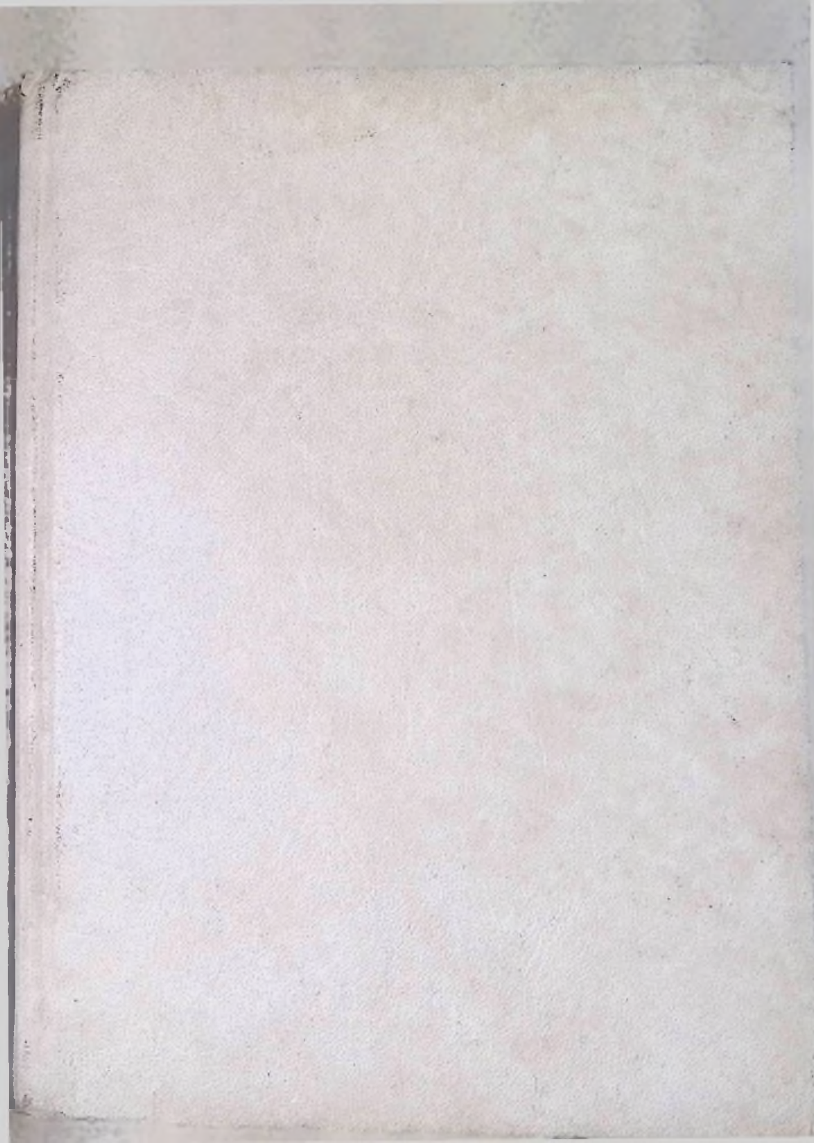

Seven Years of IBB

Volume 2

93-1785

The Economy

Edited by
Chief J. O. Osakwe
General Editor : Prof. Ade Adefuye

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FOREWORD

Seven years of IBB is to my mind a most commendable attempt to undertake a comprehensive and detailed assessment of the work and achievements of an incumbent head of state and government. The seven volume work with a picturesque compendium analyses virtually every initiative undertaken by the Babangida administration since coming to power in August 1985.

The contributors to the work have presented a well researched and analytical appreciation of the regime's bold effort at restructuring of the economy; its imaginative political initiatives designed to usher in lasting democracy and the administration's creative reorientation programmes intended to inculcate a new political culture conducive to the survival of democracy, and to the democratic way of life. They have also proferred suggestions on how to remedy the lapses they observed and identified.

The volumes cover Politics and the Transition, The Economy, Foreign Policy, Labour and Social Development, Arts and Culture, Education and Rural Development, and New Political Culture.

The editors have rightly observed that the Babangida Administration more than most embarked on a number of radical reforms in its seven years of existence. Each of the reforms embarked on by the Babangida administration, for example, the Structural Adjustment Programme, or the Transition Programme is major enough to occupy the full time of any administration. Yet the administration had made commendable efforts in realising the objectives of the reforms. The reforms became necessary as a result of the down- turn of the economy since the late seventies and due to the changing political landscape during that time. What must be remembered is that the political environment in the early 1960's soon after independence was a period of consolidating Nigeria's independence politically and economically rather than indulging in any reform exercise at the time which would not have been acceptable. That is why, understandably, the first civilian political leadership was too preoccupied with maintaining a fragile political system to contemplate introducing anything radically different from what was bequeathed to it b

the colonial regime. Inevitably, the unstable condition brought about a political change early in the life of the nation through military intervention for the first time.

Successive governments,especially our government after the civil war, did try to embark on reforms aimed at building a more united and economically strong and less dependent Nigeria where our economy is controlled by our nationals. The Economic Development Plan, the series of projects we executed and reforms we introduced in the early 1970's for example, our immediate post-war initiative at reconciliation and reintegration, rehabilitation and reconstruction, the 3R's, the Universal Free Primary Education and the Economic Enterprises Indigenization Policy were all attempts to address some of the questions that the Babangida administration, to his credit, took up with so much courage and decisiveness than his predecessors. Other governments too did recognize the need for reforms and infact pursued policies meant to realize the objectives of the reforms. Little, however, has been recorded about the contribution of these governments other than what government-sponsored publications have done.

It is in this regard that I find the initiative of the publishers of this very comprehensive study very encouraging. It is an acknowledgement of the great contribution made by a leader to the socio-economic and political development of our fatherland. I hope that similar studies will be undertaken on the tenure of our leaders so that our future leaders will be encouraged to strive to do their very best being conscious of the fact that history is recording them even as they are still on the saddle.

Seven Years of IBB is an essential reading for any understanding of where Nigeria is today and from the foundation laid, what we hope it will be in the 21st Century. My congratulations to the Authors / Editors for a comprehensive work well done.

(Gen. Dr. Chief Y. Gowon)
The Rare Ayagunia of Ife

AWAITING THE VERDICT OF HISTORY

History is a product of continuous interaction between man and environment. Seven years is nothing much in the life of a nation particularly one with the size and complexity of Nigeria. But a seven year period during which fundamental assumptions were challenged and modified, when phenomenal changes were effected in Nigeria's social, economic and political scene, and during which issues hitherto reserved for the esoteric class, corporate bodies, and campus eggs heads became subjected to public debate and reactions deserve to be carefully documented and rationally analysed. The 1985-92 period is one that will be a fascinating subject in Nigeria's history books. Historians and social scientists will find the sheer weight and volume of decisions taken, their immediate and lasting effect on the country's outlook, economy and body politic too attractive to ignore. Even before the Babangida regime signs off, the men who captained the ship of state the policies they enunciated, the manner of implementation, the intended and accidental consequences are already being studied.

There has so far been a tendency towards an approach that is essentially biographical; one that seeks to explain the actions of the regime in the light of the vision of the leader. In the **Prince of the Niger;** Chidi Amuta analysed the 1985-92 period from the background of the knowledge of General Babangida's biographical condition because according to Chidi it is by so doing that we may be able to appreciate the deeper roots of the decisions that he had to make and policies he had to pursue. The Orphan at fourteen who through dint of hard work and persevearance came to occupy for seven years the highest position in the country's political hierarchy knows the difference between poverty and wealth, ignorance and knowledge, opportunity and the lack of it. Babangida was said to have for a long time been deeply concerned with the problems of Nigeria out of a patriotic commitment and consulted widely even before coming to power with those who ought to know about the

multidimensional nature of Nigeria's socio-economic and political problems. These along with his personal experience must have influenced his attitude and polices. Events in-the life of a nation are no doubt shaped by the perception of the leaders. These perceptions are in themselves influenced by personal experiences.

But it will be misleading to assume that the Babangida factor was the sole determinant of events in the 1985-92 period. Admittedly the regimented command structure of the armed forces compel instant obedience and does not leave much room for arguments and counter arguments particularly with superiors. But Babangida realised that the office of the Chief of Army Staff is not exactly like that of the President. In his maiden address Babangida denounced the Buhari-Idiagbon duo for disregarding the principle of discussion, consultation and cooperation. There was the Armed Forces Ruling Council, the Council of States, the Council of Ministers and the Presidential Advisory Council all of which were consultative bodies at different levels. Even though Babangida left no one in doubt as to who was in charge, the occasional change in aspects of policy formulation and implementation were clearly the result of inputs of individuals and groups to whose opinion Babangida deferred.

There were frequent changes in key personnel of government during the seven year period. But there were a few individuals such as Abacha, Aikhomu, Akilu, Chu Okongwu, Olikoye Kuti, Olagunju and to a lesser extent Jubril Aminu, Alhaji Alhaji, and Bola Ajibola who made inputs into policy formulation and who have clearly influenced events to some degree. Thus if a biographical approach were to be adopted to the study of the 1985-92 period, it will certainly not be complete without a biographical study at least of Vice President Aikhomu and General Sani Abacha. These two individuals will share with Babangida the praise and blame for the successes and failures of the regime.

But whatever judgement is pronounced must be against the background of the circumstances in which Babangida and.his team found Nigeria. It is the environment and circumstances that make the man

and the government. It needed a defeated Germany suffering from the implementation of the Versailles treaty to produce a Hitler. Without a regimented and classless society which existed in the Soviet Union, there would not have been any need for Gorbachev to bring about Glamost or Perestroika. The Babangida era would not have had a "raison detre" had the massive corruption and prostitution of democratic values of the Shagari era not been succeeded by the authoritarianism and lack of proper economic focus of Buhari.

The seven books on seven years of IBB seek to record and analyse the interaction between men, ideas, circumstances and environment in the effort to make Nigeria a better place. The approach here is factual and analytical. It is an attempt to document and interpret actions taken by individuals who believed that the objectives suitable to be pursued in the Nigeria of August 1985 are those economic reconstruction, social justice and self reliance. The emphasis on the Nigerian situation before Babangida is one of the central issues being stressed by the editors and contributors of this series. We believe that any attempt to interpret and analyse contemporary situations should begin with an insight into the past. The present is a product of the past. Any balanced analysis of the Babangida era must take cognisance of the Nigerian situation before August, 1985. We need to know where we are coming from in order to appreciate where we are. Some of the critics of Babangida regime conveniently ignore the fact that by August 1985, a combination of the fall in world oil prices, inadequate policies of the past, and rising debt obligation produced a difficult economic situation which adversely affected both external and fiscal balance, they demonstrate a lack of awareness of the fundamental flaw in the structure of the economy which although made worse by the corruption and incompetence of the 1979-83 era needed much more than the "tough-guy posture of Buhari-Idiagbon". The situation called for a fundamental restructuring of the one legged economy operating within the parameters designed by the Breton Woods institutions as a result of which by 1985 44% of the revenue had to be spent on debt servicing.

The Structural Adjustment Programme was adopted by the regime following public rejection of the proposed IMF loan. The programme

was aimed at solving Nigeria's economic problem at its roots. The administration was of course aware that the positive results of SAP might be long in coming while the immediate effect would bring pains to the populace thus making the government somehow unpopular. But the regime realised that it was necessary to plan for Nigeria's long term future beyond the usual four to five year term after which the "buck is passed on". The situation called for courage to take on the established class who benefitted from the existing flaws in the economic structure e.g. import license and even some elements of the lower and middle class who had been accustomed to the usual government by patronage and subvention'.

Babangida's worst critics will find it difficult to accuse him of lack of courage to take decisions "Posterity will forgive us for taking wring decisions but will not forgive us if we fail to take decisions". SAP had not been very popular with the populace. The regime however sees it as central to our national economic and political recovery on the long run. It was prepared to be unpopular in order to bequeath an enduring foundation to the future generation of Nigerians.

The manner of implementation of certain aspects of SAP has been a source of concern. Some of the unavoidable extra budgetary expenses have tended to limit the gains of the programme. The long term nature of the measures taken are such that the positive effects cannot be that much visible as of now. But it will be hard to deny the fact that there is already evidence of a radical change in our consumption habits, an inculcation of maintenance culture, an acceptance of the idea of self employment, an increase in food production, the increase in local sourcing of raw materials, and of fundamental reorientation in the psyche of the Nigerian citizenry.

The domestic and international environment during the end of 80's was such that the only realistic approach to the problems of Nigeria was the adoption of SAP. The state of the Nigerian economy in 1985 was similar to those of many African and third world countries. Between 1985, Africa's economic performance recorded an average annual growth rate of GDP of only 0.4 percent capital income which was already low at the end of the 1970 had steadily declined by about

2,6%. Social services and welfare especially education, public health and sanitation rapidly deteriorated. This is why by 1988 about 30 Africa countries had to adopt structural Adjustment Programmes with the support of the IMF and the World Bank. Moreover the mid 80's coincided with the global resurgence of conservative economic and political philosophy and the final act of communism; a period dominated by Margaret Thatcher and Ronald Reagan. The slogan then was and still is less government in business. What this means is privatisation of many government economic establishments which as has been rightly argued, are best left to the business class. If the former Soviet Union can now be talking of practising a free market economy, the Babangida regime must have right in refusing to get involved with unconsequential commercial ventures. It was correct to see its role as that of maintaining law and order and thereby create an enabling environment that would protect investment and encourage productive planing on a sustained basis.

One of the unavoidable consequences of SAP is the economic strain it brought on the middle and lower classes who had to pay higher rates and utility prices arising first from the liberalisation of foreign exchange which devalued the Naira, and secondly the commercialisation of some public parastatals. The government realised the human dimension and the need not to marginalize the greater majority of the population. Babangida was aware that weaker segments of our populace could perish under the yoke of the emergence of a free market regime hence the various ameliorative policies and programmes that they pursued. The President promised that deliberate efforts will be made to ensure that those reform measures that have been put in place to cushion the difficulties at both the urban and rural communities are fully implemented. It was this concern for the welfare of the masses that brought about the establishment of programmes such as the Directorate of Foods, Roads, and Rural Infrastructures DFFRI, People's Bank, Community Bank, National Directorate of Employment and Better Life. Details of the manner of operation and effects of these establishments which have now become established aspects of our national life will be found in the volumes of this project. They constitute what can be described as the "Human Face of SAP" and to a considerable extent

an unconscious implementation of African alternative framework to structural adjustment programmes for socio-economic recovery and transformation as advocated by the United Nations Economic Commission for Africa ECA.

The manner and style of Foreign policy implementation is one area in which the Babangida regime distinguished itself from its predecessors. While still retaining the essentially Afrocentric focus there has been a clear emphasis on the need to relate foreign policy to the domestic economic situation. The adoption of Economic diplomacy as the policy thrust meant that issues related to trade and investment came into sharp focus. While still placing emphasis on block unity, efforts were made to strengthen economic links with Africa and the diaspora. The volume on foreign policy will show that foreign policy is one area in which it will be extremely difficult to contest Babangida's claim to success. His performance and achievement as ECOWAS and OAU Chairman, and elections into the top positions at both the Commonwealth and United Nations are among the visible proofs. The technical aid corp programme (TAC) Introduced by the regime has brought so much goodwill to Nigeria in the receiving countries. There is virtually no programme that has ever positively projected Nigeria among the ordinary people in foreign countries. The positive contribution of TAC to the economic and social life of the receiving countries has reinforced Nigeria's image as the mecca for all black people and a country which means for all the black people what Israel means to the Jews.

The elaborate political transition programme is predicated on the belief that the Nigerian situation as at August 1985 was directly attributable accountability. Democracy as practised by absence of politicians of the first and second republics could not be described as the government the people,for the people. The administration pledged itself to the establishment of a new political order in which not only the letter but also the spirit of the constitution would be adhered to. There was the realisation that for the dreams of SAP to be realised, a stable political order was a necessity, "Our strategy" said General Babangida "has been to pursue a co-ordinated and multi pronged approach to our developmental problems. Our

economic problems also have their political under currents. You cannot. solve one without the other".

In seeking to create the new political order, there a was clear obsession with getting the system rooted with the majority of Nigerians. Right from the establishment of the political bureau to the inauguration of the constituent assembly, the creation of new local governments and the elections held into the local governments, state and national assemblies, there was this apparent preference for power to be seen to be derived from the people. It was in reaction to the often repeated allegation that the essence of people's power was often lost in the irregularities that feature in the manner in which electoral votes were cast and counted, that the regime opted for the controversial open ballot system. It was also the desire, to ensure that there is no return to the ethnic politics of the past that the regime decreed the formation of two grass root based political parties after dissolving the 13 political associations formed because they were mere recreations of the first and second republics. With the two parties controlling an almost equal number of states and with neither of both parties having a two thirds majority at the national assembly. it is reasonable to expect that the politics of the third republic will be one of consensus and compromise since no side would be able to go it alone.

It is tempting to regard a publication of 7 years of IBB by the DAILY Times as a mere government propaganda. Such an attitude is understandable given the fact of the government's control of majority shares in the company. The editors and contributors of the present volume are aware of the fact that the sheer weight and volume of activities that took place within the past seven years are such that would normally attract observation and comments particularly after the regime might have handed over. This is not an attempt to whitewash the Babangida era.

What we have tried to do has been to present the facts and analyse them as rationally as possible. We believe that whatever criticisms one may have against the regime will have more to do with implementation than the formulation of policies.

It will be difficult to fault the objectives of SAP. It was the only rational option considering the state of Nigeria's economy in 1985. The fact that 30 African and third world countries are implementing structural adjustment policies attest to the inevitability of the programme given our circumstance. The human face of SAP were the ameliorative programmes such as DFFRI, Better Life, NDE. People's Bank, Community Bank. Like all other aspects of SAP the manner of operation of some of these projects could have been better if not for the inconsiderate ambition and greed on the part of some Nigerians. The reckless manner in which loans were dispensed at the People's Bank, the unsubstantiated claims of DFFRI, the general attitude that government money is there for the taking limited the success of the implementation of some of these otherwise well-conceived programmes.

The chapter on DFFRI, while emphasising the revolutionary nature of the concept in articulating a national programme of rural transformation acknowledged the fact that actual implementation of the programmes had been flawed on several fronts and plagued by several implementation failure. But this, does not rule out the fact that DFFRI, established 25,000 ton storage facilities in selected urban locations, facilitated the procurement and distribution of fertilisers, constructed hundreds of thousand of feeder roads, and executed water supply projects. Despite its shortcomings DFFRI brought some of the good things of life to some elements of the rural community. The same goes for the much criticised Better Lifer for Rural Women Programme. The proposal to get it incorporated within the armpit of the National Commission for Women has the potential of depersonalising the programme and detaching it from the families of state and national political leaders. Whatever might be its shortcomings, the programme has launched 7,635 cooperatives, 997 cottage industries, 1,751 new farms and gardens, 1187 new shops and markets, 419 women's centres and 163 social welfare programmes. Perhaps of more importance is its success in arousing the social and political consciousness of Nigeria's womenfolk. The award of the prize for the sustainable end of hunger to the first lady in August, 1991 accorded the programme the international recogni-

tion and justification that it deserves.

It is obvious that the downturn in the economy which is a world wide phenomenon has resulted in the decline of the quality of social services e.g health and education. Teaching hospitals despite some of them having been designated centres of excellence lack necessary equipments. Some Nigerians have since been in the habit of going abroad to receive medical treatment, Critics of the Babangida administration are inclined to emphasis only this aspect of health sector but will carefully ignore or refuse to mention the fact that the government has been quite successful in its primary health care programme which emphasises the provision of essential medical and health facilities to the community. The primary health care programme deals with diseases and ailments that afflict the majority of Nigerians who live in the rural communities. The teaching hospitals deal mainly with the diseases of the affluence. One is not attempting to justify or rationalise the decline in the quality of health care. What is being said is that the government had tired to focus more on the requirements on the wider populace within the limits of resources available.

The chapter on education makes it clear that the sector took some beating during the Babangida era. But as the editors and contributions of these volumes have pointed out, some the problems which the regime faced and which tended to ignite negative feelings were inherited. The politicisation of university education by which every State Governor wanted to be Visitor started during Shagari era. The Babangida regime regrettably did not arrest the trend. Even State governments that have Federal Universities located in their territories did not feel satisfied until they had their own. Then there came universities of technology and agriculture despite the existence of faculties of engineering and agriculture in the existing ones. Meanwhile the decline in the value of the Naira coupled with the army of competing demands made it difficult for the government to meet its obligation to the universities with regards to funding. Nigeria's best brains left their natural habitat (campuses) either for the private sector or "checked out" to other countries.

With the proliferation of merchant banks and the ease with which less educated Nigerians made money, the value and virtues in reading took a drive. It took a spirited and most constructive industrial action by Dr, Jega led Academic Staff Union of Universities to get the government agree to improve conditions of service of teachers and fund universities adequately.

The important thing is that by agreeing eventually to ASUU demands, the Babangida regime has laid a foundation for the survival of the country's university system. The drift from the country's universities to the other sectors is beginning to cease. As the opportunities for easy money begins to decline, the educated man is likely to get the appreciation that he deserves from the society. It may take some time before the impact of the agreement reached between ASUU and government is felt. This may perhaps be one of the positive effects of the Babangida administration that will take some time to manifest itself on the society.

The Babangida regime had its shortcomings. The situation in the mid 80's till now is such that no regime could do without. In confronting the situations that it met the regime exercised sound judgement particularly in the selection of personnel to face the challenges. With Olikoye Kuti in Health, Jubril Aminu in Education, Ajibola at the Justice Ministry, Kalu Idika Kalu in Finance, Babangida picked those who on paper seemed most qualified for the job. This is not to say that this attitude permeated every section of the public service. But with ministerial appointments Babangida seemed to have been a stickler for quality. As a systemsman, he left most of the implementation to his ministers who on some occasions even initiated policies. Some of the confusions that occurred in some national sectors such as the changing of school calendar, implementation of second tier and fuel distribution are more attributable to the ministers even though as President Babangida takes all the praises and blame.

It has not been an easy seven year period. The problem inherited were formidable. But equally formidable were the determination and resolve not only to overcome the problems but also to lay the

foundation for a greater tomorrow. The editors and contributors have attempted to present the problems and analyse efforts made to confront them. Whatever may be one's individual attitude to the personalties, it will be necessary to remember the magnitude of the problems which where largely inherited before one can be in a position to estimate the success of the efforts made to combat them. There is also the fact that because the regime chose to act with an eye for the distant future and plan for generations yet unborn, the effects of some of the measures it took are not yet discernible. The regime like all others before it will have to wait for the judgement of history.

Prof Ade Adefuye
Nigerian High Commission
London . 1993.

PREFACE AND ACKNOWLEDGEMENT

It was ambitious in conception. Seven Books on Seven Years of President Ibrahim Badamasi Babangida, each having seven chapters, looked like an impossible order, especially when then Managing Director Chief Tola Adeniyi also directed that it be completed within four months.

The idea of the books had occurred to Chief Adeniyi, in London, early in 1992. Before he returned from that trip, his first as "Sole Administrator" of the Daily Times of Nigeria PLC, he had discussed the idea extensively with Professor Ade Adefuye, Deputy Nigerian High Commissioner to the United Kingdom. Extensive notes had been made, suggesting book subjects and chapters, as well as book editors and chapter writers. Professor Adefuye was, naturally appointed General Editor of the series. The first announcement of the project was made in the *Sunday Times* on March 1992.

I became involved in the project, when Chief Adeniyi, in a memo, asked me to take charge of the project. After discussions with our then Books Editor, Mr. Paul Akegwure, it was agreed that we needed to mobilise more fully the considerable intellectual power that resides in our Editoral Department, if the task was to be accomplished. A committee that included the Editor, *Daily Times* and most members of the Editorial Board, as well as the Books Editor and the Editor Times Home Studies, was set-up.

Then followed, in consultation with the General Editor, a somewhat drastic revision of book chapters, to cover more areas of the Babangida Revolution, and of Editors and writers on the basis of interest and ability to deliver. Then commissioning and re-commissioning, when some who had accepted failed to deliver. The Managing Director's fascination with the figure 7 was to prove somewhat problematic. But the committee persisted, cajoling contributors and Editors to submit copies, and looking for, and persuading new contributors, on the many occasions we had cause to re-commission chapters.

Co-ordinating this project has been a most educative experience for me. For that, I want to thank Chief Tola Adeniyi, Chairman/Chief Executive of Daily Times of Nigeria PLC for the opportunity. I should also thank our General Editor, Professor Adefuye for his keen interest and advice at every stage of the project. My thanks too to our contrib-

utors, and especially our Editors who had to attend several meetings in Lagos in the process of producing this series. His Excellency General Yakubu Gowon, at our request, wrote the Foreword. I thank him.

But perhaps this project might have been as impossible as it looked at the beginning without the exemplary commitment of members of the committee. Their enthusiasm was touching. So I must thank specially: Gbenga Odusanya and Dayo Alao who oversaw the production of the books; G. G. Darah, Omar F. Ibrahim, Ayo Olukotun, who wrote, edited and constantly revised theirs, and other contributors' copies; Tunji Okegbola, our brilliant and indefatigable Librarian who not only compiled the compendium, but also the indexes of all the books; Mallam Kabir for the cover design, staff of the Times Books & Periodicals Department, for industry and the numerous other colleagues who offered advice, suggestions and sometimes, sympathy.

For all of us who have participated in this project, this has been, I believe, a worthwhile experience. Believing that a good deal of the truly revolutionary programmes of the Babangida administration were either misunderstood or under-appreciated, we had set out to record and analyse the achievements of this period, in an attempt to place them in their proper perspective. It is perhaps indicative of the enthusiasm which developed, that we ended up with eight Books — The Seven Books, plus a Compendium.

It should, however, be stressed here that this is not a government information project. Although government officials, like many other citizens, knew about what we were doing, no government official asked for, or read any part of the series before they were published. Fully conscious that the debate about Babangida's place in history will rage for many years after the man has gone, we made efforts to invite contributors to write on subjects about which they are knowledgeable. What the contributors and the Editors have written represent, I believe, their observations and objective assessment of a period in Nigerian history, about which no patriot can be indifferent. This is our contribution to the prospective debate. I am assured by the General Editor, that Editors and contributors are prepared to bear sole responsibility for all errors of fact and judgement in this publication.

Onyema Ugochukwu,

Chairman,

Co-ordinating Committee.

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Introduction

INTRODUCTION

When President Babangida Administration came into power in 1985, the Nigerian economy was still largely depressed. The rate of growth of our Gross Domestic Product in real terms was negative for the preceding three years, 1982-1984 while a marginal positive growth rate of 1.2% was achieved in 1985. This was admittedly too low to bring about any socio-economic and structural transformation of the economy. The rate of inflation, though moderate at 5.5% in 1985, was highly suppressed in face of acute supply shortages of raw materials, food-stuffs and almost every consumer item engendered by low production in both agriculture and industry. Moreover, currency over-valuation, inappropriate pricing policies and a large degree of unnecessary subsidies intensified wide spread distortions in the economy. In the light of these disappointing developments, it was not suprising that demand management and ad-hoc policies of the past had failed to respond to Government policy prescriptions.

It was in the context of the above problems that Babangida administration introduced the structural adjustment programme which was hailed as the boldest administrative reforms ever to be undertaken by any administration. This is not to say that some of the economic policy measures introduced by the new administration were entirely new. For example, the policy of restructuring and diversifying the productive base of the economy in order to reduce dependence on the oil sector and achieve fiscal as well as balance of payments viability, containing inflation, promotion of employment and self-reliance had all been targetted in the past. However, by threading into 'no go' areas such as withdrawal or phased withdrawal of subsidies especially petroleum products, realignment of Naira exchange rate to market forces, rationalisation and privatization of public sector enterprises and adoption of appropriate pricing policies, President Babangida's reforms were certainly a novelty in the management of the economy. The aims, objectives and rational for SAP were clearly defined around these fundamentals. Whether these laudable objectives were achieved in the last seven years of his administration remain to be seen in the book, "On The Economy."

The economy contains seven chapters reflecting the Seven Years of Babangida administration to date.
Chapter One reviewed Nigeria's economy situation for the period, 1970-85. It highlighted the fundamental structural changes created by the oil dominated economy. Major economic indicators were articulated to assess the impact of various policy measures introduced by different administrations to tackle the major prevailing economic problems. It noted that while some of the policy measures and their implementation achieved limited results, they also created distortions in the economy in the seventies and these distortions were intensified in the first half of the eighties.

Chapter Two highlighted immediate antecedents to the Structural Adjustment Programme (SAP). It showed that the new administration took immediate steps, as soon as it assumed power, to address the numerous problems which it inherited from the past administrations. The various measures adopted were synthesized to produce a comprehensive policy document called Structural Adjustment Programme, otherwise known as SAP. The chapter sets out clearly the general, specific as well as sectoral aims and objectives of SAP. The rationale for selecting the instruments used to achieve those objectives was also expounded.

Chapter Three attempted assessment of SAP policies with regard to implementation of fiscal policy, trade liberalization, privatization, subsidies, foreign exchange policy, external sector and debt problems. The chapter highlighted the pains and gains of SAP. It was critical on FEM and the manner in which the financial market had operated while at the other extreme, the author appeared defensive in areas such as over- valuation of the Naira, continuing depreciation of the Naira vis-a-vis other major currencies and withdrawal of petroleum subsidies. Overall, the author welcomes SAP because the programme freed the economy from the chains of bureaucracy and permits Government to focus only on those areas which it can perform better while leaving the rest to the private sector. Finally, the author cautions all Nigerians to be patient and admonish them to be prepared to endure a very long period of sufferings in order to realise the actual gains of SAP in the long-run.

The Agricultural sector and rural development was examined in great depth in Chapter Four. The chapter showed that agricultural transformation assumed a new dimension during President Babangida's regime. The structural reforms, which included tha abolition of system of marketing boards introduced by his administration, offered tremendous new market opportunities to agriculture. Equally important was improved export price, at least in Naira terms, following trade liberalization and development of the exchange rate of the Naira. The author's views on the problems besetting agriculture and various measures adopted by the Babangida administration to tackle them were articulated in this chapter. The chapter also contains far-reaching recommendations which, if adopted, could propel the agricultural sector to greater property.

Chapter Five covered industrial production including small scale activities. The chapter is quite analytical and informative.
The author attempted to trace some of the woes of the industrial sector to the policies of seventies and highlighted relevant policy lessons before and after 1986 economic reforms. He then went further to catalogue the efforts made by the new administration to revive the industrial sector including special attention paid to small scale industries. He did not quite agree with the view that industrialization based on import substitution was necessarily defective. He cited the new industrial countries of Asia that have recently combined import substitution with export promotion programme and these countries, he argued have met with resounding success. He recommended, among other things, that Government should affirm its committments to its own core industrial projects such as petrochemicals and fertilizer programmes, and reinforce, if necessary by legislation, appropriate financial intermediary to finance medium-to long-term projects.

The Sixth Chapter examined oil in Nigeria's economy. This chapter, however, was not presented from the perspective of SAP and, therefore, did not really throw much light on any special role of Babangida administration in advancing the cause of oil industry. None the less, it contained detailed historical exposition of the evolution and development of the oil industry and the impact of oil

on the national economy. It covered in depth some interesting areas such as Nigerianising oil industry technology, concrete proposals to indigenise up-stream sector and Nigerianising the downstream sector. Other interesting information includes sources of oil revenue and crude oil payments and arrangements.

The Next Economic Agenda for post Military Nigeria is the subject matter of Chapter Seven. The chapter examined some of the issues involved in some of the controversial areas such as the exchange rate, monetary and fiscal policies, tax reforms, subsidies and deficit financing. The chapter further examined some of the contradictions in the past six years of experimenting with structural reforms and attempted to explain why such contradictions had persisted. The author has strong personal views in these controversial areas and these were largely reflected in his proposed agenda for reforms. Thus, some of his proposals particularly in the areas of tax reforms, deficit financing, state and revenue generation were quite courageous and revolutionary.

J. O. Osakwe.

Chapter I

THE ECONOMIC SITUATION PRE-AUGUST 1985-

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1.1 AN OVERVIEW

Two main features which dominated the Nigerian economy in the recent years were the country's over dependence on a single commodity, oil, as the main source of foreign exchange earnings and government revenue and the emergence of Government as the prime mover of the economy. The pre-eminence of Government in nearly all economic activities is generally regarded as the direct result of the oil boom, which occurred in the 1970's. During the hey-days of the oil boom, 1973-79, the oil sector accounted, on the average, for over 90% of the country's foreign exchange earnings and about 75% of the federally collected revenue. The share of agriculture in GDP fell from about 48% in 1970 to 28% in 1975 and 26% in 1985. Similarly, the share of agricultural export earnings fell from 30% in 1970 to 2.3% in 1985.

The oil boom created fundamental structural changes in both the pattern of production and consumption. In particular, it caused the pattern of investment to shift from the agricultural and other non-oil exports to petroleum, construction and services industries. In the process, agriculture and non-oil export lost competitiveness in international market through neglect, poor pricing, rural-urban emigration and currency over-valuation. Exports of non-oil commodities either disappeared or were negligible. The large inflows of oil money encouraged large scale importation - the origin of "import syndrome" of consumer as well as producer goods to the extent that Nigeria became highly import dependent. The manufacturing sector became very heavily dependent on imported inputs with very low value added while drastic fall in food production resulted in high prices of food-stuffs.

The oil boom burst in 1978 owing to slump in world demand for oil resulting from global economic recession which began in 1977. The sudden curtailment in the demand for Nigeria's crude oil created

serious financial burden for all levels of Governments and slowed down virtually all economic activities. The balance of payments developed such crisis to the extent that Nigeria, for the first time, applied to the International Monetary Fund (IMF) for assistance. That was the origin of one billion Euro-Dollar loan in 1979 during General Obasanjo's Administration. The development in the oil sector in 1978 served as a first warning to Nigeria that there is a limit to which she could continue to depend on one volatile commodity for everything.

If anything, the in-coming Civilian Administration did not learn any lesson from the recent shock in the crude oil market as the glut was short-lived. The oil boom which occurred from 1979 to the first half of 1981 heightened the optimism of the new administration and re-established the era of carefree spending by Governments and its agents. Unfortunately for the economy, the boom was short lived. From the second half of 1981 crude oil prices began to slump as a result of sharp decline in the demand for crude oil. The situation was worsened by the world-wide recession in 1982 caused by stagnation of world trade which in turn was due to earlier restrictive fiscal and monetary policies adopted by developed countries to control inflation. The oil glut and subsequent recession which afflicted the economy resulted in deterioration of government finances and foreign exchange earnings. External reserves fell sharply, and as imports were not correspondingly reduced, the country started to default in the settlement of its import bills.

The new Military Administration which assumed power in December 1983 made bold attempt to turn around the economic situation. While it was partially successful in some respects particularly in areas of budgetary discipline and control, some other measures aimed at regulating the external sector and the overall structuring of the economy resulted in wide-spread unemployment, the Naira over-valuation and intensification of the distortions in the economy. The next section would highlight the performance and the problems facing the critical areas of the economy as well review the management of the economy for the period: 1970 - 79; 1980 - 83 and 1984 - 85.

2 ECONOMIC PERFORMANCE AND MANAGEMENT OF THE ECONOMY 1970-79

2.1 ECONOMIC PERFORMANCE 1970 - 79

Domestic Economy

Information available in the Federal Office of Statistics (F.O.S.) showed that the Gross Domestic Product (GDP) was estimated to have grown in real terms at an annual compound rate of 9.4% between 1970 and 1979. This impressive performance was attributed largely to the performance in the oil sector.

Agriculture

Information on agricultural production was limited to agricultural export commodities and in the case of scheduled commodities, figures of production were those of the Marketing Boards. The Central Bank Report for various years showed that agricultural production declined at annual compound rate of 8.6% between 1970 and 1977; the decline was more pronounced in 1973 (19.8%) as a result of sahelian drought, pest and diseases which affected crops and livestock, and in 1977 (22.7%) generally due to neglect. In contrast to the development in production, the world prices of all major commodities showed, on the average, substantial improvement for the same period.

The decline in agricultural production had two major economic and social consequences for the economy. First, the sector was unable to meet the basic food requirements of the population and this created the need to import substantial amount of food-stuffs. Secondly, the decline in production of cash crops created problems for industries that relied on basic agricultural raw materials for their inputs. As a result such industries had to import such agricultural products as palm oil, groundnuts and groundnut oil.

Industry (Manufacturing)

The tempo of overall industrial development between 1970 - 79 was

tied up with that of mining (petroleum) industry Consequently, the overall index of industrial production was dictated by that of petroleum. Although, on the average, the index of manufacturing production rose by 14%, in terms of volume however, the share of the manufacturing sector was only about 7% of the GDP.

The major problems facing the manufacturing industries originated from the fact they were structured to depend on imported inputs - machinery, spare parts and raw materials, the flow of which depended on the fluctuations of our foreign exchange earnings. Consequently, the local value added by these industries continued to be very low because of their over dependence on importation of raw materials, spare parts and technical skills. Moreover, the structural problems in other sectors of the economy especially agriculture have resulted in lack of desirable linkages with the manufacturing sector.

Finally, the high cost of production in the manufacturing sector was not matched by high standard of quality and this contributed to make local manufactured goods less competitive when compared with imported goods. Manufacturing industries performed well under high tariff walls but since Nigerian consumers have higher taste for imported goods, smuggling became a lucrative business when faced with ban or high tariff on imported goods.

Inflation

Studies conducted by the Central Bank of Nigeria in the late seventies and early eighties showed that there is strong statistical relationship between Government spending and growth of money stock (M1) on the one hand, and the growth of M1 and prices (CPI) on the other !

1. See J. O. Osakwe, Government Expenditures, Money Supply and Prices, Central Bank of Nigeria Economic and Financial Review, June, 1983.

The empirical studies showed that phenomenal increases in Government expenditures which occurred in 1970's generated corresponding monetary expansion which in turn significantly correlated with

the inflation rates during the period. For example, the Federal Government actual aggregate expenditures grew at an average annual rates of 12,92, and 134 percent in 1973, 74 and 75, respectively. The corresponding monetary expansions were 17.7, 46.3 and 74.7 percent while inflation rates were 9,7, 14.1 and 37.5 percent, respectively. The high rate of inflation recorded in 1975 was also attributed to the unprecedented wages awards in 1975 the arrears of which were all paid in one fell-swoop. Other factors which affected consumer prices included adverse effects of weather condition, international monetary upheavals and imported inflation. By the end of 1979, however, the rate of inflation had moderated to 12.0%.

Smuggling

Smuggling both into and out of Nigeria became a major economic and socio-political problem since the mid- seventies. As a result of smuggling, inferior goods were dumped into the country, local industries were crumbling while consumer goods required within the country were illegally taken out. Since smugglers evaded customs duties, Government was made to lose revenue. Smuggling distorts the distribution of incomes in the country and the allocations of resources. It exacerbates unemployment problem as local industries produce below capacity on account of preference for smuggled goods. Several factors encouraged and intensified smuggling and these included:

(i) corruption among some customs' officials;

(ii) the restriction on imports while domestic production was far below the level of aggregate demand;

(iii) inefficient local industries producing high priced but low quality goods; and

(iv) over-valuation of the Naira.

Government Fiscal Operations

Resulting from the oil boom, there were unprecedented increases in the federally collected revenues in 1970's . At ₦633 million in 1970, Government revenue more than doubled in 1972: in 1974 it more than tripled the amount collected in 1972 and again increased sharply to ₦10.91 billion in 1979, showing more than a two-fold increase over the level in 1974. The share of oil revenue in total revenue averaged 44%, 79% and 81% between 1970-73, 1974-77 and in 1979, respectively.

In the earlier years of oil boom, Government expenditure levels reflected anticipated oil revenue, i.e., Government expenditure was raised or lowered to match anticipated trend in revenue. The pattern of expenditure was also a reflection of Government, particularly the state governments which had ambitious budgets that would impress the electorate. In the later part of the boom, almost all levels of Governments budgeted for free education, free medical services, establishment of universities and polytechnics and proposed or even started "white elephant" projects which they well knew that they had not enough financial resources to execute.

As a result of indiscipline and waste in spending, Government was only able to sustain budgetary surplus from 1971 to 1974; thereafter, large budgetary deficits became the norm. For example, the Federal Government overall actual deficit rose from ₦.4 billion in 1975 through ₦1.1 billion in 1976 to ₦2.4 billion in 1978. However, there was an overall surplus of ₦1.5 billion in 1979 due to improved revenue position in that year. Judging from large estimated deficits announced in their budgets, the state governments which had no records to show for actual figures on their spending, were believed to be worse than the Federal Government in terms of actual deficits.

The overall deficit of the state governments as shown in their Approval Estimates averaged ₦2. billion for the period, 1977-79.

The continuing increase of budgetary deficits were expected to have been financed either by borrowing internally or from external sources. As a result, the financing of the Federal and state Governments led

to accumulation of huge public debts. For example, the internal public debt rose from ₦1.04 billion in 1970 through ₦4.64 billion in 1977 to ₦7.28 billion in 1979. Similarly, the external component of debt outstanding rose from ₦0.13 billion in 1970 through ₦0.37 billion in 1977 to ₦1.61 billion in 1979. Although there were no actual figures to show for states, indications were that their external borrowing rose significantly since the Federal Government was no longer required to guarantee their loans.

The developments described above had important consequences on monetary expansion. For example, between 1973 and 1978 the government sector accounted, on the average, for about 87% of new money created while the private sector accounted for 13%. In 1979 alone the Government accounted for 105%, thus crowding out completely the private sector. Thus, the high monetary expansion resulting from Government spending was the predominant source of inflationary pressures in the seventies. Under the circumstances, the Central bank was helpless in maintaining monetary stability since it is only the proportion of money supply created by the private sector that is within the ambit of Central Bank's control.

External Sector

Between 1970 and 1975 Nigeria generally had a strong balance of payments position. Surpluses were recorded in her external transactions between 1972 and 1975. Her main source of strength were the phenomenal increases in exports of crude petroleum from ₦1.19 billion in 1972 to ₦5.12 billion in 1975.

At ₦0.76 billion in 1970, the value of imports increased about eleven folds to ₦8.21 billion in 1978.

The structure of imports which emerged since 1974 showed the share of raw materials in total imports to have steadily declined from 33.0% in 1974 to 23.5% in 1978 while capital goods rose steadily from 37.0% to 48.5% during the same period. Although the share of consumer items declined between 1974 and 1979, in absolute terms however, it rose, on the average, by 65% annually. Food imports consisting rice, meat, frozen chicken and flour rose significantly and accounted for about 11% of total imports.

The pattern of exports between 1974 and 1979 underlined the structural deficiencies in the composition of our exports. Crude oil exports rose steadily from ₦510 million in 1970 to ₦5.67 billion in 1974 and again to ₦10.17 billion in 1979 - thus accounting for 58%, 93% and 94% of total exports in 1970, 1974, 1979, respectively. Other export commodities accounted for the rest. The phenomenal increase in the value of oil exports was as a result of a more favourable export prices rather than substantial increase in volume. Factors which promoted high oil prices included the monetary crisis, 1971-73; the Middle East Crisis, 1973 and increase in demand for oil engendered by the growing world economy. On the other hand, the decline in volume and value of traditional export commodities was partly due to neglect and partly due to increased local demand either for consumption or as raw materials to nascent manufacturing and processing industries. Exports of manufactures were generally less than 1% of total exports throughout the period under review.

The movement of Nigeria's official reserves followed the pattern of the movement of balance of payments. At ₦241 million in 1973, Nigeria's external reserves rose to ₦3.46 billion in 1974 mainly as a result of large balance of payments surplus in that year while subsequent declines in reserves 1976-78 reflected large balance of payments deficits for that period.

2.2 THE MANAGEMENT OF THE ECONOMY 1970 - 79

How did the Government manage the huge oil resources? Following the oil boom the Government as described earlier became the prime mover of the economy. One of the major policy thrusts was to try and convert the rapidly growing oil revenue into investment in economic, social and physical infrastructures. Government made significant progress in pursuance of the above objective in a number of sectors; many roads were constructed, widened or dualised; transportation and telecommunications facilities were improved upon; primary school enrolment more than doubled; the number of secondary and tertiary institutions rose substantially; power generating capacity tripled while refining capacity quadrupled.

Significant changes which occurred in the composition of imports in the seventies also largely reflected the direction of Government economic policy. The more rapid growth in the import of machinery and equipment reflected the Government efforts to implement the Third Development Plan (1975-80) for the capital programme as well as provide basic structure for the import-substitution industries. Furthermore, substantial imports of other commodities, especially food items showed a conscious effort by the Government to supplement local supplies of essential commodities through importation in order to reduce the level of domestic inflation.

On the other hand, in- ordinate Government involvement or intervention in the economy also led to proliferation of parastatals most of which were dependent on subventions from the Treasury and some of which became liabilities to the future Governments and more so when the oil boom collapsed. Some public investments were also undertaken which were to be unviable and which neither the Government nor its agencies had the capacity to execute. Thus, Government, encouraged by the large revenue at its disposal, had assumed a more pervasive role in the economy and almost crowded out the private sector in its efforts to provide almost everything for its citizens. On the final analysis, it could be said that the seed of distortions was sown and nurtured in the seventies.

3 THE ECONOMY, 1980 - 83: THE OIL GLUT AND MANAGEMENT OF THE ECONOMY

3.1 THE OIL GLUT, 1981-83

The Nigerian economy became heavily dependent on crude oil to the extent that by 1980, the oil sector accounted for 22% of the GDP, 81% of Government revenue and 96% of total export earnings. The oil boom which began in 1979 collapsed in the second half of 1981 due to weakening world demand for oil. The oil glut which followed and stretched to 1983 brought into focus once more the dangers that face an economy that had become increasingly dependent on a single volatile export commodity and on imports. The sharp decline in the domestic

crude oil production and a more drastic fall in the world oil price resulted in serious deterioration of Government finances and foreign exchange earnings. The fall in the foreign exchange earnings had adverse impact on nearly all the sectors of the economy. The impact of the oil glut on major economic indicators and management of the national economy are highlighted below:

3.2 ECONOMIC PERFORMANCE, 1980-83

Domestic Economy

The limited information from the F.O.S. showed that the G.D.P. recorded negative growth from 1981-83. For example, estimates of real G.D.P. showed that aggregate real income declined by 1.2% in 1982 and 6.4% in 1983. The continued decline in aggregate income during the period was attributable largely.to the world-wide economic recession in 1981-82 which adversely affected our oil sector.

Agriculture

Available data showed that the index of agricultural production increased by 3.4% in 1981 compared with an increase of 2.5 in 1980. In contrast, the performance of agricultural sector worsened in 1983 and declined by 4.4% from its 1982 level despite actions taken by the Federal and State Governments to accelerate the pace of agricultural production under the Green Revolution Programme. The results of the Central Bank of Nigeria country-wide survey showed that the poor performance of the agricultural sector in 1983 was due largely to the effects of severe and prolonged sahelian drought, particularly during the second half of the year and also the widespread outbreak of disease/pest infestations in crops and livestocks.

Industry

Industry fared very badly throughout the period. The minor gains by the manufacturing sector in 1980-2 were completely lost in 1983. The decline in the manufacturing output resulted from drastic shortage of industrial inputs following the tight control on imports

occasioned by shortage of foreign exchange.

Construction activities were almost brought to a halt by the prevailing and prolonged economic recession as most Government projects were either suspended or cancelled for lack of foreign exchange to pay for the import content of the projects.

Unemployment

Contraction of manufacturing and construction industries resulted in mass retrenchment and lay-off. Widespread unemployment became the order of the day and this became more serious as university graduates and other qualified Nigerians flowed into the unemployment pool.

Inflation

The rate of inflation averaged 7.7% in 1982 compared with 20.8% in 1981. While the high level of inflation in 1981 was as a result of sharp rise in food prices, the moderate rate of price increases in 1982 reflected the general lull in economic activity, the reduced rate of monetary expansion and improved food supplies. In 1983, however, inflationary pressures escalated as a result of shortages of almost all consumer goods and large increase in money supply brought about by Government borrowing to finance its large domestic deficit. As a result of the above factors the inflation rate in 1983 rose to 23.2%.

Government Fiscal Operations

The Federal Government collected revenue which attained a new height of ₦15.23 billion in 1980 declined sharply to ₦11.98 billion in 1981 and further declined to ₦10.14 billion in 1982. It is even more remarkable that, inspite of huge Federal Government fiscal operations emerged with a deficit of ₦1.98 billion in that year. The deficit declined to ₦1.37 billion in 1983. The state governments on the other hand, did not fare better than in the earlier period. Their combined budgetary deficits were estimated to have risen from ₦3.30 billion in 1980 to ₦6.00 billion in 1983.

The financing of huge deficits of both the Federal and state Govern-

ments resulted in large accumulation of public debt in which internal components rose from ₦7.11 billion in 1979 to ₦22.22 billion in 1983. The external component including recently emerged trade arrears increased from ₦1.61 billion in 1979 to ₦10.58 billion including ₦.76 billion trade arrears in 1983. The Government relative contribution to monetary expansion rose steadily from 85.1% in 1980 to 112% in 1982. Thus by 1982, the Government had re-emerged as the primary source of money creation.

A number of problems also emerged with the enormous growth of external debt and these included increased debt burden, structural changes in its composition, harder borrowing terms, inadequate control and co-ordination.

External Sector

The short era of balance of payment surplus ended in 1980. Therefore, external payments problems which began in 1981 continued to worsen up to 1983. Balance of payments deficit rose steeply from ₦3.04 billion in 1981 to ₦7.07 billion in 1983. This corresponded with sharp decline in oil exports from ₦10.68 billion in 1981 to ₦7.20 billion in 1983. In spite of the depressed crude oil sector, it is sad to observe that oil exports still accounted, on the average, for 96% of total exports. This, in effect, meant that the performance of non-oil exports was not improving. On the other hand, due to acute domestic supply shortages, the demand for foreign exchange to pay for essential imports remained unsustainably high in spite of the stringent import control measures in operation in those years.

Moreover, there was reduced inflow of new capital due to hardened borrowing conditions in the international capital market. The above factors resulted in progressive depletion of our external reserves. Thus, external reserves fell sharply from ₦5.47 billion in 1980 through ₦1.02 billion in 1982 to ₦0.78 billion in 1983. It was therefore clear that with the average monthly foreign exchange bill of ₦810 million in 1983, the external reserves of ₦780 million were insufficient to procure imports for one month.

3.3 MANAGEMENT OF THE ECONOMY, 1980-83

The review in the preceding section underscores, in the circumstances, the imperative to take action to protect the balance of payments and revamp the economy. The measures designed to correct the past ills of the economy and put the economy on the desirable path of growth included medium and long-term ones aimed at a structural adjustment included diversification of country's foreign exchange earnings. Thus in April, 1982, the President announced emergency stabilisation measures, otherwise known as Economic Stabilisation Measures, which also incorporated the measures proposed in 1982 Budget and this became known as Economic Stabilisation (Temporary Provisions) Act, 1982. The measures hoped to turn around the critical economic situation through a wide range of macro-economic policies designed to reduce demand for foreign exchange to a level compatible with the available supply and thereby reduce the pressures on the balance of payments. Stringent exchange control and import restrictive measures including comprehensive import licensing were adopted. A number of commodities were totally banned and some others placed under general licences while tariffs were raised on a large number of imported and excisable commodities. Government also announced its intention to intensify anti-smuggling activities.

The policy measures of 1982 were tightened and reinforced in 1983 as the economic recession persisted to the end of 1982. A more comprehensive Price Control measures were introduced in 1983 as acute shortages of essential commodities and inflationary pressures re-emerged in 1983.

The measures, however, relied on complex administrative controls which brought in their wake additional social costs. In the face of persistent decline in foreign exchange earnings, it became increasingly difficult to procure raw materials and other capital inputs for domestic production. In consequence, capacity utilisation dropped, resulting in extensive plant closures and massive retrenchment of workers. Severe shortages of essential commodities resulted in high prices.

In spite of falling revenue, there were considerable wastes which had been associated with the Government fiscal operations during the period. For examples, there were duplications of offices, departments and appointments at both Federal and state levels; job contracts were inflated; lack of probity and little or no accountability on part of many public officers prevailed. Furthermore, it was difficult to detect these lapses since Government accounts were not up-to-date.
Efficient management of the external reserves was regarded as crucial to the success of the programme. But, how was this organised?

The Central Bank and the Federal Ministry of Finance worked together at the initial stages to formulate the Foreign Exchange Budget. Import Licences were issued by the federal Ministry of Commerce while the Federal ministry of Industries granted privileges and incentives. Their foreign exchange implications were not related to the foreign exchange budget as neither Commerce nor Industries participated in the foreign exchange budget formulation. It was also anomalous that both the Bank and the Federal Ministry of Finance which formulated the budget rarely worked together at the implementation stage of the budget. Thus, there was total lack of co-ordination in foreign exchange budget implementation. The Bank which is suppose to be custodian of foreign exchange found itself helpless because neither the Federal Ministry of Finance granting foreign exchange approval nor the federal Ministry of Industries Approved User's scheme were subject to the Bank's knowledge or control. That was the dilemma of the reserve management during the civilian administration.

4. ECONOMIC REFORMS AND PERFORMANCE, 1984-85

4.1 ECONOMIC REFORMS

The economic situation highlighted in the preceding sections gives the scenario when the Military Administration assumed power in December, 1983. The economic policy measures of 1984 and 1985 were thus formulated against the background of the prevailing

economic and social conditions up to 1983. The policy measures for those two years had essentially the same objectives except that those of 1985 were generally the intensification of those of 1984. The objectives of the measures were to correct the unhealthy developments especially in the balance of payments and domestic price movements, stimulate domestic production, generate more revenue and curtail excessive spending of Governments.

Specifically, the monetary policy measures were directed towards clearing the back-log of accumulated trade debts, achieve substantial improvement in the balance of payments position; stimulate domestic production and in particular of food and raw materials, stem the rate of inflation in the economy; and mobilise domestic as well as financial external resources.

The fiscal policy measures were taken to ensure effective protection for local industries, encourage the greater use of local raw materials, generate more revenue , curtail expenditure and minimize budgetary deficit financing. While the exchange control measures were designed to reduce further accumulation short-term trade debts; clear or minimise such debts outstanding as well as cater for the needs of the economy for essential foreign goods and services. The administrative machinery for allocating foreign exchange was also streamlined.

4.2 ECONOMIC PERFORMANCE

Domestic Economy

For the first time since 1982, it appeared that the recession which almost paralysed the economy "bottomed out" in 1984 and there was a slight up-turn in 1985. The estimates of the real GDP (at 1977/78 prices) showed marginal improvement of 1.2% in 1985 over the 1984 level. The recovery in domestic output was due to sustained growth in agricultural production and significant improvement in industrial production, particularly the manufacturing sector which recorded an impressive growth of 19.2% as a result of improved supply of spare parts and raw materials.

Inflation

The rate of inflation as measured by the CPI rose to all-time high of 39.6% in 1984. This phenomenal increase in prices was attributed to wide-spread of consumer goods resulting from low production and stringent exchange control measures which inhibited import flows. Inflation, however, decelerated sharply from its 1984 level to 5.5% in 1985. The decline was aided by increase domestic supplies of both food and manufactured goods as well as modest increases in bank draft and money supply.

Unemployment

Unemployment continued to remain serious social and economic problems in 1984 and 1985. The large pool of unemployment got swollen further by entry of unemployed graduates, fresh school leavers and mass retrenchment in both the public and private sectors. The actual magnitude was difficult to estimate as statistics of unemployed existed only partially for registered unemployed and did not cover those who did not bother to register with the labour exchanges. Even, in spite of this observation, the figures for fresh and registered unemployed were quite colossal, numbering over 90,000 and 68,000 in 1984 and 1985, respectively.

Financial Sector

There was moderate monetary expansion of 8.2% in 1984 and 8.7% in 1985. Aggregate banks' monetary to private sector increased by only 3.1% in 1984 and 5.5% in 1985, while credit to Government was below the monetary policy targets for those two years. The main source of monetary expansion was unexpectedly not the Government but increase in foreign assets and other assets.

Fiscal Operations

The overall improvement in the fiscal operations in 1984 and 1985 reflected partly the Federal Government budgetary discipline and partly its relatively buoyant revenue position in 1985. At ₦10.81 billion in 1983, federally collected revenue rose by 3.0% to ₦11.3 billion in 1984

and by 31% from 1984 level to ₦14.61 billion in 1985. In 1985 Oil receipts accounted for nearly 75% of total revenue. On the other hand, total expenditures rose by 5.3% in 1984 to ₦8.39 billion and 33.4% to ₦11.19 billion in 1985. As a result, there were increased budgetary deficits of ₦1.45 billion and ₦1.55 billion in 1984 and 1985, respectively. Similarly, state governments' finances followed the Federal pattern in 1985 and consequently, most of the state governments had reduced budget deficits in 1985.

External Sector

As a result of increased deficits in 1984 and 1985 internal public debt outstanding at ₦22.22 billion at end of 1983 rose by 11% in 1984 and again by 9% to ₦27.95 billion in 1985 as against an average increase of 40% in the preceding two years. The external debt component as at end of 1983 at ₦10.58 billion rose to ₦14.54 billion in 1984 and again to ₦17.29 billion at end 1985 mainly as aresult of substantial increases in unrefinanced trade arrears which were incurred in an earlier period.

The developments in the external sector were mixed. For the first time since 1979, Nigeria achieved balance of payments surplus estimated at ₦358.8 million in 1984 and ₦561.1 million in 1985. This was as a result of stringent exchange control measures introduced in these years and which were aided by the improved performance in the export sector. The Government also appeared to have realised its imports objectives as imports were paid for on current basis. However, the overall improvement should be interpreted with caution since the figures did not take cognisance of substantial backlog of outstanding trade arrears which stood at ₦5.44 billion and ₦6.16 billion in 1984 and 1985, respectively as more trade transactions were reconciled and authenticated in those years. At ₦9.09 billion in 1984, total exports increased by 23.4% to ₦11.21 billion in 1985. The increase was accounted for by both oil and non-oil exports. Crude oil exports rose by 23% to ₦10.89 billion in 1985 and accounted for 97% of total exports in that year while non-oil exports rose by 31% to ₦0.32 billion in 1985. Imports were estimated to have increased by only 10.5% from ₦7.18 billion in 1984 to ₦7.93 billion in 1985. The share of raw materials imports in total imports was estimated to have increased steadily from 30% in 1984 to 41% in 1985.

Total external reserves rose by 41% from 1983 level to ₦1.1 billion in 1984 and again by 51% to ₦1.66 billion in 1985.

More significantly, of the total inflow in 1985, over ₦900 million took place from September to December, 1985, while there was continuous recorded outflow from March to August.

5 NAIRA OVER-VALUATION

Various studies including those of the Central Bank of Nigeria, independent researchers, the IMF and the World Bank showed clearly that the external value of the Naira was excessive. The extent of the over-valuation ranged between 30% and 60% for the period, 1983-85. There was every indication that the World Bank and the IMF wanted Nigeria to devalue to the tune of, at least, 40% to correct the over-valuation.

In the circumstances of the period, it seemed politically unwise to embark on devaluation. On economic ground, over-valuation makes imports cheaper and to that extent would tend to dampen inflationary pressures, promote expansion of domestic industries which are dependent upon imported raw materials and equipment, and lessens the burden of external debt payments. It was also feared that once devaluation was set in motion, it could lead to endless chain of devaluations which might or might not improve the trade balance (making imports dearer and exports cheaper), but could often produce catastrophic effects on domestic prices (as in South America).

On the negative side, over-valuation could promote the flight of capital, make domestic industries which produce import substitutes less competitive and viable, encourage and promote parallel markets and smuggling, discourage the production of export goods and could lead to mis-allocation of resources. While there is tendency to emphasize the negative aspect, the question whether or not to devalue required a bold political decision. This was the dilemma of the various administrations up to 1985.

6 CONCLUSION

Thus by August, 1985, some discipline appeared to have been restored in the economic management particularly in the areas of Government expenditures, Government borrowings and import

controls. There was some evidence of up-turn of some major economic indicators. Monetary expansion moderated, supply situation improved slightly and for the first time since 1972 the rate of inflation was as low as 5.5%.

In spite of the encouraging improvement in some major sectors, the economy still remained largely depressed by August 1985. The main source of concern continued to come from the pressures on the external sector. It is significant to note that in the first eight months of 1985, Nigeria recorded net inflow only in January and February, other months showed substantial outflow. Thus, external reserves fell to all-time low of ₦0.78 billion - less than ₦0.81 billion required to finance one month imports bill. Stringent exchange control measures continued to have its toll - resulting in widespread supply shortages of spare parts and raw materials; continued decline in capacity utilisation, chaotic import licensing procedure and massive retrenchment giving rise to unprecedented level of unemployment in the history of Nigeria up to August 1985. It became evident by August 1985 that ad-hoc policies in the past could not bring about radical transformation of the economy almost devastated by widespread distortions. A more radical approach towards solving the economic problems was an imperative.

TABLE 1

SELECTED ECONOMIC INDICATORS: DOMESTIC ECONC MY, 1980-92
(Base Year 1985 = 100)

	GDP at 1985 Prices (₦ billion)	Agricultural Production	Industrial Production	Manufacturi	Mining	Petroleum	Consumer Prices		Inflation Rates
							All Items	Food	
	1	2	3	4	5	6	7	8	9
1980	88.7	94.3	119.0	102.4	138.5	137.6	42.4	40.1	10.0
1981	81.3	97.5	115.6	117.4	96.2	96.1	51.2	50.2	20.8
1982	81.6	96.9	112.9	132.8	86.2	86.0	55.1	54.6	7.7
1983	78.3	92.7	96.4	94.8	82.5	82.5	67.9	67.3	23.2
1984	73.0	96.4	91.6	83.9	93.0	92.9	94.8	96.2	39.6
1985	78.8	100.0	100.0	100.0	100.0	100.0	100.0	100.0	5.5
1986	81.3	107.7	98.0	96.1	97.8	97.9	105.4	100.1	5.4
1987	82.8	116.4	103.8	130.8	90.1	88.4	116.1	108.7	10.2
1988	86.1	109.5	108.8	135.2	95.3	96.0	160.5	165.4	38.3
1989	90.7	124.5	125.0	154.3	109.2	109.9	241.6	252.5	50.5
1990	98.2	134.1	133.0	170.7	115.1	115.9	259.5	261.8	7.4
1991	102.5	141.5	140.3	183.4	120.1	121.0	293.2	293.0	13.0
1992									27.0*

TABLE 2

SELECTED ECONOMIC INDICATORS: FEDERAL GOVERNMENT
Fiscal Operations (N Million), 1970 - 1991

	Federally Collected	Oil	Federal Retained	Recurrent	Capital	Total	Current Surplus	Overall Surplus
	Revenue	Revenue	Revenue	Expenditure	Expenditure	Expenditure	Deficit(-)	Deficit
	1	2	3	4	5	4+5=6	3-4=7	3-6=8
1970	633	167	366	639	201	840	-273	-474
1971	1169	510	838	493	146	639	345	199
1972	1405	764	1074	682	296	978	392	96
1973	1695	1016	1388	656	435	1091	732	297
1974	4537	3724	3894	874	1224	2098	3020	1796
1975	5515	4272	4475	1695	3208	4903	2780	-428
1976	6766	5365	5623	2672	4041	6713	2951	-1090
1977	8042	6081	6469	2246	5005	7251	4223	-782
1978	7371	4556	6131	3428	5092	8520	2703	-2389
1979	10912	8881	8868	3187	4220	7408	5681	1460
1980	15234	12354	12139	6022	8092	14114	6117	-1975
1981	11978	8564	7068	5740	5673	11413	1328	-4345
1982	10143	7815	5819	4333	5522	9855	1486	-4036
1983	10811	7253	6595	3929	4034	7963	2666	-1368
1984	11134	8269	6939	5604	2781	8385	1335	-1046
1985	14606	10915	9640	5916	5270	11186	3724	-1546
1986	12302	8107	7969	7697	7965	15662	272	-7693
1987	25100	19027	16129	15646	6009	21655	483	-5526
1988	27311	20934	15589	19409	8340	27749	-3820	-12160
1989	50200	41334	26675	25994	15034	41028	685	-14349
1990*	68571	54713	39467	36220	24930	61150	3247	-21683
1991*	88159	68832	32224	38244	29287	67531	-6020	-35307

TABLE 3

SELECTED ECONOMIC INDICATORS: PUBUC DEBT
(N Million), 1970 - 1991

	INTERNAL			EXTERNAL			DEBT SERVICING		
	Federal	States	Total	Federal	States	Total	Internal	External	Total
	1	2	1+2=3	4	5	4+5=6	7	8	7+8=8
1970	1020	20	1040	125	-	125	31	99	130
1971	1047	28	1075	178	-	178	30	61	91
1972	845	155	1000	263	-	263	68	26	94
1973	931	131	1062	277	-	277	62	31	93
1974	941	326	1267	322	-	322	104	29	133
1975	1368	311	1679	350	-	350	155	33	188
1976	2429	201	2630	375	-	375	311	31	340
1977	4214	422	4636	365	-	365	155	36	191
1978	3167	1547	4714	1252	-	1252	269	161	730
1979	4967	2147	7114	1444	168	1612	364	183	547
1980	7952	2447	10399	1692	175	1867	561	278	839
1981	8699	2747	11446	2084	247	2331	347	471	818
1982	11801	3047	14848	6801	2018	8819	3909	847	3783
1983	18878	3346	22224	8577	2001	10578	378	1147	1525
1984	22329	3347	25676	2077	2459	14536	769	2359	3128
1985	24339	3613	27952	13962	3229	17291	903	3160	4063
1986	24956	3495	28451	30957	10495	41452	2471	6431	8902
1987	33296	3495	36791	85042	14781	99823	3816	3694	7780
1988	43536	3495	47031	111706	20129	131895	4204	7141	11345
1989	53556	3495	57051	179698	29886	209584	6015	13293	19308
1990*	84093	-	84093	240393	-	240393	8461	31084	39545
1991*	116200	-	116200	298614	-	298614	10501	35514	46015

TABLE 4

SELECTED ECONOMIC INDICATORS: THE FINANCIAL SECTOR
1970-1992

	Money Supply (M1)	Money Supply (M2)	Currency in Circulation	Minimum Rediscount Rate(MRR)	Treasury Bill Rate (TBR)	Savings Rate	Maximum Lending Rate(MLR)	Liquidity Ratio Comm.Banks	Cash Ratio	Liquidity Ratio Mer. Banks
	N billion	N billion	N billion	percent	percent	percent	percent	percent	percent	percent
1970	0.6	0.9	0.4	4.50	4.00	3.0	7.5 8.0	94.5	5.2	-
1971	0.6	1.0	0.4	4.50	4.00	3.0	10.00	73.7	5.2	-
1972	0.7	1.2	0.4	4.50	4.00	3.0	10.00	-61.8	5.4	-
1973	0.8	1.4	0.5	4.50	4.00	3.0	10.00	63.8	5.4	-
1974	1.2	2.2	0.6	4.50	4.00	3.0	10.00	65.0	11.5	-
1975	2.0	3.6	1.2	4.50, 3.50	4.5, 2.5	4.0	9.00	16.5	26.3	-
1976	3.3	5.3	1.5	3.50	2.50	4.0	10.00	59.1	32.0	-
1977	4.8	7.1	2.2	4..0	3.0	4.0	6.00	52.7	16.1	-
1978	5.1	7.7	2.4	5.00	4.00	40, 5.0	11.0	38.4	8.0	-
1979	6.1	9.9	2.7	5.00	4.00	5.0	11.00	45.1	12.4	-
1980	9.2	14.4	3.6	6.00	5.00	6.0	9.50	4.76	10.6	45.0
1981	9.7	15.5	4.3	6.00	5.00	6.0	10.00	38.5	9.5	41.8
1982	10.0	16.9	4.7	8.00	7.00	7.5	11.75	40.4	10.7	49.1
1983	11.3	19.4	5.3	8.00	7.00	7.5	11.50	63.4	8.4	81.1
1984	12.2	21.6	5.3	10.00	8.50	9.5	13.00	52.1	8.5	82.2
1985	13.2	23.8	5.4	10.00	8.50	9.5	11.75	67.5	4.7	93.7
1986	13.1	24.6	5.7	10.00	8.50	9.5	12.00	57.0	4.0	47.9
1987	14.9	30.0	6.9	12.75	11.75	14.0	19.20	48.6	4.7	41.9
1988	21.9	42.8	10.2	12.75	11.75	14.5	17.60	69.4	50.0	33.0
1989	25.7	46.2	13.1	18.50	17.50	16.4	24.60	59.9	4.9	27.0
1990	37.2	64.9	13.4	18.50	17.50	18.8	27.70	57.5	6.4	29.9
1991	49.4	86.2	n.a.	15.50	14.50	13.9	20.10	n.a.		
1992*				17.00	16.00		28.10	n.a.		

TABLE 5

SELECTED ECONOMIC INDICATORS: THE EXTERNAL SECTOR (N MILLION) 1970-1992

YEAR	EXPORT			IMPORT	OFFICIAL EXTERNAL RESERVES	EXCHANGE	RATES
	Total	Oil	Oil/Total			N/$	N/£
	1	2	3	4	5	6	7
1970	885	510	57.6	756	157	0.7142	1.7114
1971	1293	953	73.7	1079	281	0.6944	1.7156
1972	1434	1176	820	990	192	0.6579	1.6289
1973	2278	1894	831	1225	241	0.6579	1.6289
1974	5795	5366	92.6	3722	3380	0.6159	1.3618
1975	4926	4563	92.6	3722	3380	0.6159	1.3616
1976	6751	6322	93.6	5149	3058	0.6266	1.1317
1977	7361	7073	96.1	7117	2521	0.6466	1.1671
1978	6064	5402	89.1	8212	1269	0.6361	1.2236
1979	10837	10169	93.8	7473	3077	0.6077	1.2626
1980	14186	13632	96.1	9996	5469	0.5469	1.2647
1981	11023	10681	96.9	12720	2442	0.6062	1.2495
1982	8723	8602	98.6	12566	1023	0.6731	1.1734
1983	7752	7201	92.9	8904	780	0.7506	1.1216
1984	9088	8841	97.3	7.178	1.099	0.7672	1.0765
1985	11214	10891	97.1	7933	1660	0.8924	1.1999
1986	8921	8369	93.6	5984	3607	1.7323	2.5554
1987	30361	28207	92.9	17862	4663	3.9611	5.5929
1988	31193*	28435	91.2	21446	3292	4.5367	8.0815
1989	57971	55017	94.9	30860	13476	7.3651	120615
1990	109886	106627	97.0	4578	14970	8.0378	14.3560
1991	121534	16857	96.2	89488	14269	9.9095	17.4569
1992						15.7000	

TABLE 6

SELECTED ECONOMIC INDICATORS: OTHER IMPORTANT RATIOS (PERCENT) 1970 - 1991

	OIL REV/ TOTAL REV	DS/DG	DS/ TOTAL REV	EDS/EXP	EXP/GDP	IMP/GDP	EXP/IMP	EXT RESRVES/ IMP
	1	2	3	4	5	6	7	8
1970	26.4	0.2	20.5	11.2	1.7	1.4	117.1	20.8
1971	43.6	0.1	7.8	4.7	2.1	1.7	119.8	26.0
1972	54.4	0.1	6.7	1.8	2.1	1.5	144.8	19.4
1973	59.9	0.1	5.5	1.4	3.4	1.8	186.0	19.7
1974	82.1	0.2	2.9	0.5	7.6	2.3	333.6	199.3
1975	77.5	0.3	3.4	0.7	6.7	5.0	132.3	90.8
1976	79.3	0.4	6.1	0.6	8.2	6.3	131.1	59.4
1977	75.6	0.2	2.4	1.5	8.3	8.0	103.4	35.4
1978	61.8	0.9	9.9	2.7	7.4	10.0	73.8	15.5
1979	81.4	0.6	5.0	1.7	12.9	9.2	145.0	41.2
1980	81.1	0.9	5.5	2.0	16.0	10.3	156.0	60.1
1981	71.5	1.0	6.8	4.3	13.6	15.6	86.7	19.2
1982	77.0	4.6	37.3	10.0	10.7	15.4	69.4	8.1
1983	67.1	1.9	14.1	14.8	9.9	11.4	87.1	8.8
1984	74.3	4.3	28.1	26.0	12.4	9.8	126.6	15.3
1985	74.7	5.2	27.8	28.2	14.2	10.1	141.4	20.9
1986	65.9	10.9	72.4	72.1	11.0	7.4	149.1	60.3
1987	75.8	9.4	31.0	12.2	36.7	21.6	170.0	26.1
1988	76.7	13.2	41.5	22.9	36.2	24.9	145.4	15.4
1989	112.3	21.4	38.5	22.9	63.9	34.0	187.9	43.7
1990	79.8	40.3	57.7	28.3	111.9	46.6	240.4	76.5
1991	78.1	44.9	52.2	29.2	118.6	87.3	135.8	49.5

Chapter 2

STRUCTURAL ADJUSTMENT PROGRAMME (SAP) AIMS, OBJECTIVES AND RATIONALE

- By Chief J. Osakwe

1.1 ORIGIN OF SAP

The preceding chapter highlighted the management of the oil boom in the seventies and the adverse consequences of the prolonged weakening of world demand for crude oil since 1981 on government finances, foreign exchange earnings and reserves, external debt and debt servicing. Thus, for over a decade of oil boom, Nigeria had not much to show for the development of the real sector which was to be the backbone of the structural transformation of the economy. Agriculture was marginalised and later effort to revitalise the sector did not meet the desired success. In particular, it failed to provide enough essential commodities and much needed raw materials for industries. The manufacturing sector, on the other hand, structured on import-substitutes was made to depend largely on imported inputs. Initially, it performed fairly well while shielded by tariff walls but later failed to grow to meet the needs of expanding population because the sector was vulnerable for its existence. The sector was also afflicted by high costs of production as a result of domestic and imported inflation and production of low quality goods the demand of which was further eroded by smuggling.

Moreover, the various austerity measures, also highlighted in the preceding chapter, put in place to tackle the problems created by the oil glut since 1981 including austere fiscal policy measures, sharp reduction in imports through quantitative restrictions, absolute bans and pervasive import licensing were all demand management oriented and did not take sufficient cognisance of the need to stimulate supplies. Instead, they resulted in widespread supply shortages of raw materials, spare parts, essential commodities, sharp decline in capacity utilisation, persistent inflationary pressures, intensified unemployment, continued reliance on imports based on over-valued Naira, large external debt and accumulated trade arrears. Thus, the structural transformation that emerged left the economy with wide spread distortions.

This was the setting when the present Military Administration assumed power in August, 1985. As the economic crisis persisted into 1985, the new administration was confronted with the political option of continuing the policies of the previous administrations or take a bold initiative on no-go areas such as over-valued Naira exchange rate, the reform of country's trade and exchange regime as well as removal of government subsidies - all of which were crucial to the needed restructuring of the economy and on which discussions with the IMF regarding the possibility of the latter's financial facility had apparently earlier hit the rock. The rest of this section will focus on various steps taken by the new administration to address the problems which it inherited from the previous administrations.

1.1 The Need for New Strategy in Economic Management

The need for new direction in economic management was clearly reflected in the 1986 Budget Speech when the President stated among other things, that:

> "the policies thus far adopted seem to have increased distortions in the economy and produced unintended effects of fostering high cost industries, with little or no linkages to the domestic resources base, exacerbating the problems of dependence on imported raw materials. It has become apparent that fiscal measures alone are not enough to bring about a sustainable fiscal and external payments position with the desired restructuring of the economy, correct the distortions in cost/ price relations and provide adequate signals and stimulus for productive investment in the vital areas of the economy".

Meanwhile, the President who was anxious to ameliorate the harsh conditions took timely measures by establishing Presidential Committees to examine particular issues and make recommendations. One of such Committees was the Committee on IMF loan.

1.2 Presidential Committee On IMF Loan

The new administration was born amidst the controversy whether Nigeria should or should not take the IMF loan. The President in his maiden speech on 27th August, 1985 stated that the deadlock in the negotiations with the IMF would be broken "with a view to evaluating more objectively both the negative and positive implications of reaching a mutual agreement with the Fund". A presidential Committee was set up in September, 1985 to arrange, inter alia, hearings on the IMF loan in all its ramifications, refinancing Nigeria's accumulated trade arrears, the attitude of creditors and strategies for substantially reducing the debt service burden.

The Committee found that "the most popular option among the Nigerian public is to break off all further negotiations with IMF so as to pursue an independent and self-reliant course of economic development". Since the IMF loan was publicly rejected, the Committee recommended another option which was to "design a package of policies for economic recovery consistent with national objectives, which package is to be presented to the IMF with a view to obtaining its seal of approval' but without taking an IMF loan." The Committee also called for a phased reduction of petroleum subsidies and reallocation of "the resultant proceeds to the productive sectors of the economy" a review and rationalisation of administrative controls and foreign exchange regulations governing foreign trade and investment in the country, and the policy of gradual adjustment of the Naira exchange rate. Thus these recommendations were radical departures from the past and indicative of what was later to be presented to the IMF for support.

1.3 National Economic Emergency Powers Decree. 1985

The enthusiasm of the New Administration to put the economy on course was further demonstrated when on October 1, 1985, the ARMED Forces Ruling Council (AFRC) declared a state of National Economic Emergency (NEE) for a period of fifteen months. The enabling decree No :22 ....whose provisions were indicative of the envisaged new economic policy direction empowered the President to issue orders and make regulations aimed at revamping and stimulating the economy during the

period of fifteen months of the National Economic Emergency, Accordingly, the president may issue orders or make regulations for

(a) the operation of public or private companies in order to stimulate, reactivate, improve and generally assist in revamping the economy of the country:

(b) the improvement in the agricultural sector of the economy in a manner to make the country self-sufficient in the production and preservation of food as well as the production and marketing of cash crops and generally to stimulate and generate activities in the agricultural sector.

(c) the improvement in the industrial sector of the economy and with respect to the importation of raw materials, completely knocked down goods machinery or equipment;

(d) ensuring that viable projects relevant to the stimulation and growth of the economy are encouraged;

(e) encourage the exportation of goods produced or manufactured in Nigeria to other parts of the world, especially to other African countries;

(f) introduction of measures that may assist in the conservation of foreign exchange and those that may reduce inflation and unemployment;

(g) the introduction of measures that may encourage and stimulate interest in locally manufactured goods;

(h) the introduction of such measures that may provide incentives to local and foreign investors;

(i) the imposition or increase in any customs or excise duty or for any reduction, withdrawal or cancellation there of;

(j) the prohibition of importation or exportation of goods whether absolutely or subject to any prescribed exceptions:

(k) dealing with any issues pertaining to trade disputes between employers and employees and labour matters generally:

(l) the creation of offences, imposition of penalties and trial of person who contravene the provisions of the regulation: and

(m) such other things as the President may deem appropriate in the circumstances.

In exercise of its powers under the NEE Decree, the Government banned importation of rice and maize. Deductions varying from 2-15% from all incomes including rents, dividends as well as salaries and wages of all workers in both the public and private sectors were to be made at source and paid into the Economic Recovery Fund at the Central Bank of Nigeria .

1.4 The 1986 Budget

The two major developments described above, namely Nigeria's rejection of IMF Structural Adjustment loan and a state of National Economic Emergency declared by the president on October 1, 1985 formed the basis of economic policy measures adopted in the 1986 Budget. The budget programme was therefore adopted to induce a recovery of the Nigerian economy over the medium term. The major objectives of the programme were to:

(a) restructure and diversify the productive base of the economy so as to reduce dependence on the oils sector and imports;

(b) achieve a fiscal and balance of payments viability and

(c)lay the basis for a reasonable non-inflationary growth,

(d)to lessen the dominance of unproductive investment in the public sector, improve the sector's efficiency and intensify the growth potential of the private sector.

The attainment of the above objectives required further strengthening of supply and demand management policies, adoption of a realistic exchange rate policy, further rationalisation of customs and excise tariffs, simplification of regulations governing investment in

industrial and commercial enterprises and adoption of appropriate price and incomes policies.
Further, a number of important institutional reforms were effected and directed at reducing Government direct involvement in agricultural production and increase in funds for providing the necessary supports services for farmers For example, the number of River Basins and Rural Development Authorities was reduced from 18 to 11, the Marketing Board System was abolished and agricultural commodities were to be purchased at price related to world prices and at market determined exchange rates.

Another significant development from the Budget was reduction of petroleum subsidies by 20%. This, in effect, meant increase in the price of gasoline from 20k to 39k per litre and diesel from 11k to 29k per litre.

Thus, the far reaching radical recommendations by the Committee on IMF loan, the National Economic Recovery Programme of October 1985 and 1986 Budget became the fore-runners of the Structural Adjustment Programme. The rest of the chapter focuses on the aims, objectives and rationale of the programme.

2 AIMS AND OBJECTIVES

During the second half of 1986, the programme of economic recovery contained in 1986 budget was crystalised into a formal IMF - supported Structural Adjustment Programme otherwise known as "SAP". The programme originally was designed to cover the period from July 1986 to June 1988. The aim of SAP is to effectively alter and realign aggregate consumption and production patterns so as to minimise dependence on imports, enhance the non-oil export base and bring the economy back on the part of steady and balanced growth. Specifically its main objectives are:

"(i)to restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and on imports;
(ii) to achieve fiscal and balance of payments viability over the period;

(iii) to lay the basis for a sustainable non-inflationary or minimal

inflationary growth;
(iv) to lessen the dominance of unproductive investments in the public sector, improve the sector's efficiency and intensify the growth potential of the private sector".

Main Features of the Adjustment

The key elements of the programme are:

"(i) the strengthening of the hitherto strong demand management policies;
(ii) adoption of measures to stimulate domestic production and broaden the supply base of the economy;

(iii) adoption of a realistic exchange rate policy;

(iv) further rationalisation and restructuring of the tariffs in order to aid the promotion of industrial diversification;

(v) move towards improved trade and payment liberalisation;
(vi) reduction of complex administrative controls simultaneously with greater reliance on market forces;
(vii) adoption of appropriate pricing policies, especially for petroleum products and public enterprises and

(viii) encouragement to rationalisation and privatisation of public sector enterprises".

According to the SAP document, the core policies would involve actions to:
(a) correct for the serious over-valuation of the Naira through the setting up of a viable and substantial second-tier foreign exchange market, coupled with adjustments to the official rate and aimed at a convergence of the various exchange rates as soon as possible;

(b) overcome the observed public sector inefficiencies through improved public expenditure control programmes and the speedy rationalisation of the parastatals sector; and
(c) relieve the debt burden and attract a net inflow of foreign capital,

while keeping a lid on foreign loan "

Thus SAP consists of a package of measures expected to influence various macro-economic aggregates in the economy through the realignment of prices and a more rational allocation of resources. Hence the over all objectives of SAP was to remove distortions in the economy (as foreshadowed in the President's maiden speech) and create favourable enabling environment in which the economy could recover from the recession and then grow within medium-to-long-term period. Emphasis was to be placed equally both on demand management policies and supply oriented measures.
Reproduction from "Structural Adjustment Programme, July 1986-June, 1988."

3 RATIONALE AND INSTRUMENTS OF ADJUSTMENT

This section examines further the rationale of specific instruments used for adjustment under SAP.

Trade and Exchange
Exchange Rate adjustment was regarded as the core instruments of macro-economic adjustment and as a major way of removing distortions in the economy. The over-valuation of the Naira was a great concern to the new Administration when it assumed power in August, 1985. It recognised that the closer the exchange rate is to a realistic level, the less would be the need for import licensing system ,the greater the efficiency in the use of foreign exchange, the higher the level of import earnings in the medium to long term and less the leakage of foreign exchange through smuggling of goods and black marketeering in currencies. Therefore, in order to move the Naira rate towards a realistic level, the Federal Government established a Second-Tier Foreign Exchange Market (SFEM).

The objective of the SFEM is to evolve a realistic and sustainable market - determined exchange rate of the Naira, so as to reduce demand to available supply and to reduce pressure on balance of payments. Such a realistic rate was expected to eliminate distortions in all major sectors of the economy, stimulate exports and pave way to a more self-reliant and sustainable growth. The SFEM was to

operate under the umbrella of the Central Bank where it would be appropriately funded. The SFEM was to exist side by side with the First Tier until they merged at a later date.

Non-oil Exports

The present administration was deeply committed to promotion of non-oil exports in order to reduce over dependence on the oil sector as the principal foreign exchange earners. In order to achieve this objective a package of incentives to increase production of export goods and enhance the level of exports was introduced in the 1986 Budget. These incentives included:

(i) refund of import duty on the raw materials used for production of export items;
(ii) refund of excise duty paid on export items;

(iii) exemption of raw materials imported for export production from the new 30 per cent import levy;

(iv) granting of generous import licences for raw materials needed for export products;

(v) retention by exporters of 25 per cent of export proceeds;

(vi) provision of support services to entrepreneurs seeking new export markets;

(vii) provision of assistance on export costing and pricing by the government;

(viii) the abolition of export prohibition as contained in Finance Act No. 2 of 1981 (except for commodities whose exportation remained banned) and the liberalisation and simplification of export licensing procedure;

(ix) the declaration of intent to establish an export credit guarantee and insurance scheme; and (x) extending the facility of re-discount-

ing short-term bills to non-oil exporters.
In addition to the above incentives, the Government permitted the conversion of export earnings into Naira at rates prevailing on the SFEM to boost the Naira income of farmers producing for export. These incentives were to be the cornerstone of the policy measures adopted for non-oil exports under SAP.
(4) Federal Government Budget, 1986, and Central Bank of Nigeria Annual Report, 1986, and Export Incentives Decree No.18, 1986.

Fiscal Balance: Rationalisation and Restructuring of Public Expenditures

With continuing weakening of demand for oil and consequent fall in foreign exchange earnings and revenue, the Government planned to adjust public expenditures to reflect revenue constraints, with the aim of containing the budget deficits within 3% of the GDP. It was envisaged that this could be achieved by using realistic revenue estimates within the framework of SAP and would concentrate on timely completion of a limited core of viable capital projects that could be adequately funded.

The Government also planned that expenditure reallocation would accompany general expenditure reduction so as to ensure that the net benefits from the limited funds were maximized. In order to achieve these objectives, decisions would be based on the following considerations. *See References (1)*

(a) Constraints on the growth of public wage bill would continue. However, wage increase would be allowed during the programme at less than the rate of inflation until the financial situation improved.

(b) Levels of supplies (materials, spare parts, etc) would be increased in a number of essential areas to ensure the achievement of reasonable levels of performance. Also routine and periodic maintenance would continue to avoid rapid deterioration of capital assets (e.g. roads, hospitals, etc)

(c) Non-statutory transfers to all economic and quasi-economic

parastatals would be reduced to 50% of their 1985 levels while transfers to fully commercially-oriented parastatals would be removed by the end of the programme period.

(d) New projects may be undertaken if found essential for the economic recovery process and their funding clearly fully established.

Reforms of Parastatals

Government recognised that its investments in the public enterprise (Parastatals) covering about 100 enterprises (at the Federal level alone) spread over agriculture, manufacturing, mining, transport, commercial and other services were over ₦23 billion (8 billion in equity and ₦15 in loans) but the returns on them were less than N500 million per annum. The Government noted that while it had not been receiving fair returns on its investments, some of the projects had constituted a major drain of public revenue, accounting for about 40% of Federal Government non-salary recurrent expenditure and 30% of its capital investment project. The objective of SAP is to rationalise and restructure these parastatals so that they could become operationally and administratively more efficient; minimise waste in government spending and ensure that those commercialised would no longer depend on government support or subventions. In order to achieve this laudable objective, Government enterprises (Parastatals) were classified into five broad categories for subsequent action as follows:

(a) fully privatised;
(b) partially privatised;
(c) fully commercialised;
(d) partially commercialised, or remain as
(e) public institutions

From the above classification it follows that enterprises which function in a fully commercial manner would be privatised, those that will be partially or fully commercialised would continue to be fully owned by Government but would have a financial structure that would enable them to raise capital but might also need some government support towards operating costs or future capital investment; while those fully

commercialised would no longer be supported by Government subventions.

Monetary policy

Monetary and credit policy would be consistent with the targets set for the balance of payments, the increase in reserves and fiscal policies and for control of domestic inflation. It was envisaged that credit allocation would be completely deregulated with the aim of eliminating it by the end of programme period. Moreover, desired movement in interest rates as well as removal of interest rate differentials among sectors formed by part of the programme. The Goverrunent intended to restructure the financial sector and provide a plan of action for improved financial intermediation.

Finally, it was the Government intention to maintain the policy of real positive interest rates established in 1985.

Agriculture

The Government recognised the role of revamped agricultural sector in the success of the programme. Most importantly, improvements in agricultural sector would improve supply situation which in turn would dampen the inflationary pressures, provic e the needed raw materials for industries and reduce over- dependence on imported inputs. Consequently, a comprehensive policy package to revamp the sector, formed the cornerstone of the programme. The major objectives of the agricultural sector policies are:

"(i) to increase domestic food production with a view to improving nutritional standards and reducing and eventually eliminating external dependence on food supply;

(ii) to increase domestic supply of agricultural raw materials such as cotton, cocoa, oil palm, rubber, millet, sugar cane and maize to the manufacturing sector thereby increasing local value added and reducing dependence on imported raw materials;

(iii) to increase production of exportable cash crops thereby diversifying the export base of the economy; (iv) to raise rural employment and income; and
(v) to achieve regional optimal crop production mix, reflecting the comparative advantage of each agro-ecological zone."
The Government believed that if it could achieve the above objectives, the distortions that continued to retard the growth of the agricultural sector would be removed. The Government hoped to achieve the above objectives by far-reaching structural reforms of the agricultural sector. Such reforms include:

(i) The winding-up of the Commodity Boards and adoption of an appropriate exchange rate policy under which all non-oil export transactions will take place at the free SFEM would provide price incentives that would enable farmers to compete effectively; and

(ii) price incentives that would encourage rehabilitation of the existing productive capacity and induce new planting on the scale required to substantially boost production.

Manufacturing Sector

The Government identified a number of factors which had in the past hindered the growth of the manufacturing sector.

These among others, included;

(i) poor and unreliable infrastructural facilities such as energy, water supply, roads and telecommunications;

(ii) inappropriate tariff structure; and

(iii) over-valued domestic currency.

Against this background, the industrial strategy under the programme would aim at: *See Reference (1)*

(i) encouraging the accelerated development and use of local raw materials and intermediate inputs rather than depend on imported ones;

(ii) development and utilisation of local technology;

(iii) maximising the growth in value added of manufacturing production;

(iv) promoting export-oriented industries;

(v) generating employment through the encouragement of private sector small and medium-scale industries;

(vi) removing bottle necks and constraints that hamper industrial development including infrastructural manpower and administrative deficiencies; and

(viii) liberalising controls to facilitate greater indigenous and foreign investment.

In order to achieve the above objectives the Government planned to adopt:

(a) a realistic exchange rate policy that would reflect the scarcity of foreign exchange and ensure its efficient allocation;

(b) an appropriate structure of trade taxes. For example, there would be a revised tariff and excise tax structure that will be consistent with the new exchange rate policy;

(c) provide incentives to encourage both local and foreign investors. The government proposed to establish Industrial Development and Co-ordination Committee (IDCC) in order to remove all impediments to free flow of investment;

(d) enhance technological development and promote the growth of priority industries including production of export goods. It was envisaged that these objectives would be achieved through accelerated depreciation, duty draw backs, preferential import licences, etc; and

(e) review the existing system of price controls with a view to phasing them out.

Debt Management

Prior to the present programme, the crux of the Nigeria's external debt problem was the structure of debt especially in respect of the huge claims under trade arrears. The Government believed that their early rescheduling was likely to have a major impact on the process of reviving the economy. The Government, therefore, made it as a stance of policy to 'resolve' the problem of accumulated trade arrears. In order to achieve this objective the Government would immediately enter into agreement to reschedule Paris and London Club debts as well new loan commitments in order to ease debt-service burden and improve the financial flows required to support the conservative level of imports designed to ensure the success of the SAP.

Conclusion

The Chapter brought out clearly the prevailing economic situation before the present administration assumed power in August, 1985. It showed that since the seventies, the country had depended on a single commodity, oil, and consequently the weakened demand for it in the eighties spelt the doom for the economy.This is without prejudice to the fact that during the period of oil boom, agriculture became marginalised, industrial sector survived on imported inputs and the overall government policy measures and their implementations created wide-spread price distortions in the economy. Thus, SAP was introduced essentially to tackle these distortions and place the economy on firm footing for steady economic growth.
This chapter, therefore, surveyed in detail, the aims and objectives of SAP and highlighted the rationale for the choice of instruments designed to achieve the SAP objectives.

chapter 3

THE STRUCTURAL ADJUSTMENT PROGRAMME: Implementation, Its Gains and Losses

By Chief Effiong Essien

INTRODUCTION

An economic history of Nigeria, whenever it is written, will have a special place for the past decade, 1980-90. It was a decade which after the 1978-79 recessions, started with the best of everything for Nigerians. External reserves reached a peak of ₦5,469.1 million in 1980, at a time when only ₦0 .55 million purchased one US dollar. History will record that the Naira exchange rate to the dollar was the best Nigerians will ever dream of. The Naira gained strength from o.71 = US$1 in 1970 to No.55 = US$1.00 in 1980 before beginning the unstoppable march to where it is today. Nigerians can only wish for, without ever having back, the 1980 exchange rate. The reserve level in 1980 was enough to finance seven and half months imports, and with the assurance of adequate reserves imports bill increased to ₦12,599.1 million in 1981 as against ₦9095.6 million in 1980. Low Naira exchange rate stimulated the importation of foreign goods with payments guarantee through abundant external reserves due to earnings from oil.

The citizens' tastes for foreign foods sharpened. Instead of being self sufficient in food production, Nigeria suddenly became a heavy food importer; in 1982 she imported the equivalent of 18 per cent of total imports, from 0.5 per cent in 1976. In 1973, passenger car imports constituted 6.6% of total imports but in 1981, 11% of total imports bill went for passenger cars.

Politicians made imports a political issue, such that the importation of rice was used in granting favours and patronage for political associates. The manufacturing sector relied up to 70% on imported raw materials.

Because of abundant reserves from oil, virtually everything Nigerians consumed was subsidized. So much was spent in foreign exchange to subsidize basic overseas travelling, religious pilgrimages, fuel consumption, etc. In the case of fuel subsidy the argument to support the profligacy was that Nigeria is an oil producing country which should not

sell oil at market prices to its citizens. Health and educational services were heavily subsidized, which was not a bad decision though, but it introduced so much of inefficiency and waste that it is doubtful whether in the end the Nation gained from subsidy. The inefficiency of the productive sector cannot be divorced from the subsidies arising from arbitrarily low interest rates, low exchange rates, officially administered loans and other forms of the so-called official supports to the productive sector. In the end all forms of subsidy were regarded, as distribution of the 'national cake' which in any event, had to go round irrespective of whether or not it had negative effects on the production system.

All these started in the 1970's when the oil boom started but the politicians naturally abandoned economic principles in order to entrench the acquired lifestyle of the 1970's. In fact, more foreign loans were received by the governments simply to support a life of consumption. The objective allegedly was to increase the welfare of citizens. Quite right. But welfare consideration was at the expense of a foundation for increasing the productive capacity.

Within two years a new dimension was introduced into the nation's economic history. The foundation for welfarism collapsed. By end of 1982 the price of oil in the international market plunged downwards. Oil earnings fell and internal revenue plummeted. The pillar of affluence had broken down. The decade was no longer the glorious one. For the first time in a decade, or since the end of the civil war, Nigeria started to implement austerity measures. Again, for the first time, an appeal was made to the International Monetary Fund for a balance of payments support. From thence, events moved faster than anticipated. As would be expected, government changed hands and with such changes followed strategies for recovering from the shock. Thus, apart from austerity measures to reduce domestic expenditure other devices were introduced to salvage the economy. Imports were licenced, and counter trade was introduced - an euphemism for barter. Commentators now remark that things were so bad for Nigeria that it had to reintroduce primitive trade by barter. Yet these measures were palliatives.

It was soon realised though, that what was happening did not require ad hoc solutions. The economy was experiencing structural problems

which manifested in sustained imbalances in external and internal accounts. There were imbalances between incomes of the rural and urban population, and among income savings and investments, exports enrnings and debt obligations between groups. Statistics revealed that while imports were growing, exports of the non-oil sector virtually declined; that agricultural production was neglected since there was enough foreign exchange to import food; that industries were supported by imported materials when there were abundant resources within the country. That industrial policies and tariff supported imports instead of export-led activities; and that domestic pricing policies distorted sectoral contributions to the economy. There was too much of government in the system.

These facts are not easily discovered until something happens to an economy as was the case in the early 1980s. Since the economy was very much dependent on other countries, any external problems sent waves on to Nigerian shores. The inability to withstand external shocks is itself a sign of the structural weakness of an economy. The external shocks came when there was slump in demand in the industrial countries; when bank debts were becoming bad and when recession set in. As sensible people, the industrial nations cut down on demands and stopped granting further short term credits. These actions fed back on the economies of the structurally weak nation such as Nigeria without strong domestic production base.

The Babangida administration discovered that the answer was not in merely finding solutions to the immediate problems but, providing permanent solutions to prevent future occurrences. The 1980s had indeed been a decade of policy reforms even in the industrial nations. For Nigeria policy reforms were imperative. The Babangida administration, therefore, considered it necessary to introduce structural reforms that would provide future shock-absorbers for the economy. The rest of this chapter describes the various modes of implementation of the structural adjustment programme and the implications on the social life of the people.

IMPLEMENTATION OF THE PROGRAMME

Fortunately, Nigerians themselves seemed to have recognised the existence of structural deformity in the economy, at least, as evidenced by their contributions to the debate on IMF loan. They insisted that there should be no more foreign loans since what was required was not more foreign money but correcting the structural distortions in the economy. But how this was to be achieved was the bone of contention. In anticipation of the proponents of alternatives to the structural adjustment programme it might be necessary to mention the options proposed during the debate. First, there were those who proposed the total closure of the economy, accompanied by possible nationalisation of multinationals. It was argued that such a policy would force Nigerians to look inwards and harness resources in our own way. This option did not consider the reaction of trading partners, nor the fact that the economy, for a while, would have to depend on external materials to support the productive sector Others proposed the closure of the lame Federal industries - the Volkswagen, Peugeot Automobile, the Steel Complex and others, and concentration on small scale industries, citing the Indian example. It did not matter, according to them, even if such a course of action would result in unemployment and waste of existing resources. Lastly there were, as would be expected before the collapse of the centrally planned economies, those who want the country to repudiate all debts as Cuba did and move in the direction of central planning. Basically most people held the idea that the rules of orthodox economics did not hold in developing countries. (1)

The foregoing arguments are repeated here to emphasise the fact that there was no proper grasp of the problems of the economy. Not many people considered the fact that enterprises could operate more efficiently under competitive environment than under state controls. However, the option which was open to the Babangida administration was that of returning to Adam Smith's model which exploited the "animal spirit" of Nigerians. The 1986 Budget speech contained the tenet of the policies to be pursued under the programme. "We Nigerians", the President said "all agreed that solutions to these teething social and economic problems must be found through our

own efforts, at our own pace and on our own volition, consistent with our long-term national interest. We are determined, more than ever before, to harness our own home grown efforts to solve our problems and chart a new path for our future. As we enter this new era each and everyone of us must be ready and willing to make additional sacrifices in facing the challenges that lie ahead ...... These challenges involve not only a reduction in public expenditure and general structural adjustment of the entire economy, but also a fundamental and enduring shift in the attitude of our people; their tastes and demand profile should move towards our own resource-based goods and services".

Given this imperative it was clear that the structural adjustment policies had to aim at the demand side, reducing the dependence on external input and consumer items; and on the supply side, substituting local raw materials for imported materials. The Structural Adjustment Programme (SAP) is therefore a policy package which focuses on demand management and the supply side of economics. It seeks, at macro-level, to employ some demand management strategies in order to influence, at micro-level, the response of production units of the economy.

The strategies were spelt out in the document - "the Structural Adjustment Programme for Nigeria, July 1986 - June 1988" - published by the Federal Government. In view of the policy hangovers and the attendant distortions in the economy, the need for stabilisation policies through monetary and fiscal measures was emphasised. At this point; it ought to be emphasised that stabilisation is part and parcel of the programme; it is a complementary component since any structural adjustment is necessarily dynamic and disruptive which must be contained through the employment of stabilization measures.

Taken together, this document and other occasional statements by the President and the Central Bank of Nigeria established the modalities for implementing the structural adjustment programme. The main document reviewed the origin of the economic crisis - the 1970's decade of oil boom followed by the slump which started from about

the middle of 1982, the accumulation of trade arrears, and subsequent action to remedy the situation. From 1984 when the military took over power several ad hoc fiscal and monetary measures were taken, all aimed at reducing expenditure and cutting on imports. The introduction of import licencing and surcharges was among such policies. The Naira was allowed to slide against other major currencies through what was commonly known as the crawling peg. Between the end of 1984 and 1985 the Naira/Dollar exchange rate was adjusted downwards by 20percent. Similar adjustments were made against other major currencies. In the agricultural sector the number of River Basin authorities was reduced from 18 to 11 and the Commodity Boards were wound up. In the industrial sector the import licencing system was liberal to manufacturers. These selected policies were maintained until July 1986 when the Babangida administration introduced the "BIG BANG" - a policy of "Opening up" the economy.

The "Big Bang" was no more.than an effort to free the economy from the shackles of bureaucratic controls. The objectives and strategy of the programme were set out, the cardinal aim being to alter and realign aggregate domestic expenditure and production patterns so as to minimise dependence on imports, enhance non-oil export base and bring the economy back on the path of steady and balanced growth. The major objectives of the programme were comprehensively covered in chapter 2.

Before examining the implications of these objectives and features of the programme it is necessary to say a few words on the theoretical content of SAP. the SAP document assumes the adjustment programme to cover two years from July 1986 to June 1988. It is not clear what the authorities had in mind: it is either that the implementation of the programme would last two years or that the gains from SAP will start flowing in after two years. Both ideas would be wrong theoretically and practically since the theoretical setting of SAP is that it is "a continuum, with 'stabilization' programmes focused on demand management and potential short-run gains in foreign exchange earnings or savings, while structural adjustment programmes emphasize supply side changes that usually take several years to bear fruits".*(2) From this definition it is clear that the whole aspect

of SAP cannot be covered in two years. Even if the authorities restricted the time frame to the stabilization (demand management) aspect of the programme, the essence of the programme would be missed: structural supply changes cannot be efficiently undertaken without complementary demand management policies to avoid derailment.
Demand management is concerned with macro-economic variables while structural adjustment belongs essentially to the micro-economic elements. The former, as it is well known, directs actions in the latter.

In assessing the gains of SAP the impression was already given to the public that the fruits shall be harvested in two year time. After two years without the expected gains it was normal that scepticism started to develop, with the attendant frog-jumping of public opinion. The truth, however, is that two years would be inadequate to repair the damage done during a period of 25 years. Rather, if there is a lesson to be learnt from nature it is that the period of regeneration would be comparatively longer than that of degeneration. It is easier to fall than to rise.

3. MAJOR INSTRUMENTS OF IMPLEMENTATION

With this definition of the programme it is time to examine the major instruments of implementation under the following headings:

(1) Foreign Exchange Policy

(2) The financial system

(3) Privatisation and subsidies

(4) Fiscal Policy and trade Liberalisation

(5) The debt problem

(I) Foreign Exchange Policy

It is foreign exchange, defined as foreign currencies that links the external to the domestic sectors of the economy. The rate at which a foreign currency is exchanged for domestic currency is therefore, an important instrument of policy. In fact, the real exchange rate is the instrument for changing the expenditure patterns of a country, particularly in a country like Nigeria that depends on foreign goods to support domestic consumption.

There was a general consensus among academicians that the Naira was over valued although the amount of over valuation could not be clearly established. But what course of action ought to have been taken then? Again, under the prevailing circumstances, devaluation was both politically and psychologically unwise: various people were generally opposed to it, on different grounds. In particular, the extent of overvaluation would have required an extensive devaluation if policies were to be effective. Furthermore, devaluation would perhaps have been applicable if the foreign exchange market was the only target. This was not the case. In fact, what was really required was simultaneous action in all sectors of the economy, beginning with the exchange rate. A floating exchange rate was therefore the final objective since the economy required a surgical operation. Moreover floating the currency accords with the overall policy objective of liberalizing the economy and allowing market forces to operate to determine prices.

In what follows, efforts to liberalise the foreign exchange and financial markets shall be examined. Indeed, it was right that greater attention should be given to the two markets if liberation of the real sector was to be meaningful.

Moves to liberalise the foreign exchange market started with the removal of controls on currency movements and the establishment of domiciliary foreign currency accounts for those who could bring back their currencies. Specifically the following actions were taken:

(i) the establishment of the Foreign Currency (Domiciliary Accounts) Decree of 1985;

(ii) no disclosure of sources of imported foreign currency;

(iii)removal of restrictions on the movement of foreign currencies; and

(iv) retaining of exports proceeds by the exporter.

These measures were embodied in the 1986 Second-Tier Foreign Exchange Market (SFEM) Decree which came into operation on September 26, 1986. The Decree distinguished between the first and second tier markets. In section 15 of the Decree it was stated that "all Transaction to which the provisions of subsection (2) of this section relate are hereby declared to be official First-Tier foreign exchange transaction and shall be settled at the rate of exchange prevailing at the date when:

(a) all documentation prescribed by the Central Bank to be relevant to the transaction concerned were submitted to the - Central Bank;

(b) the obligation to which the documentation relates has, having regard to the nature of such transaction, become due and payable; and

(c) the corresponding naira component of the transaction has been deposited with the Central Bank".

Sub-section 2 referred to transactions covered by specific import licence issued in 1985 or 1986, capital transfers, profits, dividends and other invisible payments, debts, net proceeds of air tickets sold by foreign airlines and imports transaction on which advance import duty on Form C 188A had been paid.

The two markets thus existed side by side - the SFEM being essentially a closed Auction System. What happened in the SFEM is of crucial

importance in the overall assessment of the value of the Naira. Whereas in September 9, 1986 the Naira exchanged for 0.723 US dollars, in the first auction market one Naira purchased only 30 cents. It required ₦4.6174 to buy one US dollar. The Naira was effectively devalued by 66 per cent. Thereafter the Naira continued its fall with occasional official tinkering on the auction system.

An element of intervention was introduced into the market. On March 20, 1987 the Central Bank introduced Dutch Auction System and also announced a bi-monthly, instead of the weekly biddings. The Dutch auction was intended to inject more caution in the bidding since dealers (banks) who bidded above the marginal rate would be made to buy at that rate. The intention was to arrest the decline in the value of the naira. In six months of operation, the Bank had intervened on the following occasions.

(i) At the 6th bidding session when it injected additional $11 million to the previously announced $75 million. The result was an appreciation of the Naira by 8 %

(ii) At the 12th session when the Bank rejected the rate of $1 = ₦2.9990 and opted for $1 = ₦3.2000. This raised eyebrows in the market.

(iii) At the 19th session when it decided on $1 = ₦3.5000 but was on the same day overruled by the Government in favour of $1 = ₦3.000 as determined by the market.

(iv) At the 21st session when it injected $3 million to raise total supply to $53 million with the rate settling at $1 = ₦3.9050; and

(v) After the first two auctions of the SFEM when the original modality of average rate was changed to marginal rate as the ruling rate. (4)

Cases of intervention and changes in modalities revealed that the

period of trial and error. But more important was the fact that the Bank was too conscious of what rate it would like to see emerging rather than what resulted from the system; at times it attempted to set aside market rulings. Yet the Bank was justifiably eager to assert itself as the umpire in the market and to tell the public that exchange rate was not a matter to be left to market forces alone. This statement is significant in view of the mounting criticisms that exchange rates were left to market forces.

In fact the Bank later graduated into the use of monetary policies as appropriate means of interventions. In 1989, it had to demonstrate the link between liquidity and exchange rates. Huge amounts were withdrawn from the banking system through an order to parastatals to withdraw their deposits from banks. Over ₦7 billion was involved, and from then through 1990 the exchange rate stabilised at between ₦8 - ₦9 to one US dollar.

The operation of the official first tier market continued on a different principle for one year. Each week witnessed some creeping depreciation of the Naira in the market until the rates in the two markets merged at approximately ₦3.5 to the dollar in July, 1987. The merger, of course, gave the impression that the much looked-for "realistic rate" had been obtained. The first tier market was thus eliminated and government functionaries had to join in the second market thereby increasing the pressure on the available foreign currency supply. This, coupled with the emergence of the autonomous market (inter bank trade on export proceeds and other voluntary deposits) caused the alarming depreciation rate of the Naira and occasioned the drastic monetary measures applied to control the situation. Later, the autonomous market was abolished.

One market has so far not been discussed - The parallel market or Black Bourse. Economic theorists insist that rates ruling in ratio between the price of home goods and price of traded goods. It is assumed to be the real indicator of the health of the currency, and it was expected that a merger of the official market rate with that in the parallel market, barring official intervention would produce the realistic or equilibrium rate of exchange. The performance in the parallel market was however interesting: there was no definable trend in the movement of both rates;

sometimes they moved in opposite directions. However, in all cases the parallel rate was always higher: Naira depreciation was more than in the official market. Towards the end of the first quarter of 1989 the two rates almost merged to the excitement of policy makers. In fact it was expected that that was an opportunity for the Central Bank to have floated the Naira.*(5) But it failed to take action then.

Another feature in the exchange rate policy is its relationship with interest rates and budget deficits. As will be examined in another section interest rates were liberalised and this was a major step towards the liberalisation of the financial market.
No doubt such actions had the effect of controlling liquidity in the banking system. Floating interest rates gave options to investors. But when the rate was pegged at lower-than market-rate level in 1991, investors opted for the foreign exchange market rather than interest yields. The result was pressure on the market and the scandalous depreciation of the Naira. The rates between the official market at between ₦10 - ₦12 to the dollar and ₦17 -₦18 prevailing in the parallel market resulted in premiums of between ₦6 and ₦7. The story ended in March 5, 1992 when the Naira was belatedly floated at around ₦18.50 to the dollar. We shall have more to say on the management of the floating exchange rate after considering the financial market.

(ii) **The Financial Market:**

These consist of the money and capital markets. The objective of policy was to dismantle controls and encourage competition which would in turn generate efficiency both in the financial sector and real sector. For the purpose of clarification the money market is operated essentially by the banks through the directive of the Central Bank while the operators in capital market are long-term investors dealing in long term securities such as stocks and shares and bonds.

We shall first consider the number of operators in the money market. Banks generally occupy key position in this market and their number determines the extent of competition. The following table shows the growth in the number of commercial and merchant banks since the Structural Adjustment Programme.

TABLE 1
GROWTH OF BANKS

YEAR	NUMBER
1980	26
1986	40
1987	50
1988.	66
1989	81
1990	107
1991	120

Source: CBN, Annual Reports and statement of Accounts.

When the liberalisation process began in 1986 the number of commercial and merchant banks was only 40. There was an exciting debate on whether the economy was under banked. The Central Bank had hitherto maintained a cautious policy on the opening of new banks, often recalling the bank failures of the 1930's. The Federal Ministry of Finance, through the Bank's advice, had to restrict the issue of banking licences. But with liberalisation introduced under SAP the Federal Ministry of Finance was encouraged to issue more licences subject to the promoters meeting the minimum capital requirements which were raised almost yearly. Thus, between 1986 and 1991 the number of banks had risen by 80 from 40 in 1986. Commentators began to raise alarm of possible bank failures and perhaps future mergers; they linked the increased interest of investors in the banking industry to the operations of the new foreign exchange market which apparently sustained the banks. The reasoning was that, with increased premiums, foreign exchange trading provided the banks cheap income, and that, if the foreign exchange factor was eliminated, banks would be unable to sustain their earnings. The huge profits would be wiped out and the failure rates of banks would rise. In 1991 the pressure was on government to restrict licences, which it did even at a time when there were over 40 requests for licences.

There is always the danger of generalisations especially in a growing economy like Nigeria. The fear of bank failures was justified but the Central Bank took measures which it felt could check further de-

mands. First, the capital base of banks was raised to ₦50 million from ₦20 million for commercial banks; and N40million form ₦12 million for merchant banks. The high capital requirement had however not prevented new applicants; although many existing banks found it difficult to meet the requirement immediately the prospects of doing so still existed. Secondly, the introduction of the prudential guidelines and the application of the Basle Committee's riskweighted measure of capital adequacy ought to have driven many banks out of the system. The guidelines virtually reduced the capacity of banks to earn more interest incomes; yet the new banks had nothing to fear from the guidelines, not having excessive exposures. Rather the 'heavy weights' in the banking system were almost grounded - which, again, forced officials to be more worried about older than newer banks. In terms of profitability the new banks, in fact, were better performers. Thirdly, the floating of the Naira was expected to be the final act to drive the new banks aground. Yet none has shown any sign of going burst. We rather find them gaining strength in other directions.

The conclusion is, therefore, that licencing more banks has intensified competition and introduced measures to increase efficiency - witness the rate of computerisaton of banking operations, the introduction of new operational devices and even the voluntary extension of working hours. The drive for deposits is becoming more intensive and more competitive in terms of interest rates offered to depositors. The establishment of Community banks and the Peoples' Bank has further increased competition for deposits from the rural areas, and the older banks which relied on rural deposits are the worse for it. It is even right to say that more banks can still be licensed without any problems. The Nigerian Deposit Insurance Corporation should be the guardian of the depositors.

The establishment of both the Peoples' Bank and Community banks was aimed at quickening the pace of the moneterization of the rural areas, increasing the rate of aggregate savings and making investment funds available to rural small-scale businessmen who are discriminated against by existing banks.

Later in 1991 - Decrees 24 and 25 were issued to regulate the activities of the banking system. The banking decree, Decree 25 tried to spell out the modalities of conducting banking business in deregulated financial environment. It specifies the duties and responsibilities of the key operators of the banks. Decree 24 grants autonomy to the Central Bank and gives it wider power over monetary policy. Moreover, the decree extends control and supervision to finance houses or all others which carry on financial business. The Nigerian Deposit Insurance Corporation has on its part issued documents to bank directors spelling out the composition, qualification, appointment, and specific responsibilities of directors. There is emphasis on the directors' supervision of management to ensure the implementation of policies.

The Banks and other Financial Institutions Decree No. 25 of 1991, together with Central Bank and NDIC guidelines and regulations have set the basis for the operation of a deregulated financial system.

The establishment of more banks and other financial institutions is only one side of the story; the other side is the role of the banking system in achieving the objectives of the structural adjustment programme, that is, laying the basis for a sustainable non-inflationary or minimal inflationary growth. For this purpose the banking system is particularly connected with measures to strengthen demand management policies, and stimulate domestic production as well as broaden the supply base of the economy. Before the financial deregulation interference by the Central Bank took a much more direct form: interest rate ceilings and targeted credit. The aim of the policies was either to give prior access to affordable credit or to spur investment by keeping credit cheap for everybody, or to steer savings to particular bits of the economy that government wanted to see grow more quickly - and sometimes all three (6). As at 1985 and 1986 the minimum rediscount rate (MRR) was 10%. The following rates, in fact prevailed:

TABLE 2

SCHEDULE OF INTEREST RATES

TYPE	RATE %
Minimum Rediscount Rate	10
Treasury Bill Issue Rate	8.5
Treasury Certificate (1 year)	9
Treasury Certificates (2 years)	9.5
Federal Government Stocks	10.5 - 12.5
Deposit Rates - Savings	9.5
Lending Rates: Maximum	13

Towards the end of 1987 MRR was raised to 15% while treasury rate went up to 14% and prime lending rates varied between 15.75 and 22.50 - the beginning of deregulation. Criticisms mounted against the high rates and on December 28, 1987 government gave in and reduced MRR to 12.75% while permitting prime lending rates to sprawl between 15 and 19.25%. Rates on savings and Time deposits were 11-13, and 11-15 per cent, respectively (7). Later, banks were free to fix their inter rates but with controlled spreads between deposit and lending rates. The effect of the deregulated interest rate regime was the tendency for lending rates to head towards the sky: by end of 1990 prime lending rates of merchant banks had reached 34%. As a result, there were criticisms from the general public and the organised private sector (OPS); and again, government surrendered and returned to control in 1991 only to abandon it again in 1992.

Credit ceilings continued to be applied as a means of checking excessive expansion of bank credits. Modalities were being worked out for the introduction of Open Market Operation (OMO) which would then complete the process of deregulation. Financial liberalisation is indeed a continuous process. Complete deregulation cannot be accomplished without due regard to the existence of financial infrastructures in the economy.

The capital market was still in the process of deregulation at the time of writing this paper; and such deregulation would perhaps involve opening it up to foreign investors, and trading foreign shares. Moreover, it would involve not fixing the commissions which brokers receive. In spite of this the liberalisation of other markets had significant influences on this market. High interest rates in the financial system were sometimes the reason for increased number of companies resorting to the capital market for funds. The SAP implementation period had indeed witnessed increasing corporate consciousness with regard to looking for funds outside bank loans. Furthermore, the privatisation programme contributed immensely to increased tempo of activities in the market as more and more companies were quoted.

The future is bright for the financial sector and its operators. The liberalisation of the financial system is already shaping the trend of future business - the growth in investment banking and financial intermediation which constitutes the foundation of modern capitalism.

(iii) Liberalisation of the Productive sector

As noted earlier many commentators on the strategies to 'open up' the economy give the pride of place to the financial sector, which for this purpose includes the foreign exchange market. The belief is that the interest rate and the foreign exchange rate are the principal micro-economic policy instruments with far-reaching macro-economic implications. By floating both rates, movements in other prices can be automatically adjusted. We can accept this posture from the lessons of experience, at least in so far as activities in the banking system and the foreign exchange market have largely determined the fortunes of other sectors.

However, there can be no successful liberalisation without relaxing or removing administrative controls on the productive sector. Under this heading will be examined the key to the success of free enterprise - minimum government. It is difficult to convince people that government is the most inefficient entrepreneur. In Nigeria, as in other countries, government enterprises hardly declare annual profits; some hardly survive for long. On the other hand, such enterprises

constitute a drain on public purpose. Through subventions and subsidies they increase the size of budget deficits. This was realised early enough; but it required a strong- willed government to stop giving annual subventions to unproductive enterprises. That action was taken. In addition, the Federal Government had to grant greater financial autonomy to the other tiers of governments. The states were free to raise loans in the capital market rather than rely on the Federal Government to raise loans through the issue of loan stocks in order to unlend to them. The Federal Government also reviewed the responsibilities of other tiers of government and allowed each to carry out its proper functions.

Privatisation and Subsidies

Over 180 industrial, commercial and service establishments were owned fully or partially by the Federal Government. Each of the States has its own such enterprises commonly referred to as parastatals. But most of them did not make any profits: rather each year government had to give them money as subventions to cover their losses. The size of subventions grew each year as the parastatals declared more losses. So, an estimated ₦11.1 billion cumulatively went to Federal parastatals as subventions, ₦11.4 billion as equity, and ₦10.4 billion as guaranteed loan. These were the investments of government up to end of 1985 of which the cumulative yield was only ₦933.7 million. The reasons for their inefficiency have been related to official interference in management and pricing policies of the parastatals, and wrong appointment of board members and chief executives.

Since SAP requires minimal government and a competitive market economy, one of the targets in implementing it was the parastatals. A decree which set up an agency for privatisation - the Technical Committee on Privatisation and Commercialisation (TCPC) was promulgated. The decree listed enterprises to be fully privatised, some to be partially privatised or commercialised. Companies like textiles mills and hotels were completely privatised (see appendix) the oil companies were partially privatised. Progress has no doubt been slow. The agency charged with privatisation and

commercialisation, the Technical Committee on Privatisation and Commercialisation (TCPC) has to undertake the enormous technical task of evaluating the status of each enterprise and bringing their accounts up to date (most of them had no published accounts) before offering them for sale. This partly explains the delay in completing the privatisation programmes. It should also be mentioned that this was one aspect of the entire programme which, like in other countries, received public condemnation especially from labour organisations. One must admit, however, that enormous sum of money has so far been realised by the government through the sale of its shares to private Nigerians and that the size of budget deficit has been reduced to the extent of denying these enterprises of subventions.

Even before privatisation the companies were no longer receiving subventions. But more important was the gradual removal of subsidies in order to allow them to set prices at competitive levels. The Nigerian National Petroleum Corporation (NNPC) for example, had the onerous task of removing petroleum subsidies even with the direct assistance of the government. When compared with petroleum prices in other West African and Oil Producing countries the level of subsidies in Nigeria was enormous: while a litre of petrol would cost as much as ₦5.00 in other countries it was sold at 39K in Nigeria. There has not been much success in removing all elements of subsidies because of political pressures. In fertilizer special place is given to agriculture and so subsidy has not been entirely wiped out. There are some measures of success in other enterprises where private operators have entered, such as the aviation industry where prices are becoming competitive. Here prices are allowed to reflect costs of operation, especially the foreign exchange content of costs. The pricing policies in SAP have thus been established because government has decided to withdraw itself from involvement in setting prices for the products and services of the parastatals.

The long and short of it is that government is now properly placed, which is that of making policies rather than running enterprises. Nothing harms the economy but government itself. An attempt to control every aspect of the economy leads to distortions which turn

out to be costly to the nation. It is perhaps not an exaggeration to say that in Nigeria social and economic indiscipline is directly related to governments' activities as an entrepreneur. In allocating resources government is clearly an imperfect agency. Similarly, in distributing benefits, government creates more problems than it hopes to solve: its action encourages corruption and favouritism.

There are, however, limits to privatisation. Such limits are set by the nature of infrastructures available to the private sector - roads, water, electricity, etc. Moreover certain industries are still considered strategic to the economy and thus demand some degree of direct government involvement. In such cases commercialisation has been considered the best approach. After the abolition of the marketing or commodity boards individual farmers and corporate bodies were expected to take advantage of price incentives offered by the foreign exchange policy. But the rural population could not increase acreage of plantations without good roads for movement of farm products. The establishment of the Directorate of Food, Roads and Rural Infrastructure (DFRRI) was directed at opening up the rural areas and affording them the facilities for increased economic activities. DFRRI opened many rural roads and embarked on rural electrification and boreholes for water. In co-operation with State and Local government much had been achieved in the area of opening up the rural areas. Similarly, the National Directorate for Employment (NDE) does not pretend to be an entrepreneur; rather it helps to develop entrepreneurs through the encouragement of the spirit of self-reliance. Many of the school leavers under the scheme can today boast of some successfully established and managed enterprises. Both DFRRI and NDE are supporting institutions to either establish the infrastructures for private sector operators or relieve social problems of employment where private sector cannot readily do so.

The rest of the activities of government in the productive sector are mainly in the form of incentives to investors through new industrial and investment policies aimed at attracting foreign investors. Thus far, the abolition of commodity boards, the elimination of subsidies in some cases, the privatisation and commercialisation of government enterprises, the provision of price incentives and infrastructural

facilities - all these have to a large extent removed the obstacles to the establishment of a virile productive sector.

iv Liberalisation of the External Sector

The promotion of non-oil exports is an important objective of SAP. In this respect policies have been directed towards creating export incentives and removing obstacles, especially institutional, which impede the efforts of domestic producers and exporters. The Nigerian Exports Promotion Council had been re-organised and encouraged to explore the international markets to gather technical and market information for exporters. The Nigerian missions abroad have also been directed to provide services, especially information for the use of exporters. Tariffs are now designed to favour producers for exports. Exporters are no longer requested to deposit their domiciliary accounts. The exchange rate policy aims at encouraging exports. In short, there is a liberalisation of external trade which consists of the removal of quantitative restrictions on imports, the unification of import tariffs and export subsidies, and the gradual or speedy elimination of tariffs. The liberalisation of the domestic productive sector would not be effective without reinforcement from the external sector. Domestic producers can produce more for exports if exports taxes and subsidies are designed in their favour. But the problem with this sector is that in some cases liberalisation raises more problems than it provides solutions. No country has swallowed the tenets of Adam Smith or its protege, the IMF, without modification.

One is led to believe however that trade liberalisation is an ideal which must be achieved over time. The gains from free trade are better seen in global context: in net, the world stands to gain if all countries liberalise trade. But from the standpoint of individual countries some may be gainers while others are losers, at least, in the short run. A country must, therefore, apply liberal trade policies with caution. The Nigerian case is not different. Perhaps, nobody would yield to the suggestion of allowing imports of raw materials which can be sourced locally when, infact, the objective of SAP is to encourage self-reliance. If, for example, wheat can be successfully

grown in Nigeria, temporary balance of trade arguments cannot be allowed to deter the country from embarking on a programme of wheat cultivation or should force people through ban on imported wheat to look within the country for its needs. There are many examples which demand judicious mixture of liberalisation and protectionism and one of the yardsticks is the effective rate of protection i.e the "difference between value- added (per unit of output) in domestic prices and valued added in world prices, expressed as a percentage of the later. (8)

In 1987, the government commissioned a study group to determine the effect rate of protection for each industrial group in the economy * (9) The following year a Tariff Review Board was set up for the purpose of adjustments following complaints from industrial groups. The purpose of the study and that of the Review Board was to effect tariff adjustments which would remove all biases against export-based industries, encourage the local sourcing of raw materials and promote healthy competition in the economy. However, at the inauguration of the Board, the Vice President, Admiral Aikhomu, then the Chief of General Staff, remarked that "under the interim tariff regime, the average nominal rate of protection for the economy declined from 40.4 per cent in 1984/86 to 25.3 per cent in 1986/87. A breakdown of this decline by product group shows a 77.7 per cent decline for agricultural produces and a decline of between 29.45 per cent and 41.97 per cent for other product groups. On the average, the effective rate of protection fell by 67.29 per cent over the relevant period: the most adversely affected commodity groups are agro-chemicals (-97.77 per cent); other consumer groups (-91.1 per cent) intermediate groups (-88.34 per cent); basic raw materials (-70.07 per cent) and capital goods (-57.53 per cent). It is, therefore, no surprise that the reaction of the private sector to the interim tariff of September 1986 was swift and the capacity utilisation plummeted to about 20 per cent with severe consequences for output and employment:. *(10).

The new tariff structure which is subject to reviews has a span of seven years. Under the new structure and the protection rate of various product groups are expected to decline as one moves away from the initial period. The structure integrates aspects of imports duties with

excise duties and export tax, and examines the problems posed by dumping. So far, the new tariff structure has prepared the ground for progressive industrial policy which encourages development of local raw materials and the export market. It is also biased in favour of industries utilising local raw materials and those producing for export. It replaces the traditional system of holding up production and accumulating inventories at old prices in an expectation of increased tariff when the budget is announced. Moreover, firms can now plan their production schedules years ahead, being certain of the operative tariff for their input. To some extent the new tariff structure eliminates some of the price instabilities inherent in frequent tariff changes. *(11).

(v) The Debt Problem:

It is perhaps correct to say that without debt there would be no structural adjustment programme. This is because consciousness of the serious weakness of the economy came with the inability to settle international indebtedness and its effects on the operation of the economy. In view of the magnitude of the debt (about 17 billion at the time SAP started) and the mounting deficit in international payments debt relief in one form or the other became an integral part of the adjustment programme. After consulting with the international creditors - the Paris Club for export agency debts and the London Club for short term trade debts - agreements were reached after the International Monetary Fund must have given its approval for the structural adjustment programme. It should be noted that the only condition which the creditors attached to their willingness to reschedule debts was the prospects of a sound economy in the future. They asked for no other collateral. A sound economy will at least guarantee them debt repayment in future. Hence all promises of repayment could not be honoured until the IMF certified that the economic programmes would guarantee growth in the economy. That, perhaps, is the reason for the IMF involvement with structural adjustment programmes all over the world. After the receipt of IMF clean bill of health, the country was ready for the long and tortuous road towards negotiating rescheduling, and success had been achieved in many respects.

The sum of about $34 billion is now owed by Nigeria to foreigners, very

much above what the Babangida administration inherited; but the debt is not only due to new loans though some new structural adjustment loans (SAL) have been contracted from the world bank and IMF. The increase in debt stock also arose because of interest amortisation and the fact that our debt is denominated in dollar which has continued to command lower values vis -a- vis other western countries currencies. Actual repayment has been pegged at 30 per cent of export earnings in which case the actual amount applied in servicing debt has varied with fluctuations in the earnings from oil exports. So far the country has succeeded in obtaining generous rescheduling from the Paris and London Clubs since 1986. In March 1991, agreement with the London Club was finally reached. The agreement with the London Club of commercial creditors on a restructuring of the $5.8 billion loan outstanding to them was considered to be a huge achievement before handing over to the civilian regime. Before then there was an agreement reached with the Paris Club over the $15 billion owed to export credit agencies. The new Paris Club term involves rescheduling guaranteed commercial credits over 15 years with eight years grace, and development aid loans over 20 years, with 10 years grace; and debt falling due from the country's first Paris Club rescheduling in 1986 would be rescheduled over eight years, with four years of grace. Nigeria has been struggling to be considered to qualify for the Toronto terms that have been applied to many low income African countries but emerging information may weaken Nigeria's case. First with the release of the new population figure, the per capita income for a reduced population is much higher than previously by and it is above the average for mounting deficits in government spending have often portrayed Nigeria as a profligate nation that deserves no international sympathy.

With regard to the agreement with the London Club. The creditors were offered three options as follows:

(i) debt buy back at a price of around 40% of face value;

(ii) exchange of existing debt for registered bonds at 6.25% interest, with principal and 12 months interest collateralised, repayable in one payment 30 years hence;

(iii) registered bonds carrying interest at libor plus 13/16ths % repayable after 10 years over a 10 year period. Some 65% of the holders of the bank debt opted to redeem their debt at a discount of 40 cents to dollar. Those banks taking up the third option would have to provide the new loans of 10% of the amount exchanged for registered bonds, and the new money would carry interest at libor plus 1%, repayable after seven years grace over an eight year period. The implication of the first option is clear: some reserves of the buy back and to settle $300 million in arrears accumulated since March 1990. It was expected that the rescheduling agreements should reduce the debt servicing from $7.4 billion before the Paris Club agreement to about $3 billion in 1991 - just about the 30% which the budget provides for.

Historically, however, Nigeria's debt stock continues to increase for reasons already stated. The following table provides a rough guide:

Table 3

Foreign Debt Profile

	1884	1985	1986	1987	1988	1989	1990	1991
Total Debt ($ Billion)	18.5	19.6	24.0	31.2	31.9	32.8	33.2	33.4
% of GDP	20.2	22.1	40.6	113.0	104.6	152.6	130.6	120.0
Debt Service Rate %	33.8	33.3	32.6	13.3	29.0	21.3	25.7	26.7

Sources: Economist Intelligence Unit & CBN Annual Report

Agreements on debt rescheduling can only provide temporary relief. They provide no permanent solution to the debt problem, and do not take into account possible declines in the export earnings of the country,

which may affect the ability to honour existing commitments. There has been therefore, strong lobbying for outright debt forgiveness on the Toronto fashion. However, even what has been achieved so far owed much to the negotiating effort of the government and the confidence which creditor are beginning to have on the economy. A small part of the debt amount involved is mere tip on the debt iceberg. As at end of 1991 the total number of applications received since the inception of the programme was 223, with a total value of $3,387.1 million.

4:THE PAINS AND GAINS OF SAP

So far a lot of monetary and fiscal measures have been in place to ensure economic stability while structural changes continue in the real sector. Where, for example, the traditional credit and interest rate polices fail to control spending and the general price level, the government would apply stabilization securities (withdrawal of cash from the system, popularly known as mopping up liquidity) to reduce liquidity in the banking system.
The strategy is often extended to state and local governments as well. Thus where the application of interest rates and other instruments fail to achieve the objective of stabilizing prices this instrument becomes operationally effective.

Often, inspite of the application of these measures, prices continue to increase. It is here that government itself shares the blame and must be forced out of the productive system. In the last three years, public spending had increased beyond budgetary limits. There were many instances of extra-budgetary expenditures that bordered on indiscipline by the government. Under such circumstances prices rose sharply and the national currency depreciated further, thus increasing the pains of the general public.

THE PAINS OF SAP: Pains are not inherent in SAP but are also result of wrong implementation of the programme. For example, so much pain had resulted from indiscipline arising from excessive public spending, especially the psychological pain of observing the concentration of wealth in a few hands when majority of people are without the basic necessities of life. It is unfortunate that emphasis is placed on public spending yet it appears that the worsening value of

the Naira which in turn increases general misery has been the result of reckless public spending. This is one aspect of it. But one must seriously examine other aspects, namely, the mounting criticism of SAP that it lacks a human face.

The critics are quick to seize any statistics from international organisations- which they often readily obtain - to the effect that Nigeria is one of those countries whose index of human misery has increased considerably of late. Specifically, Nigeria came out recently as the 13th poorest nation of the world. That was good news for the anti-SAPists, but why should there be misery when the objective of SAP is to increase future output and improve living standards of Nigerians? First, one must mention a few of the components of the index of misery: falling real wages, falling standard of health care and education, and increasing rate of unemployment. Real wages have no doubt fallen due to the depreciation of the Naira and increased rate of inflation. But it is also because domestic output has not increased sufficiently to offset the reduction in imported items- a case of the Naira still chasing the few imported items. However, it is argued that not only real but nominal wages have remained stagnant since SAP. Labour organisations, teachers and other workers maintain that while prices have skyrocketed over the years their nominal wages have remained stagnant because they have been barred from employing traditional tactics of threats and strikes to force the hands of employers. On the other hand, bargaining has not given them their due in the public and private sectors: the bargaining positions of the parties are never equal. Furthermore, the case of workers is complicated and worsened, as they often maintain, by the removal of whatever used to be part of their indirect wages - subsidised petroleum and other fuel, subsidised electricity bill, air fares etc. According to critics removing all these subsidies without increasing nominal wages demonstrates the inhuman face of Nigerians SAP. What case can be better argued? The government however provides no reply; in fact, the president has often admitted the existence of pains, but theorists maintain that the pains are purely psychological. Once accustomed to some comfort human beings can hardly do without them even if doing without them today promises a better future. But the serious argument of the theorists is that holding constant the nominal wages is one of the demand manage-

ment strategies. If nominal wages increased as Naira depreciates the nation would be counting the rate of inflation in three digits.

Yet it is not workers alone who complain. Businessmen do complain as well - in quite a different perspective. Industrialists in particular point to the rapidly declining value of the Naira and say that their costs continue to increase daily. The result is that they maintain idle capacity and capacity utilisation remains low.
As domestic production costs rise, coupled with increased cost of imports of consumer goods, domestic rate of inflation rises. Then the misery spreads to the general consumers. Incidentally, although companies complain of high costs, their profits remain high since they pass such costs on to the consumers. Therefore, on balance they are still better off and have no cause to complain.

What perhaps annoys them is the extra investment on sourcing local materials which they would have undertaken if SAP were not in place. They now have to spend on sourcing local raw materials having been forced to reduce the content of imported materials. Tariffs used to be a major complaint of industrialists but with the implementation of the new tariff structure, they now seem to talk less about it. Their problem now is with foreign exchange and lack of infrastructures. The other argument sponsored by the organised private sector is that of interest rate. Since the deregulation of interest rates the sky now seems to be the limit. There is no official ceiling. and so industries have to pay high rate of interest as cost of fund. Yet the high cost may be justified in terms of rationalisation. Lenders of money will restrict their lending to the loans that remain profitable under the new system; and borrowers will think twice and ensure that these investments are worthwhile before they borrow at exorbitant rates. Here the market is the best judge, and the outcome is increased marginal efficiency of capital. There will be no room for ill-conceived investment projects. If small and some big companies disappear as the result of high cost, it is Darwinism that operates: the market system permits only the survival of efficient enterprises. It should also be noted that at lower interest rates, less funds will be available for lending in the system since few would be attracted by lower rates to maintain deposits with banks. On the whole, the financial system will be worse off. The increased deposits rates since deregulation has already been translated into huge aggregates savings which could be

available for lending to those who can bear the cost. [It must be emphasised that low interest rates seem to go hand-in hand with relatively unproductive investment

The yuppies leaving school are many, and increasing in number- most without jobs. The National Directorate of Employment (NDE) does not appear to have tackled all their problems, nor has it the capacity to do so. Only an expanded productive sector can do so.

The theorists then end by saying that trade liberalisation is a farce; it is an instrument of colonialism. Foreign markets will be closed against the country no matter our efforts to produce for foreign markets. There is the now pessimism, not only in Nigeria but in other developing countries. It is that apart from a possible decline in the terms of trade as was the case in 1950's and 1960's, there is the new fear of a possible slowdown in the growth in industrial nations on the demand and price of oil, and the fear would seem justified. All these arguments and more have been made, including a reduction in health facilities or reduced spending on services. Life has never again been what it used to be especially for the urban dwellers who depend on subsidised food and amenities. They are the greatest complainants, and the most politically active. They embrace economic populism that rejects orthodox theories of growth. They sponsor the proponents of alternatives to SAP - the mongrel of SAP, if we may use the term. No one with human feeling has denied the existence of these pains, even if exaggerated. The arch-apostles of SAP - the IMF and the World-Bank which regards it as the second coming of Bretton Woods- have recognised these pains. It is for this reason that more loans are granted to countries which accept to implement reforms. The loans come in various names such as the Structural Adjustment Loan (SAL). For those who, in addition, criticise the size of Nigeria's loan, that more loans are still being contracted, this seems to provide the answer. Without the World Bank loan to give SAP a human face, things would have been worse. In effect, under SAP there may be possibilities for increased foreign debt than previously imagined but such loan will be tied to the implementation of SAP

4.2 THE GAINS OF SAP

In order to justify the adoption and implementation of SAP it may be necessary to add a few more explanations and answers to the

arch-critics of SAP. Let us begin by admitting that the cardinal objective is to return the competitive enterprise economy, as most countries are doing - to a free and competitive enterprise economy which the market, rather than the bureaucrats determines the quantum and value of resources. This does not sound like a new theory] It means removing distortion in the economy, making room for the private sector, keeping government out of things it can't do well, and focusing public investments on those things that only the public sector can do and must be done. (12) This is the rationale for privatisation, removal of subsidies and adjustment of the exchange rate of the Naira viz-a-vis other major currencies. Yet the economy was 80 percent in the hands of the mighty government. Taking it out of its hands will be a painful exercise for those who enjoyed government's patronage and who directed the commanding heights of government. But more importantly is the need to do things differently. All these cause greater pain than the real loses in material terms. There is no way in which a return to market economy would not involve some sacrifices as evidenced by experiences of other nations. Hence before the gains of SAP can become really meaningful all the teething problems must have been solved- the problem, so to say, of changing from the use of left to right hand. First, there will be a learning period, and then an efficiency period. It is proper to assume that the nation has been learning how to change from left hand to right hand. How long it takes depends on the structure of the economy, the nature of political institutions, , the resources available and the skill of the people. Once the learning period is over, the efficiency period begins with the gains of SAP Everyone, individuals and firms, must have been efficient in the use of the right hand.

This explanation applies mainly to the quantitative gains of SAP which preoccupies many critics. The qualitative gains are made during the learning process: the fact that it has been possible at all to begin to eat with right hand is an achievement.

THE QUALITATIVE GAINS: Preparing for an efficient market economy which is self reliant implies fundamentally the ability to change tastes and attitudes, to be Nigerians rather than Europeans or Americans.

In this respect, many have confessed that SAP has performed wonders in the areas of female dress and many food items; much foreign exchange has been saved for the country through a reduction in imports of female dress which is now recognised to be better designed than imported dress. It is generally known now that when it comes to clothing and not electronic goods or generally, non-manufactured goods, it is better to buy them in Nigeria than abroad. Beware when you ask your friend or relative who travels abroad to buy any of these things for you. He may come back with a label, buy one in Nigeria and attach a British label. That satisfies you perhaps, but soon you realise your folly and know that the higher price you condemn in Nigeria is nothing compared with what obtains in Europe. This is simply because prices reflect relative exchange rates and hence the higher prices of foreign goods frighten us away from buying them. If, for example, one could have a moderate lunch in Britain with £12 [twelve pounds'; can you accept to have such a moderate lunch [top class lunch is over 50 pounds] with ₦360 in Nigeria? It means simply that prices of some of those goods produced both in Nigeria and Europe are comparatively cheaper in Nigeria than in Europe. Thus our tastes have been reordered through devaluation without most of us knowing the cause. Yet fancy that we have now cultivated the habit of eating oranges and bananas instead of Lebanese apples: and that more apples are now being cultivated in the temperate zones of Nigeria - the Plateau. The maintenance culture is much talked about, not in theory as before. Those who are fortunate to have cars can narrate their experiences. They will readily admit that in the 1970's they would hardly have driven a car for three years without disposing of it to buy a new one. The constraint now is the price of car in the Nigerian market as inflated by the foreign exchange factor. If only we can manufacture spares in this country, car imports could be reduced considerably. This applies also to other manufactured goods, to the maintenance of structures, to the use of fuel and to lifestyle in general, every-one is learning to be Naira- wise, which is consumerism.

Nigerians are beginning to show resistance to undue price increases, and to quality of goods; and producers are getting worried about consumer resistance. For the first time, one begins to hear companies complain of sluggish demand which in turn has forced them to

spend heavily on advertising - a boom to the radio and TVs which now find commercialisation to be synonymous with increased activities. Consumer resistance has increased competition among producers; this is expected to lead to introduction of cost-saving devices, greater efficiency in production and consequently falling prices. It is important to mention the silent revolution going in the country. While the urban dwellers are busy criticising SAP, some youngmen are hidding in the villages in far away Nnewi and other areas to create a technology culture that will launch the country into a technological revolution soon. Many spares for our vehicles and imported manfactured goods are refabicated in these small far away corners of the country. That is the first step-learning the use of the right hand. When more of these small factories emerge and compete among themselves to improve quality, the origin of the revolution might be lost, but history would have to credit SAP with it.

The above comment is related to our industrial culture. Before SAP industrialisation was seen in the context of factories in the cities but we are aware now of small factories in the villages, silently producing goods which are consumed by the city dwellers without their knowing the origin. In our sober moments we are honest to admit that things are no longer what they were; that Nigerians are surprisingly picking up in the world of cottage industries. If more rural areas will be electrified and more roads built for them, few would like to come to the cities to look for jobs. I know many young graduates who have vowed not to be employees of anybody. They want to start on their own and now they are on their own. There is an education content in SAP which this essay must emphasise. Apart from the fact that every market woman now speaks the language of foreign exchange and inflation, there is the positive aspect of understanding the working of the market economy even in the rural areas. This is important in terms of responses to policy measures. When farmers understand that selling their produce in neighbouring country gives them more Naira in terms of foreign exchange received, that knowledge, though applied against the law in smuggling, is too important to be ignored since the farmer is conscious of the fact that free market price should determine what he should produce. It is an indication that he is not satisfied with the price which he is being offered at

home. In this sense it is justified that local prices should be adjusted to be competitive with prices in other countries. In a way devaluation is meant to achieve just that - the encouragement of local producers to sell abroad. Again this is one reason why trade liberalisation may be justified. The truth is that the Nigerian farmers in the rural areas have now been aware of foreign exchange content of their produce and have increased their production in response. Price becomes, as it ought to be the allocator of resources. Nor should we ignore the education received through interaction, exchange of views, through market integration and the establishment of financial institutions in the rural areas. The market economy is itself an educational institution, in contrast to an economy in which the bureaucrats are the be-alls and know-alls.

Finally, and crucially important, is the savings and investment habit which has been cultivated through financial institutions being brought nearer to the rural areas - the People's Bank and the Community Banks in particular. The way the rural population receive and embrace these institutions is amazing, as their mind is suddenly opened to civilisation. It may be too strong a term to apply but it may not be out of place to believe that we have now embraced our own renaissance.

Quantitative Gains of SAP

If so much has been gained during the learning period, it is not certain if the efficiency rate in the new regime has increased to meet the expected international standards. In the process of change, there are likely to be many mistakes made by both the policy makers and the operators of the economy. It is uncharitable to link SAP directly with growth in the learning period, in fact the reverse is likely to be the case as old structures are destroyed, and mistakes are likely in the learning period.

Critics of SAP are quick to make use of statistics to support their case. They maintain that growth has been slowing down since the introduction of SAP; that the expected gains in non-oil exports have not materialised; that the rate of inflation has been higher in post - SAP

than pre-SAP period; that unemployment figure is soaring, and that the future certainly looks bleak.

Now let's see how far they are right. The economy before SAP was nothing to write home about. In the three years before SAP began (1983 - 1985) the Gross Domestic Product at 1977/78 prices was falling at an average rate of 2.4%, but in the first 18 months after SAP (excluding January - September 1986 - the period of policy formulation) GDP picked up to an average of 1.2 per cent; (13) but for only one year, 1987 the GDP grew at 1.8 per cent, rising to 4.2 per cent in 1988. The table below shows the real picture:

TABLE 4

Performance of the Economy: 1984 - 1991

	1984	1985	1986	1987	1988	1989	1990	1991
Real Growth (%p.a.)	-5.6	1.2	-2.1	1.8	4.2	5.2	5.2	4.4
Agricultural								
Output Growth (%p.a.)	3.7	5.6	37.3	11.3	5.2	4.8	7.7	5.5
Industrial Growth	-5.0	9.1	2.1	18.6	4.8	14.9	6.4	5.5
Manufacturing	-12.0	19.8	-4.5	40.2	3.4	14.1	10.6	7.4
Gross Fixed								
Investments	-9.0	-1.8	-36.7	-4.3	-1.5	4.5	2.9*	3.2*
Export and Services	9.3	13.8	-1.0	2.0	4.5	9.8	15.1*	10.5*
Imports and Services	-19.2	-5.6	-43.6	-9.0	11.0	1.5	4.8*	10.2*

Source: 1 Central Bank of Nigeria Annual Reports
1 Economist Intelligence Unit - Survey of Nigeria
* Estimates

In the years before SAP the growth rate of the economy was virtually negative. In 1984 there was a decline of 5.2 per cent in real growth.

With the austerity measures imposed - quantitative restrictions and import licences in addition to counter trade experiments - real output rose by 1.2 per cent in 1985. The introduction of SAP in the last quarter of 1986 signalled some structural and institutional changes which caused ripples in the productive. system. Naturally the response was that of scepticism and accounted for the drop in real growth by 2.1 per cent in 1986. There was post-SAP recovery in which there was an increase of 1.8 percent in 1987; thereafter, there has been sustained growth. Agricultural production recovered significantly during the first year of SAP and this was attributable mainly to price incentives resulting from the devaluation. Table 2 shows that output declined in 1989 perhaps due to poor rainfall.

Industrial growth experienced fluctuations but never a return to the negative growth witnessed in the pre-SAP years, It would be recalled that in 1984 industrial growth was negative (-5.0%). Manufacturing subsector in particular is of general concern. Here the pre-SAP performance of -12.0% in 1984 was the cause of most of the hysterical measures adopted before the introduction of SAP. The objective of SAP for this sector was to increase capacity utilization which had fallen to about 33 per cent in 1984. Gradually, utilized capacity rose to 40.7 per cent in 1988, although there have been fluctuations in recent years below the achievements in 1988. The Manufacturers' Association of Nigeria (MAN) has given the reason to be cost of production, mainly interest rates and foreign exchange cost. It also complains about lack of adequate infrastructures. However most industries do well during the same period, registering rates of capacity, utilisation of up to 70 per cent. These are industries which source their raw materials locally. Because of this increased use of local raw materials the ratio of raw materials imports to total imports has fallen. The ratio of local materials to total had on the average risen to about 50 percent in 1988 against about30 percent in the pre-SAP years. Here the Raw Materials Research and Development Council has played a significant role in identifying local

materials that could be used for the production of certain goods. A comprehensive report on the sourcing of local raw materials is given in another work. (14) However, some of the industries which have responded quickly to the campaign for use of local raw materials are:

		%
Tyres and Tubes	-	80.4
Footwear	-	61.2
Textile	-	55
Drugs & medicine	-	50.6

The percentages are as at end of 1988. Progress has been recorded since then with textiles rising to 70 per cent as a result of increases in cotton plantations. Sourcing of raw materials locally has the effect of not only increasing manufacturing output but also generating additional income and employment for the rural dwellers.

While increase in the sourcing of local raw materials is important, the real indicator of changes in economic activity in the real sector is the rate of gross fixed investment. Here a dismal picture has been recorded as if there has been no response to the persistent call on investors to come into the country. Disinvestment in massive scale started with the slowdown in the economy in 1984 and continued through the immediate post-SAP years. Of course, no one expects an investor to immediately respond to promises to provide a congenial investment climate. Until it actually happens no one believes. In 1989 gross fixed investment started to increase indicating confidence of investors in the economy. Political stability remains the index of confidence.

In the external trade sector, the growth in total exports and services has been phenomenal. The objective of SAP was to increase the exports of non-oil sector, and the devaluation was expected to act as the catalyst in this direction. So far, performance in this area has been dismal after the euphoric increase in agricultural exports in the immediate post-SAP years. Indications are, however, that much has been exported either illegally or without repatriation of earnings into the country.

In table 5 above some of the stabilising indicators are shown. The rate of inflation as, reflected in the composite consumer price index peaked at 39.9% in 1984 before it dropped sharply to 5.5% in 1985. In 1986, when SAP was introduced, the rate remained low at 5.4%. From 1987, the rate began to get out of hand peaking at 50.5% in 1989. Government spending was to blame for it. Here, one must admit that SAP as a programme has not failed but the source of the problem was government inability to control its appetite for extra budgetary expenditure. There is not much one can say in this section other than what has generally been said by all commentators - that government itself has muddled the programme.

The high rate of inflation is itself responsible for the high exchange rate; for, it can be observed from the table that the rate reached ₦7.36 to the dollar in 1989 when the inflation rate peaked at 50.5% and prime lending rate of interest moved from 18% to between 23.5 and 27%. Government often forgets that the four variables are inter-related - the rate of inflation, the exchange rate, budget deficit or surplus and interest rate are managed together in order to achieve the desired macroeconomic stability. Critics can in fact be justified in condemning SAP for eroding the value of their purchasing power but it is not SAP that should carry the cross. There are defects in demand management. For the rate of unemployment, official figures are unlikely to convince anybody. There is the general belief that the rates are higher than what officials want the public to believe. Our concern is not with the rates now but with opportunities for future employment, that is, the hope of future expansion in the productive capacity of the economy. On this, two things must be done: a better demand management approach, and more incentives to the private sector to expand output.

5 CONCLUSION

To conclude this essay, the principle of SAP must be restated. It is not a programme to instantly increase the rate of growth or achieve the miracles which we often delight in discussing about the dragons of the South East Asia. It is a programme of putting in place

appropriate policies to induce the economy to achieve the growth objective in medium to long term. The achievement of Japan, Taiwan and South Korea is the result of years of silent toiling. They started early, some 10 to 20 years ago without our knowing. The gains have just come. In Malaysia, the palm trees planted seven to 10 years ago are beginning to turn that country into a major exporter.

The fruits were not reaped in the early years, but Malaysians bore the pains. It will be instructive to watch the progress in the former communist countries which are, like us, changing from left to right. They will be wallowing in pains for more than 10 years before beginning to reap the fruits of market economy. The longer the economy is controlled and the more entrenched the bureaucrats, the longer the years of transformation.

The reason for a long gestation period is that the operation of the market economy requires the emergence of entrepreneurs brewed under the market culture - freedom and competition.

Generally, people will take the opportunity of gaining as advantage when it is presented to them. It appears simple but in most cases governments fail to present such opportunities. An example of opportunity properly presented is that of operation of the aviation industry.

It took years to convince government of the need to break the monopoly by the Nigerian Airways even though it was clear that that Corporation was unable to provide the services which the public needed.

When eventually it presented the opportunity to entrepreneurs many have taken it successfully. Today, there is still the belief that there could be greater efficiency in the distribution of electricity if the monopoly of NEPA is broken. It should be a cardinal principle that government divests itself of the management of enterprises that support the growth of the economy. Government also ought to allow strategic institutions like the Central Bank to be independent in order to be able to check the excesses of government itself.

Chapter 4

" AGRICULTURE AND RURAL DEVELOPMENT UNDER THE BABANGIDA ADMINISTRATION"

By

Professor F. S. Idachaba.

INTRODUCTION

I propose in this lecture to examine agriculture and rural development under Ibrahim Babangida- hereafter referred to as "the Babangida Administration." Such an effort immediately encounters competing schools of thought.

One school of thought believes that the Babangida years have been very good for agriculture, it argues, has been offered tremendous new market apportunities with the abolition of the commodity boards,the prohibition of selected food imports and the quantum jump in agricultural export prices following trade liberalization and the deregulation of the exchange rate.Other incentives include the withdrawal of government from direct involvement in agricultural production and distribution activities and the dismantling of strangulating and suffocating administrative rules and regulations hitherto operated by the public bureaucracy in the form of price controls,import licences and a rather confusing maze of import tariffs.According to this school of thought, not only has the production of individual commodities increased substantially since 1985, but that the aggregate performance of the agricultural sector has also showed marked improvement (see Table 1-2).

In contrast, another school of thought, however, believes that the Structural Adjustment Programme (SAP) has created enormous difficulties for Nigerian agriculture. They point to the negative effects of the Structural Adjustment Programme on production cost structure especially for the medium and large scale farmers. It points, in particular, to the rising costs of imported inputs, the costs of which have risen in multiples and many farm closures caused by the prohibitive cost of tractors and other farming machinery and implements.

The next school of thought strongly believes that the Babangida years have witnessed a major transformation of rural Nigeria especially with respect to rural roads, rural water supplies and rural

electrification. It points in particular to the successes of the Directorate of Food, Roads and Rural Infrastructure (DFRRI) in constructing rural roads and providing rural water supplies and electricity. It points to casual evidence of traditional rulers and other leaders of thought who state with considerable glee that the Babangida Administration has ushered in a new era of rural transformation.

Those achievements are countered but yet another school of thought which claims that the achievements in rural transformation are more apparent than real, and that the changes are rather transitory than permanent. It quickly points out that the new rural roads are not tarred and are only seasonal. From this school, such observers are quick to point out the implementation bottlenecks of the rural transformation programme.

Finally, another school of thought believes that the Better Life for Rural Women Programme represents a major break-through in the elevation of the quality of life of the rural women. It points out the numerous achievements of the programme in the mobilization of rural women, in improved access to economic opportunities and in the general upliftment of the quality of life for rural women.

Others, while conceding that considerable progress has been made in the social mobilization and re-awakening of rural women, claim there is still considerable room for improvement.

I shall in this lecture (i) example the philosophy underlying the agricultural and rural development policies and programmes of this Administration (ii) identify the main elements of policy and programme initiatives of the Babangida Administration in agriculture and rural development (iii) assess the achievements of the Babangida Administration in agriculture and rural development (iv) isolate the outstanding issues in agricultural and rural development programming, and (v) make some recommendations for a more effective agricultural and rural sector strategy.

But one might ask: why single out agriculture and rural development? First, it is because this Administration accords the top most

priority to agriculture both in the early years of its life as well as in the subsequent rolling plans that have been formulated (see, for example Table 3). Second, this Administration has allocated substantial resources to agriculture and rural development. Third, the agricultural sector, or more generally the rural sector, is the single most important sector in the Nigerian economy for the welfare of the commonman, since the average commonman lives in the rural area. Finally, the lessons of experience should assist us as we try to formulate and implement agricultural and rural development strategies for the years ahead.

The balance of my presentation is structured as follows:

Section II presents the weaknesses of agriculture and rural development at the inception of this Administration while Section III articulates the philosophy underlying agricultural and rural development policy in the Babangida Administration. Section IV briefly presents the main elements of agricultural and rural development policies and programmes under the Babangida Administration while section V presents the outstanding issues in Nigerian agriculture and rural development. The paper is rounded up with a set of recommendations for sustainable agricultural and rural development in section VI.

2. THE WEAKNESSES OF AGRICULTURE AND RURAL DEVELOPMENT AT THE INCEPTION OF THIS ADMINISTRATION

Agricultural and rural development policies and programmes in the previous regimes had some characteristic defects. These included the following, among others:

i.The growing inadequacy in domestic food production to meet the ever rising demand for food at affordable prices was met by frequent recourse to large scale food imports organized by Special Task Forces such as the Task Force on Rice under President Shagari. Massive inflows of food imports especially in the Second Republic depressed domestic food prices and discouraged domestic food production. Mounting demand for food caused by accelerating population growth

rate and the quantum jump in personal nominal incomes from the petrol-Naira did not translate into correspoding high farm-gate prices and producer incomes because of infrastructural and public policy constraints. The domestic agricultural economy was heavily constrained by policy from responding to what would have been an attractive set of agricultural prices.

ii. The oil boom resulted in an appreciation of the naira and an over-valued exchange rate which subjected Nigerian agriculture to a double jeopardy: one, by depressing agricultural export prices and creating severe producer price disincentives and two, by depressing prices of imported food items below what they would otherwise have been if the exchange rate had not been over-valued. One immediate result was the strangulation of the domestic production of import substitutes such as palm oil, rice and maize, and the drastic reduction in agricultural exports, to mention a few that could no longer compete with food imports (Table 4).

iii. Domestic agriculture was subject to a maze of administrative rules and regulations and suffocating institutional mechanisms. Export or scheduled crops such as cocoa, palm kernels, rubber and grains were under the strangulating control of Commodity Boards which were known more for their organizational inefficiencies and high marketing overheads than for the developmental support of their respective commodities. Price controls for the so-called essential commodities created a general atmosphere of an interventionist government that failed to provide an enabling environment for the private sector in agriculture to release their creative abilities to their full potential.

iv. The widely abused import licence scheme tended to favour commerce with high returns and very short pay-back periods to the great neglect of agriculture and rural development. Nigerian agriculture became increasingly starved of foreign exchange under such import licence schemes. Foreign exchange through import licensing was utilized in importing heavily subsidized food items such as rice, maize and vegetable oil.

Nigerian agriculture became subject to double jeopardy on the import side: First, food items being massively imported were heavily subsidized in those countries that supplied them to Nigeria and second, the over-valued exchange rate conferred generally subsidies on imports which made them cheaper than they otherwise would have been.

v. Budgetary allocations to agriculture at federal and state levels were not only inadequate; actual budgetary releases were grossly inadequate and untimely with the result that government officials came to measure public support for agriculture more in terms of the absolute size of the promised budgetary allocations than by the timely release of the promised budgetary allocations, however inadequate these were.

vi. Public policy in agriculture and rural development was characterizd by a high degree of policy instability, frequent policy modifications and exasperating policy reversals. Policy instability was partly rooted in frequent changes in the political and administrative leadership of the agricultural sector and partly rooted in a basic lack of consensus, on a national scale, on the basic values and beliefs in Nigerian agricultural and rural development.

vii. There was too much government in direct agricultural production and distribution activities. This was a legacy of the oil boom era during which very many parastatals were established at state and federal levels to engage in direct agricultural production and distribution activities that could have best been left to the private sector. Successive regimes promised improved performance through ritualistic re-organizations of governing boards and changes in management of these parastatals. But the end result was always the same: government simply was never and could never be a cheap producer of food and fibre. The heavy dependence on parastatals is a curious hybrid of colonial and socialist heritage. In much of the industrialized West (or North), parastatals engaged in direct agricultural production and distribution were active only during war

mobilization periods. In the old Soviet Bloc, government was routinely involved in agricultural production and distribution, with the disastrous consequences that are still unfolding today.

viii. Institutional arrangements for agricultural research were ineffective. The macro-management of agricultural research institutes left much to be desired. The agricultural research institutes were shuffled so frequently between Ministries and Agencies that they could be described as "institutional orphans", this "institutional orphanage" status of the agricultural research institutes has tended to paralyse the national agricultural research system at several levels. First, there was no national agricultural research policy frame. Second, there was no system of research monitoring and evaluation, including the specification and use of agricultural research productivity indicators. Finally, the national agricultural research system lacked any consistent voice of advocacy because it had no stable national institutional umbrella.

ix. Faculties of Agriculture of general Universities were handicapped in their research productivity by the institutional milieu in which they operated. In an attempt to achieve parity across unrelated disciplines in a general University, agricultural scientists in Faculties of Agriculture of general Universities were encouraged to engage in research that did not need to address any practical problems so long as such research resulted in scholarly publications. Research in such faculties also was not integrated with the extension services of States in the immediate catchment area of these Universities. And the students from these faculties did not have adequate facilities for acquiring the necessary practical farming skills.

x. The extremely poor state of rural infrastructures strangulated agriculture by obstructing the prompt evacuation and distribution of farm produce after harvest and the timely supply of needed farm inputs for the cropping seasons. The adverse effects of poor infrastructrues have been compounded by the peculiar spatial distribution of the Nigerian population in which the heavily food-dependent urban population concentrations are in the southern part of the country while the bulk of marketed supplies of grains and livestock

comes from the middle-belt and northern parts of the country. This has tended to hike retail consumer food prices in the southern urban areas.

xi. There was a basic lack of commitment at the highest levels of government at the state and federal levels to the concept of rurai transformation, the alleviation of rural poverty and the upliftment of the rural man. Successive governments did not demonstratve serious commitment to rural development beyond the usual platitudes about integrated rural development of the 1970s and the early 1980s.

xii. Successive governments did not appreciate the huge economic waste represented by idle abundant land and labour resources in rural Nigeria. Nigeria is one of the countries in sub-saharan Africa with the largest expanse of suitable but uncultivated and un-utilized land.

xiii Finally, policy making in Nigerian agriculture and rural development has in the past tended to be supply-driven rather than demand-driven. Policies have tended to be crafted by public bureaucrats with the assistance of their consultants and advisers, with little or no input from Nigerian farmers, the intended beneficiaries. This unsatisfactory situation has been due largely to the lack of effective mobilization of Nigerian farmers through farmer's organizations that can play effective advocacy roles and participate actively in policy formulation and implementation. Many of the farmers' associations that existed were not only truly apex organizations. Many were caucus organizations with no grass-root presence, with the result that their leaders could not legitimately claim to be representing the majority of Nigerian farmers.

It is against this background of the weakness of agricultural and rural development programming of past successive regimes that we now examine the underlying philosophy of the agricultural and rural development policies and programmes of the Babangida Administration.

5. PHILOSOPHY UNDERLYING AGRICULTURAL AND RURAL DEVELOPMENT POLICIES AND PROGRAMMES IN THE BABANGIDA ADMINISTRATION

Agricultural and rural development policies and programmes in the Babangida Administration could be said to be guided by particular philosophies and thought paradigms. These include the following, among others:

i. National food self-reliance and self-sufficiency in most basic food staples in the shortest possible time is necessary, desirable and feasible. Efforts to attain these must include both the maximum use of domestic natural resources in the production of food staples in traditional producing areas as well as the introduction of food staples to new producing areas. For example, maize production on the scale now taking place is a relatively new phenomenon in many northern states. It is indeed remarkable that the middle-belt and the north supply the bulk of the marketed supplies of maize that is used to feed large livestock industries concentrated mainly in the southern part of the country.

ii. National food security must be defined within the context of enlightened economic nationalism. National food security exists when the majority of Nigerians have economic access to domestically produced food at affordable prices at all times. This definition differs radically from the world bank view and perspectives on national food security by which they place emphasis on availability of food at all times but regardless of whether such food is domestically produced or is imported through international trade. By this World Bank view and perspectives, national food security can exist in Nigeria when Nigerians have access to food even when this is made possible through food imports financed by oil exports. National food security within our framework requires diversification of production in different agro-ecological zones and a very substantial increase in the share of irrigated agriculture. This is to minimize harmful and undesirable fluctuations in domestic production capacity particularly of rain-fed agriculture.

iii. Food import dependency for a country in demographic transition and an underdeveloped economy is undesirable for at least three reasons. First, it constitutes a threat to national sovereignty and national pride, especially if a country has little else in other fields of human endeavour to protect such pride and sovereignty. Second, high levels of food import dependency can produce undesirable domestic economic instability from uncontrollable fluctuations in food imports caused by fluctuations in agricultural production in countries that are our major food suppliers or by exogeneous weather factors or by exogeneous political developments in those countries. For example, the countries of Eastern Europe and Cuba have had to suddenly cope with the total cessation of the flow of food aid from the former Soviet Union. The United States of America has effectively and frequently used food aid to influence developed and developing countries ranging from the erstwhile Soviet Union to Kenya. Third, excessive food import dependency encourages an alien food culture that is not rooted in the country's natural food-resource endowment. The adoption and internalization of alien food cultures results in the non-utilization and waste of a nation's food resources. The inter-generational consequences of the adoption of alien food cultures are no less serious.

iv. Nigeria must develop her food export capabilities as a geo-political imperative in order to meet her regional and continental political obligations. The route to the status of a regional economic power, if it is to be sustainable must rest on the underlying food and agricultural economy.

v. Agricultural development, if it is to be sustainable, must be rooted in solid rural development foundations. This is in recognition of the impact of rural development on agricultural productivity, the linkages between rural development and rural value-added in agri-culture and the linkages between agriculture and rural non-farm activities.

vi.The path to a stable Nigerian society and the effective integration of rural and urban Nigeria lies firmly in the elimination of the present dualization and polarization of the Nigerian society into the grossly

neglected rural Nigeria and the relatively over pampered urban Nigeria. Polarization has induced massive rural-urban migration and created huge human settlement imbalances particularly in the southern part of the country. Effective rural development will help to close the myth and the reality of the rural-urban income and welfare disparities.

vii.Increases in agricultural productivity have both production and consumption effects. Increases in farm output and rural producer incomes increase rural village level food consumption as well as the consumption of non food items with income elastic demands that are produced in the urban areas. The latter enlarges the domestic market for urban-based manufactured goods and services and raise the level of domestic manufacturing capacity utilization.

viii.Finally, the country's rural women must be integrated in the development process through active social mobilization and the liberalization of access to new economic opportunities. Past policies with gender bias in favour of men need to be modified to address gender-sensitive issues.

4.THE MAIN ELEMENTS OF AGRICULTURAL AND RURAL DEVELOPMENT POLICIES AND PROGRAMMES UNDER THE BABANGIDA ADMINISTRATION

The agricultural and rural sector is arguably the single sector with the largest number of policy and programme initiatives under the Babangida Administration and the sector for which the Administration will long be remembered. Some of these initiatives can be classfied as follows:

i. Agricultural Policy Frame

This Administration formulated a broad policy frame for agricultural development at its inception. The National Agricultural Policy was approved by the Federal Military Government in 1988. Government would withdraw from direct involvement in agricultural production and distribution ac-

tivities. This policy declaration was a fore-runner to the general privatization and commercialization exercise. According to the new policy, government was to divest its holdings in all enterprises engaged directly in agricultural production and distribution would be left to the private sector.

The small scale farmer was enthroned centre-stage as the central focus of national agricultural policy, at the same time that appropriate forms of support would be provided for both medium and large scale farmers. Agro-ecological specialization in agricultural production would be encouraged in order to exploit the full potential of a large national domestic market, with corresponding policy support for the unimpeded flow of farm produce across state boundaries within the domestic economy.

Private sector agriculture was to be free from unnecessary administrative rules and regulations to be able to respond to new price relativities and economic incentives. Price controls and price support schemes were abolished.

The fundamental objectives were national food and fibre self-reliance with emphasis on food self-sufficiency in basic staples and the attainment of national food security. In addition, policy was to stress an integrated view of agricultural commodities viewed as vertically integrated industries in which public support was not restricted to upstream storage, processing and distribution infrastructural support.

ii. INSTITUTIONAL ARRANGEMENTS FOR POLICY AND PROGRAMME IMPLEMENTATION

The Agricultural Development Authorities (ADPs) have served as the central instruments for the implementation of agricultural suppport programmes in extension and research. Government supported the transformation from the first generation of enclave ADPs to the second generation of State wide

ADPs spanning the whole country. The ADPs in turn have encouraged agricultural production to raise rural incomes through the production and distribution activities of private small scale farmers and marketing operators. The ADPs have propagated new agricultural technologies through a revitalized and re-organized extension services. Within the context of continued public presence in fertilizer distribution, the ADPs have assisted with effective fertilizer and other input distribution. The involvement of the public sector in fertilizer procurement and distribution was understood to be in its terminal phase and government has declared its intention to privatise the procurement and distribution of fertilizer. Government actively procured World Bank Loans and provided matching treasury grants to ensure the take-off of the multi-State ADPs, thereby ensuring that the whole country was covered by a network of State wide ADPs. The commodities that have been emphasized in each ADP Programme have varied from one agro-ecological zone to another and from one State to the other. The ADPs have continued to provide networks of rural feeder roads in their project areas in the tradition of the first generation enclave ADPs in Funtua, Gusau and Gombe. The central emphasis of the ADP system on a revitalized extension system relying on the "training and visit" system, an efficient fertiliser distribution system and a network of rural feeder roads has ensured that the required generalised institutional infrastructures has been laied. Admittedly the state wide ADPs have not been able to provide the same intensive extension coverage as the enclave ADPs did, on grounds of resource constraints. However, the improved coordination and supervision by the World Bank and the Federal Agricultural Coordinating Unit (FACU) have ensured that the ADPS attain relative performance efficiency.

Actual performance of each State-Wide ADP has varied from State to State depending on the quality of ADP management, the budgetary commitment of the State Government to the ADP and the level of political commitment to the programme at the State level. There are few or no instances in

which State wide ADPs were fully backed-up by their respective State governments politically and budgetarily but which then failed to attract matching budgetary grants from the Federal Government and the World Bank. The problem of Budgetary commitment has been mostly at the State level where declarations of political commitment have not always been translated into the corresponding budgetary back-up.

River Basin Development Authorities (RBDAs)

In pursuit of rational institution arrangements, this Administation pruned down the number of RBDAs from eighteen to eleven. This was meant to emphasize the River Basin concept underlying the RBDAs whereby water resources of a given River Basin that straddles several states and therefore crosses several State boundaries need to be comprehensively developed. The coordination of River Basin Development was going to prove immensely difficult with the politicization of River Basins under the Buhari regime whereby each State government more or less "owned" a River Basin Development Authority.

To further achieve sharp programme focus, this Administration stripped all the RBDAs of their Agricultural responsibilities, with a directive that RBDAs must henceforth concentrate on water resources development. This was a key instrument for attaining national food security, requiring a vast increase in the proportion of irrigated agriculture. According to the TCPC programme, all non water assets of the RBDAs are to be sold to private interests. This rationalization of functions was informed by previous experience in which many RBDAs abandoned their central mission of water resources development to engage in rain-fed agricultural development activities.

(iii). Selective Closure of the Domestic Economy and the Protection of Selected Agricultural Industries

Where government felt that prohibitive tariffs could not effectively discourage imports, outright prohibition of certain food imports was considered nessessary and desirable. Food imports that have been banned outright include palm oil, vegetable oil, wheat and wheat products, rice, maize and poultry products to name a few. This is a bold move for which this Administration has come under intense international pressure. It is a move, it needs to be stressed, that could never have received the blessing or prior approval of the World Bank or the IMF. This point needs to be emphasized for the benefit of those who claim that the country's Structural Adjustment Programme was prepared, sealed and delivered by the World Bank or the IMF.

The outright prohibities of selected food imports has encouraged domestic production of the prohibited food items and their domestic substitutes. The oil palm industry has been expanding vigorously with two oil palm companies now publicly quoted on the Nigerian Stock Exchange and with more quotations in the pipe-line. The country is virtually self-sufficient in maize There are no poultry imports on any significant scale. There is a significant decline in the share of food imports in total imports in the Babangida era, compared with the President Babangida era Table 5, problems still remain with rice and wheat. Continued smuggling of weat and rice inspite of the numerous legal obstacles reflects their underlying domestic supply inadequacy. Smugglers and their collaborators in the law enforcement agencies have allowed their economic-self interests to outweigh their partriotic obligations. The high risk-high return system of smuggling reflects the serious supply-demand imbalances in these commodities. The production of a labour intensive crop like rice is plagued by the soaring cost of labour. The various claims of many state governments to be wheat producting states in order to attract federal funds have left much to be desired. The flour milling industry, on their part, has failed to demonstrate visionary and entrepreneurial leadership .

They should have borrowed a leaf from the brewing industry which, when confronted with outright prohibition of imported malted-barley, invested large sums of money in new process engineering and in backward integration to source domestic raw materials. Similarly, the food and beverage industry invested colossal sums of money in cereal conversion plants to utilize sorghum and maize and other grains in place of imported malted-barley. The flour milling industry has spent more time in newspaper advertisements pressurizing and almost blackmailing government in order to achieve policy reversal.

The flour millers need to commit more resources to backward integration, new process engineering and the sourcing of the domestic raw materials to either produce bread made from domestically produced wheat or bread from cassava, maize, sorghun, rice, etc. Food technologists in the country must work harder to produce substitutes for bread as a convenience food item, for example, prolonging the shelf life of akara make from beans or some other such substitute. This Administration must be comended for maintaining policy stability in this area inspite of tremendous pressures from within and from without.

The policy of selective closure has however had some serious unintended consequences. It has diverted government revenues that could have been realized through high tariffs on imports of the banned food items away from government into the private pockets of smugglers and their collaborators in the law enforcement agencies. It has created booming underground economies in the border areas that serve as entry points for the smuggled food imports. Government is foregoing significant tariff revenues that could have been used to support the domestic production of these banned food items.

The wheat lobby in particular through its media campaigns has driven government into a tight corner almost making it a battle of political wills. It is not clear to me that this was the only ultimate option left to the wheat and flour milling lobby. I believe that less aggressive strategies could have achieved some acceptable compromise solutions short of direct confrontation.

7 RURAL TRANSFORMATION PROGRAMMES

Based on its fundamental commitment to the rural man and woman, this Administration established the Directorate of Food, Roads and Rural Infrastructures (DFRRI) in 1986 principally to construct a total of 90,000 kilometres of rural feeder roads, rural markets, rural electricity as well as provide potable water in the rural areas. DFRRI was located in the Presidency to provide the necessary political leverage at the highest level of government. That is the essence of its supraministerial nature and its location. DFRRI was not supposed to engage in agriculture activities per se; the food in its title was meant to emphasize the need for the construction of rural roads and other infrastructures largely in areas of high food production potential.

The DFRRI concept is revolutionary in articulating a national programme of rural transformation to be funded substantially by the Federal Government and to be implemented at the State level. Though rural development is on the concurrent legislative list, this programme was a major federal initiative. The Administration needs to be congratulated for conceptualizing the scheme and for making funds available for its implementation.

Actual implementation of DFRRI programmes has been flawed on several fronts, some of them almost fatal. While some States distinguished themselves in programme performance, other States were plagued by serious implementation failures. This included charges and allegations of roads constructed by other agencies but claimed bv DFRRI; charges of poorly constructed roads that lasted only one rainy season; allegations of water projects whose taps dried up shortly after commissioning; and, in some cases, allegations of colossal waste of public resources. These flaws must not blind us to the recorded achievements of the DFRRI programme. Some traditional rulers and other rural spokemen have spoken glowingly of the benefits from the rural road programme while many villages have benefitted from rural electrification and water supply schemes. Efforts need to be made, however, to correct for the lack of effective monitoring and evaluation systems and programme accountability. And where there have been cases of lack of financial probity, remedial administrative steps must be taken to prevent future occurrences. To be effective, however, DFRRI must learn not to be all

things to all people at the same time. It must learn to set priorities and to focus sharply on rural infrastructural rather than dabble into agriculture and other non infrastructural activities, pressing as these are.

v. **Storage, Processing, Marketing and Distribution Support**

A major programme in storage of agricultural produce was announced by President Babangida in the 1987 budget, with particular stress on medium to small scale on-farm storage. The rationale was that a highly decentralized agricultural production system of small holdings needed to be supported by a highly decentralized network of medium to small scale on-farm storage facilities.

The implementation of the storage scheme unfortunately emphasized almost exclusively the strategic reserve component to the exclusion of the medium to small scale on-farm storage component. This has resulted in the establishment of 25,000 ton storage facilities in selected urban locations in the country. These are not likely to be filled with grains on any meaningful scale in the foreseeable future. I have always emphasized the need to develop a vast network of on-farm scale to medium scale on-farm storage facilities throughout the country that are within easy reach of farmers and market operators. Highly centralized storage facilities located in far away urban areas are unlikely to be of much use to the average farmer or urban consumer in most years.

vi. **Rural Credit**

This Administration has consistently addressed the problem of rural credit. Sectoral guidelines have been provided for lending by commercial and merchant banks to Nigerian agriculture. Sectoral allocations to agriculture in the lending portfolio of banks were raised at the inception of this Administration. Banks have responded positively to these credit guidelines and have channelled more resources to the agricultural sector. The establishment of Community Banks, when they fully take hold, should assist with rural lending for agricultural and rural non-farm activities. The critical linkages between rural credit, storage, produce marketing and inter-seasonal fluctuations in produce stocks and market prices need to be emphasized for correct problem diagnosis and policy prescription.

vii. The Better Life Programme

The Better Life Programme, though tangential to mainstream policy thrust in agriculture and rural development, represents a major break-through in the social mobilization of rural women and the upliftment of their quality of life. Improved access to new economic opportunities, particularly new inputs such as fertilizer and credit as well as access to new markets within and outside the country, has raised the incomes of rural women. The programme has been institutionalized in the establishment of the National Commission for Women in order to assure sustainability.

The unique feature of the programme which is the major source of its success is the power that it commands at the highest level of political authority in the states. This has enhanced the effectiveness of the programme at the grass-root level. The personal commitment and singlemindedness of purpose of the First Lady, Mrs. Maryam Babangida has proved to be the over-riding factor for the success of the Better Life Programme. While the programme has recorded major achievements in the field, such field operations need to be backed-up by solid documentation and data collection on the roles of women, the impact of the Structural Adjustment Programme on women, and the impact of new technologies on women, to mention a few.

More work is required in empirical analysis of women's contributions to rural and national development as a basis for policy prescriptions on gender-related issues.

viii **The Restructuring of Agricultural Research**

In-order to correct for existing defects in institutional arrangements for agricultural research, training and extension and in order to capture the benefits of comparative experiences from countries that have achieved agricultural success, this Administration has established two Universities of Agriculture at Makurdi and Abeokuta. The two Universities have been busy articulating and implementing programmes with distinctive features in agricultural research, training and extension. Their training at both undergraduate and post-graduate levels gives a much heavier dose of practical skills and exposure through a system of student-operated farms and village-level exposure during training. Research at these universities is mission-oriented and problem-solving. At the University of Agriculture, Makurdi, for example, eleven commodity research teams have been constituted to address practical problems of commodities. Agricultural scientists in the two Universities are actively involved in extension service work. In principle and in practice, research, training and extension are functionally integrated.

The central problem confronting the Agricultural universities is funding to enable them attain the minimum critical mass in physical development, laboratory equipment, engineering workshops and staff overheads to enable them play the leading role in the scientific transformation of Nigerian agriculture. Political will and commitment for these universities must be sustained in the years ahead if they are to be given the opportunity to make the difference.

ix. **Viable Farmers' Associations**

In order to ensure that farmers meaningfully participate in the policy process and to ensure that credible farmers' associations play constructive advocacy roles on behalf of farmers, Mr. President has announced this Administration's support for the creation of an Apex Farmers' Association - the Federation of Farmers' Associations of Nigeria (FOFAN). The modalities for the new Apex organisation are being worked out and it is expected that Mr. President's Declaration

in the 1992 budget on FOFAN would be promptly implemented especially with respect to the funding of FOFAN.

The National Agricultural Land Development Authority (NALDA)

Mr. President announced the establishment of the National Agricultural Land Development Authority (NALDA) in the 1991 Budget. The goal of NALDA is to promote the optimal use of abundant land and labour resources in rural Nigeria for the upliftment of the quality of rural life. NALDA is to provide public support for land development for accelerated food and fibre production. It aims at encouraging and supporting economic-size farm holdings and the consolidation of scattered fragmented holdings and to generate rural farm incomes that will sustain living standards above the poverty line. NALDA will provide gainful income and employment opportunities for rural people, raise rural incomes and the general living standards of rural Nigerians. NALDA will contribute towards the attainment of national food and fibre self-reliance, self-sufficiency and national food security and facilitate appropriate, cost-effective mechanisation of agriculture. It is a social instrument for integrating rural and urban Nigeria through the creation of new rural growth centres and growth poles that will provide a new lease of life for the long neglected rural sector. It is a scheme that encourages local communities to voluntarily donate land to NALDA without any compensation. In return, the overwhelming majority of beneficiaries of NALDA programmes will be indigenes of local communities that donate land to NALDA. NALDA is a joint local, state and federal government programme with prescribed financial contributions from all the three tiers of government.

The success of NALDA depends on sustained political backing and the corresponding budgetary support at all levels of government. Start-up funds have been released by the Federal Military Government to enable NALDA establish State Offices and to move towards the establishment of the first generation of projects. The success of a carefully articulate programme such as NALDA requires the necessary

resource back-up. Since the inauguration of Board of NALDA on May 7, 1991, the Board has carefully articulated the philosophy, the objectives and the programmes of NALDA. Unfortunately, no funds were released in 1991 but Mr. President has authorized the release of funds in 1992, to ensure that NALDA takes off to attain the laudable objectives for which it was established.

5. OUTSTANDING ISSUES IN NIGERIAN AGRICULTURE AND RURAL DEVELOPMENT

Against the background of the agricultural and rural development initiatives of the Babangida Administration, I shall now raise a few outstanding issues in Nigerian agriculture and rural development.

i. The Rural Development Question

No single government or private agency can address all the infrastructural needs of rural Nigeria at the same time. Priorities must, therefore, be set so that implementors are not too thinly spread in resources and management. Priorities in rural development, like elsewhere, must be guided by explicit criteria to ensure consistency. This could include the relevance of the infrastrucure for the dominant occupation in rural areas (agriculture), the importance of the infrastructure as a determinant of rural incomes and the linkage or multiplier importance of the infastructure for farm and rural non-farm activities, to mention a few.

Optimal programming sequence would need to be determined both temporally and spatially. No single agency can achieve programme presence in all parts of the country at the same time. Effective temporal and spatial programming sequence would therefore need to be worked out. This is easier under military regimes than civilian regimes. Military regimes are able to implement phased-programme implementation strategies. Some of the programmes with the longest history of phased implementation (e.g. the ADP system) were started and implemented mostly during military regimes in Nigeria. This is because military regimes do not have a restless political constituency to satisfy within a given electoral time-table. Civilian regimes, on the other

hand, have vocal, impatient and well-organized political constituencies to contend with, and given the broad-based support for such regimes they find it extremely difficult to implement spatially phased programmes with highly localized benefits concentrated may be in only one senatorial zone. This is because they are under pressure to satisfy broad categories of their constituencies at once and they have a need to be seen to be politically fair and equitable.

Recent experience does, however, caution against the simultaneous implementation of projects at the same time in different parts of the country. The Operation Feed the Nation and the Green Revolution programmes with their Committeees and Councils simultaneously established in all States of the Federation and with resources being simultaneously allocated to all the States as the same time cannot, on balance, be recorded as huge success stories.

The choice that must be made is the appropriate combination of sensible phased programming and the political expediency needs of the politicians.

One issue that must be continuously addressed is the development of local institutional capacity for the implementation of rural development programmes. Federally initiated programmes must necessarily be decentralized for effective implementation at the grass-root. Programme sustainability requires sustainable institutional capacity at the local level particularly for the maintenance of rural infrastructures and the provision of the services that flow from them. Finally, the role of the private sector in the development of rural infrastructures must be redefined. Admittedly, the bulk of capital formation in the rural areas is by the private sector, but specific forms of infrastructural facilities, such as roads, livestock and fisheries infrastructures, agricultural research and extension, to mention a few, must increasingly devolve on theprivate sector.

ii The Agricultural Subsidy Question

Much has been written on the agricultural subsidy question but first let me dispose of the myths and fallacies so that the real

issues can be sorted out. There are hardly any serious commentators who advocate zero subsidy or hundred percent agricultural subsidy. There are simply no known empirical examples or any credible valid theory to back-up either of these extreme positions. The real questions then are: what types of subsidies are desirable and necessary and which promote long term agricultural growth and development? Should subsidies be primarily on infrastructural (or capital development) costs, consumable inputs or farm output? When priority types of subsidies have been determined, what shall be the appropriate levels of subsidy? What types of agricultural subsidies are most ideal for the different stages of development or underdevelopment? The discussion of agricultural subsidies must not be allowed to begin and end only with fertilizer subsidies because that will be too narrow a perspective.

Much of the discussion on fertilizer subsidies can be generalized to the issue of subsidies on imported inputs and tied with the foreign exchange rate question. Upward increases in the foreign exchange rate and the depreciation of the naira have meant that government has had to pay ever increasing amounts of subsidies on fertilizer in order that Nigerian farmers can continue to pay more or less the same official amount of money per 50 kg bag of fertilizer.
This is because higher foreign exchange rates mean that a given dollar price of a bag of fertilizer translates into a much higher naira price and therefore for the Nigerian farmer to continue to officially pay forty, or fifty naira per bag would require government to pay ever-increasing amounts of subsidy. This is a point that is not well appreciated by most Nigerians but which needs to be emphasized. It is irrelevant what the World Bank or IMF says or thinks on fertilizer subsidies. What is important is the choice that we have to make as a nation between allocating a given agricultural budget between the ever increasing budgetary requirements of fertilizer subsidies and competing alternative demands on the same budget.

Countries that have achieved successful agricultural productivity transformation have had to operate complicated output price subsidies which have constituted heavy burdens on the public treasury. This has been the experience of the United States of America, Western

Europe, Australia, Canada and New Zealand, to mention a few. Recent Indonesian experience with rice is also relevant here. The basic problem has been how to cope with the [illegible] of [illegible] agricultural commodities whose demands [illegible]. Nigeria currently does not have a problem in this regard except that members of the Cassava Growers Association are already grumbling about the falling price of cassava. They are complaining that the price being realized [illegible] make cassava production profitable and that [illegible].

Trade Liberalization and Exchange Rate Adjustment

[illegible] overriding forces the [illegible] the system prohibitive tariffs [illegible] efficient domestic production and the competi[illegible] Nigeria's infant agricultural industries. Also, [illegible] the foreign exchange rate, how can Nigerian agriculture [illegible] a progressively depreciating naira?

(iv) Macro Institutional Management of Agricultural Research

The continuous institutional flux in which the macro management of agricultural research institutes has found itself over the years is a cause for great concern. The "institutional orphanage" status of agricultural research institutes and the adverse consequence for agricultural productivity and performance must be addressed.

The present dichotomy and duality in which agricultural extension is largely in the hands of State governments, while agricultural research is funded largely by the Federal government is anomalous. State governments must assume some reasonable responsiblity for agricultural research. Now that the oil boom is over and lower tiers of governments are getting more funds from the Federation Account, they must show more initiatives in funding agricultural research into commodities that are of relevance to their respective local agricultural economies, as was clearly the case under the pre-1973 era.

The Role of State Government in agricultural production and distribution

Many State governments believe, as their predecessors, that frequent changes in Boards and Managing Directors of agricultural parastatals engaged in direct agricultural production and distribution is all that is needed for them to perform better. This belief, like second marriages, is based on hope rather than past experience. New management of parastatals will always introduce changes that give a semblance of change but experience teaches that so long as such management operates within the framework of public bureaucracy, such changes are more apparent and cosmetic than real. The only route to sustained performance along profitable commercial lines lies in the privatization of such parastatals in order to free the public bureaucracy to concentrate on the provision of facilitating infrastructres and policy coordination.

vi. The Special Case of Large Scale Farmers

Large scale farmers complain strongly that they are under siege from the adverse consequences of SAP. Government has responded by organizing a seminar to articulate packages of support for large scale farmers. Most large scale farmers have serious constraints that must be addressed before public support can be meaningfully utilized. First, most of them are not the product of a natural evolutionary process. The majority are mechanical creations comprising men with resources but little practical farming experience who unfortunately have adopted the manufacturing approach to farming. Even here, manufacturing units typically grow or evolve from smaller to larger units. Many large-scale farmers in trouble blame government, SAP, advisers of government and blame everybody else except themselves. Large scale farmers that have evolved over time from humbler beginnings in farming have far greater chances of survival based on accumulated experience. The present motely assembly of large scale farmers, some initially induced by import licence incentives, some retired public servants with ample resources and others with a variety of backgrounds and motives are finding farming quite a tricky business. The corporate large-scale

farmers are hardly doing any better, and almost for the same reason. Nigerian companies with substantial equity holdings by multinationals engaged in large scale farming as part of backward integration efforts are finding that large-scale farming is a loss maker. The solution is to learn by doing, as most corporate organizations have little or no experience in farming before applying corporate methods to farming, quite often with disastrous consequences for their balance sheets and their profit and loss accounts.

vii **Selective Closure of the Domestic Economy**

The twin problems of quantitative bans on food imports and exports must be addressed. In the case of food imports, the problem commodities are wheat and rice. The challenge is how to plug the numerous leakages posed by smuggling, given the underlying structural domestic supply-demand imbalances in these commoodities. In the case of exports, quantitative bans on food exports meant to prevent depletion of domestic stocks again encourage smuggling and numerous leakages. They also serve to depress producer prices below what they would otherwise have been if there were no quantitative export bans. The ban of exports of agro-raw materials is a special case. The ban of exports of hides and skins in January 1990 was meant to ensure domestic availability of hides and skins for the local tanneries while the ban on the export of cocoa beans was meant to make available sufficient cocoa beans for domestic cocoa processing factories which would otherwise have been crippled. The challenge is how to maintain a system of selective closure of the domestic economy that is consistent with a sufficiently attractive price regime that would provide incentives for Nigerian farmers.

6. RECOMMENDATION FOR SUSTAINABLE AGRICULTURAL AND RURAL DEVELOPMENT

Let me briefly itemize some recommendations for sustainable agricultural and rural development as follows.

i. **Sustained commitment to the basic goal of agricultural and rural development**

The Nigerian society and nation must imbibe and internalize

the basic goals of agricultural and rural development. The commitment to national food and fibre self-reliance and self-sufficiency in basic food staples must be a national aspiration that transcends all political regimes, be they civilian or military. The development of rural Nigeria and the alleviation of rural poverty must also be the collective aspirations of the nation that are in variant to changes in regimes. The goal of national food security reflects an underlying quest for social equity and social justice. The challenge is for programming and budgetary implications of these basic commitments to food,agricultural and rural development to be sustained from year to year, and from regime to regime . Functionaries of all tiers of government must not only proclaim their basic commitment to these fundamental objectives, they must continue to provide the corresponding political, programming and budgetary support to translate these basic commitments into the upliftment of the quality of life of the average Nigerian.

ii. State Governments must withdraw from direct involvement in agricultural production and distribution

States that are still dragging their feet in the privatization exercise urgently need to set the machinery in motion to privatize agricultural parastatals and thereby free public resources to provide facilitating infrastructures and an enabling environment which will bring forth the maximum potential of their respective agricultural economies. Those states that are maintaining agricultural parastatals under the veil of special cricumstances and special environments are merely postponing needed institutional rationalization.

iii. Procurement and distribution of fertilizers

The Federal government has repeatedly stated its intention to privatize the procurement and distribution of ferilizers. Considerable progress has been made in this direction with the new responsibilities entrusted to NAFCON in the last one or two seasons. However, much still remains to be done to ensure that fertilizer procurement and distribution is truly privatized in order to ensure marketing and distribution efficiency. Unless government translates its declared policy statement into the concrete transfer of responsibilities to the

private sector, fertilizer distribution using governemt acies and functionaries will continue to produce a large class ofunintended beneficiaries of public policy (see Table 6).

TABLE 6

PROCUREMENT AND DISTRIBUTION OF **FERTILISER**, 1985-1991

YEAR	Mode	Quantity(tonnes)
1985	Procurement through Importation	909,500
1986	Procurement through Importation	590,000
1987	Procurement through Importation	829,750
1988	Procurement through Importation	384,500
	Procurement through Importation	400,000
1989	Procurement from local Sources	500,000
1989 (total)	Total procurement from all soucees	900,000
1990	Procurement through Importation	706,000
	Procurement from local sources	608,000
1990 (Total)	Procurement from all sources	1,314,000
1991	Procurement through Importation(Orders)	400,000
	Proctirement from localsources(Order)	600,000
1991(Total)	Procurement from all sources(Order)	1,000,000

Source : Federal Ministry of Agriculture and Natural Resources, Achievements of the Federal Ministry of Agriculture and Natural Resources for the period 1985 -91

iv Active Support and Promotion of Sustainable Agriculture

Nigeria's rapaidly growing population is exerting great pressure on agricultural resources, encouraging deforestation and desertification and reducing bio-diversity. Government must mount special programmes in suport of sustainable agriculture such that the carrying capacity of Nigerian agriculture does not suffer major discontinuities that may threaten our national existence and way of life.

v. Funding and Support of NALDA

The recently launched NALDA requires sustained political will and support translated into adequate funding. The optimal utilization of

abundant land resources for agricultural production is central to our efforts towards national food self-reliance as a nation. Government at all levels must continue to support and fund NALDA for it to achieve the laudable objectives for which it was established, as has been achieved by similar organizations in other countries.

vi. Sustained Support for the Universities of Agriculture

Productivity transformation of Nigerian agriculture holds the key to the country's quest to make food available to most Nigerians at affordable prices. The two new Agricultural Universities in Nigeria should be given the historic challenge and mission that their counterparts have met in other countries in spearheading the scientific transformation of hitherto under-developed agricultural economies. This requires practical management of resources to ensure that research, training and extension are functionally integrated to make agricultural innovations available to Nigerian farmers. As a minimum, Agricultural Universities require the needed sustained political commitment and funding to ensure that they realize the objectives for which they were established. In this connection, the Universities of Agriculture must work collaboratively with the agricultural research institutes, faculties of agriculture of general universities and extension arms of the Agricultural·Development Projects (ADPs).

vii. An Effective Agricultural Extension System

The gains of the Agricultural Development Projects (ADPs) must be consolidated particularly in the area of agricultural extension services. Agricultural research on its own serves little purpose if the technologies that flow from them are not sufficiently adapted to local conditions and made available to farmers at the farm-gate for adoption. The agricultural extension system needs to be revamped and revitalized to improve performance efficiency.

viii Beyond the ADP System

Now that the generalized infrastructural support is in place through the ADP system in all States, future programming must concentrate on specific industries and specific compact locations. Public programmes now need to be formulated around specific agricultural commodities as integrated industries and in specific locations. This is the secret of the Malaysian success with oil palm and rubber and, in the near future, cocoa. Site-specific programmes as now being articulated by NALDA will require full support as they would be tied around specific commodities, as is the case in Malaysia and other countries.

7.Conclusion

I wish to bring this rather brief Convocation Lecture to a close by making one or two observations. First, the commitment to Nigerian agriculture and rural development must be a continuing pre-occupation for all Nigerians. I wish to assure every compatriot that even in the countries that are food self-sufficient and large agricultural exporters such as the United States of America, Holland and Malaysia, there are more meetings, more seminars, more studies and more institutions serving agriculture and rural development than we have in Nigeria. Our continuing commitment requires identification on the part of all Nigerians with a minimum set of values and goals of agriculture and rural development that are regime-neutral and stable over time.

TRENDS IN ESTIMATE OF MAJOR AGRICULTURAL COMMODITIES ('000 TONNES)

COMMODITIES	YEAR							
	1983	1984	1885	1986	1987	1888	1989	1990
Crops								
Maize	695	1058	1190	1336	1202	1277	1338	1469
Miller	2783	3349	3684	4111	3905	3720	3802	4197
Sorghum	3694	4608	4991	5455	5182	3298	3346	3647
Rice	145	157	196	283	297	529	687	759
Beans	664	477	611	732	688	1263	1232	1385
Cassava	723	1209	1378	1564	1486	9132	9172	4070
Yam	4998	4600	4738	5209	4886	9132	9172	9887
Plantain	1067	1086	1113	1127	1071	1549	1700	1972
Soyabean	42	43	60	100	107	121	134	146
Melon	51	143	147	153	145	275	204	208
Groundnut	396	591	621	640	657	686	812	862
Beniseed	30	31	35	35	34	36	40	44
Coconut	100	101	102	104	105	108	110	118
Sheanut	98	99	100	103	104	109	110	118
Cotton Seed	120	108	114	30	32	194	187	276
Palm Kernel	279	340	360	350	353	545	600	620
Palm Oil	500	55(	615	n/a	n/a	700	700	720
Cocoa	140	150	110	100	105	230	256	244
Rubber	45	58	60	60	71	68	80	88
Sugar Can	810	821	862	897	852	888	900	920
LIVESTOCK PRODUCTS								
Poultry	58	62	64	67	56	54	50	51
Goat Meat	172	177	186	192	206	209	216	218
Lamb/ Mutton	57	65	63	68	75	81	86	86
Beef	177	199	212	223	232	216	276	278
pork	24	28	31	33	34	36	46	48
Milk	154	164	172	180	182	188	186	186
Eggs	346	380	389	399	332	260	220	219

Sources Central Bank of Nigeria, Annual Report and Statement of Accounts (Various Issues)

INDEX OF AGRICULTUAL PRODUCTION

(1975 = 100)

Year	Index
1970	132.2
1971	9'.9
1972	94.2
1973	95.4
1974	98.8
1975	100.00
1976	96.6
1977	94.2
1978	90.2
1979	117.2
1980	112.6
1981	90.1
1982	92.5
1983	88.3
1984	92.0
1985	95.8
1986	102.1
1987	109.4
1988	113.2
1989	920.1

<u>Sources:</u> Federal Ministry of Agricultural and Natural Resources, <u>Achievements of the Federal Ministry of Agricultuie and Natural Resources for the Period 1985 - 1991</u>

SECTORAL ALLOCATIONS IN THE 1990 - 92 ROLLING PLAN

SECTOR			ALLOCATION (₦BILLION)	PERCENTAGE SHARE %
I.	Economic Sector			
	(i)	Agriculture and Rural Development...	9.239	19.84
	(ii)	Manufacturing	1.995	4.28
	(iii)	Transport	5.886	12.63
	(iv)	Others	3.490	7.49
		Sub - Total	20.610	44.24
II.	Social Sector			
	(i)	Education	4.448	9.55
	(ii)	Health	2.729	5.86
	(iii)	Others	2.167	4.65
		Sub - Total	9.343	20.06
III.	Regional And Environmental Development			
	(i)	Water Supply	3.786	8.13
	(ii)	Urban	1.137	2.44
	(iii)	Others	4.150	8.91
		Sub - Total	9.023	19.48
IV.	Administration			
	(i)	Defence and Security	2.294	4.93
	(ii)	General Administration	5.261	11.30
		Sub - Total	7.555	16.22
		Grand Total	46.581	100.00

Sources Budget '90 Press briefinh by the Minister of Budget and Planning Alhaji Abubakar Alhaji, on the National Rolling PLan (1990 - 92) and the 1990 Budget, federal government printer

NIGERIAN AGRICULTURAL EXPORTS

Year	Agricultural	Agricultural Exports as Percentage of Total Export Value
1970	295.6	33.9
1971	264.4	20.4
1972	181.4	12.6
1973	288.7	12.7
1974	307.7	5.3
1975	256.5	5.2
1976	288.7	4.3
1977	437.7	5.7
1978	444.2	7.3
1979	498.5	4.6
1980	368.9	2.6
1981	214.0	1.9
1982	208.9	2.4
1983	301.3	4.0
1984	247.4	2.7
1985	324.2	2.9
1986	461.6	5.2
1987	1,650.0	5.4
1988	1.884.8	6.0
1989	1,855.0	3.2
1990	3,076.8	2.6

Sources Same as in Table 3. 1990 data computed from Central Bank of Nigeria, Annual Report and Statement of Accounts. 1990

FOOD IMPORTS IN RELATION TO TOTAL IMPORTS, NIGERIAN, 1979 - 1990

Year	Food Live Animals Imports(N Million)	Total Imports (N Million)	Food Imports as % of Total Imports
1979	766.5	7472.5	10.26
1980	1091.0	9658.1	11.30
1981	1506.8	12,013.6	12.54
1982	2048.2	12,919.6	16.37
1983	1477.9	12,565.5	16.30
1984	1052.1	7,178.3	14.66
1985	1199.8	7,062.6	16.99
1986	802.1	5,983.6	13.99
1987	1873.9	17,861.7	10.49
1988	1694.2	21,445.7	7.90
1989	2005.9	30,860.2	6.50
1990	3763.56	45,717.9	8.23
1981-85 (Average)	1456.96	10,247.84	14.08*
1986-90 (Average)	2027.92	24,273.82	8.32**

Sources: Central Bank of Nigeria, Annual Report and Statement of Accounts (various Issues).

* The Pre-Babangida era

** The Babangida era

chapter 5

INDUSTRIAL DEVELOPMENT AND PRODUCTION, INCLUDING SMALL-SCALE ACTIVITIES

By Onyekwere Ogba

ABSTRACT

This Chapter seeks to explain the patterns of industrialisation, particularly with respect to the views of the body of economic theory, the constraints to industrialisation in Nigeria and the pertinent policy lessons before and after the 1986 economic reforms. The presentation will generally follow along these lines, with concluding remarks that suggest the path for further industrial growth.

INTRODUCTION

Industrialisation is often seen in economic terms as the handmaid of economic development (Meier, 1975; Kuznets, 1959). In this sense, industrialisation is used interchangeably with manufacturing. Industrial output as a proportion of aggregate output of an economy is usually an index of that economy's sophistication and development. Thus, in most mature economies, it is common to find the proportion of manufacturing out of total output to be 50 per cent or more. Also, in such economies, the distribution of the labour force by type of activity will show primary and extractive industries as having 5 to 10 per cent, while the share of manufacturing will be between 35 and 45 per cent (Kristensen, 1974).

Clearly, the primary ingredients of economic development are structural changes that take place continually in an economy. These structural changes are in two broad categories namely:

(i) "Positive structural developments", which are structural changes that represent improvements in a society's mode of production, distribution and consumption of goods and services, as well as the mix.

(ii) "Negative structural changes", which are the opposite of the above (Kristensen, 1974).

Numerous attempts have been made by economists to explain the nature and process of industrialistation, particularly its causation and sustenance. Without doubt, industrialisation involves the production of capital, producer and final goods, for the local environment and for export. Broadly, most of these economists fall either into the school of the classicists or the structuralists. As will be seen, the policies adopted for industrialisation in Nigeria have followed closely from these theories of development.

As a general note, most theories of industrialistion revolved around the "stages theories of development", in which economies were assumed to follow a rigid pattern of structural changes. The unique charateristics of these theories was that these stages were delimited distinctly from one another even though the whole process was seen as continuous. Further, the succession path could not be altered and finally the process was irreversible even though similar phases may emerge at different stages (Meier, 1975). The implicit assumption was that the rate of succession could be altered either consciously by man or by natural events. Thus, stages, such as W. W. Rostow's thesis consisting of

(a) preconditions for take-off,

(b) take-off,

(c) drive to maturity,, and

(d) high mass consumption,

could be delineated, with some modifications, from all the theories of development.

Because of the relationship between industrialisation and economic growth, more attention has always been focused on the second or "take-off" stage in the development process. An economy is defined as being in the "take-off" stage when the rise in investment as a proportion of the gross domestic product is at least 10 per cent. Also, one or more fast growing manufacturing sectors must have emerged. It should, at this stage, also witness the emergence of an entrepreneurial and political class that would facilitate the development process, by taking advantage of the growth promoting effects of the industrial structure. Such a class would also sustain the growth process.

Fired by the attraction that Rostow gave to the growth process economists developed many models aimed at ensuring the quick emergence of this critical stage. At one point they emphasised that growth influences are sectoral; at another they pointed to the growth promoting effects of increased savings rate (Meier 1975). The locus of the effort however was to seek ways of mobilising the unconsumed part of aggregate output for investment and diverting the energies of entrepreneurs towards industry.

Among the most notable theories industrialisation was the work of P.N.Rosentein-Rodan in which he detailed an expansion of the stages theory to the so-called big-push theory. The framework envisaged massive investment in one or two sectors of an economy, in the belief that such investment generates employment for underemployed peasants. Such employment generates demand for other goods and services, thereby leading to growth on other fronts. These external economies of an investment follow from the linkage effects on both upstream and downstream related industries, as well as the stimulation of growth in other industries not directly related to it (Meier 1975). What Rosenstein - Rodan assumed was that sufficient domestic and foreign savings will be available to ensure the big-push investment required. He further assumed that the externality .esponse will be automatic.

A parallel but equally compelling theory of industrialisation follows from the inability of international trade to lead to appreciable industrial development in developing countries. The foreign trade sector in the primary and extractive industries approximated closely to Rosenstein-Rodan's big-push approach, yet structural changes did not automatically follow. In addition, the size of the domestic market made investment in industry very unattractive. The solution was thought to be in simultaneous investment on many industrial fronts. Such an investment strategy was expected to enlarge the domestic market by cross demand created for each other's products among complementary industries (Perroux, 1955; Meier, 1975). Even though the balanced growth proponents, as this group of economists was called, believed in the ability of the price system to allocate resources, it was widely believed that it might be too slow at it.

Whether a country chose the big push or balanced growth approach, the critical requirement was investment capital, without which industrialisation was impossible. Investment, as noted, is derivable from savings which can be further disaggregated into domestic savings and foreign savings. At the domestic front of most developing countries, savings rates were extremely low and could not be relied upon to finance the relatively large investment required for the unipolar or multi-polar industrialisation. Domestic savings, however, were low because base incomes were low. Equally, the foreign component of investment was slow in coming and, where it was available, it was generally in extractive industry or commerce whose profits financed investments in the colonial heartland. Sometimes the repatriation of profits by the multinational corporations actually tended to decapitalise the developing countries.

With the attainment of self-government, developing countries, eager to break the self perpetuating poverty cycle, devised other means of raising investment capital for public enterprises. Marketing boards indirectly taxed domestic producers of exportable primary produce. Also, in a bid to close the investment gap, recourse was made to deficit financing through borrowings from the Central Bank. These soon led to serious problems, especially in foreign payments, while stunting local industrial expansion. The resulting frustration led policy makers in developing countries to seek an alternative approach which entailed keeping as much imports out as possible while retaining a multi-polar industrialisation strategy (Bruton, 1970). Exclusion of imports results in unsatisfied demand for goods which in turn create investment opportunities. Therefore, instead of a uni- or bi-polar approach, the new strategy, which assumed the name "import substitution", would entail the opening of so many investment fronts at the expenses of imports. Such would almost guarantee structural changes. This strategy assumed that the foreign trade orientation of developing countries was the basis of their structural weakness.

IMPLEMENTATION OF IMPORT SUBSTITUTION INDUSTRIALISATION STRATEGY

Import Substitution industrialisation strategy was implemented primarily through limitations on imports, import prohibition or high tariff. Under the strategy, consumer goods imports were regarded as inessential and so were subjected to higher tariff and other non-tariff barriers. On the other hand, the import of capital goods and intermediate goods were encouraged. Such trade practices were usually complemented by exchange rate policies that kept the cost of importing capital and intermediate goods below real costs (Bruton 1970). As a result of the differential in tariff on final and intermediate goods, the effective rate of protection for home-made final goods tended to be excessive. With the exhaustion of economies of scale in the final goods sub-sector, the logical extension was to encourage investments in the manufacture of intermediate goods by the introduction of higher tariff on their importation.

APPRAISAL OF IMPORT SUBSTITUTION INDUSTRALISATION STRATEGY

The policies that made up import substitution strategies of industrialisation primarily tend to eliminate international comparisons on vital economic indices like costs, factor intensity and technical progress. The initial focus on consumer import replacement led to choices of inappropriate technology.

The establishment of state-of -the-art factories implied the importation of huge volumes of intermediate goods or raw materials to keep the factories running,not in any way reflecting the local resource endowment. Sheltering them from foreign competition by the variety of import and exchange control policies further facilitated unrealistic pricing and inefficient operation of these enterprises. Since the spares needed for repairs had no local manufacturers,importation of both spares and expatriate technicians further added tothe social and economic costs.The structure of production that emerged constituted

a drain on foreign reserves and it was impossible to fully utilise installed capacity without large scale foreign capital inflows (Bruton, 1970).

One of the arguments in suppport of the import substitution industrialisation strategy was that developed economics had low income elasticities of demand for primary produce. But the countries that implemented import substituting strategies failed to note that such low elasticities of demand would not last indefinitely. As can be easily seen, if income levels rose in the developed countries, even with a low elasticity of demand for the primary exports of developing countries, absolute export volumes and values of the products of the developing countries were bound to rise. Unfortunately many developing economies anchored their development programmes on export pessimism (Bhagwati, 1987). Export pessimism led to policies as enumerated, which directly taxed local export producers; unrealistic exchange rates removed the last incentive to export.

A paradox therefore emerged where countries with the declining export abilities needed to import increasing volumes of machinery, spares and raw materials for industrialisation. Chronic balance of payment crises thus became a permanent feature of these economies, while domestic output of both primary and industrial goods plummeted.

Another consequence was that, following the disappearance of incentives to produce primary goods, these countries experienced high rates of rural depopulation. This trend directly led to urban population explosions with attendant social consequences of open and disguised unemployment, and fully stretched urban facilities of housing, transportation and waste disposal. Incidents of crime also assumed a rising trend. Also, the urban populace became an interest class whose tastes were conditioned upon imported but now unavailable consumer goods. This class became politically important when new policies that removed urban privileges were to be introduced. In response to declining food

production, attempts were made to initiate mechanised agriculture. Being high cost producers, such enterprises never operated profitably as they were inconsistent with factor endowments of the developing economies.

The myriad of controls and documentation in the monetary, foreign trade and payments, and industrial sectors that was necessitated by import substitution created rent for license holders and led to scandalous corruption of the official process. Rent and commission seeking, which were unproductive activities, tended to further increase the social and economic costs of import substitution, weaken genuine entrepreneurial activities and reduce public revenue (Bhagwati, 1987).

Most importantly, incentives for resource allocation under import substitution deviated sharply from international opportunity costs, thereby exerting unnecessary strains on domestic savings. Under import substitution, the effective exchange rate of exports (EER_X) was less than the effective exchange rate for imports (EER_M). This rate bias made it cheaper to import than to export and was responsible for the emphasis on capital intensive modes of production (Bhagwati, 1987).

Import substitution also limited the inflow of foreign investment capital because of the unfavourable exchange rate, cumbersome documentation procedures and the small size of the domestic market which prevented a realisation of economies of scale. In cases in which such inflows were forthcoming, they were channelled into capital intensive sectors, hence negating other social values, such as job creation, that were derivable from investments (Bhagwati, 1987).

On balance, import substitution strategies emphasised investments but, unfortunately, the accompanying policies made the mobilisation of domestic savings and the attraction of foreign investment very difficult. In any case, after a post-mortem of import substitution, it

is fairly clear that investment, though a necessary condition for economic growth, is not a sufficient condition. Other conditions that are complementary to investment in ensuring economic growth and, by extension, industrialisation must also be in place. These involve the creation of an economic environment that promotes efficient resource use (Bhagwati, 1987; Michalopoulos, 1987).

NEW THINKING ON INDUSTRIALISATION

Industrialisation should be seen as a means of improving the conditions of work and the standara of living of people; the production of a wider variety of goods and the application of modern technology, both of which the industrialisation process aims to achieve, should be evaluated based on how far the standard of living of the people was improved by the process. Instead of being a competitor with other sectors such as agriculture for resources, industrialisation ought to complement them. In addition, industrialisation should promote knowledge, confidence, and self reliance in developing countries rather than excessive dependence on others for what could efficiently be produced locally (Meier, 1975).

While many developing countries pursued the autarkic approach of import substitution, others embraced policies that were basically opposite. Those policies seem to have produced superior results both in industrial growth and overall economic development (Meier, 1975). Far from being an industrialisation package per se, outward orientation or export promotion is the process of setting price incentives in such a way as to ensure that the domestic market does not become more lucrative than foreign markets (Bhagwati, 1986). Broadly, it involves the alignment of effective exchange rate for exports with that for imports. Thus, under equilibrium, $EER = EER_M$. This implies that the returns on economic activities both on the domestic front and foreign markets should be equivalent in a so-called "trade neutral regime". An extreme position, which approximates what the successful Far Eastern economies have done, is ultra-export promotion in which $EER_X > EER_M$. In such a regime, the foreign market is more competitively priced than the domestic market. As experience has shown, even though this is a position that is out of

equilibrium, it is growth promoting. Import substitution, on the other hand, approximates to $EER_X < EER_M$ (Bhagwati, 1987).

Setting price incentives right in order to alter the effective exchange rate in favour of industrialisation involves the interplay of various policies such as exchange rate, monetary and credit policy, price and exchange controls, tariff and fiscal operations. In addition, these policies are supplemented by relaxed documentation procedures and complementary socio-political structures. At the minimum, the policies have to be trade neutral to encourage the adoption of appropriate technology in industrial development.

The application of monetary and credit policies that have no biases in favour of particular sectors ensure uniform pricing of factor inputs to production. Easy monetary policy and interest rate pegging in the face of subsidised imports discourages domestic savings, and prices capital intensive production techniques below labour intensive technologies. Thus, a freeing of the decision making process in the financial sector enables the relative efficiency of various lines of production to determine resource allocation. As was stated earlier, cost constraints are perhaps the most important criteria in the competition envisaged for industries under the new thinking. Therefore the shadow price of any investment decision in industry, which is the interest rate, must be right for the private sector response to be forthcoming. It ensures that the most cost effective technique of production is chosen. The underlying assumption is that, with the right price, entrepreneurs will see promising investment outlets. As well, sources of investment capital are also assured by the price structure.

It is a commonly accepted notion in economics that price controls are effective only when they are not necessary. Price and exchange controls can work only when there are no shortages. When there is a shortage of foreign exchange, exchange controls make licensing imperative. Licensing is fraught with problems as a result of rent seeking activities among bureaucrats and license holders. It also encourages importation of finished goods rather than encourage industrialisation. Therefore, it is necessary for foreign exchange to be adequately priced and to eliminate controls and licensing.

Likewise, wage legislations under most import substitution programmes make workers earn wages far in excess of their marginal output. This is compounded by militant trade unions that make wage differential in various industries impossible. Wages like other prices when deregulated tend to assume their marginal product equivalent and facilitate labour mobility among industry. Particularly, they ensure a balance in the rate of labour migration from agriculture into industry.
Also, fiscal operations need to be streamlined to enable the government tackle the nagging problems of infrastructure and creation of human capital. In Korea, the government's fiscal surplus contributes immensely to gross fixed capital formation (Sachs, 1987). Investments in roads, adequate and reliable power supply, health and education, reduce the start-up costs of industrial projects, enhance the optimizations of the sizes of plants as well as the general competitiveness of output pricing. Sound fiscal operations also reduce the borrowing requirement of the government sector. When this is so, domestic credit creation tends to be less inflationary and proceeds at a healthy pace.

Although export orientation policies may not be regarded generally as an industrialisation package, they have been behind the successful industrialisation programmes of many developing countries within short time frames. Their successes indicate that, with the right incentive structure, the private sector is strong enough to better mobilize both domestic and foreign savings so as to achieve superior industrialization than what can be achieved under an import substitution strategy. Under that regime, price signals immediately register when wrong policy steps are taken; under import substitution regime, such signals are suppressed by controls.
Outward oriented industrialisation strategies have developed two variants: export promotion and export substitution. We have discussed export promotion earlier. On export substitution, industrialisation by this regime is based on similar planks of policies, but emphasis is on the replacement of primary exports with those on which some processing have been done, as well as on the development of new exports. This has been employed to a great advantage by South East Asian countries of Malaysia, Indonesia and Thailand

in successfully developing manufactured export-goods industries. In particular, the timber industry has been successfully transformed to produce plywood and other assorted furniture and wood products under the programme. (Meier, 1975). It is very conceivable that particular policy steps to ensure such a bias would be in terms of generous excise duties, tax relief and other government subsidies. Strict prohibition orders are inappropriate as they encourage evasion rather than compliance. In a sense, therefore, polar industrialisation strategy is consistent with policies that ensure the proper alignment of price incentives. Particularly contra-indicated are policies that discourage international comparability of prices.
A direct consequence of the import substituting industrialisation programme was the establishment of large-scale enterprises. However, with the failure of import substitution, and the subsequent post-mortem, large scale capital intensive enterprises were often found to have created some of the structural rigidities experienced. Generally, South East Asian industries have tended to confirm the notion that small-scale industries are more flexible in their response to economic incentives than large-scale industries. Out of the cases of successful industrialisation, Taiwan has been outstanding in its emphasis on small-scale enterprises. (Qi, 1988). Even while other countries in the region were pre-occupied with export substitution and other low technology exports, Taiwan concentrated on exports of machine tools and other engineering products, all products of small-and medium-sized enterprises.

There are several definitions of small-scale enterprises. One such definition is that small-scale enterprises are those that employ fifty persons or less. (Hoselitz 1959). When looked at from this definition, the proportional labour requirements of various small-scale industries show that food processing, leather, construction and metal fabrication tend to employ more labour per unit than say textiles, mining, metal production, paper and chemical industries. (Hoselitz, 1959). As a rule, however, the relative significance of small industries is more in the light industry group than in heavy industries. Citing cases of post-war successful industrialisation in Germany, Japan and Austria, Hoselitz showed that, at the beginning of these countries sustained industrialization, small firms employed about half of the industrial labour force. This percentage

share of the industrial labour force declined as the economy developed, particularly as the share of consumer goods industry in total production declined while that of producer goods industries increased. Further, there was a tendency for small plants to grow faster than large ones during periods of economic prosperity.

The importance and success of small-scale enterprises lie in the relatively less sophisticated management skills required, their inherent flexibility and ability to respond quickly to changes in the operating environment. Small-scale firms tend to specialise in the production of goods in specific segments of an industry. Hoselitz cites the bicycle and sewing machine industries in Japan as cases where intense localization has taken place among small-sized firms as a result of sub-contracting from larger firms. Another factor, which has tended to reinforce the economic importance of small-sized firms, is the high population density of Asian countries. Small industries also tend to have lower average wage costs than large enterprises. In a competitive environment, where costs are a major determinant, small enterprises therefore tend to do better. The tendency for unionised labour to emerge and welfare expenses to mount is higher in large scale enterprises than in small-sized industries.

However, the various classes of small industries should be distinguished based on their ability to serve as growth promoting agents. There seem to be considerable evidence that the larger of the small-scale enterprises tends to be more efficiently run as a result of a variety of factors, the most important of which is the ability to mechanise operations. Amongst small enterprises, those that employ below ten workers cab be classified strictly as artisans or handicraft shops. Many cottage and handicraft enterprises, with the exception of specially skilled artisans, operate with primitive tools just like in peasant agriculture. The result is productivity levels not appreciably higher than subsistence farming. (Hoselitz, 1959). Beyond the critical minimum size, the expansion of the small enterprise towards medium-size becomes possible. Thus, it is not enough to emphasise small-scale industry but it is necessary to tailor small industrial enterprises towards a certain size that ensures continuity and growth.

INDUSTRIALISATION POLICIES IN NIGERIA'S POST INDEPENDENCE PERIOD

In the post-independence period up to the 1986 economic reforms, industrialisation policies in Nigeria, going by the statement of intent of

the various development plan documents, were underpinned by the determination to achieve a self-sustaining growth. In this section, attention shall be focused on the industrial policies up to the third oil shock of 1981/82. These policies were broadly outlined, with various emphasis, in the course of the four development plans up to 1985 . However, the main thrust was the furtherance of import substitution strategy.

In the first National Development Plan, 1962-68, industrial policies were hinged on the attainment of gross investment of at least 15 per cent of the Gross Domestic Product (GDP) direct in productives sectors,. In assertion, the plan sought to create employment opportunities in non -agricultural occupations, invest in infrastructure such as railways, electricity, wharfage and docking facilities, as well as the expansion of the road network. Most importantly, the plan envisaged a stable fiscal and monetary environment, and sought to promote the stability of the exchange rate and avoid recourse to physical controls.

The plan recongnised that the capacity to import lies in the ability to export not only primary goods but also "new exports", according to changing tasts and patterns of World trade. It also outlined the objetive of setting up an iron and steel plant with the aim of producing flat and corrugated sheet, rods and bars, angles and channels, and other structural steel products.

The second development plan, 1970-74, also outlined an industrial policy on the following premises:
(a) The promotion of even development and fair distribution in all parts of the country.
(b) Promotion of industries which cater for overseas market.
(c) Continuation of the import substitution strategy to include the production of intermediate and capital goods, and
(d) The raising of the proportion of indigenous owership in industrial investments.
The document interestingly outlined government plans to support industries seeking additional markets for their products outside Nigeria, in oder to raise their scale of operations. The industrial

priorities set under the programme were:
(i) Agro-allied industries.
(ii) Petro-chemical and chemical industries.
(iii) Integrated, linkage and diversification of the textile industry.
(iv) An integration iron and steel complex.
(v) Passenger motor vehicle assembly and related industries.
(vi) Fufther import substitution in selected goods.
The industrial incentives outlined in the programme included fiscal relief such as pioneer company certificates, duty relief, approved-user scheme and enhanced depreciation allowance to industries that are in the priority sectors. Industries scheduled to benefit from this package of incentives included the iron and steel sector and the fertilizer industry, while those to be excluded were cosmetics, biscuit manufacturing and textiles.

Further, the document listed iron and steel development, petro-chemicals, fertilizer and petroleum products as exclusive public sector goods. Limitations were also erected in other areas, as the participation in the following:
(i) Plantation production of traditional cash crops and of basic raw materials for processing industries
(ii) Food Industries
(iii) Forest product industries, and
(iv) Building materials and construction.
The programme also stressed the need for federal and state governments to "ensure that certain indusries which are basic and of strategic nature to the economy are effectively controlled by the public sector". The government sector was to take up a minimum of 55 per cent equity in such enterprises.
Noteworthy also was the plan's intent to actively support the promotion and development of small-scale industries through the establishment of Federal Industrial Development Centres (FIDCs) specialising on the regional endowments of industrial raw materils. For this purpose state governments were required to set up small scale industries credit schemes or funds.

The third National Development Plan, 1975-80, in addition to the priorities set out in the second development plan, listed the following programme of action:

(i) Increase in per capital income,
(ii) Even distribution of income,
(iii) Reduction in the level of unempolment,
(iv) Increase in the supply of high level manpower,
(v) Diversification of economy,
(vi) Balanced development, and
(vii) Indigenisation of economy activity.
Among these objeives three growth objectives could be identified:
(a) -Increase in per capital income
(b) -Increase in the supply of high level manpower
(c) -Diversification of the economy.

The programme also envisaged gross fixed capital formation of between 31 per cent and 41 prcent of GDP . import and excise duties were expected to continue to be used as instruments for inducing backward integration, whereby industries were expected to pay more duties on raw material imports as they grew older. Under the programme, the public sector was also expeted to fund research and development effort aimed at developing substitutes for imported raw materials.

In the fourth National Development plan, 1981-85, the listed objectives of industrial policy were to:
(i) Ensure increased level of self-reliance in the supply of industrial products;

(ii) Increase local resource content of manufacturing output through the substitution of domesitic raw materials and manpower for those still imported;
(iii) Promote the growth of small scale industries;
(iv) Promote the development of export industries;
(v) Promote development of private industries; and
(vi) Rationalise and consolidate the gains derived from the indigenisation exercise.

The incentive to industry included provision for accelerated depreciation of capital investment, a duty draw-back scheme, protection of local industries from dumping, and excise duty relief for the use of local raw material. It also planned setting up of the Industrial Development Coordinating Committee (IDCC) to streamline the processing of industrial licenses, permits and approvals. On a broad scale, the plan envisaged gross investment during the period to vary between 22 percent and 24 percent of GDP. Out of an absolute projected investment of ₦82 billion, 86 percent or ₦70.5 billion was programmed to be public sector contribution. On a sectorial basis, the priorities of the plan were to promote agricultural production and processing, expand and strengthen economic infrastructure, and strengthen public sector involvement in manufacturing activities.

Development plans are generally broad statements of intent on economic growth. The actual implemention of development plan programmes hinge on the policies that are pursued on the monetary, credit, fiscal, industrial, social and political fronts. The mix of these policies and their direction depend on goals of the development plans and other intervening developments in both the domestic and international economies. To determine the foregoing with respect to industrial policies in the Nigerian context, attempts will presently be made to highlight the various policy steps that have been taken, since political independence and up to 1985 to foster industrial development.

The approach shall be on a sectorial basis, particutarly, the monetary / credit policies, fiscal policies, exchange rates policies, investment policies, and the general economic environment.

MONETARY/CREDIT POLICIES

The use of tools of monetary and credit controls to influence the quantum and mix of industrial activities derives mainly from the incidence of credit in the production process. Manufacturers require credit either for investment purposes in plant machinery (medium to long-term credit) or for working capital purposes (short-term credit) - procuring necessary raw materials, paying personnel wages and

emoluments, etc. By their nature,commercial banks tend to follow the tenets of the real bills doctrine, that banks should lend only in short-term self-liquidating commercial papers. It is thus expected to find, in the structure of commercial bank assets, that items in the near end of the liquidity spectrum predominate. Being the most ubiquiitous financial institutions, commercial banks pattern of portfolio holdings seem to determine the general asset structure of the financial system. Under such a framework, lending for long-term investments in industry is severely constrained. The pattern of credit allocation in Nigeria during the period under consideration reflected this general reluctance to have sizeable portfolios of assets maturing beyond twelve months. To reduce the effects of this tendency on industrial activities, monetary policy options were usually in the area of interest rate structure, sectorial credit guidelines, aggregate credit growth limits and the establishment of specialised financial institutions.

In the period from 1960 to 1974. the interest rate policy was passive with respect to all sectors of the Nigerian economy. The average savings deposit rate was 3.0 percent per annum. In the decade up to 1984, the average deposit rate was 5.9 percent, with relative stability at about 4.5 percent for a greater part of the period. lending rates also maintained relative stability during the respective periods, at level of 9.1 and 10.7 percent. The relative stability of interest rate in a period of almost two and half decades indicates that interest rate was not heavily relied upon in credit allocation.

The use of credit guidelines to regulate both the volume and mix of credit to the various segments of the economy started in 1964. This was necessitated by pressure on the external fronts and domestic inflation. The expansionary budgets in the immediate post-independence period resulted in current consumption exceeding current production of goods and services (CBN, 1964). As a result, the passive monetary and credit policy of the previous years was replaced by a more interventionist monetary policy with the goal of influencing the rate of domestic credit expansion and patterns of consumption. Beginning with 15 per cent in 1964, ceiling on commercial banks' rate of credit expansion grew

progressively until it hit a peak of 40 per cent in 1976. In between these extremes, the period between 1971 and 1975 featured a complete relaxation of credit ceiling as a tool of monetary policy. However, beginning with its introduction in 1964, credit ceiling was accompanied by sectorial guidelines on the rationing of the permissible limit of credit growth. Thus, the sectors were variously categorised into productive or preferred sectors and service or less preferred sectors. In an effort to discourage lending for consumption purposes and enhance lending to manufacturing, commercial banks were, generally under the threat of expropriation, asked to channel credit to the industrial sector. The guidelines varied from 45 per cent in 1970 to about 30 per cent from 1973 through most of the period.

Long-term lending to industry got a boost in 1964 with the establishment of the Nigerian Industrial Development Bank (NIDB). As a specialised banking institution, the NIDB was specifically set up to finance the long-term capital requirements of the industrial sector. It was to draw on public funding, to onlend or to participate as an equity holder in manufacturing. Another medium- to long-term lending institution, the Nigerian Bank for Commerce and Industry (NBCI), was established in 1973 as a complement to the NIDB. These institutions were designed to operate in a manner devoid of near-term concentration of loan portfolio. They were also to finance industrial projects at rates of interests that, by commercial standards, were concessionary.

Development plans hinge precariously on the fiscal performance of governments, as the plans are mainly the aggregation of public sector investment and consumption programmes. The period under review featured the ascendancy of leftist and allied tendencies in economic thought, with powerful Western reinforcement from the neo-Keynesians. The government budget invariably became the vehicle of transmission of government plan programmes. The economic arguments in favour of rigid government intervention in economic management were too powerful to ignore. Fiscal policy steps to induce industrialization included the investment programme or capital budget, indirect taxes such as import and excise duties, company income taxes, personal income taxes and wage policies.

Government was directly involved in industrialisation efforts throughout the period. For example, in 1962, a steel rolling mill using iron scrap was established near Enugu, as part of efforts to establish a basic industrial core for the economy. However, most of the efforts at economic development during the initial period were expended on infrastructural development, specifically in rail, road and port development. With the promulgation of the Enterprises Promotion Decree in 1972, the involvement of government in direct production activities increased to include, not only heavy industries but also intermediate and consumer goods, including vehicle assembly. Heavy industrial investments, which had no private sector participation, were in the iron and steel complexes, the steel rolling mills and petroleum refining. To emphasise that policy direction, government took up minimum equity shares of 40 per cent in all foreign-owned banks, ostensibly to ensure that industrial units were adequately funded. Even the Central Bank of Nigeria was given increased powers to intervene directly in the activities of such government companies.

The main thrust of industrial sector incentives during the period however rested on import and excise duties. There were wide swings in the use of indirect taxes, particularly import duties, as incentives to manufacturers; and they coincided with the direction of external balance and domestic inflation. Generally, during a rundown in external

reserves, duties on imports were increased especially on goods perceived as luxury imports but less on raw materials and capital goods. The earliest record of the use of import duty relief to encourage industrialisation was the enactment of the Industrial Development Act of 1957 in which manufacturers were refunded duty paid on raw material imports. Following the generous fiscal operations of the initial four years after independence, and the imbalances that resulted in 1965, the Federal Government introduced $33^1/_2$ to 150 per cent increases in duties on imports classified as non-essential. In addition, there was a far reaching ban on all imports from Japan except textiles. This posture continued until 1970. Following the end of the civil war and the consequent freeing of government finances, there were tariff reductions on a variety of consumer imports, building materials and other intermediate goods. With the entry of petroleum as a foreign exchange earner, 1971 witnessed the removal of all import restrictions except on rice, wheat, tobacco and tobacco products, alcoholic and other non-food beverages. In the following year, there was a reversal of emphasis as severe restrictions were once again placed on imports of goods whose local supplies were adequate in terms of price and quality. Import duties on raw materials however were reduced by between 10 and 50 per cent. With the wage review of 1975, another round of consumption surge forced the government to further reduce custom duties for some categories of imports, while abolishing it for others such as milk, salt, asbestos, maize, rice and other food items. The government actually took the unprecedented step of establishing the Nigerian National Supply Company Limited (NNSC) in 1974 to undertake bulk importation of consumer goods like fuel, beef and cement, and re-sell those to the public at subsidised prices. During the lean years of 1977-79 when oil prices were weak, there was a resurgence in import duties, import prohibition and import quotas, only to be reversed in 1980. Excise duties were also employed, but generally to a lower extent, when there was pressure on government finances.

Probably because of the country's weak industrial base, company income tax was hardly used to regulate industry. For most of the period, company income tax remained stable at about 45 per cent until the oil shock of 1977/78 forced an upward review by 5 percentage points in 1979. To remove uncertainty in the business community with regard to

profitability of investments, the government promulgated a decree guaranteeing an eight-year protection for industries, provided they had a comprehensive programme to produce components and raw materials locally. However, the main emphasis of company income tax policy during the period lay in the five-year tax holidays granted to pioneering industries, and accelerated depreciation granted to companies with respect to capital investments. By embarking on a programme of setting up industrial estates in parts of the country, the government sought to encourage manufacturing by lessening the investments industries would make on items of infrastructure such as power, roads and water. The estates were also intended to lower the cost of land acquisition for industrial development.

Uses to which personal income taxes were put in the period were rather of a general nature without particular emphasis on industry. Tax reliefs were granted generally to enhance personal disposable incomes which in turn were in the main aimed at consumer goods. Compulsory savings were however put in much use to restrain consumption and enhance government revenue during the civil war years.

Wages were, in the main, deregulated during the first decade after independence. After the political crisis of the middle to late sixties, the government undertook the first general wage review in 1971, which was aimed at harmonising wages in the public sector with those in the private sector. Particularly, it was also intended to dampen the effect of the inflation that resulted from civil war expenditures. Another general wage review followed closely on the heels of this in 1975. As with personal income tax policies, wage policies were primarily targeted on regulating consumption rather than stimulating industrial growth.

During the period, the use of the exchange rate of the domestic currency vis-a-vis other traded currencies as a tool for industrial development was also negligible. In the first decade after political independence, the exchange rate remained steadily at 0.7143 units of the local currency to one United States dollar. However, following persistent rundown in external reserves, the government enacted the exchange control act in 1962. At its enactment, the intent was to have a ready tool in the event of a fundamental balance of payments dis-equilibrium where other measures failed. Thus, its operation was very liberal in its first few years. Even capital account transactions were free of restrictions. For example, banks in the system were permitted to carry out both short-term and long-term borrowing and lending abroad. These were possible because of the direct convertibility of the domestic currency to sterling balances. In 1965, however, banks were prohibited from using the proceeds of short-term borrowings from overseas to finance long-term projects. In 1968, following the devaluation of the pound sterling, the Nigerian government resisted pressure from financial circles to devalue the local currency. Instead, the use of exchange control to stem speculative outflow of foreign exchange was tightened. All authorised dealers were required, from then onwards, to surrender all foreign exchange earnings from export and non-export activities to the monetary authorities. With the civil war and the attendant expenditures, the full weight of the exchange control act was brought to bear on all categories of imports by subjecting them to import licensing. These were temporarily relaxed in 1970 to allow the repatriation of 40 per cent of dividends and profits on foreign investment held back during the war. Other controls were also slackened.

The limit on expatriate home remittance was however reduced to 25 per cent of gross income, from 50 per cent.

The domestic currency actually started a gradual but steady appreciation against the U.S. dollar in 1971, following the dollar crisis and the surge in foreign exchange earnings from crude oil exports. Between 1971 and 1976, the naira appreciated on the average by 5.0 per cent against the dollar. It however took a depreciated 3.1 per cent in 1977, following external sector pressure in the wake of the 1977/78 oil shock. It thereafter started appreciating strongly from the

second half 1978. On the average, the Naira rose in value from ₦0.6468 to one U.S. dollar in 1967 to ₦0.6067 to the dollar in 1968. At its strongest, in 1980 the Naira exchanged at N0.5469 per U.S. dollar, only to lose 5.8 kobo to the dollar in 1981 as the third oil shock came underway. From this level, the Naira was to continue a process of gradual depreciation against the dollar such that at the end of 1985 it exchanged almost at par with the U.S. dollar.

It is important to note again that all the movements in exchange rate were government's response to the level of external reserves at several points in time - they were not based on any industrialisation policy.

INVESTMENT POLICIES

The investment policy that was pursued in Nigeria up to 1985 tended to have two broad undertones. In the first place, they emphasized the effort of the government to sponsor import substituting industries while, also, they reflected the desire to Nigerianise the industrial sector.

As pointed out earlier, industrialisation in post-independence Nigeria was based on import-substitution strategy for consumer goods industries. The government got directly involved in setting up industries; as well, it gave various tax concessions to private investors through the duty draw-back scheme and the pioneering industry scheme. These mainly consisted of tax concessions granted to manufacturing industries to encourage new investments. These measures were generously complemented with regular increases in import duties, imposition of import quotas and import prohibition. The wage increases during the period further increased the effective demand for the products of the consumer goods factories.

By far, the most important policy on investments in Nigeria came in 1972 with the Enterprises Promotion Decree. While the government was to retain the commanding heights in industry, the decree made certain categories of enterprises the exclusive preserve of Nigerians. Other enterprises allowed only up to 40 per cent equity participation

to foreign investors. Existing foreign businesses were mandated to relinquish their ownership to Nigerians, either wholly or partially depending on the nature of business. The Decree reserved all forms of retail trading, except supermarket chains whose investments were in excess of ₦2 million, most services and low technology industries exclusively for Nigerian citizens. It also allowed limited foreign participation in industry and agriculture for cases that require high technology and heavy investment outlay. In 1977 the decree was amended to reclassify enterprises into three categories instead of two. The additional third schedule specified areas in which up to 60 per cent foreign equity participation were allowed. This was aimed at inducing increased foreign capital inflow into industries that require high initial investment. As a follow up, in 1978, integrated agricultural production was moved from the second schedule to the third schedule. That same year, the land use decree was promulgated which, among other things, was aimed at easing the process of land acquisition for industrial purposes.

THE GENERAL ECONOMIC CLIMATE

From the foregoing, the general economic climate was that in which the government played a prominent role. The basic thrust of economic management was the even distribution of amenities and self -reliance in both industrial and agricultural production. To this end, every problem and its solution was addressed by government intervention. From the policies and actions of government, it was clear that price as a concept was, at its best, viewed with suspicion and, at its worst, with contempt. The Nigerian economy virtually became a "command economy" where prices were fixed rather than arrived at through market forces. This period was also beset by uncertainties as to the probable direction of policy on ownership, title and other issues that were critical to industrial development.

APPRAISAL OF INDUSTRIALISATION POLICIES IN NIGERIA'S POST- INDEPENDENCE PERIOD

From all indications, the industrialization efforts in the period from

1960 to 1985 were most unsuccessful. Principal indicators of economic development show that positive structural changes did not take place to any significant extent in that entire period. Industrial share of aggregate output averaged 8.6 per cent, compared to the superlative performances of 25, 22, and 23.5 per cent respectively in South Korea, Taiwan and Singapore during comparable periods of their economic development (See references 19 and 20). Subsistence agriculture remained the largest employer of labour, accounting for more than 50 per cent of the total labour force. Consumer goods imports still accounted for 29.3 per cent of total imports in 1985 inspite of almost three decades of import substitution (CBN Reports, 1987). Manufactured exports also indicated a dismal performance, accounting for 0.5 per cent of total exports in 1985, compared to 80.9 per cent in Korea and 84.9 per cent in Taiwan.

The external balance paints an overall poor picture as it remained for more years in deficit than it was in surplus throughout the period under consideration. In the five year period between 1971 and 1975, oil export earnings caused the balance of payments to record surpluses that peaked at 5,114.0 million in 1974. The same was to be experienced between 1979 and 1980, resulting from higher prices of crude oil in the international market. The entire period portrayed an economy whose current consumption persistently exceeded its current output. As expected, net short-term foreign borrowing rapidly increased and peaked in 1982 at ₦2,444.1 million (CBN Reports, 1984). At the end of 1985, Nigeria's total foreign debt outstanding had increased to about ₦17.29 billion, that is, 19.37 billion U.S. dollars. The rapid growth of foreign indebtedness between 1980 and 1984 followed closely from the balance of payments position. As imports of finished goods soared following the liberalisation of foreign exchange and trade controls in 1980, the external reserves holdings of the Central Bank came under intense pressure. There was, as expected, high degree of default in payments by the Central Bank resulting in capitalisation of interests due. The situation was made worse by the high interest rates in the international capital markets that characterised the early and mid 1980s.

In 1981, the world oil market experienced its third price shock. There was, as in 1977/78, a downward pressure on oil prices. In 1983, instead of a price-fixing OPEC, members of the cartel engaged in

competitive price cuts in response to low export volumes. This was the final shock that the economy could not sustain. By the end of that year, it was clear that Nigeria was finally in a deep and fundamental balance of payments crisis.

From this brief economic history, a number of questions readily come to mind. Why was Nigeria unable to survive the oil price shock? Why was the import bill mounting? Why did manufacturing not grow substantially to displace consumer goods imports?

To the first question, Nigeria could not hope to survive the price shock because the structural imbalances in the economy were not earlier addressed. Despite being a major oil exporter, Nigeria's economy was essentially weak. The critical changes in the production, consumption and demographic data necessary for sustainable economic growth had not developed. For an economy to overcome fundamental balance of payments crisis quickly, other things being equal, it needs to have a diversified production base such that growth and declines in various industrial sectors balance each other. In the alternative, it should be able to switch consumption fairly easily. Neither of the above conditions was met in Nigeria.

Exports were dominated by a single commodity - that is, crude oil - while imports were equally dominated by consumer goods. These led to structural rigidities and foreign trade inelasticities. To make matters worse, rural neglect resulting in rural depopulation dealt lethal blows to productive capacities in the export produce sector. Even basic food production was not spared, as cheap imports of food items aligned with the rural-urban migration to reduce local food production.

The entire economy became import dependent. Industries, which had been completely nurtured to depend on imported raw material, could not even meet the local consumer demand for their products. The hopes that forward and backward linkage effects would enable the industrial sector to become self-sustaining were never realised, thereby leading to huge manufacturing outfits that were essentially lameducks. Despite being the single largest user of foreign exchange, the industrial sector, as already noted, featured very little in exports.

Even though the fourth national development plan of 1981-85 specifically identified small-scale industries as strategic to industrial development, this category of industries never went beyond domestic industries such as bakery and concrete block making. There was no talk whatsoever of products of small- and medium-scale industries entering the export market. This was clearly at variance with the economic response of this category of enterprises in South East Asian countries such as India, Korea, Taiwan and Singapore.

As already noted, consumer goods import bills mounted during this period as disposable incomes were high. As foreign exchange receipts rose on account of oil exports, the government monetised huge proportions of the petro-dollars to set up new turn-key industrial projects for consumer goods, and undertook general wage reviews that attracted sizeable wage arrears. Government also carried out domestic public works. All these created high levels of liquidity in the economy. Such increases in domestic liquidity increased consumption of goods and services which, in such an open economy, expectedly spilled onto imports. In addition, artificially low prices were charged for a wide range of consumer goods because of subsidies borne by government, as well as price control measures.

Manufacturing industries could not keep pace with the demand to displace imports because the incentive structure was inappropriate. There was no serious drive to attract foreign investment, especially in the years of easy oil money, as one would have expected in a developing economy. Indeed, the country actually expropriated foreign investment when it forced investors to dispose of their equity holdings in their enterprises in Nigeria. This made it even more difficult to attract fresh investments from abroad. Even when they reluctantly came in, new investments had to pass through difficult bureaucratic processes before approvals to invest were given. Approvals to remit dividends and profits were difficult to obtain. To further depress the attractiveness of the Nigerian business environment, proceeds of divested investments, following the indigenisation exercise, were held up in Nigeria in 1973.

As noted earlier, the economic environment seriously undermined the importance of price signals. Investments which are absolutely necessary for industrial expansion could not take place under condi-

tions when domestic savings were not growing. Domestic savings did not grow because real interest rates were mainly negative. Nominal interest rates barely changed from 1960 to 1985 despite changes in the inflation rate during the period. Even in the 1970s when inflation became the number one economic plague, instead of putting an appropriate interest rate structure in place to reduce current consumption expenditures, nominal interest rates were held down while the solution sought was a massive importation of consumer goods. Expectations of further inflation fuelled inflation which led to further increases in consumer goods demand (CBN Report, 1971).
In economic terms, the shadow price of consumption, when compared with that of savings, was low. This resulted in inconsistency of private sector response to incentives created by government. For example, following the trade liberalisation, importers placed unprecedented orders for imports in anticipation that such general liberalisation could not be sustained. When they discovered in the next year that the government was steadfast with its trade liberalisation, the importers changed response stating that importation was hampering investment, and creating unsold inventory.

Inflation, on the other hand, was fuelled mainly by government deficits which were undertaken through injection of money into the economy through direct borrowing from the Central Bank of Nigeria (CBN). When it became apparent that credit from the banking and non-bank public at the prevailing unrealistic interest rates was impossible, an amendment to the CBN act in 1967 increased the maximum level of government debt which the CBN could hold. Such borrowings from the CBN tend to have inflationary effects. On the other hand, if government borrowed from the banking and non-bank public to finance its deficit, the effect of government deficits would only have made investments to prosper through induced increases in marginal savings rates, and would not result in galloping inflation. By "crowding-out" lending to the productive sectors through credit ceilings, government activities directly depressed industrial activities. Efforts to obviate the resultant concentration in short-term lending by sectorial minima in lending to manufacturing, through the annual monetary and credit guidelines, proved woeful failures

as banks preferred to pay penalties rather than conform.

The suspicion the government had for the price allocation mechanism was more apparent in the exchange rate system. By maintaining a very strong exchange rate with respect to its major trading partners, despite perpetually adverse balance of payments positions, Nigeria gave the wrong signals to industry in making investment decisions. Since capital scarcity was a major constraint to industrial growth, there was a need to promote labour intensive techniques of production. However, the exchange rate made imports of capital intensive techniques of production cheaper than the more labour intensive methods of production that were consistent with domestic resource endowment. Manufacturing plants were thus heavily import dependent for both machinery, spares and inputs, while employing very minimal levels of labour. Under these conditions, incomes did not grow, neither was income distribution less skewed. The resultant industrial structure featured large and unwieldy projects. Small- and medium-sized firms, which have important roles to play in the field of industrial engineering and can contribute significantly to widening the industrial base, were not encouraged.

It could be said without fear of contradictions that it was price distortions introduced by inflation, past interest rate and exchange rate policies, and not import substitution per se, that led to the failure of Nigeria's industrialisation strategies. When realistic pricing policies are adopted, it becomes more costly both to public and private sectors, to implement wrong policies; the effects of wrong policies are immediately reflected either in the general price levels, interest rates and/or exchange rates. Decision makers face the true costs and rewards of their actions when there are no forceful sanctions that prevent the true market indicators from emerging. Economic efficiency and productivity of industrial investment therefore require the elimination of micro-economic distortions. Given a free reign, these indicators ensure both domestic and external balance, and countries that maintain this balance appear to be more resilient to external shocks (Michalopoulos, 1987).

However, under ultra export promotion, which has been shown to be

more favourable to industrial export expansions, other policies are used to reduce domestic manufacturers' cost profiles. The use of currency under-valuation, which also implies acting out of equilibrium conditions but in a different direction from currency overvaluation, has proved useful in ensuring external market access to domestic producers. Likewise, indirect taxes and subsidies have been used to create a bias for the profitability of manufacturing for exports against that of manufacturing for the domestic market. The costs of these interventions must have been minimal because the public sectors in those countries that applied them consistently declared fiscal surpluses. In addition, in those countries, the public sector restricted direct intervention in industry to heavy industries like iron and steel, basic metallurgical industries, petrochemicals and petroleum refining. With huge earnings from oil exports, Nigeria was at a very vantage position to establish such strategic heavy industries, run them efficiently in a proper price setting and later sell them to private interests, as is currently being done in Brazil. Surplus oil earnings, after such investments, could have been sterilized in foreign asset acquisitions rather than allow the liquidation of assets to create the illusion of enhanced current output.

THE 1986 ECONOMIC REFORMS AND INDUSTRIAL POLICY

As can be seen from the foregoing analysis, economic collapse was inevitable. It eventually came in 1986 when there was almost a complete halt on oil exports as a result of a glut in the world market. Nigerian importers, even with seriously constrained ability to import due to the licensing regime, found it very difficult to secure lines of credit from overseas creditors. Raw materials and spares needed to keep industries running were not forthcoming. Industrial production in that year alone plummeted by 3.4 per cent (CBN Report, 1986 p.10), leading to shortages of consumer goods. The new government, which at its inception in 1985 inaugurated a national debate on the International Monetary Fund (IMF) balance of payments support facility, had just received a mandate from the debate to restructure the economy without the IMF facility. The stage was then set for perhaps the most radical and far reaching economic restructuring

effort in the nation's economic history.

The aims of the reform package as contained in 1986 Budget were fully highlighted in chapter 2. The main planks of the restructuring effort were mainly the freeing of the various prices as exchange rates, interest rates, public goods pricing, rationalisation of public expenditure and the tariff structure.

In an effort to achieve a realistic yet market determined exchange rate, the naira was floated through the Second Tier Foreign Exchange Market in the second half of the year. Being the most troublesome economic variable, it required a lot of political will to introduce the foreign exchange auction in Nigeria. The aim was to eliminate in the economy wide price distortions caused by the over-valued exchange rates pursued over the past two decades and half. Other objectives of the floatation were to reduce imports, stimulate exports and invisible foreign exchange receipts, and to enhance the prospects of a stable noninflationary growth in the medium term. At the first auction the naira had a de facto devaluation of 66 per cent. The rates derives at the auctions were applicable for all transactions except external debt service payments and transfers to Nigeria's missions abroad which were to operate at first tier rates, closer to the old regulated rate of exchange.

Having successfully eliminated the exchange rate constraint, the government rationalised the tariff structure. Since price had become the regulator of foreign transactions, import duties were generally reduced, especially for industrial raw materials. However, duties for capital goods were raised. The number of goods on import prohibition was reduced

from 74 to 16 with the new list consisting mainly of luxury items like alcoholic drinks, as well as foods such as maize and maize products, wheat and wheat products, vegetable oils and other items considered inessential or whose domestic import substitutes were in abundance. Earlier in the year, as part of the economic stabilization programme before the Structural Adjustment Programme (SAP) was embarked upon, a number of policy steps mainly on the fiscal and external sectors were taken, which complemented the economic reforms. Among the most important were:

(a) a reduction by about 50 per cent in non-statutory transfers to all economic and quasi economic parastatals;

(b)that government will gradually divest its holdings in non-strategic industrial and commercial enterprises;

(c) a package of incentives aimed at encouraging increased production for exports. Details of those incentives were given in chapter 2. In addition to the above incentives introduced in the 1986 Budget, the Government also introduced a Domiciliary Account Scheme in which exporters and other foreign currency holders could open foreign currency denominated accounts (CBN Report, 1986).

In 1987 interest rates were equally de-regulated, thus removing the last officially regulated market, at least as far as price was concerned. The Central Bank's minimum re-discount rates became the reference rate for the economic agents in the financial sector.

On the industrial front, the government reinforced its commitment to the core industrial prospects such as Iron and Steel projects at Ajaokuta and Warri, the fertilizer plants at Kaduna and Onne, the Petrochemical plants at Ekpan and Kaduna, as well as the three paper mills at Oku Iboku, Jebba and Iwopin. These core industrial projects, which now formed part of government rethinking on public sector industrial investments, were designed to produce intermediate inputs for the various industries that hitherto depended on imports. The government determined to see that they are commissioned and fully operational before its planned exit at the end of 1992.

As part of efforts to attract foreign investment, Nigeria started a

programme of converting its foreign debt instruments into equity in industrial projects. The sectorial preferences were in industries that have high local input requirements, privatised public enterprises and new ventures with high proportion of local value-added. The indigenisation decree was amended to streamline the scheduled enterprises into only one sector for wholly Nigerian owned enterprises. Foreigners could therefore own up to 100 per cent of enterprises not scheduled.

Prior to the economic reforms, the documentation requirements for the setting up of new industries spanned several ministries and extra-ministerial departments. The resultant delays and confusion, especially as some of the documents were basically duplication of efforts, often discouraged investors. This bottleneck was a major impediment to foreign investment inflows. Nigerians eventually recognised that foreign investors have more attractive options in other countries, with less trouble. As a result, the Industrial Development Co-ordinating Committee (IDCC), which had been on the drawing board since the Fourth National Development Plan, was established in 1989. Its objectives were to:

(i) grant approvals for the commencement of new industries and the relevant expatriate quotas for such businesses;

(ii) grant approved status in principle for imported capital in new ventures; and

(iii) approve technology transfer agreements with respect to machinery and plant imports, engineering design services and plant installation, commissioning.

The Committee thus effectively replaces the various ministries ar agencies that hitherto processed and approved applications for su licenses and permits. Its membership is drawn from the ministers Finance, Internal Affairs, Trade, Science and Technology, Agricultu Industries as well as Employment, Labour and Productivity. Of significance is the requirement that the committee process applicat within two months of receiving them. Since it is one approval centr the various business permits, the Committee reduces the costs, time resources to the prospective investors.

Earlier in 1986, the Directorate for Foods, Roads and Rural

structures (DFRRI) was established to carry out rapid infrastructural developments in the rural areas, to facilitate in part, the emergence of cottage and agro-based industries in the rural areas. In addition, the government announced the abolition of the commodity boards which were created in earlier years to carry out the export of local produce, under monopoly conditions. In the same year, the National Directorate of Employment (NDE) was established with the task of creating job opportunities for the unemployed, particularly unskilled high school and university graduates.

As part of the fine-tuning of the economic reform effort, especially as a result of the observed liquidity preference in bank lending, and the central importance small- and medium-scale enterprises (SMEs) are supposed to play in the new scheme of things, the National Economic Reconstruction Fund (NERFUND) was established by Decree in 1989. It was to complement the work of the NIDB and NBCI, in financing industrial enterprises, but with special responsibility for SMEs. It aims were to:
(i) correct any observed inadequacies to the provision of medium- to long-term financing to small- and medium-scale industrial enterprises and ancillary services;
(ii) provide medium- to long-term loans to participating commercial and merchant banks for on lending to small- and medium-scale enterprises, for the promotion and acceleration of productive activities in such enterprises;
(iii) facilitate the provision of loans with five- to ten-year maturity, including a grace period of one to three years, depending on the nature of the enterprise or project;
(iv) provide such loans either in naira or foreign currencies or both, according to the sources of funds available to the NERFUND and the requirements of the eligible enterprise or project.

To qualify for NERFUND loans, an enterprise must be 100 per cent Nigerian owned, have fixed assets including the portion to be financed by NERFUND not exceeding ₦36.0 million and source at least 60 per cent of its raw materials locally. The fund was set up to finance SMEs primarily because the new incentive structure put in place in the economy is more adaptable to SMEs than gigantic industrial complexes.

In addition, SMEs create more job opportunities, either at the factory floor or in terms of backward and forward linkages, per unit of investment. They are also perceived as engines of growth through which the spread of technological progress can be effected. Most importantly, very limited access of this important yet vulnerable group of economic agents to conventional money and capital market financing necessitated the creation of the NERFUND.

A parallel financing institution, known as the Peoples' Bank, was also set up in 1989, to accord recognition to the credit needs of yet smaller units of business that can be classified as artisans. As expected, the procedure and maximum amount lent to a single customer is much less sophisticated than that available at the NERFUND.

APPRAISAL OF INDUSTRIAL INCENTIVES UNDER THE ECONOMIC REFORM PROGRAMME

Even though the economic reform programme is a medium- to long-term programme, thus making assessment difficult at this point in its implementation, certain indicators however point to the fact that the policies are having positive effects on industry. While Gross Domestic Product (GDP) in real terms, has grown on the average by 4.1 per cent, industrial sector output also grew by 5.3 per cent during the period. Much of the increase in manufacturing output was primarily due to local sourcing of raw materials (CBN Report, 1988). Indeed, industries that had difficulty in switching from imported to local raw materials have had severe problems. Average capacity utilized in manufacturing industries during the period, at 43 per cent, indicated improvement over the period before the economic reforms, and its relative stability during the period points to continued efforts at adjusting to the new realities.

Access to raw materials has been enhanced since the liberalisation of the trade and payments system. The allocation of foreign exchange to the industrial sector for raw materials and spare part imports account for an average of 65 per cent of total disbursements, while imports of finished goods has declined in relative importance. With foreign exchange appropriately priced, its utilization has tended to become more efficient

as only sectors that really need it at its present price seek it. Since the aim of the reform is not to embark on absolute self sufficiency in all imports, the allocation of foreign exchange for industrial purposes in absolute terms, particularly for imports of capital goods, has witnessed a steady rise as the economy expands.

The export list also grew to about 27 items in 1991 from about 14 items in 1985. Of significance is the entry into the export list of manufactured items, particularly textiles and industrial chemicals. The inflow of foreign exchange to authorised dealers from private sources grew at about 11.1 percent between 1987 and 1990, with growth in non-oil export receipts in the region of 30 percent.

To further the export drive, the Nigerian Export Credit Guarantee and Insurance Corporation, which was later re-christened the Nigerian Export/Import Bank (NEXIM), commenced operations in 1990, with the aim of enhancing export financing and insurance. This corporation can be said to be a futuristic endeavour in anticipation of the increased participation of Nigerian manufactures in export business. Even though the export base is still heavily slanted towards primary exports, with the emphasis on export of semi-processed raw materials, the role of NEXIM in the export of industrial goods in the years ahead looks promising.

While the foreign debt auction programme may indeed reduce the external debt stock, its real significance to industrial development is in the equity participation it affords. As at the end of 1990 the total number of industrial projects financed throughout the programme stood at 49 with cumulative disbursement of ₦771.5 million in equity. The record level of conversion shows renewed interest of foreign investors in the economy. This is encouraging especially when seen from the fact that, prior to the implementation of the reform programme and the incentives that accompanied it, foreign investment inflow had stagnated.

The funding effort of the NERFUND also indicates the new level of confidence in the nation's investment climate. In its first two years, the fund approved 148 projects worth about ₦1,181.5 million. Disbursement to 73 industries within the period amounted to about ₦487.6

million. The projects funded are in areas of agro-allied businesses, metal fabrication and metal products, pharmaceuticals and chemicals, industrial support services, textiles, garment and footwear. These industries are directly engaged in adding value to output, while at the same time creating future growth prospects. The repayment record has been very commendable for projects that have matured.

CONCLUDING REMARKS AND PROSPECTS FOR NIGERIA'S INDUSTRIALISATION

We have noted the basic features of Nigeria as a developing economy, particularly the efforts made at rapid industrialisation since independence. The tendency is to conclude that import substitution strategy was necessarily deficient as an industrial strategy, at least going by Nigeria's experience. While it must be stated from the outset that the emphasis under the strategy has a tendency to elicit policies not conducive to long-term viable industrial growth, there is nothing to suggest that import substitution is completely defective. Indeed, the new industrial countries of Asia have combined it with the export promotion programme to very good effect. As countries grow out of subsistence, the pattern of world production and trade indicate that some sectors need protection, especially in the very early stages of growth. However, the over-emphasis on protection of the domestic market for consumer goods creates structural rigidities in both import sourcing and product availability. It is well recognised in economic development that income or output not consumed is saved. The export market is a form of savings from current output, and it is this key component of the export promotion strategy that affords producers the excellent opportunities to expand investments and their profitability.

Nigeria chose to look at one side of the development coin to its great disadvantage. The oil windfall, instead of being the impediment to development that it was, could have been used to develop infrastructures in power and communications and build strategic industries, rather than finance current consumption.

Many of the emerging industrial countries are heavily import dependent, yet they have no sizeable national resource to count on for

foreign exchange. Through careful manipulation of domestic price structure, through the adoption of competitive interest rates, appropriate exchange rates and rational government spending, they were able to cut costs of production and assure competitive export pricing. Exporting was elevated to glorious heights, as a result of the identified foreign exchange constraint, through emphasis on industrialisation. All of these countries preferred the small-sized privately owned businesses to the big public industrial complexes common in Nigeria before the economic reforms. The success they have made of industrialisation by this approach has created indelible marks on economic development. The successful countries also show that development involves a keen partnership between the private sector and the government, with the latter continuously engaged in creating an enabling industrial environment.

Surely, there is no single assured route to industrial development. However, the reforms embarked upon in 1986 in Nigeria, having fostered the emergence of price indicators, would assuredly transform Nigeria successfully into an economy with a viable industrial base. The country has proved that, with the right price setting it has an abundance of entrepreneurs that would respond appropriately to incentives. With the quality of proposals for enterprise financing that NERFUND has been receiving, the prospect of continuous increase in the number and quality of industrial enterprises is quite good. Incentives alone do not elicit the appropriate response but, with a favourable climate for private entrepreneurial activities, incentives can play an active role in promoting investment.

To ensure continuous industrial expansion, the commitment of the government to its own core industrial projects, such as the petrochemical and fertilizer programmes, must not be in doubt. In fact, there is merit in early completion of these projects. In this vein, the zeal with which the removal of price distortions was done should be surpassed in the reinforcement of the industrial structure, by the coming on stream of these key projects. Furthermore, the reform of the tariff structure should be continuous, with a view to allowing sufficient competition for our growing industries, for our industries have to learn to compete globally in a world that is becoming more and more borderless.

Finally, the place of appropriate financial intermediaries to finance medium- to long-term projects must be reinforced with appropriate

legislation and the opening of new sources of funding through diplomatic channels. In addition, it is very important to note that bilateral negotiations for market access is crucial to the success of the new style of economic management. Complementary to bilateral diplomatic action is the continued confidence of the rest of the world in genuineness of the new thinking in Nigeria as it affects the security of foreign investment and the integrity of the reform process.

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Source :

TABLE *: International Financial statistics Yearbook 1989, International Monetary Fund, (IMF) Washington DC, Federal Office of Statistics,*

** Derived from Nominal Values as Published*

TABLE

YEAR	NATIONAL ACCOUNTS	(1985 = 100)	
	GDP	GROSS FIXED CAPITAL FORMATION	MANUFACTURING
1960	28644	3831.1	N A
1961	29596	36341	N A
1962	31298	40671	N A
1963	33918	5384	N A
1964	36003	6797	N A
1965	36939	3493	N A
1966	36212	7167	N A
1967	28732	5975	N A
1968	32335	5675	N A
1969	40996	6180	N A
1970	53207	8743	N A
1971	62990	10966	N A
1972	67583	11675	N A
1973	67591	19732	N A
1974	76192	20671	N A
1975	73895	26283	N A
1976	81947	34794	N A
1977	88619	33289	N A
1978	82130	27206	N A
1979	88199	23623	N A
1980	88694	25629	12270
1981	81252	23861	10977
1982	81640	19813	11652
1983	78256	9132	8630
1984	73030	4316	7827
1985	78776	5319	7490
1986	81330	7323	8150
1987	82775	9810	10991
1988	86093	7715	8750

Chapter 6

OIL IN NIGERIA'S ECONOMY

- By Edoreh E. Agbah

1 INTRODUCTION

From the perspective of economics, the petroleum industry in Nigeria has experienced considerable flux within its comparatively short life, since oil was first discovered in commercial quantities in 1956. From being a relatively obscure industry in those early years, it has become the prime mover of the nation's economy. Today the industry dominates the country's economy. It is the main source of foreign exchange, accounting for over 90% of foreign exchange receipts. Also, a very high percentage of Government revenue comes from the oil sector. The industry employs over 30,000 Nigerian's directly and it is responsible for indirect employment of over 5 million persons. Over 20% of the Gross Domestic Product also comes from the oil sector of the economy.

An examination of the contribution to government revenue by the oil sector between 1970 and 1980 throws more light on the impact of the industry on the nation's economy. In the 1970/71 fiscal year, oil revenue jumped to ₦219 million from the level of ₦75 million the previous year. In 1971/72, the figure was ₦623 million, almost three times that of the previous year. By 1972/73, the oil revenue, for the first time, attained the billion naira mark at ₦1.4 billion. Oil revenue continued to grow in leaps and bounds until it suffered its major setback in the 1977/78 fiscal year having dropped from ₦6.3 billion in the 1976/77 fiscal year to ₦5.333 billion. The situation has however not changed much since 1978, notwithstanding the depressed inter-national environment of oil. Federal budgets are now predicated on expected revenue from oil with special emphasis on the volume of oil available for export and the price at which a barrel of oil will be sold. All capital developments carried out in Nigeria since the early 70's such as iron and steel plants, electricity projects, petrochemicals projects, educational infrastructures, health and even social and cultural projects such as the national sports stadium, the national theatre, airports, etc have been implemented using petro-naira. This is evident from the size and sums involved in the nation's Development plans.

The second National Development Plan (1970-74) budgeted a capital expenditure of ₦3 billion. The realised revenue during the plan period led the Government to substantially increase the planned capital expenditure for the Third National Plan to ₦30 billion at the inception of the plan. This was later revised to over ₦45 billion before the plan period expired. The Fourth National Plan was based on a total budget of ₦82 billion using projections of oil production and price increases. Government planned to spend over the period 1981-85 a total of ₦72 billion with minimum internal and external borrowing. As can be seen from the table below, government's expenditures over the years since oil became a major revenue earner would have involved huge deficits (or would have had to be very drastically cut) if not for the contributions of oil to government revenue. From the foregoing, it is obvious that the oil industry has been the main pillar of the nation's economy.

TABLE 1

EFFECT OF OIL RECEIPTS ON GOVERNMENT EXPE[illegible]URE
1972 - 1984 (MILLION NAIRA)

YEAR	GOVERNMENT EXPENDITURE	OIL'S CONTRIB-UTION	ALL OTHER SOURCES CONTRIB-UTION	DEFICIT WITHOUTOIL'S CONTRIB-UTION
1972	1863	764	641	-1222
1973	1779	1016	753	-1026
1974	4260	3727	810	-3450
1975	8258	4272	1243	-7015
1976	9702	5365	1401	-8301
1977	11695	6065	1594	-10101
1978	12337	4459	2356	-9981
1979	13191	8881	2032	-11159
1980	23692	12354	2880	-20816
1981	21239	8564	3616	-17623
1982	22718	6868	3276	-19442
1983	16114	7253	3256	-12858
1984	15966	8210	2984	-12982

Source: Afolabi Olopoenia, "Oil Boom, Dutch Disease and the need for Structural Adjustment in Nigeria", in The Journal of Business and Social Studies, University of Lagos Press, 1984.

2. SOURCES OF OIL REVENUE

Revenue accrues to the Government from the oil sector through five main sources. These are Petroleum Profits Tax, Direct Crude Sales, Royalties, Rents and Excise Duties on Refining activities plus dividends earned from profit of NNPC's operations. The Petroleum Profits Tax is currently 85% of tax-able oil income i.e., 85% of the price of crude oil less Royalties and Technical costs of Production.

Royalties are presently fixed at between 20% and 16.66% of the price of crude oil depending on whether production is on-shore, shallow offshore or deep offshore. Rent is paid on non-producing concessions retained by oil prospecting companies. The amount of rent is a function of the area of the concession. When production starts in a concession, payment of rent ceases while payment of royalty commences. The revenue earned from these sources are accounted for in a very efficient manner by the NNPC. All revenue accruing from crude sales belong to Government and are paid directly into a nominated account with the Central Bank of Nigeria. The Corporation does not make any payments out of this account except for the following specified items namely; cash calls made to joint venture partners, petroleum profits tax and royalty. All these are expenses incurred by crude production activities. In addition to crude oil proceeds, the following fees are also collected by the Inspectorate on behalf of government and paid directly into the nominated government account with the CBN. These are: oil mining licence fees, penalty for gas flaring and government rent. It should be known that crude oil production operations are funded with the proceeds of crude sales through what is called cash call payment.

NNPC's own revenue comes mainly from sales of petroleum products. The annual turnover of product sales run into billions of naira Except for capital projects, the Corporation funds all its operations from internally generated revenue. It also earns millions of foreign exchange through export of its products but it is not allowed to keep this. NNPC must go to the foreign exchange market for its foreign exchange requirements just as other parastatals.

The Crude Oil Marketing Division has direct responsibility for the

marketing of NNPC share of crude oil. The division screens applications to lift Nigerian crude oil, and signs sales contracts with successful applicants. The sales contract would normally spell out in details the terms of sales such as grade of crude, quantity to be lifted daily and period, price, mode of payment, etc. Nigeria's crude oil is sold to three categories of buyers. These are:

(a) NNPC (purchases for domestic consumption)
(b) Joint Venture Partners, and
(c) Third Parties.

At the discretion of NNPC, a customer may be required to pay a non-refundable first lifting undertaking of one million US dollars on signing a contract. Apart from NNPC which pays for its purchases in local currency, others pay in hard currency.

In general, 30 days credit period is allowed except to ECOWAS members who are allowed 90 days credit. This credit period is calculated from the date on the bill of lading. In addition, mode of payment is by irrevocable letters of credit. The Joint Venture Partners are however exempted from these requirements because of their huge investments in the country which are regarded as adequate collateral. There is also a provision for underlifting charges with about 5 - 10 percent tolerance limit. This, in fact, is a penalty paid by a contractor if he fails to lift the amount he agreed to lift as contained in the contract. This is to ensure that only serious and committed customers come forward for contracts. It also cushions to some extent losses arising from underlifting.

Crude Oil Marketing Division ensures that copies of sales contracts and other documentations relating to every contract are forwarded to Finance and Accounts Division. These documents form the basis for opening a file and the subsequent monitoring of liftings and payments against such sales contracts by Finance and Accounts Division.

Crude oil sales invoices to customers are based on invoice advices received from Crude Oil Marketing Division. These invoice advices in turn are based on details of liftings received from the various terminals. In any case, the prices used for billing are supplied by the Crude Oil Division and are always stated in US dollars.

The invoices are despatched with other relevant documents (in sufficient numbers as stipulated in the letter of credit) to the appropriate bank or to the customer in the case of direct invoicing. A copy of the invoice is sent to the Crude Oil Marketing Department for them to update their own records and a copy is retained in the file of the customer. Details of sales as recorded by Finance and Accounts Division are regularly reconciled with those recorded by Crude Oil Marketing Division.

Control reports

A statement of expected sales receipts covering a month liftings is prepared bi-monthly. This shows all the receipts due within a given month. This report/statement forms the basis of subsequent follow-up and monitoring of receipt of crude sales. The report is distributed as follows:

- One copy to Accountant General of the Federation
- Three copies to relevant Departments of the Central Bank of Nigeria
- One copy to Hon. Minister of Petroleum
- One copy to Group Managing Director of NNPC and
- One copy to Crude Oil Marketing Division.

A statement of actual receipts, outstanding/overdue accounts are also prepared. Interests are calculated on overdue accounts and the rate is usually at 2% above the rate at which US dollars deposit for six months are bid in the inter-bank deposit market in London on the first date of default.

Usually, three days after an account is due, a follow-up action is taken by Finance and Accounts Division; a call is made on the CBN Foreign Operation Department to enquire whether or not the expected proceeds have been actually received.

If the answer is negative, a telex message is sent to the customer to enquire from his bankers the cause of delay and other necessary follow-up actions are put in motion.

Crude Oil Payments & Arrangements

It is the responsibility of the Central Bank of Nigeria (CBN) to designate banks into which payments for crude are to be made. Usually, the banks are nominated by the Central Bank of Nigeria for this purpose:

- Federal Reserve Bank in New York
- Bank of England in London
- Bank of France in Paris and
- Dutch Bundex Bank in Germany.

After invoicing, customers banks credit the Central Bank of Nigeria Account in these banks on behalf of NNPC with the value of the crude that it lifted at the due date. When customers pay to the appropriate bank the invoice value of the crude lifted, the CBN is advised of the payment by the receiving (designated) bank. The Central Bank in turn advises NNPC of such payments through a Credit Advice and credits the Local NNPC Crude Oil Account with the Central Bank of Nigeria with the equivalent value in Naira.

NNPC on its part pays cash for all the crude it purchases for refining to meet the needs of its local petroleum products. This falls into three categories as follows:

- crude supplied directly to the local refineries;
- crude supplied to offshore refineries for processing on behalf of NNPC to meet shortfall in local production; and
- crude exchanged for the heavier foreign crude which is required by Kaduna refinery for the production of lubricating oil.

The price paid for the crude oil used for refining for local use is fixed by government. A cheque is made out and paid into the crude oil account with the Central Bank of Nigeria. It should be noted that the difference between the price paid by NNPC and the price of exported crude at any item is a measure of government subsidy to petroleum products.

The Federation Account

Crude oil earnings are reported to the Federation Government through a monthly report called "Statements of the Federation Funds" and the

date it relates to is indicated. This statement is basically an analysis of cash inflow/outflow for the crude oil bank account with the CBN and gives the following information:

(i) Export sales during the month. This gives to government an indication of size of future cash inflow from crude sales.
(ii) Receipts during the month and sources.
(iii) Payments made from the account during the month.

The statement also gives a summary of NNPC contributions to the Federation Account during the month. This is made up of Payments of petroleum profit tax, royalty paid for crude oil produced by both NNPC and the joint venture partners, petroleum profit tax paid by both NNPC and joint venture partners and transfers as indicated above. All payments by joint venture companies are made directly to government in hard currency.

Other Oil Revenues

The bulk of the other revenues are from the sales of petroleum products. As indicated earlier, the annual turnover of petroleum products sale runs into billions of naira. Apart from petroleum products, huge revenue potential exists for natural gas and petrochemical products. A separate account with the CBN collects all earnings from products sales and are used to fund the Corporation's operations.

Product sales are handled by Pipelines and Product Marketing Company, PPMC, subsidiary charged with the marketing of the NNPC petroleum products. There are two sets of customers for petroleum products, the major marketers, and the independent marketers. The Major Marketers are the big eight marketing companies. The distinction between major marketers are allowed credit facility.

Product liftings are done mainly through a network of depots across the country. Invoicing of product sales is done at the depots, at the time of lifting. A network of banks across the country are used to collect payments made by Independent marketers. These banks have a standing instruction to transfer balances on these accounts on weekly basis to our bank account with the Central Bank. In other

words all earnings from products sales are pooled together in our account with the Central Bank. The Central Bank also has a standing instruction to invest amounts in excess of our immediate needs on Treasury bills. This ensures that funds are not allowed to lie idle.

3. OIL AND THE ECONOMY - LINKAGE EFFECTS

The nation's oil industry has been the major fulcrum on which growth of business is hinged in Nigeria. Since the early 70's industrial developments have been directly or indirectly linked to the oil industry. This derives first from the linkage effect that the large expenditures in the industry produce for example.

Between 1970 and 1978 the industry's total capital expenditure amounted to about ₦2.5 billion. The growth which the injection of N2.5 billion might have generated through the multiplier effect in providing market for local items is enormous. This is an important area in the linkage effect of the petroleum industry on the Nigerian economy. Oil revenue has been spent on developing local industries for the production of various consumer goods, and even capital goods such as iron and steel, petrochemical such as carbon black, wheat, rice and other agricultural produce which are being introduced into Nigeria.

Nigerians have been introduced into all the areas of the oil business - exploration, production, marketing, transportation, gas and petrochemicals. Particularly, NNPC has opened up investment opportunities in gas development, refining, products marketing, transportation and petrochemicals.

It is now a well known fact that NNPC is doing a lot to promote the utilisation of gas in the country. Many opportunities exist for private investment in the gas sector. With the huge natural gas reserves in Nigeria, the sky is the limit for enterprising business men. Gas can be sold as Compressed Natural Gas (CNG) for powering automobiles such as trucks, cars, buses, etc. It can also be sold for domestic cooking. The CNG is in fact a vast industrial potential.

Activities in this area which are already attracting attention among

the business community in the country include the manufacture of CNG cylinders, distribution of automobiles conversion kits, operation of CNG filling stations, etc.

Another area of investment which Nigerians have embraced in the gas sector is in the extraction and commercialisation of natural gas, liquids for export. As a feed-stock for chemical industries, natural gas is to be used by entrepreneurs for the manufacture of a range of intermediate finished chemicals needed in many industries. These include ammonia, fertilizer, methanol, and various solvents. These chemicals have a high market value. Investors have been invited to participate in this promising area.

In the refining sector, the oil industry has also opened up business for Nigerians. The nation's four refineries produce a lot of raw materials for business men. These include materials for the manufacture of industrial solvents, insecticides, cosmetics, mineral oils like petroleum jelly and greases, bitumen-based water and damp proof building materials such as floor tiles, rubber products tarpaulin, etc. The refineries are also the sources of raw materials for candles, sulphur products, and lubricating oils. Quite a number of new industries have sprung up in Nigeria utilizing these raw materials which come from the refineries.

Businessmen have also gone into asphalt packing and blending for local use and for export. For quite some time now, NNPC has been doing business with Nigerians who export surplus refined petroleum products.

The refineries require for their operation a lot of chemicals and spare parts which Nigerian's supply. Nigerians are already setting up small scale joint venture manufacturing outfits with foreign technical partners to produce these locally for sale to the refineries.

In the petrochemicals sector, the NNPC has established three plants which produce a number of raw materials for industries. There is now linear alkyl benzene, kero-solvent, heavy alkyates and benzene at the Kaduna plants. Carbon black and polypropylene are produced from the plants at Ekpan near Warri. These products have been

available to businessmen and plants have been set up to utilise them for the manufacture of end-use products such as detergents and soaps, spindle oil, specialised lubricants, plastics and other synthetic rubber materials such as tyres and tubes. When stage one and other stages of the Eleme petro-chemicals complex goes into production, a lot more petrochemical materials will be available for the business community to utilise.

Many economic opportunities were created by the oil industry in the area of products marketing. Nigerians have established independent petroleum products marketing outfits, and products transportation ventures, apart from the marketing of Liquified Petroleum Gas (LPG).

The industry has also provided chance for Nigerians to earn from the industry as contractors. For example, citizens whose interest is simply in supply and service contracting, have been benefiting from NNPC subsidiary (NPDC) and other operators in the Nigerian Oil Industry providing services in such areas as surveys and mapping, civil engineering works in the preparation of drilling locations, construction of mud pits and slabbing and other concrete jobs at rigs sites. Contractors also supply cement, chemicals, sand, gravel, iron rods, and timber for rough road matting.

More technically oriented Nigerians have participated in the industry's technical areas of seismic data acquisition and interpretation. These activities which are indispensable in all exploration programmes include such activities in the upstream sector wireline logging, well surveys, core analysis and geological studies. In drilling operations, the exploration companies depend on oil field contractors for the supply and operation of drilling rigs, field transportation and equipment for haulage and rig movements, plus general and specialised services such as casing, running, cementation, welding, diving, provision of drilling muds and other chemicals. These are areas in which Nigerian businessmen are increasingly participating.

For quite some time, Nigerians marketed crude oil. Before it was stopped, the business made many Nigerians millionaires. Even today, Nigerians who are in the exploration and production business

still market crude oil. Nigerian citizens are already going into business in the crude oil transportation sub-sector. NNPC encourages Nigerians to be fully integrated into the oil business in order to fully Nigerianise the industry in no distant future.

4. INDIGENIZATION AS AN ECONOMIC TOOL

An inaustry such as the petroleum industry on which the nation depends for sustenance cannot be left wholly in the hands of foreigners for control and operation, notwithstanding the known internationalization of the oil industry. Control of the vital sectors of the industry must be in the hands of Nigerians if receipt of appropriate proceeds from the industry is to be guaranteed. National pride and sovereignty also make it incumbent to Nigerianise the industry. In essence, therefore, it can be said that Government's desire to Nigerianise the petroleum industry is in order to secure maximum revenue and foreign exchange benefits from oil production. It is also to abstain transfer of oil technology and to enhance the development of local technical expertise with the overall aim of exercising effective maximum possible national control over the petroleum industry so as to ensure that the petroleum sector's activities are consistent with overall national economic development objectives and policies. Effective protection of the environment is another major reason why government has taken the Nigerianisation policy very seriously. It is for these reasons that Government has, all along since the beginning of the industry, been doing all within its power to ensure that Nigerians man the industry in all sectors.

Three basic issues have engaged government's attention on the question of Nigerianising the industry. These include ownership and control of oil industry establishments, manpower development in all sectors, and technology acquisition. These issues have been handled in an integrated fashion as will be seen presently.

4.1 INDIGENIZING THE UPSTREAM SECTOR OF THE OIL INDUSTRY.

As regards ownership and control of oil industry establishments, ideas about indigenizing the upstream sector of the industry in Nigeria were already germinating in 1963 with the provision in the

contract with ENI of Italy in that year that the Nigerian Government has the option to take up 33.3% of the equity of Nigerian Agip Oil Company. Be that as it may, Nigerianisation activities with regard to indigenous participation started in real sense in 1971. It was in July of that year, consequent on rapid growth in Nigeria's production of oil, that the country joined the Organisation of the Petroleum Exporting Countries (OPEC) in order to take advantage of OPEC's strategies to effectively involve Governments of member countries in greater participation in the oil industries of their nations. This was necessary for, like most of the member countries of OPEC, the Nigerian oil industry before the mid 1970's was under strict control of the foreign multinational companies. They explored, produced, and also sold the oil obtained in the country. They gave government whatever they felt was good enough for the country.

It should be noted, however, that Government unwittingly contributed somewhat to this problem through its deliberate policy in the early stage of the industry in the country of allowing the multinational oil companies complete operational flexibility in all facets of the petroleum industry. This was as a result of the fact that Government recognised that the multinational oil companies possessed the sophisticated technology, highly skilled manpower and huge capital outlay which were either totally lacking or acutely in short supply in the country.

A cardinal objective of OPEC, however, was to help introduce active home public sector participation and some form of control of the petroleum industry of member nations. The main idea behind this objective, among other things, is the fact that petroleum had become too strategic (with regard to issues such as proceeds from foreign companies involvement in the oil industry), to be completely enthrusted in the hands of private foreign interests. As a member of the organisation, and as a developing country, Nigeria needed the umbrella that OPEC provided in dealing with the multinational oil companies who already had a firm control of the industry in oil producing developing countries. Nigeria therefore took seriously the provisions of Article 90 of OPEC's Resolution XVI of June 1968 which prescribed that all member countries acquire participatory

interest in the operations of the oil companies in their territories. Applying OPEC principles in Nigeria helped in making the nation become actively involved in the industry.

Nigerian participation in exploration and production, however, began in earnest consequent on these facts. In 1971, Government in exercise of the option contained in the 1963 agreement with ENI acquired 33.33% equity interest in the operations of the Nigerian Agip Oil Company (NAOC), and later in the year, in ELF, the French oil company. Subsequently, Nigeria extended this to other oil companies in the country. Government's equity involvement in exploration and production came to 60% for most companies between January 1978 and July 1979. For political reasons, Government acquired all of British Petroleum's interest in shell BP in August 1979 thereby bringing the Government's interest in the company's operation to 80%. However, some of the government's interest in this company were divested in 1989, thereby bringing the national government equity in this company back to 60%.

Under the joint venture arrangement, Nigerian Government and oil producing companies put up the necessary funds for exploration and activities. Oil produced from the joint operation is shared between the parties according to their equity interests in the venture. This arrangement made it possible for government's share of total oil produced in Nigeria to go up to 70%.

Before 1977, Government's interests in the joint ventures were looked after by the Nigerian National Oil Corporation (NNOC). from April 1977 when the Nigerian National Petroleum Corporation (NNPC) replaced the NNOC, NNPC also took over the responsibility for managing government's interest in the joint ventures. In managing these joint ventures, the government agencies ensured that national interests were not compromised.

In September of 1979, Government through NNPC took another OPEC cue and introduced the sole risk production service contract as a production arrangement with some oil companies. New applications for acreages in the country were processed under this arrangement which essentially required that a company put up all the funds

needed for exploration, development and production activities in the concession area allocated to it. If after five years, there is no successful fund, the concession is forfeited by the company. However, if commercial discovery is made, the company is repaid all the investments in the concession from proceeds of the oil found. The company is also paid some agreed renumeration as incentive for the risk taken. The company has the option to purchase a given quantity of crude oil produced from the concession-area. The important feature of this production arrangement is that, the oil company is actually only a contractor to the government through the national oil company - the supervising oil agency such as NNOC or NNPC

In recognition of the strategic role of the oil service companies to the general success of the upstream sector of the oil industry, government, through the provisions of the Nigerian Enterprises Promotion Act of 1977 also took steps to have a hand in their activities. To this end, Government acquired 36% of the equity interest in some 12 of the companies through NNPC. Foreign interest in the service companies was pegged at 60% with the remaining 40% going to the workers of these companies.

The net result of all these efforts is faster rate of mastery of oil industry management expertise by the indigenous population. An immediate manifestation of this is the insistence of NNPC and the Joint Operating Agreement (JOA) signed between NNPC and the Oil Companies with which the corporation is in joint venture in 1991 that NNPC reserves the right to ask to operate the joint ventures at any time. This provision in the JOA is an expression of the belief that Nigerians in the nation's oil industry can manage the upstream.segment of the industry.

4.2 INDIGENISING UPSTREAM SECTOR MANPOWER

In the area of manpower, the need for Nigerianising the exploration and production sectors of the oil industry by developing appropriate local manpower had been felt as far back as 1969. The 1969 Petroleum Decree sought to put in place the necessary machinery for training Nigerian manpower for the industry.The Decree required that any company granted an oil mining license (oil prospecting License)

should ensure that within 10 years from the granting of the license, the managerial, professional and supervisory grades of its staff shall reach at least 75% of the total number of persons employed by (the company) and the number of citizens of Nigeria in any one such grade shall not be less than 60% of the total. The decree also requires that all skilled, semi-skilled and unskilled workers are to be Nigerian citizens.

Part IV of the decree specifically requires winners of exploration concessions to draw up a recruitment and training programme geared towards ensuring that there are Nigerians to man the industry: The following sections of the Decree are relevant in this paper:

> 26. - (1)The licensee of an oil prospecting licence shall within twelve months of the grant of his licence, and the leasee of an oil mining lease shall on the grant of his lease, submit for the Commissioner's approval a detailed programme for the recruitment and training of Nigerians.
>
> (2)The programme shall provide for the training of Nigerians in all phases of petroleum operations whether the phases are handled directly by the leasee or through agents and contractors.
>
> 27.Any scholarship schemes prepared, and any scholarships proposed to be awarded, by the licensee or leasee (whether or not related to the operations of the licensee or leasee or to the oil industry generally) shall be submitted for the approval of the Commissioner.
>
> 28.Once a programme under Regulation 26 of these regulations or a scholarship scheme under regulation 27 of these regulations has been approved by the Commissioner, it may not be varied without his permission.
>
> 29.A report on the execution of the programme mentioned in regulation 26 of these regulations and the progress of Nigerianisation shall be submitted by the licensee or leasee at or about the end of June and December in every calendar year.

In the upstream, this materialised as scholarship programmes by the various oil companies to Nigerians to study under various schemes. Government also set up the Petroleum Technology Development Fund which was administered directly by the Ministry of Petroleum Resources. The Fund was established for the development of local manpower in all areas of the industry. Engineering call branches, Geology, Geophysics, Industrial Chemistry, Environmental Sciences, and even Petroleum Law. Between 1978 and 1983 the fund sponsored the training of 236 oil industry professionals. The fund also made grants to institutions for research.

Another effort in the Nigerianisation process was the setting up of the Petroleum Training Institute at Effurun, near Warri, Delta State to train middle level technical manpower for the industry, especially in the areas of Electrical, Petroleum, and Mechanical Engineering, Petroleum Processing, Marketing, Welding and Diving.

Consequent on these developments, the Nigerian oil industry can today boast of a high level of Nigerianisation in the technological Know-how of the industry, contrary to the general impression, which is that the industry is wholly controlled by foreigners.

For example, NNPC's seismic parties operating in the country are manned by Nigerians, both staff and line. In fact, the two seismic parties owned by the NNPC are wholly Nigerians. Experts commend them to be among the best in services for the acquisition of seismic data.

Petroleum Engineering data processing and interpretation are now done at the Data Processing Centre of NNPC's IDSL at Benin city, Edo State. The centre is wholly manned by Nigerians. This picture exists in the drilling segment of the industry, where the era of foreign toolpushers (head of a drilling crew) is over. Today no fewer than 80% of the staff in most drilling companies are Nigerians. And the situation in the services and production sectors is not much different.

In Gulf Oil Company, for example, by 1980, about 93% of its total staff of 611 were Nigerians, only 7% were foreigners. These figures more

than comply with the dictates of the Petroleum Decree. The situation is more or less the same in all the other oil producing companies.

As the table below demonstrates by 1988, the situation had even become more encouraging in recent years. Out of a total of 22,973 staff employed by the oil exploration and production and oil service companies, only 525 of them are non-Nigerians. Even the position with management and professional staff alone is impressive. Of the 808 management staff employed by the companies, only 124 or 15% are non-Nigerians. Only 247, 9% of the 2,552 professional staff in the industry in that year were non-Nigerians.

TABLE 2
EMPLOYMENT STATISTIC OF OIL EXPLORATION, PRODUCTION AND SERVICE COMPANIES IN NIGERIA, 1988

	EXPLORATION COMPANIES		SERVICE COMPANIES		CATEGORIES TOTAL
	NIGERIANS	NON-NIGERIANS	NIGERIAN	NON-NIGERIANS	
Management	138	47	499	124	808
Professionals	1130	212	963	247	2552
Intermediate and Supervisory	2231	8	1478	119	3836
Clerical and Secretarial	1608	-	1527	4	3139
Skilled Labour	1519	-	5170	28	6717
Unskilled Labour	1908	-	2809	3	4720
Others	-	-	1201	-	1201
	8534	267	13647	525	22973

5. NIGERIANISING OIL INDUSTRY TECHNOLOGY

Although the upstream sector of the industry is appreciably indigenised, in terms of manpower, government and the NNPC are not satisfied at the level of Nigerianisation of oil industry technology. There is the suspicion in some circles that Nigerian staff are promoted to position in some cases that they are not properly equipped to hold.

Petroleum technology has remained foreign largely because of institutional inadequacies and lack of an effectively coordinated manpower development policy in early periods of the industry, before the establishment of the NNPC. The Nigerian civil war of 1967 - 1970 also contributed to the slowing down of the manpower

development programme of the industry.

The slow pace of oil industry technology acquisition in Nigeria has also been attributed to the fact that like most foreign entrepreneurs, the oil companies were not very interested on their own, without active monitoring, to develop indigenous expertise in the industry. Technology transfer was essentially negligible in those early years. Most oil field problems arising from their operations were solved by seeking advice from their home offices or flying down experts from abroad. Another problem is the continued use of consultants and contractors to carry out work that are technology intensive. All these factors have contributed to making technology transfer to Nigerians lag behind other elements in the process of indigenising the oil industry.

However, government and NNPC take a serious look at these problems. Efforts are now being made vigorously to redress the situation. Early in 1992, the Hon. Minister of Petroleum Resources, Professor Aminu inaugurated in NNPC, a Group Research Management Committee (GRMC), a body set up to coordinate and manage all aspects of Research and Development activities, not only in the NNPC Group, but in the Nigerian Oil, Gas and Petro-chemicals industries as a whole.

5.1 CONCRETE ACTIONS TO INDIGENISE UPSTREAM SECTOR

The setting up by NNPC of wholly Nigerian exploration outfits; the Party "X" and Party "Y" early in the 1980's and which later became parts of the NNPC subsidiary, Integrated Data Services Limited, is another of the corporation's significant actions in its efforts to indigenise the upstream sector of the oil industry. This is more so when it is considered that the seismic party is the first major group required in upstream sector of the industry. The NNPC seismic parties and the data services company itself, together, are a revolution in the Nigerian oil industry. The company now carries out seismic data acquisition services for oil companies at home and abroad, plus the interpretation of such seismic data. It is easily the industry's leader in this area today in Nigeria. Already the company

has internationalised its services - recently it won contracts to acquire seismic data and to carry out data interpretation for the Ghana National Petroleum Corporation.

A very important effort by government to indigenise the upstream sector of the industry is the recent allocation of acre-ages to indigenous entrepreneurs. There are already signs that the indigenous group of exploration and production companies will eventually completely Nigerianise the industry both in terms of manpower and technology.

Mention should be made of the strategy of establishment of a chemicals industry engineering company by NNPC as a means of accelerating technology acquisition. The company, National Engineering and Technology Company Ltd (NETCO) was set in 1988 in joint venture with a major multinational chemical engineering firm, Bechtel, in order to enable NNPC (Nigerian) engineers to be directly involved in all aspects of engineering in the chemical industry. NNPC management expects that in no distant future, the company should be the leader in chemical engineering contracting in Nigeria and indeed in Africa.

The Oil exploration and Production Trade Group of the Lagos Chamber of Commerce - the major oil companies in Nigeria are also helping the indigenisation efforts of government in the Nigerian oil industry. One of the group's significant contribution is in its relationship with the Petroleum Training Institute. The companies and the faculty of the Institute hold regular consultation to ensure that courses offered by the Institute reflect exploration and production operations needs of the companies. Lecturers of the Institute are regularly organised to undergo attachment programmes with the oil companies to enrich and update their knowledge of the various operations involved in exploration and production of oil.

Other initiatives include training programmes organised by external agencies in aid of Nigeria's oil industry development. Such programmes include scholarships and courses organised and sponsored by the United States Agency for International Development and other multilateral aid agencies.

The NNPC also now has a well coordinated training policy designed to produce well groomed professionals in all sectors of the industry. Executed directly by the Human Resources Development Department of the Corporation, the policy is actualised in programmes which coordinate the training needs of all the subsidiaries of the Corporation.

The National Petroleum Investments Management Service section of the NNPC is also working with the joint venture partners of NNPC in the exploration and production sector by designing training programmes for Nigerians in the employ of the companies and to help to train NNPC staff through attachments at the operations of the companies in Nigeria or abroad.

5.2 NIGERIANISING THE DOWNSTREAM SECTOR

Indigenising the business of processing, transportation, storage and distribution of petroleum (down stream) in Nigeria has not been as difficult as has been the case with the upstream sector - exploration and production.

The first action in this area of the oil business was the acquisition of all the equity interest of the First Port Harcourt Refinery (then known as the Shell-BP Refinery) by the Federal Government in conjunction with some regional government, thereby effectively and completely Nigerianising the refining sub-sector.

The beginning of petroleum products marketing in Nigeria was dominated by foreigners. The seven major multinational petroleum products marketer - Shell, British Petroleum (BP), Esso (Exxon) or Standard Oil, Mobil, Total, Texaco and Agip dominated the marketing business. And control was from their home office. Management staff were mostly all foreigners. Even the shareholding in their Nigerian operations were mostly foreign.

All these were addressed by the Nigerian Enterprises Promotion Act of 1977. From almost 100% shareholding by foreigners the companies are now over 60% owned by Nigerians. The Nigerian ownership in some cases is 100% with such companies wholly Nigerianised.

All these were addressed by the Nigerian Enterprises Promotion Act of 1977. From almost 100% shareholding by foreigners the companies are now over 60% owned by Nigerians. The Nigerian ownership in some cases is 100% with such companies wholly Nigerianised. National oil and Chemicals Marketing Company (NOLCHEM) was Shell and is now owned 80% by Nigerians. African Petroleum (AP) was British Petroleum and is now 100% Nigerian with its nationalization in 1979 by government. Same is the case with Unipetrol which was formerly Esso.

The management of the marketing companies has also been almost completely indigenised. Out of about 162 management staff in employment of the oil and gas marketing companies by 1988, only 15 were non-Nigerian. Of the total number of staff in the marketing sector of the industry, which stood at 5075 by 1988, only 18 were non-Nigerian as can be seen in the table below.

TABLE 3
EMPLOYMENT IN THE MARKETING SECTOR OF THE NIGERIAN PETROLEUM INDUSTRY BY 1988

CATEGORY	NIGERIANS	NON-NIGERIANS	TOTAL
Management	162	15	177
Professional	692	2	694
Intermediate & Supervisory	1172	-	1172
Clerical and Secretarial	1413	1	1414
Skilled Labour	942	-	942
Unskilled Labour	231	-	231
Others	445	-	445
TOTAL	5057	18	5075

A major step at indigenising the marketing sector has been the establishment of the policy of independent marketers who market petroleum products in Nigeria today. Together, they account for

In the manufacturing (Refining and Petrochemicals) sector, Nigerianisation is also very appreciable. This is so in the areas of technology acquisition and manpower development. The success achieved in indigenising this sector can be attributed to the fact that apart from the old Port-Harcourt Refinery which was owned by multinationals at the beginning, all manufacturing facilities (Refineries and Petrochemicals plants) in Nigeria are owned by Nigerian Government agencies. The strategy essentially has been to tie all training and technology acquisition programmes to each and every major project, in the process industry. Nigerian engineers are made members of the teams that manage the projects from, conception stage to construction, and commissioning. Also, all operations and maintenance staff for the process plants are recruited and trained before the project are attached to similar facilities abroad or within the country. The result is that there is a crop of well trained Nigerians who man Nigerian petroleum products and petrochemicals manufacturing plants.

Today, out of a total of 6,334 staff employed in Nigerian petroleum process plants, only 98 are non-Nigerian (they are mainly contract employees). As can be seen in the table below, in 1988 no foreigner is in the managements of the Nigerian refineries and Petrochemical Plants. The bulk of the foreigners can be found in one established Kaduna Refining and Petrochemical Company.

TABLE 4
EMPLOYMENT IN NIGERIAN PETROLEUM MANUFACTURING PROCESS PLANTS IN PORT HARCOURT, WARRI AND KADUNA AS AT 1988

	NIGERIANS				NON-NIGERIANS				
STAFF CATEGORY*	PORT-HAR-COURT	WARRI	KADUNA	TOTAL	PORT-HAR-COURT	WARRI	KADUNA	TOTAL	TOTAL GRAND
MANAGEMENT	13	9	66	121	-	-	-	-	121
PROFESSIONAL	388	300	236	924	4	-	10	14	938
INTER-MEDIATE & SUPERVISORY	575	200	598	1373	-	7	19	26	1399
CLERICAL & SECRETARIAL	172	640	219	1031	-	-	-	-	1031
SKILLED LABOUR	295	308	943	1546	3	7	9	19	1565
UNSKILLED	120	321	298	739	-	-	39	39	778
OTHERS	94	316	92	502	-	-	-	-	502
GRAND TOTAL	1657	2094	2485	6236	7	14	77	98	6334

The situation in the products transport sector is not different. A major aspect of petroleum products transportation is pipeline operation. Pipeline transport the bulk of the products from the refineries to the depots. The Nigerian Petroleum Products Pipelines systems which is operated by the NNPC subsidiary - Pipelines and Products Marketing Company (PPMC) is wholly Nigerianised. Pipelines system which is one of the longest in Africa is operated and maintained by Nigerians. Just as was the case with the process plants, the Pipelines project had Nigerian engineers in the project management team from the outset. They were part of the design construction,

commissioning and initial operation on the system with the contractors who installed it.

The foregoing point to the direction that sooner of later the Nigerian petroleum industry will be fully Nigerianised as is the case with the oil industry of the developed countries of the world.

6. OIL AND SOCIETY

The popular view today about the impact of oil on the Nigerian society is that oil boom has become oil doom. The undercurrent in this thinking only highlights the so-called inability of the nation to use the proceeds of oil for structural transformation of the economy within the short period during which oil has been the primary source of earning for the nation. This point of view has overlooked essentially, the massive and permanent positive transformation that oil has brought to the Nigerian society. Of course it could not have been avoided that it had some negative impact on the economy and the society. Whatever the problem was however could not be blamed on oil, but in the management of the revenue from it.

A look at the various sectors of societyshowsclearly the positive impact of oil on the Nigerian society. The effect of the oil industry on social and community life in Nigeria can be seen from the ever increasing amount of funds appropriated by government for such social services as education, infrastructures such as 'roads, rural electricity and water/food projects. As can be seen from the table below, government, over the years has been increasing its spending on these social services.

TABLE 5
FEDERAL GOVERNMENT EARNINGS FROM OIL
(1970 - 1990)
BILLION NAIRA

YEAR	OIL REVENUE	SPENDING ON SOCIAL & COMMUNITY SERVICES
1970		0.020
1971		0.034
1972	0.764	0.072
1973	1.016	0.072
1974	3.727	0.0451
1975	4.272	1.214
1976	5.365	1.534
1977	6.059	1.193
1978	4.459	1.706
1979	8.881	1.609
1980	12.354	2.131
1981	8.564	2.003
1982	6.368	2.271
1983	7.253	1.931
1984	8.210	1.752
1985	10.92	2.286
1986	8.11	1.517
1987	19.02	1.088
1988	20.93	3.840
1989	41.33	6.075
1990	51.71	5.492

In the early 1970s when earnings from oil was relatively small, investment in social and cultural services was also relatively low. As the earning increased, the nation began to invest more on social

services.

The net result of the increased attention paid to social services consequent on increased earning from oil is a general improvement in the living standard of Nigerians. Education has benefited most. From under 10 thousand educational institutions in Nigeria (primary schools, secondary schools, polytechnics/ colleges of education and universities), the country now has over 41,368 educational institutions (1990). Enrolment in educational institutions was just under 2 million in early 1970s. As at December 1990, 16 million persons were enrolled in some form of educational institution or the other. This is exclusive of the increased enrolment in adult literacy programme that the country has been witnessing.

More and more communities now have hospitals, clinics, health centres and other health-care facilities since the advent of oil. This has greatly improved the health-care delivery capability of the nation, and the health situation in the country generally. Also, a great many communities both urban and rural, are being supplied now with portable water, thanks to improved earnings from oil.

As a direct result of the general improvement on the average income in Nigeria made possible by petro naira, life styles have also changed in the country. It made it possible for many Nigerians to be able to afford many luxuries of life that were hither-to beyond their reach.

The most important effect of petroleum on Nigeria is the rapid development of communication within the country. The oil industry made funds available to establish telephone systems, electronic and even newspapers and magazines. From about three Radio and Television stations in 1963, the nation can boast of over 70 such broadcast stations today. Also, road networks have been developed using funds obtained from oil. Road, rail and air transport have expanded phenomenally since oil came into the life of Nigeria.

Apart from the foregoing, oil has had very positive impact on the social and, particularly, the economic life of the communities in which it is produced. In particular, there is a well articulated social

programme being executed by the Nigerian oil industry in the oil producing areas.

A close look at the community relations policy of the Nigerian oil industry, as encouraged by the Nigerian National Petroleum Corporation (NNPC), and the execution of it reveals that a lot has been done to improve the oil producing communities since the public sector became involved in the nation's petroleum industry. The oil companies, operators of joint ventures with NNPC have, under the guidance of the corporation, been increasing their contributions to the communities in which they operate.'

A historical overview reveals that the inception of the oil industry in Nigeria, little or nothing was done in terms of community assistance. Apart from tokens presented tocommunity leaders in the oil producing areas no real interest was taken in trying to conscientiously plough back where bounteous harvests of oil had been reaped. As a result, by the 1960s the oil producing communities had little or nothing to show for the contribution of oil from their area to the national purse. It is against this background that one must view the effort of government (through its agency NNPC) and the operators, in trying to improve the living standards of the communities in the oil producing areas. Modern management has coined the concept of a "Social responsibility" in business and it is in recognition of this, that the joint venture and production sharing contract businesses have, over the years, fashioned out policies to create a conducive business environment.

7.0 CONCLUSION

Oil has been a prime mover of the Nigerian economy since this vital raw material of industrialisation was discovered in the country. The economy is positively overwhelmed by this natural resource. A careful observation of the role of oil in the world economy today shows that oil will continue to dominate the Nigerian economy in the near to middle future in Nigeria. This, however, does not negate the desire of Nigerians to have an economy which is considerably less influenced by the almighty petroleum. Nevertheless, oil again seems today to be the tool that will guarantee a shift away from the all embracing oil influence in the economy.

Chapter 7

POST MILITARY NIGERIA
The Next Economic Agenda
- By Dennis. O. Odife

ABSTRACT

The chapter reviews in brief outline, the past six years of the Structural Adjustment Programme, its hopes, aspirations and contradictions. It attempts to explain why such contradictions have arisen and persisted. It then paints a courageous picture of the economic agenda for the post-military era, if Nigeria is to take its rightful place in the world.

1. INTRODUCTION

Created out of the ashes of the great IMF debate, the Nigerian Structural Adjustment Programme, (SAP, as it has come to be known, by both its critics and its detractors,) was at best a courageous compromise and at worst a near still-birth. As a compromise it has meant largely different things to different people; to most people, including even senior government officials, it was an unfortunate nuisance which had to be tolerated for two years or so at the most. Perhaps it was the purportedly short duration of the SAP that gave the nation the courage to accept the painful packages. Yet, in promising an adjustment over such a short duration, the Administration tied its own hands, and, but for its adroit handling of economics and politics since the introduction of the SAP, would have been accused of delivering into the world a nearly still-born baby, deprived of most of the essential apparatus for the painful journey through a rapidly evolving geopolitical scenario. The period since 1990 and the period following the transition have been and must continue to be used to complete the painful surgery of transforming that unfortunate baby into a handsome adolescent.

2. THE PROMISE OF SAP

2.1 THE PROMISE

Setting aside the near violent passions aroused in the great devaluation or IMF debate, and the ongoing despondent arguments as to the paternity of SAP or lack of it, one of the clearest

statements of the promises of SAP was contained in the review document issued by Dr. Chu S.P. Okongwu then Honourable Minister of Finance and Economic Development in 1987. The basic theme of SAP as contained in that document is reproduced below:-

MAIN POLICY ELEMENTS OF THE STRUCTURAL ADJUSTMENT PROGRAMME

The SAP combines a nexus of measures aimed at promoting economic efficiency and long-term growth with stabilization policies designed to restore balance of payments equilibrium and price stability. The specific objectives, the main elements of SAP and core policies as contained in the original SAP document were reproduced in Chapter 2.

Another useful way of looking at the policies of the SAP is to categorize them under two sets of measures:

(a) those intended to create the right financial environment for economic growth; and

(b) growth-promoting policies designed to mobilize resources for development as well as ensure the most productive use of those resources.

2.2 THE REALITY

In reality, SAP was heralded by the abolition of the obnoxious import licence system and the introduction of the second-tier foreign exchange market. The value of the Naira which had been held up artificially in the official market for import licences, plummeted towards the free market rate which operated on the parallel market. With its very first salvo, SAP demolished the bastions of privilege and affluence represented by those who engaged in the lucrative trade of import licences.

The bulk of the goods which had been imported at the subsidized foreign exchange rates could not be paid for with the drastically reduced foreign exchange resources available to the nation. The government and the public however, continued to operate under the delusion that government had a responsibility supply foreign exchange to all who needed it or had a legitimate need for it as determined by the import licencing authorities and later, by the banks. The battle to determine a realistic exchange rate for the Naira has continued since then.

3. WHAT THE PEOPLE UNDERSTOOD

Not all Nigerians can read, and certainly not all Nigerians had access to or were able to read the foregoing document. Most Nigerians learnt of SAP from the media and from friends. What most of them understood is substantially different from what the SAP document contained. As usual, whatever knowledge people have of an issue, may have been a product of:

(a) What they wanted to believe.

(b) What they read or heard or were told and/or

(c) What they saw and experienced. None of the foregoing needed to be the whole or even a substantial part of reality or the truth.

3.1 WHAT DID PEOPLE WANT TO BELIEVE ?

But let us start with what most Nigerians at the time wanted to believe:

SAP as a Foreign Imposition. Most Nigerians wanted to believe that SAP was a bad dream, a nightmare that would soon go away. Most Nigerians wanted to believe that SAP was imposed on us by the IMF, even though many 'parents' laid claim to it at the time. Any attempts by those thought, rightly or wrongly, to have been parents of SAP to deny paternity now, reinforces the suspicion of SAP's foreign parentage in the minds of many people.

SAP as a Result of Civilian Excesses. Most Nigerians also wanted to believe that SAP was made necessary by the profligacy of the past civilian regime. It was convenient for the military regime of the day to encourage this half-truth, and the fact that the problems were as old as ten or more years was not revealed to the people. Nor was the contribution of past military regimes to the problems made a matter of public knowledge. As a result, the generality of the people appeared justified in believing that the nation's problems were short-term in nature and would, therefore, not take too long to solve. In this way the mistaken belief of a two year SAP, promoted by the regime, and propagated by the media to win acceptance for the programme, was accepted as gospel. Hence, perhaps there is the present impatience.

3.2 WHAT WERE PEOPLE TOLD? A two-year SAP

What the people wanted to believe could be and was in this case reinforced by what they were told in public documents or in the media. Public policy at the time, as aforesaid deliberately created the impression that SAP would last for only two years.

3.3 WHAT DID PEOPLE SEE AND EXPERIENCE?

Excessive Private and Public Spending

The expenditure patterns of governments, corporations, banks and some individuals in the country have also been a source of concern. Clearly, such spending could not sustain the impression of general hardship or difficulty which the public was being urged to accept and to tolerate. The vision of great affluence exhibited by segments of society in the midst of rising poverty has led to calls for better distribution of the pains and gains of SAP or what has come to be known as the "SAP with a human face" school of thought. Critics of the school argue that since not all human faces are equally attractive, not just any human face should do! Whose face does the "human face of SAP" school have specifically in mind? Or perhaps this is a matter of detail!

Whose Face for SAP?

What is significant in all of the foregoing is that there arose a fundamental difference in perception between the avowed goals and policies of SAP as contained in official policy documents, and in the version depicted by the mass media and by social life. These contradictions have naturally qualified the extent to which different observers accept and acknowledge whether the programme has achieved its objectives or not. The contradictions are very deeply entrenched and only further and substantial structural changes can change the situation, as will be argued hereafter.

SAP and the Value of the Naira

The most visible, and to the public, the most objectionable aspect of SAP has been the progressive devaluation of the Naira epitomized by the saying that "Our Naira is now

worthless". Concern for the value of the Naira is justified and should be encouraged. More Nigerians are now interested in economics and international trade. They will have to learn that their demand for foreign goods tantamounts to a rejection of the Naira and hence contributes to its declining value. The model of export-led growth which other economies have pursued successfully, therefore becomes instructive.

Current export promotion strategies leave a lot to be desired. Successful export trade must be based on the addition of value. The effort should start with the study of foreign markets, followed by a review of our capabilities to determine what we can profitably produce and export irrespective of the sources of the raw materials. A boost in our export sales should have a positive effect on the value of the Naira. More fiscal discipline locally and better costing to reduce the cost of Nigerian products to international standards (it is currently three times or so) will be indispensable. Interest rates are another matter of great concern. Naira interest have now become positive, perhaps too positive. The monetary authorities will need to balance the high interest cost against the need for credit for industrial retooling, for expansion, for working capital and for growth.

4. POLICY GAPS

4.1 INFORMATION MANAGEMENT

It was however, in the area of information management that SAP may have experienced the most severe difficulties. It has been argued that because of the need to win public acceptance for the programme, especially after the 1985 attempted coup and the "great" debate, the programme was shorn of some essential features and was not as far reaching as it needed to be. It was further contended that because SAP was not as rigorous as it needed to be, it has had to be extended and new facets added to it. It is argued none the less that the regime should have taken its case more often to the people to educate them on the hard choices ahead. Information management was the critical missing link. Unless perhaps, even the senior civil servants did not believe in the efficacy of

the measures being implemented! More likely, they did not fully understand it!

4.2 LOCUS OF RESPONSIBILITY AND THE RULE OF LAW

It should be accepted that it is difficult though not impossible or unprecedented for one military regime to hold a previous military regime responsible for the problems of an economy. The argument that such allocation of responsibility could erode the very legitimacy of the same military regime is debatable. Nevertheless, while the Buhari regime clearly identified itself as an offshoot of the Obasanjo regime, the Babangida regime did no such thing. The Babangida regime did not however go so far as to hold any previous military regimes responsible for the problem. Had they done so, it would have seemed to absolve the civilians of most blame. And the excesses of the civilians were several and recent and, perhaps too recent to be forgotten so soon by the public! In the event, expediency ensured that the locus of responsibility for Nigeria's problems was never clearly identified.

Translated to the political level and pursued to its logical conclusion, failure to allocate responsibility and therefore blame or praise has meant that no one has been held totally responsible for our past problems. This is clearly unacceptable, and the nation must learn to apportion blame and praise. Only then can meritocracy, which appears to be in such great demand be enthroned.

4.3 SAP TO THE Nth DEGREE

While critics may contend that SAP was an inadequate package of policies and measures, proponents of SAP contend that the package was complete, but that SAP has to be implemented in stages. For example, it is argued that because of the popular opposition to the programme, a softer SAP than was needed was first implemented. Unfortunately, the patient did not get better and now more advanced degrees of SAP have to be implemented. In support of this argument, it is observed that the policy of adopting a realistic exchange rate was agreed as one of the earliest and principal tenets of SAP. Yet opposition to the content of this policy has meant that actual foreign exchange policies have oscillated from one

extreme to the other, until the measures of March 5, 1992 streamlined the rates in both the official and the parallel markets. In contrast, the policy of adopting appropriate pricing policies for public sector enterprises was adopted at the early stages of SAP. Till date, however, concrete and universally accepted interpretations are yet to be given to this policy frame. What are 'appropriate pricing policies'? Appropriate to whom? Moreover, the policy of reduction of complex administrative controls and fostering of reliance on market forces was also adopted in official policy documents from the first days of SAP. Yet, detailed specific programmes for achieving the objectives of this policy plan were not set out till later in the programme, and having been set out, are yet to be accepted by all the parties involved and, are, naturally, yet to be implemented. Even the rationalization, commercialization and privatization of public sector enterprises has met with considerable opposition and actual implementation has left room for both concern and doubt. In terms, therefore, of the two critical measures under the SAP programme,

(a)the process of creating the right financial environment for economic growth is still on-going and is not yet complete.

(b)the promotion of policies for the mobilization of resources for economic development is still at its infancy.

4.4 POLICY GAPS

In fact, there are serious bottlenecks which militate against the success of any such policy measures which may have been or which may be introduced. These gaps are in the following areas:-

(i)Low Levels of Personal Income

Most Nigerians earn very low personal income and policies so far have failed to adjust the compensation of the human factor as part of the adjustment programme. For example, the annual basic salary of a federal Director-General is currently in the region of US$1,000 per annum. The same officer probably controls assets worth over $1b. This cannot be right under the most basic tenets of agency costs.

(ii)Tax Reform

Nigeria operates an obnoxious tax system which has promoted the greatest level of tax revolt in any country in the world. The system is in need of urgent and drastic reform.

(iii)Over-dependence on the Centre

Over-dependence by the States on the centre for revenues weakens the federal structure of the nation.

(iv)Weak Capital Markets

Nigeria has weak capital markets which is unable to develop a market for pension funds and unable to support a mortgage market for housing the people and to provide long-term funds for industrial and infrastructural development.

(v)Mortgage Housing Market

Current policies encourage employers to own housing instead of encouraging individual home ownership and these have negative effects on housing supply, housing stock and building materials industries.

(vi)Oil Subsidy

Massive subsidies in the prices of locally consumed petroleum products have led to loss of substantial revenues and to further inequality in the distribution of income.

(vii)Deficit Financing

Public sector financing is characterized by excessive spending by government, funded with deficits. Generally, there is a high level of fiscal indiscipline in the country.

(viii)Monetary and Fiscal Policies

Effective management of monetary and fiscal policies is essential for the economy to harness the promises of SAP and achieve rapid growth and development.

5. THE NEXT ECONOMIC AGENDA

It is comforting that in a recent address to members of the next civilian congress at Abuja, President Ibrahim Babangida served notice to them that to scrap SAP is to bring perdition upon the nation. The advice is timely. Not only must SAP be continued, we set out below the minimum set of policies which must be implemented as part of SAP to form the next economic agenda for Nigeria during the transition and after the military era. This agenda is as follows:

5.1 LABOUR COMPENSATION

Consistent with the principle of collective bargaining and deregulation, employers should be encouraged to pay workers a consolidated wage indexed to inflation. All benefits should be monetized and paid in cash leaving the employer to concentrate on his core business and the employee to take all vital decisions on his welfare. There should be a minimum wage, a contributory social security scheme to provide unemployment benefits for the temporarily unemployed and a health insurance scheme with minimum standards for eligible private clinics all over the country.

5.2 TAX REFORM

Nigeria is in dire need of tax reform. Such tax reform requires for its success that it be indigenous and that it should have strong political sponsorship. Unfortunately, none of the presidential candidates so far has even mentioned the issue of tax reform. However, such tax reform whenever it does come, should have the following thrusts:-

(a) High Tax Free Pay

The need for and the possibility of the individual earning and retaining a larger portion of his income than hitherto should now be recognized. Accordingly, the tax codes should be modified to allow a larger portion of such income to be exempted from any form of income tax.

(b) Low Marginal Tax Rate

The marginal tax rate should be reduced from the current level of over 50% to not more than 35%. This new limit would probably apply only to those few individuals who

are likely to earn income in excess of two million Naira (2m) or more per annum.

(c) Simplified Tax System

The tax system should also be simplified in such a way as to allow tax administration to concentrate more on the few who are able to pay rather than on the many who earn so little.

(d) Reaching Out to the Informal Sector

The envisaged tax reform should attempt to understand that the informal sector and informal activities are not necessarily criminal, but are created by complex laws which leave no room for negotiations. The purpose of understanding the informal sector is to assist it to grow and not to stifle it.

5.3 STATES AND REVENUE GENERATION

One of the immediate problems expected in the Nigerian tax reform is that the States are likely to take up arms and oppose such proposals on the grounds that they will suffer substantial losses of revenues if any tax reform proposal is implemented to increase the tax-free threshold and to lower the marginal tax rate. Their point of view will be predicated on their historical revenue experience which shows that outside of revenues from the federation account, the bulk of States' revenues have tended to come from personal income taxes or PAYE taxes which are very easy to collect. This argument appears plausible but it misses certain salient points. The existence of a large informal sector in the country suggests that States are not optimizing the collection of income tax revenues and that the way to do so is not to encourage or increase the tax revolt which has created the large informal sector. It is suggested that the reform strategies recommended above will combat this problem and in fact possibly enhance tax revenues. In addition, revenue allocation policies must be geared towards reinforcing the independent revenue collection efforts of the States, including possibly allowing them to levy their own indi-

vidual taxes. A larger portion of revenues from the federation account should be given as a matching grant to States based on their revenue collection efforts. Finally, States must be encouraged to become more financially independent of the Centre as a way of reinforcing the federal character of the nation. Tendencies towards common pools of funds to be shared by the states should, therefore, be discouraged.

5.4 CAPITAL MARKET REFORM

Inspite of all the rhetoric, the Nigerian capital market is an under-performer. It is argued in mitigation that the market has been consistently denied of government patronage and that it has been used as a vehicle for nationalization and privatization rather than for resource mobilization. These observations are true. If the private sector is to take the leading role in the economy, there is need for the market to be reinforced and made into a vehicle for mobilizing resources, for rationing resources and for allocating resources. This requires that the pricing role of the SEC be removed; underwriting be supported as a matter of policy and the Stock Exchange becomes true self regulatory organization with clear price-making rules based on due process. In addition, pension funds should be established for all workers, and such funds should be established, protected and guaranteed. This will create vast pools of assets which will be invested in the capital market to fund industrial and infrastructural development as well as mortgages.

5.5 DEVELOPMENT OF A MORTGAGE MARKET

The recent fiasco over the National Housing Fund notwithstanding, there is need to develop a market for funding housing development and mortgages in Nigeria. Only recently, Malaysia developed a Mortgage Bond market, known as "cagamas". It is essential in view of the vast amount of funds involved that the nation's Central Bank must have a role to play in the process. For Nigeria, the Canadian model appears

most apt. Under this model, government should set up a federal home and mortgage corporation to provide mortgage insurance and to guarantee banks and building societies which provide mortgage loans. The mortgage corporation should be a public corporation, owned by the public and the Central Bank. It will charge an insurance premium on all mortgages, and guarantee not more than 85% of the value of a mortgage loan. Real estate developers will be encouraged to build on the understanding that a ready mortgage market exists for the houses. Local governments and State governments will be redirected and encouraged to concentrate on social mortgages and infrastructural development. This is the area in which they have a social role and can demonstrate a distinctive competence. The process of Certificate of Occupancies must also be streamlined to facilitate the sale and transfer of title to land and property. All these must form part of a viable housing mortgage market framework for Nigeria. The existence of such a market will also boost the development of building materials industries. As the States and the federal government intervene in the housing sector, they must also place some of their old housing stock on the market to raise funds for both direct sales and from rents. Private home ownership will have to be encouraged to replace home ownership by employers. The State and employers will also stop the practice of providing housing for staff, except for staff in special services such as in the police force, etc, or those in out-of-the-way locations.

5.6 REMOVAL OF OIL SUBSIDIES

Sensitive though this issue is, it must be addressed. With every passing day it gets more difficult to remove the subsidies on petroleum products. Yet the sooner this is done the better. It must be recognized, however, that the removal of subsidies could lead to social unrest and upheaval. Measures to cushion the effects of the

removal of subsidies will need to be introduced and the following minimum is recommended. Special funds must be created with the surplus arising from the removal of the subsidies, for the following purposes:-

(a) Transportation and infrastructural funds

(b) Special housing fund

(c) Social security seed fund.

5.7 DEFICIT FINANCING AND INFLATION

Finally, much has been written about the evils of deficit financing and about how deficit financing can be inflationary. No hard and fast rule is intended here. Managers of the treasury have a complex choice to make, and how they exercise it must depend on the facts before them. However, inflation is an evil which must be minimized and it is recommended that a measure of cost of living be built into wages and contracts in the country. This will serve as a disincentive to those governments which wish to rely unduly on deficit financing and inflation.

5.8 MONETARY AND FISCAL POLICIES

The massive expansion which has occurred in the financial system in the past year must mean that the regulatory authorities now require more and better refined tools of supervision. The adoption of the Baesl Convention by all Nigerian banks is welcome. However, the retention of rigid controls, such as credit ceilings, sectoral guidelines, excess liquidity and cash reserve ratios, all contribute towards the high interest rates prevalent in the economy. The promised reform is long over-due.

With the acute shortage of equity in the market, the demand for credit is bound to remain high. The new enhanced lending capacity of the banks and finance houses, resulting from their recent re-capitalization must mean that far more credit than is currently being raised is available in the economy, and that in competition with themselves, the financial institutions can bring down rates. The current restraint on credit needs

therefore to be removed.

The resultant pressure on the foreign exchange market could of course, lead to further depreciation in the value of the Naira. But unless interest rates fall substantially, it will be difficult to finance new equipment and production facilities geared towards production and marketing under the new realities. Both interest rates and exchange rates need to fall, but they will only do so as a result of reasoned action, faithfully implemented, and not by chance.

7. CONCLUSION

Nigeria is clearly the largest African nation, indeed the largest black nation in the world. Nigeria's interests and destiny should therefore be clear and be a matter of priority to the Nigerian leadership. Nigeria should lead ECOWAS, Nigeria should lead Africa. But more fundamentally and most importantly, Nigeria must lead her people out of poverty before she can take her rightful place under the sun. The next economic agenda must aim to achieve just that, and no less. It can be done.

EPILOGUE

The Book 'On the Economicsessentially focuses on Seven Years of Babangida Administration. It traced the history of economic development from the seventies to the Structural Adjustment Programme (SAP) in 1986. The pains and gains of SAP in the past six years were quite highlighted in several chapters. The readers are, therefore, left to pass their judgement after reading the book

The epilogue focuses on the problems of policy implementation with respect to core areas such as the exchange rate policy, deregulation of interest rates, the stance of monetary policy subsidies and deficit financing. These areas, no doubt, have been the focus of controversy since the introduction of SAP in 1986.

The programme envisaged that the exchange rate adjustment would be the core strategy to be pursued in order to remove Naira overvaluation vis-a-vis other major currencies; diversify and increase non-oil exports; stem imports and generally promote self-reliance. In order to achieve these objectives, evolving a realistic exchange rate of the Naira was to be an imperative. But since 1986, a realistic exchange rate and stability in the rate have continued to elude policy makers. Even the most ardent admirers of SAP readily admit that continued Naira depreciation has defied solution and, in particular, appears to be eroding the gains of SAP. It has often been pointed out that Naira depreciation has been the major source of cost-push inflation in the economy and since Government itself is the largest single spender it has frequently found its expenditures rising much faster than its revenue.

Naira depreciation also increases the Naira volume of debt denominated in foreign currencies. Both the high rate of inflation and the consequent increase in volume of Naira required to finance public debt are twin problems exacerbating government deficit may also be attributable to extrabudgetary expenditures which have tended to widen the gap beteween the budgeted revenue and expenditures. Increasing Government deficit. Increasing Government has frequently borrowed heavily to finance this deficit and this has generated huge monetary expansion in the economy which in turn has fueled domestic inflation as well as exerting immense pressures on the exchange rate of the Naira. The readers are, therefore, left to decide whether it is the dog that is wagging the tail or the other way round!

Right from the very beginning of SAP the exchange rate adjustment was beset by a number of problems. First, inadequate funding has been a perennial problem. The SAP document envisaged official funding through FEM from oil receipts and 75% of non-oil exports' proceeds from the private sector exporters. This initial arrangement did not materialise as exporters were right from the on-set allowed to retain 100% of their export proceeds in their domicilliary accounts instead of 25% as was originally envisaged by SAP while only the Central Bank was left to fund the FEM from the official receipts which came mainly from the oil export. As the programme advanced, the expected funds from the private sector merely trickled in as exporters found an easy means of acquiring buildings and other assets overseas from their export proceeds. Some funds from the private exporters were alleged to have often been diverted to the paralled market and, later, Bureau de Change (second parallel market?) to speculate against the Naira. Moreover, bureau du change encouraged roundtripping . Thus, the Naira was scourged in the official market for lack of funds and battered by the parallel markets. As a result of these developments a realistic exchange rate of the Naira continued to be elusive.

Secondly, there is the rigid notion that the Naira exchange rate must be determined by market forces or at least seen to be so determined. To abandon this notion was to risk getting financial assistance from our international creditors - London and Paris Clubs, the International Monetary Fund (IMF) and the World Bank. But how realistic is still the notion of market determined exchange rate of the Naira after six years of disastrous experiment with market determined mechanism? There are several factors to suggest that the fault may not be wholly attributable to free market forces. Most importantly, the Nigerian economy lacks the enabling environment that will permit free market forces to function efficiently. For example, before SAP was introduced, the economy was characterised by structural rigidities, inadequate and inefficient infrastructural facilities and inelasticity of supply of foreign exchange. Moreover, the structure of Nigeria industries and the economy generally was import based. Unfortunately, these fundamental features of the economy have not changed even after six years of SAP. In particular, the demand of foreign exchange continues to exceed supply and hence the Naira continues to depreciate. In the circumstance, the monetary authori-

ties could intervene to stabilize the exchange rate as practised in the developed countries. This would, however, require a huge amount of foreign exchange on frequent basis which the monetary authorities might not be in a position to mobilise.

The other option, which is endorsed by this book, is to review urgently, with a few to drastic modification, the present mechanism for the determining the Naira exchange rate in order to salvage the Naira from complete collapse. Suggestions to this effect are discussed later in this epilogue.

Thirdly, there is the growing tendency to use the rates in the parallel market and bureau de change as the bench-mark for determining the Naira exchange rate. This appears to be justified on the ground that the exchange rate in the parallel market is regarded by our creditors as a valid indicator of the external strength of the Naira.. Hence, every increase in the parallel market rate signals further Naira depreciation to the monetary authorities. In order to stem further the worsening of the Naira exchange rate, the monetary authorities decided to issue licences to corporate bodies to operate Bureau du Change which would have as one of its functions to compete and, if possible, wipe out the parallel market. Consequently, a large number of bureau du change emerged between 1989 and 1991. Unfortunately, with the proliferation of bureau de change, the competition between the two markets began to produce undesirable results, one of which is the sharp and continuing depreciation of the Naira. The other sad aspect was the increasing diversion of foreign exchange obtained from FEM to bureau du change where it was sold to the highest bidder. Thus, while the new institution facilitated foreign exchange transactions, as compared with the banks, it appeared to worsen the problem of the Naira depreciation instead of wiping out the parallel market or at least keeping it at bay. It has more than the parallel market encouraged roundtripping, capital flight and importation of non-essential commodities.

The continuing exchange rate depreciation runs counter to the policy of self-reliance which has been the cornerstone of our economic

Inspite of these developments and negative factors affecting our exchange eopardised. rate determination, this book does not subscribe to the notion that the solution defies any logic. There is a wide range of options available to the policy for over a decade.

Contrary to the usual effects expected of depreciation of a currency, continued Naira depreciation is stimulating importation of luxury items, discouraging growth in manufacture and exports and worsening inflationary pressures in the economy. Consequently, our policy of self reliance is being monetary authorities for consideration. They can modify the present system within the frame work of free market economy. For example, the Naira exchange rate can operate within a band as the European Exchange Rate Mechanism. This takes account of account of market forces as well as economic performance of member countries. This option allows the monetary authorities to intervene within the free market structure whenever the exchange rate is out of course. Another option is to revert to the old system of using basket of currencies of selected major trading partners or peg the Naira to two major currencies and adjust for arbitrage. The third option, as suggested in some quarters, is to make the Naira convertible. However, this option is fraught with many problems such as persistent deficit in our balance of payments capital account, our under-developed money and capital markets, the underdeveloped nation economies of the neighbouring countries, and more importantly, the fact that nobody may need the worthless Naira outside Nigeria. This option is therefore a non-starter. These suggestions are not exhaustive and perhaps may not be the best but they are indicative of a wide range of options which could also be tried in order to arrive at a more feasible solution to the exchange rate problem.

In the final analysis, inadequate supply of foreign exchange is at the centre of the problem. The monetary authorities do not manufacture foreign exchange. It has to be earned by the nation through production and exporting. Anchored on this argument, it is suggested that policy of fully retention of non-oil exports proceeds should be immediately modified in order to reinforce the level of funds required for the official exchange rate market. Although the original intention was to promote non-oil exports and keep to the spirit of deregulation, available statistics since SAP showed, however, that this policy has operated for six years without much to show for it. The marginal improvement in non-oil exports receipts could not be attributed to the policy of 100% retention. The modification of retention policy of non-oil export proceeds would therefore not

inhibit increased earnings from this source.

Monetary policy and deregulation of interest rates have also recently come under frequent criticisms. Under the SAP document, it was envisaged that credit allocation would be deregulated with the aim of eliminating it by the end of the programme period; the financial sector was to be restructured for greater efffectiveness; while removal of interest rate differential among sectors and maintaining real positive interest rates established in 1985 would be major objectives of policy.

Some of the recent criticisms of the monetary policies being pursed under SAP are not surprising. It is very easy to pick holes in the implementation of monetary policies considering the recent behaviour of interest rates and the frequent use of stabilization securities to contain domestic demand.

However, one has to be cautious in assessing the success or failure of monetary policies under SAP. Monetary policies do not work in isolation. They have to rely on the effectiveness of Government fiscal policies and discipline, cooperation and discipline in the financial sector as well as the effectiveness of policies affecting other sectors of the economy. While monetary policies have not yet fully achieved - interest rates differentials among sectors have been dismantled, target credit allocation has been discontinued while a relatively positive rate of interest has been achieved. Overall, the financial sector is the most deregulated sector of the economy.

But, what has gone wrong with the interest rates? Following the spirit of deregulation, the monetary authorities became too quickly accommodative with banks and this was largely reflected in quick deregulation of interest rates. This appeared too premature for an economy with relatively underdeveloped money and capital markets. One does not need to go too far to justify this assertion. The recurrent interest rates crisis in the financial market is partly as a result of free-for-all determination of interest rates. The gesture of rapid deregulation of the interest rates therefore appeared to have been grossly abused by banks. Today, chaotic interest structures encourage trading to the detriment of the productive sector of the economy. Moreover, in spite of hues and cry about liquidity mop-up by banks, the gap between the savings deposit rate standing at an average of 14.0% and the prime lending rate at 33% is one of the

widest in the world and yet the banks have not increased their savings deposit rate to encourage deposits. Instead, banks are now generally concentrating in treasury manipulation of funds and interest rates rather than focusing on their traditional functions. Even multinational corporations and some Nigerian companies have developed large treasury departments to take advantage of the interest rate 'bubbles' instead of focusing on their major functions.

Bulk of actual lending by the financial sector goes to trading and purchase of imported luxury goods which have now flooded our markets. The mania to consume imported luxury goods, on the other hand, has put tremendous pressures on the demand for foreign exchange.

Moreover, it is easier to borrow for trading than for production since the former generally guarantees quicker returns on investment than investng in most other sectors of the economy. These developments partly explain the paradox of continuing pressures on demand for foreign exchange inspite of frequent liquidity mop-up. Huge leakage through continuing rise in Government spending is perhaps another factor!

However, we believe that deregulation does not imply absence of control. In highly market-oriented economies such as the U.S.A., the EEC countries and Japan interest rates are still regulated by the monetary authorities in order to give direction to the financial market and the economy. We believe that our monetary authorities should review their interest rate policy particularly in the light of the recent developments in the financial market. There is certainly the need for a strong base rate that can be relied upon to give direction to the financial sector and the economy.

The controvery around withdrawal of subsidies particularly of petroleum products has assumed greater dimension since the introduction of SAP. There are sound arguments on both sides of the controversy. On the positive side, withdrawal of petroleum subsidy will substantially increase Government revenue which could be used to provide and improve infrastructure and social services; it

could minimise price distortions in the economy; and it could lead to more rational allocation of resources; it could minimise price distortions in the economy; and it could stem smuggling of petroleum products to the neighbouring countries.

On the negative side, substantial withdrawal of subsidies would lead to sharp rise in prices and because of tendency for price globalisation, price increases could spread to nearly all economic units and products. At this point, it should be mentioned that there could be no-once and for-all withdrawal of subsidies. The gap between the old and new notional prices gets wider with every depreciation of the Naira. In other words, every depreciation of the Naira creates new subsidy and if withdrawal were to be followed to its logical conclusion an end would not be in sight and a complex situation could be created where further withdrawal of subsidies could perpetuate inflation, depreciation of the Naira, social unrest and wide spread distortions! It is easily pointed out by those opposing large withdrawal that there could be no amount of withdrawal of subsidies that could halt smuggling. This argument is reinforced by the fact that gasoline is not taken out of the country by "invisible" tankers.

It is only effective and efficient law enforcement agents that can stop smuggling. It is also important to note that personal income levels have been relatively low compared with the levels of depreciation of the Naira and inflation. In the circumstance, if subsidies are withdrawn, it could lead to economic hardship, social unrest and enormous social costs to the economy except there is a corresponding upward adjustment of personal incomes each time subsidy is withdrawn. It has been further pointed that those who argue that subsidies are substantial are only narrowly looking at gasoline as if it were the only product of crude petroleum, forgetting that the marketing of other products has been completely deregulated. For example, since 1986, a litre of engine oil has risen by over twentyfold, brake oil twenty fivefold and other secondary products of crude petroleum over twentyfold.

Faced with the positive argument which appears compelling in terms of buoyant revenue to Government in the event of withdrawal, it is to the credit of Babangida Administration that it has exercised great caution on such a controversial issue such as the removal of petroleum subsidy. We would certainly subscribe to the recent call that there should be a National Committee to examine all the issues involved on subsidies and make recommendations to Government.

In conclusion, there is no gainsaying that the recent reforms undertaken by the Babangida Administration form a major landmark in attempting to put the economy in a path of selfsustained growth. The efforts of the present administration have to be reciprocated by all Nigerians by developing the spirit of self-discipline. This means several things to us as an individual and as a nation. It means financial prudence, accountability, honesty, avoidance of fraudulent practices such as duping and cheating and forgoing self-interest. It is by developing the spirit of self-discipline that the country can move forward to achieve genuine self-reliance.

The Management of Daily Times of Nigeria PLC has, in all humility, the greatest pleasure to dedicate this book 'On The Economy' 'to President Babangida Seven Years' Administration.

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