Rubber and rubber products
- Leather and leather products including footwear
- Textile and garments
- Foods and beverages
- Basic chemicals
- Building materials
- Agricultural and agro-allied machinery

- 2005 -2010:

Begin export of products from the target sectors and the complete technological mastery of machinery to process the specific products. At this point Nigeria should be fully competitive in these products.

- Post - 2010:

Begin export of agro and related machinery of the above sectors. Master technologies in oil and gas and enter fully into domestic manufacture of IT components. Necessarily, industry will need to incorporate IT substantially in production starting in 2000.

24. The following are the strategies to realise the key objectives of making Nigeria an industrialised state by the year 2010.

OBJECTIVES & STRATEGIES

(i) Contribute *25%* to GDP by 2010 and grow at *15%* per annum

- Diversify manufacturing base by implementing the strategic management of industrial development program [SMID] of the Federal Ministry of Industry.

- Promote natural resources-based sectors specifically rubber products, leather, and leather products, textiles and garments, foods and beverages, basis chemicals, building materials and agricultural related machinery.

- Implement incentives system and measures that shifts investment from trade to manufacturing.

(ii) Attain self-sufficiency in light consumer and intermediate goods

- Target and nurture 100 natural resources based small and medium enterprises (SMEs) to make them technology and product leaders by the year 2010.

- Fashion out a rational and transparent support measure to upgrade technology of selected firms.

- Upgrade skills and technological competence at the firm level.

- Conduct a needs assessment exercise to evaluate the strengths and weakness of targets firms to determine the nature of support required.

- Promote existing SME clusters, such as the automobile and machinery cluster at Nnewi, leather and tanning cluster in Kano, footwear cluster in Aba/Onitsha, rubber product in Edo, Delta, Ogun and Lagos states.

(iii) Increase Industrial Employment from under 10% of Labour Force by 2010.

- Support the development of agricultural and machinery related enterprises to process natural resources into high value added products.

- Spawn a large number of foundries, forge shops and engineering fabrication shops and make them more technology based over a period of time.

- Multiply rural-sector based small and medium enterprises to bridge the rural-urban industrialisation gap.

- Promote the culture of sub-contracting among small and medium firms on one hand and between small and large firms on the other.

Build-un rural and urban physical, social and engineering infrastructures.

- Implement the Family Economic Advancement Program (FEAP) to bridge the rural-urban and the formal and informal industrialisation gap.

(iv) Increase export of manufacturers from 0.6% to 8% by year 2010

- Operate the almost 17 export incentives and modify or strengthen them where necessary

- Promote the acquisition of enterprise level quality control laboratories to produce highly competitive products.

- Introduce automation and computerisation into capital goods and engineering sector in general. Use tariffs and other incentives to encourage technology transfer in this respect.

- Create strong commercial, industrial and technology desks at our embassies in target countries.
- Aggressively promote export of manufactures to the sub-regional markets.

Empower NEXIM and other agencies to do more for manufacturing firms' export drive.

- Assist private firms to upgrade obsolete machinery and to acquire new technology.

CHAPTER NINE

TRADE AND DISTRIBUTION

Introduction

1 Trade and distribution are discussed here with regard to goods and services. Trade and distribution comprise the various activities that occur in the movement of goods and services from the producers to the consumers. The Committee defines each of these related economic activities as follows: Trade.. "A process whereby goods and services are exchanged for money or money's worth". Distribution: "The transfer of goods and services effectively and efficiently to where they are needed".

2. In Nigeria, as in other parts of the world, trade and distribution represent a major sector of the country's economic activities. However, prior to the practice of division of labour on a widespread scale, a large proportion of consumer goods was either produced by consumers themselves e.g. foodstuff or soles by producer retailers. With the development of urbanisation, industrial production, export and import on large scale, large numbers of intermediaries between the producer and the consumer developed and were very active.

3. In many parts of the world the distinction between trade and distribution is widening with the advance in technology and the sophistication of the consumer. However, in Nigeria, distinction is still not very clear. Here, what is still done is largely trading. Distribution as a specialisation is still not distinctive.

(i) Goods and Services

(a) Goods

- In general terms, the main areas of trade and distribution in Nigeria are:
- Manufactured goods, including consumer and durable goods.
- Raw materials for producing such goods.
- Agricultural produce for consumption or cash crops.

(b) Services

- Distribution
- Transportation
- Storage
- Warehouse
- Preservation
- Financing

(ii) Scope

Trading is very common in Nigeria as many people trade in various forms; street trading, neighbourhood kiosks or shops, market stalls, big and small shops. Both the organised private sector and the informal sector are very active in trading, and employ a very high percentage of the population in the country. Records of informal sector activities, however, remain very scanty. Distribution is not yet fully developed in Nigeria. It is done as an integral part of trading activities by private sector companies. Even now, as a result of the very low standard of infrastructure, such companies are either reducing their activities in this area or are getting out totally. It is in the context above that trade and distribution are being considered as part of the issues that can turn the economy round. In addition, trade and development can accelerate planned growth towards the year 2010.

(iii) Key Success Factors

The key factors for success in this sector (trade and distribution) include:

- the size of the market
- state of infrastructure,
- cost of doing business,
- purchasing power,
- the financial system,
- quality of goods,
- preservation and storage of goods,
- policies
- practices; and
- manpower

4. The vision for Nigeria in trade and distribution will be examined in line with each of these factors. Each factor will be considered in terms of:
Where we are, Where we want to be by the year 2010 and How we want to get there.

WHERE NIGRIA IS

*5.*What is the current state of the economy with regards to Trade and Distribution and in respect of the various key success factors?

(i) The market

Large market potential, but prices are not competitive. Nigeria has a large market potential with a population of over 100 million in 1997, spread across 920 square meters of land with varied vegetation.

Market awareness is increasing in both urban and rural areas though slowly, urbanisation and industrialisation are growing with the attendant rural/urban drift. Pricing of goods in the Nigerian market could have been lower but for the many avoidable high cost of doing business and the poor state of infrastructure. Effective distribution of goods is very essential to a virile market The situation in Nigeria now is that there are too many layers of distribution , thus unnecessarily raising the cost of doing business. A major factor inhibiting the growth of organised distribution system is lack of adequate infrastructure such as roads, railways and water-ways. At present, unlike in many parts of the world where railways are used for haulage, in Nigeria a greater proportion of goods is moved by road and yet the roads are in a state of disrepair.

(ii) Infrastructure.

Key element in trade and distribution is ability to move goods and people. This depends on the state of infrastructure which at present is not well planned or maintained. In many cases they are under utilised, outdated or undeveloped.

(iii) Cost of Doing Business

Cost of doing business affects the general price level, competitiveness and volume of goods sold. There are too many areas of cost in trading activities most of which are unnecessary or can be pruned down. Tariffs are generally high and change frequently. Port handling procedures are too lengthy, cumbersome and time consuming. Operators pay multiple taxes and pass through 'check points' and 'toll gates'.

(iv) Purchasing Power

Volume of trade depends largely on disposable income. The disposable income of Nigerians has been gradually eroded due to inflationary pressures. As a result, Nigeria is now among the poorest nations of the world.

(v) Finance

Convenience of payments system and access to finance affect the effectiveness of trade and distribution. At present, transactions in Nigeria are mostly cash-based. Other modern forms of payment such as cheques, credit and debit cards are not fully developed. Credit is not readily available. Loans which were not available up to 1993/94 are now available after some deregulation in the banking sector. But the loans are not accessible because of the unfavourable terms of the lending institutions and some existing regulations. These constraints render trading inefficient and cumbersome.

(vi) Quality of Goods

Consumer prefers high quality goods. In Nigeria today, there are high quality goods existing side-by-side with fake, illegally and poorly copied products.

(vii) Preservation and Storage

Goods should be delivered to the consumer in excellent state all year round. There is a variety of seasonal and perishable produce from the agricultural sector that are not preserved so that they can be available in wholesome state all the year round. The inadequate provision of storage facilities such as cold stores, silos and warehouses across the country, has deprived Nigerians of the food-stuff and other goods that can be traded all year round at affordable prices. At present, there is inadequate scientific preservation methods in use commercially in the country.

(viii) Implementation of Regulations.

Poor implementation of regulations inhibits attainment of goals and objectives of free trade. There are adequate regulations in many cases to ensure free trade, but poor implementation of such regulations results in various illegal trade practices. High incidence of smuggling which encourages importation of fake and substandard goods which create rather unfair competition.

(ix) Integrity

Lack of integrity erodes confidence and trust in doing business. The pervasive incidence of dishonesty in doing business has created a lack of trust and confidence. Dishonesty and distrust have become inhibiting factors in trade and distribution.

(x) Restrictive Trade Practices

Restrictive trade practices lead to market distortions. There are many official agencies whose consumer protection functions appear to overlap and need to be streamlined. There are not enough consumer protection agencies to check restrictive trade practices and protect consumers. ‘Unionism, where one group of traders preclude any new entrant into their trade, is very active in most trades all over the country.

(xi) Knowledge and skills in Services

Trade and distribution require appropriate knowledge and skills. The current level of education and skills of those who engage in trade and distribution is very low and is getting worse in the informal sector, which harbours many children of school age who drop out of school to go into trading. Research is minimal and no adequate encouragement is given to it. Information and relevant data on trade and distribution are limited and often inaccurate.

(xi) Conclusion

The potentials of the country’s large market can be enhanced much more than what it is now if existing laws and regulations are properly implemented. Achievement in many areas of trade and distribution is below expectation.

WHERE WE WANT TO BE

6. By the year 2010, the market in Nigeria should be operating efficiently and competitively. Trade and distribution should be a major contributor to the national economy.

(i) The market

The market would have been well developed by the year 2010. Trading activities would also extend to the West African sub-region, the whole of Africa and the rest of the world. The multi-layer distribution system would have been streamlined, modernised and run by specialised operators employing latest technology for haulage by road, rail, waterways and air. Prices will be competitive and displayed on the products. Information on prices will be readily available to the consumer and carried on the latest information technology for wider consumer awareness. Distribution will develop into a specialisation operated by companies that have appropriate skills and equipment and other infrastructure. The whole economy, including trading and distribution, will be market-driven.

(ii) Infrastructure

Infrastructure developed extensively to world standard. Existing infrastructure will be maintained and will function all the year round. Their maintenance and the construction of new ones will meet international standards and well forecast volume of use. Private sector will be participating effectively in providing infrastructure, especially in all areas of dire need

(iii) Cost of Doing Business

Cost of doing business in Nigeria should rank among the lowest and “cost competitive in the world’. By the year 2010, communication across the country and the rest of the world would be very efficient. Movement from one point to another will be prompt and cost efficient. This is apart from the fact that the environment for doing business will be very conducive to competition and market forces.

(iv) Purchasing Power

High level of continually increasing incomes. Real income will improve, leading to higher purchasing power.

(v) Finance

Efficient and effective finance system. There will be a full adoption of a modem payment system. The economy will be vibrant with trade and distribution flourishing. Higher income will encourage savings culture which in turn will make more credit available

(vi) Quality of Goods

High quality and branding of goods. Nigeria’s economy will be market- driven by the year 2010, meeting the demands and tastes of the consumer. Manufacturers or importers will sell only goods of international standard and quality. Laws on intellectual properties will be enforced in full.

(vii) Preservation and Storage

Adequate preservation and storage facilities strategically located throughout the country'. Adequate warehouses, silos and cold storage facilities will be available in various locations across the country. Modern preservation techniques will be adopted, thus reducing waste and stemming erratic prices and perishability of food items. These will be constructed and managed as viable businesses by the private sector.

(viii) Implementation of Regulations and Ensuring Integrity.

Efficient implementation of rules and regulations. This will be the order of the day as discipline will prevail in all spheres of life. Honest trade Culture and practices would have developed. Smuggling and faking of products will have reduced to an insignificant level.

(xi) Restrictive Trade Practices

Open and competitive trade practices with adequate consumer protection. The consumer will be supreme in a well developed market. This will be the case in Nigeria by the year 2010 because the consumer will be effectively protected by appropriate laws and well organized government agencies.

The consumer will be well informed and educated about the laws and regulations that protect him so that the field of play between the trader and the consumer will be level and allow for fair play.

(x) Knowledge and Skills in Services High level of knowledge and skill as well as available reliable data. The level of market operations would have been enhanced by the next decade as a result of better knowledge and skills. Specialised and sustained training programmes will have been incorporated in the formal and non-formal education system into the country. Reliable data, a major requisite for well planned and organised market, will be readily available through specialised institutions. Formalised data reporting by both formal and informal sectors will support the research institutions which will be funded by both the private and public sectors.

HOW TO GET THERE

7. Nigeria will be operating a market-driven economy by the year 2010 with a free market characterised by fair play, openness, high degree of integrity, efficient infrastructure and a robust culture of savings and credit instruments. How does Nigeria achieve these?

(i) The Market

Various items in these categories that will give comparative advantage in the market should be targeted for production at the appropriate scale. The laws and regulations inhibiting free should be simplified and all inhibitions to free trade removed. Private companies are to operate the distribution of goods as a specialisation. Highways and other feeder roads must be made motorable all year round to enable them to operate efficiently and extensively. Private investors should be encouraged to support the distribution of goods by allowing them to provide storage facilities on a commercial basis.

Adequate infrastructure of international standard working efficiently all year-round must be provided. Areas of greatest need to be identified and planned immediately or provision of infrastructures implemented very rapidly. Private sector participation should be vigorously pursued.

(iii) Infrastructure

Identify goods and services with comparative advantage and make them grow nationally. Broadly speaking, those goods and services comprise. Manufactured goods, Raw materials for producing such goods or for export and Agricultural produce.

(iv) Cost of Doing Business

All regulations that do not add value to transactions as well as other impediments in doing business are to be removed. General tariff level should 1 reduced while competition is encouraged. Ports should work 24 hours with simplified processes which are computerised. Excise duties should be eliminated in view of VAT.

(v) Purchasing Power

Implement the recommendations of the Critical Success Factors and Economic groups that lead to increase in economic activities. To increase the people purchasing power to $1,000 per capita, the recommendations of the Critic Success Factors groups as well as those of the Economic groups which will lead to increase in profitable economic activities must be implemented. Law regulations and practices that increase the cost of doing business and therefore increase the prices of goods must be removed. The level and state infrastructure contribute to cost of doing business, so they must be put in be conditions all year round. Also, monetary policies should be non-inflationary while fiscal policies should be streamlined to increase real income. T stimulate demands, government should create more jobs.

(vi) Finance

Finance is a key element in trade and distribution and should be clearly focused Payment instruments such as card payment system and other funds transfer facilities should be introduced to reduce the level of cash transactions. Inter bank transfers by customers transaction should also be introduced. Sufficient sanctions and laws for loan defaulters should be put in place to protect and encourage credit culture.

(vii) Quality of Goods

To the consumer, the quality of goods and services is a key factor in purchasing decisions. Appropriate regulations, inspection and monitoring to be put in place so that all products or services will be of international standard. Laws protecting intellectual property are to be judiciously applied with appropriate bodies set up to adjudicate very swiftly.

(viii)

It is important that products should be delivered all year round to the consumer in wholesome state. In order to have all year round storage of goods, investors Preservation and Storage should be encouraged to provide storage facilities. The result of various research bodies in the field of preservation to be made available for extensive use.

(ix) Implementation of Regulations/Integrity

Remove ambiguities in the functions and responsibilities of regulatory bodies. Streamline them. Conflict and overlapping in the functions and responsibilities of regulatory bodies should be removed while the bodies are streamlined. This will enhance understanding and the implementation of regulations. It will also improve the integrity of all concerned, reduce or even eliminate smuggling. “Toll gates” and “check-points” which tarnish the reputation of all concerned and increase the cost of doing business must be removed and the people concerned sanctioned. Border patrols must be made more effective rather than being used as ‘toll gates’. Incentives should be given to those who apprehend smugglers while tariffs are reduced and harmonised to make smuggling unattractive. Ports regulations are also to be effectively enforced.

(x) Restrictive Trade Practices

Educate the consumer on his rights and encourage NGOs to form consumer protection associations. The consumer should be educated to create the awareness that will encourage a competitive environment in which restrictive trade practices are less likely to flourish. Conducive environment for the formation and effective operations of non-governmental organizations for consumer protection must be ensured. Consumer protection agencies must effectively operate consumer protection laws and other regulations. Anti-trust and restrictive trade practices laws should be enacted and effectively implemented.

(xi) Knowledge and Skills in Services

Opportunities for education which will enhance basic skills in trade and distribution must be formalized and enlarged, starting from the Junior Secondary Schools. Trading skills as a vocational study is to be introduced early in the secondary schools. Non-formal education should also be provided for practising traders to sharpen their skills. Efforts must be made to collect relevant information in the sector while research is encouraged and research results and other relevant information are appropriately disseminated.

(xii) CONCLUSION

Nigeria with its large population has a potentially large market which should be effectively exploited. It should operate a free market characterised by fair play, openness, high degree of integrity and effective, efficient infrastructure. It should embrace a culture of saving, credit instrument and building confidence of investors. There should be a high level of trust among distributors, wholesalers, retailers and consumers. Nigeria should be a hub of economic activities in the ECOWAS sub-region.

CHAPTER TEN

SOLID MINERALS

Introduction

1. Solid minerals are naturally occurring substances derived from the earth's crust and upper mantle which are of economic value to man. Nigeria is endowed with solid mineral resources whose proper exploitation can contribute significantly to the economic development of the country.

2. The Department of Geological Survey (DGS) established in 1919, has done extensive work within its limited resources in the areas of exploration, identification and evaluation of solid minerals in the country. From the geological exercise, mineralisation of the various rock formations has been identified and mineral maps of Nigeria were prepared over the years. It has also classified the solid minerals of the country according to their physical and chemical properties and industrial applications as follows:

Mineral Grouping	Proven National Endowment
(a) Mineral fuels	Coal, Lignite, Uranium; Thorium, Bitumen
(b) Metallic minerals	
i. Iron and Ferrous Metals	Iron, Niobium, Titanium
ii. Non-Ferrous Metals	Lead, Zinc, Tin, Columbite
iii. Minor metals and related Non-Metals	Zirconium, Tantalite, Baryl, Ilmenite
iv. Precious metals Gold, Silver	
(c) Gemstones	Emerald, Tourmaline, Aquamarine, Ruby, Topaz, Sapphire, Almadine ,Diamond
(d) Structural and Building materials	Limestone, Gypsum, Clay, Sand, Gravel.
(e) Ceramic minerals	Kaolinite, Feldspar
(f) Chemical minerals	Salt, Sodium-Carbonate, Marcasite, Sodium Sulphate,
(g) Metallurgical and refractory minerals	Sillimanite, Kyanite, Foundry Sand, Graphite, Fluorspar, Cryolite,
(h) Industrial and manu-facturing Materials	Asbestos, Mica, Talc, Barytes, Diatomite, Monazite, Phosphate, Lime.
(i) Abrasives	Garnet, Quartz, Corundum, Sands Diatonite.

3. Officially, exploration and exploitation of solid minerals began in Nigeria when the Secretary of State for the Colonies established the Minerals Survey of the Southern and Northern Protectorates of Nigeria in 1903 and 1904 respectively. However, organised mining activities in Nigeria were initiated by the Royal Niger Company in *1905.* The surge in mining activities during this period, particularly around the middle belt of Nigeria, necessitated the appointment, by the colonial government, of the first Inspector of Mines in 1908.

4. In anticipation of the amalgamation, the Minerals Survey of both Northern and Southern Protectorates were disbanded in 1909 and 1913 respectively. In its place, the Geological

Survey of Nigeria and the Mines Inspectorate were established in 1919. The colonial government's desire to streamline, monitor and enforce laws relating to prospecting and mining in Nigeria necessitated the enactment of the Mineral Ordinance of 1946 and the Coal Ordinance of 1950 which for all practical purposes provided the first legal basis and framework for the development of the solid minerals sector. These laws vested ownership of all minerals in the British crown and encouraged the development of solid minerals for exports only. The laws were also silent on the restoration of the environment devastated by mining activities which were dominated by British mining companies.

5. Equally significant in the evolution and development of the solid minerals sector over the years is the fact that there has not been any conscious effort by government to co-ordinate and harmonise laws and regulations relating to the sector. Over the years the development of mining of particular minerals necessitated special regulations leading to the enactment of special acts to govern the exploitation, marketing and utilisation of specific minerals as follows:

- Nigerian Coal Corporation Act 1950 Cap 229 LFN 1990;
- The Gold Trading Act Cap 163 LFN 1990
- The Diamond Trading Act Cap 98 LFN 1990
- The Explosives Act 1964 and Allied Regulations 1960 Cap 177 LFN 1990;
- The Tin Act No.25 of 1967/Miscellaneous Provisions Act Cap 429 LFN 1990;
- The Quarries Act 1969 and Allied Regulation Act Cap 1990.

6. Before 1971, apart from coal which was, and is still mined by a government agency, mining of solid minerals in the country was a private sector affair, and was dominated by foreigners. Government attitude on prospecting and extraction of solid mineral resources on commercial basis was the non-involvement of public funds in the mining sector. It contented itself with the collection of rents, royalties and fees.

7. The exit of foreigners occasioned by the civil war and the indigenisation drive later embodied in the Indigenisation Decree of 1972, aroused governments interest in direct involvement in the mining sector. The first major step taken by government to develop the sector was in the articulation of a solid mineral policy in 1971. This policy gave birth to the Nigerian Mining Corporation Act of 1972 charged with the responsibility of developing and exploiting the solid minerals in the country, alongside the private sector.

WHERE WE ARE IN SOLID MINERALS DEVELOPMENT

8. After 37 years of independence, Nigeria has done very little in the development of the solid minerals sector. This explains why the sector only contributed an annual average of 0.30% to the GDP during the periods 1988-1996, as shown in Table 1. The development of this sector could go a long way in accelerating the pace of industrialisation in the country through the provision of input to solid minerals-based industries and exports to earn foreign exchange.

Table 1
Contribution of the Mining and Quarrying Sector to Gross Domestic Production (Billion)

YEAR	**Contribution to GDP**	**TOTAL GDP**	**%SHARE OF TOTAL GDP**
1988	0.24	77.76	0.31
1989	0.25	83.46	0.30
1990	0.27	90.36	0.30
1991	0.27	94.36	0.29
1992	0.28	97.42	0.29
1993	0.30	100.03	0.30
1994	0.31	101.04	0.31
1995	0.31	103.30	0.31
1996	0.32	106.66	0.30
Average Annual Growth Rate	3.7%	4.0%	0.30%

Source: Central Bank of Nigeria. Annual Report and Statement of Accounts.

9. At the moment, the contribution of solid minerals to export earnings is negligible (0.4%) as indicated in Table 2. The Table also shows that the performance of the solid minerals sector compares unfavourably with the achievements of its counterparts in sub-Saharan African countries.

Table 2

Table 2
Contribution of Solid Minerals to the Economies of Selected Sub-Saharan African Countries
1987

Country	Mining Export as % of Total Export	Mining Value Added as % of GDP
Botswana	90	40
Zaire 73	24	
Zambia	93	15
Zimbabwe	43	8
Guinea	92	14
Niger	80	2
Liberia	58	3
Ghana	19	2
Gabon	9	3
Mauritania	31	12
Siera Leone	74	13
Togo 29	7	
Senegal	9	2

Burkina Faso	20	3
Nigeria	0.4	0.3

Source: World Bank/CBN Annual Reports.

10. Owing to the under-development of the solid minerals sector, the country's manufacturing sector depends heavily on imported solid mineral raw materials. Available evidence indicates that a considerable proportion of the country's foreign exchange earnings is expended on imported solid mineral raw materials. As shown in Table 3, the annual expenditure on imported raw materials grew from 32.9 billion in 1991 to 297.4 billion in 1995, with its yearly share in the total import bill rising from 36.8 per cent to 45.3 per cent during the period. For instance, Table 4 indicates that iron ore and salt alone accounted for an annual import bill of about 300 million in recent years. At the ruling rate of exchange, imported iron ore alone cost the country US$3.19 million in 1996 *(255.4* million). Indeed, if the present trend continues, the import bill on iron has been projected at US$3.98 million by the year 2000.

Table 3

Table 3
Nigeria's Import by Major Group
1991 *1995*

	N Billion					Percentage Distribution				
	19	19	19	199	199	19	19	19	19	19
	91	92	93	4	5	91	92	93	94	95
Consumer Goods	22.2	484	57.8	57.6	217.3	24.8	33.8	34.9	35.8	33.1
Capital goods	34.0	45.4	43.7	39.9	141.2	38.0	31.7	26.4	24.8	21.8
Raw Materials	32.9	48.5	63.9	63.0	297.4	36.8	33.9	38.6	39.1	45.3
Others	0.4	143.2	0.2	0.5	0.7	0.4	0.6	0.1	0.3	0.1
Total 89.9	143.2	165.6	161	656.6	100.0	100.0	100.6100.		100.0	

Source: CBN, Annual Report 1995

Table 4
Importation of Major Solid Minerals 1990-94
(In metric tonnes)

Minerals	**1990**	**1991**	**1992**	**1993**	**1994**	**1996**	**2000**
Iron Ore	**142,883**	**144,438**	**171,146**	**48,428**	**70959**	**227671**	**284,196**
Value in US$,000	**1718**	**2759**	**1872**	**581**	**922**	**3192**	**3984**
Salt	**225580**	**253578**	**273983**	**Na**	**Na**	**366094**	**458204**

Source: FOS, Annual Abstract of Statistics, 1995 edition.

11. Similarly, Table *5* shows the index of mining activity during the period 1986-

95. This shows a declining rate of growth. For instance, the average growth rate between 1986-90 is *4.5%*, while it is 2.9% between 1991-95.

Table 5
Index of Mining Activity

Year	Base year 1985 100	Annual growth rate %	Average annual growth rate (5%)
1986	97.8`		
1987	88.3	9.8	
1988	95.3	7.9	
1989	109.2	14.6	
1990	115.1	5.4	4.9
1991	120.1	4.3	
1992	119.9	.2	
1993	124.6	3.9	
1994	121.1	2.8	
1995	124.4	2.7	2.9

Source: Central Bank of Nigeria: Annual Report and Statement, Various Issues.

Against the backdrop of the historical antecedents of the solid minerals sector, the Vision 2010 Committee has identified some key factors responsible for the poor performance of the sector and for the present state of affairs. To be more specific the factors explain, "where we are" as a nation in the development of solid mineral resources as highlighted above. These key factors are the following:

(i) Policy

Nigeria lacks a comprehensive policy framework to guide the orderly development and exploitation of solid mineral resources. The draft National Solid Minerals Policy waiting to be promulgated into a decree is already addressing this need.

- (ii) Laws and Regulations

The country still operates old laws and regulations, which are not competitive. The reviewed draft regulations will soon be promulgated into a decree.

(iii) Funding

The existing level of funding of solid minerals development by both public and private sectors is grossly inadequate.

(iv) Physical Development

Apparently, extensive geological survey work has been done which includes geological mapping, mineral exploration and evaluation of some mineral deposits and occurrences. Also, the Nigerian Mineral appraisal and monetisation programme (NIMAMOP) recently introduced has added a new impetus to the physical development of the sector. However, information emanating from these activities is still very scanty for investment decisions.

(v) Infrastructure

The required infrastructure for solid minerals development in specific areas is either non existent or in a deplorable state. They include: roads, railways, seaports and utilities, in mining sites.

(vi) Enabling Environment

The enabling environment required to make the development and exploitation of solid minerals resources attractive to both foreign and local private investors has been lacking. This calls for generous incentives, stable policies, protection of investments, adequate data bank, etc.

(vii) Manpower Development

The level of manpower development and acquisition of technological skills in the solid minerals sector is inadequate. Only one institution offers mining engineering in the country. On the job and other forms of training are severely limited.

(viii) Environmental Impact

The environmental impact of solid minerals exploitation has not been encouraging. The physical devastation and pollution of mining areas without remedial measures engender the hostility of local communities in mining areas with dire consequences for the security of mining operators.

(ix) Promotion

The promotion of solid minerals development of the country is an imperative if the sector is to contribute significantly to the Gross Domestic Product. Unfortunately, promotional activities have been inadequate especially with regard to the provision of comprehensive data and public awareness.

13. As noted above, the critical missing links in development of the solid minerals sector in the country are: policy, laws and regulations, infrastructure, technological skills, and funding of solid minerals. If these key issues are adequately addressed the dismal performance of the sector would have been mitigated and the sector will be in a position to contribute more meaningfully to the national economy. Some comments are made on these critical success factors below.

(1) Policy

Providing a coherent and comprehensive policy environment for the effective exploitation of solid minerals for the benefit of the country has become necessary now, more than ever before. The policy framework, which at present is not existing, should address the fundamental issues that affect the development of the solid minerals sector, such as laws and regulations, funding, infrastructure, enabling environment, manpower requirement, environmental impact and promotion of solid minerals development. As a matter of fact, the existence of a policy vacuum has largely contributed to the under-development of the solid minerals sector and the prevalence of illegal mining. Prior to 1971, it was the policy of government not to get involved in direct mining activities with the exception of coal. Mining of solid minerals was entirely a private sector affair dominated by British mining companies. The companies were well equipped, employing qualified staff and efficient in their operations, but they devastated the environment. Restoration of the environment was not being enforced despite the existence of laws to that effect. Government concerned itself with providing geological data services, issuing regulatory laws and funding research pertinent to solid minerals development. The records of the mining companies indicate that returns on investment were poor. Furthermore, qualified Nigerian professionals were denied access to key positions in the companies.

14. As noted earlier, the 1971 Solid Minerals Policy was the first major practical step taken by the country to develop the solid minerals sector with greater government involvement in mining activities. This policy position gave birth to the Nigerian Mining Corporation in 1972. The policy divided the country into seven mineral zones so as to carry out intensive exploration for specific minerals and offered incentives by way of concessions. The 1971 policy envisaged:
(a) an intensive geological survey of the country's mineral wealth;
(b) proper exploitation of the known economically viable minerals;
(c) expansion of the Geological Survey and the Mines offices; and
(d) relating the development of the country's mineral exploitation to the national economy.

15. The civil war and the Indigenisation Decree of 1972 brought mining activities to its lowest ebb because of the dominance of multinationals and their expatriate professionals in the sector. Following their exit, small scale indigenous miners took over. As a result of their limited capability, this group of miners concentrated on mining the near surface, high grade and low tonnage mineral deposits resulting in their virtual depletion. This has led to disorderliness and production decline particularly in metallic minerals. In consequence, the tempo of mining activities shifted to industrial non metallic minerals needed for building and construction as well as input for domestic industries. As was the case for metallic minerals, the mining of non-metallic minerals was equally undertaken in a disorderly manner. This trend continued in spite of the imperatives of the 1971 Solid Minerals Policy which has already taken effect. A number of factors were responsible for the following undesirable trend in the solid minerals. They include:
(a) dearth of manpower to carry out surveillance of the mine fields with a view to ensuring compliance to safety standards and man the exit points;
(b) disorder in the field occasioned by illegal mining:
(c) speculative pegging by legal title holders;
(d) cumbersome procedure in processing mining applications leading to long delays;
(e) difficulties in obtaining consent to enter land for the purpose of prospecting and mining;
(f) delays by state governments in submitting procedural reports necessary for the approval of applications;

- minerals smuggling activities involving foreign nationals and their Nigerian collaborators leading to loss of government revenues that could have accrued from payment of fees and royalties;

- lack of standardisation of the regime of rents and royalties payable;
- lack of patriotism by miners and the preponderance of aliens in mining activities.

16. The policy rejected the concept of a private-sector led development in the sector, and highly favoured the role of government as a catalyst by establishing the Nigerian Mining Corporation which would use public funds for mining activities. The government at that time, held the view that private sector cannot be in a position to facilitate the attainment of the laudable objectives of the 1971 policy. For instance, the aims and objectives of the 1971 Policy were:

(a) To promote extensive geological exploration and mineral benefaction appraisals;

(b) To encourage the exploitation of mineral resources for national economic development;

(c) To ensure the conservation of mineral resources through research into efficient extractions methods and wider application or use of solid minerals.

17. Unfortunately, public funds channelled through public agencies have not produced the desired economic benefit for the country. This has contributed to the failure to achieve the laudable objectives of the 1971 policies. It should be emphasised that one of the defects inherent in the 1971 policy is the multiplicity of authorities in the implementation of the Policy itself. For instance, a prospective investor would have to deal with several government agencies before he could be given the prospecting right. Furthermore, the Land Use Decree of 1978, and the

Mineral Ordinance of 1946 have created a conflict between the federal and state governments, by respectively vesting ownership of the Land surface in State governments and the minerals under the land in the federal government. These positions have been entrenched in the constitution and cannot be amended by a simple act, but only through a formal constitutional amendment.

Laws and Regulations

18. The Mineral Ordinance of 1946 and the Coal Ordinance of 1950 inherited from the colonial government are the existing laws and regulations. They have been recently reviewed to conform to international standards. These extant laws highly favoured exploitation of solid minerals for exports only and put the ownership and control of mineral resources in the hands of private individuals. Government only concerned itself with the collection of rents, fees and royalties. Also in existence currently are several laws and regulations governing the exploitation of specific minerals.

19. Regrettably, the extant laws have not been able to deal with the activities of illegal miners even though they apply generally to the exploration and exploitation of all minerals in the country without any exception to special set of minerals singly or in groups. It vests ownership of all minerals in the federal government, notwithstanding the owner of the land upon or within which the mineral is located. Ownership of the minerals passes to the miner only after it has been won, and then, the miner is required to pay a royalty to the federal government as the original owner of the mineral. The

defects in the extant laws and regulations, therefore, have contributed significantly to the underdevelopment of the solid minerals sector. It is hoped that the draft laws and regulations which would soon be adopted, will provide the legal framework for the orderly development of the sector.

Funding

20. By the 1971 Solid Minerals Policy, government is statutorily required to fund solid minerals development. Given the capital intensive nature, funds made available for the development of the sector remain grossly inadequate. Furthermore, the long gestation period of investment in the sector has made it unattractive for commercial banks' loan facilities to the sector.

Physical Development

21. As part of the physical development programme in the solid minerals sector, the Department of Geological Surveys established in 1919 has been carrying out geological surveys throughout the country. Its activities were however temporarily disrupted during the civil war years. It began an intensive exploration of the country in 1971, and has undertaken the following activities to date:

(i) Completion of mapping of the country on a scale of 1:100,000 and the compilation and publication of more detailed geological fracture and structural maps.

(ii) Location and publication of many mineral occurrences.

(iii) Evaluation of the vast iron ore deposits in various parts of the country. (iv) Survey and evaluation of some gold deposits in the country.

(v) Evaluation of more limestone and marble deposits.

(vi) Evaluation of industrial mineral occurrences such as Talc, Kaolin, diatomite (vii) 20% coverage of geological mapping of the country on a scale of 1:50,000.

22. There has also been a progressive inventory of solid minerals occurrences carried out by the Geological Survey Department between 19 13-1995 as follows:

(i) The 1913 minerals inventory map of 13 mineral types occurring at *55* locations was published.

(ii) The 1985 mineral inventory map of 42 mineral types occurring at 205 locations was published.

(iii) The 1995 mineral inventory of 49 mineral types occurring at 381 locations.

(iv) The 1995 publication of mineral map of Nigeria which shows 450 mineral occurrences in the country.

23. Apart from classifying the occurrences as to types, this inventory also noted the level of development of the mineral occurrences in the following categories:

(i) being mined
(ii) fully investigated; and
(iii) partially investigated

24. Also significant in the physical development programme of solid minerals currently carried out is the NIMAMOP programme. This programme has so far confirmed and documented 450 mineral occurrences on the Mineral Map of Nigeria. Essentially, the programme involves the analysis and evaluation of revealed data and occurrences; identifying those occurrences with commercial characteristics; the packaging of investment profile for local and international investors and the prioritisation of strategic solid minerals for industrial development. In order to facilitate physical development of solid minerals throughout the country, there are mines offices in 25 States and geological offices in 30 states. Also in existence for the development and exploitation of solid minerals are the Nigerian Coal Corporation and the Nigerian Mining Corporation. In addition to these, Nigerian Iron Ore Mining Project, Itakpe is already mining and beneficiating iron ore at Itakpe for the steel industry.

25. While tremendous progress has been made in the physical development of solid minerals located in the earth surface, investigations of minerals hidden under the earth are still on the drawing board due to the lack of modern technologies such as Remote Sensing and Cartographic equipment. The geological mapping of the country on scale of 1:50,000 has also not been completed due to lack of equipment and funds. In conclusion, the lack of vital equipment and facilities such as a standard geological laboratory and technological expertise, has been a major constraint on the physical development of the solid minerals sector.

Infrastructure

26. Like other sectors, the solid minerals sector also needs efficient infrastructural facilities to thrive such as road, railways, seaports with handling facilities, inland waterways and utilities such as electricity, telephone, and water. These are currently very deficient especially in remote areas where most solid mineral projects are located.

(i) Roads

Presently, there are no good roads servicing both old and new mineral mining and processing sites in the country. In some cases there are no motorable roads at all. For instance, roads leading to coal deposits in Kogi and gold deposits in Niger state are in deplorable conditions. Similarly, the highway linking Enugu to Port Harcourt to facilitate the transportation of coal is also in a bad condition.

(ii) Railways

The current situation with the railways is not any better. For instance, there are n railway lines servicing mineral producing sites and where they exist, they are either not functioning or however abandoned. The rail line from Enugu to Port-Harcourt needs rehabilitation as well as an extension from Port-Harcourt to Onne port facilities There is also no rail link between Enugu and Okaba-Odagbo coal mine.

(iii) Seaports

The development of modern sea ports in the country was not conceived to handle exportation of large volumes of solid minerals. The problems in this regard are basically two. First, existing port facilities have limitations in terms of tonnage vessels that could berth. Secondly, ports that have no such limitation lack the required bulk handling facilities.

(iv) Inland Waterways

The country's inland waterways, such as River Niger and Calabar River require dredging to facilitate movement of solid minerals to where they are needed by either industries or for the export market. For instance, the transportation of iron ore from Itakpe to Warn, limestone from Calabar to Ajaokuta and coal from Okaba to Onne, have been hampered by the poor dredging of these rivers.

(v) Utilities

Lack of vital utilities in solid minerals producing areas such as electricity, water and telephone has also been noted by the sub-committee. Even where they exist, they are not very reliable, hence mining operators provide these facilities by themselves. The provision of utilities such as road, bridges and other vital infrastructural facilities, in addition to other capital costs, explains why the amount of money required for investments in the sector is often high, resulting in long amortisation periods.

The Vision
WHERE WE WANT TO BE REGARDING SOLID MINERALS DEVELOPMENT

27. To orderly develop, promote, conserve and exploit the solid mineral resources, consistent with national goals and interests for sustainable rapid economic/industrial development of the country by the year 2010. Therefore, by the year 2010, the country should have achieved the following key objectives/targets in the solid minerals sector.

(i) expansion of contribution to GDP to at least 4%;

(ii) the policy framework conducive to the orderly development of the solid minerals sector in an environmentally responsible manner should be in place.

(iii) Self-sufficiency in the sourcing of solid mineral inputs for local industries, thereby alleviating their import dependence;

(iv) generation of foreign exchange earning through the exportation of processed solid minerals;

(v) development of downstream products and new industries;

(vi) increased employment opportunities for skilled and semi-skilled workers especially in the rural areas and the development of manpower in the sector;

(vii) acquisition and domestication of technical know-how in the sector;

(viii) achieved accelerated development of infrastructure in the country, particularly in the rural mining communities;

(ix) diversify the primary mineral products through exploration and establishment of reserves;

(x) recognition of Nigeria in the world community of solid minerals processing countries; and

(xi) ensure the development and exploitation of the bitumen (tar sands) in the nation's bitumen belt.

28. Given Nigeria's endowment in solid mineral resources, it will be desirable to make the sector a driving force in the country's quest for accelerated economic development by the year 2010. Accordingly, concerted efforts should be made to realise the target objectives highlighted in the following sections.

(i) National Solid Minerals Policy

The draft National Solid Minerals Policy which emphasises greater private sector participation and orderly development and exploitation of solid minerals resources for a sustainable economic growth, should be fully operational. The imperatives of policy are:

(a) provide an enabling environment to attract private sector investment foreign and local in the solid minerals sector of the economy;

(b) identify where government must intervene to achieve policy goals,

(c) integrate policy on solid minerals with national social and economic goal~ (d) define roles of various tiers of government and the private sector;

(e) create capacity building to involve public and private sectors.

29. There are no alternatives to these measures, if the country is to reach it target of sustainable economic development by the year 2010 with solid minerals playing a key role in its industrialisation process. The envisaged policy should in all respect meet international standards in the present highly competitive global environment. Continue with the status quo or to allow for a policy vacuum, would further aggravate the performance of the solid minerals sector.

30. Therefore, the policy environment envisaged by the year 2010 is one that v redress the present disorder, in order to achieve national goals and aspirations of orderly and economic exploitation of the nation's vast solid minerals resources for attainment of full-fledged industrialisation, using local raw materials input and t enhancement of exportation of manufactured goods. The implication of this expectation is far-reaching because the wealth of modern industrial nations is bas to a large extent on their resources. Consequently, Nigeria's ability to harness solid mineral resources for accelerated economic/industrial development becomes the critical success factor.

Revised Solid Minerals Laws and Regulations

31. To ensure the realisation of the imperatives of the envisaged Solid Mineral Policy by the year 2010, it is desirable to firmly have in place standard solid mineral laws and regulations which will serve as the principal legislation in the execution the Policy. The revised solid minerals laws and regulations are to:

(a) deregulate the solid minerals sector;
(b) bring about orderliness in the sector;
(c) be the principal legislation for the industry, thus eliminating the multiplicity of laws and regulations on solid minerals exploration and exploitation;
(d) remove bottlenecks in processing and obtaining approvals;
(e) eliminate conflicts in the ownership of solid mineral resources;
(t) check the activities of illegal miners and smugglers of solid minerals;
(g) protect the environment from devastation; and
(h) be competitive.
(i) Since the existing laws and regulations are not only obsolete but also defective, the implication of failure to revise them is that the sector's targets cannot be achieved by the year 2010.

Funding Solid Mineral Development Programmes

32. Adequate financial input is a major prerequisite for the achievement of 4.0% contribution by the solid minerals sector to the GDP by the year 2010. The solid minerals sub-Committee has tried to estimate how much incremental investment that will be required during the 1997-20 10 period to fund vital and achievable programmes of the solid minerals policy as well as to provide financial support to private operators for the rapid development of the sector by the year 2010. The estimate stands at N96.4 billion or US$1.21 billion (N80.00/US$1 .00). This required investment will come from various sources highlighted later in this report.

Physical Development of Solid Minerals

33. By the year 2010, there should be an accelerated physical development of solid minerals resources in the country, geophysical and geochemical surveys as well as strengthen and adequately equip to international standards, institutional structures in the sector, so that they can play greater role as the country presses forward towards sustainable economic development. Specifically, by the year 2010, the following target objectives would have been accomplished:

(a) Increase in the mineral wealth of the country through intensive exploration programme;

(b) completion of all regional mapping at 1:50,000 and improve from 1.50,000 to 1:25,000;

(c) improved geophysical and geochemical mineral evaluation capability;

(d) evaluation of known essential mineral occurrences all over the country to determine their tonnage and grade;

(e) publish all geological and mineral maps; upgrade geological laboratory facilities to international standards;

(f) establish Geology and Mining offices in all States of the Federation;

(g) intensifying search for industrial minerals including strategic minerals; and

(h) develop a virile computerized solid minerals data bank.

34. To fully realise the laudable imperatives of the envisaged Solid Minerals Policy by the year 2010, it will be desirable to also put in place specific infrastructural facilities to facilitate solid minerals mining, processing and marketing. These are:

To have well maintained roads linking identified mineral sites across the country to facilitate exploitation. Complete the on-going rail-line between Ajaokuta and Warn; and The implication is that, technically, exploitation of solid mineral resources for national development as prescribed in the vision for solid minerals, cannot be attained if issues affecting the physical development of the sector are not adequately addressed.
Infrastructural Facilities

(a) Roads

(b) Railways
§ To extend the rail-line from Okaba to Onne;
§ Rehabilitate Enugu-Port-Harcourt railway.

(c) Seaports

To have upgraded facilities at Onne Port to facilitate shipment of bulk solid minerals, such as coal, and jetty No.8 at Port-Harcourt to handle large volumes of solid minerals for export.

(d) Inland Waterways

To have a well dredged River Niger and Calabar River to facilitate transportation of bulk solid minerals such as coal, from Okaba to Onne; limestone from Calabar to Ajaokiuta; iron ore from Itakpe to Aladja respectively; and to feed the Export Processing Zone in Calabar with solid minerals requirement.

(e) Utilities

To have electricity, water and other vital public utilities in strategic and viable mineral sites.

The implication of these expectations ab-initio, is that provision of these infrastructure will accelerate the economic development of these mineral producing areas and thus mitigate urban-rural migration prevalent in our present circumstance.

HOW TO GET THERE IN SOLID MINERALS DEVELOPMENT AND EXPLOITATION

36. Having articulated the vision for the development and exploitation of solid mineral resources for sustainable economic growth of the country by the year 2010, it is imperative also to suggest prioritised, achievable and planned programme of action,

using the resources available during the period, so as to get us to "where we want to be", in the solid minerals sector of the economy. These programmes of action are as follows:

(i) Policy
Adoption and promulgation into law, the draft Solid Minerals Policy with its stated objectives and imperatives including the costing should be in place by the end of 1997 and the implementation should commence within the first quarter of 1998.

ii) Laws and Regulations

Action
The Executive Council Memorandum seeking the approval of both the Policy and costing has been forwarded and the decree for its adoption yet to prepared and signed into law. The Ministry of Solid Minerals Development while awaiting the conclusion of these actions is expected to make a form request for the provision of funds through the normal process, for t implementation of the programmes of the policy in phases, beginning in 1999. Adoption and promulgation into law the draft Revised Laws regulations Solid Minerals including the regime of fees, rents and royalties applicable the solid minerals sector and their implementation before the end of 1997.

The Executive Council Memorandum seeking their approval has bee forwarded, and the decree to give effect to these documents is yet to be signed into law. The Ministry of Solid Minerals Development is expected to follow-up action on this.

Funding
The federal government should set aside at least *1.5%* of the yearly revenue from the sale of crude oil to judiciously fund the development of the solid minerals sector beginning from 1998.

Action

Part of this fund should be channelled through existing selected financial institutions with an impeccable track record, and which must be structured to include mining professionals in them, for direct financing of mining projects, and a mechanism put in place to effectively monitor the application of the fund, while the other part should be used to also judiciously fund identified core programmes of the policy. In addition, participating financial institutions in the scheme should be made to attract foreign direct investments as a measure of their performance, where such investment is critical to the success of the sector it should be guaranteed by the federal government in line with the Head of State's 1997 Budget speech.
Other Funding Sources.
These are:

(a) SME Loan Scheme

The government should create a successor to the expired SME II scheme to participate in the funding of the solid minerals sector, given the success of the scheme when introduced.

(b) Solid Minerals Development Bond

The Monetisation and Appraisal Programme of the Ministry of Solid Minerals Development is expected to lead to the realisation of big joint venture projects which would require local counterpart funding. Such projects should be funded through the proceeds of Solid Minerals Development Bond floated on the Nigerian Stock Exchange. Government should guarantee this bond and adequate tax incentives built into the scheme.

(c) Machine and Equipment Leasing

In view of the huge capital outlay of outright purchase of machinery and equipment, leasing should be an attractive option to mining entrepreneurs. In this case, their obligation to the lessor is limited to payment of lease rentals with the right to purchase the equipment at the end of the tenor - a lease buy- back.

(d) Foreign Investments

The amount of investment required to achieve the target of 4% contribution to the GDP lies beyond the resources of the country. The government should therefore, provide the enabling environment to attract foreign investors. This notwithstanding, the government should not loose sight of the fact if the country are to achieve economic independence, private sector led economic development is a sine quo non.

(iv) Physical Development

Reverting the present Geological Survey Department to its former Agency status, as [n Geological Survey of Nigeria like in other countries of the world, as recommended by the policy, with adequate staffing, to effectively cover the whole country. The enabling decree to establish this agency should be promulgated within 1998.

Action

(a) The agency should be adequately equipped with field vehicles, modern geological, geophysical and geochemical equipment and upgraded standard.

Laboratories for mineral identification, appraisal, estimating and assaying as recommended in the costing of the Solid Mineral Policy, beginning 1998. Proposal for fund allocation to procure these facilities should be part of the 1998 budget estimates of the Ministry of Solid Minerals Development.

(b) The agency should carry out intensive air-borne geological survey of the country using remote sensing and cartographic technologies as from 1998. The agency is expected to acquire the relevant facilities and trained personnel for this programme by submitting a proposal for fund allocation and follow up.

(c) Carry out geochemical survey and publish a Geochemical Atlas of the country by the year 2005. The metallogenic provinces of Nigeria should be explored in detail for metallic mineral deposits while intensive geological survey be embarked upon beginning 1998. The agency is expected to submit detailed proposal for funding and trained personnel for this highly technical activity.

38. The bitumen belt should be opened to private investors through grants of concessional blocks on competitive terms and conditions beginning 1998.
An appropriate institutional framework should be put in place to facilitate the development and exploitation of the bitumen belt.

Infrastructure

39.

(d) Computerisation of the operations of the Agency to include Geo-scientific information system, processing, storage and production of geological, mineralogical, geophysical and mineral forecasting maps by 1998. Proposal for fund allocation is expected to be made and procurement of equipment thereafter.

37. The mines department of the ministry should be properly equipped to make its presence felt in all states of the federation including FCT, Abuja within 1998. It should also conclude pre-feasibility studies of selected solid mineral commodities under the on-going NIMAMOP for interested investors by the year 1999. Thereafter, the Nigerian Mining Corporation and Nigerian Coal Corporation will continue the NIMAMOP exercise in their respective areas of responsibility. The restructuring of Nigerian Coal Corporation and Nigerian Mining Corporation should be completed by 1998. These two agencies should no longer be involved in direct mining operations. Their activities should be limited to only promoting projects for private investors.

The provision of infrastructural facilities should be intensified during the vision

(i) Roads

Motorable roads should be provided and maintained by the federal government in collaboration with state and local governments where feasible, to link viable and strategic industrial mineral mining and processing sites to facilitate exploitation and evacuation of such minerals by the year 2010. Consequently, all such roads should be identified by the Ministry of Solid Minerals Development and proposal made to the Federal Ministry of Works and Housing and the Petroleum Trust Fund for implementation within a specific time frame given the urgency it deserves.

(ii) Railways

Rehabilitation and modernisation of Enugu-Port-Harcourt rail line should be completed by 1998, and extension of Rail Line from Otukpo to Okada-Odagbo Coal mine deposits by 2002. The Ministry of Solid Minerals Development should forward a Memorandum to council requesting Nigerian Railways to carry out the construction of the extension and facilitate the securing of funds from government or any other source locally or abroad. The rehabilitation programme already planned for Enugu-Port-Harcourt rail line should be completed by first quarter of 1998.

(iii) Sea Ports

Upgrade Jetty No.8 at Port-Harcourt with handling facilities to berth bigger vessels by the year 1998. Provision of handling facilities at Onne port to facilitate export of bulk solid minerals such as coal by the year 2005. The Ministry of Solid Mineral Development should forward an Executive Council Memorandum requesting the Nigerian Ports Authority to embark on this development and collaborating with NPA to secure funds locally or abroad for the purpose.

(iv) Utilities

Provision of electricity and water to all identified strategic and viable industrial mineral sites by the year 2010.

(v) Enabling Environment

Ensure a stable and continuous implementation of the adopted Solid Minerals Policy and the provisions of the revised laws and regulations governing exploitation of solid mineral resources in the country.

(a) Create a regime of fiscal concessions for investors both foreign and local.

(b) Create a data base which should be updated to provide information on solid minerals resources and mining propositions on a computer in a saleable CDROM forms and printed version for prospective investors to buy. Same should be fed into the Internet system backed up by an audio-visual commentary, projecting not only the solid minerals availability begging for exploitation, but also captures the friendly physical, social and political environment in which the prospective foreign investor would be investing.

(c) Resolution of existing conflicts arising from federal government ownership of mineral rights and state government control of land title.

(d) Update and maintain Mineral Rights Register to include of only “active” rights holders and eliminate “speculative” rights holders. This action will not only give clear picture of who is entitled to prospect for specific minerals in clearly identified areas, but also ensure expeditious granting of mining licences and security of tenureship.

(e) Government should ensure protection of investments and security of live and property.

(vi) Manpower Development

Manpower development and acquisition of technological skill should be given the utmost priority during the vision period. All the federal universities of technology and six polytechnics should offer courses in mining engineering and mineral processing in the country by the year 2010. The upgrading of the existing National Mining Institute in Jos to the National Mining and Geological Institute as proposed in the policy should be done by the third quarter of 1998, to commence full academic programme in mining, geology and related specialist fields in the industry. The approval of the policy will give legal backing to the institute. However, the Ministry of Solid Minerals Development is expected to forward a Council Memorandum to secure funds for its take-off.

(vii) Promotions

The public awareness promotional packages already embarked upon by the Ministry of Solid Minerals Development, (in the media, seminars, workshops and through other hi-tech information systems) to create awareness locally and abroad of the solid mineral resources available in the country and their economic potentials for exploitation should be intensified. Attendance at international conferences, workshop, seminars, trade fairs and exhibitions should be intensified beginning from 1997 to the year 2010. The Ministry of Solid Minerals Development should arrange and sponsor such trade delegations abroad and sometimes on a reciprocal basis.

(viii) Environmental Protection

Safe environmental practices consistent with national interest should continue to be enforced in the mining industry beginning 1997. New entrants into the industry should be indemnified against responsibilities for past environmental damages. Rehabilitation of severely devastated minefields in the country by the year 2010.

CHART 1: ACTION PLAN

ACTIVITIES	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Implementation of new solid minerals policy and the revised Laws & Regulations														
Funding Solid Minerals Development														
Physical Development of Solid Minerals														
MIMAMOP Opening of Bitumen Belt for Exploitation														
Infrastructure in Solid Minerals Industrial Inputs														
Promotion in Solid Minerals Industrial														

Inputs														
Manpower Development and Technological Know-how														

CONCLUSION

40. The Committee believes that if these action plans are judiciously implemented between now and the year 2010, the solid minerals sector will be able to meet its targets of 4% contribution to the GDP, self sufficiency in solid mineral inputs of local industries, enhancement of non-oil export earnings and generation of employment.

41. During the Committee's deliberations, some issues due to limitations of time and data were not quite conclusive. They are:

- Ownership of land between the state and federal government.

- Who provides the infrastructure required and how?

- Detail study of the revised draft laws and regulations unlike the draft policy.

- Institutional arrangements and role of existing institutions established by law in the sector to privatise/commercialise them or not.

- Should government continue to fund mining activities directly or only promote such projects? and

- How to ensure that the enabling environment for the development of exploitation of solid minerals is sustained.

However, the sub-Committee, aware of the fact that there are similar Committees set up within the Vision 2010 Project as well as current actions being taken by government on these issues, resolved to refer them for further deliberations by these bodies.

METHODOLOGY AND EXECUTIVE SUMMARY:

In recognition of the Solid Minerals sector, as a driving force in the industrialisation process of a nation, the Sub-Committee on solid minerals was created as one of the economic sector groups by the Vision 2010 Committee. The sub-Committee is expected to provide the Vision for the development and exploitation of the solid minerals sector for sustainable economic development by the year 2010.

Consequently, the Sub-Committee designed a work plan as follows:

• Acquired relevant policy documents both classified and unclassified from the Ministry of Solid Minerals Development.

- Requested for Memoranda from experts and groups in the solid minerals industry, financial institutions, etc.

- Organised workshops and invited experts at different times from the Ministries of Solid Minerals Development; Works and Housing; Transport, Federal Environmental Protection Agency Practitioners in the industry, private firms and financial institutions, such as NIDB to participate in the workshops.

- Visited many solid mineral sites and establishments and held close-door discussions in the process.

- Based on the briefing by the Minister of Solid Minerals Development, and information at the disposal of members, the sub-Committee developed the following five action themes:

1. SOLID MINERALS DEVELOPMENT POLICY:
2. LAWS AND REGULATIONS:
3. COMPREHENSIVE EXPLORATION:
4. INFRASTRUCTURAL DEVELOPMENT:
5. ATTRACTION OF PRIVATE INVESTMENTS (LOCAL AND FOREIGN)

EXECUTIVE SUMMARY

This report contains essentially four chapters. The first chapter attempts to discuss the solid minerals endowment of the country and its industrial application as well as efforts by the Department of Geological Survey to produce geological survey maps of the country. It also discusses, albeit briefly, the historical perspective of solid minerals development in Nigeria, which includes the recognition of the sector by government, the laws governing solid minerals exploitation, the role of government, and the part played by the private sector, especially foreign mining companies operating in the country at that time.

2. Chapter two deals with the current situation in the mining industry, that is, “were we are” in solid minerals development. It was revealed that the solid minerals sector contributes only 0.3% annually to the Gross Domestic Product of the country, which is very negligible when compared to other sub-Saharan African countries. The following factors, which were factors for the dismal performance of the solid minerals sector, were also discussed:

(a) absence of a policy framework;
(b) retrogressive and non-competitive laws and regulations
(c) inadequate funding of the sector;
(d) level of physical development of solid minerals;
(e) lack of infrastructure;
(f) absence of an enabling environment;
(g) dearth of trained manpower and technological know-how;
(h) environmental degradation; and
(i) insufficient promotional activities.

3. Chapter three of the report captures the Vision for the solid minerals sector, which is to orderly develop, promote, conserve and exploit the solid mineral resources, consistent with national goals and interests for sustainable rapid economic/industrial development of the country by the year 2010. The chapter further sets out targets to be achieved by the year 2010. These are:

(a) expansion of contribution to GDP to at least 4%
(b) policy framework conducive to the orderly development of the solid minerals I sector should be in place;
(c) self-sufficiency in the sourcing of solid minerals inputs for local industries,
(d) thereby reducing importation; generation of foreign exchange earnings through the exportation of processed minerals;

(e) development of down-stream products and new industries;
(f) increased employment opportunities for skilled and semi-skilled workers especially in the rural areas and the development of manpower in the sector; as
(g) acquisition and domestication of technical know-how in the sector;
(h) achieved accelerated development of infrastructure in the country, particularly in the rural mining communities; by
(i) diversification of the primary mineral products through exploration and establishment of reserves. Furthermore, some of the critical success factors such as the solid minerals policy, laws and regulations, funding of the sector, physical development of solid minerals and infrastructure required, are also discussed in this chapter.

4. Chapter four discusses the strategies and action plans required to be taken to get the country to where it want to be in the year 2010. Some of these strategies and action plans are:

(a) Adoption and promulgation into law of the draft Solid Minerals Policy and its implementation by 1998.

(b) Adoption and promulgation into law of the draft revised laws and regulations of solid minerals including the regime of fees, rents and royalties and its implementation by 1998.

(c) Government to set aside 1.5% annually from oil revenue to fund the solid minerals sector beginning in 1998. Other funding sources were also identified in the chapter.

(d) Restoring the present Geological Survey Department to its former status as Geological Survey of Nigeria with adequate funding and staffing, to effectively cover the whole country in geological survey activities.

(e) Provision of relevant infrastructure such as roads, railways, seaports and utilities to facilitate development and exploitation of solid minerals.

(f) Provision of an enabling environment, which will ensure a stable and continuous implementation of the adopted solid minerals policy and the revised laws and regulations.

(g) Acquisition of technological know-how and skills in the solid minerals sector by establishing mining institutions at the tertiary level.

(h) Carry out expensive public awareness promotional packages in the media, seminars and workshops, etc.

These strategies and action plans are expected to facilitate the achievement of the targets set for the sector by year 2010.

5. Finally, chapter five concludes the report, with notes on some issues that were not quite conclusive due to lack of time and data. It was however, resolved that these issues be referred to the appropriate sub-Committee set up by the Vision 2010 Secretariat or similar bodies in government currently addressing such issues.

CHAPTER ELEVEN

DOWNSTREAM PETROLEUM

INTRODUCTION

1. Nigeria joined OPEC in 1971 and shortly thereafter created the Nigeria National Oil Company (NNO C), which later evolved into the Nigerian National
Petroleum Corporation in 1977. As a member of OPEC, Nigeria complied with the organisation resolution which enjoined all members to acquire majority participating interest in the operations of the oil companies in their countries. Consequently, Nigeria acquired an average of 60% in the upstream petroleum and practically nationalised oil refining and distribution in the downstream.

2. In the downstream, Nigeria's first refinery was built in Port Harcourt in 1965 with a refining capacity of 30, 000 barrels per stream day, (bpsd), which was later increased to 60,000 bpsd. Since then the number of refineries and refining capacity grew to four refineries with a capacity of 445,000 bpsd by 1989. The first and the fourth were built in Port Harcourt in 1965 and 1989 respectively. The third refinery, located in Kaduna, was built in 1980 while the second refinery was built in Warn by
1978.

3. Prior to the construction of these national refineries, the marketing of petroleum products was carried out by Socony Vacuum Oil Company (the predecessor of Mobil) which marketed Sunflower tinned household kerosene in some selected cities in Nigeria. Between 1908 and 1973, seven other marketing companies began marketing petroleum products in Nigeria. During this period, these companies controlled the marketing and distribution of the products throughout the country.

4. As economic activities expanded in the seventies, there was a rapid and significant increase in demand for petroleum products. The private companies could no longer cope with this increased domestic demand and this resulted in severe shortages all over the country. At this stage, the government ventured into petroleum marketing and distribution to solve the shortage problem and ease the suffering of the consumers. In order to tackle this problem, government introduced uniform pricing for products and constructed a 5000-km pipeline distribution network linking all the four refineries and 21 depots. With these infrastructures in place, the marketing companies purchased products from the depots and distributed them to their various service stations from where the final consumers buy.

5. But the shortage problem has not been solved. Beyond distribution, there are numerous problems facing the downstream sector. First, the government-approved consumer prices of petroleum products are arbitrary and inadequate. The approved

margin is insufficient for the sector to solve the various design, maintenance and operations problems of the refineries. Secondly, because of these problems, only 45% of the capacities of all the refineries is useable. Consequently, the refining cost is high. Thirdly, with diminished capacity utilisation, the government further compounds the problem by decreasing crude allocation to the refineries and reducing the budget for their turnaround maintenance. Fourthly, the approved pricing does not encourage private investors to import products to offset the shortfall in local production. The local price is less than *50%* of the cost of importation and distribution.

6. These problems require long-term solutions. On the short term, problems of maintenance and logistics should be resolved. Along this line, the Petroleum (Special) Trust Fund, established by decree 25 of 1994, is requested to inject funds to revamp some refining and distribution infrastructure in the sector. On the longer term, the downstream sub committee is asking for the privatisation of all the state owned enterprises and the deregulation of prices of products in the downstream. But an enabling environment must be created first to attract, retain and reward private investors.

7. The main objectives and strategies of the downstream petroleum industries are to:

Objectives:

* *Ensure availability of petroleum products on a continuous basis nationwide*
* *Create economic outlets for gas.*
* *Increase Nigerian content in downstream operations*
* *Create job/employment opportunities*
• *Protect people and the environment.*

Strategies :The following Strategies were proposed

* To Ensure availability of petroleum product on a continual basis nationwide

(a) Deregulate product prices.

(b) Privatise and refineries operate efficiently and reliably to meet international standards.
(c) Introduce legal framework to allow the government to withdraw from pricing;
(d) Price crude to the refineries at international prices;
(e) Introduce petroleum tax.

* To Create economic outlet for gas

(a) Pursue and implement the West African Gas Pipeline project
(b) Develop additional ammonia plants
(c) Connect new housing estates and towns to gas distribution pipelines

* To Increase Nigerian content in downstream

(a) Develop R & D capability to support domestic products market.
(b) Produce basic inorganic chemical required as input by downstream sector.
(d) Create an environment to make Nigeria a regional centre for Oil and Gas service companies.

(e) Communicate frequently with communities to build trust and understanding.

* To Create job/employment opportunities

(a) Target real growth at 10%
(b) Improve technological and management skills of the people.
(c) Train youths in marketable skills and self-esteem.

*To Protect people and the environment:

(a) Promote safety awareness by educating staff and communities through safety meetings and campaigns.
(b) Develop emergency response plan and conduct major disaster exercises.

1.0.0 Downstream Petroleum

8. All activities which follow after crude oil or gas is gathered at the inlet of a processing plant. These include refining, petrochemicals, gas treatment and conversion, marketing, transportation of petroleum products and ancillary services related thereto.

Scope

The Committee identified and addressed key issues in the downstream petroleum sector , assessed the current situation, then came up with objectives and prescribed solutions to achieve them. The scope of work from which the report is prepared includes the following:

1. Review and assess nature of experience to date
ii. Deliberate on requirements for meeting domestic demand for petroleum product.
iii. Understand underlying drivers to existing state of affairs, assess impact implications and analyse trends.
iv. Assess existing strategies and institutional arrangements.
v. Conduct country comparisons where appropriate.

For each issue examined, the following format was adopted for this report:

vi. Where we are - current situation in the country and comparison with other countries where applicable and where information is available.
vii. Where we want to be - a vision, our desire for the future.
viii. How to get there - actions required to achieve the vision

Organisation

9. Nigeria joined OPEC in 1971 and shortly thereafter created the Nigeria National Oil Corporation (NNOC), established by Decree No. 18 of 191. It was charged with all upstream and downstream activities in the industry. The regulatory functions of the Ministry of Petroleum and Energy were merged with the commercial functions of NNOC to form, the Nigerian National Petroleum Corporation (NNPC) by Decree 33 of 1977. The regulatory functions were then concentrated in a new department within NNPC, called the Petroleum Inspectorate. The newly created corporation was charged with the duty of “exploring and prospecting for, working, winning and otherwise acquiring, possessing and disposing of

petroleum

10. In 1983, the corporation was restructured and the Ministry of Petroleum and Energy was re-established as Ministry of Petroleum and Mineral Resources. By 1988, the Petroleum Inspectorate of NNPC, renamed the Department of Petroleum Resources (DPR), was separated from NNPC and merged with the Ministry of Petroleum and Mineral Resources. DPR's responsibilities include formulating petroleum policies, regulating, supervising and monitoring the upstream and downstream aspects of the petroleum industry.

OPEC Membership

11. As a member of OPEC, Nigeria complied with the organisation's Resolution XVI Article 90 of June 1968 which enjoined all members to acquire a majority participating interest in the operations of the oil companies in their territories. Consequently, between 1973, Nigeria acquired an average of 60% in the upstream petroleum sector but practically nationalised oil refining and distribution of petroleum products in the downstream.

Nigerian Petroleum Refinery Company

12. Initially, all crude produced was exported and the nation imported petroleum products. The government justified the building of a refinery when national production reached 500,000 barrels a day. This target was attained in 1959 and foreign experts were invited to conduct surveys and studies. The experts recommended Alesa- Eleme near Port Harcourt as the most suitable site for the proposed refinery. In 1960, Shell BP Petroleum Refining Company of Nigeria was formed and was charged with the responsibility of constructing and running the refinery.

13. Earlier on in 1962, the Nigerian Petroleum Refining Company Limited (NPRC) was formed when the government signed an agreement with the two international companies. At that time, the government acquired *50%* equity share, leaving the two oil companies to split the remaining shares. Work on the refinery itself commenced at a cost of N20 million and by 1965 the refinery was built and became fully operational. It had an initial production capacity to process 35,000 barrels of crude oil per day, which has since been increased to 60,000 barrels per day. The fourth refinery with the capacity of 150,000 bpd was built at the same location by 1989.

14. Crude oil for this refinery comes by pipeline from local oil fields and from across the Niger and is processed into refined products. The refinery produces two grades of motor spirit (petrol), premium and regular used for fuelling motor cars, liquefied petroleum gas for domestic cooking, dual purpose kerosene for domestic and aviation uses (aviation fuel). It also produces gas oil (diesel) used for fuelling compression ignition engines, boats, heavy road transport vehicles and small generating plants as well as two types of fuel oil - low pour and high pour fuel oils for industrial uses. Five Star Petrol is produced by this refinery on demand. All these products are supplied to the Nigerian market, except for high pour fuel oil, the surplus of which is exported after satisfying the nation's requirements.

Distribution

15. The finished products from the refinery are transported by ocean going tankers, coastal vessels, barges, rail and road tankers to various parts of the country. The Refinery also

supplies storage depots at Aba, Enugu, Port Harcourt and Makurdi by pipeline.

Warn Refinery

16. A few years after the NPRC was established, it became clear that one refinery could not satisfy the nation's needs in petroleum products, which were growing by leaps and bounds. The government considered the options of expanding the Port Harcourt refinery or building a new one. The latter option was considered more favourable and so in 1971, the decision to locate the second refinery in Warn, the Centre of the oil-producing region of the Western Niger Delta, was taken. Work on this refinery began in 1975 and was finally completed in June 1978. The refinery has a production capacity of 125,000 barrels per day. It also produces all the basic petroleum products demanded by the domestic and industrial markets. Crude oil for this refinery is transported through pipelines from the Chevron terminal at Escravos and from Shell's Quality Control Centre. (SQCC).

Kaduna Refinery

17. In order to meet the needs of the ever-growing market and to combat the severe shortages of petroleum products all over the country, a third refinery was considered for Nigeria by the mid-seventies. It was decided this time that the refinery would be cited in the north, since this would also reduce the cost of refined products for consumers in that area. The Kaduna refinery was therefore finally commissioned in 1980 at a cost of N504 million. This refinery, which has a capacity of 110,000 barrels per day, has a lubrication plant in addition to its fuel section, which produces the usual range of petroleum products as in the other two refineries.

Oil Marketing Companies

18. The marketing of petroleum products in Nigeria began in 1907 by Socony Vacuum Oil Company (the predecessor of Mobil). In those days, Mobil marketed Sunflower tinned household kerosene, which was sold mostly in big towns like Lagos, Ibadan, Enugu and Kano. Between 1908 and 1973, most of the white products, including petrol, aviation turbine kerosene, household kerosene and gas oil, were widely distributed by Mobil and other multi national corporations such as Shell, Texaco, Esso (now Unipetrol) and British petroleum. The marketing business expanded in the mid-seventies when more marketing companies, AP, Total, National, Agip and Unipetrol, began operations in Nigeria. They completely controlled the marketing and distribution of refined petroleum products. An eighth company, Elf

Marketing, has recently joined the group, as well as the independent marketers (enterprising Nigerians are encouraged to participate in petroleum products distribution).

Fuel Scarcity

19. After the Nigerian civil war, economic activities expanded and the nation witnessed an unprecedented explosion in the demand for petroleum products. The private marketing companies could no longer cope with this increased domestic demand for products and this resulted in severe shortages of petroleum products all over the country. This also constituted a major bottleneck to development in the country at that time. The Government, at this point, ventured into petroleum products distribution and marketing to help solve the ensuing problems and ease the suffering of the consumers. Consequently, in 1973, the government

introduced uniform pricing of petroleum products throughout the country. Thereafter, a study of the country's petroleum products distribution system was initiated. The study concluded that the most efficient way of transporting large volumes of products was through pipeline and, subsequently, the construction of a network of pipelines was commissioned.

Pipeline Network

20. By 1979, a total of 3,001 kilometres of pipelines linking 16 storage depots to the refineries had been constructed all over the country. (Over 5,000 km of pipelines has been completed to date, linking refineries and 21 supply depots nation-wide) Four "white" products namely, premium motor spirit (petrol), five star motor spirit, dual purpose kerosene and automotive gas oil (diesel), are handled by this transportation and storage system. The marketing companies purchase these products at the NNPC depots and then distribute them to their various filling stations. In addition to these depot and pipeline facilities, various pump stations are located on the pipeline routes to ensure regular supply of petroleum products. Even though, the actual domestic demand has not been ascertained, deducing from the present consumption pattern of petroleum products, it has been determined that demand would increase, necessitating yet another refinery in the future. As a consequence, the Fourth National Development Plan (1981 - *85)* provided for the building of two new refineries.

PPMC

21. Established in 1988, Pipelines and Products Marketing Company (PPMC), a subsidiary of the NNPC, is responsible for the management of the pipeline network and overall distribution of refined petroleum products in the country. PPMC not only manages the petroleum products pipelines and associated depots, but also oversees the overall processes involved in the marketing and distribution of products. PPMC sells products indirectly to the final consumers through major and independent oil marketing companies which draw their supplies from the network of depots and refineries. The oil marketing companies sell to the consumers through their respective service stations. These two groups of marketers operate, among them, about 6,600 service stations.

Ownership and Control

22. Prior to the country's membership in OPEC in 1971, petroleum products were available in sufficient quantities. Motorists bought petrol when needed without any challenges. Kerosene was available for cooking. No flights were cancelled or delayed because of lack of aviation fuel. Smuggling, adulteration and hoarding were not much talked about. Petroleum marketers who complied with the law to repatriate foreign exchange earned met petroleum products demand of neighbouring countries through organised legal.

23. At that time, Nigeria had one refinery, the old Port Harcourt refinery, which was run efficiently as a multi-client processing centre by British Petroleum company. The operation allowed marketers to bring their crude to the refinery, supplied their expected yield pattern and evacuated products, including fuel oil. The refinery made independent returns to the government to confirm figures supplied by the companies for tax purposes. As the population increased, the demand for products also increased. Government officials then became interested in regulating and controlling the downstream operations. They felt it was in the national interest for the government to own and manage all refineries. Consequently, they rejected applications by independent marketers to build new refineries. For the same reasons,

the government had participating interest in only three of the eight petroleum products marketing

companies- 60% in Nolchem(National) and AP, although the Nigerian public owns the remaining 40% in AP. The Government had 100% interest in Unipetrol.

Current Situation

24. Today, Nigeria owns and operates four refineries and an extensive distribution pipeline network. But long queues at petrol filling stations have become a way of life; Plane flights are cancelled or delayed. Some people take advantage of the situation. They adulterate products and sell to the unsuspecting public. The use of adulterated products has resulted in serious accidents and unfortunately, in some cases, loss of lives. The downstream sector is in a state of decay, characterised by inadequate funding, poor state of operating conditions, poor infrastructure support, insufficient availability of petroleum products, and highly regulated environment. This situation

has led to a highly fragmented market structure, low product differentiation and a pricing structure that is unrelated to market forces. The government is in control. Government not only allocates crude to the refinery, but also determines how much money is to be used for turn-around maintenance of these facilities.

25. During the fourth quarter of 1996, the government cut down the crude allocation to the refineries from 320,000 barrels of oil per day, (bopd) to 250,000 bopd and revised the turn around maintenance cost from the estimated $600 million to $200 million. The gasoline (petrol) yield from 250,000 bopd of crude is 12.5 million litres per day, far less than the estimated local consumption of 19 million litres per day . The money allocated for maintenance is enough to provide temporary solutions to minor problems in the refineries. The bigger maintenance problems remain un-addressed. The inability to maintain all downstream infrastructure and a host of other challenges has led to continuous importation of products and persistent shortages queues at petrol service stations in the country. The 40-day mandatory strategic reserve has been depleted and is yet to be replenished.

Ownership

26. The government currently owns and operates all the four refineries in the country, the petrochemical annexes, the Eleme petrochemical complex and the distribution pipeline network. The four government owned refineries have a combined total capacity of 445,000 barrels per stream day, (bpsd) as shown in the Table below:

Refinery	**Barrels refined in 1995**	**Installed capacity**	**1995Capacity utilisation -**
Port-Harcourt	-	60,000	
Warn	42,000	125,000	34
Kaduna	46,000	110,000	42
Port-Harcourt-2	114,000	150,000	76
TOTAL	**202,000**	***445,000***	***45***

Growth in national refining capacity. Capacity grew by 11% over 24 years.

Refinery	Capacity-bpsd	Current allocation-bpsd	Date built
Old Port Harcourt	60,000	30,000	1965
New Port Harcourt	150,000	80,000	1989
Warri	125,000	75,000	1978
Kadduna	110,000	60,000	1980
TOTAL	**445,000**	**245,000**	

27. These refineries are expected to meet the short and medium-term domestic fuels demand estimated at about 300,000 bpsd. The refineries in Port Harcourt and Warn produce fuels while the one in Kaduna, in addition to fuels, also produces lubricants. The lubricating plant of the Kaduna refinery processes heavy crude oils (paraffin-based) imported from Saudi Arabia produces lubricating oils, bitumen, Sulphur, waxes and greases, all of which have always been imported into Nigeria. The ability to produce these products locally conserves very valuable foreign exchange. Since the Nigerian crude oil is light, it is not very suitable for the production of lubricating oils. The crude oil supply to this refinery, local and foreign, is transported from the Chevron's Escravos terminal in the Niger Delta to Kaduna via pipeline.

28. Gasoline, (petrol), marketed in one grade (90 RON or + 0.15 Pb), has the highest estimated volume demand of about 19 million litres per day, fuelling over 800,000 automobiles plying the Nigerian roads. White products are distributed by an elaborate network of pipelines currently spanning a total of 5,000 kilometres and feeding 21 depots with products from the refineries. The black products are transported from the southern refineries i.e. Port Harcourt and Warn - and those products from Kaduna are transported by rail and road haulage. The use of pipeline for distributing large quantities of fuel is more efficient than the use of trucks or coastal vessels. The inadequacy of the available facilities for distributing petroleum products in the seventies prompted the federal government to invest massively in the construction of the network of pipelines. There are several different phases of pipeline network, commonly referred to as systems. See appendix on pages 45 and 46 for more details. They connect refineries and depots as follows:

(i) System 2A Warn refinery with Benin, Ore and Mosimi depots.
(ii) System 2AX Auchi-Benin depots.
(iii) System 2B Atlas Cove in Lagos with Mosimi Satellite Depot, Ibadan and Ilorin depots.
(iv) System 2C Dedicated to crude oil movement from Warn and finally to Kaduna refinery.
(v) System 2D Kaduna refinery with Kano, Gusau, Jos, Gombe and Maiduguri depots.
(vi) System 2DX Jos-Gombe
(vii) System 2E Port Harcourt refinery with Aba, Enugu and Makurdi Depots.
(viii) System 2EX Port Harcourt- Aba-Enugu-Makurdi-Yola; (ix) System 2CX Enugu-Auchi-Suleja-Kaduna-Mmnna

Currently, the pipeline system is known to have leakages caused by sabotage and poor maintenance. Also, there is no established monitoring system.

Distribution:

29. Prior to 1973, major marketers distributed products throughout the country. Currently, the distribution of gasoline and other products such as bunker fuels and LPG is still controlled by the government through depots. These are strategically located in different parts of the country and connected with pipelines. These depots are effectively supervised by five area

offices located in Kaduna, Mosimi, Port Harcourt, Warn and Gombe. The thrid phase of the pipeline and depot project was scheduled to upgrade the existing pipeline project network by increasing the size and linking the three refineries and depots.

The new depots under the project located in Minna, Suleja and Yobe have been in operation since 1996. There is also a plan to expand the tankage at existing depots and modernise the existing facilities. In the interim, massive bridging of products from areas of excess to areas of shortage is being intensified. The older depots are characterised by delays in supply to marketers and broken down equipment resulting from poor maintenance.

Petrochemicals

30. Nigeria until recently, depended wholly on imported petrochemicals for the downstream manufacturing industries. By late 1970, a strategy was adopted to implement the development of the petrochemical programmes in phases.

Phase 1:

(i) Optimisation of by-products of the existing refineries.

The Warn Petrochemical annex was designed to use the propylene- rich LPG from its FCC unit to produce 35,000 metric tonnes per year, mtpy) of poly propylene, and the Fluid Catalytic Cracking unit's decanted oil to produce 18,000 mtpy of carbon black. The Kaduna Refinery Petrochemicals annex was designed to use the paraffinic kerosene from the imported Arabian light crude and the reformate from gasoline blending pool to produce 30,000 mtpy of Linear Aklyl Benzene. In addition, 2700 mtpy of Heavy Alkylate, 38000 mtpy of deparaffinated Kerosene and 15,000 mtpy benzene are produced as by-products

Phase 2.

(ii) Development of Petrochemical Industry

Full-fledged petrochemical complex to use natural gas as feedstock.

The complex is known as the Eleme Petrochemical Company, Limited cited near Port Harcourt. This complex is to be developed in three stages. The first stage, costing about $2 billion, is completed and currently in operation. Stages two and three are yet to be implemented.

Major oil companies.

31. In all, there are eight major oil companies with split ownership. Four of these are multi-nationals with 60:40 ownership between the parent companies and the Nigerian Stock Exchange. One multinational is a 60:40 joint ownership between parent company and private Nigerians. Another company is a 40:40:20 ownership among Shell, the government and the Nigerian Stock Exchange. There are two companies with 40: 60 government Nigerian Stock Exchange. Currently, there are over 1,200 independent marketers that are 100% privately owned. Major oil marketing companies

(i) Mobil
(ii) Total
(iii) Elf
(iv) Unipetrol
(v) African Petroleum
(vi) Texaco
(vii) National-NOLCHEM
(viii) Agip

Gas

32. The gas pipeline network is over 1,800 kilometres with throughput of over *2.5* billion cubic feet per day (bcfd) and nine LPG depots.

Remuneration

33. Gasoline pump price build-up in N per litre. The government approved petrol price of Naira 11 per litre is made up as indicated in the diagram below. By Petroleum (Special) Trust Fund Decree 25 of 1994, N5.3 per litre is to be paid to the government. The government sells crude to NNPC at Naira 2.4 per litre or $17! bbl (based on N 22 per dollar). The government allows N2 per litre and N 1.3 per litre as NNPC and marketers, profit margin respectively. Essentially , 70% of the consumer price goes to the government.

Current pricing is done by executive fiat and does not reflect demand-supply interaction, inflation and competition.

34. The pump price of fuel, e.g. gasoline, is controlled by the government. The current pump price of Nil per litre is much below the cost of imported crude of Naira 18 per litre-excluding local handling. In comparison with petrol prices along West Africa, the average of which is N57 per litre, the Nigerian price is conspicuously the lowest. This is indicated in the accompanying table:

Country	Gasoline pump price $ litre
Nigeria	0.13
Cameroon	0.51
Ghana	0.49
Cote D ‘ivore	0.99
Benin	0.80
Togo	0.94
Niger	0.94
Chad	0.75

Source-Engineer E. I Nwizu, Sachwiz Co. ltd.

35. The current price structure is as follows:

	Current consumer-cost-Naira/litre	**Industry cost-Naira/litre**	**Industry cost-Naira/litre**
Government take	2.40	2.40	0.00
PTF	5.30	5.30	0.00
NNPC	2.00	*5.67*	3.67
Distribution	1.30	4.70	3.40
Total	**11.00**	**18.07**	**7.17**

36. One issue in the price build-up for gasoline is the transfer price of crude oil to the refineries, N2.4 per litre. This equates to about $17 per barrel on an official exchange rate of Naira 22: Dollar. But based on the AFEM rate, the transfer price becomes N9.09 per litre. The industry maintains that the latter , which reflects the current status of the national economy, is the appropriate transfer price. Besides the complexity introduced by the dual exchange rate, an amount of N7.6 per litre remains to be accounted for in the gasoline consumer price.

NNPC- Cost Component - Current.

37. As indicated below, the NNPC's projected 1997 crude refining and distribution cost is approximately 567 kobo per litre out of which the government has arbitrarily approved only 200 kobo per litre. The NNPC actual cost is not accounted for and there is no provision in the present price build-up structure to adequately recover these costs.

	Cost-Kobo per litre	Approved Costs
Capital recovery	45.00	15.00
Overhead	30.00	10.00
Crude transportation to the refineries	30.00	5.00
Refining	150.00	50.00
Products transportation to depots by pipelines/marine/tanks	145.00	15
Depot operations		
Bridging cost differentials		
Allocation from excise and VAT		300
NNPC	167.00	75
Total	567.00	200

Margins

38. Margins obtainable from fuels are approved by the government but are inadequate for the maintenance or replacement of existing infrastructure. These margins are minimal and do

not encourage continued investments in the downstream. Currently, margins are distributed as follows:

Unit	Margins-Naira per litre
NNPC	2.00
Marketer	0.66
Transporter	0.45
Dealer	0.19
Total	3.30

Petroleum Trust Fund, (PTF.)

39. The PTF was established by the Petroleum (Special) Trust Fund Decree 25 of 1994. According to the decree, the fund shall receive all monies from the sale price of petroleum products less the marketers' margin. Money accruing to the fund is to be used for the execution of project as approved from time to time by the government but with main focus on road and road transportation, railway, education, health, food supply, security services, water supply and rural development programs. As a consequence, 48% of the price of gasoline and 37% of the price of diesel are directly allocated to PTF. Currently, there is no PTF disbursement back to the downstream sector to assist in meeting the cost of some services rendered by marketers on behalf of the government.

Technology ***I*** Management

40. The refining technology is not new. Most of the problems in local refineries can be addressed and solved. All the refineries have maintenance problems that reduce production and consequently capacity utilisation, thereby resulting in high refining cost.

Lack of funding

41. For their rehabilitation, the units in dire need of funding are refineries, pipelines and depots as well as product delivery jetties. Together they require about $1 billion for rehabilitation. However, on a fairly regular basis, NNPC's budget request to the government is partially granted. The amount released is insufficient to repair, maintain or replace all faulty equipment at the refineries. As a consequence, parts are removed from one equipments to solve maintenance problems of others. This leads to a situation where there are equipment that are completely inoperable and others that remain in service only part of the time. On the average, government allocates *50 K*obo per litre, instead Ni *.50* per litre, an amount recommended for maintenance and operations

42. The Warn and Kaduna refineries have unmanageable design problems' and are in varying degree of decay. The FCC unit in Warn has been down for a few years. In Kaduna, there are no facilities other than the FCC unit to further crack the refinery's bottoms into gasoline. The bottoms therefore accumulate. As a result the refinery is often shut down due to the lack of space. Space is created when marketers truck the bottoms to Warn or Port Harcourt for eventual exportation. In addition, the power unit of the Kaduna refinery frequently breaks down, significantly reducing availability. The proposal sent to the government to permit the sourcing out of the maintenance of the power plant and some other

equipment has not been approved.

Productivity

43. Productivity is another challenge facing the management of the refineries in the country. Productivity per man is about 10 million barrels per years while in the rest of it world the rate is 110 million barrels per year. This apparent inefficiency is partly due to the lack of autonomy and undue interference.

Safety

44. Safety of people and protection of the environment continue to be a issue in the refineries and depots as the number of recorded accidents and incidents continue to rise. Pipeline leakages have been reported in Ikeja area where supplies of avjet to airplanes were disrupted. In *1995,* eight leakages were reported on the Mosimi Satellite pipeline segment. Some of these leakages on product pipelines have been allegedly caused by sabotage. Manpower training for improvement in the operations of the refineries have been insufficient and inadequate, largely due to poor funding and very weak educational infrastructure.

Research and Development

45. Studies and research to support the efforts to develop and improve downstream operations are either insufficient or non-existent. Apparently, there is no dialogue between the industry and local universities on manpower development. As a consequence, employees are said to be poorly prepared for work in the industry.

Social responsibility

46. Downstream activities cover gas treatment, crude and gas conversion into refined and petrochemical products and finer chemicals (solvents etc.) as well as transportation and marketing of the products. The investments opportunities are diverse. All the opportunities contribute to the general development of the country. However, there are circumstances associated with these activities in the downstream sector that need improvement. Some of these are discussed below. The downstream petroleum sector provides opportunities for employment and consequently a programme for the development of national human resources. Currently, over 60,000 Nigerians are employed as indicated below. The number can potentially increase if suggested reforms in the downstream are implemented.

Employment

Unit Number employed-	Estimates
NNPC	1,2000+
Marketers	4,300
Transporters	1,0000
Independents	5,000
Dealers	3,0000

Community relations

48. Fostering a cordial relationship between the communities and the operations has been a key responsibility of the marketing companies and the depots. Currently, companies routinely build roads for easy access to villages, construct clinics to provide health care services,

organise and attend sporting events and sponsor education of the indigenes of the host communities. Despite these attempts relationship, the government as well as the independent marketers still encounter community resentment. Product pipelines are damaged causing unnecessary pollution to the environment.

Environment, Health, and Safety -EHS

49. Environmental protection awareness as well as safety has been firmly grounded in the operations of the downstream. Some training on how to handle disaster is conducted from time to time. However, due to the lack of funding, some of the pollution abatement equipment and skills are below international standards. Sampling and measurement are conducted poorly resulting in he discharge of effluent into the environment. Some underground storage tanks leak because cathodic protection is inadequate or absent. Cathodic protection is a protection against corrosion. Some service stations do not observe the recommended guidelines for filling product tanks. This neglect has resulted in spills.

Security

50. A formal organisation charged with ensuring the security of the depots, pipelines and other marketing and distribution facilities does not exist. The current security situation is confused and sometimes ineffective. There are several government agencies e.g. special task forces, soldiers and the naval force, that offer protection to installations on a part-time basis and who respond to emergencies. The roles of these agencies need to be clarified. In the event of crisis, it is unclear which organisation is in-charge. There is no co-ordination. Often, there is disagreement between the agencies on the appropriate mitigation approach to apply. Sometimes this disagreement degenerates into commotion. The industry is often wrongly perceived to hoard products causing shortages in the country.

Downstream objectives

51. The Downstream Sector envisions availability of quality products at reasonable prices and on a continuous basis nation-wide. In order to achieve this, the government must deregulate product prices and transfer ownership in the downstream to the private sector and simultaneously create an enabling environment and incentives to attract, retain and reward both foreign and local investors. Legal framework should be introduced to enable the government to withdraw from pricing. The price of crude delivered to the refineries should be at the international level. In selling products to consumers, the refineries, the marketers and distributors must realise margins large enough to establish preventative maintenance.

52. Private refineries will run efficiently, thus improving and increasing capacity utilisation from about 45% to about 90% like the rest of the world. Productivity per man will increase from the current value of 10 mbbl per year to a more significant level of 110 mbbl per year. The refineries will adopt modern technologies and operate in accordance with international standards and in compliance with safety regulations and environmental guidelines. Consequent upon the transfer of ownership to more than one private companies, competition in the refinery industry will be stimulated. However, the government must encourage this competition and should demonstrate support by patronizing the most efficient companies.

53. Through competition the final consumer of products will benefit from an improved product quality, availability and appropriate pricing. Competition will stimulate new

investments in the industry, thus creating service support companies, which will develop R & D capability to support product market. Some of these companies will produce basic inorganic chemical input for the downstream industry. Others will take advantage of incentives and an enabling environment created by the government to form joint venture companies in the country for plant design, construction and maintenance. In the end , job and employment opportunities will be created, resulting in improvement of the technological and management skills of the Nigerian people. Nigeria will then become a regional centre for oil and gas service companies.

Ensure availability of petroleum products on a continual basis nation-wide.

Deregulation: Impact On The Economy.

54. The demand for products as recorded by the marketers in 1996 was 69 million barrels. When taxes and PTF were applied to this quantity, the total contributions to the government amounted to approximately N38 billion that year. If prices were deregulated, as has been suggested, and incentives granted to attract investors into the refining industry, competition would be stimulated. More products will become available as the demand rises. As a consequence the contributions to the government will also increase. In the table below, the Committee has determined that the demand for products will rise to 84 million barrels in the year 2010. At that time, the contribution to the government will be about N6 1 billion.

Contribution of fuel to the Government.

	Actual 1996	Deregulated 1998	Deregulated 2010
Total Industrial Demand (Million bbl/year)	69	72	84
Total Contribution (Billion Naira/Year)	37.9	*51.4*	61.1

Liberalisation & Decontrol

55. The sub-committee on downstream petroleum envisions a fully deregulated and free market where pricing reflects the demand-supply interaction and competition and where government involvement is limited to regulations and provision of enabling environment to attract, retain and reward private investors.

Petrochemicals

56. As an initiative to utilise gas and harness by-products of the existing refineries, the downstream petroleum is expected to be:

(i) Completely self-sufficient in primary petrochemicals production
(ii) Largely self-sufficient in secondary petrochemicals production
(iii) Very active in export market world-wide and dominance of West African and South-west African markets

Fuels.
57. Deregulation of fuel prices will initiate a chain reaction at the end of which competition

and efficiency will emerge and be established. For fuels, the following change from the current situation will move the industry towards a situation where availability of product will become more certain.

(i) Do not subsidise pump price of petroleum product by basing pricing on real cost recovery starting form the cost of crude to the refinery to the operation cost of the service station.
(ii) Run efficient and reliable refineries that meet international quality standards and are active in export markets
(iii) Purchase products from local refineries and import shortfalls from foreign refineries on a competitive basis.

Cost Recovery

58. The current pump prices of products do not reflect the cost of production and appropriate margins. For example, the government approved pump price of gasoline is Nil per litre while the total cost of producing and distributing a litre of petrol in the country is Naira 18.1, assuming the government transfer price of crude is legitimate. Comparatively, the cost of import and distributing a litre of petrol of the same grade is N25. 1. If the local pump prices were deregulated or maintained at the landed cost of imported products, private investors would be encouraged to complement the insufficient domestic supply of petrol by importation.

Industry Cost Recovery

Cost Components	Naira per litre
Crude	2.4
PTF	5.3
NNPC	5.67
Distribution	18.07

Import parity pricing

Cost Naira per litre	
Total C&F	14.5
Clearing	0.6
PTF	5.3
Total	25.1

Privatisation

59. Privatisation is the transfer of ownership and or management from the government to the private sector to improve efficiency and create competition. Currently, refining and processing are 100% government. The distribution is predominantly government. Only the marketing is 100% private. Incessant scarcity of products in the country is an indication that a significant improvement is required both in the management and operations of the refineries and the distribution sector. A permanent solution should be found. Therefore, the downstream sub-committee envisions the following:

(i) The ultimate solution is to either partially or fully privatise refineries, depots, pipelines and oil marketing companies
(ii) During transitional period of decontrol! privatisation, to stimulate interest in the privatisation program, incentives should be granted by allowing the industry to fully recover production and distribution costs.
(iii) In addition, there should be free flow of capital while profit and dividends are allowed to be repatriated.

Remuneration

Industry Cost Recovery
Naira per litre

60. Current pricing disallows new investments and proper maintenance of existing facilities. Poor maintenance is one of the factors responsible for the poor performance of the industry. To alleviate the current situation the following solutions are recommended:

(i) Fully recover all costs in the industry.
(ii) Collect tax- government should take advantage of the good organisation of oil marketing companies to collect tax as is done worldwide. (Revitalise the Petroleum Equalisation fund and allow major oil marketing companies to manage in the event that uniform pricing is desired nation wide.

Create an economic outlet for gas

61. About two billion cubic feet of gas produced in association with crude oil is currently flared daily. If sold at *$0.5* per thousand cubic feet, the flaring will represent an annual loss of *$365* million. The sub-committee recognises this waste and envisions as follows:

(i) 80% of flared associated gas should be utilised.
(ii) The proposed West African Gas Pipeline project should be implemented
(iii) Gas distribution lines should be installed and connected to new housing estates and towns.
(iv) Thermal power plants, both existing and new, should use gas in power generation.
(v) At least four additional ammonia-based fertiliser manufacturing plants should be developed.
(vi) Additional gas-based petrochemical plants should be constructed.

Increase Nigerian Content in downstream

62. One contribution of the downstream petroleum sector is to create employment opportunities. These opportunities can also serve as a tool for manpower development in the country. Nigerians should be encouraged to compete with foreign investors in terms of price and quality. They should be involved in the provision of goods, management and technical services. The Sub-Committee envisions the adoption of strategies that will increase the total participation of Nigeria and Nigerians in the provision of raw materials, through support services to technical consultancy.

63. Technology! Maintenance
Poor maintenance has led to poor performance. However, with decontrol, stakeholders will have adequate margin to cover maintenance expenses and would be able to fund the development of companies that will provide maintenance services. In order to ensure that technology is available to support the operations and maintenance in the downstream, the following are adopted as objectives:

(i) Create enabling environment to attract all required technology currently existing domestically and internationally.
(ii) Establish engineering design, operation and maintenance capabilities in Nigeria

(iii) Develop R & D capability to support domestic products market development
(iv) Establish the capability to construct plants in Nigeria.
(v) Attain self-sufficiency in production of basic inorganic chemicals required by the downstream petroleum sector
(vi) Produce *50%* capital equipment sourcing of aggregate requirement locally.
(vii) Create an environment conducive to Nigeria becoming a regional centre for oil and gas service companies.
(viii) Create Job employment opportunities

Social Responsibilities

64. The downstream sector should contribute to national development by creating jobs, introduce/transfer applicable modern technology as well as efficient, safe and environmentally sensitive operation of refinery and distribution facilities in addition to maintaining a cordial relationship with host communities.

Employment

65. The potential investment opportunities in the downstream sector suggest that a real growth of 10% (TID) per year can be targeted. In the pursuit of this target, marketers, dealers and transporters that are currently lean will expand their businesses and become more profitable. Consequently, jobs will be created and employment should increase from 61,000 in 1996 to 94,000 in 2010. There will be increase in productivity within the sector and the entire economy.

Protect people and the environment

66. With increasing level of activities in the downstream, the sector needs to maintain high standard practice in operations in order to ensure healthy and safe conditions for staff and the community. Since industry players are good and responsible corporate citizens seeking to promote the welfare of their respective host communities, these standards should be strictly and uniformly enforced throughout the industry along with a campaign for environmental awareness. Consequently, there will be significant reduction in the number of accidents and incidents, and reduction in emissions and waste. Other strategies, which will facilitate the elimination of accidents and enhance clean environmental conditions, are as follows:

(i) Utilise energy and other natural resources efficiently, safely and in accordance to vendors direction e.g. optimise liquefied petroleum gas (LPG) for cooking and lighting, and promote house-keeping awareness and implement the EHS management system

(ii) Continuously train employees and contractors on how to respond to emergencies and prepare them to respond effectively by conducting major disaster and crisis management exercises.

(iii) Various tiers of government are encouraged to offer support to these efforts by performing, providing and maintaining social and cultural infrastructure and amenities.

Objectives

67. The following objectives were proposed by to Committee for the downstream sector.

1. Ensure availability of petroleum products on a continual basis nation-wide
2. Create economic outlet for gas.
3. Increase Nigerian content in downstream
4. Create job employment opportunities
5. Protect people and the environment.

Strategies

68. The sub-Committee recommends the following strategies for achieving the objectives:

(i) To Ensure availability of petroleum products on a continual basis nation-wide

(a) Deregulate product prices.
(b) Privatise and operate refineries efficiently and reliably to meet international standards.
(c) Introduce legal framework to ~l1ow the government to withdraw from pricing
(d) Price crude to the refineries at international prices
(e) Introduce petroleum tax.

(ii) To Create economic outlet for gas

(a) Pursue and implement the WAGP project
(b) Develop additional ammonia plants
(c) Connect new housing estates and towns to gas distribution pipelines.

(iii) To Increase Nigerian content in downstream

(a) Develop R & D capability to support domestic products market.
(b) Produce basic inorganic chemicals required as input by downstream sector.
(c) Create an environment that will make Nigeria a regional centre for oil and gas service companies.
(d) Communicate frequently with Communities to build trust and understanding.

(iv) Create job/employment opportunities

(a) Target real growth at 10%
(b) Improve technological and management skills for the people.
(c) Train youths in marketable skills and self-esteem.

(v) Protect people and the environment

(a) Promote safety awareness by educating staff and communities through safety meetings and campaigns.
(b) Develop emergency response plan and conduct major disaster exercises.

(vi) Liberalisation

de Activities in the downstream sector should be liberalised and prices deregulated in order to encourage participation of the private sector and consequently stimulate competition.

(a) Deliver crude oil to domestic refineries at international prices, at the relevant autonomous Naira exchange rate. - First quarter 1998.
(b) Progressively achieve full cost recovery in refining and distribution. -

First quarter 1999.

(c) Introduce appropriate legal framework to allow government's complete withdrawal form pricing. Allow private sector to determine price and pricing terms.
(d) Thereafter, any additional revenue required from the industry should be by way of petroleum product tax - January 2000.
(e) Purchase products from local refineries. Licensed marketers to purchase fuel directly from local refineries and import shortfalls.

First quarter 1999.

(vii) Gas

The following strategies will support the development of gas in Nigeria and are recommended for implementation by First quarter 1998

(a) Support and encourage private sector investment, ownership, implementation and management of the proposed West African Gas Pipeline and other on-going planned gas projects.

(b) Allow exploration and Production companies to acquire equity in the National gas Transmission Company
(c) Impose common carrier status on oil gas pipelines.

(d) Provide incentives to encourage gas development downstream.
(e) Allow tax holiday under pioneer status.
(f) Allow applicable tax rate of 30%.
(g) Allow capital allowance to be offset against oil income of *85%.*
(h) Increase investment tax credit to 10% for flare reduction projects.
(i) Allow accelerated depreciation.

(viii) Privatisation

It is envisaged that if private sector participation were encouraged through privatisation and creation of an enabling environment, refining and distribution facilities in the downstream sector would operate more efficiently. Competition will be instigated and more investment will be attracted to the sector. The following strategies should be implemented in the time frame indicated below:

(a) Inject adequate capital to improve operational reliability of refineries and pipelines, and grant operational and financial autonomy pending re-organisation and re-structuring immediately.

(b) Publish recommendations of the privatisation/ equity restructuring committee and related government decisions. - First quarter 1998.

© Privatise the petrochemical plant - fourth quarter 1998.

(d) Fully privatise pipelines and depots with at least 51 % private sector management - first quarter 1999.

(e) Privatise refineries with private sector management - first quarter 2000. (ix) Privatisation Options.

The following actions are to be implemented in the sequence indicated below to achieve the desired level of transfer of ownership and management of state-owned enterprises in the industry. The intent is to allow significant private sector participation as early as possible in order to facilitate quick improvement in efficiency and productivity in the industry.

(a) Industry Structure Pipelines and Depots

• Establish functional co-ordination and customer focus between PPMC and oil marketers - immediately.
• properly position the company under private sector management and prepare it for privatisation - Fourth quarter 1998
• Ensure no concentration of ownership to avoid monopoly.
• Privatise pipelines and depots - January 1999.

(b) Refineries

• Properly position the refineries and prepare them for privatisation - by the fourth quarter of 1998.
• Privatise with at least 51 % private sector management.
• Limit purchase *I* control to one refinery per consortium in the country to avoid private monopoly.
• Extend privatisation opportunities to organisations with good management and experience.
• Extend supply of products to all licensed buyers. Discriminations is to be avoided in order to maintain liberalisation Petrochemicals
• Properly position the petrochemical company and prepare it for privatisation by fourth quarter 1998.
• Privatise the petrochemical company with at least 51 % private sector ownership.
• Target organisations with good plant management experience.

Remuneration

(ix) Recover cost in the refining and distribution of products e.g. gasoline.

The pricing and prices of products should allow investors to recover the cost of production plus some margin to allow continued investment and maintenance of production facilities. The government-approved price for gasoline is inadequate and discouraging to investors. The desired goal is to allow an import parity price. For instance it will cost N25. 1 to import and distribute 1 litre of gasoline in the country.

	Current	4th Quarter 1997	2nd Quarter 1998	2nd Quarter 1999
C & F	2.40	6.80	10.90	*14.50*
Clearing		0.40	0.50	0.60
PTF	*5.30*	*5.30*	5.30	*5.30*
Distribution	3.30	3.50	*3.50*	4.70
Total	11.00	15.0	20.20	*25.10*

Cost in Naira per litre *I* C & F Charges include NNPC.

(xi) Funding

Forty-eight per cent of the price of gasoline and 37% of the price of diesel and certain percentages of the prices of other products are dedicated to the PTF in c~ with Decree 25 of 1994. Considerable amount of downstream money is used support development of projects in other economic sectors. Downstream sector source of these funds requests the PTF to inject money into downstream oil sector to revamp the pipelines, refineries and depots during the period of ownership transfer. This support is required by January 1998.

(xiii) Technology

In addition to refurbishing downstream facilities, incentives are to be provided for international contractors to establish fully functional subsidiaries! joint ventures in the country for:

(a) Plant design
(b) Construction
(c) Maintenance
(d) The activities will also include:
- Fabrication of pressure vessels, pipes, valves and heat exchangers.
- Manufacture of spare parts, gaskets, nuts and bolts, fasteners.

(xiv) The joint venture company, in providing technical services to the downstream and auxiliary industries, should also be encouraged to work with universities and polytechnics in order to jointly establish industrial training programmes that will be an integral part of student curricula. Consequently the following strategies are recommended for implementation by first quarter 1998.

(i) Provide incentives to encourage technology joint ventures companies by pioneer status Tax holidays
(ii) Reduce import duties placed on materials, tools and equipment required for establishing the venture companies.
(iii) Actualise the Export free zone incentive.
(iv) Extend incentives to investor local and foreign, to promote and the stimulate development of auxiliary industries
(v) Develop inorganic chemical plants e.g. sulphuric acid, Caustic acid etc.

(xv) Industrial Regulations

In anticipation of the implementation of the privatisation programme in the downstream sector, a body whose function is regulatory, not commercial, should be established. The Petroleum Inspectorate Commission with regulatory functions has been suggested. For assistance, the downstream sub-committee is asking the government to fund oil and gas research projects by utilising the Petroleum Development Fund and strengthening the Research and Development unit of the commission.

(xvi) Industry Framework/Structures

Review existing downstream industry framework so as to:

(a) Remove conflict
(b) Ensure balance and consistent policy formulation
(c) Provide level playing field
(d) Promote growth and efficiency

(xvii) Social Responsibility

Employment Opportunities

(a) Implement privatisation programmes and target real growth of by January, 1998.
(b) Improve productivity within the sector and the entire economy.
(c) Improve technological and management skills for the people.
(d) Increase job opportunities, from 61,000 in 1996 and 94,000 at least in 2010

(xviii) Environment, Health and Safety

The sub-Committee emphasises the importance of safety, health of staff and the communities and the environment by recommending the following strategies for immediate implementation:

(a) Implement Petroleum Inspectorate Commission procedure guidelines for safety and environmental protection - immediately.
(b) Review and enforce petroleum regulations related to the inherent hazard in location of petrol service stations near or in residential areas.
(c) Develop emergency response plans and conducts major disaster exercises regularly.
(d) Promote safety awareness by educating staff and communities through safety meetings and campaigns - immediately.
(e) Educate communities on proper handling of petroleum products and gas immediately.
(f) Show films on refining and distribution.

(xix) Community Relations:

Forming part of social responsibilities of the downstream sector, industry players are required to communicate frequently with communities in order to build trust and mutual understanding. As a tool of fostering mutual understanding, the quality of education of the youths should be improved by continuing scholarship programmes and training in marketable skills. The sub-committee recommends that current industry efforts to improve relations with the community should be continued.

Gasoline prices in West Africa Sub-region and affordability index.

Country	Gasoline pump price $ litre	GNP/Capita	Affordability
Nigeria	0.13	280	*2154*
Cameroon	0.51	*950*	1863
Ghana	0.49	400	816
Cote D'Ivoire	0.99	790	780
Benin	0.80	380	475
logo	0.94	380	404
Niger	0.94	300	319
Chad	*0.75*	230	307

Source-Engineer E. I Nwizu, Sachwiz Co. ltd.

NNPC CRUDE OIL REFINING & DISTRIBUTION COST & PRICE BUILD UP EFFECTIVE 2ND OCTOBER 1994

	Description	Current Case (N20 billion for Crude at $8.3/bbl)	Proposed Case (N40.95 billion for Crude Oil at$17.00/bbl)	Approved Case (N40.95 billion for Crude Oil at$17.00/bbl)
1.	CRUDE OIL COST	115.00	235.00	236.00
2.	EXCISE DUTY + MVAT	17.04	33.00	33.00
3.	GOVERNMENT TAKE: (1+2)	132.04	266.16	269.00
4.	CRUDE OIL TRANSPORTATION COST	15.00	15.00	10.00
5.	Refining cost Local Cost of refining (71K/L) offshore Cost of refining (389K/L)	108.9	109.00	110.00
6.	WEIGHTED COST OF DISTRIBUTION Pipeline 15K/L Marine 78K.L Road (Bridging 148K/L)	46.23	46.00	30.00
7.	CAPITALCOST RECOVERY Historical (2.4 KB) 14 K/L Replacement (12B) 70K/L	70.00	70.00	35.00
8.	NNPC OVERHEAD (interest, medical, corp, serv. Insurance, Grants etc.)	25.98	26.00	20.00
9.	TOTAL COST AT DEPOT	383.15	534.27	474.00
10.	NNPC MARGING	(133.15)	250.00	125.00
11.	PETROLEUM PRODUCT TAX	0.00	409.00	644.00

12.	EX-DEPOT PRICE (COMPOSITE)	250.00	1193.00	1243.00
13.	MARKETERS ALLOWANCE	54.20	200.00	150.00
14.	PUMP PRICE ALLOWANCE	304.20	1393.00	1393.00
	MAIN PRODUCTS PMS AGO DPK FO	PRICES DEPOT PUMP 271.00 325.00 246.00 300.00 221.00 275.00 196.00 250.00	PRICES DEPOT PUMP 13000.00 1500.00 1200.00 1400.00 1000.00 1200.00 600.00 1100.00	PRICES DEPOT PUMP 1350 1500 1250 1400 1050 1200 950 1100

NNPC Crude Refining and distribution Cost projection for 1997 (kobo per litre)

Cost elements Kobo/litre	Approved cost effective	Approved cost effective 1/1/97 Kobo per litre	Current cost Kobo per litre	Difference absorbed by NNPC Kobo per litre
Crude transportation	5.00	5.00	30.00	25.00
Refining	50.00	50.00	150.00	100.00
Distribution weighted	15.00	15.00	145.00	130.00
Pipe line Marine bridging				
Capital recovery	15.00	15.00	45.00	30.00
Overhead	10.00	10.00	30.00	20.00
Sub-total	95.00	95.00	400.00	305.00
NNPC Margin	75.00	75.00	167.00	92.00
Allocation from Excise & VAT		30.00		
Total NNPC cost + Margin	170.00	200.00	567.00	367.00

Refining cost 1991-1995

Local refining 1991-1995

Year	Volume	Total Cost	Unit Cost
	Thousand mt	Naira (million)	Kobo per liter
1991	13111.28	3430.45	22.21
1992	12776.55	7357.22	48.87
1993	12197.56	6822.35	47.47
1994	7920.74	7450.03	79.83
1995	10016.09	9912.67	84.00

Five year average-unit cost (kobo per liter) 56.48

Imported supplies- 1991-1995

Year	Volume	Total Cost	Unit Cost
	Thousand mt	Naira (million)	Kobo per Liter
1991	1414	3558	213.88
1992	2302	9453	348.6
1993	3174	16033	428.67
1994	3256.40	11332.9	294.97
1995	2159.80	27529.5	1080.86

Five-year average – unit cost (kobo per liter) 473.5

<u>Total supplies- 1991-1995</u>

Year	Volume	Total Cost	Unit Cost
	Thousand mt	Naira (million)	Kobo per Liter
1991	14523.28	6988.45	40.83
1992	15078.55	16810.22	94.63
1993	15371.56	22855.35	126.19
1994	11186.14	18782.93	142.52
1995	12175.89	37442.17	261.00

Five-year average – unit cost (Kobo per litre) 473.5

Company	% Ownership parent company	% Nigerian	% Nigerian Government
Mobil	60	40	
Total	60	40	
Elf		40	
Unipetrol		60	40
African Petrol		60	40
Texaco	60	40	
National	40 (Shell)	20	
Agip	60	40 (private)	

HOLDING CAPACITIES OF NNPC DEPOTS

Cubic meter

S/N	DEPOT	PMS	DKS	AGO	ATK	TOTAL
1.	Benin	60700	28700	32000		121400
2.	Ore	25700	6000	10600		42300
3.	Mosimi	163400	76000	127200	57600	424200
4.	Atlas Cove	48000	34000	32300		114300
5.	Lagos Sat	10300	1900	12300	1900	26400
6.	Ibadan	102800	28700	40500		172000
9.	Ilorin	32500	6800	20200		59500
8.	Suleja	45000	30000	30000		105000
9.	Minna	24000	15000	24000		53000
10.	Kano	60000	22500	63000		145600
11.	Gusau	24400	9100	20000		53500
12.	Jos	72900	8700	43200		124800

13.	Gombe	10000	2300	7200		19500
14.	Maiduguri	20200	15900	18500		54600
15.	Yola	39000	21900	24000		84900
16.	Makurdi	59300	28100	34300		121700
17.	Enugu	99000	49000	64500		213400
18.	Aba	56200	26000	29500		111700
19.	Calabar *	40200	20100	40000	14500	103200
20.	Ikeja **				NA	14500
21.	Warri *	N/A	N/A	N/A	N/A	
22.	Kaduna	N/A	N/A	N/A		
23.	Port Harcourt *	N/A	N/A	N/A	N/A	
	TOTAL	**974500**	**430700**	**673700**	**74000**	**2152500**

Note

1. * Denotes refinery depots where tankage is not strictly dedicated to finished products.
2. ** At Ikeja, tank farms belong to major marketing companies.

CHAPTER TWELVE

UPSTREAM PETROLEUM

INTRODUCTION

1. The term "Upstream" connotes all activities relating to the acquisition of concessions, exploration, discovery and production of crude oil and gas and their treatment, transportation and delivery to designated export terminals or otherwise to refineries or other processing plants.

2. The Nigerian Bitumen Company began the history of the Nigerian petroleum industry in 1908. The efforts of this German company were discontinued after the First World War. Then Shell D'arcy, a UK/Dutch consortium came in and began exploration activities which eventually led to the first crude export of 5,100 barrels[1] of oil per day in 1958 by Shell-BP after a discovery at Oloibiri in 1956.

3. After independence in 1960, other major companies -Chevron (then Gulf, Mobil, Texaco, AGIP and Elf came to Nigeria and commenced exploration and production activities. Nigeria joined OPEC in April 1971 and a year after established the Nigeria National Oil Company, NNOC, which evolved into the Nigerian National Petroleum Corporation, NNPC in 1977 by Decree 33. The NNPC is currently charged with the downstream and upstream oil development in Nigeria. The Department of Petroleum Resources, DPR, in the Ministry of Petroleum and Mineral Resources was established simultaneously to formulate petroleum policies, regulate, supervise and monitor the industry.

4. Nigeria acquired 331/3 % equity in AGIP by 1971, in accordance with concession agreement and in the same year, acquired *35%* in Elf in reaction to the posture of France

during the Nigeria civil war. By 1973, government had acquired interest in Chevron, Mobil and Texaco and other oil and gas companies operating in the country. The total production of the joint ventures rose and fell and finally attained a peak of 2.203 mbpd in 1979. At this time, the price of crude oil had also increased to $36/bbl. This high price stimulated production in other regions of the world. Eventually, there was surplus and a glut. Crude prices fell and production declined.

5. Nigeria began to lose buyers who preferred to buy crude from the spot market or from the North Sea where crude prices had been reduced by $3/bbl. In 1986, the Nigerian government formulated and signed the Memorandum of Understanding (MOU), with the oil industry. The MOU became a tool used largely to encourage investment in the upstream petroleum sector and specifically was used to rekindle crude exportation and increase production and reserves. With the incentives provided in the MOU, the joint ventures increased production from 1.318 mbpd in 1987 to the current peak of 2.248 mbpd in 1996. During this period the reserves increased from 11.5 billion barrels to 21.0 billion barrels.

6. With the MOU firmly established, the government initiated the development of indigenous manpower to acquire exploration and production technology skills. In 1987, the federal government approved the assignment of an oil-mining lease to Dubri Oil Company. Dubri, Nigeria's first indigenous private company began production in August 1987 with an average production rate of 800 bpd. Currently there are over thirty indigenous license holders at various stages of upstream asset development. Consequently, national production is made up of contributions from both the indigenous and the multinational oil companies.

7. Within the multinational oil companies, Nigerians make up 75 % of all professional and management staff. Likewise there are Nigerian expatriates working outside the country. For most companies in the industry, there are Nigerians handling jobs at most levels of the organization. In addition to this, the industry, in order to increase local content in the upstream sector, has suggested plans to encourage and support the local contracting capability. The challenge to this goal is lack of infrastructure and funding stability.

8. There is an opportunity to increase revenue by improving relations with communities in areas of operations thereby reducing community related production losses. Currently, there is an increased industry awareness to identify with the communities. The industries sponsor community development projects and provide scholarships for the students originating from these areas or jobs to those with relevant qualifications.

9. Currently, Nigeria produces about 2.2 million barrels per day (mbpd) with a reserve base of 22 billion barrels. To increase government revenue, Nigeria must increase production and reserves to between 40 and 50 billion barrels by the year 2010. Funds required for this growth will be in the order of $4 to 6 billion per year at an average cost of *$5* to 6 per barrel. However, funding over the period of 1993 to 1997 has been untimely and inadequate. Cash call arrears as at April 1997 were $1.1 billion for 1997 and prior years. The provisions in the year's budget to support various planned and on-going projects in the industry is insufficient. The government

• appears to have difficulties in funding their own share of the joint venture operations. Consequently, the following have been suggested as options available to government to fund the joint ventures.

(a) Establish production-sharing contracts (PSC), for new leases and for new oil developments.

(b) Establish a routine process to annually deduct from the Federation account money to fund government's share of the operations
(c) Allow innovative funding schemes when appropriate.
(d) Reduce government equity in phases over a period of time to a pre-determined level whereby government can pay its own share of funds required to the joint ventures.

9. The upstream business is the most capital intensive in the country. The two major documents which guide investments and actions of equity participants in the ventures are the MOU and the Joint Operating Agreement, JOA. The MOU was last revised in 1991. Most incentives provided in the MOU have been eroded by inflation and recently by newly introduced taxes. In addition to this, terms of business and policies have not been stable. Government has promulgated laws that affect operations in the Upstream Sector without prior dialogue with the industry. Agreements reached and documented have been by-passed. Furthermore, officials that are familiar with terms of such agreements have been removed, resulting in instability and lack of understanding of the upstream sector. Routine gas flaring characterises most crude production operations and continues to be one of the most talked about issues of the upstream sector. Currently, about 2 billion cubic feet of gas per day (bcfd) is flared. The federal government has declared that all flares must be extinguished by the year 2010. However, the domestic market is yet to develop and is presently unable to absorb the flared volume. To encourage development of the upstream industry, the government provided some fiscal incentives. As a result of this, upstream companies initiated liquefied natural gas, liquefied petroleum gas and natural gas projects. The execution of these projects will significantly reduce flares. To extinguish flares, economic outlets must be created for gas. To achieve this, further incentives must be put in place in the upstream and downstream while appropriate pricing must be developed to encourage investment and conversion from liquid fuels.

The Committee envisions Nigeria to be a key player in the world energy scene. This vision is broken down into seven objectives as follows:

(a) Increase government revenue through increased production of oil and gas.
(b) Grow Nigeria's share of the world energy market.
(c) Make communities stakeholders in the successful operations of the industry
(d) Achieve trustful relationship among all stakeholders.
(e) Achieve at least *50%* Nigerian content by 2010.
(f) Establish economic outlets for gas.
(g) Develop and operate in concert with the environment.

The following are the key strategies for these objectives

(i) Establish and maintain a fiscal framework that encourages investments.
(ii) Establish an appropriate mechanism for funding government share.
(iii) Eliminate community related disruption to operations.
(iv) Replace OMPADEC with a planning and monitoring committee composed of government, community, reputable NGO's and industry for effective community development.
(v) Involve all key stakeholders in discussions of all matters that will impact on the operations of the industry prior to promulgation of laws.
(vi) Utilise Nigerian based companies in preference to Foreign Service providers when bid proposals are competitive.

(vii) Improve incentives to encourage optimal use of gas and adopt a
comprehensive energy policy with deliberate focus on gas.
(viii) Provide an environment that encourages development of gas infrastructure for commercial, industrial and domestic use.
(ix) Establish appropriate pricing for gas to encourage investment and stimulate
conversion from liquid fuels.
(x) Continue to upgrade production and export facilities to the latest international standards to minimise the industry's impact on the environment.
The Committee recommends immediate implementation of these strategies.

The Committee identified and addressed issues that are negatively impacting efficient and optimal development of the nations Hydrocarbon reserves. The scope of work from which this report is prepared include

- Review and assessment of nature of experience to date
- Assess attitudes to agreements and documented memoranda
- Deliberate on requirements for meeting production and reserve targets

How much, When, How.

- Understand the underlying drivers to existing state of affairs, assess impact/ implications. Analyse trends.
- Assess existing strategies and institutional arrangements.
- Conduct country comparisons where appropriate.

In order to meet these expectations the Committee:

Had formal and informal discussions at the monthly Vision 2010 workshops
at Abuja.
- Met as a team in between workshops.
- Invited NAPIMS (NNPC) and DPR (Ministry of Petroleum to meet with committee members and collectively develop a
industry and a road map to achieve the vision.
- Conducted a workshop in Abuja, April 11, 1997.

For each issue examined, the following format was adopted in the report:

- Where we are- current situation in the country and comparison with other countries where applicable and where information is available.
- Where we want to be- a vision, our objectives, our desire for the future.
- How to get there- actions required to achieve the vision

10. This report conveys the vision, objectives and strategies for the upstream petroleum economic sector. The list of Committee members is included in the appendix.

11. The Nigerian Bitumen company, a German Company began oil exploration in Nigeria in 1908 although occurrence of minerals had been documented in 1903. Their activities were discontinued by the First World War, the outcome of which dispossessed them of exploration right in Nigeria. In 1937 Shell D'arcy, a UK/Dutch consortium which later became Shell-BP, came to Nigeria and obtained approval and right to explore the entire country. In 1956, Shell-

BP recorded the first commercial discovery and began production in 1958 from the Oloibiri field, Rivers State. Production increased from 5,000 barrels per day (bpd) to 17,000 bpd by 1960, the year of independence. By 1962, Shell's concessions had been reduced and made available to other incoming oil companies such as, Gulf (Chevron), Mobil, Safrap, Agip, Amoseas (Texaco & Chevron), Phillips, and Esso. Oil production then rose to .417 mbpd in 1966 before the civil war.

12. Up to this time, Petroleum profits were shared *50/50* between the state and the companies. The government involvement in the oil industry was minimal and limited to collection of taxes, rent, royalties, stamp duties and custom duties which made up the state's half. Oil companies operating in the country had 100% equity in their operations. In 1967, the Federal Military Government promulgated a decree on posted prices which increased government take and created an investment environment similar to those of members of Organization of Petroleum Exporting Countries, (OPEC). Investments in oil exploration and development continued despite interruptions and other challenges of the civil war which started that same year. The civil war diverted focus from the oil business and production dropped to 149,000 bpd in 1968. Gulf, now Chevron, was the only company able to continue full production. After the war in 1970, production rose steadily. Nigeria joined OPEC in 1971 at a time when production had risen to *1.5* million barrels a day (mbpd). Nigeria's production continued to rise to a peak of 2.3 mbpd in 1979 when oil prices were about $36/b

The joint Venture operations and related circumstances.

13. In 1962, the Italian oil conglomerate of ENI offered the government the option to buy 33 1/3% equity interest in AGIP if oil was found in commercial quantities in its concessions. As a member of OPEC, Nigeria complied with the organisation's Resolution XV1 Article 90 of June 1968- which enjoined all members to acquire participating interest in the operations of the oil companies in their territories. Member countries were to acquire 51 % participating interest by 1982. In 1971, Nigeria acquired 33 1/3 % in AGIP in accordance with concession agreement and *35%* in ELF in reaction to France's posture during the civil war. In 1973, the government acquired 60% participating interest in Shell-BP, Mobil, Gulf (Chevron), and Amoseas (Texaco/Chevron). In 1979, the government nationalised BP. By 1989, it divested 20% interest acquired from BP; 10% to Shell, and *5%* each to Agip and Elf. The Federal Government had decided that part of its goal of rapid industrial and commercial development will be enhanced if it had more say in the running of its oil industry. Consequently, the second National Development Plan, 1970-74 stated that the government would participate in the exploration and production of Nigeria's mineral resources.

Creation of the Nigerian National Petroleum Corporation:

14. After joining OPEC in 1971, Nigeria National Oil Corporation (NNOC), was established by Decree No. 18 of 1971 and was charged with all upstream and downstream activities in the industry. By 1977, the regulatory functions of the Ministry of Petroleum and Energy were merged with the commercial functions of NNOC to form the Nigerian National Petroleum Corporation (NNPC) by Decree 33 of 1977. The regulatory functions were then concentrated in a new department within NNPC called the Petroleum Inspectorate. The newly created corporation was charged with the duty of "Exploring and prospecting for, working, winning and otherwise acquiring, possessing and disposing of petroleum". In 1983, the corporation was restructured and the Ministry of Petroleum and Energy was re-established as Ministry of Petroleum and Mineral Resources, (now Ministry of Petroleum). By 1988, the

Petroleum Inspectorate of NNPC, renamed the Department of Petroleum Resources (DPR), was separated from NNPC and merged with the Ministry of Petroleum and Mineral Resources. The DPR's responsibilities include formulating petroleum
policies, regulating, supervising and monitoring the petroleum industry. NNPC en gages in exploration, production, transportation, refining and marketing of crude oil, products and gas. Further, the NNPC administers and monitors the multinational joint ventures on behalf of the government for the Federation Account.

The Memorandum of Understanding

17. Production in Nigeria peaked in 1979 when oil prices were at $36b. World demand was high and there was a fear of shortage in the world's oil supply. This attractive oil price stimulated oil developments in other regions of the world. Investment in oil development increased, and in 1983, there was excess supply and crude oil prices collapsed. Nigeria, a producer and seller of crude, lost buyers. Buyers seeking the cheapest crude proceeded to purchase oil in the spot market. Nigerian crude was no longer attractive at the posted price and Nigeria~ s crude production consequently fell to 1.3 mbpd. During this period, NNPC had difficulties in disposing of their equity share of production NNPC began to court investors to increase crude export, rekindle exploration activities, replace production and arrest production decline in older fields via enhanced recovery projects. Nigeria also wanted to increase utilization of associated gas thereby reducing flaring (Decree 99 of September, 28 1979). In 1986, NNPC and the joint venture operators developed the MOU to encourage investment by the industry. A new MOU, with improved incentives for the operators was developed and signed between the government and the industry in 1991. The MOU has contributed substantially to increased exportation of crude for the government, increasing production rate (presently 2.1 rnmbpd) and increasing reserves (presently 22 billion barrels).

Indigenous participation

18. As part of the initiative to develop indigenous manpower and acquire exploration and production technology for Nigerians, the Federal government in 1987 approved the assignment of an Oil Mining Lease to Dubri Oil Company. Dubri, the first wholly indigenous and private oil company began production in August 1987. It recorded 800 barrels per day. Currently there are 38 indigenous license holders out of which only three are producing. The list of indigenous participants is included in the appendix. Assessment of current situation in the upstream petroleum sector is presented in the following sub-sections:

(a) Production
(b) Reserves
(c) Position in the World
(d) Position in OPEC
(e) Funding

(U Nigerianization/ Nigerian content/ Host communities
(g) Business Environment
(h) Fiscal Regime
(i) Openness
(j) Gas

Production

Nigeria Production History - 1958-1996

Source-Shell Petroleum Development Company, Nigeria.

19. Production grew from 5,000 barrels per day, in 1958 to .4l7mbpd in 1966 when production operations were disrupted by the civil war 1967-1970. Production rose thereafter to a peak of 2.203 mbpd in 1979 at a time when crude oil prices were at $36 per barrel. The attractive crude price stimulated production in other regions of the world . The resultant productions led to a surplus and subsequent reduction in demand and prices. Nigeria's production also fell to 1.236 mbpd in 1983. This trend was reversed in 1986 when the Government formulated and signed a Memorandum of Understanding, MOU, with the industry. The MOU provided incentives that encouraged investments. Since 1986, therefore, the production had increased continuously. The total current production is 2.2 million barrels per day, and is produced by the following companies:

1996 Crude Production:

Company	**Production, mbpd**
Agip Enery	10.5
Ashland	17.4
Cheveron	401.3
Consolidated	6.7
Dubri	1.8
Elf 124.6	
Mobil	416.1
NAOC/Philips	153.4
NNPC/Brit Gas	4.9
Pan Ocean	*5.2*
Shell	*924.5*
Texaco	69.6
Total	**2135.7**

During 1996, the production of condensates averaged .1063 mbpd (Mobil). Therefore, the average national production for 1996 was 2.2 million barrels per day (crude plus condensates)

Reserves

Crude Oil and Condensates reserves - 1985-1996 Crude Oil and Condensate Reserves
20. In addition to increased production , the 1991 revision of the MOU also provided incentives for reserve additions. Consequently, the nation crude oil and condensates reserves increased from 1987 to date. The current crude oil reserve is 22 billion barrels, oil plus condensates.

Natural Gas Reserves

21. Nigeria's proven natural gas reserves in 1995 exceeded 164 trillion standard cubic feet, tcf. Compared to other countries such as Iran, Qatar, and FSU, Nigeria's gas reserves figure is relatively low because unlike those countries, very little efforts have been made in the

search of gas. All gas finds have been made in the process of crude exploration. Upstream industry has reported that there are indications that the country is more of a gas than an oil province. Vast gas reserves in the magnitude of 250 tcf may lie in the Niger Delta alone. The table below indicates the addition to the nation's gas reserves in 1995 by different major oil companies in the country. A total of 72,360 billion cubic feet, (bcf) of associated gas and 65,731(bcf) of non-associated gas were added to the gas reserves as at the end of December *1995.*

Addition to Reserves- December 31, 1995

Venture	**AG bcf**	**NAG bcf**
Shell	38,357	35,381
Mobil	10,035	3,322
Chevron	97,48	*9,753*
Elf	3.009	6,965
Agip	5,663	8,044
Ashland	1,301	
Texaco	4,025	1,981
Pan Ocean	*5*	191
AENP	217	94
Total	**72,360**	**65,731**

AG-Associated gas
NAG-Non Associated gas
Source: National Petroleum Investment Management Services (NAPIMS)

World production-Nigeria produces 3 *%.*

22. The 1996 world crude oil production was 64.6mbpd. Nigeria's production represents about 3% of world' total production. By 1996 OPEC production was 26.9 mm bpd. Nigeria's production represent 8% of this production.

Funding

23. Currently, inadequate government funding is the major constraint to growth. During the period 1993-1997, there have been many ups and downs in the government's cashcall payment performance. The Upstream petroleum industry requires long term investments. Planning of such investments in the absence of a permanent solution to the funding problem is difficult and inevitably leads to inefficiencies and associated cost escalations. Recently, massive investments have been made to upgrade infrastructure and expand the facilities. This has led to production increase to just over 2 million barrels per day. But the potential to further increase production is declining. Substantial investments in exploration and undeveloped reserve is required to replace current production and to grow.

Government funding mechanism - 1989-1993: Cash Call Payment system

24. Seed Money is taken out before the fruit is shared. Cash call for funding a revenue yielding investment is not put on the same level of importance as other government programmes be they economic or political. Proceeds from NNPC equity crude sales, royalty and taxes paid by the joint venture companies are deposited in the federation account. From

this account two streams of cash are removed. One is “Cash call”, the revenue-generating stream. This stream funds the government share of the joint venture operations. It is removed and directed to an escrow account before the other cash stream. The other cash stream is directed to a federation distributable pool account from where the budgets from all the tiers of government are funded. National priority projects and money for development of communities in the oil producing areas are also funded.

Industry funding mechanism.

25. Parent companies of various Joint venture partners of the government provide appropriate amount to fund their participating share of the operations. These funds are deposited in the joint venture account into which the government also makes deposits.

Joint venture cash call

26. Fund is required to run the operations and to grow the asset in the upstream petroleum sector. The amount invested today determines future production and reserves. Inadequate funding, even though it may maintain the production for a short period of time, will not sustain production replacement and will result in a production decline.

The current situation

27. The funding over the period of 1993-1997 has been untimely. Arrears as at April, 1997 is currently $1. lbn, for 1997 plus prior years. Government provided *$2.05* bn in the budget to fund own share of 1997 joint venture operations. Operators in the industry declared the amount is insufficient. The funding performance and inadequate provision in the budget worsens Nigeria’s credibility and investment climate. The government funding mechanism as indicated in the funding model above is no longer followed.

Nigerianisation /Nigerian content/ Host communities.

28. Nigerians already occupy high percentage of the total work force at all levels in the upstream industry. In many upstream oil companies outside Nigeria, for example, UK and Oman, the proportion of expatriates is far higher. Today, *75%* of. the professionals and management staff in the industry are Nigerians while there are 2 to 3 % expatriates. In addition to this, top quality Nigerians work as expatriates abroad. (In Shell Petroleum Development Company, 100 Nigerians work abroad as expatriates)

Community relations

29. Community disturbances occasionally disrupt the industry operations. These disruptions not only cause revenue loss but also create a climate of uncertainty that discourages investment. The industry has therefore taken steps to identify with the communities in various ways. For example, the industry funds the building of hospitals to assist in the health care programmes of the communities. Other development programmes include new school buildings, award of scholarships, and provision of water and electricity. Despite these efforts, the expectations of the communities go beyond what is realistically possible. Government support is inadequate. Allocation of fund to oil-producing communities to maintain and manage projects is poorly handled.

Local Content

30. Total contribution of Nigeria and Nigerians to project development in the upstream petroleum sector in terms of procurement of raw materials from local sources, fabrication and technical consulting is currently low but can potentially increase. The absence of an enabling environment, infrastructure, skills and export promotion policies appear to inhibit rapid increase in local content.

Business Environment

31. The upstream business is the most capital intensive in the country. The two major documents which guide investments and actions of equity participants in the ventures are the MOU and the Joint Operating Agreement, JOA. The MOU was last revised in 1991. Most incentives provided in the MOU have been eroded by inflation and recently by newly introduced taxes. In addition to this, terms of business and policies have not been stable. The government has promulgated laws that affect operations in the upstream without prior dialogue with the industry, a recent example is the petroleum amendment decree 23 1996 on marginal field. Frequently, agreements reached and documented have been bypassed. Long-term contracts are sometimes not respected. When new investors are invited to participate in the industry, they are provided with different and variable incentives, which are not published. There is no level playing field. A situation like this continues to discourage current investors and weakens long-term investment commitments leaving some stain the country's image. Furthermore, officials that are familiar with terms of agreement have been removed, resulting in instability and lack of understanding of the upstream industry. With the removal of these knowledgeable and competent officials is the loss of benefits that the public sector has gained from long term contacts with international investors. A document on the coherent treatment of oil gas and power within a comprehensive national energy policy has been drafted and is awaiting approval.

The Memorandum Of Understanding- MOU

32. The Memorandum Of Understanding, MOU, is the agreement between the federal government and each of the oil producing companies for encouraging investment in exploration and development activities and enhancing oil exports. The main objective of the MOU is to guarantee to the oil companies a profit margin irrespective of the market conditions .It is intended by the incentives described in the MOU to ensure a minimum notional profit margin of $2.30 per barrel if technical cost does not exceed $2.50 per barrel and to allow notional profit margin of $2.50 per barrel if capital investment costs exceeds or equal $1.50 per barrel and the notional technical cost is equal to or less than $3.50 per barrel.

33. The last revision of MOU in 1991, provided for reserve addition bonus. To the extent that in anyone year, the addition to oil and condensate ultimate recovery exceeds the production for that year, then the company will be entitled to a reserve addition bonus in the form of an offset against petroleum profit tax liability for that year. Currently, the industry margins provided have been eroded by inflation and newly introduced taxes. In comparison to the rest of the world, the government's stake is one of the highest. For a $20 barrel, while the industry margin is 5% of the revenue, the government take is a lion share of 77.5 % .See appendix on page 51.

Joint Operating Agreement-JOA

34. The Joint Operating Agreement, JOA, is an agreement between the operator company and non- operator (NNPC) outlining the modalities for the funding of the joint operations. The first joint operating agreement was signed between Mobil producing Nigeria Unlimited and NNPC in 1990. The other companies, Shell, Chevron, Agip, Texaco and Elf followed in quick succession. The main contents of the JOA are summarized briefly as follows:

(a) Parties share in the cost of petroleum operations.
(b) Each partner can lift and separately dispose its interests share of pr subject to payment of Petroleum Profit Tax and royalty .
(c) One of the parties is designated an operator .
(d) The operator prepares and proposes programme of work and expenditure-
(e) Technical matters are discussed and policy decisions taken at committees (OPCOM) where partners are equitably represented.
(f) The operator has freedom in specific matter up to certain limits.
(g) Each party can opt for and carry on sole risk operations.
(h) The non-operator can audit or cause the joint account to be audited.
(i) NNPC reserves the right to become an operator .

Openness and Trust

35. Policy makers in the industry lack the knowledge of the workings of the industry. There is distrust between the public, government and the oil companies. Communication among all the stakeholders in the industry is not open and straight. Industrial efforts and suggestions for improvement in the upstream sector are viewed with suspicion. Government decrees and policies are formulated without consultations with and contributions from the industry. This apparent distrust prevents collaborations between industry and the government to forge an effective plan , a road map towards steady growth in the upstream sector . Growth in the oil industry is growth for Nigeria. As the country grows, threats of marginalisation by developed economies will diminish. To grow, there must be openness and trust in order to work cooperatively together.

GAS - Production and utilisation

36. In the history of petroleum exploration in the country, the priority was to discover oil and not gas. Large reserves of gas which were accidentally discovered were abandoned. Aside from this, on the average, 1000 standard cubic feet, scf, of gas is produced with every barrel of oil. With the production of 2.2 million barrels of oil a day, some 2.2 billion scf of associated gas is produced every day. The gas production of operating oil companies are shown on page *53* in the appendix. A high proportion of this volume is presently flared, the easiest way to dispose gas. There are no commercial outlets. Flaring of associated gas is a waste. It contributes to global warming. The government has therefore decided to eliminate gas flares by 2010.

Current situations and Issues

37. Currently there are some efforts toward gas utilisation. The Nigeria Gas Company was established to foster rapid utilisation of gas. Pipelines have been constructed to deliver gas to various thermal power stations and industrial complexes in the country, for example the Egbin power station in Lagos, and the Aba industrial layout. But the total utilised plus

various plants use is still less that 20% of the total flared. There is inadequate appreciation and recognition of the economics of gas concerning:

(a) pricing
(b) markets
(c) investments
(d) timing cycle
(e) incentives

Gas development

38. The fiscal package for downstream gas development has not been articulated and consequently is not implemented. No private sector owned plants exist. Incentives to encourage upstream gas development is revised. All investments for the development of upstream gas are now to be considered as part of the oil field development thus eliminating the benefit originally offered by the fiscal package for upstream gas development. Domestic gas market is yet to develop and presently can not absorb about 2 billion cubic feet of gas currently being flared daily. Gas export oriented projects are being considered but these are capital intensive with poor returns on investment. Government regulates consumer gas price. There is differential pricing in the country. Nigeria Electric Power Authority, NEPA, even though pays the Nigerian Gas company N3 per thousand cubic feet, mscf, it is expected to pay the government approved consumer price, N5 .24 per mscf while industrial users such as the cement factory buys Gas from the Nigerian gas Company about N108 per thousand cubic feet of gas-60 % of the price of equivalent quantity of fuel oil in energy terms.
Incentives

39. About 79.1 % of about 2.2 billion cubic feet of the natural gas produced in Nigeria in association with production of crude oil is flared. For it to be useable, the flared gas must be piped, gathered, compressed and processed into usable form prior to delivery to the end user. The handling cost for this project is in the range of $600 million to $1 billion depending on location and the quantity of gas to be gathered. Because of the high capital cost involved, and also to encourage elimination of gas flares, the government in January 1991, approved the following fiscal package as incentives.

(a) Applicable tax rate is 30 % i.e. same as company tax.
(b) Capital allowance is at the rate of 20% per year for first four years, 19% in the fifth year, 1 % to remain in the books.
(c) Capital allowance to be offset against oil income at tax rate of 85 %
(d) Investment tax credit at *5 %*.
(e) Royalty at 7% for onshore and *5* % for offshore.

Current gas development projects These incentives attracted investments from oil producing companies and the following projects were initiated.

(i) Chevron Nigeria Limited - Escravos Gas project: LPG exportation and dry gas sales, capital cost, $569 million (100%). Commissioned by May 1997.
(ii) Mobil Producing Nigeria Unlimited - Oso condensate project, NGL exportation, dry gas re-injection, capital cost $810 million. Target start-up date 1999 (iii) Shell /Agip/ Elf - LNG project. LNG exportation, capital cost $3.8 billion
($ 1 billion (32%) already spent by end of 1996, excluding four carriers in operation) Target

start-up date 1999.
(iv) Others - Various Gas injection projects-Agip, Elf, Mobil, Texaco, Shell, Ashland. See appendix on page *53.*
(v) NGC gas sales and purchases
(vi) Gas supply to NEPA power plants
(vii) NAFCON -fertiliser plants began operations, NAFCON II and III proposed.
(viii) ALSCON established-Aluminum plant

Objectives

40. The vision of the upstream petroleum industry are broken down into seven objectives as follows:

(a) Increase government revenue through increased production of oil and gas.
(b) Grow Nigeria’s share of world energy market , i.e. increase production capacity and reserves.
(c) Make communities stakeholders in the successful operations of the industry.
(d) Achieve trustful relationships among all stake holders.
(e) Achieve at least *50%* Nigerian content by 2010.
(f) Establish economic outlets for gas.
(g) Develop and operate in concert with the environment.
(h) Increase government revenue through increased production of oil and gas.
(i) Grow Nigeria’s share of world energy market, i.e. increase production capacity and reserves.

Growth - Be a key player in the world energy scene.

41. The nation’s population is increasing at the rate of 2.8% per year. To meet the needs of the population, government will need to invest in infrastructure development such as: roads, electricity, water, telecommunication, health, quality education, defence and other economic sectors in order to ensure the well being of the Nigerian people. Nigeria therefore needs to exploit its hydrocarbon potential as a source of revenue to the fullest. Nigeria needs to grow the upstream petroleum sector by increasing production capacity and ultimately increasing its share of OPEC and the world energy markets. This growth will provide the following benefits:

(a) Increase in oil and oil production growth.

(b) Increased revenue from gas in association with the increased oil production.
(c) Increase in activity in oil supply industry, creating employment opportunities.
(d) Increased funds are available for investment in upgrading education and infrastructure.
(e) Nigerian industry could be developed as the regional base, i.e. a hub for the petroleum supply industry for the whole of the West African sub region.
(t) Investment climate will attract foreign investment
(g) Nigeria’s national debt burden could be reduced.

Nigeria’s Production

42. The upstream industry targets production rate of 4 million barrels per day, mbpd by the year 2010. With the availability of large areas of unexplored acreage, the industry believes this is achievable. But to attain this goal ,both industry and government would be required to

make substantial investment in exploration and undeveloped reserves and grow the national production at the rate of 4.7 % every year from 1997. At this rate, a production rate of 3.0 mbpd by year 2001 and 3.50 mbpd by year 2006.

Production growth 1995-20 10

43. World Production -Increase quota from 3 % to *5* % Vision - Be a key player in the world energy scene. The world's current production 64.6 mbpd and Nigeria's current share is 3.4%. The office of energy administration has advised that the world production will attain 73.7 mmbpd by the year 2010. At that time Nigeria with a production of 4 mbpd would increase share to *5.4%*

Source-Energy information administration *I* International Energy Outlook-1995- see appendix page *53.*

OPEC production-Increase quota from 8% to 10%

44. OPEC' s current production 26.9 mbpd and our current share is 8%. OPEC is expected to increase production to about 39.2 mbpd by year 2010. At that time Nigeria with a production of 4 mbpd would increase share to 10.2%. Source-Energy information administration *I* International Energy Outlook-1995- see appendix page
53. Nigeria's Reserves-1996-2010: Increase reserves from 22 billion in 1996 to 40 billion in 2010.

45. The 1991 revision in MOU encouraged investment in exploration to boost

additional reserves of oil. Since then, Nigeria's reserves rose continuously and reached 22 billion by 1996. With the vast areas of acreage yet to be explored, the upstream sector is convinced that Nigeria's reserve could be increased to 40 billion barrels by year 2010.

Make communities stakeholders in the successful operations of the industry Community relations.

46. The upstream vision for community relations is to coexist harmoniously with the host communities and to maintain disturbance-free production operations. In the pursuit of this vision, the industry will maintain a policy to protect people and the environment in all locations in which there are petroleum exploration and production activities. In addition to this, the industry will also encourage programmes and schemes to enable members of the communities to have direct interest in continuous production operations in their areas. Furthermore, the upstream industry recommends development of an acceptable and transparent method for rapidly allocating 13 % of revenues from natural resources to the producing areas.

Achieve trustful relationships among all stakeholders.

47. A trustful relationship between all stakeholders facilitates rapid development of the industry. Both government and industry will collaborate to achieve desired objectives. The Upstream sector intends to establish trust and operate in a peaceful and cooperative atmosphere by educating all stake holders. Information related to the operations of the

industry including cost structure of the operations will be disclosed to gain the confidence of all equity participants.

Achieve at least 50% Nigerian content by 2010.

The local contents in implementation of projects in the industry is low and have been determined to be less than 30%. Upstream sector envisions to improve the current situation and increase local content to at least 50% by year 2010. One strategy that will facilitate achievement of this vision is the building of a local supply industry which should be made to compete on a level playing field with international contractors. It should be noted that since savings will be made in utilising local goods and services of equivalent quality, Upstream sector recommends that an incentive be offered to encourage local entrepreneurs to meet international standards. When such standards can be met regularly, local entrepreneurs would have established a local industry that reinforces Nigeria's position as the leading oil producer in the region and that could make Nigeria a supply centre for other industries in the West African sub region. It is, however, important that the nation increases investments in education while the industry collaborates with the tertiary institution to produce graduates with appropriate technical skills and knowledge required to perform efficiently in the upstream petroleum sector
Establish economic outlet for gas.

Gas - The Prime source of industrial fuel

49. Disposing of associated gas is a major challenge for the upstream petroleum sector. Currently, about 2.2 bcfd of gas is produced and mostly flared. By year 2010 when upstream sector envisions to produce 4 million barrels of oil a day more gas, at least 4.0 bcfd, accompanying the production will be produced. Incidentally, the government has declared that flaring should stop by this year. Zero flares can be achieved by developing projects that can utilise gas, that is, by creating commercial outlets for gas. Natural gas can be considered the fuel of first choice for all industrial applications including thermal electric power. It should be made available to large industries to replace the large amount of liquid fuel whose demand is increasing in the country. The local gas market is in its infancy requiring a lot of attention to develop. It is unable to absorb current production. See appendix on page *54.* The following are some considerations and opportunities that will foster the development of gas in the upstream sector:

(a) Consider natural gas the fuel of first choice for all industrial applications including thermal electric power in the country.
(b) Establish a sound commercial framework for domestic gas sales, which makes the development of gas gathering and distribution grid economically viable.
(c) Establish a price mechanism which is attractive to both buyers and sellers and which reflects the cost of alternative energy sources.
(d) Carry to completion all on-going gas export oriented projects
(e) Capture gas market opportunities in the West African sub region by developing a regional infrastructure that will deliver Nigerian gas to users in the region.
(t) Encourage gas re-injections wherever possible.
(g) Extend gas trunk line to industrial areas

Develop and operate in concert with the environment.

50. Nigeria and the oil industry are heavily criticised for their environmental track records by the international communities to whom Nigeria export our crude. To retain access into these markets, we must change and improve its image by rehabilitating areas that have been negatively impacted by the operations and thereafter maintaining exemplary records. Upstream sector will operate in concert with the environment by

(b) Grow Nigeria's share of world energy market from 3% to *5%* by 2010, by increasing production capacity and reserve

Efficiently move reserve into production capacity.
Maximise the use of existing infrastructure
Continue the application of latest technology.
Continue exploration and appraisal to increase reserve base.
adopting operating and maintenance procedures that are environmentally friendly. Currently, upstream petroleum sector has a contingency plan to contain oil pollution arising from process upsets, natural disasters and any pollution that may originate from other sources. The Committee recommends the implementation of the following strategies by first quarter 1998.

(a) Increase government revenue through increased production of oil and gas

Establish and maintain a fiscal framework that encourages investments.
Establish an appropriate mechanism for funding government share.
Eliminate community related disruption to operations.
Maintain Nigeria's low cost competitive advantage.

(i) Educate policy makers on the workings of the upstream petroleum sector.
(ii) Involve all key stakeholders in discussions of all matters that will impact the operations of the industry prior to promulgation of law.
(iii) Foster dialogue between policy makers and industry on the workings of the industry.
(iv) Achieve better understanding of operations by involving government

(c) Make communities stakeholders in the successful operations of the industry.

(i) Allocate a percentage of funds from the agreed 13 % oil revenue in proportion to oil produced from a particular area directly to the respective local government.
(ii) Replace OMPADEC with a planning and monitoring committee composed of government, community, reputable NGO and industry for effective community development.
(iii) Publicise fund allocation and expenditures to development activities on a quarterly basis.
(iv) Continue industry funded community development programmes.

(d) Achieve trustful relationship among all stake holders and employees in assignments in the industry.
(v) Make available to all stakeholders information on cost structures of operations in the upstream

(e) Achieve at least 50% Nigerian content by 2010.

(i) Encourage and support development of the local contracting capability.
(ii) Accept Nigerian companies in preference to foreign service providers when bid proposals are very competitive.

(iii) Make Nigeria a hub of the oil industry for West Africa

(t) Establish economic outlet for gas.

(i) Improve incentives to encourage optimal use of gas and adopt a comprehensive energy policy with deliberate focus on gas from January 1998.
(ii) Develop gas infrastructure for commercial, industrial and domestic use.
(iii) Rehabilitate the existing power plant and make gas the fuel of first choice.
(iv) Encourage gas export oriented projects e.g.. LNG, LPG, NGL.
(v) Develop gas to replace liquid fuels.
(vi) Maintain existing fiscal package for upstream gas development and extend application to downstream
(vii) Establish appropriate pricing for gas to encourage investment and stimulate conversion from liquid fuels.

(g) Operate in concert with protecting people and the environment.

(1) Continue to upgrade production and export facilities to prevent and or contain discharges resulting from process upset.
(ii) Conduct regular pollution containment exercises
(iii) Utilise latest environmentally friendly technology

(h) Funding Options:

Massive investment will be required to achieve the desired growth in the upstream petroleum. Funds required will be in the order $6 billion per year at average technical cost of *$5* to 7 per barrel. At present, inadequate government funding is the major constraint to growth. Recognising that government will adopt a strategy that will fund the joint operations adequately and timely, the Upstream sector offers the following options for consideration.

(i) Establish Production Sharing Contracts (PSC) for new leases and for new oil development.
(ii) Allow innovative funding schemes when appropriate.
(iii) Reduce government equity in phases over a period of time to a pre-determined level whereby government can pay share of funds required to grow the joint venture.
(iv) Establish a routine process to annually deduct from the Federation Account as first charge “ seed money” to fund the government participating share of the
joint ventures operations. This seed money is a revenue generating investment. It reflects the desired level of growth in the industry.
(v) Revise JOA funding mechanism and allow private industry to be responsible for investment in new oil development.
(vi) Re-instate crude for cash call as an option to eliminate funding difficulty.

Projected production, cost and revenue.

51. The table below provides an indication of the magnitude of the funds required to grow Nigeria upstream and the expected proceeds from such investment. For example, in 1997, if the total capital investment and operating cost to support 2.2 million barrels per day, national production rate and to ensure production replacement is, about $4. 15 billion, the expected revenue is $14.45 billion. From this amount, government take is $9.44 billion while the industry take is $0.86 billion for the year. Government take is over 90% of total profit

realised.

	YEARS			
	1997	2001	2006	2010
Production, mbpd	2200	3000	3500	4000
Reserves billion bpd	24	30	35	40
Crudes price-$/bbl	18.00	20.30	23.50	26.40
Technical Cost,$Ibbl	5.17	5.3	6.75	7.60
Total cost, $bn	4.15	5.37	8.62	11.10
Expected revenue, $bn	14.15	22.23	30.02	38.54
Industry, $bn				
Government take,$bn				

Government take = Total revenue-total cost- Industry take.
Industry take = 43% of production times *$2.5* per barrel *365* days per year.
Revenue = Production times crude oil price

Revenue-Government take -Industry profit

52. The graph below shows that the expected revenue increases steadily during the vision period. For example, as the country approaches the year 2010, its revenue increases from about $14.44 billion in 1997 to about $38 billion. This requires correspondingly increasing investment costs that will support production growth from 2.2 mbpd to 4.00 mbpd. For these levels of investments, government take is expected to increase from about $9.44 billion in 1997 to about $26.40 billion by year 2010. During this period, industry take will increase from about $0.86 about $1.57

Revenue-Government take -Industry profit

Government take = Total revenue cost-Industrial take
Industry take = 43 % of production times $2. Sper barrel times 365 days per year
Revenue =Production times Crude price

Revenue-Government take and Industry profit

53. The graph below is another representation of the information described in paragraph *5,* using bars instead of curves.

Revenue-Government take - Industry profit

Government take = Total revenue cost-Industrial take
Industry take = 43 % of production times $2. per barrel times 365 days per year
Revenue =Production times Crude price

1. Strategy Table

2. Key Issues
3. E&P Players in Nigeria
4. Key players in Petroleum Industry in Nigeria.
5. List of indigenous licence holders-Dec. 1996.
6. Indigenous Licence holders-activity Log Book.
7. The Memorandum of Understanding.
8. Operating Expense-country Comparison.

Objectives and Strategy table

Strategies
Establish and maintain fiscal frame work that encourages investments
Establish appropriate mechanism to fund govt. share
Eliminate community related disruption to operations
Maintain Nigeria's low cost competitive advantage
Efficiently move reserve into production capacity
Continue the application of latest technology

Increase government revenue via production and reserves
Grow Nigeria's share of world energy market
Make communities stakeholders operations of the industry.
Achieve trustful relationship among all stake holders
Achieve at least 50% Nigerian Content by 2010.
Establish economic outlet for gas
Develop and operate in concert with the environment.

Objectives and Strategy table

Strategies

Continue exploration and appraisal to increase reserve base.
Allocate funds in proportion to oil produced to respective local govt.
Replace OMPADEC with planning and monitoring committee
Publicize fund allocation and expenditures for development on a quarterly basis
Continue industry funded community development programs
Educate policy makers on the workings of the upstream petroleum sector

Increase government revenue via production and reserves
Grow Nigeria's share of world energy market
Make communities stakeholders operations of the industry.
Achieve trustful relationship among all stake holders
Achieve at least 50% Nigerian Content by 2010.
Establish economic outlet for gas.
Develop and operate in concert with the environment.

Objectives and Strategy table

Strategies
Involve all stake holders in discussions prior to promulgation of law.
Foster dialogue between policy makers and industry on the workings of the industry

Achieve better understanding of operations by assigning govt. employees to industry

Make available to all stake holders information on cost structures of operations in the upstream
Encourage and support development of the local contracting capability Accept Nigerian Coy in preference to foreign service providers for competitive proposals

Increase government revenue via production and reserves
Grow Nigeria’s share of world energy market
Make communities stakeholders operations of the industry.
Achieve trustful relationship among all stake holders
Achieve at least 50% Nigerian Content by 2010.
Establish economic outlet for gas
Develop and operate in concert with the environment.
Objectives and Strategy table

Strategies
Make Nigeria the hub of the oil industry for West Africa.
Improve incentives and adopt a comprehensive energy policy
Develop gas infrastructure for commercial, industrial and domestic use.
Rehabilitate the existing power plant and make gas the fuel of first choice
Encourage gas export oriented projects i.e. LPG, LNG, NGL
Maintain existing fiscal package for upstream gas dev and extend application to downstream

Increase government revenue via production and reserves
Grow Nigeria’s share of world energy market
Make communities stakeholders operations of the industry.
Achieve trustful relationship among all stake holders
Achieve at least 50% Nigerian Content by 2010.

Establish economic outlet for gas

Develop and operate in concert with the environment.

Key Issues

These are the main issues discussed

- Growth
- Funding
- Stability of business, stability of terms of business and policies
- Nigerianization *I* Local Content.
- Openness -Tax evasion-Oil service companies
- Gas
- Community relations
- Environmental

E & P Players In Nigeria

The players in the Upstream sector are the oil and gas companies plus the service providers. The companies are the multinational companies, NNPC -Exploration and Production division, sole risk indigenous companies and the Nigerian Liquefied Natural Gas company. Those that provide services are contractors such as Schlumberger and NETCO.

Key Players in Petroleum Industry in Nigeria.

* Joint Venture Operations

54. The memorandum Of Understanding, MOU, is the agreement between the federal government and each of the oil producing companies for encouraging investment in exploration and development activities and enhancing oil exports. The main objective of the MOU is to guarantee to the oil companies a profit margin irrespective of the market conditions. It is intended by the incentives described in the MOU to ensure a minimum notional profit margin of $2. 30per barrel if technical cost does not exceed *$2.50* per barrel and to allow notional profit margin of *$2.50* per barrel if capital investment costs exceeds or equal *$1.50* per barrel and the notional technical cost is equal to or less than *$3.50* per barrel. On the gross revenue, government take is about 78% while the industry margin is *5 %.* The production cost shared by both government and the industry is about 17% The incentives provided in the MOU encouraged investments in the Upstream petroleum which resulted in continuous increase in crude production and reserves since 1986.

Notes: OPEC = Organization of Petroleum Exporting Countries. OECD = Organization for Economic Cooperation and Development. EEIFSU = Eastern Europe/Former Soviet Union. Capacity is defined as maximum sustainable production capacity adjusted to reflect current operable capacity in selected countries. Production includes crude oil, natural gas liquids, refinery gains, hydrogen, and other hydrocarbons. Totals may not equal sum of components due to independent rounding.

Sources: History: Energy Information Administration (EIA), Energy Contingency Information Division.
Projections: EIA, Office of Integrated Analysis and Forecasting, International Energy Forecast Software (1995).
Energy Information Administration/International Energy Outlook 1995.
Markets and ‘DESTINY”

CHAPTER THIRTEEN

SUMMARY OF CONCLUSIONS

The real sectors form the backbone of Nigeria’s economy, contributing an average of 97% to the country’s output between 1991 and 1995. Therefore there is a high positive correlation between these sectors and the nation’s economy as a whole. A strong and growing real, sector ceteris paribus, translates into a growing national economy and wealth. Important as the sectors are, they are faced with numerous problems, making them weak, and inefficient. Common problems include funding constraints, hostile macro-economic environment, inefficient public services, government ownership of key businesses, etc. The Committee profiled most these problems, set objectives and recommend strategies to realise them. The overriding objective is to rapidly grow the economy overall such that it can meet target growth rate averaging 10% per annum between now and year 2010. The objectives and strategies summarized below:

THE CORE OBJECTIVES

The core objectives are to:

(1) increase and maintain sustainable production of goods in all the sectors at level that will achieve real sector growth of at least 10%;

(2) identify, evaluate and explore all natural resource alternatives in each sector, e.g. agro-allied products, gas and solid minerals, in order to widen the production base and increase employment opportunities in the real sectors;

(3) develop local contracting capability in terms of fabrication, supply, maintenance and consultancy, and establish a competitive indigenous industry that meets quality standards consistently and which will make Nigeria regional centre for supply of goods and services;

(4) stimulate existing processing and manufacturing industries to increase capacity utilization and volume of exportable goods; and

(5) Create an enabling environment to encourage investor to develop markets in and outside Nigeria for domestic goods, resources, and services.

THE STRATEGIES:

Objective:
To in crease and maintain sustainable production of goods in all the sectors at levels that will achieve real sector growth 10% per annum, at least

1. <u>Upstream and Downstream Petroleum</u>

(i). Boost Nigeria's share of world energy market from 3% to *5%* by 2010 by increasing production capacity and reserves from 2.2mm bpd and 22 billion bbls in 1997 to 4.0 mmbpd and 40 billion in 2010

(ii) Eliminate community related disruption to operations by making communities stake-holders in the successful operations of the sector.

(iii) Ensure that a percentage of the agreed 13 % oil revenue in proportion to oil produced from a particular area, is allocated directly to the respective local government.

(iv) Replace OMPADEC with a planning and monitoring committee composed of government, community, and Industry representatives for effective community development.

(v) Achieve trustful relationship among all the stake-holders by educating policy makers on the workings of the real sector and by involving all stake-holders in discussions of all matters that will affect production prior to promulgation of law.

(vi) Ensure maximum protection for people and operate in concert with the environment by continuing the upgrading of production, storage and export facilities to minimize discharges into environment.

vii) Improve and maintain Nigeria's low cost competitive advantage through reform of government administration including budgeting, liberalization, and by providing adequate infrastructure.

(viii)Continue application of latest technology. Continue exploration appraisal to increase reserve base. Efficiently move reserve into production capacity. Maximize the use of existing infrastructure.
(ix) Increase availability of petroleum products by gradual deregulation of product prices and privatisation of refineries, depots and distribution. Introduce legal framework to allow government withdraw from pricing. Price crude to the refineries at international prices. Introduce product tax over a period of time to a predetermined level Alternatively, reduce government equity in phases over a period of time to a predetermined level whereby government can pay share of funds required to grow the industry to a world player in petroleum.

2. Solid Minerals

(i) Achieve an accelerated physical development of solid mineral resources, strengthen and equip institutional structures to international standards. Development and maintain infrastructure to facilitate exploitation.

(ii) Revert the present Geological Survey Department to an agency status, i.e. Geological Survey of Nigeria.

(iii) Re-establish the practice of setting aside *1.5* % of oil revenues for the development and exploration of Solid Minerals and simultaneously create incentives to attract foreign direct investment

(iv) Attract foreign investment by providing FGN guarantees and by adopting into law the draft revised laws and regulation of solid Minerals including the regime of fees and royalties.

3. Agriculture

(i) Increase hectares under cultivation using high quality certified seeds and increase productivity by applying improved management and technological skill by revitalizing agricultural development program

(ii) Protect agricultural development by aligning growth strategies with macroeconomics policies e.g. pursuing a competitive exchange rate policy.

(iii) Privatise all government owned farms, farms services companies and all farm input production such as fertilizer, planting materials, agro-chemical and farm equipment.

4. Industry

(i) Implement incentives system and introduce measures that shift investment from trade to manufacturing

(ii) Target and nurture 100 natural resources based small and medium enterprises, (SME5) to make them technology and product leaders by 2010. Promote existing SME clusters at Nnewi, leather and tanning in Kano, Footwear cluster in Aba/Onitsha, rubber product in Edo, Delta, Ogun, and Lagos.

(iii)Focus incentives on targeted goods and services with comparative advantage and extend trading activities across the borders.

Objective: To identify, evaluate and explore all natural resource alternatives in each sector e.g. agro -allied products, gas and solid Minerals, in order to widen the production base and increase employment opportunities in the real sector:

1. Agriculture

Provide incentives to encourage the production of food and agro-allied products in sufficient quantities for local consumption, industry and export.

2. Solid Minerals

(i) Establish a well-equipped and effective mines office in all states of the Federation including Abuja to carry out mines site surveillance.

(ii) Develop and maintain infrastructure to facilitate exploitation of solid minerals and provide utilities at strategic and viable solid mineral mining sites.

(iii)Promote solid mineral potential through public enlightenment and dissemination of information to the investing public and establish a well equipped and effective mines office in all states. Create and maintain a database to provide up-to-date information on solid minerals for investors and decision making.

3. Upstream and Downstream Petroleum

Establish economic outlet for gas by developing gas infrastructure for commercial, industrial, and domestic uses, and by rehabilitating all existing thermal power. plant and make gas the fuel of first choice. Deregulate gas pricing and allow market forces to determine appropriate price for gas. Encourage investment in upstream and downstream gas development and support conversion from liquid fuels.

Objective: To develop local contracting capability in terms of fabrication, supply, maintenance and consultancy, and establish a competitive indigenous industry that meets quality standards consistently and which will make Nigeria regional centre for supply of goods and services, the Committee suggests as follows:

1. Industry

(i) Provide fiscal incentives for targeted natural resource-based sectors, specifically rubber products, leather and leather products, textiles and garments, foods and beverages, basic chemicals, building materials and agricultural related machinery.

(ii) Encourage and support local contracting capability to achieve competition with foreign service providers in quality and price:

(a) Accept a Nigerian Company in preference to Foreign Service provider when bid proposals are very competitive

(b) Target a specific percentage contract works to local contractors.

© Provide quality assurance assistance to ensure attainment of standards

(iii)Provide incentives to encourage development of R&D capability to support production.

(iv) Generate a large number of foundries, forge shops and engineering fabrication shops and make them more technology-based over a period of time.

(iv) Implement the Family Economic Advancement Programme to bridge the rural-urban and formal and informal industrialization gap.

Objective: To stimulate existing processing and manufacturing industries to increase capacity utilization and volume of exportable goods:

1. <u>Manufacturing</u>

(i) Create strong commercial and industrial and technology division at Nigerian embassies overseas.

(ii) Increase the production and processing of exportable crops by granting incentives to attract investment in developing agricultural processing industries and by encouraging agricultural products export oriented enterprises.

(iii)Aggressively promote export of manufactures to the Sub-regional markets and operate the existing seventeen export incentives.

(iv) Promote the acquisition of quality control laboratories to produce highly competitive products and introduce automation and computerization into capital goods and engineering.

Objective: To create and enabling environment to encourage investor to develop markets in and outside Nigeria for domestic goods, resources and services, the following strategies are suggested.

1. <u>Investment Promotion</u>

(i) Introduce and sustain reforms that progressively lead to free market, e.g. pricing, and identify goods and services with competitive advantage with a view to producing them to high quality and internationally acceptable standard.

(ii) Maintain good relations with appropriate bodies to provide adequate and reliable infrastructure-road, rail, waterways power and communications.

(ii) Create incentives to encourage investors, develop and operate preservation and storage facilities.

(iv) Effectively implement open and competitive trade practices which ensure consumer protection.

(v) Encourage the establishment of appropriate mechanism and structures to promote the development of markets for Nigerian goods both at home and abroad.

(vi) Develop agricultural processing industries to increase demand and consumption of farm products.

PART IV:

DEVELOPMENT ISSUES

Overview

1. This section on Development Issues collapses the work of the Committee on rural development, poverty alleviation and infrastructure. Development implies positive changes in a continuous and sustained manner in the standard of living of a people. Development goes beyond mere economic growth. It includes social, economic, cultural and political changes. It is necessary to ascertain why a country like Nigeria with enormous human and natural resources has remained underdeveloped after 37 years of nationhood. The Committee strongly believes that if Nigeria is to be a developed modem economy by year 2010 and beyond, then the rural areas must be developed and poverty must be minimised. To achieve this, a modem and fully developed infrastructure is inevitable. The thrust of the Committee’s work in this area is to examine the causes of Nigeria’s underdevelopment and suggest policies, programmes and strategies that are needed to reverse the situation.

2. Rural Development is an important aspect of development. The bulk of Nigeria~ s population resides in the rural areas. The Committee defined rural areas thus: “Rural communities are those areas in which people live in their traditional environments where modem facilities are inadequate or unavailable”. By modem facilities is meant the ability to feed or maintain a minimum nutrition level, access to basic clothing and shelter, access to social and economic facilities as well as basic education. Consequently, the main problems facing rural development include education, land, communication, health care and technology. These problems need to be squarely addressed for rural Nigeria to develop rapidly. The Committee recognised the fact that Nigeria is predominantly rural, over 70% of the country’s poor are rural dwellers, and that rural communities have limited access to heath care, safe drinking water, sanitary conditions, education, housing and employment, among others. Hence, the Committee suggests action plans to overcome these realities of rural areas. In addition, the Committee recognises the importance of a national policy framework on rapid rural development as well as empowering the rural people with appropriate knowledge and skills.

3. Another issue that needs to be tackled to ensure sustainable growth and the development is poverty alleviation and elimination. Poverty can be defined as the inability of an individual or a given population to meet the basic needs of life, such as food, education, housing, health and closing. Ability is perceived as access to income that would enable a person to consume a basket of goods and services required to meet the minimum basic need requirements at any specific point in time. The Committee identifies several types of poverty, namely relative poverty, extreme poverty and capability poverty. The national poverty line for Nigeria is 3,290.00 per head per month at 1997 prices. An average family size of *5* would need 13,462.00 per month to live above the poverty line. Invariably, more than *50%* of Nigerians are poor. The rural areas accounted for 73% of the poor and *95%* of the extreme poor in 1992. In recent times, poverty in urban areas has been growing. Poverty for the most part is influenced by family size, educational attainment, gender and employment type, among others. The Committee is fully aware that if the country is to realise its vision by the year 20 10, poverty must be drastically reduced if not eliminated. The thrust of the Committee's work is to articulate the ways of alleviating poverty by the year 2010. In carrying out its tasks, the Committee dealt with the current issues surrounding the poverty questions in the country.

4. Poverty in the country is epitomised by the fact that at least 60% of Nigerians are poor. Poverty is unevenly distributed among different communities and unevenly distributed across urban and rural areas, and it is concentrated among those with no education, among other features. Poverty is more intense in the rural areas where 44% of the poor households have no formal education while 29% have primary education. In addition, 41% of the heads of poor household in the rural areas are self-employed, while 23% are wage earners. The Committee also recognised the need to place poverty issues in the global context. It stressed the fact that income inequality and level of poverty in Nigeria in 1992 was greater than what obtained in Indonesia, South Korea, India and Japan but lower than Chile. Furthermore, women who constitute *65%* of the poor are regarded as the poor of the poor due to their limited access to income generating activities.

5. Beside poverty alleviation and elimination, infrastructural facilities (roads, communication, water, power, etc) are the bedrock for meaningful development. Infrastructural facilities are central to the activities of households, businesses and government. Infrastructural facilities deliver tremendous benefits and impact positively on the quality of life of Nigerians. Increased production and growth in the economy depends to a large extent on the quality of existing infrastructure. The Committee recognises that, ideally, infrastructure contributes between 7% - 11% of GDP in any economy but for Nigeria the contribution of infrastructure is below the conventional rate.

6. Presently, infrastructural facilities in the country are dilapidated, unreliable and in a state of general disrepair. In addition, facilities are unevenly distributed, the cost of service is too high and majority of Nigerians have limited access to infrastructural facilities. Infrastructural facilities are inadequate in quality and are mostly public driven. Per Capita consumption of infrastructural facilities in Nigeria is one of the lowest in Africa. The Committee realised that the basic challenge is to ensure that infrastructural facilities in the country meet world standards and by the year 2010 every Nigerian has access to telephone, power, potable water, transportation and information at affordable prices. Economies that want to accelerate growth and development aim at an infrastructural growth rate of at least 20%.

CHAPTER FOURTEEN

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POVERTY ALLEVIATION

ABBREVIATIONS/ACRONYMS

ADPs	Agricultural Development Projects
API	Average Per Capita Income
BNI	Basic Needs Index
CSF	Critical Success Factor
DFRRI	Directorate for Food, Roads & Rural Infrastructure
FAO	Food and Agricultural Organisation
FEAP	Family Economic Advancement Programme
FMBN	Federal Mortgage Bank of Nigeria
FMI	Federal Ministry of Industries
FOS	Federal Office of Statistics
FPG	Food Pyramid Guide
FRCN	Federal Radio Co-operation of Nigeria
FSI	Food Security Index
FSP	Family Support Programme
FUMTA	Federal Urban Mass Transport Authority
GDP	Gross Domestic Product
GL	Grade Level
HDI	Human Development Index
IPI	Integrated Poverty Index
LDC	Less Developed Country
NACB	Nigerian Agricultural and Co-operative Bank
NALDA	Nigerian Agricultural Land Development Authority
NDE	National Directorate of Employment
NERFUND	National Economic Recovery Fund
NGOs	Non-Governmental Organisations
NHF	National Housing Fund
NISER	Nigerian Institute for Social and Economic Research
NPC	National Planning Commission
NYSC	National Youth Service Corps
OFN	Operation Feed the Nation
OMPADEC	Oil Producing Development Scheme
PAPs	Poverty Alleviation Programmes
PBN	People's Bank of Nigeria
PCI	Per Capita Income
PHC	Primary Health -Care
PRODA	Product Development Agency
PTF	Presidential Task Force
RBDA	River-Basin Development Authority
SAP	Structural Adjustment Programme
SME	Small and Medium Scale Enterprises
UBE	Universal Basic Education
UNDP	United Nations Development Programme
UNICEF	United Nations Children's and Education Fund
WHO	World Health Organisation

PTF	Presidential Task Force
RBDA	River-Basin Development Authority
SAP	Structural Adjustment Programme
SME	Small and Medium Scale Enterprises
UBE	Universal Basic Education
UNDP	United Nations Development Programme
UNICEF	United Nations Children's and Education Fund
WHO	World Health Organisation

EXECUTIVE SUMMARY

1. It is paradoxical that Nigeria, with its vast resources, has a large proportion of its population wallowing in poverty despite concerted efforts by Government at various levels, especially in recent years, to improve the well being of the people and specifically to reduce poverty through various policies and programmes. Currently, it is estimated that over *50%* of Nigerians are poor. This is a worrisome development for Nigeria, as no society can be happy with a large proportion of its people trapped in a state of want and deprivation. More worrisome is the fact that, the poverty situation in the country is worsening.

2. It was against the above background that the Sub-Committee on Poverty Alleviation and Elimination was constituted by the VISION 2010 Committee to evolve a framework to achieve a substantial reduction in the prevalence of poverty by the year 2010. The Subcommittee addressed several broad issues including:

(a) Assessing the state of poverty in Nigeria

(b) Identifying the causes of poverty

(c) Setting targets for poverty reduction by the year 2010; and

(d) Defining strategies and actions through which these targets could be attained.

3. The Group started its work by operationally defining poverty as, the inability of an individual to meet the basic needs of life such as food, clothing, shelter, health and education. Thus the prevalence of diseases, illiteracy, ignorance, squalor and misery are reflections of the level of poverty in a given society. The poverty line (minimum income that will enable the individual to meet basic needs) is usually the starting point and a basic methodology for measuring poverty. People whose income fall below the poverty line are deemed to be poor, while those whose income level is above the line are non-poor. The intensity, severity and spread of poverty are assessed on the basis of the percentage of population that fall below the poverty line and the distance of incomes of the poor from the poverty line.

4. A poverty line of 3,290.00 per head per month at 1997 prices was established for the country. An average family size of *5* would require 13,462.00 per month to live above the poverty line. Going by this poverty line, there is no doubt that, roughly *50%* of Nigerians can be deemed to be poor. An examination of the distributional pattern of poverty in the country revealed an uneven distribution, with the rural areas accounting for 73% of the poor and up to *95%* of the extreme poor, as at 1992. However, the share of the urban areas in poverty has been growing rapidly in recent times. Geographically, the North accounted for a larger share of the poor than the South or Middle Belt regions. Poverty was also found to be influenced by the family size, educational attainment, gender and employment, among others.

5. The Group also examined the various poverty components and noted that the domestic food production level may be below the level of demand by only 10%, but generally low purchasing power inhibited access to food, health and nutritional status of the poor. Access to health care services which rose from 40% to 67% between 1980 and 1993 took a downward trend from 1994 and the same applied to availability of safe drinking water. The illiteracy rate was 48%, while the primary school age children enrolment rate was 63.5%. The state of housing was far from adequate and the quality of housing in the rural areas was generally poor, while the urban areas experienced dearth of residential houses. Other indicators such as child and maternal mortality levels, were also high.

6. Government's concern about the worsening poverty situation especially in the wake of the Structural Adjustment Programme (SAP), led to the adoption of deliberate measures to redress the situation. These include the National Directorate of Employment (NDE), Directorate for Food, Road and Rural Infrastructure (DFRRI) and the People's Bank of Nigeria (PBN) among others. Most of these programmes failed to yield their desired results, (especially that of reducing the level of poverty among the rural population), due principally to the following reasons

(a) Most of them were poorly conceptualised, targeted and implemented;

(b) There was lack of Sustainability of the programmes and their benefits.

(c) They all suffered from the general societal condition of cake sharing syndrome, and there was lack of probity and honesty in their execution and

(d) They were not properly and effectively monitored and co-ordinated.

7. It is apparent that a lot more work needs to be done to alleviate poverty in Nigeria. Several targets were set by the Group, among which are:

(a) Eradication of extreme poverty and reduction of the incidence of poverty from 62% to 20% of the population, by the year 2010

(b) 100% Primary Health Care (PHC) coverage and 80% access to modern health care facilities

(c) increase in literacy rate from 52% to 70%

(d) 80% access to safe drinking water

(e) 70% access to electricity

(f) establishment of safety nets for the disabled, the aged and children.

(g) Adequate, efficient and appropriate urban and rural transportation systems

(h) sustainable food security

(i) effective, efficient, and properly targeted demand driven Poverty Alleviation Programmes (PAPs).

8. The group advocated a number of integrated strategies for the achievement of the above objectives. First, an accelerated GDP Growth of 7% which could double income per capita by the year 2010, if population grows at 2% or less. Additionally, specific strategies for achieving broad based high growth rate of the GDP, and reducing extreme poverty through income redistribution, were also recommended.

9. High GDP growth can be attained through substantial increase in investment in the productive sectors of the economy particularly in manufacturing and agriculture, and an through export orientation. Furthermore, accountability, probity and commitment must be put back into our national life, as a pre-requisite for progress. Income inequality could be reduced through sustainable wage income policies, enhanced budgetary allocation to social sectors and a broad based development strategy, that would focus on the rural areas and ensure their full integration into the realm of economic and social activities. The poor should be empowered, to participate in the design, formulation and management of policies and programmes that directly affect them.

10. The evolving of appropriate and effective population policy, pursuit of programmes to enhance female education, adoption of improved family planning strategies are needed to reduce population growth rate to 2% and the funding of health by the public sector has to be increased from less than 4% of total Federal Government Expenditure (FGE) in 1996 to 10% by the year 2010.

11. The Primary Health Care (PHC) which formed the basis for current population policy would have to be fine tuned and fully implemented. Additionally, enhanced access to health care services would be pursued through more private sector participation and Nongovernmental Organisations (NGOs) . More efficiency and effectiveness of health care and delivery systems would be attained through effective co-ordination of the various institutions and monitoring of the delivery process.

12. In the area of education, the 70% literacy rate would be pursued through increased share of the public sector budgetary allocation to education, to between 12 - *25* per cent of the total budgeted annual expenditure by the year 2010.

13. Intra-sectoral prioritisation, according greater priority to basic education, the re-introduction and provision of textbooks to primary and secondary schools and the drafting of all National Youth Service Corps (NYSC) members to primary and secondary schools for the next *5* years would assist in achieving the literacy objective as well as enhancing the quality of education in the country. The adult literacy programme is expected to be reenergized and vigorously pursued.

14. In the pursuit of the housing objectives, the Federal Mortgage Bank of Nigeria, (FMBN) should be re-awaken to its responsibilities through various measures, while contributions to the National Housing Fund (NHF) should be enhanced to facilitate the achievement of goals in this area. A rural housing scheme, based largely on local technology and inputs, should be put in place. The establishment of community-based self-help groups, to organise the construction of rural houses was also recommended. Local Governments are to play active roles in housing schemes and in providing support to local individuals and

community based efforts. Furthermore, the site and services scheme is to be re-engineered and made more relevant and effective to face the housing challenges of the 21st century.

15. In the area of transportation, the strategies to be adopted involve privatisation of publicly owned outfits particularly state owned enterprises due to their inefficiency; re-invigoration of the Federal Urban Mass Transport Authority (FUMTA) to adequately extend it's services to the rural areas, with emphasis on pick-up vans; effective maintenance of existing roads and other transport facilities at all levels of government; and more effective involvement of micro-credit institutions in the provision of credit to would-be investors in rural transportation. Research institutions are to play more active roles in transportation.

16. The drilling of boreholes and wells and the construction of more mini-water works and dams are to be adopted to boost water supply. The privatisation of electricity distribution and other micro and small scale (alternative) electricity generation schemes using solar, gas, etc were recommended to boost electricity supply. The operation of the distribution system was also recommended for rationalisation through adoption of several switching devices.

17. Safety nets are to be provided for the vulnerable poor of society, to cushion the effect of high prices arising from the short-term effects of the privatisation exercise. More rehabilitation centres are recommended to enhance social welfare provisions.

18. The Group also outlined strategies for more effective operation of micro-credit schemes and adopted an effective organogram for the co-ordination of poverty alleviation policies and programmes in the Country.

19. Several mechanisms for boosting sources of funds for poverty alleviation were suggested, including the adoption of United Nations Development Programmes (UNDP) 20:20 initiative; more vigorous non-oil tax revenue drive to increase its share of GDP to 10% by the year 2010; and checking leakages in the oil industry by controlling illegal bunkering etc. Other measures include, the reform of the contract system through the suggested introduction of a National approved price catalogue from which all contract prices will be quoted and profit margins standardized.

PREAMBLE

20. Studies on poverty in Nigerial7, indicate that more than *50%* of Nigeria's population are still poor, despite efforts made by Federal, State and Local Governments to improve the material conditions and welfare of the majority of the citizenry. More worrisome is the fact that, over the years the percentage of the Nigerian population in poverty has been on the increase. The tasks before the Poverty Alleviation Group 18 is not only to stop this trend but also to reduce or if possible, eliminate poverty in the country. The Group is one of the seventeen economic sector! development issues sub-committees, under the Vision 2010 Committee 19 (V20 10). The committee has the responsibility of fashioning-out a vision that will ?actualise the full potentials of the Nigerian state and prepare it for the challenges of the 21st century20?. The purpose of this report is, to identify and analyse the state of poverty in Nigeria, under where we are, where we want to be as well as strategies on how to get there.

(a) Materials for the Report

The Group held several meetings during and in between workshops, organised a seminar with the Rural Development group, and invited memoranda from such individuals and organisations like the National Planning Commission ,(NPC); the National Directorate of Employment ,(NDE); the Federal Office of Statistics, (FOS); the Federal Ministries of Agriculture; Industries; Women Affairs and Social Development; Department of Rural Development; Ministry of Water Resources; Arewa House Library, Kaduna, and the Peoples? Bank of Nigeria. Others were The World Bank, World Health Organisation (WHO), United Nations Development Programme (UNDP) and the United Nations Children Fund (UNICEF). In addition, The Group also had a two-hour phone-in programme on the Federal Radio Corporation of Nigeria (FRCN) and a network TONIGHT AT NINE NTA programme.

(b) Vision Statement

Nigerians are today faced with an unacceptable paradox, of Poverty in The Midst of Plenty2 1?. Our goal is that of a society that efficiently harnesses its resources such that no body suffers from starvation and everyone can meet the basic minimum needs of life. Therefore, the task of poverty alleviation requires that Nigerian leaders appreciate that sustainable economic growth and poverty alleviation are the most crucial goals of governance, and all Nigerians through charitable work and self-help should support, the vision of poverty alleviation in the country by the year 2010.

(c) Organisation of the Report

The report is organised into five section. Following the preamble, is conceptual and measurement issues in poverty in section one. Section two assesses the state and causes of poverty in Nigeria and the problems constraining the effective implementation of Poverty Alleviation Programmes, (PAPs). In section three, poverty reduction targets were set, for now up to the year 2010. Section four, identifies the strategies and actions necessary in order to achieve a poverty low or free economy in Nigeria, by the year 2010 and beyond. The report closed with a summary of key conclusions and recommendations, in section five.

SECTION ONE

INTRODUCTION

Conceptual and Measurement issues in Poverty

1. For a clear and better understanding of the state of poverty in Nigeria, it would be necessary to first define poverty and then identify who the poor are and how they are distributed in the country. These are requisites for designing appropriate policies that would correctly target the rural and urban poor in the country through a selection of appropriate and effective instruments for combating the poverty disease and establishing the necessary institutions that would help achieve our vision of a poverty free society in Nigeria. We must heed Adam Smith’s warning that “no society can surely be flourishing and happy, of which by the far, greater part of the members are poor and miserable”, (in Lipton and Ravillion, 1993).

What is Poverty and Who are the Poor in Nigeria?

2 Poverty is a multi-faceted concept and its definition could be culturally and geographically specific, depending on the particular society, we are dealing with, due mainly to variations in

the societies? welfare basket. The Human Development Report (1996:47) related being poor to, having little or no access to basic needs of a normal human being. The needs are defined to include both primary (food including water, clothing and shelter) and secondary (education, health, security, and access to employment and credit) needs. For the purpose of this report, poverty is defined as, ?the inability of an individual or population to meet the basic needs of food, education, housing, health, and clothing?. Ability is used to mean access to income that would enable an individual to consume a basket of goods and services, necessary to meet the minimum basic need requirement, at a particular point in time.

3. It was estimated that in 1985 more than one billion people in the developing world lived in absolute poverty22 and by *1995,* this number had risen to 1.3 billion. Poverty is said to be deeply rooted in Africa and that, people in Sub-Saharan Africa are among the poorest in the world, both in real income and in access to social services. The report estimated that, about *45* percent of the approximately *590* million in Sub-Saharan Africa lives below the poverty line?. It added that, in 1993 an estimated 40 percent of Africans lived on less than $1 per day, and that ?...at least 50 percent of the poor live in five east African countries and Nigeria. The depth of poverty or how far incomes fall below the poverty line is said to be greater in Sub-Saharan Africa than anywhere else in the world, (World Bank, 1996b: 1-2).

4. DIMENSIONS OF POVERTY

(a) Prevalence of Poverty

1.3 Prevalence or incidence of poverty refers to the number of people or percentage of the Population below the line. The poverty line can be determined through methods such as the Integrated Poverty Index (INI), Food Security Index (FSI), and Basic Needs Index (BNI). For details see World Bank, 1996a; and UNDP, 1996.

(b) Relative Poverty

Relative poverty refers to levels of inequality in a society, thus deprivation is measured in relative terms.

(c) Extreme Poverty

Absolute or extreme poverty, refers to a situation where the individual lacks access to food, health, shelter and is in danger of starvation and disease.

(d) Capability Poverty

Capability or secondary poverty refers to a situation, where a person lacks the resources that are required to make him capable of performing certain activities. Resources here refers to, the level of acquired knowledge or skills, access to employment and good health that will enable individuals improve their income levels.

5. How can we measure Poverty?

(a) The measurement23 of poverty is a complex process, since it is multi- dimensional. The measurement of poverty is a subject of much debate and one that is difficult to have consensus on. We can measure poverty by defining our poverty line, which is what distinguishes the poor from the non-poor. To do that, some policy analysts prefer to use physical measures like health or nutrition, others use income or some specified index like the Human Development Index (as used by the United Nations Development Programme, (UNDP) and others a combination of several methods. These other measures include the Head count ratio, (HCR), Income-gap ratio, (JGR), Sen poverty index, (SPI), Lorenz curve, (LC), Gini-Coefficient, (Gn), Theil Index, (TI) and the Foster, Greer and Thorbecke Index, (FGR). The most widely used measures are the Human Development Index (HDI) as computed by the UNDP, the Food Security Index (FSI), Poverty Gap Ratio (PGR), Basic

Needs Index (BNI) and the Integrated Poverty Index (IPI). For the purpose of this report, we measure poverty in terms of the resources that should be available to the individual to meet basic needs.

6. For Nigeria, the group agreed that we can distinguish the poor from the non-poor by establishing a poverty line for the country. This was done by converting the Food and Agricultural Organisation (FAO) recommended 2100 minimum daily calorie requirement per person, into food basket, using the International Food Pyramid Guide (FPG). The food basket is then converted into Naira () value. A minimum amount in Naira to cover non-food basic needs is also estimated and added to the Naira value of the food basket. The total amount gives us the minimum income level below which the individual cannot meet the basic needs of a normal life. The calculations were done at two levels. The first reflected, international food standards, while the second was based on local dietary patterns. Though the approach is basically a very simplified version of the BNI, it is an effective and functional method for the purpose of the group's objectives. To the food component is added the Naira value of resources that should be made available to the individual to meet other non-food basic needs such as education, health, housing and clothing. The total Naira value of food and non-food basic needs gave a rough estimate of the poverty line.

7. In Tables one to four below, we present an elaborate calculation of the poverty line, in order to identify the poor in Nigeria and to separate the poor from the non-poor. From table one, it is clear that an individual needs 165 per day or 4950 per month, to maintain the FAOs 2100 calories minimum food intake and caloric consumption requirement, using the International FPG which gives a standard distribution of food nutritional intake. If we add the 1235 (see Table three) for the non-food basic needs, the poverty line here would be 6185 per month per head, This may not be realistic for a Nigerian situation.

8. The Group went a step further and looked at a typical daily food consumption pattern using research findings from Borno state and converted the meals consumed by individuals per day, into calories as well as, costed them in Naira terms, to determine the minimum calorie intake of Nigerians compared to the standard set by the FAO.

9. Table two shows that, in a day, an individual requires 68.50k or 2055 per month to purchase a food basket of 2,038 calories. Table three contains the estimates for non-food basic needs, which the group costed. The costing was done on the basis of what the group considers the minimum required by the individual, in terms of curative health needs, clothing, housing, energy, transportation and others.

10. From table three, we saw that, the individual will require 1235 per month for non- food basic needs. This implies that in a day, an individual needs a minimum of 109.67k for food and non-food basic needs or 3290 per month, to maintain a calorie intake level of 2038, which is very close to the FAO 2100 minimum level.

11 From these estimates, the group established that, the minimum income needed to make a Nigerian survive normally is 3290 a month. This represents the Naira equivalent that will

keep him out of poverty. So, the national poverty line for the country is 3290 at 1997 prices (see Table 4). The table also show that a family of five will require 13462 per month to survive normally. Anybody earning less than that, is below the poverty line and any body getting exactly that, is on the poverty thresh-hold. It also means that, how far below 3290 an individual is earning, will determine the depth or severity of an individuals? poverty level. These are important conclusions which we will come back to later.

12. Table Four below shows that, to maintain the same 2038 calory level per head, the a family of five will need 342.50k per day or 10,275 per month for food and an additional 3,187 for non-food items. For the month, the family requires a total of 13,462.00. For one year, the individual minimum annual expenditure on food and other basic needs amount to 39,480 or us *$470.59* and 161,544 or US$ 1900 for a family of five. This is above Nigeria's per capita income of $ 280 or 32,308.8.

S/N	Food Group	Serving Size	# of servings	Caloric contribution	cost in Naira
1.	Bread/Cereals	1 slice of bread 1/2 cup cereal	10	680	25
2.	Vegetables	1/2 cup (120g) cooked/vegetable		112	40
3.	Fruits	1 medium size orange/banana	*5*	200	20
4.	Milk	1 cup (240g) 1 tsp powdered milk	2	320	15
5.	Meat	2/3 ounces cooked	*5*	*365*	*50*
6.	Fat	1 tsp butter/margarine (1 tsp= 5g)	15	185	10
7.	Sugar	1 tsp *5* g table sugar	10.5		5
8.	**Total Kcal**			**2100**	**165**

TABLE TWO: THE MEAL PATTERN OF AN ADULT FEMALE RURAL DWELLER AND THEIR CALORIC CONTENT IN 1997.

SIN	FOOD GROUP SERVINGS	NUMBER OF CONTRIBUTION	CALORIC	COST IN NAIRA
I	BREAKFAST			
	SACHET OF COWGATE POWDERED MILK	1	148	*5*
2	KUNUIKAMU	2 CUPS	248	4
3	AKARA	2 BALLS	182	*5*
4	SUGAR	3 TEA SPOONS (TSP)	60	*1.5*
	SUB-TOTAL		638	15.5
1.	LUNCH TUWON MASARAI EBA/AMALA	2 MOLDS/CUPS	472	10
2	DRAW SOUP	HALF-CUP	70	12.5
3	SNACK (ORANGE)	1	106	5
	SUB-TOTAL	648	*27.5*	1

DINNER

1	TUWON MASARA/EBAIAMALA	2 SMALL MOULDS OR 2 CUPS	472	10
2	DRAW SOUP	HALF-CUP	70	12.5
3	SNACK (P/WINE, K! SAMIYA)		250	3
	SUB-TOTAL		752	25.5
	GRAND TOTAL		2038	68.5

source: Market survey and Estimates by the group

TABLE THREE:ONE MONTH COSTING OF OTHER BASIC NEEDS OF AN INDIVIDUAL ADULT (IN 1997 PRICES)

S/N	ITEM	COST IN NAIRA
1	HEALTH 24	100
2	CLOTHING *25*	125
3	HOUSING 26 (ONE ROOM)	300
4	TRANSPORTATION	500
5	ENERGY	150
6	OTHERS	50
	TOTAL	1235

.13. It is pertinent to note that, the Groups? estimated poverty line for the individual tallies with that of The World Bank, which puts the value at 395.41 (at 1985 prices) per year for the poor and 197.71 (at 1985 prices) per year, for the extremely poor or ?the poor of the poorest?. Making a simple conversion of 395.41 at 1985 base year, at the current exchange rate of 85 to US$1, it approximates to 2798 per month or 33578 per annum, at 1997 prices.

TABLE FOUR: AVERAGE MONTHLY COSTING OF THE BASIC NEEDS OF A SINGLE FAMILY
(ALL COSTS IN NAIRA AT 1997 PRICES)

S/N	Basic Need Item	Cost in Naira	Cost in Naira (Family of five)
1.	Food	2055	2055 x *5* 10275
2.	Health	100	100 x *5* = 500
3.	Housing(2 Rooms)	300	300 x 2 600
4.	Clothing	125	125 x *5 = 625*
5.	Transportation (2 School Children)	500	500 x 2 1000
6.	Energy	150	150 x I = 150
7.	Education[8] (2 Children in Sch.)	162	=162
8.	Footwear	*50*	= 50
9.	Others	50	50x2 =100
	Total	3290	13462

Source: Market Survey and estimates by the group, April 1997.

Note on Table: For the rural dwellers, who do not purchase food ingredients, but produce themselves, their daily foods are valued at current market rates and which is then translated into their money income.

14. In order to determine the spread of poverty in the country, the group tried to identify the segment of the Nigerian population that falls below the poverty line of 3290 per month. However, since it did not have the necessary information to make a conclusive statement on how many Nigerians fall below the poverty line, it related the poverty line to the salary grade levels obtained in the Federal Service. The poverty line was estimated to be close to the net pay of officers in GL 15 in the Federal Service. That implies that, office's below Gl 15 in the Federal Service are below the poverty line. The Group estimates that, about 60% of Nigerians fall below the Poverty line may not be wrong.

15. From a level of $260 per capita per annum, as at 1996, and a GDP growth rate of *7.5%,* it could take between eight to nine years (8-9 yrs) to bring those Nigerians that are below the poverty line to be on the poverty threshold. From the simple calculations above, we can see the magnitude of effort required to substantially reduce poverty in the country.

SECTION TWO

Where we are: The State of Poverty in Nigeria

Introduction

1. In the previous section, we concluded that, any Nigerian whose income is below 3290 per month, is from our estimations, ?poor?. The group believes that at least 60% of Nigeria's population earn less than that. This section will look at how Nigeria compares with other parts of the world in the incidence of poverty, the distribution of poverty and the state of poverty in relation to basic needs. In the section, some of the causes of poverty would also be outlined.

International Comparison of Per Capita Income

2. According to the Human Development Report of 1996, out of the $23 trillion of global GDP in 1993, only *$5* trillion was in the developing countries though they have 80% of the world's population. This is despite the fact that per capita income in the LDC was said to have increased by *3.5%* a year from 1960 to 1993. The report went further to show that between 1960 -1991, the share of the richest 20% rose from 70% to *85%* of global incomes, while the share for the poorest, declined from 2.3% to 1.4%.

3. When we compare what is happening globally, to the situation at home, Nigeria's performance is Sluggish, as shown in Table five. Using a poverty line of US$ 1 per day per person converted to ?purchasing power parity?; showed that, income inequality and level of poverty in Nigeria in 1992 was greater than those in Indonesia, South Korea, India, and Japan. For example, as at 1993, while the Average Per Capita Income (API) based on the purchasing power parity in Nigeria was $1,400 with the poorest 20% earning *$357,* compared to Indonesia where the API for 1993 was $3,150 and the poorest 20% earns $1,370. In Chile, the API was $8,400 and the poorest 20% received $1,386 and in South Korea, the API was $9,630 and the poorest 20% earned *$3,563.*

4. Nigeria's per capita income is also lower than those of other developing countries for example, in chart one, it is clear that, whereas in several of these countries, per capita income (here used as proxy or a measure of poverty) has continued to improve; it is not the case in Nigeria, where per capita income, which is one of the lowest, has actually been on the decline for the past few years and by extension, could imply an increase in the incidence of poverty in the country.

5. This view is collaborated by the results of a study by Demery, Lionel & Lyn Squire (1996:43,44)9, were they observed that, "...in three cases—Kenya, Nigeria, and Tanzania real expenditure of the poorest of the poor declined,.., despite the marked decline in poverty overall in Nigeria?, the incidence of core poverty increased by 2.5 percentage points between 1985 and 1992. Indeed, poverty incidence would increase in Nigeria using any poverty line.?.

Table Five: International Comparison of Average Income and Per Capita Incomes of the Poorest 20% to that of Nigeria (In 1997 Prices)

Country	**Average Per Capita Income (PPP$)**	**Per Capita Income for the poorest 20%(PPP$)**	**Number of times of API of Nigeria**	**Number of times of PCI of Nigeria**	**APl Ratio to 20% poorest**
USA	24240	5814	17	16	4:1
Japan	20850	9070	15	25	2:1
Korea South	9630	3563	7	10	3:1
Chile	8400	1386	6	4	6:1
Indonesia	3150	1370	2	4	2:1
Nigeria	1400	357	1	1	4:1
India	580	70	0.85	1.5	2:1

Source: Computed from The Human Development Report, 1996, p 13

Chart one : International Comparison of Per Capita Incomes, 1993-1994.
Sources: Human Development Report (1996), The Progress of Nations (1995).

Distribution of Poverty in Nigeria?

6. The level and spread of poverty is not the same between countries or within the same country and between states, local governments, communities, gender and geographical locations. The distribution of poverty in Nigeria, varies depending on many factors, prominent amongst which were employment, gender, educational status, and accessibility to infrastructures. Though the group was unable to carry an on the spot study of its? own, it had access to a number of studies on Nigeria (see World Bank, 1 996a,b&d; World Bank, 1997; and NPC 1995).

Community Based Poverty

7. The World Bank Study on Poverty among Communities, found that, Poverty is unevenly distributed among different communities in Nigeria. Nearly 80% of all poor individuals lived in communities classified as poor (communities with the highest concentration of poor households, that are normally remote and plagued by severe climatic conditions and absence of basic infrastructure).

Regional Distribution

8. It is estimated that, in 1992, the percentage of the population below the poverty line in Northern Nigeria was 45%; 39% in the Middle Belt and 24% in the South. Moreover, it was also found that in Northern Nigeria, nearly 70% of the poor resided in 36% of communities classified as poor, while in the South only 38% of the poor live in 9% of communities classified as poor (World Bank, 1996a, 1996d).

Rural - Urban Distribution

9. The poor in Nigeria are also distributed unevenly across urban and rural areas. Further records show that, the incidence of poverty was higher in rural than in urban areas, just as the depth and severity of poverty. It is estimated that 56.7 % of Nigeria's urban and 62% of rural populations lived below the poverty line in 1994. Out of the 13.9 million Nigerians considered to be extremely poor in 1994, 4.3 million lived in the urban and 9.6 million in the rural areas. Again, majority of the extreme poor were said to reside in the rural areas. However, a study by Ravillion and Bidgni (1994), found that, rural poverty dropped 26.3 million in 1985 to 22.8 million in 1992, urban poverty rose from 9.7 million to from V11.9 million.

Distribution by Educational Attainment

10. In Nigeria, just as in many parts of Sub-Saharan Africa, poverty is concentrated among those with no education. A World Bank study (1996a) showed that, overall, education was found to be a critical factor in poverty - the lower the level of education, the higher the chance of poverty. In the rural areas, 44% of the poor households were said to have no formal education while 29% had primary education. For the urban area, the corresponding figures were 34% and 16% respectively. The report indicated that, in 1985 the incidence of poverty was only 28% where, the household head had secondary education (see Table six)

Distribution of Poverty by Employment

11. It has been approximated that, 41% of the heads of poor households in rural areas were self-employed, and 23% were wage earners. 45% of the poor household heads in rural areas were farmers and 35% for those in the service industry. Employment therefore is a strong indicator of poverty in Nigeria (see Table six). The study showed that where the head of a family is working, poverty fell substantially from 52.5% in 1985 to 35.1 in 1992. Among wage earners also, poverty fell from 46% in 1985 to 28.4% in 1992, confirming that

t ~ access to employment and income has a strong link to the level of poverty.

Table six: Nigeria: distribution of poverty by education, family headship and Gender (percent)

Category	**1985**	**1992**
No Education	48.1	39.5
Primary Education	35.8	28.5
Secondary Education	28.3	22.9
Tertiary Education	23.5	22.8
Employment		

Wage earner	46.0	28.4
Self-employed	*52.5*	35.1
Other	38.7	36.5
Gender of head of family		
Male	43.8	35.6
Female	37.2	21.4

source: The World Bank, Poverty in the midst of Plenty, p31.

Distribution by Gender

12. Women are generally said to be the poor of the poor, since their access to income generating activities is limited. It has been estimated that, *65* per cent of the poor in Nigeria are women. However, poverty is said to be higher in households that are male headed. For example, in 1985, about 43.8% of the poor were in households that were male headed compared to 37.2% in families headed by females (see table Six) . This is the opposite of what is obtained in many developed countries, where poverty is seen to be growing in single-home families and female-headed families. Nigeria's situation is explained by the fact that, in most cases only women who are well off, normally keep their children and they are relatively fewer.

State of Poverty in Nigeria and The Basic Needs

Food

13. Currently, the food security situation in the country is tolerable, considering that total production as of 1991 was 18 million tonnes, while local consumption was 19 million tonnes. It is projected that Nigeria could suffer from significant food deficits in the next 13 years, if action is not taken to resolve these problems and increase investment in agriculture. In particular, land degradation due to desertification/erosion, chemical fertilizer use and higher population densities are a serious treat to the environment and food security.

14. Currently, access to food for the majority of Nigerians is limited due to low income in the face of rising food prices. Food expenditure takes between 60 - 80% of household income as against 20% recommended by UNDP. Nutritional intake of Nigerians is also low. Average animal protein intake is 6.6 grams per day against 20 grams per day recommended by WHO (NISER, 1997).

15. The state of food insecurity is worsened by:
(a) High wastage (about 20%) due to poor storage and food processing facilities.
(b) High rate of smuggling of grains, garri and tubers to the neighbouring countries.
(c) Poor distribution of Food, from surplus to deficit areas, due to inaccessibility to food producing areas. It is estimated that, only *5%* of village access roads are accessible all year round (NISER, 1997).

Health

16. Available data indicate that access to health facilities in the country is relatively low, consequently, the generally poor state of health in the Nation. For example, UNDP (1996:145) puts the life expectancy of Nigerians at 50.6 years in 1993 compared to 54 years

in 1989. Access to Health care facilities rose slightly from 40% in 1980 to 67% in 1993 due to the PHC. Access to safe water rose only mildly from 36% to 40% (see table seven on selected health indicators) during the same period.

Table Seven Nigeria: Selected Health Indicators (%)

Indicator	1985	1993
Access to Health Care	40	67
Access to Safe Water	36	40
Infant Mortality Rate	99	81

Source: Human Development Report, 1996.

17. On the average, only about 66% of the population had access to health services between 1985- 1995, and up to 7 million children under age five were said to be malnourished, between 1990 and 1995. As at 1992, close to one million children die before the age of five. Infant mortality improved from 99 per 1000 live births in 1980 to 81 per 1000 live births in 1993. Access to Doctors and Nurses is very low, with the average rate of one Doctor to 5882 patients and one Nurse to 1639 patients between 1989 - 1995. Programmes such as the primary health care and the expanded programme on immunization in the preventive area have in recent times improved the health status of the rural population.

Water Supply

18. Only 40% of the population have access to safe drinking water. Total domestic supply in 1994 was 908 million cubic meters as against per capita demand of 26.14 liters per day. Several factors accentuate the already poor water supply situation, some of which includes:

(a) Excessive reliance on large-scale water supply schemes.

(b) Rising population densities.

(c) Poor and erratic electricity supply which disrupts water pumping and damage pumping appliances (boreholes).

(d) High wastage arising from linkages.

(e) Dependence on foreign equipments and spare parts.

Education

19. Available data indicate that, about half of the Nigerian population is illiterate. Actually, 52% of Nigerians are said to be literate. We are aware that illiteracy correlates strongly to incidence of poverty. Several factors are responsible for the not so high literacy rate:

(a) Low primary schools enrolment - 63 % of children between 6 - 11 years were enrolled between 1992 -1995.

(b) Poor access to schools, particularly in Northern Nigeria, where the spread of primary schools is thin.

(c) Inability of the poor—more so in the rural areas to purchase educational materials for their school children.

(d) High drop out rate (up to 30% of ages 6 - 11 years) in schools due to inability of parents to support their children.

(e) Utility of child labour to supplement family income.
(f) Early marriage for girls.

(g) Lack of awareness by many parents of the need and importance of formal education.

(h) Cultural and religious beliefs that inform the rejection of ?western education?.

Housing

20. There is every indication of extreme shortage of good and decent housing at affordable prices in all States of the Federation. NISER (1997) estimates that rents for the low-income group take up to 60% of minimum wage. Moreover, most houses in Nigeria are over-crowded especially for those of the low- income group and increasing number of people sleep in the street and under bridges, especially in the cities. It is estimated that (using 1985/86 data,) 85% of urban population live in single rooms and number of occupants per rooms range from 8 - 12 (NISER, 1997). Though we do not have comprehensive housing census on the present housing needs in relation to population, it is estimated that 5 million more houses in the urban areas and 3 million houses in the rural areas are needed by the year 2010.

21. The National Housing Policy which was launched in 1991, has failed in achieving its objective of access to decent housing accommodation at (affordable cost,) for all by the year 2000. For example, out of 121,000 housing units slated to be built between 1994 and 1995, only 1014 houses were completed.

22. Some of the factors responsible for the poor state of housing in the country are summarized below.

(a) Low private sector participation in the building of low-cost housing for the poor. It has been recognized that the building of low cost houses are unattractive to the private sector.

(b) Lack of appropriate funding.
(c) High cost of building materials
(d) Poor implementation of Housing policies.’
(e) Non-prioritised and inefficient intra-sectoral allocation of funds
(f) Expensive low cost houses which are beyond the reach of the poor, and many of such houses are hijacked by the rich.
(g) Increasing rural- urban migration also worsens the housing situation in urban areas.
(h) Many would-be house owners are confronted and defeated by land problems and in availability, of housing finance.
(i) acquisition

We are also faced with high rents of residential houses, especially in the urban areas, and worse still, landlords often demand several years of advance payment.

Clothing

23. Though information on the clothing situation in the country is scarce, the group believes that, there is no clothing problem from the supply angle. The textile mills are producing mostly low quality and cheap fabrics targeted at the poor. There is also a high patronage of imported second hand clothing. Thus the problem of clothing emanate mainly from low purchasing power of the poor.

Poverty Alleviation Policies and Programmes

24. The National Planning Commission has categorized Poverty Alleviation Programmes (PAPs) in Nigeria, into nine sectoral segments, which is largely adopted below. It is worthy to note that both Federal, State and Local governments have over the years spent enormous resources on Programmes meant to improve the welfare of the populace with strong emphasis on poverty reduction and rural development, as confirmed by the large number of poverty alleviation policies and programmes classified.

(a) Agricultural sector programmes: Agricultural Development Projects (ADPs), River Basin Development Authorities (RBDA), National Agricultural Land Development Authority (NALDA), The Green Revolution, The Operation Feed the Nation (OFN) and the strategic grains reserves. These policies and programmes were initiated to help boost agricultural production and to provide food and farm incomes to the over 70% of the Nigerian Population, engaged in agriculture.

(b) Health Sector Programmes include the Primary Health Care(PHC), The Guinea worm eradication Programme and the drug revolving schemes of many State Governments. There have been significant achievements in the guinea worm project as well as the PHC.

(c) The Education sector programmes include Nomadic education scheme, the Universal Primary Education, The Adult Literacy system, Unity Schools, The Gifted Children School project among others. Not much achievement has been made in this area.

(d) Transport Sector programme is dominated by the Federally Assisted Urban Mass Transit (FUMTA) and those at the State and Local government owned Transport Corporations/schemes.

(e) In Housing, we have the Low-cost Housing programmes and the indirect support of housing through the Federal Mortgage Bank.

(f) Micro-credit and Financial sector programmes include the Rural banking programmes, the sectoral allocation scheme, the Peoples Bank, the National Agricultural and Co-operative Bank, the Community banking scheme, the National Economic Reconstruction Fund (NERFUND) and the Family Economic Advancement Programme,(FEAP).

(g) The Rural Infrastructure & Gender Targeted programmes include the rural electrification programme, the Directorate for foods, roads and rural infrastructures

(DFRRI), the Petroleum Trust Fund (PTF), The Family Support Programme (FSP), the rural water and sanitation programme, the Better life Programme, the Waste-to-Wealth programme, the School to land Programme among others.

(h) The other PAPs programmes include the National Directorate of Employment (NDE), the Small Scale Enterprises and the Oil Producing Development scheme (OMPADEC).

Most of the programmes have not made much impact on the poverty situation in the Country. We anticipate that FEAP would avoid the pitfalls of these other PAPs, and help in reducing the poverty level in Nigeria.

General Problems of Poverty Alleviation Programmes (PAPs) in Nigeria

The group identified several constraints on PAPs. These include: policy inconsistency, inadequate funding, improper targeting of programmes, misconceptions and wrong attitude towards governments? good intentions of siting projects, the problem of elephant projects which have little or no relevance to the community, Lack of accountability and probity in programme implementation among others. Some of these constraints are demonstrated in the case studies below.

CASE STUDIES

26. A study of some of the institutions27 created by government, whose policies and programmes focused on the rural and urban poor in Nigeria, reveal that there was low level of funding, low coverage, low user attitude and poor implementation of these programmes which constrained their success in achieving stated objectives. The purpose of the case studies is to show some of the weaknesses in these poverty alleviation programmes, with the aim of understanding their problems and obtaining better solutions.

(a) Directorate of Food, Roads and Rural Infrastructure (DFRRJ)

Established in 1986, DFRRI is one of the most important policy programmes that had the potential of transforming the rural areas and alleviating rural poverty. DFRRIs? activities included provision of rural feeder roads, electricity, housing, water, sanitation and agricultural inputs. Total funds available to DFRRI between 1986 to 1992 amounted to about 2 billion, out of which DFRRJs annual budgetary allocation peaked 7.4% of Federal government capital expenditure by 1987. From the annual reports of DFRRI, there was over 100% completion rate for electricity, roads and water projects undertaken during the first and second phases, while phase three was abandoned at an infant stage in 1992.

(iii) Most of DFRRJs problems stemmed from corruption at the implementation stage, especially in the state offices. Nigerian communities noted that DFRRI claimed roads that were already there and verification teams (who were mainly outsiders from the system) could not easily identify such false claims by DFRRIS? out post offices. The major question now, (which is relevant also to FEAP) is, how can monitoring and evaluation be fool-proofed so that actual implementation can be assessed. This and other issues are what the group hopes to answer, by the end of this report.

(b) Micro-credit and Poverty Alleviation: The NACB and People’s Bank.

The Group is taking The Peoples Bank of Nigeria and The Nigerian Agricultural and Co-operative Bank, as examples of two micro-credit institutions involved in poverty alleviation programmes.

(i)

(ii) DFRRI reported that, a total of 83,460 km of feeder roads were completed by August 1992, that 17,162 rural communities benefited from its? rural water and sanitation programmes and 506 communities enjoyed its? electrification programme. Going by the reports of DFRRI, substantial achievements must have been made in alleviating rural poverty. However, despite the fact that DFRRI relied on special monitoring and evaluation teams, it is widely believed that most of DFRRIs achievements were only on paper and the little that was on the ground, was largely lost, due to lack of maintenance since 1992.

Micro-Credit refers to programmes that enhance self-employment and provide financial and business services to the poor. It simply means delivery of small credit facilities to low income earners and micro-enterprises in the informal sector, as well as mobilization of savings from the same group of people. Credit is given without the submission of the usual banking collateral security requirements. The Group agreed with the views that see, micro-credit as a powerful anti-poverty tool, which can bring liberalization of the market economy to the poorest villages and people. It is a business approach to poverty alleviation which can allow millions of individuals to work their way out of poverty with dignity, if effectively applied.

(ii) The Group examined the coverage, funding and operational problems and impact of the activities of the NACB and Peoples? Bank of Nigeria,(PBN) so as to make useful recommendations on the strategies for improving micro-credit schemes in the country. The NACB and the PBN, are perhaps the two most important micro-credit banking institutions (like the Grameen Bank in India) in the country. Others focusing on the local community include the Community Banks and the Rural Banking programmes of various commercial banks.

(iii) As at December 1996, the NACB had a total of 70 branches and over 50 representative offices in most Local Government Areas (LGAs) of the Federation. The

A’

PBN has a total of 278 branches nationwide. Since inception in 1972, the NACB has so far committed 6.2 billion as loans out of which 4.8 billion was disbursed as at 1997. Between 1993 and 1996 , about 12 million was disbursed to 3851 beneficiaries. On the other hand, the PBN has attracted about 98,153,590 million of loans (subventions) from government since inception in 1989. The People’s Bank is able to reach only about 1000 beneficiaries annually with loan disbursement reaching 350 million. The Loan recovery rate of The People’s Bank of Nigeria, rose from 30 per cent to 50 per cent for old loans, and the recovery rate for new loans rose to 80 percent and above.

(iv) While the operational spread of these two micro-credit institutions increased reasonably well over he period, their funding and impact on the poor are very low. The fact that both banks assisted only about one thousand poor people in a year, out of the estimated 60 million poor Nigerians below the poverty line, show there is much to be done, if poverty is to be induced in Nigeria.

(c) Constraints

The micro-credit institutions were not without constraints, some of which include:

(i) Very poor loan repayment attitude of the beneficiaries, largely because they perceive such loans as handouts from government. Moreover, the administration of loan utilization and recovery was very poor, which consequently led to poor loan utilization and inability of the beneficiaries to repay. This had consequences for revolving funds availability, and which results into request for more government subventions. Both the NACB and PBN, have now improved their administrative mechanisms for loan recovery within the past two years, which has led to improvements in their operating scope.

(ii) Savings mobilization capacity of the banks is also very low due to the nature of their clientele and due to the lack of appeal to the wider public to operate deposit accounts with them.

(iii) The Banks spread out activities are too wide, so that resources are thinly spread.

(iv) A large portion of loans go to unqualified (non-poor) beneficiaries with or without the complicity of management.

(v) A larger proportion of funds go to overhead and personnel expenditure, rather than actual operations of Poverty alleviation.

WHY WE ARE WHERE WE ARE

27. One of the most important cause of worsening poverty situation in the country is the decline in the national economy within the past 15 years. The economy declined in real GDP growth rates, from 1981 to 1994. Huge fiscal deficits, high levels of inflation, negative real interest rates, a depreciating Naira exchange rate, unfavourable balance of payments and low external reserve positions were experienced. As a result, the government introduced in September 1986, a two-year Structural Adjustment Programme (SAP), to broaden the productive base of the economy, obtain a realistic exchange rate, liberalize trade, deregulate the financial system, reform public sector management and promote private sector investment.

28. Though the SAP recorded positive impacts on key macroeconomic indicators, it had some adverse effects on the rural and urban poor in Nigeria. It almost eliminated the middle-class, apart from increasing the severity of poverty among Nigerians. The SAP did not have adequate safety nets to offset the adverse effects of adjustment on the vulnerable members of Society. Policies and Programmes such as The Peoples Bank and NDE, yielded little returns to poverty reduction. Further more, serious inflationary trends in the first half of the 1 990s reduced the purchasing power of the poor.

29. GDP growth rates has been low and declining from about 3 per cent in 1992 to 1.3 per cent in 1994 and 2.2 per cent in 1995. Per capita incomes declined to 1970 levels see chart 2. Gross domestic investments as percentage of GDP also declined to 1970 levels, while countries such as Malaysia and Indonesia, doubled their investment ratios by 1994. The result is shrinking employment opportunities and income.

30. In addition, there are problems of neglect of the underprivileged by the rich as required by religious injunctions, poor pay and low incomes, high rate of unemployment, inadequate social services, social disorders, laziness, illiteracy, bad leadership, cultural factors that encourage dependency, lack of institutional framework for dealing with problems of the less privileged, corruption, unfair distribution of resources, among others.

SECTION THREE
POVERTY ALLEVIATION:
WHERE WE WANT TO BE BY THE YEAR 2010

Introduction

1.
The group agreed that, if all the recommendations under the critical success factors are implemented, the Nigerian economy would grow adequately, and more funds would be available, (consequent to the eradication of wastage, corruption, poor implementation and policy inconsistencies, etc) for social sector programmes, to the extent that Poverty can be substantially alleviated by the year 2010. The targets set below have been arrived at, after extensive consideration of resource potentials in Nigeria on what is achievable and after making comparisons with other developing countries that have similar socio-economic attributes. The Group also believes that if resources so far expended on the social sector were spent judiciously, Nigeria would have achieved these targets by now.

Our Targets.

2. The group identified the targets where they would like Nigeria to be in terms of Poverty Alleviation by the year 2010. In clear terms, the sub-committee agreed that by the year 2010, the following targets can be met.

(a) Reduce income poverty from an average of 62% to 20% of the population.

(b) Eradicate extreme poverty.

(c) Have 20% or less family income, as expenditure on food by 2010 and achieve a protein intake, of up to 20% of total food intake.

(d) At least 80% of the population should have access to modern health care system and the Primary Health Care coverage should reach 100% by 2010

(e) Enable 80 per cent of the Nigerian population to have access to safe water.

(t) Increase literacy from *52%* to 70%. Implement Universal basic primary education programme, for the first nine years of education. Raise primary enrolment from 15 million to 26 million and JSS enrolment from 3 million to 11 million by 2010.

(g) The Federal, Sate, and Local Government should provide necessary infrastructures for the achievement of the target of *5* million housing units in the urban areas and 3 million in rural. Specifically, the group urges the Federal Government to build at least 100,000 units annually each State government to build 5000 units and Local Governments 100 units annually. The constructions are to favour the use of locally produced materials. The private sector and individuals should strive to produce 350,000 housing units per year and NGOs to fill the remaining gap. A larger proportion of the houses should be low cost housing for the poor.

(h) An adequate provision of affordable and reliable transportation system, with a larger participation of the private sector, to ease the movement of persons and goods.

(i) 80% of Nigerians should have access to reliable electricity. This will check rural-urban drift and facilitate industrial activities, in rural areas.

(I) The Group also recommends, a minimum wage that meets the basic needs of the individual, as earlier computed in Tables one to four.

(k) A social security system28 that would serve as a safety net for people with severe disabilities, the mentally retarded, Children and the Aged. 1 percent of 1996 GDP29 should be set aside for this purpose. Also envisaged are the availability of functional Rehabilitation and vocational activity centres and homes, which are decent and fully equipped with all the basic needs of life.

(1) Achieve a strong and consistent GDP growth rate of 7 to 10% and a lower population growth rate 2% or less.

(in) There is an urgent need for a National Policy on Poverty Alleviation which will provide the framework for the coordination, monitoring and evaluation of poverty alleviation programmes in the country, with more focus on the rural areas. The Group would want to see a more effective implementation of the PAPs.

SECTION FOUR

HOW TO GET THERE:
STRATEGIES FOR POVERTY ALLEVIATION

Introduction

1. To achieve our objectives, some preconditions must be met. These include the achievement of high GDP growth rate of 10%; reduction in population growth to not more than 2% and enhanced investments in the social sector as well as in other poverty alleviation policies and programmes. The Group agreed that these cannot be attained unless Nigerians are morally re-oriented, re-awakened and mobilized to cherish the values of accountability, responsibility, probity, hard work, honesty, dedication and God-consciousness. This section will look at the set targets identify how to get where namely, and the strategies for attaining them.

2. It is agreed that high growth rates of GDP will translate into more funds available to the social sectors. For instance, given a 7 per cent GDP growth rate for Nigeria compared to the current rate of 3.25, all things being equal, resources allocated to the social sectors would double in 10 years though the social sectors share of GDP remain constant more over, at the same rate of growth total expenditure per capita would double by the year 2010, this general standards of living will substantially improve (see chart 3). It needs be noted that for gains in higher income to impact positively on the poverty situation, population growth rate must be put under control so that it remains at a level that permits the derivation of optimum benefits from economic growth.

3. Table 8 and Chart 4, give 3 scenarios showing the relationship between economic growth rate, population growth rate and poverty reduction. It is important to note that The World Bank's estimate (see Table eight) of 44.13 million people as the size of the poor in 1995 is different from the group's estimate of over 50% of the Nigerian population, regarded as poor.

The difference can be attributed to the differences in database as well as the differences in the method of estimation.

(a) Scenario I shows that if GDP grows at 3.2 per cent (current level) and population at 2.5 (slightly lower than the current level of 2.8 per cent per annum and at current inequality gap of 0.46 Gini coefficient, the size of the poor population will increase from 44.13 million in 1995 to 57 million in 2010. This scenario was be rejected by the group

(b) Scenario 2 shows that if GDP grows at 7 per cent and population grows at 2 per cent with current inequality gap of 0.46 Gini coefficient, the size of the poor population will reduce substantially from 44.13 million to 23.24 million or 16 per cent of the population in year 2010 and total expenditure per capita would double by 2010 (see chart 3). Poverty 4 reduction could be achieved earlier, if income inequality gap is reduced to 0.30 Gini coefficient. This is a possible case for Nigeria to adopt, based on the preconditions identified.

(c) Scenario 3 shows that at current level of 2.8 growth rate of the population with a GDP growth rate of 3.5 per cent, the size of the poor in total population will increase from 44.13 million in 1995 to 59.6 million in 2010 and 72.40 million in 2020. This too is unacceptable.

4. The best growth scenario for Nigeria is 7 per cent GDP growth and a less than 2 per cent population growth with current inequality gap of 0.46 Gini coefficient. The ideal however, would be a 10 per cent GDP growth rate, less than 2 per cent population growth rate and an income inequality gap of 0.30 Gini coefficient.

Specific Strategies for Achieving High Broad Based Growth Rate

5. The major problem with the Nigerian economy has been identified as that of excessive dependence on crude oil, which employs a minute percentage (0.4%) of the labour force and very slow development of the productive sectors such as manufacturing, agriculture and mining, among others.

6. The strategies to overcome the observed weaknesses of the economy to achieve broad based growth will be:

(a) Stimulate higher levels of local and foreign investments in manufacturing, agriculture and mining;

(b) Substantially enhance non-oil exports. All the East Asian Tigers relied extensively on the export sectors.

(c) Provision of a strong efficient infra structural base such as energy, roads, communication and water;

(d) Discourage conspicuous consumption patterns by the populace and encourage savings and productive investment;

(e) Discourage laziness and idleness by creating a work culture. Parents must discourage parasitic life styles, encourage competition, and teach children to appreciate hard work.

(f) Economic growth must be broad based so that more employment opportunities could be created. Skill upgrading and training could also be employed to enhance employment generation.

(g) Attack corruption and resource wastage at all levels of government and the private sector, as well as institute a direct procurement system. We must develop the political and moral will to ensure that the recommendations contained in the CSF Group are implemented.

Strategies for Reducing Extreme Poverty Through Income Re-distribution

7. As observed in the best growth scenario case above, poverty levels can be further reduced with the same level of growth in GDP if income inequality is reduced. A World Bank Study (1996a) showed that, because income distribution worsened between 1985 and 1992, extreme poverty increased nationally from 10 million to 14 million during the period. The report noted that ?had income distribution not worsened, national poverty would have declined by 13.6 per cent rather than 8.9 per cent.?. Poverty reduction through income redistribution can be achieved by taking the following actions:

(a) Sustainable wage income keeping real salaries and wages for the public sector and private corporations, the poverty line, stated on page 15.

(b) Effective higher budgetary allocation to the social sectors; at least 30% of the national budget and 50% of all international aid flows should go to the social sector.

(c) Broad based economic and social development that would; ensure productive investments that are labour intensive. More resources should also be reallocated to rural areas, where most of the poor live.

(d) Implement other targeted policies and programmes to enhance living conditions of the poor and safety nets for the vulnerable groups.

Reduce Population Growth Rate to 2 Per Cent or Less
8. Success in poverty alleviation also depends largely on the extent to which population growth is managed as earlier explained. To achieve the Group's target of 2 per cent population growth rate by the year 2010, there is need for the following Action:

(a) Enthrone a coherent, efficient and generally acceptable population policy.

(b) Enhance female education since research reports show a positive link between women education and birth control.

(c) Improve family planning and counselling services so that wider coverage and participation is attained.

(d) Discourage early marriages below the age of 18 years

(e) Emphasize intensive campaign and education on the need for family planning.
Strategies For Achieving Basic Needs Targets

9. At the global level, the social sectors require strong and dynamic government contribution. Most of the targets set by the group have to be met largely from the public sector - rather than

private sector activity. This section would show the strategies and levels of funding that would be required to achieve the set targets.

FOOD

4.11 To improve the food security to the poor, several measures should be put in place:

(a) The government should evolve a system of assessing food production in different parts of the country with a view to redistributing food from surplus to deficit areas. The system employed by the colonial government in the 1930s to the 1950s was very effective.

(b) More attention should be paid to reducing wastage of both perishable and non-perishable foods. For the non-perishable foods such as beans and groundnuts, the Federal Ministry of Agriculture should do more in educating and providing safe preservatives to farmers. More storage facilities could be installed by government. For the perishable foods such as vegetables and fresh milk, efforts should put in place to encourage private investments in canning and other preservatives mechanism.

(c) Government should encourage more private sector investments in modern animal husbandry and dairy industry so that supply of protein foods will grow and prices fall to generally affordable levels. In this case, fiscal incentives and subsidized credit are recommended.

(d) The government and private individuals should invest more in small scale irrigation schemes rather than large scale ones, to enable all year round farming. Dry season farming has proved very effective in improving incomes.

(e) Poverty alleviation programmes such as FEAP, should focus on assisting farmers to engage in off-farm income generating activities to augment their income. Research has shown that farmers that engaged in other trades such as tailoring, carpentry and iron smelting had the highest production levels, because they were able to purchase farm inputs and pay hired labour.

(f) Rural banking schemes should place more emphasis on leasing simple equipments (such as ox ploughs) to farmers.

(g) The customs and anti-smuggling task forces should, as a matter of urgency, control the smuggling of raw foods.

(h) There is an urgent need for a national policy on agricultural products price support. In this case, government should guarantee prices for major agricultural products through large scale direct purchases at above market prices during harvest time (when prices fall).

(i) There is a need to establish more linkage between Agricultural research institutes, Universities of Agriculture , extension workers and farmers.

EDUCATION

11. Increasing literacy level From 52 - 70 per cent and Implementing effectively the Universal Basic Education (UBE) policy, would require the implementing strategies outlined below:-

(a) Expand education share of total federal government expenditure from 10.7% in 1996 to *15%* in 2000 and *25%* in 2010.

(b) Prioritise intra-sectoral allocation in the educational sector so that a larger share of funds go directly to teachers, schools materials and maintenance of building. In this case, overhead expenditure should not exceed 30% of total.

(c) There would be need to concentrate more on the Universal Basic Education which has the highest yields of poverty alleviation. These areas would receive a larger share of special funds such as those from education taxes and NGOs activities.

(d) In order to improve the quality of education, all NYSC members should be deployed (excluding medical doctors) to teach in primary and junior secondary schools for the next five years of the Vision period and special incentives be given to those posted to rural areas. This is similar to the Chinese experience of is the 1 960s, when all universities were closed down for one year and students and lecturers were deployed to the rural areas to teach.

(e) Government should re-introduce the provision of textbooks to public primary and secondary schools on a revolving basis. In this strategy, the books would remain the properties of the schools and the pupils would use them only during the school—term periods. The class teachers would be responsible for the proper safe keeping of the text books. It is expected that if properly catered for, the text books would last five to ten years. Part cost recovery levy could be imposed on parents for the use of the books by their wards.

Health Strategy

12. The 100 per cent coverage of Primary Health Care and diseases control; and 80 per cent access to modern health care services objectives by the year 2010 could be achieved through the following strategies:

(a) Federal funding of health should be increased from less than 4 per cent of the budget in 1996 to 10 per cent, by the year 2005. State Governments allocation to the sector should increase from current level of 15 to 25 per cent while PHC delivery at the local government level should expand by *5* per cent annually.

(b) The PHC programme must be implemented fully. It has been estimated that *$5.0* per capita expenditure is needed to effectively run the PHC programme and this target should be religiously pursued during the Vision period.

(c) Encourage more private sector and NGO participation in heath care delivery.

(d) Improve the delivery system and monitoring of PHC through enhanced provision of trained staff, cold-chain system, and supervision.

(e) There is need for effective coordination of the various institutions involved in health care delivery and management, such as the Federal Ministry of Health and International Donor agencies.

(f) The Group thus recommends the strengthening and improvement of public health centres in Local Government Headquarters as well as in towns and villages with more effective utilization of community based structured participation, as prescribed by the PHC programme.

HOUSING STRATEGY

13. It is recommended as part of the housing strategy that:

(a) The Federal Mortgage Bank of Nigeria be restructured, well-equipped and well-staffed to administer the National Housing Fund for efficient and effective administration.

(b) Adequate public education should be undertaken to spread the knowledge that, contributions into the NHF is not a tax or levy but a saving which yields interest at 4 per cent per annum.

(c) Introduce a special levy of 1000 per head per annum as workers contribution to NHF. Given a labour force of 31 million people, could be collected N 15 billion. The PTF should also make some contribution to the fund in addition to Federal Government contribution. The total funds should be administered by the PTF or a special task force comprising people of proven Integrity and professionals). The funds should be utilized for building mainly low income houses (compound system) as prescribed on page *35,*

(d) The Nigerian Social Insurance and the National Pensions Fund should be required by law, to invest at least 75% of the now under utilized funds in the National Housing Fund. The Insurance Decree should be amended to require insurance companies to invest 70 per cent of their life funds in NHF. Housing expenditure as share of total Federal Government expenditure should improve from 1.1 % in 1996 to 4% in 2003.

(e The government should stop furnishing houses and relocate the monies to building Houses for the poor. Civil Servants could be assisted with interest free House furnishing loans according to their income groups.

(1) In view of the importance of Housing, the government should monitor closely the prices of building materials which has been rising astronomically, to make them affordable. This can be done through appropriate fiscal and monetary measures and the development of local industries. Capacity Utilization of roofing sheets, paints, cement, and iron and steel, should be increased to use 80%, to push down prices. This could be achieved through an intensified use of mini cement plants, more investments in the clay bricks industry and research.

(g) The Nigerian Building research institute should urgently do more in new and cheaper low cost housing designs with local materials and building materials that are qualitative but cheap. The compound system is recommended because it is cost effective and within reach of the poor.

(h) The Group recommends a rural housing scheme that could be supported by the local government. The scheme would rely on new designs to suit rural housing needs and ecology. The design would be based on local inputs such as clay bricks (re-enforced), and appropriate roofing. For this purpose, the National Building Research institute should design and build model villages which could be expanded later.

(i) The Group also recommends the formation of community self-help groups to organize the construction of rural houses during the dry season. Technical and equipment support could come from local governments and NGOS.

Adequate Transportation

14. In order to have adequate transport system in both urban and rural areas, the group recommends that:

(a) Urgent emphasis should be laid on the maintenance of existing rural feeder roads and the construction of new ones in order to link rural areas with transport, services and markets.

(b) That the Peoples Bank and other micro-credit institutions should, as a matter of urgency provide funds for the provision of pick-ups and vans, mostly needed in the rural areas.

15. The Federal Urban Mass Transport Authority (FUMTA) should extend its services to rural areas with the introduction of pick-ups and vans up to the year 2003.

16. Water and rail transportation system should also be improved and expanded to link the rural areas and to enhance the movement of people and goods. The present work on the rail system is timely. OMPADEC should do more in improving transportation in riverine areas. There should be effective coordination of various modes of transportation in order to increase efficiency and effectiveness.

17. The Group suggests the introduction of specially reinforced bicycles and tricycles with carriages for moving goods in both urban and rural areas. It has been observed that this is a major means of transportation system in China. PRODA and other research institutes could be funded and mandated to produce a prototype by the year 2,000 and private investors should start marketing by 2003.

Policies targeted on Urban Transport System

18. Nigerians should be re-oriented to have a more positive attitude to Government services especially the urban mass transport services. The urban mass transit vehicles should be standardized to only two models for ease of maintenance and the use of season tickets be introduced. State wned Transport Companies should be privatised and private Corporate ownership of these companies, be encouraged. In addition to the above, costs can be reduced through the appropriate policies and fiscal concessions on spare parts.

19. The group, also recommends that Government staff buses should be phased out by the year 2003, to reduce waste and to improve efficiency. In addition official vehicles supplied to all Government officials other than Directors Generals or equivalent, Ministers and above, should be withdrawn from 1998 and funds saved, should go into the urban mass transit scheme.

Increase Access to safe water from 40% - 80%

20. Waters share of Federal Government Total budgetary expenditure should reach *5%* in 2010 from 0.95 in 1996. States should increase water supply shares accordingly. Going by the importance of water in our lives and considering the non-availability of same in some of the rural communities, it is suggested that:

(a) The share of water supply in total Federal Government budget should reach *5%* from the current level of 0.9 % by the year 2005. Subsequent percentage increments could be made as required.

(b) The Group suggests the establishment of a National Bore holes Scheme which would ensure a more systematic approach to bore holes drilling in all the States in the federation. The objective of the scheme would be that of, enhancing water supply from and standardizing boreholes to optimally complement large scale water schemes.

(c) More Wells, should be dug with both government and community contribution.

(d) Construction of more mini-water works; and rain water storage through both public and private sector investments should be encouraged.
(e) Water - purification agents should be produced locally to reduce costs. The development of Chlorine and Caustic Soda Plants should be urgently facilitated, through private sector investment.

(f) Substantial cost recovery through increase in water rates and more efficient collection system, would facilitate enhanced water supply.

Electricity

21. Electricity should be available to at least 80% of the people by the year 2010. The Government should for the time being be responsible for the generation and transmission of electricity. Distribution should be privatised before the year 2003. In view of the low income of rural dwellers, support should continue to be given for rural electrification. Private companies should be encouraged to generate and supply electricity locally. Other methods of generating energy, such as solar, wind and gas, among should be encouraged. While government should continue to support research and development in these areas, the private sector should be encouraged to reduce their dependency on electricity as the only source of energy.

22. The Group raised the issue of management of the National Grid as currently operated which was observed to be problematic, as a breakdown in one generating station, immediately impacts on power distribution nation wide. In order to eliminate or reduce this problem, the several switching stations as originally conceived in the National Grid System should be introduced. The government should also explore possibility of re-distributing electricity from surplus to deficit areas. More private sector investments in the local fabrication/manufacture of electricity generation and distribution equipments should be encouraged through extraordinary fiscal incentives. Communities should ensure the safety (from vandalization) of electricity installations in their localities.

Social Welfare
23. There should be free health care for the disabled, children under 10 years and pensioners. More rehabilitation centres should be established by NGOs, Religious institutions, States, and Local Governments. The proposed National health insurance scheme should take off immediately. Government can assist NGOs willing to invest in rehabilitation centres, through provision of land, take-off grants and logistic support. Government should not participate in the management of such centres.

STRATEGIES FOR EFFECTIVE POVERTY ALLEVIATION POLICES AND PROGRAMMES

24. The issue of poverty alleviation and elimination is vital to the survival of this nation. Thus the group strongly suggest that, poverty alleviation issues, just like environmental policies should form an integral part of both private and public sector economic programmes. Programmes should be specific as to goals, measurable as to targets, attainable, relevant, and time bound as regards completion. It is based on these assumptions that the group present the. following suggestions on how to correct the weak, links in the implementation chain of poverty alleviation programmes, namely design - coordination -implementation.

Policy Design

25. To achieve maximum effects, communities should be involved in the design of poverty alleviation policies targeted at them. Thus it is important that local structures be established to ensure grassroots participation (FEAP, PHC and the Organogram below have such structures).

26. Poverty alleviation policies should also be demand driven. In this case prioritised needs of beneficiary communities should be the central focus of policies. For example, a recent study on economic needs of the poor by FGN/UNDP/NIR (FAO, 1997), using sample population from five states in five different zones in the country, came up with a rank order of the top fifteen economic needs of rural dwellers. The top six in order of priority were roads, credit, water supply, farm inputs, electricity and health centres. Others such as schools, processing equipment, cottage industries and market centres fall between tenth to fifteenth in ranking of needs. This indicates that poverty alleviating programmes should focus on provision of infrastructure and credit. In most cases, credit is required for purchase of harm inputs and implements.

27. Poverty alleviation programmes should also be well targeted so that different needs of different categories of the poor would be addressed. For example, in the rural areas, one could easily identify five poor groups namely:

[a] peasant farmers,

[b] farmers with off farm occupations, and the landless farmers

[c] people in solely off farm occupations such as petty trading, tailoring and iron smelting, [d] civil servants in local government employment and

[e] women.

28. Each of these groups have different capabilities and priorities. For example, peasant farmers may not have the capability and willingness to operate cottage industries but would be interested in credit to buy basic farm inputs and implements. Farmers who are also in off farm occupations may have the exposure and capability to venture into cottage industries.

Co-ordination

29. There is an urgent need to provide for and strengthen the co-ordination of all PAPs

Nation wide. The following organizational structure for policy design, monitoring and evaluation is recommended (see Organogram below)

30. In view of the fact that the issue of poverty Alleviation is vital for the survival of this nation, if peace, harmony and progress are to be promoted, the responsibility for the co-ordination of PAPs shall be vested on the Head of State. See the proposed Organogram

32. The State Coordinating Committee, shall be made up of State Governors, commissioners of relevant ministries, Local Government Chairmen, traditional rulers, selected NGOs in the State, supervisors of PAPS in the State, Chairmen, legislative committee and a few selected independent members. below.

31. The Head of State shall be assisted by a National Board on Poverty alleviation whose membership shall comprise:

(a) The executive chairman appointed by the Head of State.

(b) Ministers of relevant Ministries such as the NPC, Agriculture, Women Affairs and Social Development, FEAP coordinator, Ministries of Health and Education

(c) Below the National Board should be the Technical Coordinating Committee, comprising of field agencies such as PBN, NDE, Chairman Community Bank, NALDA, NACB, selected NGOs, and international agencies such as UNDP, UNICEF and The World Bank.

Government Chairmen, Councillors of relevant portfolio, community leaders, representative of NGOs, Local Government supervisors of PAPs and selected independent members. The Ward Coordinating Committee shall be made up of Ward councillor, Youths representative, village leaders, ward PAP Supervisors, selected retired members of the ward, and head teachers of schools.

33. The group agreed that the secretariat of the Apex coordinating agency shall be in the office of the Head of State. The Secretariat shall among other things, be responsible for the coordination, evaluation and monitoring of all PAPs. While for States, it shall be at the office of the Governor of the State. The local Government shall use their Staff to service their coordinating unit.

Effective Policy and Programme Implementation and Monitoring

34. The group is aware that project monitoring and evaluation in the past (going by DFRRI's experience) has eluded us. For this reason the group suggests that beneficiary communities should participate in project evaluation. For this to be effective, beneficiary communities should be informed of resources/funding allocated to projects in their areas. The communities would assess progress and submit regular reports to sponsors of the projects.

35. For effective implementation of PAPs and other social sector policies there has to be first change of attitude towards such policies and programmes and second, greater demonstration of will power and commitment on the part of those who design, execute, supervise, monitor, fund PAPs and implement programmes. Only people of proven integrity should be appointed to head PAPs. Beneficiary communities should be informed about fund released for the implementation of projects that affects them. There should be sanctions for non performance and misappropriation of funds. Equally the poor attitude of beneficiaries towards community

property and loans from micro credit institutions, should change within a framework of incentives and sanctions. There should be continuity in funding of projects as well as the sustenance of PAPs. Some of these issues are specially treated in the case study of Micro-credit Schemes below.

Strategies for Micro-Credit Schemes for the Poor.

36. Government funding of Micro-credit banks should be increased by 100 percent annually, until the year 2010. FEAP, when fully operational, would complement the funds for these schemes.

(a) Loanable funds going to NDE, SME (FMI) and etc should be channeled through micro-credit institutions. Those other institutions should concentrate on training and retraining , skills acquisition and entrepreneurial development and project selection.

(b) Enhanced loan recovery to at least 80 percent for all micro-credit banks.

(c) International donor agencies should channel more of their resources to micro-credit lending to banks. There should be greater supervision of loan utilization by beneficiaries so as to achieve the objective of poverty alleviation and enhance loan repayment capacity.

(d) Since women form a larger proportion of the poorest of Nigeria's population, at least 30 percent of micro-credit facilities should go to women. Philanthropists should be mobilized to deposit in the Banks to boost funding levels.

(e) Accountability in the operations of the banks, could improved through a careful selection of the management staff. The NACB & PBN have both taken steps to re-organize their institution, some of which includes the dismissal of corrupt staff and injection of probity into the system.

¶ (I) Operations of poverty alleviation institutions should be geared to rationalize their activities. Training and entrepreneurial skill development and selection of projects should be limited to NDE, SME(FMI), ADPs, Ministry of Science & Technology, ITF and etc.

FUNDING

37. The Group agreed that, the poverty alleviation targets set would depend largely on availability of funds as well as their judicious use. The following strategies are to be adopted to generate and enhance more funds availability.

(a) The group recommends the adoption of the 20.20 Initiative (of UNDP). Under this strategy, a minimum 20 per cent of all budgetary expenses would go to social and community services while 20 per cent of all aid inflows would go to poverty alleviation. For Nigeria the group recommends 30% of total government expenditure and 50% of all foreign aid inflows to be set aside for social sector services.

(b) More rigorous tax revenue drive to broaden the revenue base and increase the rates share of non-oil revenue which would ultimately result in more funds availability for the social sectors and poverty alleviation. It is recommended that non-oil revenue share of the GDP should be increased to 10 per cent by the year 2010.

(c) Reform of the control system of Government financing to achieve more efficiency and effectiveness in the use of funds. Direct sources of supplies, use of price catalogues, etc should be devised to enhance more efficiency in this direction. Therefore the Group suggests the introduction of a National price catalogue in which manufacturers and suppliers will quote all their prices. Government contracts must be priced according to quoted prices with 10 *-15%* profit margin allowed.

(d) Privatisation and commercialisation of some public sector enterprises would release funds for the social sectors and poverty alleviation activities.

SECTION FIVE

SUMMARY OF OBJECTIVES AND ACTION PLANS

1. Thirty-seven years after Independence and the implementation of many Poverty Alleviation programmes in Nigeria, more than 50% of the country's population live below the poverty line of N3290 per month. Nigeria compares badly with other developing nations such as Ghana, and Indonesia, despite its good resource base. In fact Nigeria's per capita consumption and GDP per capita have gone down to the 1970 levels, from a peak in 1980.

2. To this end, the Group evolved a framework for substantial reduction of poverty by the year 2010. Thus the core objectives are:

(a) To efficiently harness national resources for broad based development that, will ensure that no Nigerian suffers from starvation and everyone is able to meet the basic needs of life.

(b) To evolve a society in which a fair proportion of the gains from future growth and development go to the poor, thereby reducing extreme income disparities.

(c) To eliminate extreme forms of poverty.

(d) To ensure food security and substantial improvement in nutritional standards by 2010.

(e) To provide new impetus for the design/implementation of poverty alleviation programmes as a component of national development programmes.

(f) To raise productivity levels such that, a minimum wage of N3,290 a month at 1997 prices can be attained and enforced by 2010

(g) To provide greater safety nets through the placement of a social security system for the extremely poor, the severally handicapped and the aged to take off in 1998.

(h) To reduce capability poverty to minimum levels by providing adequate infrastructural, health and education facilities to at least 80% of the population in 3, phases to the year 2010.

Strategies and Action Plans

3. In order to achieve the objectives the following strategies/Action Plans are recommended.

(a) Attainment of rapid and sustainable GDP growth rate of 7-10 % per annum and a reduction of population from 2.8% per annum to less then 2% by the year 2010.

(b) Increase non-oil revenue from about 6% now to 15% of GDP by 2010 through bringing into the net, those who evade taxes. There is also need to reduce leakages in the oil industry, thereby increasing revenue from that sector.

(c) A minimum of 30% of all budgetary expenses should go to social and community services. While 50% of all aid flows should go to poverty alleviation programmes. Targets can be achieved in 3 phases to the year 2010.

(d) Reduce wastage and inefficiency in the use of public resources. To this end, a National Price catalogue in which manufacturers and suppliers will quote all their prices with 20 - *25%* to profit margin, should be used..

(e) Pursue fiscal policies that will lead to the narrowing of income inequalities.

(f) Adopt development strategies and policies that create employment opportunities.

BASIC NEEDS

Food

4. On food, we need to:

(a) Evolve a system of redistributing food from surplus to deficit areas from 1998.

(b) Increase public and private sector investments in storage facilities, and private investment processing canning and plants, from 1998.

(c) Encourage more private sector investment in animal husbandry to improve protein intake of the population through fiscal incentives and targeted credit facilities. This should take effect immediately.

(d) Government should enhance its capacity to control illegal food exports.

(e) The Government should establish from 1998 a price support scheme for major agricultural products through large purchases at above market price during harvest period, when prices fall.

(f) Government should establish more linkages between agricultural research, extension service and farmers.

Education

5. In the area of education, we need to

To achieve the objective of improving literacy levels to 80%. The following major actions are suggested:

(a) Implement Universal Basic Education policy plan

(b) Prioritise intra-sectoral allocation of resources in favour of teaching.

(c) To improve quality of education, deploy all NYSC for the next five years to teach in primary and junior secondary schools.

(d) Re-introduce the provision of text books to public primary and secondary schools on a revolving basis.

Health

6. To achieve the objective of primary health care for all by the year 2010, the government should vigorously implement the primary health care scheme and the extended programme on

immunisation. This will require more intensive training of personnel and more adequate logistic support. A commitment of 24 billion Naira to the PHC by the year 2008, is recommended.

Housing

7. To achieve the objective of housing for all by the year 2010, the following actions should be taken.

(a) The Federal government should build 100,000 low-cost housing units per year from 1998, each state government should construct 5,000 housing units and local government 100 units annually. 350,000 housing units is expected to be constructed annually by individuals and the private sector.

(b) To enable government achieve the above targets, compulsory contributions to NHF by all workers should be enforced. All workers should contribute an average of 1000 annually from 1998 to 2002. This would be added to the Federal Government allocation to housing and contributions from PTF. The monies and implementation should be handled by either the PTF or a special task force. Focus should be on cheap housing designs such as the compound system.

(c) The Nigerian social insurance fund should commit *75%* of its idle resources to the NHF and the Federal Mortgage Bank re-capitalised and made more efficient.

(d) Government should stop furnishing houses from 1998-2002 and all money saved should go to the construction of new houses.

(e) A rural housing scheme, with community, state, local government and NGOs participation should be established in 1998. The focus would be on new housing designs using manly local inputs.

(f) The Group also recommends the formation of community self help groups to organise construction of houses during dry seasons in the rural areas, with technical and equipment support from NGOs and local governments.

8. On transport

(a) Construction and maintenance of Rural feeder roads in the next two rolling plans should be a priority

(b) FUMTA and Micro-credit Banks should extend more assistance to rural transportation by financing the provision of a network of Pick- up vans by individual entrepreneurs. This can start in 1998.

(c) Introduce re-in forced bicycles with carriages for goods transportation in urban and rural areas through private sector investments supported by fiscal incentives and targeted credit facilities. Marketing could start in the year 2000.

(d) Privatise all state owned transport corporations between 1998 and 2000 and encourage corporate ownership.

(e) Reduce models of mass transit vehicles to 2 and sign service contracts with manufacturers. This can start in 1998.

(f) Phase out government staff buses and focus on urban mass transit from 1999.

(g) Phase out supply of government official cars to all civil servants below the rank of Director General and equivalent from 1998 and focus on urban mass transit scheme.

Water

9. On water, we need to:

(a) Implement the National Borehole Scheme in the 1996-1999 national rolling plan. Bore-hole schemes in all the states of the federation should be coordinated to achieve maximum benefits.
(b) More investments in the construction of mini-water works, small scale irrigation projects and rain water storage by state and local governments, communities, NGOs and the private sector.
(c) Enhance the development of chlorine and caustic soda plants through private sector investments with governments support through fiscal incentives and targeted credit facilities. Adequate local production can be attained by 2010.

Electricity

10. The government and the private sector, should as a matter of urgency intensity' research and investments in alternative sources of energy, mainly solar energy and gas to reduce dependency on electricity and bring down energy costs.

Strategy for PAPs

11.
(a) Poverty alleviation should form an integral past of both private and public sector programmes.
(b) Involve communities in the design of poverty alleviation policies. In this regard, the bottom up planning is recommended and local structure should be set up to facilitate the participation, by local communities.
(c) Government should immediately rationalise Poverty Alleviation Programmes so that those that aim at provision of infrastructure and support services are distinguished from micro-credit institutions. In this regard Loanable funds going to NDE, SMEs etc should be channelled through micro credit institution.
(d) Government should approve the recommended organogram for the coordination of PAPs and implement it as from 1998.
(e) Government should increase funding of micro-credit institutions for and up to the year 2003, after which they should be self sustaining. FEAP funds when released will also boast activities of micro-credit banks.

CONCLUSION

12. It has been demonstrated in this report that, poverty can be reduced to more manageable level, by the year 2010 if the economy grows as envisioned in the Vision and the Actions suggested in the report are vigorously implemented. We call on all Nigerians to join hands together to pursue the laudable goal of the poverty alleviation blueprint.

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APPENDIX B

LIST OF PARTICIPANTS AT JOINT WORKSHOP ON RURAL DEVELOPMENT AND POVERTY ALLEVIATION

(a) SPEAKERS AT THE WORKSHOP

1. Chief (Dr) E. O. Shonekan - Chairman Vision 2010, Opening Address.
2. Chief Ayo Ogunlade - Minister of National Planning, Keynote Address
3. Mr Boye Ikori - National Planning
4. Dr Okunmadewa, Folusu - World Bank
5. Dr B. Badjeck - FAO
6. Dr Safiya Mohammed - FMWASD
7. Alh. Jidda Shuwa Usman - Special Adviser to the First Lady, Her Excellency (Dr) Mrs. Maryam Abacha.
8. Mrs Hamra Imam - Managing Director, Peoples Bank
9. Dr C.A. Gundu - FMWARD
10. Prof. J. Igene - University of Benin
11. Representative of the Managing Director, NACB, Kaduna.
12. Dr E.K. Njelesani - WHO
13. Dr. Babashola Chinsman - UNDP

(b) OTHER PARTICIPANTS

14. Chief Shonekan, Chairman - Vision 2010 Committee
15. The Honourable Minister - National Planning Commission
16. Honourable Minister - Natural Resource, (Represented).
17. Alh. Shehu D. Abdulkadir - H.J.R.B.D.A.- Kano
18. Prof. N.M. Gadzama - University of Maiduguri
19. Dr Bata Musa - FMWA & SD Abuja
20. Elemi Situ - FMWA & SD Abuja
21. Dr F. Bogunjoko - WHO
22. Akin Olaniyan - Punch
23. B. Bamidele - The Monitor
24. M. Aguda - Punch
25. C.O. Adekemi - National Directorate of Employment
26. E. Onyejena - Vision 2010 Secretariat
27. Mrs M.L.Yunusa - Urban Development Bank
28. Dr S.I.Mohammad - FMWASD, Abuja

29.	Simeon Ogoegbulem	-	Champion Newspapers
30.	Engr.D.E. Oyakhilome	-	FMANR, Abuja
31.	A. Sarbu	-	UNIDO
32.	G. O. Jyegun	-	FMANR, Abuja
33.	J. Ghalib	-	SPDC, Lagos
34.	Mrs Anima Sambo	-	FMI., Abuja
35.	Prof. J. Onah	-	Vision 2010
36.	A.M. Anosike	-	NACB Limited, Abuja
37.	Mazi Sylvester Ejiofoh	-	Yaba, Lagos
38.	Shehu M. Kaikai	-	Katsina
39.	Prof. P. T.Ahire	-	Vision 2010 Secretariat
40.	Hajia Gambo Sawaba	-	Benin Street, Zaria
41.	Foluso Okunmadewa	-	World Bank, Abuja
42.	Peter Ijeh	-	World Bank, Abuja
43.	Halima Gyet	-	Capital Ladies Co-op Soceity
44.	S.O. Ogidan	-	People’s Bank
45.	Kayode Asoga	-	Vision 2010 Secretariat
46.	Akin Ajibola	-	Sketch Press Limited
47.	Prof. Tam David-West	-	University of Ibadan
48.	Prof. E. O. Oladipo	-	UNDP
49.	Mr. Babashola Chinsman	-	Resident Representative, UNDP
50.	David Jack OON E.E.F.	-	Oregun, Lagos
51.	Mrs Abike Dabiri	-	NTA, Abuja
52.	O.A. Edache	-	FMANR
53.	Ambassador Peter Afolabi	-	Peter Afolabi & Associates
54.	Ms Ifeuko Imoigui	-	Vision 2010
55.	Dr Dilawar Ali Khan	-	UNICEF, Lagos
56.	Mrs Moji Makanjuola	-	NTA News, Abuja
57.	Alh. Ibrahim M. Ida	-	Secretary, Vision 2010
58.	Chief H. Dappa Biriye	-	Vision 2010
59.	Mr Tony Edem	-	Vision 2010 Secretariat
60.	Mr Dick Kramer	-	Vision 2010
61.	Dr D. S. Tafida	-	Vision 2010
62.	Dr. H. R. Zayyad	-	Vision 2010
63.	Mrs K. H. Hoomkwap	-	Vision 2010
64.	Mr. C. O. Adeola	-	FMF
65.	Mr. M. A. Alao	-	FMF
66.	Resident Representative	-	FAO
67.	Dr. B. Badjeck	-	FAO

CHAPTER SIXTEEN

RURAL DEVELOPMENT

INTRODUCTION:

1. Nigeria is endowed with rich agricultural and water resources, abundant minerals and human potential. Nigeria has a human population of nearly 110 million people, 70% of which live and work in the rural areas to seek out a living from traditional agriculture, fisheries and traditional arts and crafts. The country also has a land area of about 900,000 sq km - more than one third of which is arable with minimal irrigation.

2. Table 1 shows how the population has been growing over a fifty year period 1950-2000, although U.N. figures are usually regarded as being highly reliable. The 1991 census figures indicated that the population of the country was 88.5m although no breakdown between rural and urban dwellers has been given.

TABLE 1

NIGERIA'S POPULATION GROWTH (1950-2000') IN '000

Year	Rural Population	Urban Population	Total	% Age Rural	% Age Urban	Growth Rate Urban
1950	30,775	3,556	34,331	10.4	89.6	-
1960	37,351	5,596	42,947	13.03	86.7	4.6
1970	46,116	8,956	55,596	16.3	83.7	4.7
1980	57,934	14,673	72,607	20.2	79.8	5.0
1990	73,993	24,531	98,524	24.9	75.1	5.2
2000	94,008	40,953	134,961	30.3	69.7	5.1

Source: United Nation's

DEFINITION

3. The group adopted the following definition of 'rural communities' early in its deliberations in order to maintain a common understanding of the matter.

> "Rural communities are those areas in which people live in their traditional environments, where modem facilities are inadequate or unavailable".

4. During its deliberations, the expression "modem facilities" was used interchangeably with the term "basic needs". Basic needs include among others:

- Ø ability to feed or maintain a minimum nutrition level;
- Ø accessibility to basic clothing and shelter;
- Ø accessibility to social and economic facilities such as potable water, motorable roads, electricity supply, telephones, schools, hospitals, etc.

Without a dramatic improvement in the quality of life of the rural communities, the country's hope for creating a strong, viable and dynamic economy will forever remain unfulfilled. It is therefore absolutely necessary that as part of the Vision 2010 programmes, steps be taken to evolve development policies aimed at opening up the rural areas and empowering rural dwellers to participate in the creation and sharing of the new prosperity.

WHERE WE ARE

5. Nigeria at independence, inherited a largely rural economy, relying on agriculture for sustenance. About 15 percent of the total population benefitted from some rudimentary social and economic infrastructure. Nigeria has since independence been faced with the task of economic emancipation using the instrument of the national development plans.

6. Efforts to develop the country started during the colonial administration with the first and second colonial plans. The second colonial plan terminated in 1962 with the introduction of the first national development plan, 1962-1968. Both the failure of foreign-donor agencies to honour their commitments and the Nigerian Civil War (1966-1970) were factors which adversely affected the performance of the first national development plan.

7. The post civil war plan was the second national development plan (1970-1974). This plan was to achieve what was described as the Three Rs, - namely Rehabilitation (of those affected by the war), Reconstruction (of roads and bridges damaged by the war), and Reintegration of people in the war-torn areas into the third mainstream of Nigeria life. The plan was more successful that the third national development plan, 1975-1980, which suffered from shortage of manpower and lack of data and could not achieve its objectives of growth and development. Poor performance was also recorded by the fourth national development plan, 1981-1984. This was due to poor plan implementation and management. It was because of these poor results from various plans that Nigeria decided to fashion out new policies in the succeeding years.

8. Mismanagement and poor implementation affected both development and perspective plans which had far-reaching consequences for the economy and more so to the development of the rural areas. The structural weakness of the Nigerian economy, which became so pronounced from 1982, necessitated the introduction of the Structural Adjustment Programme (SAP) in July, 1986.

9. In all, there were programmes with mandates relevant to rural development, during the period 1970 to date. These include:

(a) 1970-1979

(i) National Acceleration Food Production Programme (NAFPP)
(ii) River Basin Development Authorities (RBRD)
(iii) World Bank Assisted Agricultural Development Programme
(iv) Adult Education Programme

(v) Rural Finance and Credit Scheme
(vi) Rural Banking Programmes

(b) 1980-1997

(i) The Directorate of Food, Roads and Rural Infrastructure (DFFRI), responsible for financing the construction and rehabilitation of rural infrastructure (roads, water supply, earth dams and rural electrification).

(ii) Director of Mass Mobilization for Social and Economic Recovery (MAMSER).

(iii) Integrated Rural Fisheries Development Project (IRFDP).

(iv) The People's Bank Programme and the Community Banks Programme, designed to make banking services more accessible and extend credit services to the poor.

(v) The Better Life Programme (BLP) aimed at alleviating rural poverty, particularly among women.

(vi) National Agricultural Land Development Authority (NALDA)

(vii) Guinea Worm Eradication Programme

(viii) The Nomadic Education Programme

(ix) Strategic Grains Reserve Programme

(x) The Federal Urban Mass Transit Programme

(xi) The Oil and Mineral Producing Areas Development Committee (OMPADEC)

(xii) Programmes under the Social Development Policy for disadvantaged groups such as the disabled, beggars, children, the aged and juvenile delinquents.

(xiii) Family Support Programme (FSP)

10. Some of these programmes were more evident than others in the rural areas. It is also pertinent to note that a number of international government agencies have been very active in the development of the rural communities. These are:

(a) The World Health Ogranisation

(b) The United Nations Development Programme- (a fisheries project in Guma LGA).

(c) UNICEF

(d) The World Bank - (Katsina Irrigation Project Zone 2)

(e) The European Union - (Middle Belt Programme Zone 3)

(f) The International Fund for Agriculture Development (IFAD) - Woodlots and Shelterbelts programme in Zone 2.

(g) The UK Overseas Development Administration - (Warri Farms Project in Zone 6).

(h) The Netherlands Relief Programme

However, in almost all cases, these agencies worked through the Federal and State governments though in a few cases their partners were local government authorities and non-governmental organisations.

11. In spite of the foregoing extensive list of programmes aimed at rapid transformation of the rural communities, Nigeria has only witnessed limited success and a high failure rate from all these numerous schemes. Given the limited success of the previous approaches to rural development, it seems obvious that a new approach be evolved for the country.

12. Despite more than 36 years of independence from colonial administration, life in the rural communities has not changed much for the better. According to a recent World Bank Development Report, only 63 % of the rural population have access to modern healthcare facilities, 26% to potable water and 30% to good sanitary conditions. The report also showed that over 70% of the nation's poor and 95% of the extremely poor are in the rural areas.

13. The group brainstormed on issues relating to rural development and identified some 42 key issues affecting rural development. These were distilled into *5* major themes for more detailed examination in the context of "where we are "why we are where we are", "where we want to be" and "how to get there". The five critical areas are:

(a) Land
(b) Education
(c) Communication
(d) Technology
(e) Healthcare

LAND

14. Land and labour are the main assets of the rural people in Nigeria. State ownership of land keeps large quantities of land off the market. Traditional land tenure system generally inhibits economic use of rural land because it cannot be used as collateral when seeking agricultural loans. Generally, tenure laws and property rights play a key role in collaterising bank facilities for farming, mining and manufacturing sectors of the economy (real sectors).

15. In spite of the Land Use Decree which grants authority over land to the State governments, some degree of ownership by families and traditional authorities (apart from forest reserves) still prevails resulting in limited access by the rural dwellers who are predominantly farmers. The vast land resources have remained undeveloped and clearly there is need for a major land reform to facilitate easy access by those who wish to undertake large scale farming and for the small rural farmers who produce food for the urban dwellers.

16. The group noted that Nigeria is endowed with comparatively large reserves of water resources estimated at 22.6 billion cubic metres of surface water and about 40 billion cubic metres of ground water. If properly harnessed, these resources can satisfy all the agricultural and other water supply needs of the country.[1]

17. Currently only about 53% of the urban and 37% of the rural population have access to potable water supply. Systematic and coordinated approach to development of Nigeria's water resources to support agricultural production and environmental protection began only in the early 60's. The establishment of the river basin concept marked the adoption of an integrated and comprehensive approach to the development of water resources for irrigation agronomy, fishery and public water supply. There are 12 River Basin Development Authorities in the country.

18. The River Basin Development Authorities (particularly those which have dams) if properly managed could provide the country with its entire needs for grains such as wheat and rice and full-time activity for the rural population. The changes which have taken place in the quality of life of the people in the Kadawa areas of Hadejia Jama'are RBDA and the new Marte in the Chad Basin Development Authority provide excellent examples of what is achievable in a properly managed rural development programme.

EDUCATION

19. In recent years, there have been complaints of falling standards of education at all levels nation-wide. Education in the rural areas is limited to primary and secondary schools and without exception rural-based primary and secondary schools seem less endowed than their counterparts in the urban areas. Such schools suffer neglect from inadequate teaching facilities to good teachers, because no one wants to work in a rural environment where basic facilities such as potable water, electricity supply etc. are unavailable. There is need to develop a set of incentives to make teachers accept postings to rural-based schools. There is equally an urgent need to upgrade the quality of facilities in our rural schools as a way of enhancing the quality of education.

COMMUNICATIONS

20. In the rural areas, telecommunication facilities are non-existent. Most rural roads are either seasonal, in a state of disrepair or are non-existent. The print media are almost non-existent but radio communication is good such that even the nomadic Fulanis and the fishermen carry their portable radios with them. However, television reception, postal services and riverine communication are all in a very poor state because existing facilities are neglected, while new ones require huge investment over many years.

TABLE II

COMMUNICATION PROFILE

Country	Radios (per 1000 People) 1992	Television (per 10,000) 1992	Post Offices (Per 100,000) 1991	Main Telephone Line (Per 100 People) 1991
Ghana	269	16	6.5	0.3
India	80	37	17.6	0.7
Indonesia	147	60	5.4	0.7
Malaysia	430	150	12.4	9.9
Nigeria	173	33	4.0	0.2

* Source: UNDP Human Development Report 1996

21 The picture that emerges from Table II is one which calls for renewed efforts at improving services particularly in the rural areas where facilities are non-existent or are neglected. Communication is seen as crucial to open up the rural communities for development in order to facilitate easy communication between rural communities on the one hand, and the rural communities and urban centres on the other for sale of agricultural produce and easy movement of people and goods.

22. It is obvious from the content of Table II that Nigeria's communication profile requires a major face lift. As at 1991, there were 0.2 telephone lines per 100 people in Nigeria, whereas Malaysia had 9.9 lines for the same number of people. India had 17.6 post offices per 100,000 people in 1991 while in the same period Nigeria had 4.0. The total installed capacity for telephones as at 1996 was 1 million but less than 400,000 lines were operational. Less than 30% of the 800 odd local government headquarters have telephones.

TECHNOLOGY

23. The level of technology in rural communities in Nigeria is still primitive. Rural dwellers have only limited access to research findings because of their low level of education and awareness and limited access to capital.

HEALTH CARE

24. During the oil boom era, the number of physicians per capita increased more than fourfold; hospitals and medical facilities were built. By the late eighties and early nineties, the ratio of health personnel to total population dropped sharply as a result of the economic measures adopted by government. The impact on rural communities was devastating. Health- care facilities are grossly inadequate, doctors and nurses are poorly paid, ineffectively deployed and inadequately supported while drug shortages are endemic in the hospitals.

25. The expansion or perceived growth was the result of a sudden increase in oil revenue. The suspension of capital investment in the eighties and nineties resulted in abandoned infrastructures while recurrent expenditures are drastically reduced to levels that would not support such routine functions as the payment of salaries, supply of drugs and institutional materials, as well as the maintenance of facilities. The result has been a sharp decline in the quality of services and life, in both urban and rural areas.

TABLE III: RURAL/URBAN AREA GAPS

Country	Population with Access to Service (%) Rural 1985-95		Rural Health Population (as % of Total) 1993		Safe Water	Rural Sanitation
	Rural 1985-95	Urban 1990-95	Rural 1990-95	Urban 1990-95	Rural 1990-95	Urban 1990-95
Ghana 65	45	42	9	70	36	53
India 74	80	100	79	85	14	70
Indonesia 67	-	-	54	79	40	73
Malaysia 48	-	-	66	96	-	-
Nigeria 62	62	85	63	63	30	40

Source: UNDP Human Development Report 1991

26. Table III shows rural/urban area gaps in many aspects including healthcare. Only 62% of the rural population have access to healthcare. Government health programmes have not adequately met the needs of rural dwellers. Although the private sector is a major provider of health services, their services are beyond the reach of most rural dwellers because of high charges for drugs and services. However, voluntary agency health services (mostly religious-based) try to reach those hitherto not served by such services but have limited financial resources for effective coverage.

27. A more recent development in the healthcare system is the growing popularity of:

    (a) The ubiquitous chemist in the high streets
    (b) The traditional medicine men

These two categories of healthcare institutions claim considerable patronage from the general populace for a variety of reasons ranging from ignorance, superstition, inadequate facilities, relative cheapness and quite often the right of the patient to dictate his/her prescriptions. Most rural dwellers depend on these two categories of clinics, because the conventional ones are non-existent.

WHY WE ARE WHERE WE ARE

28. Given the various programmes at the Federal, State and indeed international levels targeted at poverty reduction and rural development in the country, it is very clear that it is not for want of programmes and policies that the underdevelopment of Nigeria's rural areas has persisted. The programmes have suffered from various implementation problems at one time or the other. These problems include ineffective coordination; non-streamlining of institutional framework; policy instability; frequent changes of personnel in the third tier of government and more importantly, lack of a consistent and well-defined national policy on rural development.

National Policy on Rural Development

29. Various attempts were made by the Federal Ministry of Agriculture in 1984 and later by the defunct DFFRI in 1991 as well as the National Planning Commission to formulate a national policy on rural development. Thus far, none of these attempts has actually succeeded. The absence of a national rural development policy has, no doubt, adversely affected the positive transformation of the rural communities.

30. Another worrisome issue is that programmes on rural development are brought in without adequately consulting the stakeholders - the rural people themselves. Its being assumed that the policy makers, knew and understood the needs of the rural dwellers or that the latter do not know how to solve their own problems. Rural development has not been part of the overall national development efforts but has been treated in isolation

31. The group observed that most of Nigeria's rural development programmes seem to have been governed by the philosophy of surplus extraction which regard the rural sector essentially as a source of surplus to feed the non-rural sector. For instance, colonial administration only developed infrastructure in selected rural areas in order to penetrate export crops producing areas.

32. Rural development programmes in the 70's and 80's concentrated only on agriculture and suffered from undue policy revisions and sometimes premature policy reversals.

33 Rural development tended to be treated in isolation because no explicit national rural development policy existed. This often resulted in a lack of proper coordination and duplication of programmes. The vacuum created due to the absence of a national policy framework inhibited rapid development of the rural areas.

WHERE WE WANT TO BE

34. The following fundamental assumptions were made by the group as a prerequisite for rapid rural development and transformation. The assumptions are:

- the economy will grow at a minimum of 6.7% of GDP.

- other Vision 2010 committees on education, health and agriculture will examine these issues in more detail as they affect the rural population.

35. The new structure of power sharing amongst the three tiers of government under the new constitution will result in a truly federal structure in which people-oriented activities such as healthcare, agriculture and education will be vested in Local and State governments:

- rural development must be approached as an integrated process, rather than as an isolated programme on its own; and should be approached bottom-up rather than top-down as at present.

- there must be political will in all tiers of government to achieve these goals.

EDUCATION

36. Education is necessary as a tool for enhancing income-generating employment, empowering the individual to make better choices and alleviating poverty. The overall goal of education policy is to ensure that all Nigerians, men and women alike, are at least functionally literate and productive. The education system has the major responsibility for providing the means for our rural populace to acquire the necessary skills to cope successfully with an increasingly competitive global economy. The observed inadequacies in our educational system must be addressed in the short term and in the medium to long-term education should be free up to secondary school.

LAND

37. To increase agricultural productivity, a concerted national programme for land reform must be immediately put in place particularly for agriculture and industrialization in rural areas. It is also necessary and urgent to review the procedure for land acquisition, providing explicit and simple procedures for land acquisition with marketable title even in rural areas.

38. Agricultural programmes such as the National Agricultural Land Development Authority (NALDA), Agricultural Development Programs (ADP's), Strategic Grain Reserve Programme; Directorate of Foods, Roads and Rural Infrastructure (now merged with Ministry of Water Resources), Family Economic Advancement Programme which are all aimed at promoting the utilization of land resources, should be well coordinated and managed to avoid duplication of efforts and inefficient use of limited resources. Land clearing by cooperatives rather than by individuals should be encouraged and supported. The proposed approach to rapid rural development would also address the problem of low level of population with access to safe drinking water put at below 53 % for urban and 37% for rural population. In addition, it is expected that it will also resolve the frightening prediction by the Food and Agriculture Organisation (FAO) report which classified Nigeria as one of the 50 countries that will be unable to meet the food needs of its population under their present low level

technology (rain- fed) agricultural production method.

COMMUNICATIONS

39. In order to open up rural communities by facilitating easy communication between rural communities and urban centres for sale of agricultural produce and easy movement of rural dwellers, the following actions must be taken:

* The group would like to see the restoration of existing communication facilities with the establishment of sustainable maintenance programmes in all rural communities in Nigeria with a view to improving services to the rural dwellers.

* In addition, the Federal Government in its policy on rural development should make provision for all villages to have access to markets.

* Rural roads should be improved, maintained and increased.

* Rural telecommunications and postal services should be improved and expanded.

TECHNOLOGY

40. The imperative to the use of science and technology as a means of solving rural development problems demands that policies must select those areas where science can make its greatest contribution and choose the most suitable technology and concentrate resources in a coherent science policy that is reflected in education, training as well as research. The group views the current low levels of agricultural yields, low scale of production and primitive technology in rural areas as an opportunity for developing locally appropriate technology to meet the challenges of economic growth and rural development. The role of science, engineering and technology is crucial in this respect.

41. Our picture of appropriate rural technology includes the following requirements:

(a) Scientific research that meets the technological needs of the rural dwellers in all their different economic activities, particularly to facilitate the establishment of at least 20 SME’s in every local government council area between 1997 and the year 2000.

(b) Agricultural extension services to be expanded and improved so that production and processing of agricultural products can be transformed through the use of locally-made appropriate technology.

(c) Farmers should be encouraged to use their own initiative through their own local co-operative societies.

(d) Researchers should be encouraged to exploit commercially their technical patents in conjunction with their universities/institutes etc.

42. To improve healthcare services and make them accessible to all rural communities, the objectives of the National Health Policy must be translated into comprehensive

implementable strategies that will address the following problem areas of health care:

- inadequate access to services;
- poor quality of healthcare;
- lack of drugs;
- poor budgetary allocation; and
- non-functional referral system.

HOW TO GET THERE

National Policy Framework

43. As a matter of urgency, government should immediately adopt a sustainable national policy framework on rapid rural development for Nigeria. The new approach must focus attention on rural peoples' interests and needs and involve the private sector and NGO's in the development of rural Nigeria.

44. An integrated rural development approach is seen by the group as the best way forward. The integrated approach must subsist within the framework of the infrastructure structure for national development, consistent with the constitutional responsibilities of Federal, State and Local governments. There must be clear definition of powers within which each structure will operate, to draw up and carry out development plans.

45. There must also be a clear definition of the role of governmental and nongovernmental institutions operating in rural areas. The primary infrastructure must be provided by the Federal and State governments. These are telecommunications, power generations, river basin development, main artery and feeder roads, etc.

46. In evolving strategies for rural development, there is need for input by all shades of political opinion and from all sections of the populace to evolve consensus which will ensure consistency and continuity in the short and long term.

47. An integrated rural development approach is both a strategy and a process whereby significant improvements are brought about and sustained in the economic, socio-cultural, and political life of the rural populace for the benefit of the rural dwellers and indeed the nation. It is a composite and comprehensive programme for rural development in which all relevant sub-sectors e.g. food and agriculture, housing, education, industry, health, transport and employment are conceived as interlinking elements in a system having horizontal as well as vertical linkages in operational and spatial terms.

48. It is also inter-sectoral and multi-sectoral (involving more than the promotion of agriculture and raising productivity levels in the rural areas as traditionally erroneously assumed) as well as symbiotic and integrated with national development. It is also integrative in the sense that it targets the vulnerable rural poor who it deliberately integrates in the national stream of development, and thereby promotes national cohesion and loyalty.

Guiding Principles

National Interest

49. An integrated rural development approach should be guided by our national interest, as provided for under the "Directive Principles of State Policy" of the Constitution of the Federal Republic of Nigeria. The national interest can be seen in terms of three national needs:

- the need for continued co-existence as one indivisible, indissoluble, democratic and sovereign nation.

- the need for sustainable growth and development, economic prosperity, political stability, social and family harmony, cultural, educational, scientific and technological advancement.

- the need to promote the existence of a harmonious and favourable world order, which will facilitate Nigeria's continued co-existence and collective survival as a nation-state, as well as its all-round growth and development in the economic, political, social and cultural spheres.

Empowerment and integration of the rural dwellers

50. By empowering the rural people with appropriate knowledge and skills and taking care of their needs and interests, the policy will be promoting economic prosperity, stability and harmony. The policy will facilitate empowerment of rural people by ensuring that they have easy access to education, land with marketable titles, basic infrastructure such as telephones, post offices, good roads, adequate healthcare facilities, electricity, water, housing, appropriate technology, etc.

Objectives of IRD

51. The main objective of the proposed policy should be the alleviation of rural poverty and thereby, the promotion of national prosperity. Specifically, it should aim, inter alia, at:

(a) enhancing the rural people's productive capacities and the economic opportunities open to them.

(b) expanding rural, physical and socio-economic infrastructures and facilities and improving the rural people's access to them;

(c) improving quality of life of the rural masses (e.g. families, groups, individuals, etc.) through improved nutrition opportunities for the rural people;

(d) strengthening rural development organizational and institutional capacities for greater development;

(e) promoting development consciousness and sense of national loyalty and of beneficial participation among rural dwellers;

(f) fostering the integration of rural development with national development;

(g) stemming excessive rural-urban drift;

(h) promoting an enabling business climate for the sustainability of rural development, and

(i) protecting the physical environment of the rural areas.

INSTITUTIONAL FRAMEWORK

52 Many different public and private sector organisations are involved in rural development activities operating at various functional and territorial levels. At each of these levels, the spheres of interest overlap. Therefore, there is the need to coordinate these activities and minimize areas of uncertainty, duplication and conflict. There is the need also to allocate responsibilities to each of the three tiers of government, the CDA's the NGO's and the private sector. Each of these should have the institutions best suited to carry out its responsibilities with systematic support from the other cooperating organisations and institutions. In doing so, it should be remembered that this allocation of responsibilities is not one that is mutually exclusive among the different organisations, but rather the one that provides opportunities for collaborative action.

53. Consequently, the group wishes to propose the following integrated rural development agencies for the policy, while the federal government will be expected to play regulatory and financial roles.

(a) Local Government Integrated Rural Development Committee (LGIRDC)

Its main responsibility should be to coordinate and implement rural development activities in the respective LGA's.

(b) **Ward Community Integrated Rural Development Committee**

Its main concern should be to promote self-development programmes and activities amongst the constituent communities of the ward. Beside these agencies, other rural development organisations like CDA's, cooperative societies, NGO's, private sector organisations and eminent individuals like the traditional rulers should have special roles to play.

FUNDING

54. The proposed policy on integrated rural development should address the issue of funding by ensuring that direct budgetary allocations are made available to the local government council areas and wards by both the federal government and NGO's for specific rural development programmes. In dealing directly with the local government and ward authorities, the policy will greatly eliminate bureaucratic bottle necks which

most often hinder rapid rural development. For instance, during the Earth Summit in Brazil, 3^{rd} to 4^{th} June 1993, it was estimated that the annual costs (1993-2000) of implementing the activities in Agenda 21 (management of the environment) in developing countries are over $600 billion, including $125 billion dollars in international grants or confessional financing. Financial commitments were made by member States at the 47^{th} session of the UN General Assembly.

55. The federal government's role in the proposed approach to rural development will require that opportunities at the international level are effectively harnessed and coordinated. The need for Nigeria to begin to draw from the $600 billion fund for use on integrated riverine fishing projects, management of existing further delay. The enabling decree to promote an enabling legal environment for the sustainability of the policy should be promulgated immediately. In cognisant of the laudable objectives of the Family Economic Advancement Programme (FEAP), the group recommends that it should be realigned with the proposed national policy framework and enabling legislature.

Long Term

63. Putting the IRD policy into practice will, the group believes, bring long-term sustainability particularly the education benefits. To achieve these objectives, necessary and urgent steps have to be taken in order to resolve the problems that the group identified as plaguing the education system. These steps include:

(a) Provide free compulsory primary education for girls as well as boys by the year 2005 and educate each individual to his/her maximum potential.

(b) Eradicate adult illiteracy by the year 2005 through accelerated and sustained mass literacy programmes.

(c) Decentralize the educational system and reduce federal government's role in delivering basic education.

(d) Teachers' salaries must be adequate and must be paid on time.

(e) Qualified teachers must attend refresher courses at specified periods.

(f) Rehabilitate dilapidated school facilities.

(g) School supplies, text books and other instructional materials must be made available.

(h) Achieve a high rate of both male and female literacy and numeracy within the first six years of schooling.

(i) Adjust school terms and hours in rural farming/fishing communities in order to encourage attendance of children from farming and fishing families and accommodate other local occupations.

(j) Non-formal education programmes and special programmes for nomadic migrant and fishing communities to be expanded to help acquire skills and gain literacy.

(k) Increase real per capita expenditures on education particularly at the primary levels.

(l) Create suitable environment for the private sector and NGO's to increase their involvement and contribute to the educational system.

(m) Every child of school age must have access to free compulsory primary school education in his/her locality.

(n) Every adult must have access to adult education in his/her locality.

(o) Schools must be equipped to a nationally defined standard.

(p) Rural primary schools must be linked to post primary institutions in the local catchment areas.

APPENDIX A

TERMS OF REFERENCE

Section (c) and sub-section (1) - (VIII) of the group's terms of reference require that it should "suggest comprehensive and practical solutions for the transformation and rapid development of our GDP, education, economy, employment market, healthcare, agricultural sector, science and technology, etc".

The group was assigned the task of examining rural development in the following terms: "where we are"," why we are where we are", "where we want to be", "how to get to where we want to be" and to make recommendations with an action plan for the short and long term.

The group consists of 19 members of the Committee. The list is attached as Appendix B.

MODUS OPERANDI

This group adopted the following approach to its objective.

Formal and informal discussions were held at the monthly Vision 2010 workshops.

A joint workshop was held in collaboration with the Poverty Alleviation and Elimination Group. The list of participants at the workshop is attached as Appendix C. Individual members appeared on national radio phone-in and television programmes. Data was collected from the following institutions:

- The World Bank
- UNDP
- Nigerian Institute of International Affairs
- National Planning Commission
- University of Benin, Faculty of Agriculture
- UNICEF
- NACB Ltd
- National Directorate of Employment
- Federal Ministry of Agriculture and Natural Resources
- Federal Ministry of Finance
- Federal Ministry of Water Resources and Rural Development
- Federal Ministry of Health
- Federal Ministry of Science and Technology
- Federal Ministry of Communication

APPENDIX B

Vision 2010 Committee
List of members of Rural Development Group

The Emir of Gwandu
Alh. H.A. Getso
Maj. Gen. IBM Haruna
Mrs. K. H. Hoomkwap
Dr. M.T.A. Liman
Prof. O. Ransome-Kuti
Chief H. Dappa-Biriye
Alh. Sheikh I. Saleh
Prof. J. Onah
Mrs. Esther A. Sambo
Dr. D.S. Tafida
Alh. Umaru Shinkafi
Prof. A. Ogunsola
Dr. (Mrs.) E.O. Sote
Dr. H.R. Zayyad - Rapporteur
Mr. C.A. Osah
Alh. Isiaka Adeleke
Mr. David Richards - Facilitator
Mr. Anthony Edem - Scribe/Co-ordinator

APPENDIX C

LIST OF JOINT WORKSHOP PARTICIPANTS
RURAL DEVELOPMENT AND POVERTY ALLEVIATION

1.	Alh. Shehu D. Abdulkadir	H.J.R.B.D.A., Kano
2.	Prof. N.M. Gadzama	University of Maiduguri
3.	Dr. Bata Musa	FMWASD, Abuja
4.	Elemi Situ	FMWASD, Abuja
5.	Dr. G.A. Gundu	FMWRD, Abuja
6.	Akin Olaniyan	Punch
7.	B. Bamidele	The Monitor
8.	M. Aguda	Punch
9	C .O. Adekemi	National Directorate of Employment
10.	E. Onejena	Vision 2010 Secretariat
11.	Mrs. M.L Yunusa	Urban Development Bank
12.	Dr. S.I. Mohammad	FMWASD, Abuja
13.	Simeon Ogoegbulem	Champion Newspapers
14.	Engr. D.E. Oyakhilome	FMANR, Abuja
15.	A. Sarbu	UNIDO
16.	G.O. Iyegun	FMANR, Abuja
17.	J. Ghalib	SPDC, Lagos
18.	Mrs. Anima Sambo	FMI, Abuja
19.	Hamra Imam	People’s Bank
20	A.M. Anosike	NACB LTD., Abuja
21.	Mazi Sylvester Ejiofor	Yaba, Lagos
22.	Shehu M. Kaikai	Katsina
23.	Prof. P.T. Ahire	Vision 2010 Secretariat
24.	Hajia Gambo Sawaba	Benin Street, Zaria
25.	Foluso Okunmadewa	World Bank, Abuja
26.	Peter Ijeh	World Bank, Abuja
27.	Halima Gyet	Capital Ladies Coop. Society
28.	S.O. Ogidan	People’s Bank
29.	Kayode Asoga	Vision 2010 Secretariat
30.	Akin Ajibola	Sketch Press Ltd
31.	A. Adeyemo	Budget Office
32.	Prof. Tam David-West	University of Ibadan
33.	E.O. Okafepo	UNDP
34.	Lt. Gen. Jalo	Ikoyi, Lagos
35.	David Jack, OON	E.E.F., Oregun, Lagos
36.	Mrs. Abike Dabiri	NTA
37.	O.A. Edache	FMANR
38.	Amb. Peter Afobabi	Peter Afolabi & Associates
39.	Alh. Bamanga Tukur	13 Eletu Ogabi Street, Victoria Island
40.	Dr. Dibawar Ali Khan	UNCEF, Lagos
41.	Mrs. Moji Makanjuola	NTA News, Abuja
42.	Alh. Ibrahim M. Ida	Secretary, Vision 2010
43.	Mr. Mela Dogo	Vision 2010 Secretariat

44.	Mr. Tony Edem	Vision 2010 Secretariat
45.	Mr. Dick Kramer	Vision 2010 Secretariat
46.	Dr. Ladi Hamalai	Vision 2010 Secretariat
47.	Mr. Moses Akpobasah	Vision 2010 Secretariat

CHAPTER SIXTEEN

INFRASTRUCTURE

INTRODUCTION

GENERAL DEFINITION

1. Infrastructure may, for the purpose of this report, be defined as Economic and social facilities provided to support, aid and ease economic production and social life. These are not limited to but include:

(a) Power
(b) Communication
(c) Telecommunications
(d) Postal services
(e) Water Resources
(f) Potable Water
(g) Irrigation Water
(h) Transport
(i) Railway
(j) Inland Waterways
(k) Sea Ports
(1) Airports
(m) Roads
(n) Parks/Recreation Facilities
(o) Information Management/National Databank
(p) Surveying/Mapping

2. Infrastructural facilities are central to the activities of households and economic development as they deliver tremendous benefits with capability for enhancement of quality of life, productivity and growth. Infrastructural development is also known to enhance poverty alleviation, environmental sustainability and to impact on:

(a) diversification of production
(b) expansion of trade
(c) population growth, and
(d) environmental conditions

3. Infrastructure represents a large share of any economy, contributing 7% - 11 % of GDP when measured in terms of value added, and typically accounts for:

(a) about 20% of total Investment in Low/Middle Income countries and
(b) 40 - 60% of Public Sector spending.

Linkage to Economic Growth

4. Facilities such as telecommunications, electricity, transportation and water are required in the production process of practically every economic sector as well as for every social community.

5. Public Sector Investments in Transport and Communications show that these infrastructure variables are positively and significantly correlated with growth in developing countries. Good infrastructural facilities will ultimately raise productivity and lower production costs, but must expand fast enough to accommodate growth.

6. The quality and effectiveness of infrastructure in place will ultimately influence growth in agriculture, business and the general upliftment of the populace.

Public Sector and Infrastructure

7. The dominance of the Public Sector in Infrastructure is not peculiar to Nigeria. The importance of infrastructure in national economy merits the attention given to it by government, particularly as the level of investment required is high and returns may be slow. The overwhelming trend until the early 1980's was government participation through vertically monolithic entities built, owned and operated by government.

8. Previous governments, particularly 1960 - 1975, made impressive strides in infrastructural expansion, but recent experiences indicate serious and widespread misallocation of resources as well as failure and inability to respond to demand. Most significantly, even existing elements of infrastructure have been run down due to a lack of maintenance, inadequate funding and management, low priority rating and unmotivated manpower.

WHERE WE ARE - CURRENT STATUS

Reliability, Distribution and Serviceability

9. The status of existing infrastructural facilities in Nigeria is one of dilapidation, unreliable and uneven in distribution, with key facilities in a state of general disrepair.

10. Although the facilities are in a deplorable state, cost of service provided is often high, giving rise to low accessibility by a majority of the population. The facilities, such as power, telecommunications, roads, water supply and rail are public sector driven with poor or total disregard for maintenance or growth.

Quality

11. The facilities are inadequate in quantity, given the demand on them. The resultant effect is that they are over-used, abused and poorly maintained to such a state that they are characterised by poor quality of service with per capita consumption being one of the lowest in Africa in each subsection.

12. The facilities like power, potable water supply system; transportation, like rail and inland water ways, where available, are usually unreliable and incapable of propelling the country to the envisaged level of economic growth level.

13. Some other infrastructural systems remain unevenly distributed across the country. These include the railways which lack coverage between the east and west, while only about 35 % of Nigerians have access to public potable water and electric power supply.

Why We Are Here

Poor Investment

14. There is no doubt that the infrastructure delivers major benefits in economic growth and general improvement in living standards. It therefore, goes without saying that the management of infrastructure needs to be efficient. Available information indicates that whilst some sectors have benefited immensely from large investments, others have faced neglect and have not received a fair share of investment.

15. Where investments were made, the assets have been incapable of meeting the expectation of government or of the populace in terms of quality and quantity. The economy is worst for it; faces waste in forgone economic growth and lost opportunities for poverty alleviation.

Management/Planning

16. In Nigeria, management of most infrastructural facilities is under the full control of government and decisions stem mostly from political reasons rather than professional. This happens every time government builds, manages and runs these economic infrastructural facilities.

17. Management of infrastructural facilities must be synonymous with managing a business. They must be conceived and managed to respond to and face the realities of the business. Management of the facilities must be free from undue interference and should be run professionally: it is possible to separate ownership from management.

18. The day-to-day management here is dictated by government often with little regard for financial discipline, customer satisfaction, competition or efficiency. This is not surprising, however, given that they are largely monopolies with no consumer option.

Maintenance of Facilities

19. Maintenance of facilities is grossly inadequate, as roads deteriorate (in some cases roads are constructed without consideration for drainage facilities) while drainage systems get blocked, resulting in flooding. Yet, the maintenance of drains calls for quite low skills and manpower costs.

20. Furthermore, water supply systems breakdown, sometimes on account of the failure of power systems, whether public or institutional. Neglect of maintenance compounds problems as it results unnecessarily in cost (and sometimes tariff) escalation, misery and impairment of development.

Uneconomic Tariff and High Cost of Operation

21. The tariff structure is highly uneconomic, over-regulated and inconsistent with market realities, due to subsidy. Politically motivated tariff adjustments, when they are made, lag behind cost increases, often fail to meet production requirements and yet create public resistance. Issues such as these reflect a lack of effective policy in the use of public infrastructural entities to achieve diverse uncompensated goals, e.g. keeping tariff low as a check on inflation where it ought to be considering cost reduction.

22. In general, operational costs are high and indeed sometimes, rank with the highest in the world, as in the case of NEPA. Yet, the same enterprise is demanding an upward tariff adjustment. The lack of autonomy, accountability, over-manning, unfocused goals and a poor maintenance culture are consistent with high cost of operation.

Where We Want to Be - Vision Statement

23. Our Vision is to be a nation with world standard infrastructural facilities, providing an international hub for regional networks and practically every Nigerian with access to basic needs like telephone, power, potable water, transportation and information at affordable prices.

24. Infrastructural facilities form the bedrock for economic, social, and administrative activities; they enhance economic productivity, social well-being and harmony. Indeed, an infrastructural growth rate of 20% will be required to support a vision GDP growth rate of 1.0% per annum that has been suggested.

25. Nigeria is well located to position itself as a hub for transhipment, trans-African railway, trans African highway, trans-national and transcontinental air traffic and an international information technology centre. This positioning will only become feasible if the level of infrastructural facilities is sufficient and meets world standards in quality and pricing.

26. For example, Nigerian seaport should be developed to become the major transhipment ports for international trade. Our facilities should be developed to meet various measurement standards of security, turnaround time, (24 hours) round the clock operations, shallow and deep sea port handling facilities.

Facilities

27. Given the present state of facilities, all infrastructure must be rehabilitated, made serviceable so that the investments in them may be justified.

28. Other investments in infrastructure must be towards modernised facilities of international and economic standards, meeting the expectations of local or international investors, as well as enhancing the living standards of the general populace, in respect of their location in urban or rural areas.

The poorest households should have ready access to potable water and efficient transportation and communication systems, among others.

How To Get There

Introduction of Commercial Principles/Competition

29. In the provision of infrastructure the orientation will be commercial and consistent with sound principles of accountability; financial risk must be predicated on revenue generation and collection and focus must be on objectivity and service delivery.

30. It is common knowledge nowadays that services such as power, water, ports, railways, airports and telecommunications are commercial, as cost recovery is easy through user charges.

31. One way to realise this is through competitiveness that will promote efficiency and also provide users with options.

32. For competition to flourish, liberalisation should be introduced, but under regulatory framework to protect consumers and investors, while consideration should be given to the privatisation of existing enterprises. Privatisation is, indeed, central to efficiency in a competitive climate and it is highly recommended where applicable.

Co-ordination of Facilities

33. One critical factor lacking in the provision of infrastructural facilities is effective planning and coordination of tasks.

34. The transport sector, for example, consists of Roads, Rail, Ports, Aviation, Inland waterways etc., but the activities are supervised under the under listed ministries:

(a) Roads	-	Federal Ministry of Works
(b) Inland waterways	-	Federal Ministry of Transport
(c) Ports	-	“ “
(d) Rail	-	“ “
(e) Aviation	-	Federal Ministry of Civil Aviation

35. The arrangement gives room for ineffective planning, as various ministries independently determine facilities to be provided in an uncoordinated and uncomplimentary approach. For example, roads should terminate or be connectable to rail, airports and inland or sea ports.

36. The rail network should connect the major seaports for movement of bulky goods at affordable costs to the hinterland and across regions, as this will facilitate even development and industrialisation through efficient transportation.

37. On the basis of this, it is recommended that all responsibilities for the planning and development of all highways, inland waterways, sea ports, rail and airports should come under a ‘new Transport’ Ministry to ensure effective coordination and complimentarity of facilities.

POWER

Where We Are

38. Access to Electricity

39. Available information indicates that only 34% of Nigeria’s population has access to public power supply while consumed public energy per capita is only 161 Units (KWH), barely enough to light ten 40-watt bulbs for one hour each day of the year, or ½ unit per day.

40. While total energy consumed is l6Bn units, proven national demand is 2,452 mega watts (MW) per annum out of an installed capacity of 6,000 MW by NEPA.

41. Although this may indicate an apparent over-capacity in power supply, the reality is that only a fraction of that capacity is available at any given time and several corporations, factories, industries and homes depend on their own generators 24 hours. The public (NEPA) power reliability is known to be less than 50% by time nationwide, exclusive of Abuja and some small load areas.

42. The power supply system is currently incapable of meeting Nigeria’s development needs and is grossly inadequate to meet the GDP growth expectations, and therefore, urgent steps must be taken to review and realign our power supply and management system to meet current realities and future demand.

43. So far, very little research or development is done currently by NEPA on alternative power systems, such as wind or solar.

Cost of Production/price of Service

44. NEPA currently operates 78 generation units with about 40 functioning at any time. The corporation’s tariff is typically controlled and set by government with current price set at 2.5 US cents/KWH and operating cost per unit of production is given (provisionally) as 11 US cents/KWH.

45. A review of world electricity prices (1996) for countries including USA, Japan, France, Italy, South Africa, UK and Israel indicates world selling price of about 6 US cents per KWH whilst NEPA’s cost of production is 11 cents per KWH.

Why we are where we are

46. NEPA’s problems arise from several factors, including:

(a) monopolistic status
(b) poor accountability
(c) poor maintenance of facilities
(d) procurement problems, including delays
(e) bureaucracy
(f) non-commercial orientation
(g) government/political interference.

(i) The current status has arisen due to low investment in the power sector relative to the requirements of the economy.

(ii) Suppressed demand is of three types:

- Those who are not covered by the public supply (some 66% of the population)
- Those who supplement the public supply with private power, and
- Those who are covered but rather use private power for reasons of quality and security.

(iii) Inadequate maintenance of facilities at the right time and as demanded professionally is a common phenomenon. Neglect of maintenance can compound problems to the point that the entire facility may have to be replaced. Some equipment currently being used by NEPA are obsolete and therefore inefficient and incapable of meeting requirements.

(iv) Transmission and distribution lines are radial (with no redundancy), overstretched in distance covered and overloaded.

(v) The billing system is inefficient such that many consumers do not receive their bills in good time, if they eventually get to their destinations. Closely associated with this is the collection system which is very unsatisfactory with indebtedness to NEPA currently estimated at 12.5bn.

(vi) The management system is unable to respond efficiently, in service delivery and commercial focus is almost non existent on account of government’s hold, processes and interference. Besides, the system is unduly monopolistic, monolithic and unwieldy.

Where We Want To Be

47. Based on the envisaged GDP growth rate of 10% p.a. and the anticipated rate of economic development, the country will consume some 200Bn units in the year 2010, from a current base of l6Bn units, growing at approximately 20% p.a.

48. However, the current access to power supply, covers only about 34% of Nigerians, but if as envisioned by 2010, the access would have grown to 75% of the population, then consumed energy per capita would be about 3,500 Units. The total energy should be about 51 6Bn, units or 32 times the current level.

49. At that time installed capacity should rise to 80,000 MW, with a reliability level of 99% or a maximum of 1 hour outage a week.

50. With these in place there should be fairly adequate support for planned industrialization and technology changes.

How to Get There

51. In order to achieve these objectives, it is imperative to carry out the following tasks:

TASK		COST US $
(a) rehabilitate and repair broken down units.	=	0.65 Bn
(b) convert existing radial network to rings etc., for reliability and redundancy on transmission.		
(c) upgrade transmission and distribution lines and transformers.	=	10.0 Bn
(d) install new plant rated 74,000 MW	=	52.0 Bn
adopt Pre-payment metering (up to 50% consumers)		
Approximate total cost of strategy	=	US$ 63Bn

52. Bearing in mind the enormous cost implication for rehabilitating the power infrastructure, it is unlikely that government alone will be capable of providing all the financial requirements at the appropriate time.

53. It is necessary that a fresh look be taken on the role of government, other public agencies and the private sector in providing a more efficient and more responsive infrastructure system. The important challenge we face as a nation is to determine those areas in which competitive market conditions can work and those that require public action. It is believed that there are a menu of options in which governments, public sector agencies and the private sector (for profit motive) can assume responsibility for different aspects of power generation, transmission and distribution, since financiers will naturally require to manage their investments themselves and be more inclined to run them efficiently.

54. It is recommended that government should, as a matter of necessity and urgency, liberalise power generation, transmission and distribution systems nationwide under a regulated regime and allow interested private sector investors, in suitable areas.

55. First, it is recommended that NEPA's efficiency level be improved upon through the establishment of independence in operation on a commercial basis. A pricing strategy designed by government should be established to create a desirable form of financial independence for the organisation while ensuring protection of consumer interests. It is believed that this can be marshalled through installation of good and sound management practices, accountability and corporate efficiency that would support an effective billing and credit control system.

56. It is note-worthy that commercial principles are often difficult to instil on a permanent basis without effective competition. It is a known fact that the existence of potential rival suppliers limits the risk of monopoly abuse.

57. The need therefore arises for government to allow private sector participation through the unbundling of segments that are potentially competitive, such as generation and distribution in particular. This will make cross-subsidies between different lines of business more transparent, identify more precisely, the level required for service delivery to the poor, and improve management and accountability.

58. In view of this, enforcement contracts should be put in place to balance the interests of various parties and provide the stability which is required for long term investment. We should also have transparent, non-discriminating and comprehensive rules of the game.

59. Ultimately NEPA should be privatised to improve efficiency and to ensure our national investment is capable of competing effectively with new entrants.

TELECOMMUNICATION

Where We Are

60. NITEL, the only telecommunications service provider, is a state monopoly which provides services through about 195 local exchanges - 55 digital, 140 analogue, with the following capacity:

(a) 3 international switching centres with 18,000 trunk capacity
(b) 624,000 local lines capacity
(c) 400,000 local lines connected

61. The above statistics relative to the population of Nigeria indicate that only 4 lines are available to every 1,000 Nigerians on average. Further statistical details show the best location as Abuja, with 20 connected telephones out of every 1,000 residents, while in Jigawa, only 6 persons have access to telephone out of every 10,000 residents.

62. The International Telecommunications Union has recommended a minimum of 1 line per 100 persons in a third world country if the economy is to grow at 5% GDP level. NITEL has commenced extensive modernisation, through the installation of digital systems (now 40% of all lines and 60% of transmission) including fibre optic cables.

63. There are 10,000 cellular subscribers nationwide while 19 satellite (VSAT) terminals have been installed for oil companies using 62 circuits.

Liberalization is in place as government has begun to grant licenses to private service providers.

64. Regulatory framework has been set up under the Nigerian Communication Commission. The body, however, requires strengthening and independence in order to provide the required confidence for investors.

Service Delivery Accessibility

65. It takes an average of 6 months and often much longer for an applicant for a telephone to be connected. Of over 700 local government capitals, only about 100 are connected to the telephone network.

66. Average accessibility to the telephone is estimated at 25Km (to the nearest telephone) but in some locations in the country, people have to travel as much as 200-250 km to have access to a telephone.

67. According to NITEL, 50% of faults are cleared within 48 hours and nearly 75% are cleared within 30 days.

68. All the above indices indicate an infrastructural facility grossly inadequate for economic prosperity and social upliftment.

Why We Are Where we are

69. The telecommunications sector has achieved a relative growth rate of 8-9%, but still below 12% as recommended by the United Nations. This has been due largely to inadequate funding and a monopoly structure that also allows excessive government interference. Furthermore, there has been vandalism on external lines and arson in a number of exchanges. The issues of equipment maintenance and public service management pattern all add up to impede the desired growth of the network and the quality of service delivered. (See section 4 of the public electricity [power] supply)

Where We Want To Be

70. Relationship between Teledensity and Economic State

(a) A number of empirical relationships exist between telecommunications access and economic well-being. For instance, ITU recommends a minimum of 1 connected line per 100 persons in order for GDP to grow at 5% minimum. ITU also recommends about 12% p.a. growth in telecommunications infrastructure in developing countries. Economists prescribe an infrastructure growth rate that is twice the growth rate of the desired GDP p.a. A GDP scatter (graph) shows that Nigeria's teledensity should lie between 2 an 4 per 100 if her GDP per capita is to reach about US$ 700 - 1000, in the year 2010.

(b) If Nigeria's GDP per capita is to grow at, say, 10% p.a, then a minimum of 20% p.a. telecommunications growth in capacity must be adopted, giving a total installed capacity of 7.7 million lines by that year (2010).

(c) However, a population of about 140M is envisaged by the year 2010 and a teledensity of 2.5/100 would require 3.4M connected lines. Nigeria should, therefore, strive to have, at least, an installed capacity of 4 to 4.5 million lines by the year 2010.

(d) With regard to the disadvantaged members of the society, a telephone should be accessible within every 5 km at the worst and some 100,000 public pay phone stations should be in place.

(e) About 1 million mobile cellular subscribers are targeted nationwide.

(f) Other expectations required to meet the challenges of the global information order and which should be incorporated into the national telecommunications strategy are:

(i) An Integrated Services Digital Network (ISDN)
(ii) Full Internet connectivity and access at competitive prices, with all Nigerian universities fully connected by the year 2000.
(iii) 95% of telecommunications faults to be rectified within 24 hours.

(g) In line with the stated vision, by the year 2010, Nigeria should have taken advantage of its geographical location and telecommunications development to become a major regional telecommunications hub for Africa with a versatile network capable of the requirements of the 21st century.

How To Get There (Strategy)

71. A number of steps need to be taken in order to begin to achieve the vision objectives, namely:

(a) Adoption of technology that is efficient and effective in service delivery and is internationally compatible.

(b) Creation of manufacturing facilities/capacity in Nigeria for products of international standard and at competitive prices.

(c) Training of Nigerians for technological transfer.

(d) Provision of services at competitive prices.

(e) Freeing the liberalisation train.

(f) Attractive environment for private investment.

(g) Business orientation for NITEL in a competitive field.

(h) Total investment of about US$ 6 Bn cumulatively over the next 13 years (to the year 2010).

(i) The regulator should encourage the adoption of suitable means, such as wireless technology in achieving the fast growth of telecommunications services in Nigeria. The technology should be compatible with international standards where international connectivity is essential.

(ii) The regulatory body should be strengthened and unfettered to protect investor and consumer interests. The body should also be free of executive interference and pressure from other interest groups.

(iii) Everything reasonable should be done to encourage and assist local and foreign investments into the telecommunications service industry, as the US$ 6 Bn estimated level of investment would be beyond NITEL or government alone.

(iv) A private-sector based second national carrier should be licensed before the year 2000, and possibly more national or regional carriers by 2010.

(v) As soon as a second carrier is in place with competition, NITEL should be privatised and its social and universal service obligations discharged/supervised by the regulator.

(vi) One or more major manufacturing facilities need to be set up as business ventures, preferably as joint-ventures with NITEL or joint-stock companies.

POSTAL SERVICES

72. Where We Are Now

Since its establishment in 1887 in Akassa, by the British Post Office, Postal services have witnessed some transformation from the preserve of the royal household at inception to government department and parastatal. Nigeria Postal Services is now being restructured into a commercial enterprise.

Physical Infrastructure/Postal Establishment

Nigeria Postal Services (NIPOST) has faced a stunted growth over the years. There are only 3,637 postal establishments nationwide as against a requirement of 16,600 going by the standard proposed by the Universal Postal Union of 1 Postal establishment to 6,000 persons.

Vehicles/Sorting Facilities

73. The number of infrastructural facilities, like motor vehicles, have declined from 1,200 (1986) to less than 350 (1997) due to poor maintenance, funding and revenue generation capability of NIPOST over the years. This has resulted in delays in mail delivery, insecurity of postal documents and adversely affected revenue generation capability. Mail sorting facilities purchased in 1978 have all broken down without a single one available to enhance productivity and service delivery, by 1997.

Volume of Mails

74. Available statistics indicate growth in mail volume from 399 million in 1991 to 578 million in 1995, without a corresponding growth in the number of support facilities like vehicles and mail sorting equipment.

Quality of Service

75. Until recently mail delivery sometimes took up to 9 months to some destinations. At present about 60% of mails reach their destinations within 3 days, a substantial improvement from more than a month prior to the introduction of air delivery system. Most corporate and business mails are now carried by private carrier operators, who provide much higher-quality service, even though at relatively very high price.

Scope of Services Offered/Competition

76. NIPOST is fully government-owned with scope of services limited to mail processing and delivery, while 70% of its service is regarded as social in a nature. There are no value added services like the Post Bank, E-mail or Transport services.

77. Commercial and cost recovery practices have not evolved in NIPOST. There is a lot of pilferage and dumping by dissatisfied staff, a practice which further erodes confidence in the organisation and weakens their capability to provide efficient and effective services.

Why We Are Where We Are

78. Some of the reasons for the current status of NIPOST services are:

(a) Poor maintenance of facilities e.g. sorters.

(b) Non-introduction of commercial practices that also involve cost recovery and revenue generation.

(c) Poor public infrastructural facilities like roads, rails which adversely affect their service delivery system.

(d) Poor pay structure in line with the civil service structure.

(e) No value added services to boost revenue generation.

(f) Civil service management.

Where We Want to Be

A sound economy deserves efficient and effective postal services.

Enhancement of Quality of Service Delivery

79. Enhancement of service quality requires adoption of sound management practices. Our postal services system must be competitive with those in any country in the world.

80. Such service standards should be achieved in phases with effect from 1997 as follows:

(a) Table 6.1 projected service standards, 1997 - 2010

Year Delivery	Intra-City Delivery	Intra-State Delivery	Inter-City
1996	4 days	10 days	14 days
1997	3 days	6 days	10 days
1998	2 days	4 days	6 days
1999	1 day	2 days	3 days
2000	12 hrs	2 days	2 days
2005	12 hrs	2 days	2 days
2010	12 hrs	2 days	2 days

81. These service standards will only be achievable through the use of dedicated management team and refurbished facilities such as motor vehicles, mechanised equipment like sorting machines that can improve productivity and reduce misery. Other useful facilities to enhance service delivery include use of commercial airlines subject to acceptable pricing of the service.

Expanded Scope of Services

82. There is need to expand and add value to the scope of services currently rendered while at the same time optimally utilising the investments.

83. For example, by the nature of their several locations and their broad customer base and diversity, post offices should be used for savings mobilisation. NIPOST should also render E-mail services to complement Telegrams/Telexes which are currently being phased out. Insurance schemes for mails and passenger transport services should also be explored as a way of optimal utilisation of facilities.

Access to Postal Services

84. By the year 2010, all Nigerians should have access to postal services irrespective of their locations in the country and this requires that prices are affordable, even to the disadvantaged members of society.

Provision of Facilities

85. Facilities like motor vehicles, motor-cycles, bicycles should be provided and adequately maintained all year round. All these call for commercial management.

How To Get There

Refurbishment of Motor Vehicles and Sorting Machines

86. Since operational facilities such as motor vehicles and sorting machines are critical for success, existing facilities need to be refurbished and put in good working condition.

87. Upgrade/Expand Facilities

There is also need to upgrade and expand facilities from their current condition to a mechanised standard that would accelerate processing and ensure the attainment of the standards tabulated at 6.3 above. This system will include the post code project.

88. In order to facilitate processing, a post code system will need to be put in place. An increase in the fleet of motor vehicles, motor cycles and bicycles will make for easy access and dispatch in postal services.

Commercialise Operations

89. Full commercialisation should commence with requisite management staff training on benefits of efficient operations, cost recovery, accountability and other sound management practices. Commercialisation will also include the adoption of computerised counter services for at least 50% of all post offices nationwide, by the year 2010.

90. A shift from dependence on government to full commercial and private sector participation should be established with time. Funding can arise in the medium term from self financing through added services, like EMS/Speed Post and rapid expansion of electronic mail services which is perceived to be a suitable substitute for telegram/telex in the very near future.

91. In view of the urgent need to rehabilitate facilities and vehicles, it is recommended that government and the PTF should provide capital funding towards vehicles and equipment. Each local government should be encouraged to provide a functional postal service centre at their own expense since this would ultimately serve the people at this location.

92. The post office savings scheme is a veritable source of rural savings mobilisation for economic development whilst also serving as a source of revenue generation for the organisation.

WATER RESOURCES

Where We Are Now

Potable Water

93. Water resources refers to potable water, irrigation water from ground water or surface water, for domestic, agricultural and industrial use. Available statistics indicates that only about 35% of Nigerians have access to potable water. Access to potable is one of the most obvious and direct consumption benefits in reducing mortality morbidity.

Irrigation Facilities

94. There are an estimated 226 billion cubic metres of surface water and 40 billion metres of ground water, while capacity for 1.85 million hectares of land is under irrigation. 70,000 hectares of land are currently fitted with irrigation facilities while eleven irrigation projects covering 100,000 Ha of land are currently under completion.

Investment to Date/Cost Recovery

95. Water harnessed for hydro-electric power generation is about 12 billion cubic metres or less than 5% of potential surface water from completed and on-going dam projects.

96. A total of over ₦50 billion investment has been made to date in water resources of which ₦40 billion is for on-going projects. Responsibility for water resources is largely that of government; billing system is poor with substantial amounts of revenue left uncollected over the years. This makes cost recovery difficult and wastage rampant.

Where We Want to Be

Access to Water Resources

97. All year round access to clean potable water by all Nigerians by the year 2010 is a goal that is expected to increase the productive capacity of our rural and urban populace, particularly women and youths.

98. Access to irrigation water should be pursued vigorously as it has the capacity to contribute to higher and more stable incomes, enabling the poor to manage risk and expand the opportunities for non-farm employment in rural areas.

Adequate Water Resources/Information System

99. In order to make the above happen, there should be an adequate and efficient water resources information system that would assist planning and coordination.

How To Get There

100. Water supply schemes in Nigeria are government-initiated with negligible private sector participation. The tariff structure is controlled and does not recognise full cost recovery as water supply is regarded more as a social service.

101. Furthermore, there is a lot of inefficiency in the operations. This has led to a lot of wastage of the resources with availability of the resources to a limited number of people.

102. In order to increase availability, it is necessary to plug the leakage and wastage in the system through commercialisation of operations.

103. Commercialisation and privatisation of operation should reduce funding requirement by government, as private investors provide financing of some fixed assets by joint venture with government, as in the case of SODECI in Cote d'Ivoire. Such private sector initiatives will involve greater efficiency in pricing and allocation of water.

Prudent Water Education Utilisation Scheme

104. It is important to note that sub-optimal utilisation may also occur under commercial operations. It is therefore required that prudent water education scheme be practised, through the involvement of women and children in the daily management of water resources, as has been proved in other places.

Provide Enabling Environment/Appropriate regulations

105. It is necessary to promote an enabling environment with legal and regulatory frameworks that provide appropriate and enforceable water resources practices and adequate support for market based incentives for private sector participation.

Watershed Protection

106. Conservation of soil and water is required through introduction of catchment management tree planting and through improved user practices.

TRANSPORT

107. Effective transportation is one of the critical factors required for sustainable economic development, as it is required for both social access and the movement of natural resources and manufactured goods from factories or farms to markets. The ease with which manufactured goods and agricultural produce are moved affects the economy.

108. It is therefore, critical to ensure the proper management and coordination of the different modes of transportation such as rail, road, inland waterways, aviation and the ports. Their complementarity should also be guarded closely in planning and operation.

ROADS

Where We Are Now

109. Nigeria currently has a reasonably good and extensive road network, 195,000 Km nationwide, and made up of:

(a) 32,000 Km of Federal Roads
(b) 31,000 Km of State Roads
(c) 132,000 Km of Local Government Roads

110. The total replacement cost of this network is estimated at ₦1,850 billion (1995 prices).

111. There are 600 road agencies at Federal, State and Local government levels characterised by bureaucratic work methods and utilising staff that are under-paid and unmotivated.

112. The work methods are inefficient with little adherence to proper engineering and procurement procedures, resulting in low quality and high cost work. The work process is usually reactive to crisis, i.e. maintenance is not considered until the roads are completely broken down or the network cut off due to erosion or overuse. Road rehabilitation is also very poor in execution.

113. Road traffic by large haulage vehicles puts undue pressure on the poorly maintained roads, a situation that could have been eased by an effective rail system.

114. The rural roads currently span 72,800km from communal efforts while village access roads span 35,900km. Although the conditions of these roads are very poor, they are useful in the opening up of the rural areas dominated by agriculture. Further development of these roads should enhance the development of agric-business and other allied industries.

115. Although the road conditions are generally deplorable, the network is regarded as one of the best in Africa. Also, while financing of the transport sector is regarded as inadequate, the road system has benefited the most.

116. Road construction is essentially in the hands of foreign companies while all responsibilities for road financing and maintenance are in the hands of government at Federal, State and Local Government levels. There is high level of indebtedness to contractors by government. Tables 9.1 and 9.2 graphically illustrate the present situation with regard to quality and cost implications.

117. It must be emphasised that the road network system in Nigeria is not fully integrated into an all-encompassing transport policy involving rail, aviation, inland waterways etc. resulting in lack of complementary transport network. This has arisen due to the reporting and planning of different transportation modes under Ministries of Aviation, Works and Transport.

118. Plans are conceived and implemented independently of other types of transportation. This does not augur well for the national transportation policy, as it will result in sub optimality, frustration and inefficiency in operations.

(a) Table 9. 1: Total Road Network Total

Federal	State	Local Govt	Total	Roads
Paved Trunk Roads	26,500	10,400	-	36,900
Unpaved trunk Roads	5,600	20,100	-	25,700
Urban Rural Roads	-	21,900	-	21,900
In Rural Roads	-	72,900	-	72,800
Village Access Roads	-	35,900	-	35,900
Total (km)	32,100	30,500	130,600	193,200
Percent	17	16	67	100

(excludes roads carrying less than about 30 vehicles/day)

(b) Table 9.2: Current Condition of Road Network

	Good	Fair	Poor
Federal Roads	50	20	30
State Roads	30	30	40
Local Government Roads	5	20	75

(i) Network Replace value: ₦I.800 billion
(ii) Annual loss of value due to lack of maintenance: ₦80 billion
(iii) Additional vehicle operating costs ₦53 billion due to poor roads
(iv) Total estimated loss to the country: 5.5 % of GDP

Why We Are Where We Are

- There is no planned maintenance programme
- Lack of budget realism
- There is no road-based planning or programming of activities.

Where We Want To Be

Maintain/Rehabilitate and Expand Network

119. The size of the country and its potential for industrial and agricultural development, as well as its huge population, deserve an extensive road network with adequate stability by 2010. This network will consist of expressways, dualised highways interconnecting states and linked to trans-international highways. There will also be intrastate and local government roads.

120. It is proposed that a complete rehabilitation or modernisation be carried out by the year 2000. Intensification of network expansion will be by 2010 by which time 85% of the expansion should have been completed. Existing network plans including SW - NW should have been completed as well. Estimated costs are as follows:

(a)	Road Maintenance	₦24 billion
(b)	Road Rehabilitation	₦32 billion
(c)	Services on Highways	₦56 billion

Security Services

121. There should be full effective 24 hours (armed) security services on highways to guarantee safety of life and property and also put a check on traffic violations.

Other Services

122. Other services should be provided on highways, such as telephone services for HELP; 24 hours effective rescue operation across the country for provision of medical services or breakdown. There should also be such services as rest resorts (Restaurant/Rooms etc.) as well as conveniences.

All Year Round Usability

123. All roads should be built, rehabilitated or maintained to ensure all year-round usability.

Road Maintenance

124. Provision of adequate maintenance that is planned and proactive rather than only reactive. Accountability and transparency in contract award should obtain, based on competition and international comparability.

Information & Management

125. There is need for well-defined and articulated traffic information system to guide road users.

126. It is recommended that all departments that are related to transportation of goods, industrial produce and agricultural produce be combined under a new Ministry of Transport.

How To Get There

Funding (Direct/Indirect Sources)

127. As indicated earlier, the road maintenance and rehabilitation requires up to an estimated ₦56 billion to meet national aspirations. Such funding can be realised from a combination of sources:

a) Tolls
b) Parking fees, truck weight fees
c) Vehicle license fees
d) Vehicle Taxes
e) Vehicle inspection taxes

128. The idea of additional tax or allocation from petroleum pump prices was considered. It is unlikely that government or these sources only would be capable of providing all the financial resources required. In view of this the following arrangements process are also recommended:

(a) Public ownership and private sector operations through lease contracts for full operation and maintenance, with negotiated incomes from toll;

(b) Build, Operate and Transfer (BOT) schemes;

(c) Private finance with rights to charge and collect toll.

Foreign/Domestic Sources of Funding

129. In addition, foreign sources of funding should be explored from among international agencies that support developmental and infrastructural projects, viz

a) bilateral aid
b) multilateral lending.

Privatisation

130. Federal and State roads may be privatised to encourage in-flow of investment for road financing, construction and operation. This will require government guarantee and appropriate policies. Government may also continue its programme of toll collection using private contractors who should be responsible also for maintenance and rehabilitation.

Regulation

131. A regulatory agency should be created for the standardisation of the construction and maintenance of roads, as well as for the management of highways.

Cost Effectiveness

132. Research and development should be intensified (Nigerian Building and Road Research Institute) with a view to lowering costs and applying local materials, management and labour.

Encourage Community Effort

133. Community effort should be incorporated for the provision of local/small feeder roads to complement government services, especially in the area of agriculture roads.

RAILS

Where We Are Now

134. The Nigerian rail system is 3,505 km long and consists of the 3ft 6ins narrow gauge single track lines running from south-west to north-east and from south-east to northwest. There is no East-West link or to major economic infrastructure, Federal Capital and 14 States of the federation.

135. There has been no extension since 1960 from centres, such as the oil and iron centres. The federal capital and 14 States are entirely untouched by the railways, besides the 72km portion of standard gauge between Ajaokuta and Warri. The rail system is one of the most under-developed systems in the world, with outdated tracks characterised by sharp curves and severe gradient (20) all through the routes.

136. Although the system has a speed capability of l20km/hr, maximum permissible speed for freight trains is 25km/h while passenger trains can only run at an average speed of 35km/h.

Rail Infrastructure/Patronage

137. Only 50% of the 280 railway stations are functional; the signalling system is outdated while rolling stocks is facing near collapse. The rail system is characterised by high running cost and inadequate locomotive stock. The organisation is facing declining patronage, revenue earning capability is inadequate and passenger patronage is down to 10% of potential.

(a) Table 10.1: Statistics of sample Railways

Railway	Km of Line	No. of Loco	No. of Wagons	No. of Coaches
India	62,367	8,417	346,103	31,843
S/Africa	21,617	8,417	346,103	31,843
Mexico	15,825	1677	46,602	1,177
Turkey	8,429	769	21,941	1,159
Nigeria	3,512	209	046	663

Why We Are Where We Are

138. Reason for the Present Situation

(a) Low priority placed on investment in railways (65% of government's outlays on transport is on roads, 13% on railways).

(b) Neglect of railways by government.

(c) Lack of coordination of transport system.

(d) Failure to upgrade gauge.

Where We Want To Be

Expanded Network/integrated into Transport System

139. By year 2010, an expanded rail network should link major agricultural centres, seaports, industrial complexes, east-west axis and the Federal Capital territory from minimum total coverage of 5,000km. The network should link into the trans-African railway network in pursuit of our vision to be the major economic and transport nerve centre of Africa providing major transhipments for Africa.

Urban Mass Transit/Movement of Cargo

140. In view of the large and growing population as well the envisaged rapid GDP growth of not less than 10% per annum, the railway should be incorporated into the urban mass transit system and interstate cargo stepped up on a commercial basis.

141. Rail traffic should account for 300 million passengers per annum including mass transit passengers and 1.0 million tonnes of freight per annum.

Speed/Safety

142. A complete overhauling of the system should be carried out to attain higher speed, reduce travel time whilst also ensuring secure and safe transportation. Mass transit routes should be built on the standard gauge, including such routes as the on-going Ajaokuta -Warri, and new ones like Kaduna - Abuja. The existing narrow gauge tracks should be realigned and gradients corrected to permit the trains to attain the maximum speeds possible.

How To Get There

Refurbish Existing Facilities

143. In order to achieve our stated objectives it is recommended that all existing tracks and locomotive rolling stock and communication facilities be refurbished. Some new locomotives and coaches began to be modernised/replaced in 1997 with the assistance of foreign management at the Nigerian Railway Corporation.

Use of Local Materials

144. It should be possible to use local materials, particularly Nigerian steel, in rehabilitating the Nigerian rail tracks (narrow-gauge) or building the new narrow or standard gauge tracks.

145. In view of the extensive narrow-gauge network envisaged, Nigeria could develop the capacity to supply the African sub-region with this expertise, since most countries in that sub-region employ the technology and besides India and South Africa, there is no other industrial country still engaged in the technology.

Moderisation

146. Some 300km per annum of standard gauge rail will need to be built from 1999 with emphasis on East-West link and linkage to the federal capital territory. Electric tracks should also be constructed particularly for mass transit, while comfort, safety and reliability should become common features on Nigerian trains.

Use of Local Labour

147. Railways construction is capital-intensive, but the use of intensive human labour should be considered in place of undue mechanisation in construction.

Liberalisation

148. The railway does not lend itself to easy competition, but private investment can be applied in the new projects recommended: mass transit, passenger services and indeed, cargo services. It is possible for old reconstructed tracks to still belong to the public sector based NRC while private operators set up the different services, e.g.

(a) Express trains
(b) Mass transit services
(c) Cargo services
(d) Communications
(e) Catering, etc.

149. It is also possible to privatise the corporation after a number of improvements have been put in place. While the railway may be currently a monopoly, the users do have an alternative and therefore outright monopoly status does not exist in this case.

AIRPORTS

Where We Are Now

150. There are seven (7) international airports all capable of the largest wide-body aircraft.

(a) Table 11.1: Shows the growth of air traffic and airports between 1960 & 1996

Year	No. of Airports	Passenger Traffic (million)
1960	4	N/A
1985	15	N/A
1990	19	3.2
1996	20	4.3

(b) Eight (8) other federal airports exist in State capitals, with two other airports in the country.

(c) Navigational aids, ILS and communication are in a poor state. Radar communication is isolated and not effective over the entire air space.

(d) Arrival and departure terminals for passengers are poorly equipped and not user-friendly; security for cargo and luggage has over the years been inadequate resulting in pilferage and losses, although with decreasing frequency.

(e) Engineering and maintenance services are limited while hanger facilities do not exist.

Where We Want To Be

151. For a country the size of Nigeria, air travel is crucial to social and economic development, and given also the international goals for Nigerian Aviation, the desired standards include the following:

(a) Effective regulation/screening of quality of aircraft.

(b) State-of-the-art navigational aid, overall radar cover and satellite communication in good working condition at all airports and within the Nigerian airspace.

(c) Effective Search and Rescue Agency.

(d) Nigeria as major hub in Africa.

(e) Hanger facilities in Nigeria to service the rest of Africa.

(f) Private sector incentive for hanger development.

(g) Retrain human resources.

How To Get There

152. Much of what remains to be done is in investments towards regulation, safety, navigational aid, communication and aircraft maintenance. For maintenance and funding, the following steps need to be taken.

(a) Effective use of bilateral arrangement.
(b) Regular maintenance of engineering and passengers facilities.
(c) Private operation and maintenance of airport on toll/contract basis should be explored.
(d) Privatisation of specific services on a competitive basis.

INLAND WATERWAYS

Where We Are Now

153. The national inland waterways are largely undeveloped to date and consist of 3,000km of navigable Inland/Intra-coastal waterways channels, excluding fresh water lakes.

154. Expenditure as percentage of total budget for the transport sector is low and declined between 1962 and 1995 as shown in Table 11. below.

155. Very small fraction of industrial or agricultural goods are moved along inland waterways except for rural trade conducted by canoes.

(a) lntermodal Share of Transport - Investment %

Period	Road	Rail	Water	Air	Total
1962 – 1968	58	10.0	25.0	7.0	100
1970 – 1974	64	9.3	13.0	10.0	100
1975 – 1980	70.6	9.4	10.0	10.0	100
1981 – 1995	60.0	25.0	9.0	6.0	100

Source: 4th National Development Plan

Intermodal Share of Transport Sector - the 5th & 6th National Development

Plan period	Highways	Ports	Railway	Inland	Airports	Others Waterway
1986 – 1990	72.4%	5.8%	4.0%	3.8%	5.6%	8.4%
1991 - 1995	65.0%	7.55%	14.2%	3.25%	2.6%	7.5%

Sources: Mean Cummulative National Plan (1986-1995)

Why We Are Where We Are

156. The reasons for the current status are similar to those identified for the other infrastructure facilities, and include specifically:

(a) Low navigability, by season or by length of waterways
(b) Low government priority and funding
(c) Unfavourable Government Policies
(d) Management of relevant agencies

Where We Want To Be

157. The advantages of inland water transport include low cost, especially with respect to bulk goods of the industrial and agricultural types. The desired status can be identified in the following factors.

(a) All year round navigation/increase waterway carrying capacity.
(b) National inland waterways network connecting creeks and rivers, ports of intermodal exchange.
(c) River Ports with adequate berthing and handling facilities with up to 2.0 metres drought.

How To Get There

(i) Investment to facilitate navigation all year round.
(ii) Development of an integrated transport policy.
(iii) Development of an indigenous technical and managerial capacity.
(iv) Review of existing laws to encourage private sector participation.
(v) Privatise existing operations.

NATIONAL PARKS

Where We Are

158. There are at present six (6) National Parks, created in Nigeria in 1991 with areas ranging from 2250 to 6402 km2.

(a) Facilities within them are generally inadequate.
(b) Roads make up 25 % of total requirement.
(c) Buildings make up 30% of total requirement.
(d) Water supply makes up 20% of total requirement.
(e) The parks rely on generators for electricity.
(f) Internal and intra-park communication is poor.
(g) Considerable poaching and trespassing over park land.

Where We Want To Be

(i) Additional nine parks for wider national coverage and protection of ecosystem.
(ii) Fully demarcated and functional park boundaries to prevent encroachment, poaching and extinction of games.
(iii) All national parks should be commercially viable.
(iv) Comprehensive provision of standard infrastructure at all parks.
(v) Fully paramilitary guards as in United States and East Africa to secure parks from poachers, etc.

SEA PORTS

Where we are now

Where We Want To Be

(a) Regional Transhipment Port.
(b) Port facilities to cater for packaging and other trade patterns.
(c) Harmonised clearing procedures.
(d) Harmonised local shipping charges.
(e) Simplified shipping procedures.
(f) Maximum security of cargo.
(g) Simplified and effective security services at the ports.
(h) Competitive turnaround time of 24 - 48 hours maximum.
(i) 24 hours Port availability including night sailing.

How To Get There

(i) There is the need to establish reliable information Database for shippers to enhance decision making.
(ii) Simplify security procedures at the ports to enhance turn around time at the ports and at the same time maintain security of goods.
(iii) Install electronic data base system for customs and other security operatives.
(iv) Provide more deep-sea capacity ports to enhance prospects for regional transhipment capacity.
(v) Provide enabling environment and amend regulation that impede competitiveness.
(vi) Encourage private sector participation through appropriate policies, in building, operation and management of seaports and ancillary activities.
(vii) Provide adequate dry-docking capacity.

CHAPTER SEVENTEEN

SMALL AND MEDIUM SCALE INDUSTRY

Introduction

SMALL, MEDIUM SCALE ENTERPRISES NIGERIA & INFORMAL SECTORS IN NIGERIA

1. Small and medium enterprises is a generic term. The definition varies from country to country, from one industrial group to another and even from one financial institution to the other. There are, however, some common indicators in most definitions, namely, the size of capital investments, (fixed assets), value of annual turnover (gross output) and number of paid employees.

2. In Nigeria, the definition of small and medium scale enterprises has changed over time and according to institutions. For instance, the Central Bank of Nigeria's (CBN) Monetary Policy Circular of 1988 defined small-scale enterprises as those enterprises in which total investment (including land and working capital) do not exceed ₦500,000 and/or the annual turn-over do not exceed ₦5 million. Following the persistent depreciation in the exchange rate of the Naira, the maximum size of capital investment was raised to ₦5 million and the turnover to ₦25 million in 1990. The Central Bank of Nigeria's (CBN's) Monetary and Credit Policy Guidelines for the 1996 fiscal year describes a small-scale enterprise as an enterprise whose total cost, excluding cost of land but including working capital, does not exceed ₦10 million.

3. Also, the National Economic Reconstruction Fund (NERFUND) which came into being in 1990 to provide relatively long-term loans to small and medium scale enterprises puts a cost ceiling for small-scale industries at ₦10 million while the companies and Allied Matters Decree of 1990 defines a 'Small Company' as one with annual turnover of not more than ₦2 million and net asset value of not more than ₦1million.

4. The 9th National Council of Industry (NCI), an annual conference organised by the Federal Ministry of Industry (FMI) to discuss emerging policy issues on industrial development with State Ministries of Commerce and Industries and other relevant agencies reviewed the definition of SMEs in 1996 as follows:

(a) Cottage: An industry whose total project cost including working capital but excluding cost of land is not more than ₦1million with a labour size of not more than 10 workers.

(b) Small : An industry whose total cost excluding cost of land but including working capital is over ₦1million but not more than ₦40 million with a labour size of between 11-35.

(c) Medium: An industry whose total cost including working capital but excluding cost of land, is above ₦40 million but not more than ₦150 million with a labour size of between 36-100 workers.

5. The Committee, after extensive deliberation and taking cognisance of various information received from government agencies and memoranda from SME entrepreneurs, resolved to base the definition of SME in Nigeria on two broad categories: i.e. the formal and informal sectors and then provide the characteristics of each of the sectors for clarity. The Committee went further to use capital base or number of employees to classify cottage, small and medium enterprises within the two sectors.

FORMAL SME SECTORS

Cottage Or Micro Enterprises

(a) An enterprise with total capital employed of not more than ₦1million or labour force of not more than 10 workers.

(6) Small Scale Enterprises

(a) An enterprise whose total capital employed is over ₦1million but not more than ₦40 million or labour force of eleven to thirty-five (11-35*)* workers.

7. Medium Scale Enterprises

(a) An enterprise whose total capital employed is above ₦40 million but not more than ₦150 million or labour force of thirty six to one hundred (36-100) workers.

Characteristics of formal SME Sector

(i) Usually self employed and family operated.
(ii) Managers are also owners.
(iii) Usually incorporated or registered.
(iv) Mostly indigenous.
(v) Include the professionals which might be individuals, partnerships or co-operatives.
(vi) It also includes small and medium scale farms, animal husbandry, retail trade, etc.
(vii) This sector keeps books of accounts and records.
(viii) Quality of products are not high.
(ix) The sector pays some taxes and levies to State and Local governments.
(x) Flexible and unformalised management structure.

INFORMAL SME SECTOR

8. Capital employed is less than ₦500,000 while labour force is under 10 workers.

(a) Characteristics of Informal SME Sector

(i) The owners provides the capital..
(ii) The informal business sector is neither incorporated nor registered.
(iii) Do not generally keep books of accounts.

(iv) This sector consists of small traders, weavers, handicraft makers, carpenters, etc. found in cities.
(v) In the rural areas, they are peasant farmers, fishermen, pastoral farmers, etc.
(vi) Business in this sector are individually owned or self employed.
(vii) This category constitutes 70-80% of SMEs in Nigeria.
(viii). The sector's area of operation is mainly local.

WHERE WE ARE

Historical Perspective

9. The earliest attempt of the government to develop SME in Nigeria dated back to 1946 when the Sessional Paper No. 24 of 1945 on 'A Ten-Year development plan and welfare for Nigeria, 1946 was presented to the legislative council on December 13, 1945 as amended by the selected Committee of the Council and approved by the legislative council on February 7, 1946. The first stage of the development plan involved the establishment of a Nigerian Local Development Board whose functions among others were primarily associated with:

(a) the promotion and development of village crafts and industries, and the industrial development of the products of Nigeria.
(b) the setting up and operation of experimental undertakings for the testing of industrial or processing development of any Nigerian Products.

10. Laudable as this intentions were, their dreams could not materialise. Thus the World Bank (1953) reported that the country has not made any significant progress in its industrial development.

11. Although there were no coherent industrial policy aimed at promoting small scale industries during the pre-independence era, the former Western and Eastern Regional Governments managed to set up Industrial Estates - Yaba Industrial Estate (1958) and Enugu Industrial Estate (1959).

12. During the first National Development plan 1962 - 1968, not much efforts were made to develop small scale industries. The Federal Government Policies in the areas of trade and industries were focused on import substitution. The government in the 1960s laid emphasis on light industry and assembly Plants and not SMEs.

13. Between 1962 and 1963, the Ford Foundation of USA collaborated with the then Eastern and Northern regional governments to establish Industrial Development Centres (IDCs) in Owerri and Zaria for the purpose of promoting the development of SMEs.

14. During the second National Development Plan (1970 - 1974) period, the small Scale Industries Credit Scheme was initiated in the then 12 States of the Federation. The federal government set up a small scale Industry Division within the FMI. The government also continued the import substitution policies as industrialisation strategies.

15. In the 1975-1980 third National Development Plan period, emphasis was shifted to heavy industry at the expense of small scale industries. There was inadequate funding and management of the States Small Scale Industries Credit Schemes. By 1977, the funding of the scheme by the Federal and State governments was virtually halted. Although the number of

established IDCs had risen to thirteen (13), they all suffered from shortage of fund and equipment. To arrest this negative trend, the Federal Government established the Nigerian Bank for Commerce and Industry. Each State of the federation was also encouraged to build industrial estates to facilitate the provision of infrastructural facilities to industries. In the fourth National Development Plan (1981-1985) period, emphasis was again placed on SMEs mainly to boost non-oil sector.

16. Since the 1986 Structural Adjustment Programme (SAP), government placed more emphasis on SMEs in an attempt to promote rapid economic growth. Various institutions have been established to support SME development in Nigeria. Some of the institutions set up in the past and present to address the problem of SMEs include the following:

17. Institutions Supporting SMEs

- Work for Yourself Programme (WFYP).
- Open Apprenticeship Programme.
- Waste to Wealth Scheme.
- National Directorate of Employment (NDE)
- Directorate of Foods, Roads and Rural Infrastructure. (DFRRI)
- Agricultural Development Projects (ADP)
- National Agric. Land Development Authority (NALDA)
- River Basin Development Authority (RBDA)
- Small Scale Industries Credit (SSIC) Scheme
- National Committee on Industrial Development (NCID)
- State Finance and Investment Companies
- Industrial Development Co-ordinating Committee (IDCC)
- Development Finance Institutions (DFI)
- Nigeria Economic Reconstruction Fund (NERFUND)
- External Finance Guarantee through the World Bank, African Development Bank (ADB), International Finance Corporation (IFC)
- United Nations Development Programme (UNDP)
§ United Nations Industrial Development Organisation (UNIDO)
- Nigeria Industrial Development Bank (NIDB)
§ Nigeria Bank for Commerce and Industries (NBCI)
- Nigeria Agricultural Co-operative Bank (NACB)
- Central Bank of Nigeria SME II (CBN)
§ People’s Banks
- Community Banks
- National Risk Fund Plc (Venture Capital Company)
- Export Guarantee and Insurance Schemes
- National Credit Guarantee Company (NCGC) - to be established soon by FMI.
- Export Adjustment Scheme Fund
- Nigerian Export Promotion Council (NEPC)
- National Association of Small & Medium Enterprises (NASME)
- Small and Medium Enterprise Development Agency of Nigeria (SMEDAN)
- Nigeria Opportunities Industrialisation Centre (NOIC)
- Business Acquisition Training Centre (BATC)
- Technology/Business Incubator Centres (TBIC)
- Export Expansion Scheme.
- Industrial Training Fund (ITF)

- Centre for Management and Development (CMD)
- Nigerian Institute of Management Consultants (NIMC)
- National Office of Technologies Acquisition and Patents (NOTAP)
- Federal Institute of Industrial Research, Oshodi. (FIIRO)
- Project Development Agency (PRODA)
- Small Business Innovation Research Programme (SBIR)
- Centre for Industrial Research and Development (CIRD)
- Raw Material Research and Development Council (RMRDC)
- Small Scale Industries Division of the Ministry of Industry
- Industrial Development Centre (IDC) under the FMI
- Women Development Centre, Abuja
- National Association of Small Scale Industries (NASSI)
- The Family Economic Advancement Programme (FEAP)
- Nigerian Project Development Facility (NPDF)

18. The preponderance of these SME supporting institutions and the over review of all SME development polices does not only demonstrate government frustration, but it also confirms that government has always had good intentions. However government policies have not achieved their stated objectives because of weaknesses in planning, designing and implementation of such policies.

19. SME - Formal and Informal Sector Analysis

(a) STRENGTHS

(i) The large number of SMEs and their relatively high labour intensiveness generate high employment per unit of investment and guarantee potential employment for over 80% of the Nigerian labour force.
(ii) SMEs train a wide variety of skills and promote the evolution of indigenous technology and enterprises opportunities.
(iii) SMEs are a veritable source of capital formation and mobilization of domestic savings.
(iv) The sector has countrywide coverage and relatively little geographical limitation, and therefore enhances industrial dispersal, and promotes growth in villages and small towns.
(v) Since SMEs have narrow product range, they enjoy the advantages of economies of specialization.
(vi) The businesses within the sector are less prone to bureaucracy and therefore simpler management structure.
(vii) The operation is very flexible and conducive to rapid problem solving, and quicker reaction to market opportunities.
(viii) The establishment of SMEs requires low level of capital requirement and therefore ideal as a channel of industrial development for capital deficient economies.
(ix) More receptive to innovation and therefore inventions, adaptations and innovations are common within the industry.
(x) It fosters more equitable distribution of income and economic power.
(xi) SME creates opportunity for industrial diversification and relatively more balanced countrywide development.
(xii) General enhancement of the tempo of industrial development and indigenisation are more visible among SMEs.
(xiii) Readily locate in the rural areas and thus moderates rural-urban migration.

(xiv) Have potentials for generating multiplier effects through the process of forward and backward linkages with Large Scale Enterprises and the building of technical competence.
(xv) Promotes effective domestic resource utilization.
(xvi) Adapts easily to local market and local sources of raw materials.
(xvii) SMEs guarantees market dynamism by encouraging industrial competition.
(xviii) The dominance of SMEs in the highly developed and newly industrialised economies (NIEs) of Germany, Malaysia, Singapore and others is well illustrated in Table 1. SMEs provide in some instances over 60% of industrial employment and are as much as 99% of total industrial establishments. SMEs on average provides some 50% of total industrial production.

20. THE ROLE OF SMEs IN SOME SELECTED COUNTRIES

Table 1

Contribution to …	**Malaysia 1985 *1**	**Singapore 1990 *1**	**Rep. Of Korea 1991 *1**	**India 1994 *1**	**Germany *2**
Total number of Establishments	92%	88%	97%	94%	99%
Total Industrial Employment	49%	40%	64%	31%	64%
Total Industrial Production	47%	26%	45%	40%	52%

Source:
* 1 Confederation of Asia Pacific Chambers of Commerce & Industry, Journal, Vol. 11, 1994

* 2 Institute for Research of SME5, Bonn

PROBLEMS OF SMEs

21. While the importance of SMEs in rapid economic development has been well recognised, multiple problems continue to inhibit their growth. Though inadequate credit facility is a major problem of SMEs, there are indeed other equally critical problems.

22. A study of SMEs in four centres in Nigeria by the Centre for African settlement studies and development 1994 analysed SME problems into five categories as contained in Table 2.

(a) Table 2.: Analysis of SME Major Problems

Problem Area	Percentage (%)
Machinery and Equipment	35.1%
Finance	29.3%
Raw Materials	12.5%
Market	12.5%
Labour	10.6%
	100%

Access to Credit Facilities

23. Inadequate "seed" capital: Due to inadequate collateral security and high rate of business failures SMEs have limited access to credit facilities. Procuring finance from banks and government institutions presents an uphill task for SMEs such that it is only very few that could afford to go through the rigours. Apart from bureaucratic red-tape associated with government loans, SMEs have neither the ability nor the means to meet the stringent conditions laid down by the banks. Moreover, cost of loanable funds are higher than average when made available to SMEs entrepreneurs.

24. Political loyalty is usually a condition for government loans at State level, such loans are given to beneficiaries as reward for political support and as share of the national cake.

25. Industrialists in Nigeria hardly team up to pull their resources together to alleviate financial distress, due to lack of mutual trust and confidence among business partners.

Lack of Management and Technical Ability

26. There is low level of managerial and financial skills and ignorance of accounting and good record keeping. Some SMEs do not keep any record at all, especially within the informal sector. The inadequate financial record keeping makes it difficult for the banks to assess the worth and health of such business, a necessary condition for lending. Most of the high rate of business failures could be traced to lack of feasibility studies, market survey, experience and training. Due to the nature of its ownership structure, these enterprises do not have adequate corporate and strategic planning and are prone to collapse. Firms within the SME sector have little or no exposure to modern production technology. Access to technical and reliable information is very limited. Technical services for initial investment and subsequently for production, are mostly foreign. Most SME promoters cannot afford to pay for highly skilled manpower. SME entrepreneurs lack modern management skills. Related to this is the attitude to develop self rather than the business first. When business is booming, the money is siphoned to other areas rather than service debt. Where other investors have equity in the business, no dividends are declared in good years and when declared, non is actually paid out.

Secrecy of Production and Techniques:

27. Secrecy and reluctance to pass on production techniques and or processes e.g. alternative medicine is common in the sector. This attitude has therefore retarded technological growth due to hoarding of vital information on production processes. The proprietors are ill equipped for modern mass production techniques. When they die, their investors go with them due to lack of documentation.

Inadequate Infrastructural Facilities:

28. Inadequate infrastructural facilities is a major problem to SME development in Nigeria. Most manufacturers have to sink their own bore-holes due to the absence of potable water. Electricity supply is intermittent and SMEs spend a large percentage of their capital to purchase standby electricity generating sets. There is no reliable telephone system to contact foreign and local business associates. Lack of adequate access roads for bringing in raw materials and marketing of finished goods impose heavy burden on SMEs.

29. SME sectors neither have the necessary funds to pursue meaningful research nor do they have access to research and development results. For instance, small scale farmers lose over 40% of their annual production due to lack of storage and preservation facilities. While a number of research results on food remain uncommercialised, secondary raw materials for SMEs manufacturing needs have to be mostly imported because facilities to turn primary agricultural and industrial products to secondary products are scarce and sometimes totally non-existent in the country. Only few areas in Nigeria have planned industrial estates that are provided with the necessary facilities to support manufacturing projects.

(a) Table 3 shows Nigerian infrastructural facilities compared to other countries.

NIGERIA INFRASTRUCTURE COMPARED WITH OTHER COUNTRIES

Table 3

Electricity			**Telecommunications**		**Paved**	**Roads**
	Production kwh per person 1992	System losses % of total output 1992	Telephone mainlines per 1,000 1992	Faults per 100 mainlines p.a. 1992	Road density km per million persons 1992	Roads in good condition (% of pave roads) 1988
Nigeria	137	39%	3	327	376	67%
Indonesia	233	17%	8	49	160	30%
UK	5,660	8%	473	16	6,224	85%

Source: World Development Report 1995

Under Capacity Utilization & Poor Consumer Purchasing Power

30. Overall capacity utilization in SME firms is below 50%. Low purchasing power of consumers, lack of adequate working capital, old and outdated production equipment, shortage of foreign exchange, frequent change in government policies and fiscal regimes are partly responsible for these adverse change of event. Some SMEs are folding up amid the squeeze of profit margin, due to multiple levies, taxes and un-anticipated heavy overheads.

Lack of Awareness and Poor Domestic Linkages

31. There is absence of well articulated system of backward and forward linkages between the SMEs and Large Scale Enterprise (LSEs). Agreements on local supply of parts and inputs to LSEs by SMEs are often scuttled by the LSEs on the excuse of poor quality of products of SMEs. They are often helped in this tactics by the nonchalant attitude of implementing agencies. SME promoters lack awareness of other supporting institutions and are poorly linked to research and other domestic suppliers. They do not pay much attention to the relationship between quality, customer service and improved profits.

Restricted Access to External and Internal Markets

32. SME sectors have restricted access to external market for their goods and services.

Their participation in international trade fairs is very low. The quality of goods are yet to meet international standards both in content and packages. The large companies prefer imported products to SME locally produced items. Internal markets are still not fully developed. Goods produced lack the quality to create consumer confidence. A number of policy measures and incentives put in place by the Federal government to encourage SMEs to explore external market for their products has not been fully utilised for various reasons.

Over Dependence on Imported Raw Materials for Manufacturing Goods

33. Nigerian manufacturing industries originated largely from import substitution policies and therefore heavily depended on foreign imports. Local raw materials are hardly processed for further manufacturing input. Raw materials research and development are solely championed by government agencies with little or no private sector participation. There is not enough incentive for entrepreneurs to invest in raw material development and production.

Weakness in Planning, Designing and Implementation of Government Policy on SME Development

34. Government has good intentions but lack the necessary competence to effectively formulate plan, design, implement and evaluate the impact of their policies. Most often, policies are hurriedly formulated without carrying out proper diagnosis of problems. Plans are drawn without performance criteria against which evaluation can be done. Most government incentives like the Family Economic Advancement Programmes are directed at informal or micro enterprises instead of SMEs and therefore do not have appreciable sustaining impact on the economy. Even programmes like NERFUND, ADB and World Bank loans for SMEs have not worked very well for SMEs because these loans are

denominated in foreign currencies. Many SMEs that took NERFUND loans have difficulties on how to repay. Another factor is that these support programmes tend to be ad hoc and are not sustained. Incentives to investors are administered under various government ministries and agencies. Investors are therefore not aware of most of them. When they are aware, they find it difficult to move from one government agency to the other due to bureaucracies inherent in the system. Due to these anomalies, government policies have not achieved their stated and desired objectives.

Lack of Effective Mobilization of the Informal Sector

35. The informal sector which formed the bulk of the rural dwellers businesses remain poorly organised and not properly catered for in government policy implementation. Most government incentives to this sector are therefore ineffective due to activities of middlemen.

Anti SME Financial Policies

36. Government policies are squeezing SMEs out of business in favour of large scale enterprises. The recent increase of commercial banks capital base to a minimum of ₦500 million means there will be no SME banks in Nigeria. The insurance sector is also experiencing the same squeeze. Indigenous SMEs are being adjudged incapable of participating in the privatisation of NITEL, NEPA and the refineries without giving them a chance to try.

37. Top government officials rarely visit factories of SMEs but pay frequent visits to the large multinationals, therefore the government do not know the indigenous entrepreneurs nor their problems. This apparent lack of knowledge is responsible for wrong incentives and ineffective institutional support for SMEs.

High Mortality Rate Of SMEs

38. A large number of newly established SMEs usually fold up during their first year of operation while a larger number hardly survive the first few years of operation. The high rate of business failures among the SMEs is ascribed to such factors as poor quality of project conceptualisation and implementation given the shortage of managerial and technical skills among the SMEs. Due to poor financial base and smallness of their market share, the productivity of these enterprises are generally very low. They are therefore hardly able to compete effectively in both factor and product market. Most entrepreneurs do not pass their inexperience young graduate children through the necessary internal management development programmes before handing over core areas of the business for them to manage. Some of these young men were known to have defrauded their family business to set up their own.

INTER COUNTRY COMPARISON

39. The advanced countries of Europe and America and the developing economies of the Far East lay particular stress on the development of SMEs. They lay emphasis on access of SMEs to credit facilities and augment such effort with technical assistance in order to enhance the performance of SMEs. In the Far East, technical assistance includes extension

services, basic education and effective dissemination of information beneficial to SMEs. The Far East countries also establish appropriate and modern technology centres which advice SMEs on all aspects of new technologies. In Hong Kong and Taiwan, the government build or assist private developers to build industrial estates with functioning infrastructural facilities. The newly industrialised countries also set up effective institutions for industrial standards, testing, export support, quality assurance, design, training, technical information etc. In her effort to promote SMEs, the Japanese government established - the Japan Small Business Corporation to comprehensively implement measures directed towards SMEs. The work of the Corporation include: financing, guidance, training and provision of information for SMEs. Table 4 shows government support for SMEs in Germany.

SUPPORT FOR SME'S IN GERMANY

Table 4

Support through	**Remarks**
Venture capital	Provided through banks
Investment Allowance	For the purchase and production of depreciable + movable assets
Special depreciation	Up to 50% of purchase or production costs in the first year
Investment grants	Up to 23% of investment costs
Loans & guarantees	Loans with reduced fixed interest rates, long maturities + grace periods (from 1990 to 2nd quarter of 1995, 56 billion DM were allocated to 268,000 Enterprises)
Information	Through Chambers of Commerce & Industry and other Associations
Training	Subsidised by the authorities
Apprenticeship	The dual education: practical training within the private sector – theoretical through apprenticeship schools; examination by chambers
Assistance to foreign trade	Through Chambers of Commerce & Industry and other association
Incubator centres	160 Incubator centres for exchange and utilisation of technology
Cooperation network	Through Chambers of Commerce & Industry, other Associations + Institutions

Table 5 compares some characteristics of SMEs in Nigeria with far East and developed countries. Much of the weaknesses of SMEs in Nigeria have been overcome by their East Asian and developed countries counterparts.

COMPARISON OF FAR EAST AND DEVELOPED COUNTRIES SMEs WITH NIGERIA'S SMEs

Table 5:

Far East & Industrialised Countries	Nigeria
Export Oriented	Oriented to domestic market
Network of co-operative Research Association	Depends mainly on government research institutes
Well developed SME network	At development stage
Government funded R&D infrastructure	Government funds own research institutes
High technology intensity	Predominantly low technology
Major technological innovations	Less innovative
Well impressive growth	On decline
Well integrated with large firms	Poorly integrated
Adequate provision of technical and market information services	Information not readily available
High awareness of linkages	Lack of awareness
Provision of development credit	Lack of adequate development credit
Capital intensive industries	Labour intensive
Generous tax concessions	Inadequate tax concessions
Assistance with export facilities and infrastructure	No significant assistance, deficient infrastructure
Government funded R&D infrastructure	Government funds own research institute

WHERE WE WANT TO BE - OUR VISION

40. SME must remain a vibrant sector of Nigeria's economy and make significant contribution to: employment, capital formation, domestic saving, skill acquisition and export. SME must also promote environmentally friendly and safety conscious economic activities and make substantial value added contribution to the nation's GDP.

41. By virtue of advancement in information technology, SME must be progressively more technology based, globally competitive, achieve improved product quality, greater internal dynamics, multiplication and growth.

42. Government must accord high priority to SMEs and the informal sectors by establishing more effective institutional structures that are capable of providing the necessary services and credit facilities to make SMEs the cornerstone of poverty alleviation and improved economic power of both urban and rural dwellers.

KEY ISSUES

(i) Lack of infrastructural facilities to support SME and the informal sector.

(ii) Need for technical know-how on planning, designing and implementing government policies on SMEs development.

(iii) Nigeria has abundant raw materials but lack the capability to process them into secondary raw materials ready for use of the SMEs.

(iv) Local technology is at its rudiment; Nigeria need to develop local technology and entrepreneurial skills.

(v) The country is blessed with abundant cheap labour and educated manpower and therefore opportunities for low technology and labour intensive industries are available.

(vi) Lack of the necessary credit facilities is a major constraint to SME development. SMEs have no access to institutional lenders. Most SMEs cannot afford the high cost of loans offered by the institutional lenders. Concessionary local and foreign funding sources is vital to rapid SME development.

(vii) An apex body to co-ordinate government policies and disseminate needed information on SME to entrepreneurs is core to SME success.

HOW TO GET THERE

AN APEX BODY FOR SMEs

43. Government should establish a corporation to co-ordinate government policies and comprehensively implement measures directed towards small and medium enterprises. The charter of the apex body should include the following:

(a) Establish small business information centres in all States of the federation to bridge the information gap between the SMEs and large scale enterprises in the areas of collection and effective use of information. The centres should collect information useful for management of SMEs and process them into simpler and clearer forms for easier understanding. They should also disseminate the information on trade opportunities, process and respond to various information on SMEs. The centres should develop small and medium enterprise information Data Base. They should carry out studies and research on how to improve its information dissemination network and the efficiency of information usage.

(b) Advise on technical partnership between SMEs and overseas partners.

(c) Carry out activities for the development of domestic capabilities through technological exchanges by linking foreign enterprises and domestic SMEs.

(d) Assist SMEs with the preparation of feasibility studies.

(e) Assist to introduce large scale advanced machinery which are difficult to realise for individual SMEs based on their own efforts.

(f) Revitalisation of distressed SMEs arising from shortage of working capital and under utilisation of capacity arising from aging equipment or manpower shortages.

(g) Co-ordination and promotion of the development of industrial clusters, villages and joint utilisation of industrial facilities in order to realise efficiency of agglomeration.

(h) Provision and management of the incentive and subsidization system for SMEs adversely affected by smuggling and dumping of foreign goods or changes in government policies.

(i) Help SMEs to find the technology and technological know-how they desire.

(j) Assist SMEs with the upgrading of equipment to improve quality of products to meet international standard for competitiveness export.

(k) Establish, modernise and subsidise research laboratories and facilities where SME organisations could carry out their research and development at a cheap and affordable cost.

(l) Assist SMEs on pollution control.

(m) Provide both managerial and technical training for SMEs and responsible personnel who are in charge of designing and implementation of government policies on SMEs. Training effort should emphasise the areas of sourcing of raw materials, acquisition of technology and export marketing.

(n) Strengthen and re-focus existing research institutes to carry out studies on measures to solve the current and future problems of SMEs: e.g.

(o) Structural, administrative environment, export development, technology problems etc.

(p) Introduction of computerisation and automation to SMEs, especially in foundries and other machine shops.

Evaluation of Apex Body's Performance

44. Government should establish criteria for evaluating the performance of the agency. The performance of the organisation should be widely published and sent to the highest level of government for review and comment.

Monitoring

45. The agency itself should also be monitored by both government and non governmental organisations such as the National Associations of Chamber of Commerce, the United Nations Development Agency, or the World Bank and others.

Funding

46. This agency should be funded jointly by the Federal, State and the United Nations and its agencies

(a) Cost of Project: To be determined.
(b) Time to Commence: 1998

INFRASTRUCTURAL FACILITIES

47. Government should upgrade or develop industrial clusters/villages/estates in any city where SMEs aggregate. The government should not build a site in a place where nobody is prepared to go. The zones should be equipped with full industrial facilities. It should be provided with adequate water supply, good roads, digital telephones system and centralised administration. The estate should be under the management of private estate companies and its management and payment for services should be by the private stakeholders.

48. A pilot project for technology support to industrial clusters should be started with the following existing clusters among others:

(a) Leather and leather products firms in the Kano axis.

(b) Rubber and Rubber products. SMEs in most of the southern states, Edo, Delta, Ogun, Oyo, Lagos. It is estimated that export of natural rubber can fetch Nigeria a minimum of US $3 billion per year.

(c) Select a cluster of foundries, forge shops and machine makers that fabricate machines for the above products and other products where we have competitive advantage.

(d) The cluster of footwear and leather goods around Aba/Onitsha and Lagos. Upgrade that technologies and make their products competitive. The Aba/Onitsha axis produce a large percentage of foot wears in Nigeria.

(e) Promote the automotive SME clusters at Nnewi which produces around 80% of auto parts in Nigeria.

49. The Head of State to give directive to State and Local governments. Construction of industrial estates to be commenced in 1998 year end.

Measurement Systems

50. Percentage of zones/clusters that established industrial support services with full services such as water, telephone, power engineering services and good access roads.

51. The number of estates that exceed the set standard for industrial estate structures and infrastructural facilities.

The percentage of occupancy of the industrial estates.

TECHNOLOGY AND SKILL ACQUISITION

52. Government to intensify effort on technology acquisition in Nigeria by establishing SME faculties in at least one university in each State of the federation to offer both full time and part time courses on SMEs.

53. The university SME faculties should perform research, development, consulting and extension services to SME entrepreneurs.

54. Government should establish industrial parks in all the universities in the country to facilitate the commercialisation and development of technologies developed both within the universities and their immediate communities.

55. Universities of Technology and Polytechnics to lay more emphasis on science, technology and practical experience acquisition. Deliberate effort should be made to attach students on industrial training to SMEs for entrepreneurship training and transfer of technology.

56. Industrial Development Centres (IDCs) should be established in all States of the federation and provided with the necessary tools. The already existing ones should be provided with enough funds and trained personnel to execute their mandate.

57. Government should give the necessary subsidy and assistance to NGOs to establish Technology Business Incubator Centres (TBICs) to serve as a bridge between Universities, large corporations and SMEs in all States of the Federation.

58. Government should take a full inventory of available local technologies, innovations and commercialisable R&D findings in Nigeria and disseminate such information to SMEs and their Business Associations.

59. Improve technological proficiency of Nigeria labour force through increased opportunities for technical and vocational training, including open apprenticeship schemes. Inculcate awareness of the need for continuous training and re-training of workers in all categories and at all levels, including managerial.

FUNDING OF SMEs

60. The Federal Government should establish a Small and Medium Scale Industries Bank to meet the financial requirements of SMEs, or the mandate of the Nigerian Bank for Commerce and Industry (NBCI) should be reviewed to make loan only available to small and medium scale enterprises.

61. The existing guidelines that require all commercial and merchant banks to allocate a minimum of 16% of their total loans and advances to SMEs should be revised and increased to 20% to cater for increasing demand for long term loans from the SMEs. Banks that fall short of this target should be required to make it available to the Central Bank of Nigeria which will in turn make such funds available to Small and Medium Scale Industries Bank for onward lending to SMEs.

62. Financial institutions should be encouraged to lend to SME5 at market rate less 30%, while interest income from such institutions loans to SMEs should be free of tax.

63. NERFUND should consider the inclusion of working capital fund in their loan packages for SMEs.

64. All unclaimed dividends, unclaimed wages and miscellaneous credits outstanding for six years in the books of companies or public institutions, should be paid to the Small and Medium Scale Enterprises Bank to provide loanable funds to SMEs. A law to that effect should be promulgated immediately, while all Finance heads of private and public organisations be required to sign a declaration every year that such funds have been paid over as required by the law.

65. The national risk fund should be effectively mobilised for the benefit of the SMEs.

66. Federal, State and Local governments should assist in the establishment of NGOs that will facilitate and or guarantee SME loans.

ACCESS TO EXTERNAL AND INTERNAL MARKETS

67. Government should enlist the assistance of the United Nations Development Programme (UNDP) or International Finance Corporation (IFC) and other International Finance agencies to procure the necessary foreign currency to fund SME development in Nigeria.

68. Recognise and develop the West African sub-region market by ensuring the implementation of the free trade agreement within the ECOWAS sub-region.

69. Institutionalise and implement the system of contracting between SMEs and LSEs by using both legislation and incentives to promote compliance.

70. Enact laws to make it compulsory for government and its agencies to patronise made in Nigeria goods.

71. Mount a strong campaign to encourage Nigerians to buy made in Nigeria products and purge themselves of the insatiable thirst for imported products.

72. Subsidise SMEs to participate in international trade fairs.

73. Review the existing export incentives and the institutions administering them for effectiveness (Export Promotion Fund, Export Credit Guarantee and Insurance Scheme, Export Development Fund, Export Expansion Fund, Export Adjustment Scheme Fund, Nigerian Export Promotion Council (NSPC) etc.

74. Nigeria’s Commercial Attaches abroad should work harder and provide information regarding market openings abroad.

REACTIVATION, CONSOLIDATION AND RESTRUCTURING OF GOVERNMENT INSTITUTIONS SET UP TO SUPPORT SMES

75. The charter and organisation structure of the various institutions set up by government to provide credit, training and real services to SME should be reviewed and consolidated to ensure effectiveness. The personnel of these institutions should be properly trained.

Provision of real services by Industrial Development Centres (IDCs) should be strengthened and re-focused to address single product areas to make them effective.

INCENTIVES AND GOVERNMENT SUPPORT FOR SMEs

76. Due to the high incidence of SME failures, SMEs need government's help through generous incentives. Government should therefore grant them the following incentives:

Tax Incentives:

(a) Pre-tax profit of newly established SMEs to be exempted from tax to the tune of capital invested.
(b) Tax credit for R & D expenses.
(c) 10% tax rate for SMEs for the first 5 years of operation.
(d) Exempt from tax, interest income on loans made by banks and other institutional lenders to SMEs.
(e) Make the income of SMEs registered export companies tax free.
(f) Duty drawbacks to be processed timely.
(g) Tax allowance to be given to SMEs for provision of infrastructure e.g. borehole, generators, road construction, where the State has not provided.
(h) Accelerated depreciation of key SME industrial machinery to conserve fund to renovate aging machinery and equipment.

Tariff Incentives

(i) No duty should be charged for industrial machinery imported to Nigeria, in new growth areas.
(j) Elimination of duties on raw materials imported for the manufacture of export goods.

SME PROMOTION POLICIES

77. Recognition of exporters through awards - (e.g. National awards for exporters of the year). Government should patronise the SME by purchasing their products and awarding contracts to them at same favourable prices and payment terms as applicable to foreign companies.

78. Government as a matter of urgency, should build a strong partnership with SME promoters. Government officials should pay visits to SMEs to know them and get acquainted with their needs to facilitate good policy formulation and effective design of supporting institutional framework and implementation of the right incentives.

79. Government policy should specifically target the formal and organised SMEs in order to achieve the specific objectives of establishing a structured and sufficiently matured SMEs towards a sustainable economic development of Nigeria.

80. Incentives to SMEs should be channelled through corporate entities (not individuals) that are firmly on the ground; and possibly those that are members of local chambers of commerce or the Manufacturing Association of Nigeria, or other recognised business associations.

81. SMEs should be given a role in the privatisation of NITEL, NEPA, automobile manufacturing firms and refineries to ensure wide local linkages and value added.

SUPPORT FOR PEASANT AND SMALL SCALE FARMERS

82. Farm implements such as hoes, cutlasses, chemicals, improved seedlings, extension services should be subsidised and channelled to the farmers through a more efficient distribution mechanism e.g. farmers co-operative societies or NGOs.

83. Nigeria is blessed with abundant agricultural resources which are prevalent in the rural areas. These resources remain largely untapped despite the fact that the only source of livelihood is still subsistent farming. Government should either provide and/or, encourage the private sector to make strategic grains reserve silos available to boost food and rural farmers income.

84. Establish post harvest processing facilities and use them to store excess production from the farmers to build a buffer stock.

85. Government should assist in creating export market for exportable agricultural products.

RAW MATERIALS DEVELOPMENT

86. Since raw materials development as a business requires a lot of money, Government should create the necessary incentives to ensure the necessary return to encourage people to invest in them.

87. Private sector should drive the development of raw materials. Government should only provide the enabling environment e.g. stable policy, tax incentives and necessary infrastructure.

88. Recommended incentives

(a) Subsidized R&D equipment.

(b) Zero tariff for imported R&D and raw materials manufacturing equipment and Machinery.

(c) Investment tax credit.

(d) Accelerated capital allowance.

(e) Tax Incentives to companies using local raw materials.

(f) Low interest loan for equipment upgrading to use local raw materials.

(g) Pioneer status for raw materials development companies.

(h) Exempt dividends derived from raw materials manufacturing enterprises from tax.

(i) Exempt raw material manufacturing companies from excise tariff.

CHAPTER EIGHTEEN

SUMMARY OF CONCLUSION

1. The Committee contends that by the year 2010, there should be an improvement in the general quality of life of the rural population. This is crucial if the population must contribute to growth and development. By the year 2010, the country should efficiently harness its national resources for broad-based development. This will guarantee that no Nigerian suffers from starvation. Furthermore, Nigerians must have access to the basic needs of life. This is important if poverty is to be alleviated.

2. Another significant objective is that by the year 2010, infrastructural facilities in the country should be of international standard. Infrastructural facilities should be widely accessible and capable of contributing to the growth of the economy. The facilities should be able to support a GDP growth of about 10%.

3. Core Objectives

From the Development Issues, three core objectives are discernible. They are:

(a) Improve the quality of life of the people, especially the rural population.

(b) Alleviate/eliminate poverty is the country.

(c) Provide and maintain efficient world class infrastructure.

4. Within the context of development, the chapter specified the major strategies needed to realise these core objectives. The proposed strategies are as follows:

(i) Enhance provision of rural infrastructural to create enabling environment for sustainable development of productive activities.
(ii) Promote rural productive activities especially in agro-economic, technological, industrial and micro-credit activities, etc.
(iii) Promote development of village crafts and industries and industrial development of products of Nigeria.
(iv) There should be an integrated rural development approach which must subsist within the framework of the superstructure for national development consistent with the constitutional responsibilities of the Federal, State and Local government levels.
(v) Establish the Nigeria Integrated Rural Development Commission (NIRDC) to be responsible for coordination, policy formulation, monitoring and promotion of effective performance.
(vi) Eradicate adult illiteracy by 2005 through sustained mass literacy programmes.
(vii) Establish State and Local Government integrated rural development agency.
viii) Restore and improve agriculture extension services to educate rural farmers on agro-related technology, production and processing of agricultural products, etc.
ix) A rural housing scheme with community, State and Local governments and NGOs participation should be established in 1998. The focus would be on new housing designs using mainly local inputs.

5. In order to alleviate and/or eliminate poverty, the Committee offered the following strategies:

(a) Evolve a framework for a coherent and effective implementation of all social and economic development policies.

(b) Achieve rapid and sustainable GDP growth rate of 7% -10% per annum and move towards raising income per capita and a reduction of population growth rate from 2.8% per annum to less than 2% by the year 2010.

(c) Adopt development strategies and policies that create employment opportunities.

(d) Ensure food security and substantial improvement in nutritional standards.

(e) Reduce poverty arising from poor access to adequate infrastructural facilities, health and education.

(f) Enhance female education and discourage early marriages below the age of 18 years.

(g) Formulate in integrated poverty alleviation programme to form part of both the private and public sector programmes and involve communities in designing and implementing poverty alleviation policies and programmes.

(h) Introduce a wage system that would enable workers to meet the basic needs of life in phases to the year 2010.

(i) Government should establish, from 1998, a price support scheme for major agricultural products through large purchases at above market price during harvest period when prices fall.

(j) Government should stop furnishing houses for civil servants from 1998-2002 and all money saved should go to the construction of new houses.

(k) Government should increase funding of micro-credit institutions, up to the year 2003, after which they should be self-sustaining.

6. To provide and enhance infrastructural facilities of international standard, the Committee suggested the following strategies:

(a) Ensure improvement in physical and socio-economic infrastructure and facilities.

(b) Ensure effective coordination of planning, design of facilities, e.g. road construction, ducting for telephone, transport network.

(c) Establish inter-sectoral commission at high level for effective coordination of plans for infrastructural facilities.

(d) Review existing laws to encourage private sector participation in the provision of infrastructure - roads, rail, telecommunications, electricity, water, etc.

(e) Construct East-West rail line for improved movement of people and goods.

(f) Complete on-going refurbishing of all existing rail tracks, locomotive rolling stock and communication facilities.

(g) License new telecommunication carriers.

PART FIVE

CAPITAL MOBILIZATION

1. In any modem capitalist exchange economy, the importance of the financial sector cannot be overemphasised. The importance stems from the many findings it performs in the economy, without which the growth of the economy would be impossible. One of these key roles is the financial intermediation between deficit and surplus units of the economy. It mobilizes funds of varying maturities and utilizes same to finance the industrial sector of the economy using a mix of debt and equity instruments. How this sector is organised and quoted so as to efficiently and effectively discharge this rule in Nigeria is of great significance to the Vision 2010 project The issue is particularly important in view of many problems plaguing the financial sector in Nigeria The problems of distress, inadequate capitalism, fraud, public debt overhang etc. need to be completely resolved or at least minimised, if the sector is to be effective and not a drag in the years ahead to year 2010.

2. A key aspect of capital mobilization is banking and finance. The Committee recognizes the financial sector as the power house of the economy. The financial system comprising a network of financial institutions provides services such as resource mobilization and allocation, financial intermediation, advisory services, facilitation of foreign exchange transaction and insurance services. The Committee identified and focussed attention on 10 key issues that must be satisfactorily managed for efficiency and effectiveness. On every issue, the group discussed where we are, where we want to be and how to get there. The Group extensively discussed all the issues relating to this sub-sector and recommended several actions that will lead to a well structured and adequately mobilised financial services sector, capable of discharging its obligations efficiently and effectively, as we march to the year 2010.

3. The Committee’s work on Capital Markets focussed on the widening and deepening of the country’s capital market to make it play more active role in the march towards economic emancipation. As the major source of long term investment funds, it is essential to have a well developed, efficient and vibrant capital market if Nigeria is to achieve the desired accelerated economic growth and development. Against this background, the Committee traced the history of the Nigeria’s capital market and appraised its current state. Though the market recorded some improved trading conditions in the last couple of year, the performance is still unsatisfactory in terms of market capitalization, turnover, sophistication, efficiency of operation and transparency. The market turnover and capitalization GDP ratios are very low, making it very illiquid when compared with other countries with economies almost similar to Nigeria’s. The group made wide range recommendations on how the market can be modernised and widened.

4. The work of the Committee on Debt Management focused on the nation’s public, domestic and external debts. High debt service ratio can pose a serious obstacle to a rapid and sustainable economic growth and development. After reviewing the country’s debt portfolio, the Committee agreed that current external debt stock and debt service ratio are too high. If nothing is done, it could pose a serious obstacle to the realisation of the country’s lofty goals and objectives as we march to year 2010. It is therefore imperative that the quantity and structure of debt be properly monitored and managed to guarantee economic growth.

5. The Committee appraised the current debt management situation, identified elements of an optimal situation and suggested strategies to optimise Nigeria’s debt position.

CHAPTER NINETEEN

BANKING AND FINANCE

HISTORICAL TRENDS AND PATTERNS

Evolution of the Nigerian Financial System

1. Modern banking in Nigeria started in 1892 during the colonial era with the establishment of the African Banking Corporation solely for the distribution of currency notes of the Bank of England. With further developments by colonial entrepreneurs by 1958, there were only seven commercial banks, very few development financial institutions and insurance companies characterised by the dominance of foreign banks limited banking habit, absence of comprehensive banking laws and non-existent merchant banking. However, with the establishment of the Central Bank of Nigeria in 1958, coupled with the indigenisation measures of the l970s, the number of commercial and merchant banks increased to 28 and 12 and by 1993 to 66 and 54, but dropped to 64 and 51 respectively by 1995 following the liquidation of five banks. Further developments include the emergence of innovative institutions like the People's Bank, Community Banks, Finance Companies, Discount Houses, Primary Mortgage Institutions, more specialised Development Banks, the Nigeria Export-Import Bank and new regulators like the Nigeria Deposit Insurance Corporation. The Financial Services Regulation and Coordination Committee (FSRCC) was established in CBN in 1994 to co-ordinate the activities of increasing number of regulators (CBN, NDIC, SEC, NSE, FMBN, NBCB, CAC, Director of Insurance).

2. The number of commercial and merchant bank branches and their distribution are shown in Tables 2.1 and 2.2 respectively. Figures 2.1, 2.2 and 2.3 represent the number of commercial banks in Nigeria, the distribution of commercial banks branches and the number of merchant bank branches respectively. The structure of the insurance industry by type of business ownership and the distribution of insurance companies by type of business are shown in Tables2.3 and.2.4 respectively.

3. Developments in the Nigerian financial sector have been classified into four phases:

(a) The era of free banking (1892-1951) - designed to facilitate and promote colonial business interest rather then investment in productive activities. The period was largely characterised by the absence of banking laws.

(b) Emergence of banking regulations (1952-1958) - The enactment of the 1952 Banking Ordinance to address bank failure and other financial sector inadequacies. It provided for licensing requirements and the introduction of orderly procedures and standards for conducting banking business.

(c) Era of consolidated growth (1959 - 1985) - characterised by:

(i) Enactment of the CBN Act in 1958 and commencement of operations in 1959.

(ii) Introduction of short-term government debt instruments (Treasury Bills) in 1960

(iii) Introduction of treasury certificates in 1968 and certificates of deposit in 1975.

(iv) Establishment of Lagos Stock Exchange in 1960, reconstituted into Nigerian Stock Exchange in 1977.

(v) Establishment of development finance institutions like Nigerian industrial Development Bank (NIDB) in 1964, the Nigerian Bank for Commerce and Industry (NBCI) and the Nigerian Agricultural and Co-operative Bank (NACB) in 1973.

(vi) Transformation of the Nigerian Building Society into Federal Mortgage Bank of Nigeria, established in 1977.

(vii) Development of non-banking financial institutions like the National Provident Fund (NPF) in 1961, now the Nigeria Social Insurance Trust Fund (NSITF).

(viii) Securities and Exchange Commission (SEC) in 1978 as capital market apex regulator.

(ix) Emergence of new private banks.

(d) Era of finance system deregulation (from 1986) - characterised by the adoption of Structural Adjustment Programme (SAP), the dismantling of controls in the economy and the spread of banking services. The number of banks rose sharply from 41 in 1986 to 119 by 1991, culminating in the placement of embargo on new banks effective 1991 and the promulgation of the Failed Banks (Recovery of Debts) and Financial Malpractice Decree 18 of 1994. This period also saw the emergence of hundreds of finance companies, primary mortgage institutions and community banks.

Structural, Legal/Regulatory Changes

4. Some remarkable changes have been recorded in the financial system in recent years. With an unstable operating environment of high inflation, negative interest rates in real terms and deepening distress, significant steps were taken to sanitise the banking and finance sector. With suspension of granting of new bank licences coupled with the withdrawal of some bank licences, the number of licensed banks fell to 115 (64 commercial and 51 merchant banks) in 1995. (See Table 2.2.1). However, with the substantial increase in the number of community banks from 970 to 1,355 in 1995, banking density declined to 25,220 from 27,122 persons per banking office in 1994 (Annex IV)

(a) Legislative and regulatory changes in 1994 and 1995 had significant impacts on the financial system. These include the Failed Banks Decree 18 of 1994 the Financial Services Regulation Co-ordinating Committee (FSRCC) of CBN in 1994.

(b) Money Laundering Decree No.3, the Nigerian Investment Promotion Commission Decree No.16; the Foreign Exchange (Monitoring and Miscellaneous Provision) Decree No. 17 - all promulgated in 1995. Although the number of financial institutions reduced in 1995, the emerging structure of the financial sector remained large and complex. More information about these developments is contained in Annexure II & III.

Where We Are

5. The financial services sector is the powerhouse of the economy as it plays important roles in economic growth and development. The financial system through its network of financial institutions provides financial services which include resource mobilisation and allocation, financial intermediation and advisory services, facilitation of foreign exchange transactions and insurance services. The network of financial institutions operating under set rules and regulations comprises the regulatory and supervisory authorities, banks and non-bank financial institutions. In Nigeria, developments in the banking and finance sector since 1986 include significant changes in ownership structure, number of institutions, the economic environment, as well as the regulatory framework.

Structure Of The Nigerian Financial System

6. The monetary authorities, comprising the Federal Ministry of Finance (FMF) and the Central Bank of Nigeria, exercise overall control over the network of financial institutions in the banking and finance sector. The money market, the capital market, the foreign exchange market, development finance institutions, finance companies and other innovative institutions constitute the key sub-sectors in the financial sector. The CBN and the Nigerian Deposit Insurance Corporation (NDIC) deregulate the money market operated mainly by commercial and merchant banks, discount houses and community banks. The Securities and Exchange Commission is the lead regulator of the capital market sub-sector operated by the Nigerian Stock Exchange, the issuing houses and the stockbrokers. The main operators in the development finance institutions sub-sector are the NIDB, Nigerian Agricultural and Co-operative Bank, Nigerian Bank for Commerce and Industry and the Federal Mortgage Bank, which exercises control over the emerging mortgage institutions. New forms of specialised development finance institutions include the Urban Development Bank, Maritime Bank, Education Bank and other innovative institutions like the Nigerian Export-Import Bank, the People's Bank and finance companies. The National Insurance Supervisory Board and the FMF regulate insurance companies and brokers in the insurance sub-sector. (See Annex II). Annex III shows the different types of banking institutions in the Nigerian financial system.

Current Performance

7. The banking and finance sector plays a very crucial role in a modern economy. In Nigeria, the banking and finance Sector is one sector that prospered throughout the 1980s and early 1990s. As at 1959, when the Central Bank of Nigeria was established, there were only 12 commercial banks and one merchant bank operating in Nigeria. Just before the introduction of SAP in 1986, there were 41 Commercial and merchant banks in the country. The introduction of the SAP in 1986 provided opportunities for rapid expansion of the sector. The reforms introduced by SAP such as the liberalisation of exchange controls and the deregulation of interest rates and so on provided the needed impetus for the sector to grow. Consequently, the number of banks and other financial institutions increased significantly. By 1996, there were close to 120 commercial and merchant banks operating in Nigeria. The asset base and the branch network as well as the number of available instruments have also recorded impressive growth records over the years. Competition has thus intensified in the sector.

8. Similarly, the number of insurance and re-insurance institutions as well as Stock broking firms and finance houses has increased tremendously over the past decade or so. Both the amount of premiums and the diversity of policies written by the country's insurance companies have also witnessed remarkable improvements over the years. Virtually all the key indicators of performance show that the sector made impressive progress, particularly between the 1980s and early 1990s.

Distress

9. Today, the banking and finance sector, which is supposed to be the power house of the Nigerian economy, is in great shock of distress and failure on a scale never recorded or even imagined. Available information indicates that over 40 commercial and merchant banks are currently in distress, causing untold hardship for depositors. Above all, the widespread distress in the banking system has adversely affected the confidence of the banking public in the system. About four years ago, several finance companies and "wonder banks" collapsed and with them a lot of depositors' funds. Today, the banking and finance sector is still caught in the distress syndrome and has lost credibility as well as its essence and bearing.

Low Savings Mobilisation and Short-term Lending

10. In the area of financial intermediation, savings mobilisation remains low or inadequate for the development aspirations of the economy. Nigerian banks do more of short-term overdraft lending which is not necessarily compatible with the developmental requirements of the real sectors of agriculture, industry and minerals development (including solid minerals and petroleum) which generally require long-term financing. This poses a serious threat today to the relevance and capacity of the country's developmental process.

Poor Capitalisation of Insurance Industry

11. Nigerian insurance companies are poorly capitalised and consequently, unable to cope with the challenges of serving as the manager of the variety of risks that are associated with businesses, individuals and the nation. Apart from this, the general belief is that the insurance companies have poor if not doubtful claims payment records. Consequently, the insurance sub-sector suffers from an image problem within the country.

Unethical Practices

12. For the other operators including mortgage and stock broking firms, the picture is not too different. Rampant unethical practices in the industry necessitated the setting up of the Failed Banks Tribunal which has already tried a number of bank executives.

Venture Capital

13. The phenomenal growth of the banking sector in recent years and the increased sophistication of the wide array of financial instruments have at best promoted trade, commerce and services. The manufacturing sector has continued to experience acute shortage of long-term investment venture capital that is supportive of technology innovation and development needs since the banking sub-sector has little or no access to long-term finance or instruments that are supportive of venture capital. In fact traditional financiers are known to do better business in trading and foreign exchange dealings.

WHY WE ARE WHERE WE ARE

14. The Nigerian financial system has been acclaimed as the "most dynamic and diversified in sub-Saharan Africa" (World Bank, 1993). However, the system is beset by many problems which have impeded its efficiency and effectiveness in recent years, culminating in the widespread distress evident in the banking and finance sector. Though the current efforts of the government in guidedly deregulating the financial system have borne evident fruits, tremendous improvements are needed in the areas of licensing of new financial institutions, supervision of the institutions and financial markets, as well as failure resolution.

Licensing Process For New Financial Institutions

15. The current distress in the Nigerian financial system has amply underscored the need for a much more rigorous licensing procedure for new institutions. In the past, licences for new institutions were given out to people who, in retrospect, were not "fit and proper persons" and backed sufficient expertise, proven management competence and integrity to operate financial institutions in a safe and sound manner. The initial personal stakes in the form of equity capital provided by some promoters were rarely thoroughly investigated to determine source and legitimacy of funds. Consequently, some promoters were able to establish financial institutions with borrowed funds and therefore without real personal stake in the institutions. With the benefit of Nigerians can now see that some promoters of financial institutions had intended to use their institutions to promote personal interests at the expense of depositors and the financial system.

(a) The licensing of new institutions had rarely been properly sequenced. The number of banks (commercial and merchant) at the end of 1989 stood at 81 but by 1990 year-end, the number was 107. In other words, 26 new banks within one year. The story was even worse for finance companies and later Primary Mortgage Institutions (PMIs) as well as community banks. To worsen the situation a large number of the banks were engaged almost entirely in foreign exchange transactions with only an office or two.

(b) Another area of licensing lapse was the absence of clear exit criteria. While it was somewhat clear about what was required to start and run an institution, it was not so clear what the exit criteria were, not so clear. Consequently, operators continued to run their financial institutions so long as they were able to pay depositors or serve clients, even when their institutions were technically insolvent. There is no doubt that these lapses and absence of adequate supervision were at the root of the current distress in the financial sector.

Supervision

16. Regular and effective supervision remains the most potent antidote against widespread deterioration in the operating conditions of financial institutions. Supervision should be a continuous process of assessing operating conditions for timely identification and resolution of emerging problems. The capacity to supervise effectively should be an important determinant of the number of institutions to be licensed. Unfortunately, this had not been the case in the recent history of financial institutions in Nigeria. For example, hundreds of finance companies were licensed in the early 1990s but were never supervised; consequently, the companies failed as rapidly as they were licensed.

(a) Another problem area in supervision is the inability of Nigerian supervisors to readily identify connected lending, which is the extension of bank credit to the bank owners or their related companies. The current distress in the banking sub-sector has revealed large amounts of uncollaterised and non-performing credits extended to bank directors and/or their related companies, often times in contravention of laws concerning disclosure and adequate collateralisation.

(b) Ideally, off-site surveillance of banks should provide the input and direction for on-site examinations. However, the returns received from some operators are usually doctored and window-dressed with the result that such information does not provide the CBN and NDIC with the requisite early warning signals expected from them. This situation has put the supervisory institutions in a position of having to rely too heavily on on-site examinations.

(c) In other countries, external auditors of financial institutions provide an efficient and independent source of cross-checking and cross-referencing information on financial institutions, thus complementing the supervisory activities of the authorities. However, in Nigeria most auditors' reports are often too general, vague and stereotyped as if prepared merely to meet legal requirements. Auditors have been known to have given some financial institutions a clean bill of health only to be discovered that the institutions are indeed insolvent and not liquid! It would seem that some audit firms are afraid to lose their clients because of qualifying audit reports. This unhealthy situation underscores the need for more effective supervision and sanctioning of accounting and auditing firms.

Financial Markets

17. Financial markets occupy a central place in the financial system and enable deficit spending units to access the funds of the surplus spenders for consumption and investment which have direct links to the national output. For effective intermediation, financial markets must have breadth, depth and resilience, qualities currently lacking.

(a) The money market has historically been dominated by government short-tenored instruments, principally Treasury Bills (TBs) and Treasury Certificates (TCs). A situation where the government raises over 90% of the funds in the market is not healthy for the growth of the market. Private sector borrowings through such instruments as Commercial Papers (CPs) and bank acceptances need to be increased, so that in time, such instruments would dominate the market.

(b) The recent distress in the money market has not helped the growth and development of the market. In recent times, there has been the anomalous situation where strong banks are awash with liquidity and interest rates have reportedly crashed, however, without borrowers asking for loans. Of course this is brought about by the lack of growth in the economy with the real sector stagnant, thus the absence of bankable projects and low propensity to invest.

(c) The capital market, which is now 36 years old, has not fared any better, particularly when compared with emerging markets comparable in age to the Nigerian markets. In spite of the thousands of registered companies in Nigeria, less than 200 raise long-term funds in the capital market such that equity capitalisation is a mere 10% of GDP at 1995 prices.

(d) Also, the market records relatively low trading activities because of the paucity of traded securities due mainly to the large blocks of such securities held by institutional investors and high net worth individuals and the unwillingness of Nigerians to sell their shares even when it is profitable to do so. Efforts must be made to break the buy-and-hold attitude of Nigerian investors through enlightenment and availability of other investment opportunities with good yield.

(e) In addition, high transaction costs have contributed to the reluctance of registered companies to enter the market. Where it costs a company as much as 10% of amount raised compared to about 5% to 6% in emerging markets, it is evident that such cost can be a disincentive to raise funds in the market. The Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) must find ways of bringing down the cost of entering the market to encourage greater patronage. They should also encourage more companies to get listed as well as raise more instruments to help raise long-term funds for governments, institutions and organisations.

(f) The traditional mortgage market is virtually non-existent in the country, yet Nigerians talk about housing for all in the year 2000 (3 years from now!). It is a well-known fact that the Primary Mortgage Institutions (PMIs) are not lending for housing, neither are the banks. Where then are Nigerians expected to source long-term funds for housing development? Is it possible to entice liquid banks into the housing markets? Perhaps with some guarantees, banks which are able to source core deposits may be interested, particularly if there is an active secondary market for mortgage loans. In this respect the National Housing Fund and the Federal Mortgage Bank should both be adequately funded and directed to ensure the establishment of a real, viable and resilient mortgage industry.

(g) In the insurance market, the newly created National Insurance Commission (NAICOM) has many problems awaiting resolution. The problems include the perennial poor image of insurance companies in Nigeria arising from inability and sometimes unwillingness to settle claims promptly, inadequate capitalisation and inadequate supervision. The distress in the sub-sector has to be addressed along with the recapitalisation of the solvent companies as well as capacity building. Since it is a fact that the success of an insurance business is a function of a buoyant and growing economy, the Nigerian economy must be made to grow to facilitate the growth of the insurance industry.

Failure Resolution

18. An assessment of the current health of the institutions in the Nigerian financial system would reveal many failed institutions in the various sub-sectors. That the failed institutions are allowed to remain in the system is indicative of the absence of clear exit procedures for the licensed institutions. Where such procedures may be available, it would seem that the regulatory supervisory authorities have displayed the lack of courage in seeing to the exit of the failed institutions. However, this inability may be associated with absence of political will to deal with the situation at hand.

(a) To allow failed institutions to remain in the financial system poses dangers to the stability of the system and exacerbates the losses to be borne by depositors and sundry creditors. Such institutions have been known to borrow at almost any rate of interest to stay in business and such distressed borrowing distorts the rates structure in the market and denies viable institutions the borrowed funds which could have been profitably utilised to benefit the economy. Because the institutions have already failed, the new depositors stand ab initio to lose their principal not to mention the promised interest. Such losses are capable of precipitating runs on marginal institutions, in addition to depositors' loss of confidence in the system. In the final analysis the economy and the nation are the losers.

(b) It is for the above reasons that regulatory/supervisory authorities should have clear, enforceable exit procedures for failed institutions.

WHERE WE WANT TO BE

19. Nigerians want to have in place a well-structured, adequately funded, and vibrant financial services system that will adequately cater for the short to medium-term needs of the economic sector; and help launch the nation into sustained economic growth and development.

20. Because of the peculiar nature of the banking/finance business, it is important to clarify the sort of regulations that would ensure a safer, sounder banking system with built-in protection for the depositor to engender confidence in the banking and finance sector. On how best the regulatory authorities can police the banks and other financial institutions, it might be necessary to now assign specific macro-economic targets to the CBN as it is in New Zealand where an inflation target is given annually. Attainment or otherwise of the target would partly determine the tenure of the governor and the board. Nigeria would need to properly define the role of the CBN as only a lender of last resort and the banker to the government in the sense of being the government's funds manager.

21. It is common knowledge that non-availability of capital has been one of the greatest impediments to increased investment in Nigeria. The country needs to improve the financial intermediation process to achieve a fairly high level of investment especially in agriculture, industry and mineral development. The banks should move away from the short-term overdraft financing posture to a more progressive practice of building long-term partnership with the real sector more in line with the German model.

22. Nigeria needs to develop venture capital as a long-term finance instrument for start-up and early stage development of innovative viable businesses that do not have access to public or credit-oriented institutional funding. A lot of inventions, innovations and improvements in technology and products in Britain and many developed countries are largely financed by venture capital and these form a very significant proportion of investment in industrial output and real sector growth. With the great talent and multitude of research agencies available in the country, Nigeria ought to exploit this veritable and relatively cheap source of investible funds.

23. To effectively perform the financial intermediation function in the 21st century,

Nigeria's financial institutions and high net worth entrepreneurs should set-up venture capital for start up projects and specialised funds for the development of specific sectors in form of mutual funds, unit trust scheme, etc.

HOW TO GET THERE

24. By the year 2010, the banking and finance industry should be devoid of financial rigidities in terms of funds inflow and outflow, characterised by flexible operational capacity, diversified products, efficient service and high professionalism.

25. The Nigerian economy, having experienced considerable macro-economic instability with a substantial decline of purchasing power for most Nigerians (an average of 1.6% per annum in the past 20 years compared with population growth of 2.7% per annum and high rate of inflation) must be able to improve living standards by providing improved access to loanable funds in the banking and finance industry. Indeed, the high rate of inflation, has greatly depressed the growth of the market for long-term funds. The demand for life insurance policies and the availability of fixed interest-bearing long-term securities are considerably low. A necessary condition for long-lasting growth and development of the financial markets is financial deepening through inflationary control and real growth of the economy with investment opportunities and good returns.

26. Once this is achieved Nigeria's gross national savings would grow from the current level of about 12.55% of GDP (compared to 32% in Malaysia and 29% in Indonesia) to at least 20% of GDP by the year 2010. Furthermore, the banking and finance industry would be able to contribute not less than 5-6% of total output compared with the present level of about 2.5%.

27. Nigeria needs to expand its financial intermedition activities not only to West Africa but to other African and Asian countries at least by the year 2010. The need to strengthen trade between the West African sub-region and to engage in spot market trade in oil and other basic commodities (cotton, groundnut, cocoa, gum arabic) with other interested parties abroad would pave the way for fully and freely convertible currency and for increased earnings in foreign exchange.

28. Confidence in the banking and finance industry hinges critically on macro-economic stability, Naira exchange rate stability and policy consistency over a long period of time. And all of these depend on political stability and good governance.

29. Having outlined the major problems confronting the financial sector and what Nigerians Want it to be by 2010, the following measures have been identified as necessary conditions for achieving a robust financial services sector for the economy:

30. **Licensing**

(a) Nigeria needs to adopt and ensure the proper and optimal timing and sequencing of the introduction of new institutions over a given number of years.

(b) Clear entry and exit criteria which would be understood by all operators should be established.

(c) Thorough investigation and assessment of potential promoters/shareholders of new institutions must be carried out before licensing for the purpose of establishing:

i) Source of initial capital;
ii) Sufficiency of the capital; and
iii) Related interests.

(d) The boards of the institutions must be composed of people of verified and certified integrity who are knowledgeable in financial matters.

(e) The management teams must convince the regulators that they are competent, have sufficient expertise and integrity to manage the institutions.

Supervision

31. The 1997 national budget has directed the Central Bank of Nigeria (CBN) to “control and supervise” all deposit-taking financial institutions in the financial system and to regulate non deposit-taking institutions like the development banks while the Securities Exchange Commission (SEC) shall continue to monitor the institutions in the capital market. Also, the budget formally adopted the existing Financial Services Co-ordinating Committee (FSCC) as the organ to co-ordinate supervision in the money and capital markets through shared information, however, under the chairmanship of the Honourable Minister of Finance instead of the CBN where it originated and was hitherto. This new structural change should be fully and immediately implemented though the FSCC and should perhaps revert to the CBN.

(a) As an insurer of deposits in commercial and merchant banks, the NDIC complements the supervisory roles of CBN over commercial, merchant and community banks. However, given the expected increase of tempo in the receivership and liquidation activities of the corporation, on-site examinations would be restricted to target examinations while the CBN would continue to do the routine ones. The off-site supervision which is currently being computerised would continue to be jointly conducted by both institutions.

(b) In addition, on-site examinations are ideally expected to be conducted on a “consolidated basis”, that is, to include all the activities conducted by an institution either directly or indirectly through subsidiaries and affiliates. However, in Nigerian situation, some institutions engage in unauthorised activities which are unknown to supervisors and this behaviour has the potential of increasing risk to depositors. For example, it is now common knowledge that some distressed banks became distressed because depositors’ funds were used by the banks for trading directly in such goods as cement, fish, sugar et cetera. Not being experienced traders, the banks 1ost the depositors’ funds through trading losses or through ‘419’ scams. These acts must be severely punished because of their potential for instability and 1oss of depositors’ funds.

Financial Markets

32. For effective intermediation, financial markets must have breadth, depth and resilience. It must have many buyers, sellers and instruments while the price changes must be random as well as unpredictab1e. The financial markets in Nigeria fall short of these ideals and efforts must be intensified to remedy their deficiencies.

The Money Market

33. The recent distress in the money market has not helped the growth and development of the market. To correct the anomalous situation where strong banks are awash with liquidity and interest rates have crashed, yet borrowers are not asking for loans, ways must be found to direct such liquidity into production so that jobs can be created for the teeming unemployed In this regard the government can guarantee bank loans to small-scale businesses able to meet some pre-determined guidelines. Similarly, the macro-economy must be reinvigorated, capacity utilisation improved and economic activity expanded to engender greater prosperity and thereby increase the need to borrow and invest.

The Capital Market

34. To study the capital market and make it grow, a sustained campaign to make the investing public aware of its potential in creating wealth should be embarked upon

(a) In addition, high transaction costs which have contributed to the reluctance of registered companies to enlist in the market must be brought down. Also SEC and NSE must embark on a drive to list as many successful and viable companies on the exchange as possible. Similarly, the market must have efficient telecommunications systems so that transactions are concluded faster than it is now. In this regard, the proposed central Securities Clearing System should be installed and commissioned and the call-over trading system needs to be automated.

Insurance Industry

35. For the insurance sub-sector, there is no doubt that a lot of work still remains to be done. It is believed that the insurance industry should be built up to the level required for the accelerated growth proposed under Vision 2010. For instance, insurance institutions in the developed countries are often as big as, if not bigger than, bank and they engage in the provision of long-term investment funds. The insurance companies are currently at a disadvantaged position compared to the banks due to poor capitalisation. Nigeria should enhance their capacity to cope with the challenge of managing risks in the economy, hence the need to substantially increase capital requirements for insurance and related businesses. And as the economy expands and more and more people come into the formal sector, arrangements for pension or individual and group retirement plans will become more and more relevant. It is important to adequately prepare the insurance institutions for this role and the mobilisation of long-term funds for investment in the economy.

36. In summary, the financial markets can be improved along these lines:

(a) Concerted efforts must be made to expeditiously address the distress in the various financial markets.

(b) There is the need for greater private sector borrowing in the money market, using new instruments that vary in tenor and yield to counter the prominence of government in the sub-sector.

(c) Ways must be found to redirect the excess liquidity in the money market into the mortgage market which at the moment is non-existent.

(d) The capital market must find ways of increasing its market capitalisation much higher than the current average of 10% of GDP through creative programmes to encourage market patronage and through reduced cost of raising funds in the market.

(e) Adequate capacity building is a must in the markets, particularly in the insurance market which appears to suffer the most from public apathy.

Failure Resolution

37. Regulatory/supervisory authorities should have clear, enforceable exit procedures for failed institutions. In this regard, there should be clear legal framework and procedures for intervention in, and liquidation of, the failed institutions to protect depositors and the system. The framework and procedures should be such that would allow the authorities to negotiate restructuring and mergers of the institutions, to appoint a receiver and to liquidate the assets in an orderly manner. Given the high incidence of distress in the Nigerian financial system and the small proportion of the distress resolved, the following proposals are made for early resolution of distress:

(a) In the banking sector, the NDIC should work out modalities for the immediate liquidation of the identified critically distressed commercial and merchant banks.

(b) A programme should be worked out by the CBN or its nominated agents to resolve the overhanging distress in finance companies, primary mortgage institutions, insurance companies and community banks.

(c) A comprehensive framework for failure resolution in the financial system should be worked out by the apex regulator that would allow for removal of management/board, compulsory mergers, acquisitions, restructuring and liquidation of distressed institutions.

Venture Capital

38. Develop venture capital financing as an attractive alternative source for long-term financing of the productive sector. Venture capital should be used to promote and support innovation and invention as a deliberate strategy to develop a sound technological base for the fledgling Nigerian economy.

RECOMMENDATIONS

38. The Banking and Finance sub-committee took cognisance of and recognised previous efforts of the 1st, 2nd & 3rd Nigerian Economic Summits. Early and prompt interventions, through reforms and enforcement actions to ensure macro-economic stability, a healthy external environment and the opening up and harnessing of the nation's vast economic potential for accelerated sustainable economic growth and development, should aim at:

(a) maintaining monetary and fiscal discipline to permanently reduce inflation to single digit levels.
(b) promoting market-driven interest and exchange rates to achieve full Naira convertibility over a reasonable period of time.

(c) removing barriers hindering free competition in the banking and finance sector.

(d) developing active capital and money markets to promote saving and long-term productive investment.

(e) decisively addressing the issue of distressed banks to restore confidence in the financial sector.

(f) developing risk fund and venture capital.

(g) integrating the informal sector into the system.

(h) modernising the payment system by discouraging cash economy.

(i) reviewing deposit insurance premiums and cover.

(j) reviewing and re-aligning all laws in the financial services sector to remove inconsistencies and overlaps.

39. The Group observes the remarkable increase in official action to address the problems of the banking and finance sector in recent years. Modest achievements have been made in the enforcement of banking laws particularly the Failed Banks Decree and the abrogation of laws hindering foreign investment. The tight fiscal and monetary discipline since 1995 has led to a reduction of inflation rate and Naira exchange rate stabilisation.

Short, Medium To Long –Term Actions

40. The Committee notes the improvements in the financial sector through guided deregulation of the economy with reforms such as the repeal of the Nigerian Enterprises Promotion Decree, the Exchange Control Act and the promulgation of the Failed Banks Decree (1995). These notwithstanding confidence crisis in the sector has persisted. From the banking and finance sector perspective, the following actions should be taken to move forward and effectively realise where Nigerians want to be by the year 2010 and beyond:

(a) Short-term Measures

(i) Reinstate CBN autonomy in the area of monetary policy and utilisation to ensure discipline, objectivity in monetary policy decision-making and implementation, and a focused direction of the economy in consonance with and as a complement to fiscal policy.

(ii) CBN should be empowered to withdraw the operating licence of any distressed financial institution.

(iii) Review banking licensing procedure to make it more thorough.

(iv) Resolve current distress in the financial services sector by the end of 1997.

(v) Eliminate the dual exchange rate system to promote transparency and accountability as well as Naira convertibility.

(vi) Government should commission a study on streamlining overall regulatory framework to eliminate overlaps of financial system sub-sectors.

(vii) Strengthen the capital market to expand its activities, list more companies, and attract more long-term investors.

(b) Medium /Long Term.

(i) Full Naira convertibility to be achieved within the shortest possible time to enhance free flow of capital, attract foreign investors and open the economy.

(ii) Introduce universal banking by the year 2002

(iii) Emphasise continuous manpower development and training to ensure professionalism at all levels.

(iv) The ban on offshore guarantees for credit extension should be removed.

(v) All laws infringing on banker/customer confidentiality other than the due process of law (i.e. the court) should be abrogated.

(vi) All banks including the Central Bank of Nigeria should compulsorily adopt full computerisation and networking system by the year 2000.

(vii) Government should agree and implement Medium-Term Economic Strategy Plan (MTES) to resolve the lingering debt problem.

(viii) Encourage the establishment of non-bank financial institutions.

(ix) Create appropriate incentives to encourage the emergence of rural banks.

(x) Constantly review entry and exit barriers to allow timely exit of distressed financial institutions and entry of strong new ones

(xi) Institute appropriate mechanism for future distress prevention and resolution.

(xii) Adopt a popular policy formulation procedure with realistic implementation time-frame.

(xiii) NDIC should be adequately funded to carry out its responsibilities.

(xiv) Venture capital should be developed and mobilised as a deliberate policy to promote innovation and foster the realisation of a technologically self- reliant industrial nation.

(xv) Re-orientate the insurance industry through adequate capitalisation and closer supervision to help raise more long-term funds in the economy.

A SUMMARY OF THE VISION, OBJECTIVES AND STRATEGIES

THE VISION

41. "A well-structured, adequately funded and vibrant financial services system that will adequately cater for short to long-term financial needs of the economic sector and thus launch Nigeria into sustained economic growth and development"

42. **CORE OBJECTIVES**

(a) Optimally tenored funding with highly effective and efficient cash management.
(b) Lending to activities with potential for high multiplier effect.
(c) Effective management systems.
(d) Flexible system structure.
(e) Proactive legal and regulatory framework.
(f) Effective mechanism for the detection, prevention and resolution of distress.
(g) Highly innovative external finance system.
(h) Strong, viable and innovative insurance sector.

43. **STRATEGIES**

(a) Objective:

(i) *Optimal tenured funding with highly effective and efficient cash management.*

(b) **Strategies:**

(i) Develop and implement confidence building programmes for the banking public.

(ii) Promote risk fund venture capital to finance innovations.

(iii) Integrate informal sector to attract at least 70% of the total currency in circulation into the banking system.

(iv) Promote technology-based payment system (credit cards, electronic transfer etc.) and discourage cash economy.

(c) **Objectives:**

(i) Highly effective trade finance system.
(ii) Highly innovative external trade finance system.
(iii) Lending to activities with potentials for high multiplier effect.

(d) **Strategies:**

(i) Agree and implement Medium-Term Economic Strategy (MTES) to resolve the debt overhang.

(ii) Totally deregulate foreign exchange market.

(iii) Ensure Naira convertibility by the year 2002.

(iv) Initiate and develop national correspondent banking within Nigeria and with ECOWAS sub-region.

(e) **Objective:**

(i) Proactive legal and regulatory framework.

(f) **Strategies:**

(i) Accord CBN instrument autonomy in the areas of its core functions.

(ii) CBN should stay focused on its core functions.

(iii) Undertake a thorough and effective review of the funding of the NDIC.

(iv) Strengthen cash deposit insurance programme to make it more market- related.

(v) All laws infringing on banking/customer confidentiality other than through due process of law should be abrogated.

(vi) Review and re-align all laws in the financial services sector to expunge inconsistencies and overlaps.

(vii) The Failed Banks Decree should be amended and embedded in the constitution.

(g) **Objective:**

(i) Effective management system

(h) **Strategies:**

(i) All banks to compulsorily adopt computerised networking system in their operations by the year 2000.

(ii) Develop a continuous training of all professionals.

(iii) Strictly enforce sanctions on any breach of law or regulation.

(iv) Promote self-regulation by encouraging formation of active trade associations among banks and non-banks.

(i) **Objective:**

(i) Flexible system structure.

(i) **Strategies:**

(i) Deregulate the entry into and exit out of the market of financial institutions and branches.

(ii) Promote and introduce universal banking concept.

(k) **Objective:**

(i) Effective mechanism for distress detection, prevention and resolution.

(l) **Strategies:**

(i) Implement existing plan of action to resolve the current distress in the financial services sector by end of 1997.

(ii) Owners of financial institutions should be of impeccable character.

(iii) Install and implement a more thorough and effective licensing procedure.

(iv) CBN or NISB should be designated as the final authority to withdraw operating licence of any bank or insurance company respectively.

(m) **Objective:**

(i) *Strong, viable and innovative insurance sector.*

(n) **Strategies:**

(i) Maintain a culture of high level of professionalism and integrity.

(ii) Promote competitiveness (eliminate monopoly rules) and superior service in the sector.

(iii) Adopt and practise medium to long-term proactive responses to maximise marketing potentials.

(iv) Review and increase capitalisation requirements of the insurance companies and enforce compliance by 1998.

(v) Mobilise long-term funds through the design of cost-effective re-insurance schemes to handle mega risks.

(vi) Retain more re-insurance business in Nigeria, at least 60%.

(vii) Improve public confidence in the domestic market through proactive regulatory system.

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ANNEXURES

The following financial statistical information are annexed for reference only.

CHAPTER TWENTY

CAPITAL MARKETS

OUTLINE

APPENDICES:

Appendix	I	Suggested Schedule for Cost of New Issues
Appendix	II	Proposed Pricing and Allocation Methodology
Appendix	III	Comparative Transaction Costs

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The Committee is pleased with the enthusiasm, interest and support freely shown and given by many of the stakeholders in this sector, both individuals and institutions alike. Of particular note are the guest speakers and many participants at the workshop organised by the Sub-Committee to gather inputs from the stakeholders. Even though many were invited at very short notice, they actively participated and made useful contributions to the subject. Our special thanks are due Messrs. Pascal Dozie and Nduka Obaigbena, though members of the Sub-Committee but generously sponsored the workshop in their individual capacities.

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Notwithstanding the contributions mentioned above, the Sub-Committee hold itself bound by the content of this report.

Sub-Committee on Capital Markets

ECONOMIC SUB-GROUP 9: CAPITAL MARKET

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CHAPTER 20

CAPITAL MARKETS

INTRODUCTION

What are Capital Markets?

1. Part of the financial system which mobilizes savings and channels long-dated funds to economic units essentially for the acquisition of capital assets and provides liquidity for the existing financial instrument holders.

Functions of the Capital Market

2. The market provides:

(a) Opportunities for investors to make long term savings.

(b) Capital funds for acquisition of long term assets.

(c) Liquidity

Institutions in the Capital Market

3. These are:

(a) The Regulators such as the Securities and Exchange Commission (SSC) and The Nigerian Stock Exchange (NSE).

(b) Operators such as the stockbrokers, issuing houses (merchant banks).

(c) Facilitators such as the registrars.

(d) Issuers/investors such as government, corporate entities, individuals, pension funds, etc.

(e) Observers of the market such as media and other non-investing public.

Components of Capital Market

4. The market consists of various segments:

(a) Primary market where new issues (equities and bonds) are sold by issuers (government and companies) to acquire fresh capital funds. The primary market can further be categorised into groups. The first is new issues offered to the existing shareholders (rights issues). The second group consists of new issues by companies entering the market for the first time. These are called Initial Public Offerings (IPO). Here, the proceeds of sales go to the issuer of the security. The third is listing by introduction and fourth is new issues arising from mergers.

b) Secondary market is where trading between investors in existing securities take place. After acquiring the securities from the primary market, the investor at a point may want to sell a portion or all his holdings for many reasons; the secondary market provides such opportunity. Thus the main function of the secondary market is to provide liquidity for the existing security holders. Prices are determined by the actions of sellers and buyers of the security in question. This ability of the investor to convert his/her holdings to cash and vice versa has important implications for a virile primary market and thus the capital market as a whole. Without it, the activities of primary market will be seriously hampered and thus the ability of the companies to acquire new capital.

Another way of analysing the components of the capital market is to look at the various market products:

(i) The Stock Exchange: Where equity and debt securities are issued and sold.
(ii) Commodities Exchange: Where commodities such as cocoa, wheat, etc. are traded.
(iii) Futures Exchange: This an aspect of the derivatives market where futures in commodities, currency and financial, are traded.
(iv) Options Exchange: Where options contracts in underlying instruments (call and put) are freely traded.

Relevance

5. The main function of the Capital markets is to mobilise long term savings and allocate capital funds; to finance the long term investment needs of the real sector. For any economy to record appreciable growth, it is important for that economy to undertake long term investments. Specifically, for Nigeria to realise its desired economic growth rate as we inch towards year 2010, she must undertake massive investment spending in infrastructure, technology, machinery and other capacity building programmes. Only long term funds match the maturity profile of these envisaged projects or programmes. The most important source of long term funds remains the capital markets. Therefore, a well developed and efficiently functioning capital market is a sine qua non for the country's economic growth as it approaches year 2010.

Apart from facilitating economic growth, the capital markets is relevant in the following areas in a typical capitalist economy:

(a) Allocation of resources from less productive to the more productive sectors of the economy.

(b) To augment banking system and reduce the dependence on government tax revenue for economic development.

(c) To decentralise the ownership of assets and create a healthy private sector

(d) To avoid excessive concentration of power in the hands of government.

(e) Avoidance of excessive concentration of power in the hands of a small private group.

(f) To encourage more even distribution of wealth.

(g) To foster co-operation between indigenes and foreigners in economic development.

NIGERIAN CAPITAL MARKET - WHERE WE ARE AS A NATION

Historical Perspective

6. Before independence, Nigeria lacked an organised capital market as we have it today. Despite this handicap, four issues - two government and two industrial loans, were recorded.

The first attempt at raising long term funds in Nigeria began in 1946 when the colonial government issued the 3.25% ₦600,000 (then 300,000 pounds) Government Stock 1960/61, to partly finance the 10-year Development Plan. Again, in 1959, following the establishment of the Central Bank of Nigeria (CBN) a year earlier, the Government through the CBN, issued the ₦4 million (2 million pounds) First Federation of Nigeria Development Loan Stock. Since no stock exchange existed at that time, CBN had to provide some form of "secondary market" facility to ensure easy transferability of the securities among investors. But some prominent Nigerians realised the need for an organised capital market and stock exchange, in promoting the nation's rapid economic growth and development. In response to calls for establishment of a stock exchange in Nigeria, the government set up in May 1958, the Professor R. H. Barback Committee to examine the possibilities for the establishment of a "shares market in Nigeria".

7. Following the favourable recommendation of the Barback Committee in 1959, the first attempt at establishing an organised capital market began on September 15, 1960 with the incorporation of the Lagos Stock Exchange through the joint effort of the CBN, Investment Company of Nigeria (later NIDB) and the Nigerian Business Community. Later, the exchange was statutorily empowered in 1961 by the enactment of the Lagos Stock Exchange Act. The Exchange commenced operation on July 5, 1961 with 13 securities.

8. At this teething stage, the exchange received considerable financial and other assistance from existing institutions. Most prominent was the CBN which funded the exchange to the tune of ₦14,100 (7,000 pounds), provided the first chief executive, an expatriate and operational facilities in the CBN premises. The Exchange later moved to the NIDB premises which again continued to provide some financial assistance, just like the CBN. Another form of support came from some multinational companies by way of deliberate listing on the Exchange, just to promote the market. During this first year, the stock market was basically self regulated (by the exchange).

9. Major events occurred in 1962 which had some salutary effect on the development of the infant market. These include, the recall of the Nigerian investments from London by Nigerian Produce Marketing Company (NPMC), the promulgation of the Exchange Control Act 1962 and the establishment of the Capital Issues Committee (CIC) under the auspices of the Central Bank of Nigeria; though without any legal backing and operated like an ad hoc consultative body to ensure the orderly development of the market by regulating the share prices and timing of public issues of securities so as not to over-tax the absorptive capacity of the budding capital market.

10. Despite these efforts, activities in the market was generally assessed to be low in the twelve years that elapsed between 1960 and 1971, as the market was little known by the populace. Government remained a dominant key player especially in the new issues market by regularly floating development loan stocks as a way of stimulating the market. As at the end of 1971, government had floated 39 securities compared to 13 equities and 8 industrial loan stocks. Similarly, the market was characterised by few operators (10), no quoted indigenous company and poor infrastructure facilities.

11. However, government action in enacting the first Nigerian Enterprises Promotion Act (NEPA) in 1972, which obliged specified alien enterprises to indigenise part of their holdings, made a remarkable positive impact on the development of the market. Within three years of existence 20 new companies were listed on the exchange, compared to 13 in 12 years (1960-1971). Again, following the report of the panel set up in 1975 to review the 1972 indigenisation exercise, the second Act was enacted in 1977, ostensibly to correct the "failures" of the first exercise. The rejuvenated 1977 Act brought more companies into the net and consequently, more listings were recorded on the exchange in years subsequent to its coming alive; thus deepening the market. At the height of its compliance in 1979, the member of new companies listed on the exchange in that year alone had risen to 39.

12. Apart from the indigenisation programmes and the government deliberate floating of stocks, three other government initiatives had positive impact on the development of the capital market as we have it today. These were:

(a) Enactment of the Capital Issues Commission Act in 1973 which formally established the Capital Issues Commission (CIC) and introduced statutory regulation into the market. The functions were not in any way different from the defunct committee. For example, it continued the functions of determination of the price, amount, and time at which public issues of corporate securities were made.

(b) On April 5, 1976, the Okigbo's committee was set up to comprehensively undertake a Review of the Nigerian Financial System. With respect to the capital market, the committee made a number of recommendations, many of which were wholly or partially accepted. Amongst them were:

(i) Establishment of the Securities and Exchange Commission (SEC) to replace the Capital Issues Commission. Consequently, the Securities and Exchange Commission Act was enacted in 1979. The act made SEC the apex regulatory institution in the capital market in Nigeria. In addition to taking over the functions of the Capital Issues Commission, it was empowered to register securities, operators, stock exchanges and maintain surveillance over the market to prevent abuses and practices that may be detrimental to the orderly development of the capital market in Nigeria. In 1988, its functions were enlarged to include approval and regulations of mergers and acquisitions and other forms of business combinations.

(ii) Though the Government accepted the need for the Stock Exchange to spread out, it rejected the use of independent regional exchanges to achieve this objective. Rather, government established the Nigerian Stock Exchange with trading floors in Lagos, Kaduna and Port Harcourt. In mid-1980's three additional trading floors, Kano, Ibadan and Onitsha, were added.

(iii) Recommended a new secondary pricing system for the government stocks to make them reflect the maturity and yield of the instrument. Hitherto, it was priced at par, making them quite unattractive to investors.

(iv) The Structural Adjustment Programme launched in 1986, to redress serious macro-economic conditions, included the rationalisation of the public sector through divestment of government holdings and debt conversion programme. Consequently, government commenced privatisation of its interests in some of public companies, some of which were done by offer for sale through the stock exchange. The sale of these shares to the investing public further increased the number of tradable securities in the market and thus improve market depth.

(v) About the time SAP was launched, the Second-tier Securities Market (SSM) was introduced as a way to attract smaller companies to the market who hitherto cannot meet the more stringent listing conditions of the first-tier.

13. Though the number of tradable securities increased as a result of implementing SAP, the impact on the development of the capital market was much more wider. In the post-SAP era, the market became truly a capitalist instrument to mobilise and allocate capital funds in the process of wealth creation rather than as vehicle for wealth distribution, as the pre-SAP activities have tended to portray. Policies and strategies tended to be more market related than before. For example, the pricing function hitherto ascribed to SEC was transferred to the market operators (Issuing Houses for new issues and stockbrokers for existing issues). In addition, the deregulation of the foreign exchange rates which were the main pillars of SAP, necessitated many companies to seek for cheaper source of long term funds which only the capital market could provide. Thus, in the late 80s, there was a spate of rights issues in the market, which further increased the market depth.

14. The 90s witnessed continued efforts to widen, deepen and improve trading conditions in the stock market. For example, the Unit Trust Scheme was launched in 1990 as a way to bring small investors indirectly to participate in the fortunes of the market. This period equally recorded a significant increase in number of market operators (stock brokers). More recently, the stock exchange launched the Central Securities Clearing System (CSCS) to usher in a more efficient securities settlement system. As a result of this innovation, settlement of trade is expected to improve from T+14 or more, in some cases in the past, to T+5.

15. From the foregoing, one discernible feature in the history of the Nigeria’s capital market is the strong role government policies and programmes played in inducing the development of the market up till date. This strong leadership role is no less significant even now as the country inches towards year 2010.

MARKET PERFORMANCE:

16. How has the Nigeria’s organised capital market performed in its 36 years of existence? Table 1 below provides a snapshot of 10-year interval up to 1991 and Table 2, the performance in the last five years.

Table 1: NSE's 10-YEAR INTERVAL SUMMARY

PARAMETER	1961	1971	1981	1991
No. of Quoted Companies	3	13	93	142
No. of Listed Securities	13	60	163	239
Total Mkt. Capitalization (Billion ₦)	Na	Na	5.0	23.1
Vol. of Securities Traded	334	952	10218	47.2MM
Value of Securities Traded (MMN)	2.3	18.1	332.1	265
Value of New Shares (MMN)	Na	87	455	1870
New Issues/GFCF Ratio (%)	Na	7.0	3.8	5.3
NSE All Shares Index	Na	Na	Na	783
No. Stock broking Firms	Na	Na	12	110

Note:End of Period Data
Source: Nigeria Stock Exchange, SEC, FOS

Table 2: NSE's FIVE YEAR PERFORMANCE SUMMARY (1992-1997)

PARAMETER	1992	1993	1994	1995	1996	1997 (3/04
No. of Quoted Companies	153	174	177	181	183	184
No. of Listed Securities	251	272	276	276	276	267
Total Mkt. Capitalization (Billion ₦)	33	47	66	171	286	394
Vol. of Shares Traded (MM)	262	473	524	397	882	557
Daily Average Vol. of Shares (MM)	1.1	1.9	2.1	1.6	3.5	6.9
Value of Shares Traded (MMN)	492	662	986	1839	7063	3938
Daily Avg. Value of Shares (MMN)	2.0	2.7	3.9	7.4	28.4	48.6
Price / Earning Ratio	9.0	8.4	5.5	9.2	12.2	14.5
Value of New Issues (Billion ₦)	3.3	2.6	2.2	4.4	21.5	0.6
New Issues / GFCF Ratio (%)		5.6	3.2	2.6	1.6	N/an/a
NSE All Shares Index	1108	1549	2205	5092	6992	8730
No. Stock broking Firms	140	140	140	162	162	162

Note: End of Period Data
Source: NSE's Fact Book 1996 and unpublished 1997 Data.
Federal Office of Statistics

17. A principal component of Nigeria's capital market is the Stock Market (Exchange) where equity and debt instruments are the principal means of mobilising and allocating long term funds. The Nigerian stock market has existed for 36 years. As shown above, there are only 184 listed companies on the Exchange as of April 30, 1997. This translates to about 5 listings per annum. Whereas there are over 200,000 incorporated companies in Nigeria as of same date. The importance of the capital market as a source of finance for gross fixed capital formation has been declining since 1992 as the Table above shows. This record is not encouraging. Yet the need for long term capital today is no less critical than in the past. A peep into what the stock market is today will probably help to provide a clue. What then are the conditions prevailing in the country's stock market today?

(a) Today's Stock Market

This is analysed in terms of organisation, operation, regulatory framework and others.

(i) Organisation:

* Nigerian Stock Exchange has trading floors in Lagos, Kaduna, Port Harcourt, Kano, Onitsha and Ibadan.
* Trades in 267 listed securities as of April 30, 1997 made up of 184 equities and 79 bonds with a market capitalisation of about 400 billion Naira.

(ii) Operations:

* Trading is manual call-over system.
* 5% price fluctuation band per trading day.
* Brokers allowed to make cross-deal even on large orders.
* Prices are market determined by operators.
* Settlement is by electronic fund transfer through Central Securities Clearing system (CSCS) using any of the 4 approved stockbrokers' banks.
* Delivery, typically T+5, i.e. 5 trading days after transaction/trading date.
* Depository is physical.
* Transaction Trading costs: Fixed but graduated brokers' commission, 1% SEC fee, 10% withholding tax, 10% capital gains tax, stamp duty, 15% consent fee.
* New issues cost averaging 10-15% of the proceeds with a lead time averaging 6 months.

(iii) Regulatory Framework:

* Strong statutory regulation with Securities and Exchange Commission as the apex regulatory institution.
* The Nigerian Stock Exchange conducts self regulation of the market activities.
* All market activities are guided by an extensive securities and investment laws which include: Lagos Stock Exchange Act 1961, Companies and Allied Matters Decree 1990, Trustee Investment Act 1957 & 1962, Insurance Decree of 1990, Investment Promotion Commission Decree 1995, Foreign Exchange Monitoring and Miscellaneous Provisions) Decree 1995, etc.

(iv) Others:

* Strictly enforces rules, regulations and codes of conduct, to protect investors.
* Operates Investors Protection Fund, currently worth 120+ million Naira.
* Minimal foreign capital inflows; $1.1 million and $32.9 million in 1995 and 1996 respectively.
• Cumbersome and unacceptable procedure for managing foreign portfolio investment flows.
* Information dissemination through computer networks; CAPNNET and Reuters Electronic Contributor System and mass media (TV and Newspapers).

(b) As will be demonstrated shortly, these conditions prevailing in the country capital market, make it relatively an uncompetitive source of long term business finance. It is expensive, illiquid and lags behind some selected international stock markets with comparative age and/or economy.

Country Comparison

18. How does Nigeria compare with the stock markets of other countries in terms of size and liquidity? To do a more focused and meaningful comparison the Committee selected countries such as India's Bombay Stock Exchange, established in 1875, Malaysia 1973, Jordan 1978, Indonesia 1977, South Africa 1887 and Kenya 1954, using five year data on the following criteria:

(a) Number of Listed Companies
(b) Market Capitalisation
(c) Market Capitalisation/GDP Ratio
(d) Trading Value
(e) Turnover Ratio
(f) Return on Investment (ROI)

The selected countries are all developing economies with their stock markets regarded as the emerging capital markets. The comparative data are shown below:

(a) Number of Listed Companies:

Table 3

Country	1992	1993	1994	1995	1996
Nigeria	153	174	177	181	184
India	2781	3263	4413	5398	5999
Malaysia	369	410	478	529	621
Jordan	103	101	95	97	98
Indonesia	155	174	216	238	253
South Africa	683	647	640	640	626
Kenya	57	56	56	56	56

Source: IFC's Emerging Stock Markets Fact book 1997.

This data indicates the extent of patronage of the companies for their long term financial needs. This invariably, bears a direct functional relationship to the supply of equities to the market. Except for Jordan and Kenya, Nigeria's stock market ranks least amongst these selected emerging markets. A clearer picture of market size emerges when the data is juxtaposed these data with their capitalisation.

(b) Market Capitalisation (US $ Billion) (LC translated to US $ using 1992 exchange rate).

Table 4

Country	1992	1993	1994	1995	1996
Nigeria	1.2	1.9	2.8	8.1	13.0
India	65.1	106.4	139.5	156.0	153.2
Malaysia	94.0	226.9	194.6	216.3	296.7
Jordan	3.4	5.0	4.8	4.9	4.8
Indonesia	12.0	33.6	50.3	73.8	104.2
South Africa	103.5	152.3	190.0	211.2	233.4
Kenya	0.6	2.0	3.8	2.9	2.8

Source: IFC's Emerging Stock Markets Fact book 1997.

Except for Kenya, Nigeria ranks least. Relating Table (4) above to the size of the economic output of these selected countries will show the degree of relevance of the markets to these economies. Table (5) below shows the ratio of market capitalisation to GDP:

(c) Market Capitalization GDP Ratio (in %)

Table 5

Country	1992	1993	1994	1995
Nigeria	3.8	3.2	6.5	5.0
India	24.5	39.1	44.1	39.2
Malaysia	162.0	364.9	275.2	261.1
Jordan	64.3	85.3	76.7	70.3
Indonesia	9.4	22.7	27.5	33.6
South Africa	90.2	145.6	185.2	206.2
Kenya	6.9	15.2	29.6	20.8

Source: IFC's Emerging Markets Fact book 1997.

Again, Nigeria ranks least.
The above data, except for Table (5) convey a point in time assessment of the market. How does the market compare with the selected markets in terms of size of operation? The trading volume data below captures this.

(d) Trading Value (in US$ million) (LC translated to US $ using 1992 exchange rate).

Table6

Country	1992	1993	1994	1995	1996
Nigeria	14	17	23	57	340
India	20597	24280	30617	16031	33829
Malaysia	21730	155302	130108	75631	171387
Jordan	1318	1399	645	543	316
Indonesia	3903	9419	12577	15967	36924
South Africa	7767	15467	24600	22190	41090
Kenya	12	26	95	104	119

Source: IFC's Emerging Markets Fact book 1997.

Again, except for Jordan and Kenya in 1996, Nigeria virtually ranks least. To get a clearer picture of the liquidity of the Nigerian stock market, turnover data (a measure of the speed at which securities change hands), is quite useful. Table 7 below shows this.

(e) Turnover Ratio (in %)

Table 7

Country	1992	1993	1994	1995	1996
Nigeria	1.0	0.8	0.8	0.8	2.6
India	37.0	27.5	24.1	10.5	17.4
Malaysia	27.3	94.3	56.7	35.9	66.0
Jordan	44.4	33.2	13.0	11.1	6.4
Indonesia	41.2	40.5	29.4	25.3	40.8
South Africa	4.6	7.1	8.5	6.5	10.9
Kenya	2.1	1.7	2.9	2.8	3.7

Source: IFC's Emerging Markets Fact book 1997.

The above Table clearly shows that the Nigerian stock market is very illiquid. Nigerian shareholders hardly trade in their holdings except for occasional sales influenced by cash flow difficulties. Most Nigerian shareholders practice the "buy and hold" portfolio investment policy. This is not unexpected in view of the fact that over 30% of the shareholders are multinationals and institutional investors (government and non-government) who hardly come to the market!

(f) Return on Investment (ROI)

Table 8

Country	1992	1993	1994	1995	1996
Nigeria	-34.9	-11.6	190.9	-20.9	63.0
India	22.9	18.8	7.4	-34.2	-2.1
Malaysia	27.9	102.9	-21.5	3.6	24.5
Jordan	24.7	24.2	-9.8	12.7	-1.3
Indonesia	2.9	113.4	-19.3	12	19.3
South Africa	4.6	7.1	8.5	6.5	
Kenya	Na	Na	Na	Na	-0.4

Source: IFC Emerging Markets Fact book 1997.

From Table 8 above, Nigeria outperforms the selected stock markets on the basis of 000Return on Investment (ROI) in the last three years (1994-1996): Nigeria 33.18%, India From the foregoing, Nigeria's stock market is considered small in view of its age and size of the Nigerian economy.

Problems and Issues

19. The conclusion that can reasonably be deduced from the foregoing is that the Nigerian capital market of today is small relative to the economy it is supposed to serve, shallow, unsophisticated and uncompetitive as primary source of long term business finance. In order to enhance its role in the national economy and become its engine of growth and a leading capital market in Africa the following market related problems/issues would need to be addressed:

(a) Expansion of the market size relative to the economy.
(b) Transparency in the determination price and other terms.
(c) Efficiency of trading, settlement and delivery system.
(d) Liquidity.
(e) Cost of doing business in both primary and secondary markets.
(f) Automation of operations.
(g) Widening the participation of Nigerians in the market.
(h) Internationalisation.
(i) Dynamism of the regulatory framework.

NIGERIAN CAPITAL MARKET - WHERE WE WANT TO BE "THE VISION"

The Vision

20. The importance of capital market to capital formation and thus to the economic growth and development has been stated above. Therefore, a well structured and capital market that enjoys confidence and patronage of the business community (issuers and investors alike) is what the nation should desire and always strive for. Realising the "where we are" today and the nation's resolve to move forward, the Committee envisioned that by year 2010 Nigeria's capital market should be:

(a) 'Transparent; efficient, liquid, competitive transacting in widely held and diverse securities and supported by proactive regulations".

(b) The capital market should be characterised by:

(i) High liquidity level, with at least 60% turn over ratio.
(ii) Market / GDP market capitalisation ratio of at least 250%
(iii) Complete automation of trading, regulation and information dissemination.
(iv) Active primary market such that new issues/capital formation ratio averages at least 50%.
(v) Diverse and sophisticated in instruments and structures.
(vi) Market driven securities pricing issuing and transaction costs.
(vii) Active participation of international portfolio investors; attracting at least 10% of annual worldwide portfolio investment (PI) funds flow into the emerging markets.
(viii) Cross border listing of securities.
(ix) Operators with high level of integrity and professionalism imbued with strong research focus.
(x) Preponderance of self-regulation.

Enabling Environment.

21 For the vision to be realised we require certain conditions to be prevalent which are exogenous to the capital market. These include:

(a) Consistent and proactive macro-economic policies that will permit stable and sustainable economic growth with moderate inflation. In this regard, it is important that government promotes sound monetary policies, exercise fiscal restraint and put in place policies that will promote saving and investment and international trade.

(b) Stable social and political environment.

NIGERIAN CAPITAL MARKET - HOW TO GET THERE

Choice of Strategy

22. The nation's Vision in the capital market is clear, so also are the various objectives that if implemented, will get it to the Market of its dream. Of course, there are many roads to realising its objectives and thus the vision. The Group considered two options:

(a) Internationalisation Route:

This requires serious cultivation of international interest in the country's market. Basically the country must grow and develop its capital market through the patronage of international investors, cross border listing of Nigerian securities, partnerships with foreign stock-broking firms to improve the professional competence of our local operators etc. For example, Ghana stock market capitalisation increased tremendously as a result of the cross border listing of its Ashanti Gold Mines on the London Stock Exchange. Whilst this route offers a fast track to achieving the capital market of the nation's dream, the success rate is very low. There is no guarantee that the desired level of foreign interest will be generated not to talk of its sustenance.

(b) Local Economy Route:

This requires the focusing of policies and programmes at widening and deepening of the market within the context of local opportunities. For example, out of over 200,000 registered companies in Nigeria, securities of only 184 are listed and actively traded on the stock exchange. Certainly, there is big opportunity for growth in this area. Though foreign participation is desirable, it is not the primary focus as in (a) above. In any case, foreign investors will only come if there is enough depth in the market to absorb the planned inflow. As of now this depth is absent. It is anticipated that the international interest will naturally develop in future, once the market becomes sufficiently liquid and efficient to meet the standards of the international portfolio investors.

In view of "where we are" and the country's past experiences, only option (b) above is more assuring the realisation of the nation's vision for the capital market within the remaining 13 years to year 2010.

Specific Details of How to Get There:

23. Most of the suggested actions and programmes require implementation within the next 12 months. This is probably because there is urgent need for these actions already. In the ensuing pages, the Committee recommends some steps, which if successfully implemented will deliver the capital market of the nation’s dream well ahead of the target year of 2010. The “What to do” are outlined under the following objectives:

(a) Improved market capitalisation.

(b) Active primary market to enhance the new issues/gross fixed capital formation ratio.

(c) Enhance the diversity and sophistication of the structure and instruments.

(d) Improve trading volume (thus liquidity ratio) by enhancing transparency, efficiency and speed of trading, settlement and delivery system.

(e) Develop high level of integrity and professionalism imbued with strong research focus.

(f) Enhance public confidence in the capital market.

(g) Develop cross-border listing of securities.

24. These objectives and steps outlined are not mutually exclusive but rather dependent and closely interwoven. They are just convenient ways to organise the Committee’s recommendations for a meaningful understanding. For example, improving trade volume will impact on the level of market capitalisation. Similarly, improving public confidence or developing cross-border listing of securities will both enhance trading in and capitalisation of the market.

PROPOSED PRICING AND ALLOCATION METHODOLOGY

25. Subject to observing the minimum permissible share holding allowed by Memorandum of Association of each company, the NSE will set and shall strictly enforce, 1/32nd of 1% of issued capital of each listed company (which respective quantities shall be indicated on its daily official list) as the minimum quantity lot (“significant trade”) in which listed securities can be put to and must mandatorily be bought off the market by a bid maker, or can be demanded of and must mandatorily be sold into the market by an offer maker.

26. Accordingly, own bid and offer limits below the applicable significant trade cannot be determined by brokers.

27. Further, the reported market price movements will henceforth represent only genuine significant trades undertaken in the underlying securities.

28. All dealings (offer or bid) for quantities below significant trades can be effected only at the respective previously determined ruling market prices.

29. Allocation of all market trades (irrespective of quantity) will be made strictly in the declining order of price bids entered for trading at the current call of the board.

30. Therefore, the broker who brought in a trade (for sale) will no longer receive any priority in its allocation.

31. Where there is a tie in the highest bid price, the quantity on offer shall be distributed fairly among the successful contenders.

NOTE:

The foregoing procedure is intended to ensure that:

(a) Stock market prices indicated on the exchange’s official list represent only genuine and significant quantity transactions in the underlying shares

(b) No significant trades can be effected without being impacted by the interplay of all other currently subsisting market interests represented by the entirety of brokers dealing in the underlying security.

(c) In the process of price making, it will be possible to sustain immediate and real financial benefit or penalty, in direct relation to their price making decisions thus enhancing prospects for responsible price making by brokers whether dealing for themselves or on behalf of their clients.

CHAPTER TWENTY-ONE

DEBT MANAGEMENT

INTRODUCTION

1. In recent years, there has been an increasing concern over the growth of public debt in Nigeria, mainly because of its implications for economic stability. An escalating indebtedness can present serious obstacles to sustainable economic growth. Firstly, debt-servicing costs may cause total indebtedness to expand to levels beyond the payment capabilities of an economy. This can become a significant cause of failure to achieve fiscal and monetary control. Secondly, increasing public debt may raise private sector expectations that the government will adopt a more inflationary approach to the funding of future deficits. Such expectations present problems for the achievement of interest rate, exchange rate and price stability. Finally, increasing debt-servicing cost limits the ability of government to undertake more productive fiscal programs. This is the reason why the quantum and structure of debt must be carefully monitored and managed to ensure economic growth is not constrained. Furthermore, the management of debt should be predicated on achieving a level consistent with the capabilities of an economy to ensure sustainable growth and development. In this regard, this report would present a picture of the current debt management situation, identify elements of an ideal situation and outline strategies for its achievement.

CONCEPTS

2. Concepts used in the analysis of public debt (domestic and external) include debt service, debt service burden, debt service capacity and debt management.

Domestic Debt represents government borrowing from internal sources to finance part of its expenditure program.

External Debt is the quantum of borrowed resources by a sovereign country from the rest of the world at a given point in time for purposes of financing gaps in domestic savings and investment outlays or for bridging shortfalls in revenue due to poor harvests or other unforeseen circumstances.

3. Debt Service Burden refers to the proportionate allocation of national resources to debt servicing relative to the servicing of the domestic economy. In other words, it means the proportion of current resources devoted to financing past consumption. In either way, the relevant issue is the resources left to finance domestic economic growth and development. The less these resources and the more the resources devoted to debt servicing, the slimmer the prospects for sustained economic growth and development. The debt service burden is a function of debt service payments. When a disproportionately large share of current resources is deployed to service debts, the burden increases.

4. Debt Service Capacity means the extent to which a nation can service its debt obligations without resorting to restructuring arrangements or some options which may amount to arbitrariness. Debt Management can be effective, efficient or inefficient. When efficient, debt management makes it possible for proper schedule of maturities to be compiled

and complied with so that bunching and defaults are avoided. In addition, proceeds of loans under an efficient management framework are deployed to productive uses and are effectively projected or purpose-tied as against a general purpose loan which may be inefficiently deployed. With appropriate schedule of maturities, retirement is made simple and early signals are readily observed when resources are becoming slim and defaults imminent. This makes it possible for appropriate actions to be taken to forestall debt management crisis.

PART ONE - WHERE WE ARE

Profile of Nigeria's Public Debt
This consists of domestic and external debts.

5. DOMESTIC DEBT:

Domestic debt arises a result of government's decision to finance part of its expenditure by borrowing in Nigeria instead of increasing taxes. Available data show that the ratio of domestic debt to total annual production (GDP) has increased steadily from 33.8% in 1987 to 38.1% in 1994 but declined to 17.3% in 1996 (Table 4 in the appendix). As Table 1 below shows, domestic debt in nominal terms, rose from ₦36.8 billion Naira in 1987 to ₦161.9 billion in 1992 and ₦261.l billion in 1993. By 1996, it has risen to ₦402.7 billion (Table 1 below). The rapid growth in domestic debt was as a result of several factors amongst which were:

* the persistent increase in government deficits financed by borrowing;
* increase in nominal interest rate during the period; and
* the conversion of interest arrears into new bonds.

Composition of Domestic Debt:

(a) Domestic debt instruments consists of Treasury Bills, Treasury Certificates, Treasury Bonds and Development Stocks.

Treasury Bills:

(i) Treasury Bills are short-term money market instruments with tenor of 91 days. Between 1987 and 1990, Treasury Bills outstanding averaged ₦30 billion and by 1992, the level had risen to ₦103 billion representing 63.8% of total debt outstanding. Treasury Bills outstanding remained at this level up to December 1996 accounting for 25% of total domestic debt. The rapid growth in the level of Treasury Bills was accounted for by government's reliance on this instrument to finance budget deficits and the practice of rollover whereby matured Treasury Bills were liquidated by re-issuing new ones.

Table 1
Composition of Domestic Debt (End of Period)
(Naira in Billions)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Treasury Bills	25.2	35.5	34.1	25.5	57.8	103.3	103.3	103.3	103.3	103.3
Treasury Bonds	0	0	11.4	20.0	20.	19.0	117.1	197.3	211	237.4
Treasury Certs.	6.7	6.8	6.9	34.2	34.2	35.2	36.6	37.3	23.6	0
Dev. Stocks	4.9	4.8	4.6	4.4	4.2	4.0	3.7	3.4	3.2	3.0
Others	0	0	0	0	0	.40	.3	0	0	59.0
TOTAL	36.8	47.0	57.1	84.1	116.2	161.9	261.1	341.3	341.1	402.7

Figure 1
Source: Central Bank of Nigeria

Treasury Certificates:

(ii) Treasury Certificates are short-term debt instruments with a tenor of one to two years maturity. Treasury Certificates outstanding increased from ₦6.7 billion in 1987 to ₦34.2 billion in 1990 and accounted for 40.7% of total domestic debt. Although the level of Treasury Certificates increased to ₦37.3 billion in 1994, its share of total debt declined to 10.0%. In 1996, Treasury Certificates were fully converted to Treasury Bonds in order to minimise debt service cost to government.

Treasury Bonds:

(iii) Treasury Bonds were introduced in 1989 with the objective of minimising debt service payments. They are low interest bonds with a tenor of 15-25 years. At inception in 1989, the level of Treasury Bonds outstanding was ₦11.4 billion or 19.9% of total domestic debt. By 1990 it had risen to ₦20 billion or 23.8% of total debt. Between 1990 and 1996 it rose significantly to the current level of ₦237.4 billion, representing 58.9% of total domestic debt outstanding.

Development Stocks:

(iv) These are long term securities floated largely to provide development finance to meet the needs of the Federal government or as loan on-lent to State governments. These debt instruments have a tenor of 5 - 25 years. The level of Development Stock outstanding in 1987 was ₦4.9 billion declining to ₦3 billion in 1996. The steady decline was accounted for by the practice of redeeming development stocks as they matured which is made possible by the maintenance of a sinking fund account in the Central Bank.

Unsecuritised Debt of the Federal Government:

(v) The domestic debt stock discussed above does not include a significant amount of government loans owed to bank and local contractors. These debts which are largely unsecuritised were estimated at ₦38.3 billion in 1995. It is made up of ₦10.6 billion owed to banks by the Federal and State governments and ₦27.7 billion owed by the Federal government to local contractors.

(b) Ownership Structure:

In the ten-year period under review, the ownership structure of domestic debt was dominated by the Central Bank of Nigeria as the holdings of commercial and merchant banks and non-bank public declined significantly. Between 1987 and 1990, CBN holdings of Government securities averaged 63%, holdings by commercial banks and merchant banks averaged 12.6 and 0.4%, respectively, while the non-bank public held 24.0%. During the period 1991-1996, the relative holdings of government securities by the non-bank public, commercial banks and merchant banks changed from 16.6%, 5.9%, 0.6% in 1991 to 8.1%, 11.8% and 2.0%, respectively, thereby increasing the holdings of the CBN from 76.9% in 1991 to 78.1% in 1996. This development was attributable to the capped interest rate regime during the period which made government securities unattractive to the general public.

Table 2
Ownership Structure of Domestic Debt (End of Period)
(Naira in Billions)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
CBN	19.2	27.7	38.4	56.6	89.4	122.0	189.8	241.6	282.0	314.7
C/Merch. Banks	8.4	7.9	3.7	9.3	7.5	6.9	38.8	37.8	20.1	55.4
Total Banking System	27.6	35.6	42.1	65.8	96.9	128.9	228.6	289.4	302.1	370.1
Non-Bank Public	9.2	11.4	15.0	8.3	19.3	33.0	32.5	51.9	49.0	32.6
TOTAL	36.8	47.0	57.1	84.1	116.2	161.9	261.1	341.3	341.1	402.7

Figure 2

Source: Central Bank of Nigeria

Maturity Structure:

(c) An analysis of the maturity structure of the debt instruments revealed that short-term instruments accounted for 86.0% of total domestic debt between 1987 and 1990. By 1996 short-term debt instruments of not more than two years constituted 40% of the debt outstanding. The share of debt instruments of 2 to5 years maturity ranged from 1.8% in 1987 to 0.2% in 1996. Over the review period, debt instruments of 5 to 10 years maturity accounted for an average of 1.6% of total debt stock. Debt instruments of ten years maturity and above which accounted for 7.9% increased to 68.5% of the total debt stock in 1995. It is worthy to note that the dominance of short-term debt instruments in the portfolio of the debt stock between 1987 and 1990 was due to the use of short-term finance to meet fiscal needs of the Federal government and the reissue of maturing debt instruments. The pattern however, changed in 1991 the when Government shifted emphasis to Treasury Bonds to finance its deficits. Long-term debt instruments of ten years and above since then dominated the portfolio accounting for 56.8% of total debt outstanding between 1991 and 1996.

Table 3A
Maturity Structure of Domestic Debt (End of Period)
(Naira in Billions)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
0-2 Years	32.2	42.7	41.5	60.1	92.5	139.2	140.4	141.1	126.8	162.6
2-5 Years	0.7	0.6	0.9	0.8	0.8	0.5	0.6	1.1	0.9	0.9
5-10Years	1.1	1.0	0.9	1.1	1.1	1.2	1.1	1.8	1.2	18.1
Over 10 Years	2.9	2.7	13.8	2.2	21.8	33.4	120.3	197.3	280.7	221.1
TOTAL	36.8	47.0	57.1	84.1	116.2	161.9	261.1	341.3	341.1	402.7

(As Percentage of Total) Table 3B

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
0-2 Years	87.4	90.7	72.7	93.7	79.6	79.8	53.5	41.3	31.0	40.4
2-5 Years	1.8	1.3	1.5	1.2	0.7	0.3	0.2	0.3	0.2	0.2
5-10Years	2.9	2.1	1.6	1.7	1.0	0.7	0.4	0.5	0.3	4.5
Over 10 Years	7.9	5.8	24.2	3.4	18.8	19.2	45.9	57.8	68.5	54.9
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Nigeria

Domestic Debt Service and Debt Indicators:

(d) The continued growth in the debt stock led to the corresponding growth in the debt service cost which has contributed largely to the deficit in government fiscal operations.

Table 4
Domestic Debt Service Payments
(Naira in Billions)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Interest	3.8	4.2	6.0	8.5	10.5	24.8	37.8	28.5	33.8	27.9
Capital	0.1	0.1	0.1	0.3	0.2	0.3	0.2	0.4	0.2	0.2
TOTAL	3.9	4.3	6.1	8.8	10.7	25.1	38.0	28.9	34.0	28.1

Source: Central Bank of Nigeria

As Table 4 above shows, domestic debt service rose from ₦3.9 billion in 1987 to ₦8.8 billion in 1990. In 1991, ₦10.7 billion was expended on debt service which peaked at ₦38 billion in 1993. It declined to ₦34 billion in 1995 or 1.7% of GDP. As Table 5 below indicates, debt service as a proportion of retained revenue increased from 24.4% in 1987 to a peak of 47% in 1992. By 1996, the proportion of retained revenue expended on debt service had reduced considerably to 9.9% largely because of the conversion government securities to low yield Treasury Bonds and the increase in revenue. Data also show a close relationship between fiscal deficits and debt service. Debt service was 66.8% of deficit incurred in 1987, declining to 41.1% in 1994. This shows that the demand of debt servicing in general was a cause of failure to achieve budgetary control.

Debt/GDP ratio show that total domestic debt as a proportion of total annual production or GDP rose from 33.8% in 1987 to 35.8% in 1991. Between 1992 and 1994, it rose by 8.7 percentage points to 38.1%. In 1995, the ratio declined by 9.6 points to 28.5% and to 17.3% in 1996 largely because of the increase in GDP.

Table 5
Domestic Debt Burden: Selected Indicators
(In Percentages)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Debt/GDP	33.8	32.3	25.3	32.2	35.8	29.4	37.4	38.1	28.5	17.3
Debt Service/Ret. Revenue	24.4	27.8	23.4	22.3	34.6	47.0	30.8	21.5	13.6	9.9
Debt Service/Total Expenditure	17.9	15.6	15.0	14.2	16.0	27.0	16.6	14.3	13.2	11.5
Debt Service/Deficit	66.8	35.7	40.6	39.3	29.9	63.3	36.1	41.1	0	0

Source: Central Bank of Nigeria

The conclusion from the foregoing is that the country is seriously indebted and financing a continuously growing debt requires either that the private sector be willing to hold government securities indefinitely or that the Central Bank serves as lender of last resort which will induce high inflation.

1.0.2 **EXTERNAL DEBT:**

6. External Debt Composition:

The genesis of Nigeria's external debt problem can be traced to 1978 when loans worth about $1 billion, the so-called jumbo loan, were acquired from the International Capital Market (ICM) to finance a number of projects. This singular act changed the character and structure of Nigeria's external debt from mainly concessional loans to medium and long term loans with tougher repayment terms. Over the years, Nigeria's external debts have grown in leaps and bounds. 1991-1996 data is shown in Table 6 below.

Table 6
External Debt Stock (End of Year)
(in Billion US $)

	1991	1992	1993	1994	1995	1996
Multilateral	4016	4518	3695	4402	4411	4665
Paris Club	17793	16455	18161	18334	21670	19091
London Club	5988	2120	2056	2058	2045	2043
Promissory Notes	4479	3246	3160	3178	3148	2140
Others	1454	1226	1647	1456	1311	121
TOTAL	33730	27565	28718	29429	32585	28060

Sources: Central Bank of Nigeria

Federal Ministry of Finance

(a) Total external debt outstanding which had hitherto increased unabatedly, experienced a respite in 1992 when a substantial decline materialized as a result of the debt buyback arrangement with the London Club of private/commercial bank creditors. Under the buyback arrangement, debts worth $2.2 billion were extinguished through 60% discount on the 62% of debts that were bought back, with the remaining 38% rescheduled over a 30-year period with the backing of the US Treasury Zero Coupon collateralised par bonds. Under the agreement, Nigeria benefited from the Brady Plan on debt service and debt stock reduction. The remarkable success in the rescheduling of the London Club debts stemmed from the seriousness with which the Central Bank of Nigeria pursued the reconciliation of the debts, that were mainly on account of short term payments arrears, and the subsequent refinancing and restructuring agreements which were climaxed by the secondary market efforts that effectively eliminated the burden of the London Club debts.

(b) The debt stock resumed an upward movement in 1993 up to 1995 when the level reached a high of $32.6 billion. In 1996, the debt stock dropped sharply to $28.1 billion as a result of a number of factors which include: the exclusion of penalty charges, discounts arising from the debt buyback operation, identification of projects which were either distressed or have failed outrightly. An additional factor was the reporting of promissory notes at their real value instead of nominal value as the practice had been. This revaluation exercise resulted in the decline of outstanding debts on promissory notes from $3.1 billion in 1995 to $2.1 billion in 1996. If the revaluation had been undertaken for earlier years, the drop in promissory notes would have been less dramatic. In spite of this, the other factors earlier mentioned would still account for the reduction in the total debt stock.

(c) The bulk of outstanding debts continued to be owed to the Paris Club of official creditors, accounting for 68% of the total in 1996 vis-à-vis 66% in 1995. The increase in its proportionate share was accounted for by the drop in promissory notes in addition to the sharp drop in other unclassified debts. However, the magnitude of Paris Club debts which had maintained a steady rise dropped from $21.7 billion in 1995 to $19.1 billion in 1996 on account of the reconciliation in respect of distressed and failed projects purportedly sponsored with Paris Club loans. The disproportionately large share of Paris Club debts and the rather harsh rescheduling terms imposed by the Club have been a major problem for Nigeria's debt restructuring efforts. Although the Paris Club of official creditors has extended some rescheduling concessions to Nigeria, the attempts have failed to address the root of the debt problem.

(d) External Debt Service:

Table *7*
External Debt Service Payments
(in Billion US $)

	1991	1992	1993	1994	1995	1996
Multilateral	4016	4518	3695	4402	4411	4665
Paris Club	17793	16455	18161	18334	21670	19091
London Club	5988	2120	2056	2058	2045	2043
Promissory Notes	4479	3246	3160	3178	3148	2140
Others	1454	1226	1647	1456	1311	121
TOTAL	33730	27565	28718	29429	32585	28060

Sources: Central Bank of Nigeria / Federal Ministry of Finance.

As figure 6 above shows, Nigeria's external debt service payments declined consistently between 1991 and 1993, went up slightly in 1994, dropped substantially in 1995 before increasing again in 1996 to a level slightly above that attained in 1994. Between 1993 and 1996 the debt service payments were within the budget limits of $2 billion. Since 1992, payments to the multilateral creditors represented the largest single outflow on debt servicing. This is because of the non-reschedulable and non-default clauses in the terms of acquiring and servicing such loans. On the other hand, the servicing of the Paris Club debts has remained relatively low due to the insistence of the Club on Nigeria reaching a prior agreement with the Breton Woods Institution before a concrete agreement can be negotiated for debt restructuring. As a result, the debts are not being fully serviced while commitments are rolled over, pending the time agreement will be reached. Nigeria's external debt problem can be better appreciated from the analysis of the major debt indicators.

Figure 7

Sources: Central Bank of Nigeria / Federal Ministry of Finance

(e) The scheduled debt service ratio, the ratio of scheduled debt service payments to the exports of goods and services remained high at over 35% since 1992 (see figure 7 above). This is a sharp contrast to the actual debt service ratio which dropped from 25.9% in 1992 to 12.1% in 1996 as a result of the official policy holding down disbursements on debt service to 30 per cent of foreign exchange receipts. It is internationally accepted that when debt service ratio is of the order of 10 per cent, a debt servicing problem is not imminent. As the ratio grows to 20 per cent, the tolerable limit of debt service is approached while a level beyond 20 per cent signals a debt service crisis. Such a crisis may be temporary in the case of illiquidity due to poor harvest or temporary shortfall in export receipts or permanent in the case of insolvency when export receipts continuously fall below debt service outlays.

7. Debt Stock Indicators:

Another indicator, total debt stock to exports showed that the debt stock was more than twice the resources available to service the debts between 1991 and 1995 and slightly less than twice in 1996 as figure 8 below shows.

Figure 8
Source: Central Bank of Nigeria Federal Ministry of Finance

Thus, increasingly larger amounts of exports have to be devoted to external servicing if the commitments are to be met on schedule. Total debt stock to Gross Domestic Product (GDP) or the total output of goods and services, another indicator of debt servicing capacity showed that between 1992 and 1995, total debts would consume more than half of the nation's output. However, the ratio showed that a little more than one quarter of national output would be used to repay external debts were they to be completely extinguished. The rather low level in 1996 is partly accounted for by the decline in the debt stock as indicated earlier.

Debt Management Strategies and Problems

8. Domestic Debt Management:

(a) The Central Bank of Nigeria is responsible for funding the Federal Government's borrowing requirements and this it does by issuing and holding domestic debt instruments. It is empowered by section 35 of Central Bank of Nigeria Ordinance of 1958 to advice Government as to the timing of floatation and terms of issue of the debt instruments. The Bank also advertises for public subscription to the issue, collect proceeds of the issue on behalf of the Government and pay interest and principal on due dates. The Central Bank of Nigeria therefore, is very active in both primary and secondary markets as issuing house and underwriter in the primary market and as Registrar and market maker in the secondary market. The payment of interest and principal on domestic debt is part of the debt management function of Central Bank. To this end, the Bank is obliged to provide the necessary fund for repayment even when government is not in a position to repay the loan or service the debt.

(b) At maturity, Treasury Bills and Treasury Certificates are supposed to be redeemed, but because of government's ever-increasing need for more borrowing to finance its expenditure programs, Treasury Bills and Certificates are issued to replace maturing ones. This practice results in roll-over of Treasury Bills and Treasury Certificates. In other words, the government incurs new debts to pay old ones. The roll-over of old debts constitutes a large percentage of all issues with only a small proportion representing new debt. In the case of long term securities, the law provides for a sinking fund built for the redemption of maturing stock. Periodic transfers are made into the fund to enable government repay the loan on maturity. With the introduction of market-based monetary control in 1993, the strategy of the stripping system was adopted. This involves the conversion of some CBN holdings from the primary issues to short dated OMO (Open Market Operations) bills. Other instruments in the money market include Repurchase agreements (Repos) between the CBN and discount houses.

(c) **Problems of Domestic Debt Management**

(i) High level of Domestic Debt:

Levels of domestic debt in Nigeria are high and these impose a major repayment burden on the economy. The interest cost involved in servicing this debt is a significant component of current government expenditure and therefore, part of the structural deficit problem. Further growth in debt servicing will not only reduce the flexibility the government can exercise in the overall composition of its fiscal policies but it may reduce internal and external confidence in the ability of the government to adhere to its economic strategy.

(ii) **Uncompetitive Interest Rate Structure:**

Domestic debt instruments are held mainly by the banking system and other institutions such as government owned Insurance Corporation in compliance with statutory requirements. The general public have no enthusiasm to hold government bonds because of the existence of higher rates of return on other financial assets and the convenience of holding them. The interest rates on government securities are deliberately kept low, usually below market levels so that the cost of servicing the debt can be minimized. Apart from discouraging the non-bank public from holding government bonds the low interest rate means an implicit interest rate subsidy on government securities, which does not make for efficient resource allocation.

(iii) Effect of Domestic Liquidity:

The implication of the low subscription for government debt instrument is that the Central Bank is forced to hold a large proportion of the securities since it is required by law to underwrite the instruments. Since the CBN takes up all remaining debt instruments not purchased at the auction it automatically provides credit to the government at very low interest. This unlimited financing of government deficit exerts upward pressure on money supply, which accelerates inflation.

In addition, non-marketable instruments in the form of Ways and Means Advances are also issued by the CBN to cover Government deficits. New issues of Treasury Bills and recently Treasury Bonds are made to finance the Ways and Means Advances. Although the law specified a statutory limit to Ways and Means financing the limitation has not been effective because enforcement is weak on the part of CBN and compliance on the part of Government is poor. This medium of financing Government deficit has grown considerably over time.

(iv) Weak Statistical Base:

A serious limitation to successful domestic debt management is the weak statistical base on government indebtedness. Available statistics relate only to government-securitized loans that are managed by the CBN. Unsecuritized loans to contractors, suppliers and public sector indebtedness to bank are difficult to assess. There is an urgent need to provide a broader and more accurate description of government's indebtedness so that its impact on the economy can be accurately assessed.

(v) Inadequate Coordination Between Federal Ministry of Finance and the CBN:

Coordination between the Federal Ministry of Finance and the CBN in the area of fiscal and monetary policies has not been adequate. This has imposed serious limitations on the effective management of domestic debt

9. External Debt Management:

Nigeria's external debt restructuring efforts have been directed at both private and official debts. While significant achievements have been recorded with the former, the latter has continued to pose serious problems for Nigeria's external sector viability and economic growth and development. Nigeria's external debt outstanding has been managed since the re-emergence of trade arrears in 1982 through three main channels, private sector debt restructuring, official debt restructuring and the Debt Conversion Program (DCP).

Debts

(a) Private Debts Restructuring:

The private debts, otherwise referred to as the London Club debts, have been negotiated under various agreements after their reconciliation, culminating in the first and second refinancing agreements on debts worth $2.1 billion in 1983 with the third refinancing agreement involving the issuance of promissory notes commencing in November 1984. The debts involved in the 1983 agreements were fully liquidated in 1986. A comprehensive agreement to restructure the London Club debts worth $5.8 billion commenced in 1986 with the signing of an agreement in 1987. Under the agreement, $2.8 billion was refinanced while $3.0 billion was re-scheduled. The breakthrough on the London Club rescheduling came in 1992 when Nigeria took advantage of the Brady Plan on debt reduction for debt distressed countries and secured a debt buy-back deal. Under the agreement, Nigeria purchased 62% of its London Club debts at the secondary market for 40 cents per dollar, gaining 60 cents per dollar in the process. This amounted to a write-off of 60 cents per dollar and a debt burden reduction of the same magnitude. The remaining 38% of the debts was rescheduled over a period of 30 years with the issuance of US Zero Coupon collateralised par bonds. Under this generous rescheduling arrangement, Nigeria's debt with the London Club of private/commercial banks creditors has been completely extinguished.

(c) Official Debts Restructuring:

Official debts are mainly in respect of bilateral and multilateral sources, although loans from China, Russia and Eastern European countries are also included. Bilateral debts ate covered by the Paris Club of official creditors. Apart from being the largest proportion of official debts outstanding, Paris Club debts are crucial for debt management in Nigeria. They remain the only obstacle to total debt restructuring since the multilateral debts are not reschedulable and their terms are concessional with well stretched out maturities. Debts owed to China, Russia and Eastern European countries are mainly export/suppliers credits.

(i) A number of rescheduling agreements have been stricken with the Paris Club official creditors since 1986, but these have failed to alter the stock and maturity pattern of Paris Club debt. In December 1986 and March 1989, an effective capitalization of interest payments that fell due over 15 months resulted from the consolidation and rescheduling of interest payments that accrued over the period. As a result, instead of reducing the debt burden, it was in fact increased. The third effort at rescheduling Nigeria‘s debt with the Paris Club took place in January 1991 when debts worth $3.2 billion were rescheduled. The highlight of the 1991 exercise was the stretching out of the repayment period of due debts on the same terms as those for medium-income and heavily debt-distressed countries. However, the term did not include debt write-off concessions.

(ii) Nigeria could not achieve real benefits form the various rescheduling arrangements stricken with the Paris Club since debt stock reduction could not materialize from the efforts. This was so because, the Toronto and Trinidad Terms, the Poland/Egypt concessions and the debt write-off applicable to the poorest countries were not extended to Nigeria. The country was not considered poor as it was widely held that Nigeria's case was that of mismanagement of wealth and misplacement of priority. Furthermore, the short consolidation period of the Paris Club rescheduling agreements makes it impossible for debtor countries to enjoy real relief as the rescheduled debts fall due almost immediately.

(iii) Nigeria has continued to press for better rescheduling terms from the Paris Club in the form of multi-year rescheduling involving longer consolidation period and the acceptance of Nigeria as a poor country deserving debt write-offs and the eligibility to benefit under the Enhanced and Enlarged Structural Adjustment Facility (ESAF) of the International Monetary Fund (IM.IF). The Paris Club has rebuffed Nigeria's overtures, maintaining that the country must first get a clean bill of health from the Bretton Woods Institutions. Such "clean bill of health" is predicated on the design and implementation of a Medium-Term Economic Restructuring Program (MTEP) approved and certified by the Bretton Woods Institutions. An agreement has not been reached on this account as negotiations are progressing.

(c) Debt Conversion Program (DCP):

The Debt Conversion Program (DCP) was an additional initiative conceived to reduce the debt burden by tackling the crucial debt management problem of debt stock reduction. The DCP which commenced in 1988 was meant to achieve debt cancellation for Nigeria through discounts offered by promissory notes holders and ultimately to reduce the quantum of debts outstanding. Between 1991 and 1995, debts worth $402.7 million were cancelled at the DCP. Although debts extinguished at the DCP remain relatively low vis-à-vis the debt stock, the DCP remains a veritable medium for channelling foreign investments into the economy and attracting back flight capital. The recent adjustments in the guidelines of the DCP which makes Paris Club debts eligible for conversion is a welcome development that is expected to result in the substantial reduction in Nigeria's debt stock, especially as soon as an agreement is reached with the Bretton Woods Institution on a Medium-Term Program.

(d) Problems of Nigeria's External Debt Management:

The problem of Nigeria's external debt management are both internal and external:

(i) Apart from the short-term debts (trade arrears) that were carefully tracked, the medium and long-term debts could not be so focused. The result was the bunching of maturities in some cases due to inadequate monitoring.

(ii) Furthermore, some loans were applied to unproductive ventures thus negating the need to break even or attain the efficiency level at which the return on capital is adequate to finance debts as they fall due in future.

(iii) Inadequate statistical base, human error and inadequate facilities contributed to the inability to observe the rules of efficient debt management which would have prevented the bunching of maturities.

(iv) Political expediency also resulted in the acquisition of loans for projects that did not meet profitability criteria. The floating component of interest rate charges on external debt also compounded Nigeria's problems. The portion of interest payments that is charged above the London inter-bank Offer Rate (LIBOR) is not fixed. Thus, the exact quantum of the debt cannot be determined outright unless interest rates are generally stable.

(v) The stringent rescheduling terms of the Paris Club of official creditors and the non-inclusion of debt write-offs in its terms of rescheduling has been a serious problem for the achievement of debt stock reduction for Nigeria. The Paris Club debts represent the largest share of Nigeria's outstanding debt and their non-rescheduling for debt stock reduction has resulted in increasing debt burden for Nigeria, especially as a result of the short consolidation period and the capitalization of maturities falling due.

(vi) The decline in export receipts has meant reduced capacity to service external debts. The high debt service ratio, scheduled at 35.8% in 1996 is rather on the high side and unsustainable. Such a debt service ratio is unhealthy for macroeconomic stability.

(vii) Furthermore, the payment of only one-third of external commitments falling due (actual debt service) in 1996 is tantamount to the accumulation of arrears with the concomitant pressure on the external sector and the reduction in the prospects or economic growth. Although Nigeria's debt service ratio is unsustainable, no real relief has been extended to the country and export receipts have not been able to provide adequate cushioning effect to internalise the debt burden.

(viii) The lack of symmetry and complementarily between fiscal and monetary policies especially in the period before 1995 helped to exacerbate the debt problem as the fiscal excesses during the period resulted in unstable macroeconomic conditions and sustained debt burden. This was because the inability to check fiscal expansion led to low priority deployment of acquired external resources and subsequent non-performance resulting to debt servicing problems, among others.

(ix) The inadequate and inappropriate manpower prevalent in debt management circles in the developing countries especially in the areas of loan monitoring, data compilation and computer application has made it difficult to ascertain the magnitude of debts in some cases, necessitating the employment of foreign experts/consultants to assist in the sorting out of the debt profile. In addition, faulty policy implementation and the accompanying macroeconomic instability has denied most developing countries including Nigeria the opportunity of creating the enabling environment for the resumption of sustained economic growth urgently required for the achievement of the appropriate debt service capacity.

PART TWO: WHERE WE WANT TO BE

Ideal Debt Management For Sustainable Economic Growth

10. Generally, the ideal debt management framework for sustainable economic growth would require the careful, efficient and programmed acquisition, deployment and retirement of loans consistent with a country's debt servicing capacity. In other words, loans should be acquired for productive purposes only and at the level where the break-even point falls below the performance level of projects being financed.

(a) The maturities on acquired loans should be programmed and computerized in such a manner that bunching is avoided and current resources are not over stretched, necessitating the resort to controls and rescheduling exercises that do not always result in permanent resolution of debt crises when they arise.

(b) The goals of debt management should be to obtain the benefit of borrowing in the financing of the shortfall in domestic savings and avoid the problems associated with macroeconomic and balance of payments instability. An ideal debt management strategy should ensure sustained growth in output enough to accommodate the debt service burden and release resources for economic development. A sound and buoyant economy would result in manageable debt level and provide reasonable level of resources for accelerating economic growth.

(c) In effective debt management, there should be a perfect mix between various loan sources so that concessional loans are maximized, the repayment periods and amounts are maximized and the incidence of debt service payment falls within the period the projects financed would start yielding returns.

(d) Essentially, borrowing should be assessed in the broad context of overall macroeconomic management. As a result, the debt magnitude and structure should not for any reason result in deflationary policies that substantially cut down on consumption but should encourage market determination of exchange and interest rates, so that they convey their appropriate costs and prevent undue fiscal expansion, through unsustainable investment programs.

(e) On the micro-level, loans should be monitored continuously with the keeping of adequate records on commitments, disbursements, grace period, maturities, debt service schedule, repayment, outstanding debts, export earnings and debt service ratios.

11. In more specific terms, an ideal debt management strategy for sustainable economic growth would entail the following:

(a) Domestic debts should be acquired and deployed on profitability criteria for project financing.

(b) Revenue bridging domestic loans should attract commercial rates and the original maturities should be observed as much as possible.

(c) The debt stock/GDP ratio should be low and should not under any circumstance be in excess of 50%. Thus, total debt-stock should not consume more than half of national output at any point in time. The deployment of more than half of current national output to finance debt commitments, were all debts to be paid off, would make available resources inadequate to make the desired impact on domestic economic growth and development.

(d) The generation of foreign exchange earnings through exports that would ensure the achievement of sustainable debt service ratio in the range of 1-10%, at which level debt crisis is not imminent and at the worst, a debt service range of 10 - 20%, the limit of which signals the imminence of a debt crises if remedial measures are not taken. The application of restrictions to keep debt service payments within the limits of export receipt is a symptom of debt management failure.

(e) The maturities of acquired debts should be well stretched out through an appropriate mix of loan sources that gives priority position to concessional sources and profitable ventures. More of bilateral and multilateral sources should be favoured against ICM loans and short term credits that fall due even before they become productive.

(f) Investments with acquired loans must meet the feasibility and profitability test of project evaluation. Only loans that are repayable on schedule and the returns of which are higher than future debt service payments should qualify for acquisition and deployment under an ideal situation.

(g) The growth of external debt or the rate of acquisition of new loans should be lower than the exports/GDP ratio in order to ensure that the domestic can absorb commitments on the new debts as they fall due.

(h) A stable macroeconomic environment that would facilitate increased productivity, growth in exports, internal and external balance is required for enhancing the debt servicing capacity of the economy, apart from ensuring that maturing obligations are financed. The stable macroeconomic environment would entail a convergence between fiscal and monetary policies which would result in price stability and external sector viability, in addition to appropriate levels of exchange rate and interest rates.

(i) An efficient debt management strategy should include an appropriate currency composition of foreign debts that would minimize debt service burden arising from exchange rate and interest rate fluctuations.

(j) A comprehensive set of data debt must be available on the basis of which relevant information can be generated for effective and efficient debt management. Such data should also be computerized and processed to generate relevant debt management information. Basically, the history of all loans should be compiled and stored in the computer. Such history should include, the date of contracting the loan, the type of loan, the terms, actual and scheduled debt service payments, disbursement, export earnings, outstanding payments, among others. In other words, the acquisition, deployment and retirement criteria of efficient debt management should be replicated in the computerized database. The rapid processing and information generation ability of the computer makes it a valuable aid for fast debt management decision making. Thus, debt management is more efficient with the aid of a computer than when manually handled. It will be practically impossible to operate an efficient and ideal management system with manual operations since it will be impossible to track all relevant data and information on all debts where the magnitude of debts is high and the sources numerous.

The Vision

12. The Committee envisages that by year 2010, the Nigeria will have in place: “Efficient and effective Debt Management of loans acquisition, deployment and retirement; consistent with Nigeria’s debt servicing capacity and sustains economic growth”

SECTION THREE: HOW TO GET THERE

Strategies For Debt Management

Domestic Debt:

13. A successful domestic debt management will enable government to lower debt service cost, enhance cash flow to government and above all achieve macroeconomic stability. In order to achieve these objectives concerted efforts should be made to reduce fiscal deficits as in the past two years and also reduce the debt service burden. It is necessary for government to put in place a framework that includes unsecuritized debts of the federal government. The

design of strategies for optimal domestic debt management must result in sustainable debt service burden. The strategies for achieving an effective debt management are as follows:

(a) The recent move towards more public debt policy and open market operations coupled with flexible interest rate must be intensified. Efforts must be geared at increasing the public's holdings of government securities in the open market in order to reduce the growth of monetary aggregates and the reserve base held by the financial system. This makes it necessary for Government to adopt a policy of offering yields on securities that are very close to market interest rates. Non-bank public and financial institutions will pay for securities by utilizing their deposit balances with banks thereby reducing money supply and reserve assets of the banking system. This process is less inflationary.

(b) There is need to appoint Private underwriters to manage domestic debt effectively. This will result in greater coordination, communication and integration of data in all aspects of debt management. An accurate and reliable debt portfolio for macro-economic policy formulation and analysis will be developed.

(c) Effective coordination between fiscal and monetary policies are necessary for effective debt management. There is need for Government to pursue stable fiscal policies consistent with the achievement of moderate and stable money supply growth rates.

(d) There is need to provide a broader and more accurate description of government's debt position which at the moment does not include claims by banks and local contractors. Although adequate statistics on these categories of debt are difficult to obtain, the information is necessary for a comprehensive assessment of economic policy and national indebtedness.

(e) In recognition of the inflationary effect of high powered money, Government must reduce its reliance on Ways and Means advances to finance budgetary gap. Where this means of financing is resorted to, statutory limits must be adhered to.

(f) An effective debt management strategy would require the achievement of fiscal viability, fiscal prudence and budgetary transparency through revenue mobilization, improved expenditure efficiency and budgetary control.

(g) An effective debt management strategy will require computerization of the financial markets in order to develop an effective communication network and a strong database.

(h) Effective debt management involves the need for government to raise long-term stock for long gestation projects.

(i) There is an urgent need for Government to review all laws governing domestic borrowings in order to limit them to manageable levels, which will not constrain economic growth. Statutory limits must be observed at all times and not compromised for short-term political considerations.

External Debt:

14. Apart from adopting all the strategies under ideal external debt management discussed in the preceding section of the paper, the following measures are important for ensuring efficient management in future and beyond 2010. These include:

(a) Cooperation with our creditors and the international financial institutions on debt restructuring instead of taking unilateral actions which usually result in penalties and stiffer debt service terms.

(b) Appropriate manpower and skills should be developed through training and retraining especially in the use of the computer for external debt data compilation, information generation and analysis of trends on major debt and economic indicators. Without that development would continue to pose great difficulties. External debt management should not be for all comers as it requires specialized skills for efficiency and effectiveness.

(c) A credible external debt policy should be pursued in the context of improved productivity and export growth, an appropriate debt service ratio that is consistent with the debt service capacity, in addition to a programmed and orderly schedule of acquisition, deployment and retirement of external loans. Such a debt management strategy should be consistent with the overall goal of macroeconomic management.

(d) The computerized database should be continuously improved to ensure that debt management becomes more efficient and effective, thus leaving no room for the possible resort to regulatory action to curtail expenditure and reduce public investment outlays, which may lead to decline in growth and reduction in the debt service capacity.

(e) In order to reduce the need for external loans acquisition to bridge domestic resource gap, a credible program of sustainable economic growth acceptable to the Bretton Woods Institutions should be developed. This would ensure early conclusion of debt restructuring terms and the provision of necessary concessions that would enable growth to resume.

(f) The growth inducing debt strategy would in the short term include caution in contracting new loans and even where new loans are to be contracted at all they should meet the criteria of feasibility and profitability.

(g) Further liberalization of the Debt Conversion Program (DCP) through appropriate incentives and rational management of debt portfolio is essential

(h) An appropriate currency composition of external debt and hedging is required to minimize exchange rate and interest rate losses from possible shifts in the terms of trade and the balance of payments. In the medium to long term, the strategy should be to liquidate all external debts while making room for only concessional debts from the Development Assistance Agencies and the multilateral institutions.

(i) A comprehensive economic management program that would ensure sustainable economic growth and generate enough domestic savings to finance the growth should also be put in place. Additional concessional capital flows would only help to accelerate the rate of economic growth and should be the basis for growth. The economic restructuring program envisaged for securing debt relief from the Paris Club of creditors is a medium term program which may still require some form of concessional inflow of capital.

15. After the resumption of growth and the repayment of outstanding non-concessional debts, it is hoped that in the years ahead and as we approach 2010, the savings/investment gap would narrow as more savings would be generated within the economy, making it

unnecessary to contract non-concessional external loans. Thus, domestic economic growth and development would be internally financed with enough surplus retained for transfers abroad, either by way of exports or unrequited transfers.

SUMMARY AND CONCLUSION

16. This report based on the conclusions of the Debt Management Group highlighted a number of issues relating to public debt in Nigeria. It emphasised the rapid growth of domestic and external debt stock and the escalating debt burden. It was further advanced in the paper that debt problems arise from the inability to repay maturity obligations as they fall due.

17. In order to avert debt problems, the report canvassed an orderly and programmed schedule of debt acquisition, deployment to productive ventures and retirement in conformity with agreed terms of each loan. Debt service ratio should be kept within manageable limits through prudent management and the expansion of activities in the domestic and export sectors of the economy. Above all, debt management should be predicated on a stable macro-economic environment.

18. The consequence of an increasing debt/GDP ratio, given persistent government borrowing, is an ever increasing tax burden and an inter-generational debt burden in the form of reduced capital stock in future. This is because increased debt stock implies greater obligation to make interest and capital repayments out of future income.

19. The public debt management framework envisaged by the year 2010 and beyond is that which confers the status of a net lender of resources on Nigeria. In which case, the economy would be self sustaining, generating within the elements for its sustenance. This vision can be achieved through the development of a credible programme of sustainable economic growth, which consists of a long term perspective, a medium term horizon and actualisation through project financing in the annual budgets and the rolling plans. In the interim, Nigeria should reach agreement with the Bretton Woods Institutions on a Medium Term Economic Programme to facilitate debt-restructuring negotiations with the Paris Club and thereafter put the economy back on the path of growth.

APPENDIX

ECONOMIC SUB-GROUP 13: DEBT MANAGEMENT

MEMBERS:

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2. Mr. Issac Aluko-Olokun - Rapporteur
3. Mr. Robert Cessac
4. Apostle Hayford Alile
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TECHNICAL TEAM:

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2. Mr. A. O. Ogunsakin - Group Coordinator
3. Mr. A. F. Oyeyipo - Scribe

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The Committee hereby express deep appreciation for the contributions of the Central Bank of Nigeria to this Report especially, the Debt Management Department of the Bank. Their contributions, which were quite substantial, made the execution of this assignment easier and form the backbone of this Report.

Notwithstanding these contributions, the Committee holds itself entirely responsible for all the conclusions and suggestions contained in this Report.

Debt Management Sub-Committee

CHAPTER TWENTY TWO

SUMMARY OF CONCLUSIONS:

1. If the Nigeria's financial sector is to effectively play its part in the nation's economic growth, the banking and finance sub-sector must satisfactorily resolve many problems affecting the sub-sector. The Committee identified many of them, principal of which are: low public confidence, financial distress, under-capitalisation, thin spread of management expertise, poor technical support and inadequate legal and regulatory framework.

2. Though Nigeria's stock market is 36 years old, it remains poorly capitalised, narrow, weak, illiquid and unsophisticated.

3. Nigeria debt service is very high and if it remains unresolved, it can hinder her economic development ambitions.

4. In spite of these and other problems the Committee believes that it is possible to build a Nigerian financial system that is well structured, transparent, efficient and competitive. A system that caters sufficiently for the short and long term financial requirements of the economy.

5. In order to achieve the financial system envisioned above, the Group set the following objectives and outlined strategies to achieve them:

Objective:

(a) To have efficient, diversified, flexible and resilient financial system.

Strategies:

(i) Simplify rules and regulations for entry into and exit from of the various sectors of the financial system.

(ii) Make determined efforts to resolve the current distress in the financial services sector by December, 1998.

(iii) Review, update and implement existing provisions in the relevant laws and regulations designed to ensure professionalism and probity of owners, operators and regulators.

(iv) Harmonize fiscal and monetary policies.

(v) Promote information technology in the financial system.

(vi) Integrate informal sector to attract at least 70% of the total currency in circulation into the banking system and discourage cash economy.

Objective:

(b) ***To have a proactive and regulatory framework***

Strategies:

(i) Accord Central Bank of Nigeria instrument autonomy in the areas of its core functions.

(ii) Abrogate all laws infringing on banker/customer confidentiality other than through due process of law.

(iii) Review and align all laws in the financial services sector to expunge inconsistencies and other overlaps.

(iv) The Failed Banks Decree should be amended to cover only fraudulent practices in financial institutions and be made more implementable and progressive.

(v) Ensure that the Financial Services Coordinating Committee (FSCC) is made operational to achieve its objectives.

Objective:

(c) ***For the financial system to have, by the year 2010, a highly capitalized, internationalise, and liquid financial markets.***

Strategies:

(i) Encourage more companies to be listed on the Nigerian stock exchange.

(ii) Implement an aggressive, participatory, transparent and efficient privatisation programme as much as possible through the stock exchange.

(iii) Promote Venture Capital Companies.

(iv) Encourage mortgage institutions to source funds from the capital market.

(v) Promote 'micro' investment vehicles for example, Mutual Funds, Esusu etc.

(vi) Recognise Pension Schemes and make them a major source of capital market funding.

(vii) Promote Cross border listing of Nigerian quoted Companies on stock markets of major international financial centres.

viii) Promote custodial services and Central Depository System.

(ix) Review and increase capitalization requirements of the insurance companies and enforce compliance by 1998.

(x) Seek and retain more re-insurance businesses in Nigeria, at least, 60%.

(xi) Enhance transparency, efficiency, speed of trading, settlement and delivery system.

(xii) Promote automation of the trading system in the Nigerian stock markets.

(xiii) Deregulate stock brokers commissions and adopt competitive fees/taxes payable to government and its agencies.

(xiv) Promote active lending to stock trading activities.

(xv) Reactivate the bond market (governments and corporate).

(xvi) Put in place a regulatory framework for the establishment and operation of rating agencies.

(xvii) Establish a framework for and actually develop the commodities, Options and Futures markets.

Objective:

(d) ***To ensure a low debt/GDP ratio***

Strategies:

(i) Identify, recognise, securitize and ultimately settle all the non-securitise debts.

(ii) Review current debt portfolio and liquidate substantial portion to reduce the Debt/GDP (1996) ratio to below 10%.

(iii) Review and thereafter, strictly adhere to all laws regulating public debts especially those relating to Central Bank funding.

(iv) Develop and maintain a computerized debt database that is accurate, efficient and effective.

(v) Government, as a deliberate policy, should improve its fiscal operations through revenue mobilisation and transparent accounting of same, prudent spending, efficient payment system and budgetary discipline.

(vi) Agree the Medium Term Economic strategy (MTES) with the World Bank/IMF as quickly as possible so as to resolve the Paris Club Debt overhang.

(vii) Further liberalize the Debt Conversion Programme to make it more attractive.

(viii) Actively manage the currency composition of the debt portfolio to take advantage of currency and interest rate movements.

(ix) Cooperate with our creditors in debt restructuring talks rather than resort to unilateral actions which often result in penalties and stiffer debt service terms.

(x) Limit the use of external borrowing to productivity improvement and export growth programmes; and as a last resort, bridging of temporary balance of payment difficulties.

(xi) Develop an appropriate and well-coordinated recruitment and training programme to improve manpower support for debt management.

Objective:

(e) A financial system operated by professionals with high integrity engendering high confidence.

Strategies:

(i) Design and implement comprehensive and regular training programme for operators.

(ii) Strictly observe code of conduct for operators e.g. enforcement of settlement claims.

(iii) Promote public awareness by massive but coordinated public enlightenment campaigns.

(iv) Promote self regulation by encouraging the formation of active trade associations amongst the financial institutions.

APPENDIX

1. The Group held various meetings in February, March, April and May 1997 during the Vision 2010 Committee Workshops at the Nicon Noga Hilton Hotel, Abuja.

2. The group had several brain-storming sessions to identify key issues in the banking and finance sector. It also organised and held a workshop on Banking and Finance in Lagos on 7th May, 1997, the purpose of which was to ensure comprehensive input and provision of authentic data and information by major stakeholders in the banking and finance sector. In addition all relevant sources of published information as well as memoranda received were utilised to guide the subcommittee's deliberations on the key deliverable items of Where We Are, Where We Want To Be and How To Get There.

3. A Summary Of The Presentations Made At Plenary Sessions

(a) Key Issues Identified Include:

(i) Funding/cash Management
(ii) Lending
(iii) Trade Finance
(iv) Management
(v) Structure
(vi) Legal/Regulatory
(vii) Policy

(viii) Distress
(ix) External Finance
(x) Insurance

WHERE WE ARE

(b) Funding & Cash Management

(i) Short-term funding dominance
(ii) Unattractive rates policies
(iii) Low public confidence
(iv) Inefficient operators
(v) Prohibitive transactional costs
(vi) Dearth of instruments/products

(c) Lending:

(i) Most loan assets are short-term
(ii) Difficult access to credit by indigenous entrepreneurs
(iii) High rate of defaults
(iv) Lopsided lending e.g. to Forex-related transactions
(v) Poor credit and risk management
(vi) Environmental constraints (cultural, religious, etc).

(d) Trade Finance

(i) High country risk
(ii) Over dependence on government for Forex
(iii) Excessive government regulations/documentation
(iv) Inconsistent government policies
(v) Inefficient government agencies e.g. customs inspectors, "toll gates" etc.
(vi) Limitations on inter-bank transactions

(e) Management

(i) Thinly spread management expertise/low staff quality
(ii) Low banking ethics
(iii) Laxity in enforcing professional standards
(iv) Poor information flow
(v) Prevalence of management/board conflicts
(vi) Government Interference (mostly in government-owned banks)
(vii) Poor system & controls
(viii) Inadequate technological support

(f) Structure

(i) Uneven spread of banks
(ii) Under-branching
(iii) Mismatch in frameworks & activities
(iv) Operational disharmony among the operators
(v) Unclear supervisory oversight

(g) Legal/Regulatory Framework

(i) Insufficient enforcement powers
(ii) Inadequate penalties
(iii) Operators' lack of transparency
(iv) Poor knowledge base of the regulators
(v) Restrictive legal procedures e.g. legal mortgage processing
(vi) No liquidation procedures for non-bank financial institutions

(h) Policy Issues

(i) Unstable policy climate
(ii) Lack of consultation in policy formulation
(iii) Policy implementation lags
(iv) Too much dependence on annual budgets for direction
(v) Inadequate deposit insurance
(vi) Intrusion of some laws and agencies in banking activities (e.g. NDLEA).
(vii) Slow pace of cleansing the banking system of failed banks

(i) Distress

(i) Asset mismatch
(ii) Capital inadequacy
(iii) Fraud
(iv) Poor management
(v) Insider abuses

(j) External Finance:

(i) Inability of Nigeria to meet:
 existing obligations
 conditions for new credits
(ii) Hostile external environment

(k) Insurance Industry:

(i) Undercapitalised
(ii) Weak supervision
(iii) Inefficient claim settlement procedures
(iv) Poor image
(v) Insufficient re-insurance capability.

WHERE WE WANT TO BE

a) Mission

i) To have in place a well-structured, adequately funded and vibrant financial services system that will adequately meet the short and long-term financial needs of the economic sector and help launch Nigeria into sustained economic growth and development.

b) Funding & Cash Management:

i) Strong and expanding economy
ii) Optimal tenored funding
iii) Market driven rates structure
iv) Public confidence in financial systems
v) Competitive charges (deregulated tariffs)
vi) Profit sharing banking practice possible
vii) Efficient customer service

c) Lending:

i) Availability of long-term financing
ii) Better quality loan/credit administration
iii) Promotion of specialised facility for the disadvantaged
iv) Lending to activities with the greatest multiplier effect

d) Trade Finance

i) Low country risk
ii) Total deregulation of Forex transactions
iii) Simplified documentation procedure
iv) Efficient and business friendly environment
v) Free Flow of inter-bank transaction and internal correspondent banking
vi) Removal of ban on foreign guarantees

e) Management

i) Highly professionalised banking and finance personnel
ii) Strict enforcement of statutory requirements regarding banking management
iii) Entrenched Highly Ethical Banking Practice
iv) Efficient integrated banking management information systems network (database on personnel, credit, etc.)
v) Technology-driven system and control

f) Structure

i) 100,000 persons per bank branch
ii) Universal banking (equity holding, trading)
iii) More harmonious operational relationship among players in the system
iv) Strong and virile non-banking financial institutions
v) Effective supervision machinery

g) Legal & Regulatory Framework

i) Regulatory authority with sufficient enforcement power for prompt and decisive action
ii) Law-abiding financial sector
iii) Knowledgeable and competent regulators
iv) Clear and simple liquidation procedures for all financial institutions
v) Effective Supervision of Non-Bank Financial Institutions.

h) Policy Issues

i) Predictable and consistent monetary and fiscal policies
ii) Policy announcements should be made well in advance of implementation
iii) Adherence to time-frame for policy implementation
iv) Full insurance for all deposits
v) Strict compliance with customer confidentiality

i) Distress (Detection, Prevention & Resolution)

i) Adequate capitalisation
ii) High Asset quality
iii) Adherence to prudential guidelines
iv) Effective supervision of the system
v) Competent management
vi) Prompt and decisive Action

j) External Finance:

i) Highly credit - worthy country
ii) Conducive investment environment
iii) Positive external image

k) Insurance:

i) Adequately capitalised
ii) Effective supervision
iii) Timely and equitable claim settlement procedures
iv) Enhanced public confidence
v) Strong re-insurance capability
vi) Innovative

HOW TO GET THERE

a) Long-Term Funding

i) Create enabling environment for funds to grow
ii) Develop risk fund and venture capital to finance innovations
iii) Integrate informal sector to attract at least 50% of currency in that sector making total currency in the banking system at least 70% of total currency in circulation.
iv) Discourage cash economy
v) Review and properly structure community banks and encourage the creation of private development banks

b) Legal & Regulatory Framework:

i) Maintain CBN autonomy in all areas of its mandate i.e. monetary policy, currency, supervision, payment systems and regulations - (instrument autonomy not absolute independence)

ii) The CBN should remain the banker of the last resort, regulator but must not be a participant/player in competition with other players

iii) Restore traditional functions and ensure high level professionalism in CBN's operations.

iv) NDIC should be adequately funded to carry out its responsibilities properly.

v) Need for immediate and quick review of insurance premiums and cover (cover well over the current ₦50,000).

vi) The CBN as apex regulatory body to co-ordinate activities of all participants in banking, insurance and non-bank institutions - Financial Services Co-ordinating Committee should go back to CBN.

vii) All laws infringing on banker/customers confidentiality other than through due process of law should be abrogated.

viii) Review/realign all laws in the financial services sector to remove inconsistencies and overlaps.

ix) Failed Banks and Financial Institutions Decree should be embedded in the constitution. All financial intermediaries to be included.

x) All deposits should be adequately insured.

c) Policy Issues:

i) Wide participatory consultations before policy formulation and review

ii) Policy should be well thought-out and impact assessment of anticipated side-effects prepared.

iii) Resist the temptation to change policy under pressure from interest groups.

iv) Clearly map out procedural, institutional framework and time-frame for policy implementation prior to formal announcement.

d) Distress-free System:

i) Ownership of financial institutions should be by unimpeachable individuals and institutions.

ii) Install more thorough banking licensing procedures.

iii) Resolve current distress in the financial services sector by the end of 1997.

iv) Install appropriate mechanism for future distress prevention and resolution.

v) NDIC to be refocused and adequately funded to enhance its regulatory and protection roles.

vi) CBN should be empowered to withdraw the operating licence of any distressed financial institution.

e) Trade Finance:

i) Agree and implement Medium-Term Economic Strategy (MTES) to resolve the debt problem.

ii) Totally deregulate Forex transactions (both buying and selling).

iii) Ensure Naira convertibility by the year 2002.

iv) Banks to take the initiative to develop national/local correspondent banking for promotion of internal and ECOWAS sub-regional trade.

v) To develop and operate a good and efficient payment system to generate confidence and develop the non-cash economy.

f) Management:

i) Banks to compulsorily adopt computerisation and networking in their operational systems by the year 2000.

ii) Ensure continuous professional training at all levels.

iii) Strict enforcement of sanctions on breaches of laws and regulations governing the profession to ensure high ethical standards.

iv) Encourage the formation of association of banks to monitor and self-regulate business standards and ethics.

g) Structure:

i) Increased deregulation of the system to allow for more banks and branches.
ii) Ensure the establishment of more non-bank financial institution.
iii) Create appropriate incentives to encourage the emergence of more rural banks.
iv) Introduce Universal banking by the year 2002.
v) More interactive financial intermediation relationships between financial institutions.

h) Insurance

i) Maintain a culture of high level professionalism to promote competitiveness and superior service in the insurance sector.

ii) Adopt and practise medium to long-term proactive responses to maximise marketing potential and opportunities.

iii) Review and increase the capital adequacy of insurance companies and enforce compliance by end of 1998.

iv) Mobilise long-term funds through the design of cost-effective re-insurance schemes to handle mega risks.

v) At least 60% of re-insurance should be retained in Nigeria.

vi) Remove all elements of monopoly in the insurance industry.

vii) Strengthen domestic market through effective regulatory system.

CHAPTER TWENTY-THREE

CONCLUSIONS

1. One of the key objectives of the Vision 2010 project is rapid and sustainable economic growth. The desired growth can only be realised if the numerous issues highlighted in the economic reports are properly and duly addressed. Some of the commonest of these issues are: appropriate macro-economic policy environment, state ownership of some key businesses, liberalisation of key sectors, efficiency and effectiveness of public utilities and efficiency of government services. The issues relevant to each sector have been highlighted in each of the foregoing reports. In this concluding chapter, the focus is on the major objectives/targets and strategies that will help to realise the objectives, as presented in each of the economic reports:

2. MONETARY POLICY

(a) Major Conclusions

(i) The monetary policy environment has been considerably liberalised.

(ii) The institutional arrangement for the execution of monetary policy has been severely constrained with the promulgation of the CBN (Amendment) Decree No. 3 of 1997.

(b) Major Recommendations

(i) Price stability should be the main objective of monetary policy, with an inflation target of 2.0% by the year 2010.

(ii) The government should grant sufficient autonomy, both in law and in practice, to the CBN to enable it use appropriate instruments to achieve goals set by Government. In particular, the Government of the CBN should be the Chief Executive and Chairman of the Board of Directors of the Bank, should be of Cabinet rank and should report directly to the President.

(iii) The existing cooperation between the monetary and fiscal authorities should be continued.

(iv) The current fiscal discipline should be continued.

(v) Government should speed up the resolution of the distress in the financial system so as to enhance the realisation of the goals of economic policy.

3. **FISCAL POLICY**

(a) Major Recommendations

(i) Taxation

(ii) There should be continuous movement towards low tax regime to attract investments and improve compliance.

(iii) There should be an efficient administrative machinery.

(iv) Government should provide for adequately trained, well equipped and motivated personnel.

(v) Government should establish a tax policy framework that is predictable and maximises tax revenue without necessarily creating a harsh tax climate that would drive investors away out of business or drive enterprises towards evasion.

(vi) There should be an effective redress and refund system eliminating arbitrariness and corruption

(vii) Government should develop a corruption-free administrative machinery.

(viii) An efficient tax administration that brings all taxable persons under the tax net, paying their due taxes promptly without obstacles and with appropriate sanctions for defaulters.

(ix) A Federal Inland Revenue Service and Customs Service highly professional in status fully autonomous in day to day administration of taxes or Tariff and reporting directly to the Minister of Finance for purposes of harmonisation of fiscal policies vis-à-vis other policies while the Minister sets targets and operational standards.

(x) A lax regime fiat shifts emphasis to consumption tax as opposed to direct tax. A system which is not only more efficient but more equitable and less offensive.

(xi) A business friendly clearing procedure at the ports for all imports in order to facilitate tax collection and reduce clearing cost.

(xii) Generally low customs and excise duties regime to discourage evasion and stimulate growth.

(xiii) Appropriate legislation plus proper tariff to prevent dumping of poor quality goods.

(xiv) Tax incentives wherever introduced should put Nigeria as much as possible, in a competitive advantage and be easy to administer and easily claimable

4. Level and Structure of Expenditure

(a) Government expenditure should be concentrated on the provision of economic and social goods and services e.g. infrastructure, security, education, rural development, etc. leaving other activities to the private sector.

(b) a leaner well trained, extremely motivated and remunerated public sector to improve productivity.

(c) Greater accountability and transparency in expenditure in all tiers of government.

(d) Rationalise government expenditure to ensure greater value for money.

(e) Elimination of government expenditure on commercial public sector activities and removal of all monopolies from the Public Sector to make them competitive and more efficient.

5. Revenue Structure

(a) Diversified economy which does not depend on oil revenue but maximizes revenue from productive non-oil sectors.

(b) States and Local Governments revenue to be less dependent on revenue from federation account or multiple taxes but derive from improved economic growth and better administration of taxes.

6.. Balanced Budget

(a) At the minimum, Nigeria should maintain a balanced budget.

(b) Where there has to be a deficit, it should not exceed 3% of GDP and it should be financed from the capital market rather than by the CBN.

(c) If we must borrow, such borrowing should be backed by corresponding productive assets which can repay the debt.

7. Fiscal Federalism

(a) Allocation of revenue from the Federation Account to be commensurate with the powers and responsibilities devolved to the States and Local Governments.

(b) Government should comply with the constitutional provisions on revenue allocation.

(i) Strategies

- Taxation

• Staff all tax authorities with highly trained and well motivated professional personnel.

• Improved funding of tax authorities and the Customs Service to a level of about 3-5% of targeted annual revenue to ensure efficient administration.

- Amendments to tax laws should be made effective immediately after such amendments are made.

- There should be continuous review of tax laws, tax incentives, tax rates, tariff, side by side with other macro-economic factors to ensure an appropriate fiscal policy from time to time.

- A unified, effective and unbiased tax administration at all levels of government. In this connection, in order to avoid the existing situations where State tend to impose levies and taxes illegally and try to enforce them quickly before they are called to order, a single tax authority devoid of local ethnic or political inclination should be introduced whilst the usual diversified revenue efforts and peculiarities of each tier of Government remains unimpaired. This is the trend in many Federal States.

- There should be specialised judges in the High Courts to deal with revenue matters promptly and effectively to enhance more tax compliance and respect for tax laws.

- Avenues for prompt redress for those aggrieved in taxation and tariff should be set up in all revenue collecting establishments.

- All international agreements e.g. Double Taxation Agreements should be honoured and existing ones should be reviewed to ensure Nigeria takes due advantage of the provisions.

- Tax incentives must be internationally competitive. All such tax incentives must be cleared with the Federal Minister of Finance on the advise of the Head of the Tax Administration. Current tax incentives must be promptly treated when claimed.

- The Ports must be cleared of obstacles, touts, corruption and any other form of malpractice. Port charges should also be internationally competitive and reasonable.

- Customs officers and those on duty at the ports must exhibit friendliness and willingness to assist rather than hostility or extortion of users. This would reduce cost of goods clearance at the ports.

- The Nigerian Investment Promotion Council should be set up immediately and must be prompt in dealing with applications so as to attract more foreign investors into Nigeria.

- Incentives at the Export Processing Zone (EPZ) should be made readily available and promptly implemented. The objective to make EPZ as a “One Stop Centre” for the approval of all incentives should be actualised.

- Excise duties must not erode the competitiveness of local industries so we recommend its abolition and in its place and appropriate differential VAT rate especially on tobacco and alcohol.

- Tariff on finished goods and its corresponding raw materials should be fixed in such a way to encourage local production.

8. Level and Structure of Expenditure

(a) The ratio of overall government expenditure to GDP should not exceed 30%. To achieve this as from 1998 regardless of revenue windfalls overall expenditure should grow at an annual rate below that of GDP.

(b) Commensurate resources should be committed to recurrent expenditure vis-à-vis capital expenditure so that existing government services and facilities can generate maximum output whilst enjoying regular maintenance.

(c) The level of our expenditure for debt payment as a percentage of total budget is too high. A more comfortable level should be negotiated to free more funds to social goods and services.

(d) As from 1998 there should be drastic curtailment of expenditure on image laundering, unnecessary public ceremonies, indefensible foreign aid and adventures in foreign lands. Such expenditure however whenever made must have clear national objectives while our own house must be kept in order.

(e) As from 1998 government at all levels should desist from creating more parastatals and ministries and existing ones should be rationalised. Number and types of ministries to be limited if possible by statutory provisions.

(f) As from 1998 States and Local Governments should be allowed significant autonomy in taking their expenditure decisions.

9. Revenue Structure

(a) The Present Revenue Structure can only change if the country's macroeconomic management succeed in diversifying the economy and the dominance of oil is reversed or surpassed by non-oil revenue. There is no magic to revenue inflow, it has to flow from economic success factors.

(b) All export drive, economic growth strategies in agriculture, gas, solid minerals etc. when they start showing success, revenue from these sources would start to flow to all levels of Government.

(c) All incentives necessary to encourage growth and even first time investors in the non-oil sectors should be put in place now and implemented. Explore the possibility of reducing Government investment in the oil industry without adverse effects on revenue.

(d) All the three tiers of Government have been allocated areas of revenue resources in the Constitution which they can tap. Therefore effective collection machinery must be put in place to maximise collection at all levels. The Federal Inland Revenue Services should take initiative to assist in setting up effective assessment and collection machinery at all levels.

(e) Accelerate attempts to diversify the economy e.g. petrochemical, gas, LNG and Solid Minerals and quickly make efforts to ensure revenue flow form these sectors.

10. Budget Balance

(a) Approved funds in budgeted expenditure should henceforth be released to spending agencies fully and timely as part of budget administration for effective implementation.

(b) The current over hang of domestic debt should be gradually repaid to restore credibility in the budgetary system.

(c) Continuous monitoring of expenditure releases ensuring quality and value for money.

11. Fiscal Federalism

(a) Establish efficient tax administration at all levels of government

(b) Eliminate all unilateral deductions from the Federation Account that approves all tiers of government and their statutory revenue.

(c) Adhere strictly to the statutory allocation of revenue from the Federation Account.

(d) Ensure all tiers of government do not encroach on one another's sources of revenue.

INTERNATIONAL TRADE

12) Major Recommendations: Nigeria should:

(a) Be a strong and growing trading nation, accounting for about 1.0% of world trade;

(b) Be able to produce manufactured goods of international standards;

(c) Have in place one of the most attractive tariff structures in the world;

(d) Have a well-managed and effective export incentive scheme.

13. Strategies:

(a) Provide huge incentives for export in specific industries where we have comparative advantage, e.g., oil palm, rubber, cocoa, leather products and petrochemicals.

(b) Harmonise export incentives and implement them effectively.

(c) Actively promote competition in the private sector through economic deregulation and liberalisation.

(d) Re-orientate Ports, Customs and Immigration officials to see businessmen as partners in economic progress and treat them as such.

(e) Strengthen the Standards Organisation of Nigeria (SON) and motivate it to intensify its work.

THE POLICY PROCESS

14 Major Recommendations: Nigeria should:

(a) Clearly articulate macro-policy directions;

(b) Have a well-integrated policy process which ensures proper consultations;

(c) Have a stable policy environment;

(d) Institute effective monitoring of policy implementation;

(e) Have a professional public service, able to provide impartial and professional advice to government.

15. Strategies:

(a) Create an apex body with responsibility fir articulating general policy direction for the country and ensuring that the general policy direction is followed.

(b) Create a policy coordinating body, next to the apex body, with responsibility for working out the details of the general policies. The body should also guide and monitor policy implementation.

(c) Ensure proper consultation with relevant parties before policies are formulated.

(d) Implement the Civil Service Reforms recommended by the Ayida Panel.

(e) Take urgent steps to improve the remuneration of civil servants.

AGRICULTURE

16. Major Recommendations: Nigeria should:

(a) Be filly self-sufficient in the provision of basic food items;

(b) Have a fully liberalised, efficient and competitive supply of farm inputs;

(c) Be a leading exporter of primary agricultural commodities and semi-processed raw materials;

(d) Develop a highly productive agricultural sector;

(e) Create a highly developed food marketing and distribution system.

17. Strategies

(a) Promote development and growth by aligning macro-economic policies to support the overall objectives of the agricultural sector.

(b) Encourage the rapid expansion of private agro-allied service companies which provide technical supply and support services to farm holdings.

(c) Create an enabling environment to attract local and foreign investment and facilitate growth in the sector.

(d) Increase productivity by applying improved management and technology, utilizing improved input and equipment and by improving the effectiveness of extension services.

(e) Expand productive hectarage through land reforms and by granting investors access to large holdings.

(f) Encourage utilisation of agricultural produce for raw materials in local industries and encourage export-oriented enterprises.

(g) Conserve natural resources and protect the environment through the adoption of modem practices which reduce soil degradation and deforestation.

MANUFACTURING INDUSTRY

18. Major Recommendations:

(a) Manufacturing should contribute at least 25% of the GDP;

(b) The sector should produce high quality goods at internationally competitive prices;

(c) Manufacturing should be restructured to emphasise the production of capital goods, intermediate goods and engineering industries.

19. Strategies:

(a) Improve consumer purchasing power in order to rejuvenate the economy;

(b) Stimulate the consumption of made-in-Nigeria products;

(c) Give adequate and time-bound protection to local industries on a selective basis;

(d) Improve infrastructure;

(e) Stimulate domestic investments through appropriate incentives;

(f) Create conditions that will be attractive to foreign investors;

(g) Develop human capital through specialised skill training.

UPSTREAM PETROLEUM

20. Major Recommendations: Nigeria should:

(a) Substantially increase both reserves and daily production of oil.

(b) Make oil-producing communities stake-holders in the operations of the industry.

(c) Achieve trustful relationship among all stake-holders.

(d) Establish economic outlets for gas to eliminate flaring.

(e) Develop and operate in concert with the environment.

21. Strategies:

(a) Establish an appropriate mechanism for funding government share of joint venture operations.

(b) Replace OMPADEC with a planning and monitoring committee for effective community development.

(c) Involve all stake-holders in discussions of all matters that will affect the operations of the industry prior to promulgation of laws.

(d) Utilise Nigerian-based companies in preference to foreign service providers when bid proposals are competitive.

(e) Improve incentives to encourage optimal use of gas and adopt a comprehensive energy policy with deliberate focus on gas.

DOWNSTREAM PETROLEUM

22. Major Recommendations:

(a) Maintain a regular supply of products nationwide.
(b) Increase Nigerian content in operations.
(c) Create employment opportunities.
(d) Protect people and the environment.

23. Strategies

(a) Deregulate the pricing of products.
(b) Privatise refineries and operate efficiently.
(c) Promote research and development (R&D) capability to support domestic product.
(d) Promote safety awareness.
(e) Develop emergency response plan and conduct major disaster exercises.

SOLID MINERALS:

24. Major Recommendations: Nigeria should achieve:

(a) An increase in contribution to GDP to at least 4.0%

(b) Self-sufficiency in the sourcing of solid minerals inputs for local industries.

(c) Increased export of processed minerals.

(d) Acquisition of technological capability.

(e) Diversification of the primary mineral products through increased exploration.

25. Strategies

(a) Adopt and implement the Draft Solid Minerals Policy.

(b) Increase the funding of solid mineral surveys.

(c) Provide relevant infrastructure to facilitate the development and exploitation of solid minerals.

(d) Develop technological capability in solid minerals production.

SMALL AND MEDIUM ENTERPRISES (SMEs)

26. Major Recommendations: Nigeria should achieve:

(a) A vibrant small and medium enterprises sector;
(b) Export-oriented enterprises;
(c) Enterprises producing high quality products.

27. Strategies

(a) Establish an apex body for small and medium enterprises to coordinate the implementation of government policies on the sector.

(b) Monitor the performance of the apex body for SMEs.

(c) Upgrade or develop industrial clusters/villages/estates in any city where there are large numbers of SMEs and provide adequate facilities for the needs of the enterprises.

(d) Provide generous tax incentives to SMEs.

(e) Promote SMEs through special awards, for instance, for export performance.

TRADE AND DISTRIBUTION

28. Major Recommendations:

(a) Trade and distribution to be a major contributor to the national economy;

(b) A well-developed and extensive infrastructure;

(c) Cost of doing business to rank among the lowest and most competitive in the world.

(d) An efficient and effective payment system;

(e) Distribution of only goods of international standard and quality.

29. Strategies

(a) Identify goods and services with comparative advantage and make them grow maximally;

(b) Provide adequate infrastructure;

(c) Remove all regulations that do not add value to transactions;

(d) Stimulate the growth of the economy in order to raise incomes;

(e) Put in place appropriate regulations, inspection and monitoring arrangements to ensure that goods distributed are of high quality.

RURAL DEVELOPMENT

30. Major Recommendations:

(a) Rural populace need education so as to acquire skills for self development.

(b) Land clearing by cooperatives rather than by individuals.

(c) Concerted national programme for land use.

(d) Explicit and simple procedures for land acquisition with marketable title.

(e) Transform the agricultural sector to generate rural employment.

(f) Rural roads to be improved, maintained and increased.

(g) Rural Nigeria to have access to markets.

(h) Expansion in rural telecommunications and postal services.

(i) Appropriate rural technology to increase agricultural productivity and industrialisation.

(j) Improved health-care services in rural areas.

(k) Integration of traditional medicine with orthodox systems.

31. Strategies

(a) Adopt of a sustainable national policy framework for rapid rural development.

(b) An integrated rural development.

(c) A clear definition of the role of government and non-government institutions operating in rural areas.

(d) Primary infrastructure like telecommunications, power generation, river basin development, feeder roads etc. must be provided by Federal and State governments.

(e) Empower the rural people with appropriate knowledge and skills.

(f) Ensure easy access to education, land with marketable titles, basic infrastructure like telephones, post offices, adequate health care facilities, electricity, water, housing and appropriate technology etc.

POVERTY ALLEVIATION

32. Major Recommendations:

(a) Reduce income poverty from an average of 62% to 20% of the population.

(b) Eradicate extreme poverty.

(c) Have 20% or less family income, as expenditure on food; achieve a protein intake of up to 20% of total food intake.

(d) At least 80% of the population should have access to modern health care system and the Primary Health Care coverage should reach 100%.

(e) 80% of Nigerians should have access to safe water.

(f) Increase literacy rate from 52% to 70%.

(g) Implement Universal basic primary education programme, for the first nine years of education.

(h) Adequate housing for Nigerians. A larger proportion of the houses should be low cost housing for the poor.

(i) Adequate provision of affordable and reliable transportation system, with a larger participation of the private sector to ease movement of persons and goods.

(j) 80% of Nigerians should have access to reliable electricity.

(k) A minimum wage that meets the basic needs of the individual.

(l) A social security system that would provide a safety net for people with severe disabilities, the mentally retarded and the aged.

(m) The need to provide a framework of the national level for the coordination, monitoring and evaluation of poverty alleviation programmes.

33. Strategies:

(a) Achievement of high GDP growth rate of 10%.

(b) Reduction in population growth to not more than 2%.

(c) Enhanced investments in the social sector and in other poverty alleviation policies and programmes.

(d) Nigerians must be morally re-oriented, re-awakened and mobilised to cherish the values of accountability, responsibility, probity, hard work, honesty, dedication and good-consciousness.

(e) Sustainable wage income; and keeping real salaries and wages for the public sector and private corporations not to fall below the poverty line.

(f) 30% of the national budget and 50% of all international aid flows should go to the social sector.

(g) Discourage early marriages below the age of 18 years.

(h) Stress intensive campaign and education on the need for family planning.

(i) More attention should be paid to reducing wastage of both perishables and non-perishable foods. More storage facilities to be installed by government.

(j) Rural banking schemes should place more emphasis on leasing simple equipment to farmers.

(k) Poverty alleviation programmes such as FEAP should focus on assisting farmers to engage in off-farm income generating activities

(l) Increasing literacy level from 52% - 70% and implementing effectively the universal basic education policy.

(m) Federal funding to health should be increased from less than 4% of the budget in 1996 to 10% in 2010.

(n) State government allocation to the health sector should increase from the present level of 15% to 25/% while PHC delivery at the local government level should expand by 5% yearly.

INFRASTRUCTURE

34. Major Recommendations:

(a) World standard infrastructural facilities.

(b) Providing an international hub for regional networks.

(c) Every Nigerian with access to telephone, power, potable water, transportation and information at affordable $_1$rices.

(d) Infrastructural growth rate of 20%.

(e) All existing facilities to be rehabilitated and serviceable.

35. Strategies

(a) Introduces commercial principles and competition.

(b) User-charges should be applied in pricing infrastructural facilities.

(c) Regulatory framework should be introduced to protect consumers and investors.

(d) Privatisation is highly recommended where applicable.

(e) Effective planning and coordination of tasks.

(f) A ‘new’ Transport Ministry to ensure effective coordination and complimentary of facilities.

BANKING AND FINANCE

36. Major Recommendations:

(a) A well structured, adequately funded and vibrant financial services system.

(b) Help launch the country into sustained economic growth and development.

(c) Assign specific macro-economic targets to the Central Bank of Nigeria.

(d) Achieve a fairly high level of investment.

(e) Sector should move into more progressive practice of building long-term partnership with the real sector.

(f) Develop venture capital as a long-term finance instrument.

37. Strategies:

(a) Inflationary control and real growth of the economy.

(b) Expand financial intermediation activities to Africa and Asian countries.

(c) Macro-economic stability - Stability of the exchange rate.

(d) Political consistency over a long period of time and good governance.

(e) Appropriate licensing procedures.

(f) On-site examinations conducted on a ‘consolidated basis’

(g) Sustained enlightenment campaign to make the investing public aware of the potentials of the market.

CAPITAL MARKET

38. Major Recommendations:

(a) Transparent, efficient, liquid and competitive.

(b) Transacting in widely held and diverse securities and supported by proactive regulations.

(c) Market/GDP as market capitalization ratio of at least 25%.

(d) Complete automation of trading regulation and information dissemination.

(e) Diverse and sophisticated in instruments and structures.

(f) Cross border listing of securities.

(g) Preponderance of self-relation.

(h) Stable social and political environment.

39. Strategies:

(a) Rationalise cost of public issues to between 6 and 7% of proceeds of issue (excluding indemnity of fees).

(b) Improved market capitalization.

(c) Active primary market to enhance the new issues/gross fixed capital formation ratio.

(d) Enhance the diversity and sophistication of the structure and instruments.

(e) Compel states, local governments and agencies to raise funds from capital market.

(f) Enhance public confidence in the capital market.

(g) Reactivate bond market by sourcing funds from capital market from 1997.

DEBT MANAGEMENT

40. Major Recommendations:

(a) Loans should be acquired for productive purpose only.

(b) Borrowing should be assessed in the broad context of overall macro-economic management.

(c) Loans should be monitored continuously with the keeping of adequate records on commitments, disbursements, grace period, maturities, debt service schedule, repayment etc.

41. Strategies:

(a) Adopt market driven interest rates determination.

(b) Encourage, increased non-bank public holdings of government securities.

(c) Use capital markets to raise long term funds.

(d) Review and adhere strictly to all laws regulating public debts.

(e) Conclude the Medium Term Economic Strategy (MTES) as quickly as possible to open the way to resolving the Paris Club debt overhang.

(f) Liberalize the debt conversion programme.

(g) Limit the use of external borrowing to productivity improvement and export growth programmes.

(h) Co-operate with our creditors in debt restructuring talks.

(i) Develop and maintain a computerised debt database that is accurate, efficient and effective.

(j) Emphasise use of more bilateral and multilateral sources and a last resort, International Capital Market (ICM)

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4. Chief Molade Okoya-Thomas
5. Commandant National War College
6. Brig. Gen. S. Ango (Customs Dept.)
7. Director-General, N.I.I.A.
8. Mr. Lamorque
9. Alhaji Bello Maitama Yusuf
10. Dr. C. Kolade
11. Alhaji Aliko Mohammed - Alternate Rapporteur

Facilitator: Mr Kevin Ejiofor

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POVERTY ALLEVIATION AND ELIMINATION **GROUP 12**

1	Hon. Minister of Information		
2.	Dr. Ladi Hamalai	-	**Rapporteur**
3.	The Akangbo of Ijebu Remo		
4.	Alhaji Lateef Jakande		
5.	Mallam Mamman Daura		
6.	Senator D. Dafinone	-	Alternate Rapporteur
7.	Alhaji Bamanga Tukur		
8.	Prof. Elebute		
9.	Bishop P.J. Akinola		
10.	Alhaja Abibatu Mogaji		
11.	Mr. Frank Olize		
12.	Mr. Emmanuel Amatokwu		
13.	The Commandant, NDA		
14.	Justice Mohammed B. Sambo (rtd)		
15.	Hajia H. Imam		

Facilitator: Mr. Moses Akpobasah

Scribe: Mela Dogo

DEBT MANAGEMENT		**GROUP 13**
1. Robert Cessac	-	**Rapporteur**
2. The Etsu Nupe		
3. Apostle H. Alile		
4. Mrs. Funke Osibodu		
5. Ambassador Dove-Edwin		
6. Prof Sheik Ahmed Abdullah	-	Alternate Rapporteur
7. Alhaji Ismaila Usman		
8. Chief Kola Jamodu		
9. Alhaji Mohammed Kari		
10. Mr Isaac Aluko-Olokun		

Facilitator: Dr. M.O. Ojo

Scribe: Mr. J. A. Oladoye

MONETARY POLICY		**GROUP 14**
1. Dr. Paul Ogwuma	-	**Rapporteur**
2. Chief J.O. Sanusi		
3 . Mal. M. Hayatu-Deen		
4. Mr. Atedo Peterside		
5. Otunba Bola Kuforiji-Olubi		
6. Dr. Saad Usman		
7. Mr. Yemi Ade-John		
8. Mr. Ambrose A. Feese	-	Alternate Rapporteur
9. Alhaji Ballama Manu		

Facilitator: Mr. B. Verr

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FISCAL POLICY		**GROUP 15**
1. The Hon. Minister of Finance	-	**Rapporteur**
2. Mr .D. Olorunleke	-	Alternate Rapporteur

3. Justice M. Bello (rtd)
4. Dr. A. Olumide
5. Mr. Ohiewerei
6. Dr. Mahmud Tukur
7. Dr. Walter Ollor
8. Mr. .Bunmi Oni
9. Prof. Dotun Phillips
10. Mal. Mohammed Shehu Birma

Facilitator: Dr. A. Aliyu

Scribe: D..M. Bitrus

<u>SMALL & MEDIUM SIZE ENTERPRISES</u> **GROUP 16**

1. Chief Kola Daisi - **Rapporteur**
2. The Shehu of Borno
3. Amb. M. B. Dogon Yaro - Alternate Rapporteur
4. The Commandant, Police Academy, Wuoil
5. Alh. Ahmed Joda
6. Dr. O. Omolayole
7. Dr. J. Eluogu
8. Hajiya Gambo Sawaba
9. Alh. M.T.Usman
10. Mr. Orji Ogbonnaya Orji
11. Alh. Shehu Kaikai
12. Alh. Ahmed Maiturare

Facilitator: Mr. George Akhamiokhor

Scribe: Laisi Fashanu

INFRASTRUCTURE **GROUP 17**

1.	Engr. Vincent Maduka	-	**Rapporteur**
2.	The Hon. Minister of Transport		
3.	The Hon. Minister of Power & Steel		
4.	The Ooni of Ife		
5.	Engr. Bunu Sheriff Musa	-	Alternate Rapporteur
6.	Prof. B. Nnaji		
7.	Mr Francois Huguemin		
8.	Engr. Mustapha Bulama		
9.	AVM Muktar Mohammed (rtd)		
10.	Alh. Mohammed Haruna		
11.	Engr. J. O. Makoju		
12.	Mr. L. Hausmann		
13.	Alabo T. O. Graham-Douglas		

Facilitator: Mr. Ate Viser

Scribe: Ben Oviosu