Readings in Development Policy and Capacity Building in Nigeria

A Book of Readings in Commemoration of the Tenth Anniversary of the Development Policy Centre

Editors
E. Remi Aiyede
Babatunde Alayande
Azeez Mabawonku

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DEVELOPMENT POLICY CENTRE
OJETUNJI ABOYADE HOUSE
IBADAN, NIGERIA

Development Policy Centre,
Ojetunji Aboyade House,
5, Oba Akinyele Street, DPC Road
Agodi GRA,
Secretariat P.O. Box 30733,
Ibadan.

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PREFACE

DPC AS A THINK TANK AND ITS IMPACT

The Development Policy Centre is an independent, non-governmental organisation founded by eminent Nigerian scholars as a development policy think-tank representing a critical mass of intellectuals, scientists, professionals and industrialists in Nigeria. The primary objective of the Development Policy Centre as a private non-profit company limited by guarantee, is to spearhead strategic long-range thinking on development policy issues thereby generating alternative policy options.

Work in the DPC is organised around four programme units, namely: Socio-Political Policy Unit, Economic Policy Unit, Environment and Technology Policy Unit and Library and Information Management Unit. Each of the Units also has specific areas of focus. The Socio-Political Policy Unit concentrates on governance and administrative reforms and social development, population and gender issues. The focus of the Economic Policy Unit includes fiscal reform, macroeconomic management, and the real economy; while Environment and Technology Policy Unit is concerned with energy and the environment, urban and rural development, and science and technology development. The Library and Information Management Unit focuses on library services, data and information management. Each of the four Programme Units of the DPC is involved in three categories of programme activities, namely research, training, and outreach.

Outreach activities are designed to 'deepen knowledge about, and stimulate policy concern for, promoting development at the grassroots.' In the period under review, diverse outreach activities were carried out. These include public lectures, policy dialogues, eminent persons seminars, staff seminars, the policy articulation network and other activities such as the city consultation and public symposia that were organised occasionally.

The contributions of the programme activities of the Centre could be evaluated in terms of the specific outputs of the programme activities. The main output from research activities are research reports and project reports. Presentations at the staff seminars are published as working papers while public lectures are published as such. Papers presented at the Eminent Persons Seminars and Policy Dialogues are also published.

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Development Policy Centre has since come a long way in its attempt to assist in enhancing national effort in capacity building in policy analysis and development management. It has also been active in bridge-building between the public and private sectors and between them and civil society and the academia. Its effort to make some difference to the quality of policy development in the country has been growing steadily and receiving due recognition.

In 2002, DPC inaugurated research leading to the publication of *NIGERIA DEVELOPMENT REPORT* with the maiden issue being that for year 2001. *Nigeria Development Report 2001* documents various changes in the economic, political, social and technological environments in the year 2001. The report is divided into three parts. The first part on profile of development treats Nigerian economy along ten sectoral lines. It examines the trend in economic, human and educational developments. Also issues of governance, rural and urban development, rate of urbanization, environmental changes, science and technology are discussed in the report.

Our outreach activities have been expanded in scope with the launching of the Annual Lecture Series in 2001. Two of such lectures have been delivered by the Governor of the Central Bank, Dr. Joseph Sanusi and Senator Anyim Pius Anyim, former Senate President.

The table below gives a broad picture of the efforts of the Centre up to year 2002.

Programme Output: Types and Number of Publications of the DPC

Types of Publications	1995	1996	1997	1998	1999	2000	2001	2002	Total
Research Reports	-	-	-	14	07	03	4	25	53
Working Papers	01	01	-	06	06	06	5	-	25
Policy Brief	-	-	-	-	07	03	1	2	13
Policy Dialogue	-	01	02	02	-	-			05
Policy Insight	-	-	-	-	-	01			01
Public Lecture	03	01	-	-	-	-	1	1	06
Economic Intelligence	-	-	03	04	04	02	-	-	13
Project Reports	-	01	03	01	04	08	8	10	45
Digest of Literature on Contemporary African Development	-	02	03	05	04	01	-	-	15
Book							*1*	*1*	*02*
Others	-	-	-	-	01	01	-	-	02
Total	04	06	11	32	33	25	20	39	180

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We present in this volume a selection of publications which are products of policy-oriented studies done by staff and associates of DPC between 1995 and 2002. We hope the collection will give a useful insight into the range of policy issues that has engaged the attention of the Centre in its effort to influence the processes of policy formulation and implementation on the basis of well-researched ideas.

We hope that making the selection available in one volume will facilitate access to the publications and enhance their usefulness in contributing to informed discussion of the issues concerned.

Professor B. Olatunji Oloruntimehin
Managing Director

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1

INTRODUCTION

Since independence, development in Nigeria has been hampered by a series of socio-political crises. These crises have resulted in the poor performance of the economy. The nation's external trade relations, in particular, reveal an important element of the weak underbelly of Nigeria's economy. For instance, outside of the oil sector, the country has lost much of its capacity for export. Its heavy import dependence largely explains why the country has not been able to build up adequate external reserves. Besides, the nation was for most of the 1990s unable to make any appreciable impact on reducing its debt overhang, which remained at well over US$27 billion by the end of the century.

For the average Nigerian family, the nation's poor economic performance has meant greater difficulty in securing a good quality of life. Thus, the end product of this unimpressive economic performance has been a sharp deterioration in societal welfare. In the mid-1990s life expectancy of Nigerians at birth was 51 years or only 83% of the average for all developing countries; the proportion of Nigerians with access to health services, safe water and sanitation was just over 50% compared to an average of over 70% for all developing countries; Nigeria's daily calorie supply per capita was about 83% of the average for all developing countries; Nigeria's adult literacy rate estimated at about 53% was well below the average of 70% for all developing countries; and gross school enrolment ratio (at all levels) for all developing countries averaged 74% compared to Nigeria's 51%. Social service delivery had become very epileptic whether in respect of electricity, telecommunications, air transportation or potable water supply. The quality of social services in education and health-care has declined drastically. Poverty became widespread and endemic. This extensive decline in economic performance in Nigeria is often linked to the persistent gap between policies and outcomes. Not only has Nigeria perhaps planned wrongly, even its most promising plans have been poorly executed due partly to inadequate skilled personnel for development policy management. The inadequate supply of human resources has been worsened by the flight of

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human capacity during the hey days of economic recession and the declining quality of skills that followed falling educational standards during this period. Thus, Nigeria cannot claim to have been able to rise up to the challenge of bringing together its human and material resources in a cohesive fashion that is capable of ensuring effective implementation of its developmental programmes.

In addition, the excesses and wanton corruption of both civilian and military regimes in the last 30 years pushed Nigeria out of the international respect it had enjoyed in the days of the oil boom into the status of a pariah nation. This resulted in tremendous damage to the interest of the country and its peoples. The institutions of governance whether at the federal, state or local levels were impaired beyond belief. Policies and programmes were weakly conceived and poorly executed. Manpower development especially at the higher level of policy making further deteriorated and the relation between the public and private sectors as well as between government and civil society became highly strained. The inefficiency, incompetence and unproductive disposition of the administrative machinery of government had negative impact on policy outcomes. This, perhaps, informed the series of reforms embarked upon by government and which, albeit, were half-heartedly executed by successive governments.

It is clear that for Nigeria to attain sustainable growth and development, effective policy intervention is required for efficient and effective management of the country's resources. The intervention must not stop at effecting some policy changes. Also very significant is the need to rebuild the capacity to intervene in the policy process in a holistic manner. Two challenges that follow are (i) the need to evolve a visionary leadership that is able to appreciate the dimensions and magnitude of the developmental problem, and (ii) the need for evidence-based policy process that makes effective use of research and output of policy analysis, while also encouraging open policy dialogues and debates.

For a more rational and effective policy process, there was (and still is) the need, not only to advance policy-based research, but also the capacity to utilize the research output by the relevant public and private sector agencies. Thus, fresh effort at capacity building in policy analysis and development management has become a critical issue for Nigeria. It has also become imperative to increase partnerships among the various stakeholders in the development process.

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It was in response to such challenges that the idea of a Centre dedicated to renewing and enhancing national capacity for policy analysis and development management was conceived. The Development Policy Centre (DPC) has a mission to "enhance national capacity in carefully articulating, realistically formulating, and effectively implementing policy options calculated to promote overall locally sustainable development".

The chapters of this book are a selection of the research works of the staff and associates of the DPC in the three key areas of policy intervention programme: governance, macroeconomic management and poverty alleviation. Accordingly, the book in divided into three sections.

The first section deals with governance, the focus of this section is on fundamental elements of corporate and public governance. The second section is on macroeconomics. Issues dealt with include economic liberalisation, trade and investment drive and small-scale industry promotion. The third section is devoted to poverty alleviation and related social security issues.

The adoption of various economic reform programmes in Africa in the 1980s, in which privatisation of government-owned enterprises forms a major plank, has heightened the corporate governance debate in the continent. The bitter experience of massive failure of corporate governance in some countries of Eastern Europe like the Czech Republic and Russia that rushed into large-scale privatisation without the necessary corporate governance "infrastructure", suggests that Africa needs to take stock of its corporate governance capacity. The second chapter therefore analyses the status of corporate governance in Nigeria as part of the effort to contribute to this debate.

Nigeria has an elaborate institutional and legal framework for effective corporate governance but with weak compliance and/or enforcement. There is therefore a need to breathe life into this framework for Nigeria to reap the benefits of corporate governance. The role of the courts is considered critical, as the state of corporate governance merely reflects the lack of confidence of the average shareholder in the capacity of the judicial system to help him enforce her rights. The rule of law must be established as the bastion of democracy.

Chapter three examines how federal restructuring and decentralisation can be tailored towards the creation of an enabling environment for business in Nigeria. It studies the implications of previous reforms for the business environment in Nigeria and suggesting ways of making it future political restructuring to improve the business environment.

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Restructuring programmes in the past have had the effect of increasing central control and reducing opportunities for citizen participation, and stultified creativity.

Political regulation has been the major focus of the process as against political participation. Territorial fragmentation and internal boundary adjustments have resulted in a proliferation of states and local governments, without local power that can attract and stimulate participation.

Patronage politics and distributive federalism turned sub-national governments into sources of funds for private and group enrichment. The result is absence of accountability and responsiveness in government and ultimately ineffective and inefficient state structures and service delivery: poor state of infrastructure, political instability and slow growth. The chapter calls for a clear-cut distribution of powers and functions among the various governments with clearly spelt out institutions of horizontal and vertical accountability. The government should have economic competitiveness as a cardinal objective of political restructuring, such that the country will be restructured into competing governmental units and encourage public/private partnership in productive activities at the lower levels to enable the exploration of economic potentials of the various states.

Chapter four deals with the constitutional and legal environment that has impacted upon the formulation of the policy of privatisation and the process of its implementation from 1986. This chapter examined the relevant constitutional provisions on privatisation and commercialisation since 1986. Apart from constitutional and legal bottlenecks that are identified, the study highlights other factors, which have contributed to the faltering manner in which the privatisation exercise had been conducted before the middle of 1999. It highlights the roles of socio-political forces and interest groups that have supported or opposed privatization. Generally, the chapter raises questions of militarism, centralism and political despotism, as well as their cultural impact on privatisation as posing major institutional challenges for Nigeria.

Chapter five attempts to tease out major conflicts that occurred in Nigeria between 1984 and 2000, analyze Government's responses to the conflicts and their consequences; and lay out the policy and practical implications of the conflict management processes of government. Concerning conflict management, it notes that the Nigeria Police, widely distrusted and not seen as an agency that can genuinely help resolve conflict, seems to be the common state agency for dealing with a conflict

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situation in Nigeria. "There is thus a crisis of confidence in the existing conflict resolution agencies sometimes buttressed by their keeping a blind eye to stewing conflict, halfhearted intervention or plain partial intervention, which explains the unwillingness to implement the recommendations of commissions of enquiry, derived from thorough investigation of past incidents of violent conflicts. The crisis of confidence leads inexorably to lawless self-defence."

Chapter six reviews local government re-organisation in Nigeria with a view to contributing to the effort at providing functioning local participatory self-governing institutions in which democracy and development can be anchored. Accordingly, it examines local government re-organisation's impact on democratic practice and the trajectory of socio-economic development, teasing out new opportunities and ideas for enhancing responsiveness, effectiveness and efficiency of grassroots government. The chapter calls for structural and behavioural changes to reinvent local government in Nigeria. Deploring the attempt to uniformise local government across the country, it wants local government to reflect specific cultural and service delivery peculiarities across the states. Local government reforms must address the challenge of making local government meet local needs by mobilising local resources. Suggesting where to look in improving transparency and accountability, it insists that strengthening local officials' link with the citizens is an essential path to enhance local government autonomy vis-à-vis the state governments.

Chapter seven examines how to promote the inflow of Foreign Direct Investment (FDI) through the private sector in Nigeria. It explores the inflow of FDI in terms of its trend, sources and composition. It then assesses the Nigerian investment climate. It further explores the basis for partnership between the indigenous private sector and foreign investors. The conclusion is that Nigerian private sector is not vibrant enough to partner with foreign investors. The government needs to continue its liberalisation policy to expand the private sector, improve infrastructure and encourage cooperation and partnering between domestic and foreign investors.

Chapter eight examines Nigeria's trade policy in the context of the forces of globalisation. It argues that Nigeria's trade policy is shaped by considerations relating to development strategy, the structure of the country's exports and imports, as well as its obligations under the various regional and multilateral trade agreements that the country has entered into. As its development strategy appears to have shifted, from

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the mid-1980s, from an inward-oriented to an outward-oriented stance, trade policy has been liberalized gradually. This has occurred through the gradual phasing out of quantitative restrictions and their replacement with price-based measures, as well as through significant reductions in the average tariff rate and narrowing of the variation of tariffs.

Regional trade agreements have not had much of an impact on Nigeria's trade policy partly because the country has not fulfilled its obligations under the ECOWAS Treaty. But multilateral trade agreements are already impacting on Nigerian trade policy rather significantly, especially since the Uruguay Round. Nigeria needs to utilise the opportunities of multilateral trade negotiations to seek improved market access for its exports and to ensure that resulting agreements do not harm its own development strategy. These pose specific capacity building challenges such as capacities for research, trade policy articulation and negotiations.

Chapter nine reviews Nigeria's privatisation programme to provide an assessment of its impact on enterprise performance. To achieve this objective, it profiles the ownership structure of enterprises in Nigeria before privatisation. It then analyses the Nigerian privatisation programme and discussed its implementation. A brief analysis of data on the effects of privatisation on enterprise performance, and subsequently, private sector development shows that privatisation has led to some improvement in the economic and financial position of the enterprises. Firms that were profitable before privatisation have enjoyed an improved performance after privatisation. But the results of output changes are mixed, so also are changes in leverage. For most of the companies, cost of borrowing remains high in spite of increased access to public equity markets. The observed increase in share prices indicates strong performance and high capital appreciation. Government provided no direct government subsidies or subventions in the sampled companies after privatisation. Nearly all the sampled firms recorded a significant increase in payment of taxes to the government. Thus, privatisation has been effective as a source of revenue to government.

Small-Scale Enterprises (SSEs) contribute to the creation of employment opportunities, free competitive market environments, inputs for large-scale industries, industrial innovations and the promotion of indigenous technology. They are reputed to be flexible in terms of response to market forces. In developing countries they are pervasive and as such are very critical to any effort to promote growth and development.

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Chapter ten takes on the issue of promoting small-scale enterprises in Nigeria. It studies two key policies and programmes that have been initiated to support the development of small-scale enterprises in Nigeria: those that seek to develop entrepreneurial skills of the SSEs and those that aim to enhance access of SSEs to credits. It notes that there are too many programmes and policies with government as the main financier of most of them. Hence it calls for streamlining to reduce duplication of efforts. It recommends that the virtual absence of a system of external evaluation be addressed by instituting independent assessment free from any involvement by the sponsors of the programme. Noting the lack of interest by commercial and merchant banks in extending credit to the SSEs, it calls for credit guarantee and insurance schemes for SSE. The question of small-scale enterprises is taken up again in chapter twelve in the context of poverty alleviation programmes. This is against the realisation that poverty alleviation programmes often target elements that promote entrepreneurship such as financial assistance, training, technology use, marketing, general research services, institutional brokering, and raw materials and other inputs supply. Several poverty alleviation programmes in Nigeria which target entrepreneurship development include Directorate of Food, Road and Rural Infrastructure (DFFRI), Better Life Programme (FSP), Family Economic Advancement Programme (FEAP), National Directorate of Employment (NDE), Peoples Bank of Nigeria (PBN), Community Banks (CBs), National Economic Recovery Funds (NERFUND), among others. The chapter observes that old traditions of personal sources of finance still constitute a major source of business finance. Resources from poverty alleviation programmes constitute a small proportion of total finance to entrepreneurs. Only marginal increment on productivity is noted in firms that benefited from such programmes. Programmes initiated to support SSEs have made modest contributions because the average Nigerian entrepreneur is not aware of the existence of these supporting schemes and where they are aware, they are unable to log onto the schemes. Transparency and stakeholder involvement in programme design and management can help the situation.

Nigeria moved away from central planning towards a market economy with the adoption of neo-liberal economic policies in 1986. The overall thrust of these policies was to make the economy private sector driven. Almost two decades on, the aggregate contribution of the Nigerian private sector to the economy is still very low. The eleventh chapter takes on the question of building private sector capacity to enable

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it play the envisaging role of engine of growth and development. This chapter identifies the capacity gaps of both the formal and informal private sectors in Nigeria, regarding access to education and learning opportunities; the rules and regulations that characterize the operating environment, infrastructural facilities; and the availability of capital both in terms of financial resources and technologies. It then reviews programmes to build the capacity of the private sector. Some of these programmes include those that seek to improve the business environment, reduce the drain of public enterprises, develop a robust financial system, increase the supply and quality of human resources, and providing functional infrastructure. This chapter contains elaborate and interesting ideas on institutional and human resources development for the private sector.

Chapter thirteen investigates the problem associated with Nigeria's social security system, specifically pension administration, and argues that there are urgent and necessary reforms to stabilize and strengthen the system. The urgency of these reforms is underscored by demographic changes, high payroll taxes, tax evasion, inflation and lack of linkage between the money and capital markets. It calls for the integration of defined benefit and defined contribution as well as the institutionalization of the multi-pillar system in Nigeria.

Chapter fourteen examines the various efforts at bringing development to the rural areas to enhance rural well-being. It also tries to find out why past policies have failed and proffers suggestions on how to achieve sustainable growth in the rural areas. Developing the rural areas is very critical to alleviating poverty in the effort to stem rural-urban migration and in the context of urban bias in service provisioning.

These chapters have been written by generations of Nigerian scholars who have worked at the Development Policy Centre as full time staff or as associates. They reflect diverse perceptions of important issues in capacity building for development policy and intervention. Some of these works have appeared as DPC research reports while others are being published for the first time. Together they represent a sample of DPC's work in the areas of macroeconomics, governance and poverty studies.

E. Remi Aiyede,
Babatunde Alayande
Azeez Mabawonku

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SECTION I

GOVERNANCE

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2

THE PRACTICE AND STANDARD OF CORPORATE GOVERNANCE IN NIGERIA[1]

T. Ademola Oyejide and Adedoyin Soyibo

2.1. Introduction

Corporate governance, as a concept, can be viewed from at least two perspectives: a narrow one in which it is viewed merely as being concerned with the structures within which a corporate entity or enterprise receives its basic orientation and direction (Rwegasira, 2000); and a broad perspective in which it is regarded as being the heart of both a market economy and a democratic society (Sullivan, 2000). The narrow view perceives corporate governance in terms of issues relating to shareholder protection, management control and the popular principal-agency problems of economic theory. In contrast, Sullivan (2000), a proponent of the broader perspective, uses the examples of the resultant problems of the privatization crusade that has been sweeping through developing countries since the 1980s, and the transition economies of the former communist countries in the 1990s, to prove that issues of institutional, legal and capacity building as well as the rule of law, are at the very heart of corporate governance. Besides, the bitter experience of Asian financial crisis of the 1990s underscores the importance of effective corporate governance procedures to the survival of the macroeconomy. This crisis demonstrates in no unmistakable terms that "even strong economies, lacking transparent control, responsible corporate boards, and shareholder rights can collapse quite quickly as investor's confidence collapse"[2] and emphasizes the need for mutual cooperation between the public and the private sectors in developing the capacity to ensure effective corporate governance with a view to ensuring the development of market-based economies and democratic societies based on the rule of law.

The adoption of various economic reform programmes in Africa in the 1980s, in which privatization of government-owned enterprises forms

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a major plank, has heightened the corporate governance debate in the continent. The bitter experience of massive failure of corporate governance in some countries of Eastern Europe like the Czech Republic and Russia that rushed into large-scale privatization without the necessary corporate governance "infrastructure", suggests that Africa needs to take stock of its corporate governance capacity. This paper is an attempt to do just that, using Nigeria as a case-study. In the next section we explore the principal agency theory to provide a perspective for the analysis of Corporate Governance, while section three reviews the current structure of ownership in the business sector in the country. Section four, following Ricardo (2000), identifies and reviews the different legislations governing corporate governance in Nigeria from three perspectives: disclosure and transparency; minority and shareholder rights; and oversight management. The fifth section evaluates the standard of corporate governance in Nigeria using the OECD scoring instrument in section IV. The last section is the conclusion.

2.2. Theoretical Framework

The relationships between ownership structure and firms' performance are usually discussed within the context of the agency theory. The principal/agency literature suggests that hired managers will not have the same objectives as profit-oriented private owners; rather they will use firm's specific rents to satisfy their own maximands. The limitations on managers' discretionary powers, which tend to affect their efficiency and profitability, are usually imposed in part on the external constraints (e.g. posed by product and capital market) and also in part on internal constraints (posed by statutes and governance mechanism by the owners themselves). The main issue in the principal/agency literature is centered on asymmetric information because outside owners do not have access to full information on corporate performance or the reasons for under-performance. The separation of ownership and control, which occurs as a result of the introduction of external investors, brings to the fore the agency problem: managers are expected to represent the interest of the external owners.

Shleifer and Vishny (1996) were of the opinion that managers and equity investors should be capable of entering into a binding contract, which could ensure that investors' interests are fully represented. The difficulty here lies in the possibility of specifying ex ante, what accommodates all, future contingencies. If unforeseen circumstances

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arise, managers assume contingent control rights that provide them with potentials to operate against investors' best interests, by for example, expropriating investors' funds or engaging in assets stripping. The discretionary control rights of managers are further increased by the existence of asymmetric information between themselves and external investors. This advantage allows managers the freedom to conceal some pieces of information from external investors. Such action serves to increase the cost of monitoring and therefore enables managers to pursue their own rather than those of the equity investors, by entrenching their position or engaging in behaviour that could be sub-optimal for the equity investors. The possibility of higher monitoring costs is particularly strong if there are large number of dispersed external investors, because a free-rider problem emerges if there are large costs to monitoring while the benefits accruing to each individual are relatively small.

The free-rider problem could be minimized and internal constraints on managerial discretion imposed if ownership is concentrated in the hands of large blocks of shareholders (either individuals or investment funds). In this event, the returns to monitoring will increase monitoring activities, which may be subject to economies of scale. Large block shareholders are more likely to be able to utilize their voting power to influence managerial behaviour, although, as Shleifer and Vishny (1996) noted, this will require share holding-voting rights. This leads to the proposition that large block-holders will exercise more effective corporate governance.

In the next sub-section, we assess the extent to which these concepts can promote better corporate governance in Nigeria by analyzing the ownership pattern of businesses in Nigeria. This will help to isolate the extent to which the operations of Nigerian enterprises are subjected to the provisions of company law and capital market legislation. The provisions of these legislations are expected to mollify some of the principal/agency problems referred to earlier.

2.3 Structure of Ownership of Private Businesses

In Nigeria, most businesses in the formal sector are not publicly listed. DPC (1999), in a survey of enterprises in six randomly selected states[3] found that only 13.3% of the enterprises are listed on the Nigerian Stock Exchange (NSE), while 48.5% are limited liability companies. Thus close to 38% of companies operating in the formal sector operate

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Table 2.1 : Distribution of Establishment by Activity Group and by Type of Ownership in Lagos State, 1997

Activity Group	Sole Proprietor-ship	Partner-ship	Public Ltd.	Private Ltd.	Coopera-tive	Statu-tory	Others	Total No	%
Agric. & Forestry	24	1	0	12	0	0	0	37	0.37
Mining and Quarrying	1	0	3	15	0	1	0	20	0.20
Manufact-uring	1220	67	105	509	3	6	7	1923	19.43
Electricity Gas & Water	9	1	2	11	0	3	0	26	0.26
Building & Construct-ion	43	6	14	80	0	1	0	144	1.45
Wholesale & Retail Trade	918	75	132	614	4	4	3	1750	17.68
Hotel and Rest-aurant	534	17	13	100	0	2	1	667	6.74
Land Transport	27	1	0	24	0	0	0	52	0.53
Other Transport	36	7	16	60	0	5	4	128	1.29
Private Prof. Services	1055	371	271	723	5	9	9	2443	24.68
Other Services	1953	150	43	540	3	5	15	2709	27.37
Total No. %	5820	696	599	2688	15	36	39	9899	100.0
	58.85	7.03	6.05	27.15	0.15	0.36	0.39	100.0	34.84

Source: Federal Office of Statistics: Directory of Establishment Lagos State 1997.

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largely outside the provisions of the company law and nearly 87% of formal sector businesses may be operating outside the legislation governing the capital market. However, Lagos state leads in the number of publicly listed companies. In fact, over 71% of firms surveyed in Lagos operate under the company law while more than 20% operate under capital market legislation. Based on this finding, and because of the fragmentary nature of enterprise data in Nigeria, we shall use data on Lagos State for our analysis in this subsection. Besides, being the

business and commercial capital of Nigeria, the insights gained from an analysis of Lagos will reflect, to a large extent, the general structure of ownership of businesses in Nigeria.

In 1997, there were 599(6.05%) public limited companies[4] in Lagos State while private limited companies were 2.688 (27.15%). Sole proprietorships form the bulk of businesses in the formal sector in the state as they constitute nearly 59% of registered enterprises (Table 1). Partnerships constituted about 7% of the enterprises. Thus, most enterprises in Nigeria operate largely outside the provisions of the company law and capital market legislation. This suggests that in Nigeria, only a limited number of enterprises are subject to corporate governance principles and norms. In the next section, we assess the ownership structure of enterprises quoted on the Nigerian Stock Exchange with a view to spotlighting its implications for corporate governance in the country.

2.3.1 Ownership Characteristics of Quoted Companies

On average, between 1995 and 1998, government owned 8.1% of companies quoted on the NSE (Table 2). Government dominance of ownership of quoted companies is highly visible in sectors like Agriculture (32%), Automobile and Tyre (30%), Banking and Finance (21%), Petroleum Marketing (17%), Insurance (15%) and Building Materials (15%). These companies are some of those slated for privatization. Ownership by domestic individuals appears to be gaining currency in many sectors like Insurance (61%), Footwear (57.3%), Breweries (53%), Engineering Technology (53%) Petroleum Marketing (53%), Banking (36%) and Food Beverages and Tobacco (36%). In fact, on average, domestic individuals own nearly 35% of the shares of quoted companies in Nigeria. Institutional ownership of firms quoted on the NSE is quite significant. Overall, both foreign and domestic institutional ownership constitute nearly 48% of quoted companies, 9% more than both domestic and foreign individual ownership. This has wide implications for effective corporate governance in that, ownership by institutions, being usually in block, can exercise voting rights that ensures the protection of shareholders from poor and unwholesome management performance. However, domestic institutional ownership is slightly less than foreign institutional ownership. In contrast, there is a wide gap of more than 30% between domestic and foreign individual ownership. This suggests that while the Nigerian economy seems more

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relatively attractive to foreign institutional portfolio investors, there may be certain factors present in the economy that inhibit individual foreign portfolio investors. This may need to be investigated and ameliorated. Ownership by management and staff, on average, is slightly less than 6% and is highest in Packaging (14%) Textiles (12%), Industrial and Domestic Products (9%), Conglomerate (6%) and Engineering Technology (6%). This also has implications for corporate governance.

Table 2.2: Ownership Characteristics of Nigerian Quoted Companies, 1995-1998 (Average %)

Sectors	Domestic Institutions	Foreign Institutions	Domestic Individuals	Foreign Individuals	Government	Management and Staff
Agriculture	30.08	15.0	22.02	0	32.02	
Food, Beverage and Tobacco	19.95	39.16	36.5	2.5	1.42	0.47
Footwear	20.00	20.00	57.3	0	0	
Industrial/ Domestic Products	24.17	28.14	32.63	0.01	6.35	8.7
Breweries	8.3	27.72	53.2	2.5	5.48	2.8
Building materials	23.73	26.06	35.09	0	15.04	0.08
Computer/Office equipment	57.6	8.8	10.1	13.2	0	0.16
Conglomerate	30	20	30.09	19.75	0	6.22
Construction	37.45	40.0	22.05	0	0	0.5
Engineering Technology	10.8	29.65	53.33	0	0	6.22
Petroleum Marketing	0	40	42.86	0	17.14	0
Packaging	21.2	28	33.84	2.56	3.34	14.4
Banking & Finance	20	3.9	36.3	3.0	21.4	3.4
Insurance	11.3	24.1	60.5	0	15.4	0.53
Automobile and Tyre	3.4	44.3	22.3	4.0	30.0	0
Textiles	13	36.06	25.0	8.74	5.3	11.9
Healthcare	34.9	33.3	23.9	0	0	7.9
Average	20.60	26.68	34.90	3.96	8.05	5.78

Source: Computed using data obtained from NSE Fact Book, 1998.

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2.4. The Legal Infrastructure of Corporate Governance in Nigeria

2.4.1 Financial Performance

The basic company law is the Companies and Allied Matters Decree (CAMD) of 1990. It provides that the directors of every company shall prepare financial statements reflecting a true and fair view of the operations of the company during the financial year. The financial statements must include, among others, the balance sheet and profit and loss accounts; the sources and application of funds, the value added statement reporting the wealth created by the company during the year; and the five year summary which provides comparative inter-temporal performance information. The financial statement must be laid before the shareholders at the annual general meeting (AGM). These statements must reach the shareholders, who must decide whether to approve or reject the financial statements, at least 21 days before the AGM.

The CAMD also provides for the annual preparation of the Directors' Report, which should give shareholders a fair view of the developments of the business of the company, its principal activities during the year and any significant change in those activities. The Directors' Report must also contain information about the amount, if any, recommended as dividend and the amount, if any, recommended as reserves.

The company law also provides that directors must give information about emoluments of directors, including emoluments waived, pensions and compensation for loss of office to directors and past directors. Information must also be supplied about employees remunerated at higher rates. Also to be provided are disclosures, transactions and agreements on loans, quasi loans and other dealings in favour of directors and "connected persons".

The CAMD specifies additional disclosures such as disclosure of particulars of the subsidiaries of the company and its shareholders; disclosure of financial information relating to its subsidiaries; arrangements and agreements made by the company or its subsidiary who, during the year, were officers of the company.

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2.4.2 Auditing Matters/Required Accounting and Auditing Standards

The Company Law specifies that all companies must appoint at its AGM, auditor or auditors to audit the financial statements of the company and hold office until the next AGM. In cases where no auditors are appointed or re-appointed, the law empowers the directors to appoint a person to fill the vacancy. It also provides for the procedure for reappointing any retiring auditor without a resolution being passed at the AGM. To ensure the independence of the auditor, CAMD prohibits any officer or servant of the company from being an auditor, neither can anyone who is a partner or is in the employment of any officer of the company, nor is any person or firm that offers consultancy services to it. Additionally, for a bank[5], no person who has any interest in the bank other than as a depositor shall be an auditor. The BOFID also requires that any auditor appointed by any bank must be approved by the Central Bank of Nigeria (CBN). The auditor is expected to form an opinion as to whether the company kept proper accounting records and neither proper returns relevant for the audit have been received from the branches not visited. The auditor will also tell whether the company's balance sheet and profit and loss account are in agreement with the accounting records and returns.

He or she is also required to make a report to the shareholders on the accounts examined by them, on the balance sheet and profit and loss account, and all group financial statements to be laid before the AGM. The law requires that the auditors report be countersigned by a lawyer. Besides, in the case of a public limited company (Plc), apart from the auditors report, an audit committee comprising of equal number of directors and representatives of shareholders (subject to a maximum of six) shall examine the auditors report and make recommendations to the AGM, as it deems fit[6]. Among the functions of the audit committee are to: ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices; review the scope and planning requirements; review the findings on management matters in conjunction with the external auditor and departmental responses thereto; keep under review the effectiveness of the company's system of accounting and internal control; make

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recommendations to the Board in regard to the appointment, removal and remuneration of the external auditor; and authorize the internal auditor to carry out investigations which may be of interest or concern to the committee.

CAMD requires that the financial statement prepared by each company should conform with the accounting standards laid down by the Statements of Accounting Standards issued from time to time by the Nigerian Accounting Standards Board, provided such accounting standards do not conflict with provisions of the decree. Where information provided in the balance sheet or the profit and loss account in the specified format would not provide sufficient information to give a true and fair view of the operations of the company, the law requires that necessary additional information be provided in the balance sheet or profit and loss account or a note to the accounts. The law also specifies standards for reporting consolidated accounts dealing with all or any of the subsidiaries of the company. Only persons who belong to a body of accountants in Nigeria established by an Act of the National Assembly can be auditors.

2.4.3 Requirements for Equity Ownership Disclosure

The law requires that each company must keep a register of members/shareholders where the shares held by each holder is recorded as well as the amount paid or agreed to be paid. Whenever shares are sold they must also be recorded in the register. For a Plc, in addition to the register, the law also requires that unless the register is in such a form that it constitutes in itself an index, the company shall keep an index of the names of the members of the company. In the case where any alteration is made in the register of members, the company must within 14 days make any necessary alteration in the index. The index is expected to have sufficient information to enable the account of any member to be easily located. The register or index shall be open for inspection during office hours except when the register of members is closed, subject to such restriction that the company in general meeting may impose and such that not less than 2 hours in each day shall be allowed for inspection.

CAMD also requires that members having at least 10% of the unrestricted voting rights in the company shall be listed in alphabetical order in a register of interest in shares in the case of a Plc. Such a person is expected to give notice in writing to the company within 14 days of

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becoming a substantial shareholder. When the company ceases to be a Plc, it shall keep the register for 6 years.

For a quoted Plc, the Securities and Investments Decree, 1999, provides that all securities must be registered by the Securities and Exchange Commission (SEC). Capital market operators, dealers or other persons specified in Section 31 of this decree, are empowered by the decree to keep a register in the prescribed form of the securities in which they have an interest. Particulars of the securities in which capital market operators or other qualified persons have interest in and particulars of their interest in those securities shall be entered within 7 days of acquisition or disposal of the interest.

2.4.4 Disclosure on Sundry Issues and Items

An important issue in corporate governance relates to the requirements of the company law in relation to disclosure on identity, compensation, background of directors and senior managers and of the relationship between directors and senior managers, as well as disclosure of related party transactions. As stated earlier any change in ownership interest and values must also be updated and be made known to all shareholders who have a right to ask for a copy of the register, or any part thereof, albeit, at a fee. The company law requires that the identity of directors, the size of their shareholding and their remuneration be in the public domain and thus be known and available to all shareholders. Accordingly, the law requires that a register of all members of the company including its index, where appropriate, be maintained in its registered office. In addition, Parts V and VI of Schedule 3 of CAMD specifies that the compensation of directors and number of employees remunerated at higher rates be made public. Besides, as mentioned earlier, disclosures on transactions and agreements on loans, quasi loans and other dealings in favour of directors and "connected persons" is mandatory under the law.

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2.4.5 Minority Shareholder Rights

2.4.5.1 Guarantee of Minority Shareholders' Right in Meeting Participation

The provisions of CAMD specify the minimum length of notice to be given to all those entitled[7] to receive notice of a general meeting of any company as 21 days[8] from the date on which, the notice was sent out.

However, a notice is deemed to have been properly effected, if it is sent to the member by post to him or his registered address and it is properly addressed and prepaid. The law provides that failure to give notice of meeting to any person entitled to receive it may invalidate the meeting unless such failure is an accidental omission on the part of those responsible for sending the notice.

For a Plc, the directors must prepare the statutory report for the company's first meeting (called the statutory meeting), which must be held within six months from the company's first date of incorporation. The statutory report must be sent to all shareholders at least 21 days before the holding of the statutory meeting. At this meeting all members of the company present shall be free to discuss any matter relating to the formation of the company and its commencement of business or arising from the report. Besides, the law establishes that any member who wishes a resolution to be passed or any matter arising out of the report shall give further 21 day notice from the date of receipt of the statutory report.

Some provisions of CAMD serve as protection of minority shareholders against the "tyranny of the majority." For example, the law requires that if a poll of members is taken, a member, entitled to more than one vote need not use all his votes in the same way. The provision that does not allow objections to the qualifications of any voter except at the meeting or adjourned meeting at which the vote is objected to, and the provision regarding the use of proxy at meetings, are such examples.

While the company is granted powers to close its register by giving a notice in a daily newspaper circulating in the district where the company has its it registered office, any member, may redress in the law courts, if his name is, without sufficient cause, entered in or omitted from the company register. CAMD also states that the company register shall be prima facie evidence in all matters directed and authorized by it.

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2.4.5.2 Shareholder Voting and Proxy Rights

Section 116(1a) of CAMD establishes and underscores the one-share-one-vote system for Nigerian companies. Accordingly, a shareholder's vote is proportional to the number of shares owned in the company. However, this does not affect the issuance of preference shares as defined by Section 143 of the decree and in particular, Section 119 of CAMD prescribes that a company may issue any shares with such preferred, deferred or special rights. But Subsection 1(b) of the Section

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116 outlaws the issuance of non-voting shares in Nigeria. Company law establishes that any member entitled to attend a meeting shall be entitled to appoint another person (whether a member or not) as a proxy to attend and vote instead of him, and a proxy appointment to attend and vote instead of the member shall also have the same right to speak at the meeting. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorized in writing, or if the appointer is a corporation, either under seal, or under the hand of an officer or an attorney duly authorized. The law also stipulates that in every notice of meetings of a company having a share capital, a prominent statement indicating that a member entitled to attend and vote is also entitled to appoint a proxy (and it is allowed two or more proxies) to attend and vote instead of him, and stating that the appointed proxy needs not be a member of the company. Besides the law stipulates that a vote in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or the revocation of the proxy or the authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given.

2.4.5.3 *Measures for Secure Shareholder Share-Registration*

Both CAMD and the Investment and Securities Decree (ISD) provide that only public companies satisfying some provisions of both decrees[9] or licensed banks can lawfully make an invitation to the public to (a) acquire or dispose of securities of a company; or to deposit money with company for a period, whether it is interest-bearing or not. The law requires that all securities offered for sale to or for subscription by the public or to be offered privately shall be registered with the Securities and Exchange Commission (SEC). A public company can only invite people to acquire its share by publishing a prospectus containing the following vital information: company's proprietorship, management and capital requirements; details relating to the offer; property acquired or to be acquired by the company; commissions, preliminary expenses etc.; contracts; auditors; interest of directors; and other matters.

2.4.5.4 *Ability to Transfer Ownership and Enforcement of Rights*

Only shares of a quoted Plc can be transferred by shareholders as Section 32 of ISD states that only securities or investment registered by SEC can be transferred electronically or by other approved

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means/systems, or sold. Thus shareholders of quoted Plc have easier access to share transfer. However, such transfer has to be effected through a qualified person. Section 33(2 & 3) of the ISD requires that such a qualified person[10] should keep a register of securities acquired or disposed by them. Information relating to the date of acquisition or disposal, and the reason for the change shall be entered in the register within 7 days of acquisition or disposal. Besides, that person shall give to SEC notice, in the prescribed form, such particulars relating to the register as may be prescribed, including the location of the register.

To enforce rights, shareholders have to seek redress in the law courts. For example, any member who feels aggrieved may ask the law court to restrain the company from the following:

- entering into any transaction which is illegal or ultra vires;
- purporting to do, by ordinary resolution, any act which by its constitution or the law requires to be done by special resolution;
- any act or omission affecting the applicant's individual rights as a member;
- committing fraud affecting the company or the minority shareholders where the directors fail to take appropriate action or redress the wrong done;
- where a company meeting cannot be called in time to be of practical use in redressing a wrong done to the company or minority shareholders;
- where the directors are likely to derive a profit or benefit from or have profited or benefited from their negligence or their breach of duty.

Shareholders can also seek redress in the law courts. Sections 310 - 312 of CAMD contain provisions of relief that can be sought by any shareholder on the grounds of unfairly prejudicial and oppressive conduct.

If the court is satisfied that the petition so made is founded, it may make such orders as it thinks fit for giving relief to the petitioner. Such order can include winding up the company; regulating the affairs of the company in the future; the purchase of shares of any member by other members of the company; the purchase of the shares of any member by the company and reducing the capital of the company accordingly; among other orders.

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2.4.6 Oversight Management

2.4.6.1 Mechanism and Structures for Prudent Management of Shareholders' Asset

There are many rules and regulations for ensuring that management of companies act in the interest of investors and of the firms. Among these are the shareholders' meetings which have supervisory functions over the companies; the requirements that financial accounts of companies be certified by external auditors; the different returns the companies are expected to send to regulatory agencies like the Corporate Affairs Commission (CAC) which registers all incorporated companies; the SEC which registers all shares of quoted Plcs; the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) which have regulatory and supervisory mandates for licenced banks and other financial institutions like finance houses and community banks; the National Insurance Commission of Nigeria(NAICOM), which has regulatory mandate over insurance companies. Shareholders can use their meetings to express and exercise their collective will as a corporate body. It is in these meetings that all shareholders get to express their opinions about the way the company is run and make suggestions about how the company operations can be improved. In these meetings shareholders have the right to speak and vote on resolutions concerning the affairs of the company. In Nigeria, the CAMD provides for two main types of meetings: Statutory and General Meetings. Statutory Meetings are held within six months of the incorporation of the company and the directors must, 21 days before the meeting holds, forward a copy of the statutory report to be presented to all members. This report, which must be certified by not less than two directors, must be about the formation and commencement of business by the company. CAMD provides that any member present at this meeting shall have the liberty to speak on any issue concerning the formation and commencement of business by the company. General Meetings are also of two types, annual and extraordinary. Each company is expected to hold an AGM each year, in addition to its other meetings in the year. The AGM receives and approves the Annual Report of the Company containing the balance sheet, profit and loss account, the directors' report and the auditor's report. It also appoints the auditor, the directors as well as their

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remuneration, and approves the dividend proposed, among others. The AGM provides a forum for shareholders to give their opinion about the performance of the company, particularly in relation to their competitors and whether they receive returns commensurate with their investment in the company in form of dividend. An extraordinary meeting may be convened by the Board of Directors whenever they deem fit and may be convened by any director, if it is impossible for the directors to form a quorum. Also an extra-ordinary meeting may be requisitioned by any member or members holding not less than one-tenth of the shares of the company at the date of the requisition. All businesses transacted in any extraordinary general meeting are deemed special[11]. CAMD provides that all general and statutory meetings of companies incorporated in Nigeria are to be held in Nigeria. By law, companies incorporated in Nigeria are required to file certain returns to the CAC. In particular, for licensed banks, the statutory returns they file to the CBN and the on-site and off-site inspection conducted by both the CBN and the NDIC are ways of exercising oversight management of financial institutions.

The use of external auditors to examine the books of companies is a way of exercising oversight management. Section 357 of CAMD provides that all companies must appoint a qualified person as external auditors who must make a report to the all members of the company on all accounts they examined, and on every balance sheet and profit and loss account and on all group financial statement copies, which are to be laid before the company at AGM during the tenure of the auditor. Besides, Section 29 of BOFID prescribes that auditors of licensed banks must be approved by CBN.

This is another way of exercising oversight management on management of banks.

In particular, Subsection 5 of the same section provides that every auditor shall have a right of access, at all times, to the books, accounts and vouchers of the bank and shall be entitled to require from directors, managers, and officers of the bank such information and explanation that he thinks necessary for the performance of his duty. Additionally, Subsection 6 requires that two copies of the auditor's report and that of the directors together with the auditor's analysis of bad and doubtful advances in a prescribed form be forwarded to the CBN.

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2.4.6.2 Mechanism for Effective Oversight of the Audit Function

The use of the Audit Committee for Plcs, elected annually at the AGM, provides some measure of oversight for the audit function. However, its effectiveness is an empirical question. The membership is equally distributed between the Board of Directors and other shareholders subject to a maximum of six. Among the functions of the Committee, which are germane to oversight of the audit functions are:

- review of the scope and planning of the audit requirements;
- review of the findings on management matters in conjunction with the external auditor and the internal responses thereon;
- keeping under review the effectiveness of the company's system of accounting and internal control;
- making recommendations to the Board regarding the removal and remuneration of external auditors; and
- authorizing the internal auditor to carry out investigation into any activities of the company which may be of interest or concern to it.

For licensed banks, the fact the external auditors appointed by banks have to be approved by the CBN, and the fact that reports of the auditor and his analysis of the bad and doubtful accounts have to be submitted to it, exercise some type of oversight on the audit function. The supervision and regulatory functions of the CBN and NDIC for licensed banks can, to some extent, play a type of oversight role of the audit functions because auditors should know that other views may be taken into account to determine performance of banks.

2.4.6.3 Liabilities and Sanctions for Directors who Fail to Perform

The AGM with its power to appoint and remove directors as well as approve their remuneration is expected to act as check on the performance of directors. Accordingly directors will endeavour to bring to the AGM results that will win the approval and commendation of shareholders. Besides, certain sections of the company law prescribes penalties for erring directors and officers of the company. For example, Section 348 of CAMD prescribes the penalty for each director of any company that lays a faulty financial statement before any meeting of shareholders. If the company is in liquidation, for example, Section 502, prescribes the offences that can be committed by officers of the company antecedent to or in the course of winding up. Section 503 prescribes penalty for falsification of company books; Section 504, for frauds while Section 505 prescribes the liability for not keeping proper accounts.

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Section 507 prescribes the power of law courts to assess damages against delinquent directors while the prosecution of delinquent officers and members of the company is provided for in Section 508 of CAMD.

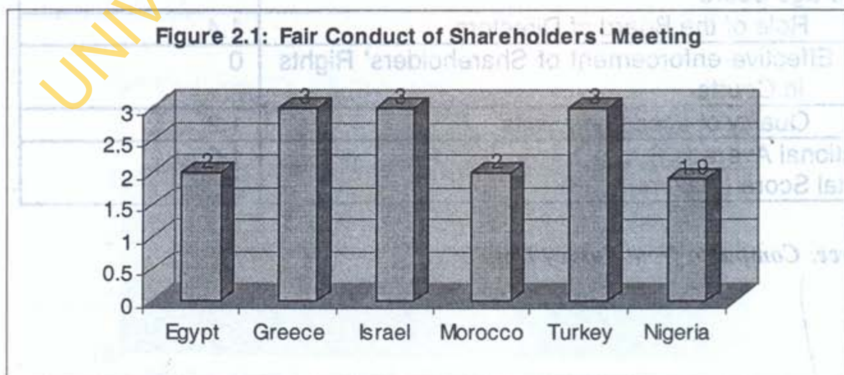
2.5.0 Practice of Corporate Governance in Nigeria

To evaluate the quality of practice of corporate governance in Nigeria, we surveyed regulatory agencies in Nigeria like the CBN, SEC, NDIC, the Bureau for Public Enterprises, which is in charge of the privatization programme of government, other stakeholders in corporate governance like the Chambers of Commerce, major firms by sectors, shareholder organizations in major commercial centres like Lagos and Ibadan, fund managers, issuing houses, stockbrokers, major auditing firms and corporate lawyers. The survey instrument used was the OECD Corporate Governance Assessment Instrument. A total of 31 questionnaires were distributed. For this analysis, 20 were retrieved and used, representing a response rate of 64.5%. The OECD scoring guide was used to score the responses of the questionnaires, which were then analyzed. For this analysis, we compared the computed scores for the different measures of comparing governance in Nigeria with those of countries of Middle East and North Africa (MENA) and Eastern Europe. This was to demonstrate the relative performance of Nigeria.

2.5.1 SHAREHOLDER RIGHTS

2.5.1.1 Fair Conduct of Shareholders' Meetings

The average score for the assessment of respondents on fair conduct of shareholders' meetings is 1.9 out of a maximum score of 3 (Table 3). This score contrasts poorly with the average score recorded in three



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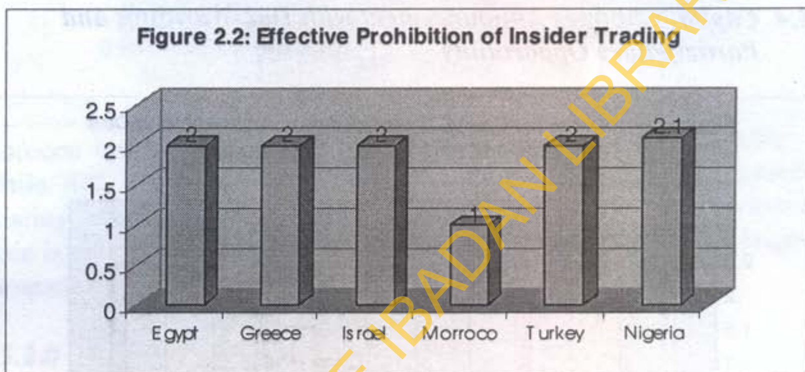
2.5.1.2 Effective Prohibition of Insider Trading

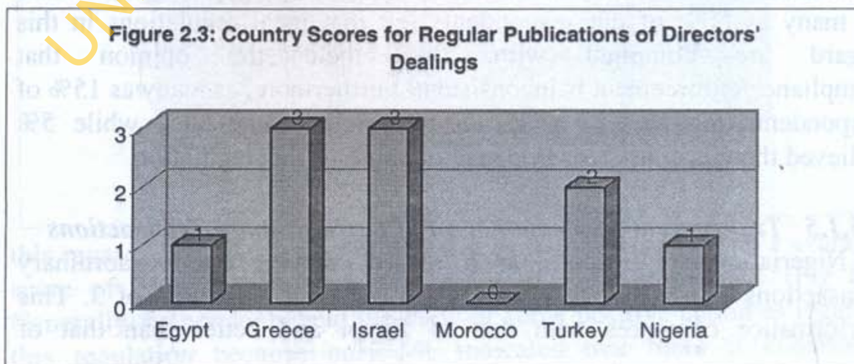
With regards to whether insider trading is effectively prohibited Nigeria's score compares favourable with MENA countries. Its average score is 2.1, which is similar to the score of Turkey, Greece, Israel and



Egypt each of which had an average score of 2. It is better than Morocco's average score of 1(Figure 2). However, 85% of our respondents felt that while country's regulations require that this be the case, compliance/enforcement is inconsistent in the country.

2.5.1.3 Regular Publication of Directors' Dealings

Nigeria's score as regards compliance with the requirements of regular publications of directors' dealings is rather low: an average score



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of 1 out of 3. The country is only better than Morocco out of the five MENA countries studied by SG (2000). It is on the same footing with Egypt with an average score of 1 (Fig.3). As many as 25% of our respondents hold the opinion that there is consistent evidence of abuse in this case by Nigerian companies while 30% felt that regulations in the country require this, there is no meaningful compliance. The balance of 45% held the view that there is no consistent compliance and enforcement of the existing regulations.

2.5.1.4 Capital Changes Announcement with Due Warnings and Participatory Opportunity

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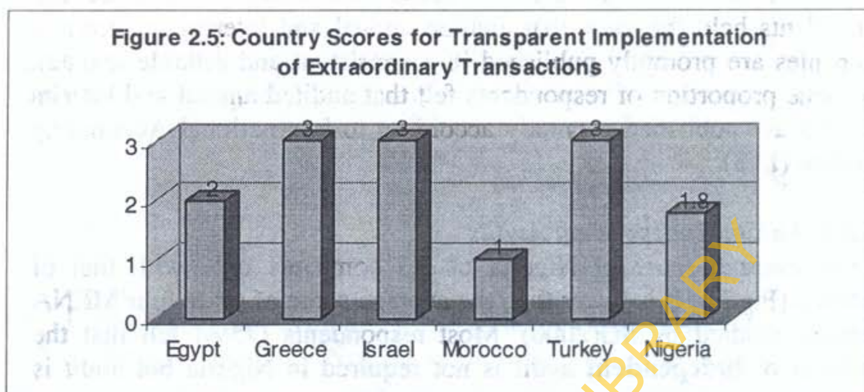
Our respondents scored Nigeria rather low with regards to announcement of changes in capital with due warnings and giving potential shareholders opportunities to participate, when compared with MENA countries. The average score of 2.2 for Nigeria is lower than even Morocco's score, but about the same score as Egypt (Fig 4). While as many as 50% of our respondents felt that local regulations in this regard are complied with, 30% held the opinion that compliance/enforcement is inconsistent. Furthermore, as many as 15% of respondents felt that there is no meaningful compliance while 5% believed there is consistent evidence of abuse of this regulation.

2.5.1.5 Transparent Implementation of Extraordinary Transactions

Nigeria's average score, as a regard carrying out extraordinary transactions at transparent prices is 1.8 out of a maximum of 3. This performance compares with that of Egypt and better than that of

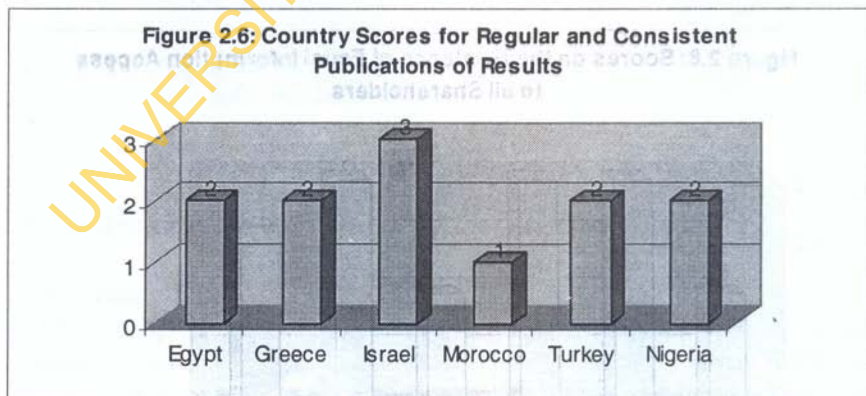


Morocco but worse than those of Turkey, Greece and Israel (Fig. 5). While 70% of our respondents felt that compliance with enforcement of existing regulations is inconsistent, as many as 25% held the view that there is no meaningful compliance to the existing regulations by Nigerian companies.

2.5.2.0 Disclosure and Transparency

2.5.2.1 Regular and Consistent Publications of Results

Nigeria's performance compares favourably with MENA countries in



this regard. Its average score of 2.0 is only lower than Israel's average score of 3 but better than Morocco's average score of 1 (Fig 6). Generally, respondents held the view of some positive action as regards this regulation because only 5% indicated that there is consistent

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evidence that this is an area of abuse. As many as 35% of our respondents held the view that audited annual and interim accounts of companies are promptly published in a consistent and reliable manner. The same proportion of respondents felt that audited annual and interim accounts are published promptly according to International Accounting Standard (IAS).

2.5.2.2 Annual Independent Audits

The average score of Nigeria of 2.3 compares only with that of Morocco (Fig.7). It is lower than the average score of other four MENA countries studied by SG(2000). Most respondents (75%) felt that the condition of **independent** audit is not required in Nigeria but audit is

Figure 2.7: Scores for the Existence of Annual Independent Audits

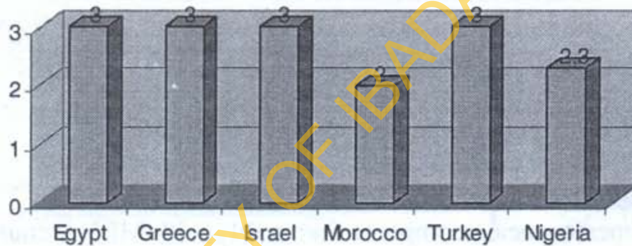
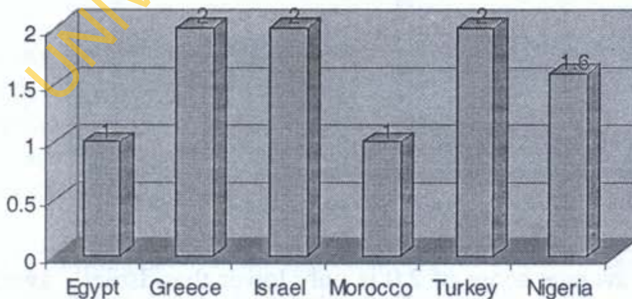


Figure 2.8: Scores on the Existence of Equal Information Access to all Shareholders



done by most organizations. However, 25% of our respondents believed that this is required in Nigeria and is consistently published.

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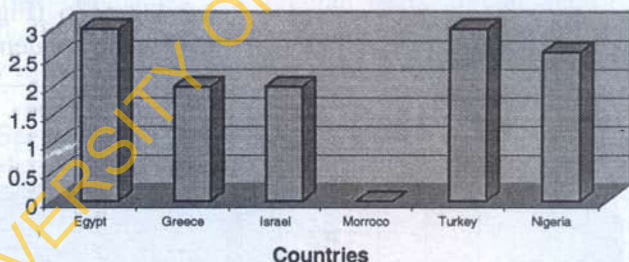
2.5.2.3 Equal Access to Information of all Shareholders

Respondents generally believed that all shareholders do not have equal access to information. Nigeria's average score of 1.6 equals the regional average of MENA countries and is higher than the average score of 1 by Egypt and Morocco (Fig. 8). As many as 95% of our respondents felt that there is no meaningful compliance to this regulation or that compliance/enforcement is inconsistent.

2.5.2.4 Shareholding Structure Information Freely Available

The average score for Nigeria is highest here. Its value of 2.6 is higher than the regional average of 2 for MENA countries studied by SG(2000). It compares favourably with the value 3 in Turkey and Egypt and better than the value 2 in Greece and Israel and the value 0 in Morocco (Figure 9). As many as 95% of our respondent held the view that this is a requirement of the law in Nigeria and is consistently

Figure 2.9: Scores on Shareholding Structure Information Freely Available



published or that, even if not required, it is done by major firms.

2.5.3 Role of Board of Directors

The average score of 1.4 regarding the role of the Board of Directors compares favourably with the average score in MENA countries: It is slightly higher than the regional average score of 1.2 for MENA countries (Fig. 10). This shows that most respondents in Nigeria and MENA countries believe that while notion of an independent board with responsibility to shareholders is gaining acceptance, there is little

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evidence of this in practice. In fact, 65% of our respondents hold the
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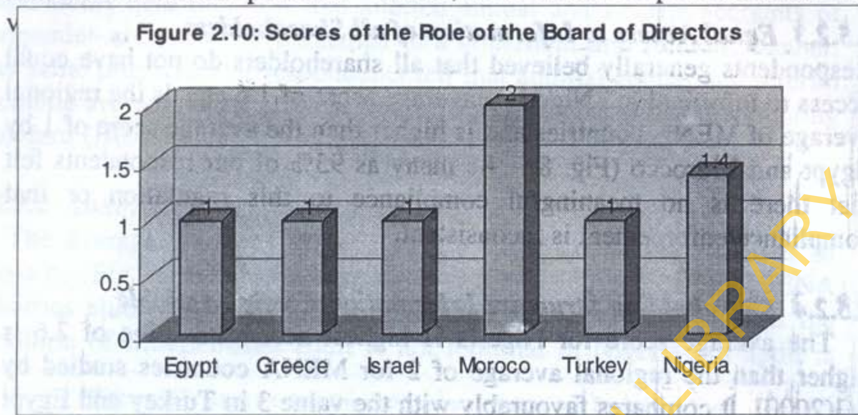

Figure 2.10: Scores of the Role of the Board of Directors

2.5.4 Effective Shareholder Right Enforcement by the Courts

Generally, our respondents scored the courts low in enforcing shareholders' rights effectively in Nigeria. The average score for Nigeria is 0. This is like the average score of Turkey and Egypt but surprising much lower than the average score of 3 for Morocco (Fig. 11). A majority of respondents (70%) felt that there is no evidence of any

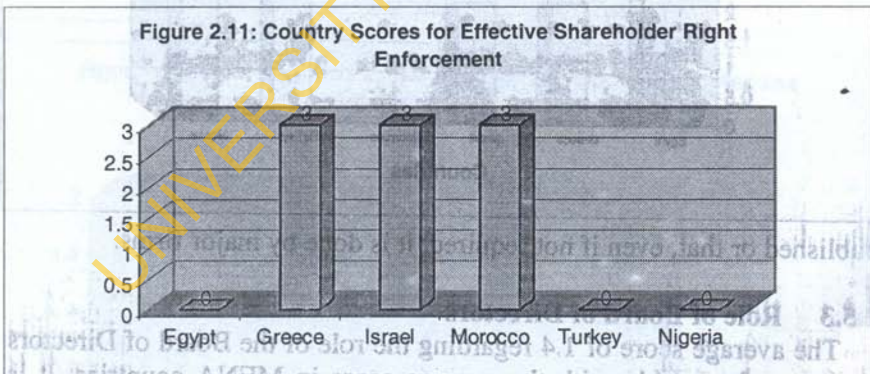

Figure 2.11: Country Scores for Effective Shareholder Right Enforcement

legal/administrative system with respect to shareholder rights while 25% believed that there is clear evidence that the system does not work.

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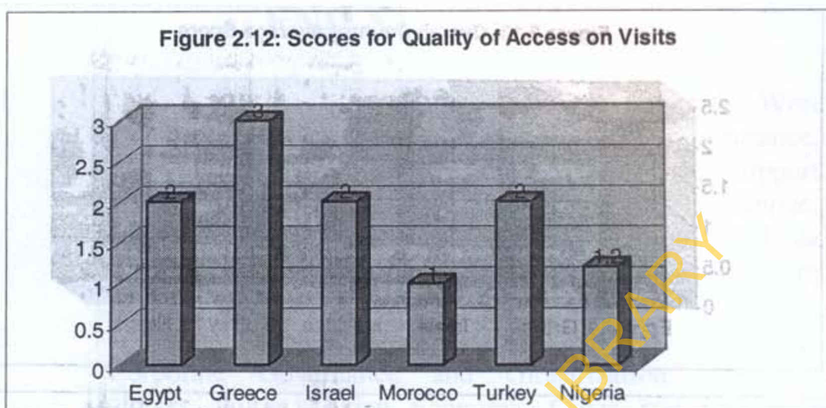

2.5.5 Quality of Access on Visits

Respondents tended to hold the view that while there is inconsistent quality of information during company meetings in Nigeria, the situation is not hopeless. Hence the average score for the measure of quality access during visits is just 1.2 which compares only with the average score of Morocco among the MENA countries studied by SG (2000) (Fig. 12). A majority of respondents (75%) hold this view, while 15% believe that companies pay regular visits abroad and/or make good people available to meet with investors/analysts when they visit or the company is readily available on telephone.

2.5.6 Sectoral and Overall Assessment

Nigeria's performance sectorally is best in disclosure and transparency issues where the sectoral average score is 2.1 out of 3. In contrast, the average score for shareholders' rights is 1.8. Overall country average of the corporate governance is 1.6 slightly better than average of 1.4 for Morocco and lower than the value of 1.8 for Egypt (Fig. 13). However, the total country score of 20.1 out 36 is better, than 18.4 for Czech Republic and Morocco, and 14.1 for Russia (Fig. 14). When it realized that Nigeria has a much longer history of the Anglo-American tradition of corporate governance than the transition economies of Eastern Europe, this overall performance deserves to be improved on.

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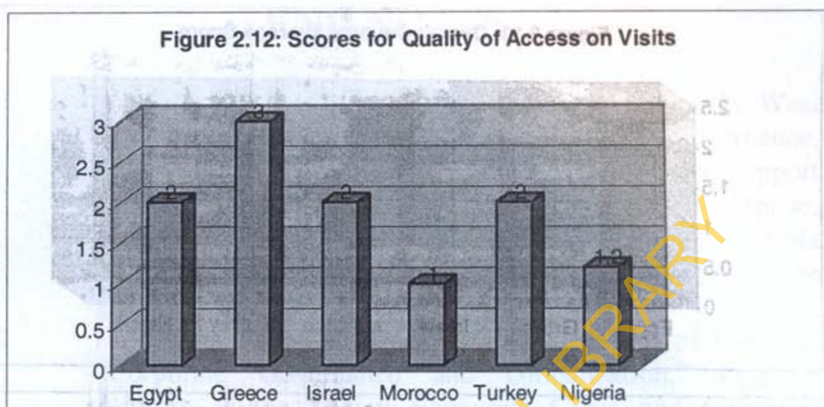

Figure 2.12: Scores for Quality of Access on Visits

2.5.5 Quality of Access on Visits

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Figure 2.13: Overall Country Average Score

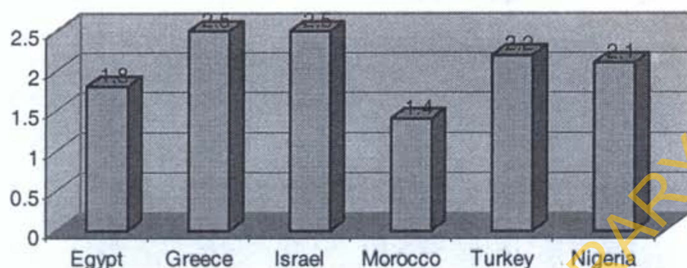
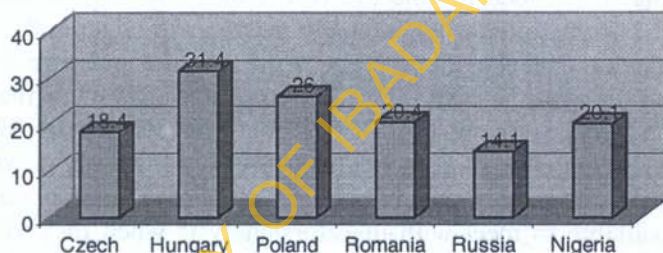


Figure 2.14: Nigeria's Overall Score compared with those of East European Countries



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2.6. Conclusion

This chapter has reviewed the practice of corporate governance in Nigeria in view of the privatization of state owned enterprises as well as analyzed the standard of corporate governance in Nigeria.

The review of the legislation relating to corporate governance and the analysis of the standard of corporate governance in Nigeria, show clearly that largely the institutions and the legal framework for effective corporate governance appear to be in existence. However, compliance and/or enforcement appear to be weak or non-existent. It is therefore suggested that for Nigeria to reap the benefits of effective corporate governance, there is need to strengthen the enforcement mechanism of the regulatory institutions. The role of the courts in this regard cannot be over-emphasized. It is important to restore the confidence of the average shareholder in the capacity of the judicial system to help him enforce his rights. The rule of law is the bastion of democracy.

END NOTES

1. An earlier version of this paper was presented at the West African Regional Conference on Corporate Governance, Accra, Ghana 29 – 30 January 2001. The financial support of the Center for International Private Enterprise, Washington, DC and the research assistance of Kola Olayiwola, Tunde Alayande and Semiu Alayande are gratefully acknowledged.
2. M. R. Chatu Mongol Sonakul, Governor, Bank of Thailand, "Corporate Governance and Globalization," Opening Address at the "Asian Economic Crisis and Corporate Governance Reform" Conference held on September 12 - 14, 1999, Bangkok, Thailand. Quoted in Sullivan (2000), p. 3.
3. The states surveyed were Abia, Bauchi, Kano, Lagos, Plateau and Rivers.
4. An enterprise is a public limited company (Plc), if it has more than 50 shareholders. However, a Plc can be quoted or unquoted on the Stock Exchange.
5. In addition to the CAMD, a bank is subject to both the provisions of the Central Bank Decree 26 of 1991 as amended and the Banking and other Financial Institutions Decree (BOFID) 26 of 1991.
6. However, the law also specifies that the members of the audit committee be not entitled to any remuneration and are subject to annual re-election.
7. This defines all those qualified to receive notice of meetings as every member, every person upon whom the ownership of a share devolves by reason of being a legal representative, receiver or trustee in a bankruptcy of a member; every director, every auditor appointed from time to time by the company, and the secretary.
8. However, under some specific situation, a general meeting of the company can be called at shorter notice, if it is so agreed, as in the case of an AGM and any other general meeting by a majority in number of the members entitled to attend and vote, being a majority together holding not less than 95% of the nominal value of the shares of the company.

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9. These provisions are Sections 548 to 560 of CAMD and Sections 50 to 63 of ISD.
10. A qualified person as specified in the Decree is any of: a capital market operator as defined in Section 30 of the Decree, a dealer, a dealer's representative, an investment adviser, an investment journalist, a financial journalist, an insurer, a custodian or a depository.
11. In the case of an AGM, all businesses transacted are deemed special except declaring a dividend, the presentation of the financial statements and the reports of the directors and auditors, the election of directors in place of those retiring, the appointment and the fixing of remuneration of auditors and the appointment of the members of the Audit Committee, which shall be ordinary business (CAMD, Section 214).
12. For each of the following tables, the scores for MENA and East European countries were obtained from SG (2000) and that for Nigeria were obtained from the survey conducted for this study.

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3

FEDERALISM DECENTRALISATION AND THE LIBERALISATION OF THE BUSINESS ENVIRONMENT IN NIGERIA

E. Remi Aiyede

> *Is the present obviously military constitution, which masquerades as a federal one, conducive to the development of the south, and indeed, the entire country? – Tinubu, Bola (2000)*

3.1 Introduction

In the early 1980s when Nigeria was thrown into economic crisis, the government could no longer meet up with its expenditure commitments in respect of its development programmes. The quest for more revenue to meet these commitments pushed the government into frantic borrowing from both local and international sources. This saw the country's external debt increase to a hitherto unknown proportion.

Unfortunately for the country, public parastatals had by this time, become beehives of rent-seeking activities and constituted massive wastes of public investment. They failed to yield returns and stifled private initiative.

An assessment of the situation made it clear that the state's control of the commanding heights of the economy and as the major provider of social services have become unsustainable. The economic crisis therefore unveiled the weak character of the overloaded state, and the inefficiency that had become the hallmark of the state. Thus, like many countries of the world, Nigeria was forced to rethink the role of government in the economy by the protracted economic crisis that followed the expansion of government in the 1970s.

The expansion of the public sector had occurred in a context of growing centralisation of governmental management of the economy. This was informed first by the logic of central planning and then more

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pointedly by the dominance of the military in the governance of the country. Centralisation and dictatorship did a lot to distort the Nigerian federal structure that was very promising at independence when Nigeria was looked at as a model for other newly independent and culturally plural African countries. Military rule was characterised by an abuse of the policy leadership role of the central government. Successive military rulers manoeuvring to maintain social stability and regime sustenance have embarked on states and local governments creation through territorial fragmentation and the readjustment of intergovernmental frameworks. By 1999 when the country returned to democratic rule, it remained federal only in name. The states and local authorities have become so dis-empowered that Nigeria could effectively be described as an inefficient and unresponsive unitary state.

Since the return to civil rule, the country has witnessed several intergovernmental conflicts over jurisdictional and tax powers. This is not only occurring between states and local governments but also between the states and federal governments. Several groups within civil society have called for federal restructuring. The organised private sector has also consistently been complaining of high and rising cost of doing business and 'the plethora of taxes and levies from the three tiers of government' arising from the efforts of the lower tier governments to increase independently collected revenue. Public infrastructure remains dismally poor; government agencies are inefficient and unresponsive to popular needs.

Ethnic conflicts and social crimes have also multiplied in the first year of democratic rule. The return to democratic rule has unleashed the irrational underbelly of the decentralisation programmes in Nigeria under the military. This has thrown up issues regarding the impact of these programmes on the character of Nigerian federalism, their consequences for economic growth, the quest for foreign direct investment, the effort towards making the economy private sector driven, and making the government more responsive and accountable to the populace.

The collapse of the state sector and the failure of economic management have made political and economic liberalisation imperative. Political liberalisation seeks to democratise government and make it more effective, efficient, responsive and accountable. Economic liberalisation seeks to retrench the state and open up the business environment for private initiative to flourish. The essence is for the state to create the enabling environment for competitive private sector

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development. How can this be realised in the context of a deep-seated legacy of politics of patronage, over-centralised government, and inefficient and weak public institutions? What challenges is the government facing in the effort to decentralise? How can the process be made responsive to the effort to make Nigeria competitive in the global market?

3.2 Objectives of Study

The broad objective of this study is to examine how federal restructuring and decentralisation can be tailored towards the creation of an enabling environment for business in Nigeria. The specific objectives are to:

(a) Make a comparative assessment of the business environment in Nigeria;
(b) Present a brief historical outline of the character of federalism and decentralisation programmes in Nigeria;
(c) Examine the implications of this for the business environment in Nigeria
(d) Determine what decentralisation reforms are required to enhance government's efficiency and effectiveness; and
(e) Suggest ways of making it improve the business environment.

3.3 Theoretical and conceptual Framework

Three concepts are germane to discussion of political restructuring and its impact on business environment enquiry. These are federalism, decentralisation and liberalisation. The three concepts have both economic and political connotations and are located in the interface between government and business.

Federalism is usually viewed as a 'form of governmental and institutional structure, deliberately designed by political "architects", to cope with the twin but difficult tasks of maintaining unity while also preserving diversity' (Jinadu 1979: 15). It is essentially a form of government where the component units of a political organisation participate in sharing powers and functions in a cooperative manner in the face of the combined forces of ethnic pluralism and cultural diversity, among others, which tend to pull their people apart. This arrangement is to provide room for the co-existence of centrifugal and centripetal forces (Tamuno, 1998:13). Within a federal arrangement, each state government is usually saddled with specific responsibilities and so

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carries its own paraphernalia of administrative institutions like the civil service, the police and parastatals. These co-exist and relate with national institutions. So, relations between the different tiers of government affects the effective operation of the holistic administration of the country as well as administration of the individual units. The nature of these relations defines the particular type of federalism being practised. Thus, within federalist studies, it is established that there are various types of federalism, from strong and weak forms to periodic variations in strength and weakness (Tamuno ibid.).

However, the defining feature of federalism is the distribution of powers between the centre and the constituent units by constitutional means (Osaghae 1990). 'Federalism can exist only where there is considerable tolerance of diversity and willingness to take political action through the political arts of negotiation even when the power to act unilaterally is available. The usual prerequisite to action in federal systems is the ability to build a consensus rather than the power to threaten coercion' (Elazar 1977: 30-31). By setting constitutional limits on central and regional governments, federalism disallows dictatorial and authoritarian practices. Federalism demands the rule of law, respect for fundamental freedoms and democracy. Although federalism is a thoroughly political concept, it represents a decentralised arrangement in the administration and organisation of a country with all the implications that goes with it in economic management. More than this, it represents a particular form of political liberalisation because it not only affirms the diversity of peoples, it provides room for the expression of these diversity by conceding substantial level of independence to the constituent sub-national governments.

The character of decentralisation in a federation is usually represented by the term devolution. In order to understand this import of federalism it is relevant to explore the term decentralisation.

Decentralization is a concept that is usually related to political and administrative purposes. It is usually used to refer to the transfer of legal and political authority from the central government and its agencies to field organizations and institutions. What is transferred often includes authority to plan, make decisions, manage public affairs by agencies or institutions below and apart from the central government or authority. Decentralization programmes often carry elements of ideology, which find articulation in such concepts as individual liberty, pluralist society, grassroots democracy and local self-government. As a programme

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concept, decentralization calls for the distribution of powers, and proposals for implementing it varies considerably (Theresa Rogers (1978:177).

The United Nations defined decentralization as the 'transfer of authority on geographical basis whether by deconcentration (i.e., delegation) of authority to field units of some department or level of government or by devolution of authority to local government units or special statutory bodies' (UN, 1965: 88-9). Forms of decentralization as expressed in this definition are represented by the terms deconcentration (delegation) and devolution. This method of classifying decentralization departs from a legal standpoint. Devolution refers to the transfer of authority to legally established, locally elected political authorities while deconcentration or delegation involves the conferring of authority on representatives of the central government agencies (UN, 1965, Maddick 1962, Wraith 1971). In the first instance, the activities of the central and local authorities are clearly differentiated, each having its own legal powers and responsibilities. In the second instance, deconcentration is regarded as a more limited form of decentralization in which effective control, particularly over what Faltas (1982) calls 'allocative decision', remains at the centre; while only control over 'decision of implementation' is decentralized. From this standpoint, two factors often determine the character of decentralization, that is, the degree of political or legal powers transferred to sub-national or semi-autonomous institutions. These are (i) the nature of functions and powers transferred and (ii) the extent of support the central government provides to other sub-national agencies and organizations in performing the decentralized activities.

A very useful contribution to our understanding of the concept is the typology of decentralization espoused by Minis Henry, and Dennis Rodinelli (1989) in their proposal for the promotion of economic development and employment generation in Senegal. Minis and Rodinelli identify three types of decentralization: Spatial, Market, and Administrative decentralization. Spatial decentralization refers to the process of diffusing urban population and activities geographically away from large agglomerations. This appears to describe the character of federal restructuring in Nigeria, which involves internal territorial fragmentation and jurisdictional geographical boundary adjustment. These have created several state and local government capitals for the dispersion of infrastructure. Market decentralization refers to the process

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of creating conditions in which goods and services are provided by market mechanisms rather than by government decision. Administrative decentralization refers to the transfer of responsibility for planning and management as well as the raising and allocation of resources from the central government to its agencies, to field units of government agencies, subordinate units and levels of government, semi-autonomous public authorities or corporations, area-wide, regional or functional authorities, or non-governmental, private or voluntary organizations. Therefore, decentralization can be used to refer to four main processes: devolution, deconcentration, delegation and privatisation.

Devolution involves creating or strengthening autonomous sub-national units of government by transferring functions that are implemented outside the control of central government to them. It is essentially a political activity consisting of power- sharing between sub-national governments and the central government. Devolution of political, fiscal and administrative powers to sub-national tiers of governments is now commonly taken as a step towards deflating states that are considered over-bloated and riddled with inefficiencies. The aim here is not only to improve efficiencies and responsiveness of the public sector but also to accommodate explosive political forces (World Bank, 2000: 107-124; Njuguna Ng'ethe, 1998).

Deconcentration signifies the distribution of responsibility or authority to lower levels within the central government. This usually takes the form of setting up field offices at the provinces, regions, divisions or districts of the country.

Delegation refers to the conferment of managerial responsibilities for specific functions of the central government on organizations outside the regular bureaucratic structure. Here the organisations enjoy varying degrees of autonomy. This form of decentralisation may involve the setting up of boards for schools and hospitals.

Privatisation is about transfer of activities from the public to the private sector. It is more generally located within the context of economic deregulation and liberalization. One very important characteristic of these processes is that they are state-focused. And, as we have noted, such movements are justified on grounds of efficiency and democracy.

Decentralization as part of political liberalisation is usually embarked upon to provide avenues for the people to express their real needs and to take greater interest in realizing them. Certain advantages result from

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expanding access to decision-making points and increasing representation and participation. They reduce conflict, promote geographical equity, reduce the clout of large units and thereby promote national unity. They also solve problems of congestion and over-load of central governments, promote efficiency and effectiveness, improve service delivery, invent and promote national development (Mukandala Rwekaza 1998:3). Thus, decentralisation within a federal system would involve shifting responsibilities from the central to state, or local governments, or from the state to local authorities or from these governments to non-governmental or private or civil society organisations. This usually occurs as part of the process of opening up (liberalisation) both in the economic and political sense.

Liberalisation in the economic sense refers to the relaxing of government grip on the economy, transforming the legacy of antagonistic relations between private sector and the government in order to prop up the private sector as the engine of economic growth. Liberalisation involves the dismantling of barriers in the trade and payments system, the removal of price, trade and exchange controls. This creates an environment for trade, capital and investments to flourish by avoiding price distortions. This is underlined by the belief that price controls 'discourage necessary investment, divert effort into unproductive activity, and encourage inefficient use of resources,' (World Bank 1997: 48). Divesting state holdings in the economy through privatisation then supports liberalisation by providing room for private initiative to thrive in a market environment.

There are specific challenges within the federal system either in terms of the constitutional and legal bottlenecks that have to be reviewed in order to carry out these reform programmes and achieve the goal of economic liberalisation that leads to effective and efficient service delivery. Since decentralisation assumes that the constitution of the powers of government affect the capacity of the state to perform, a more fundamental question for democratising contexts as we have in Nigeria would then be whether federal systems or devolution have advantages over non-federal systems in economic policy-making. Also significant is whether there are basic principles that guide the process of devolution to facilitate the market system.

John Kincaid (1999) has noted that modern federalism emerged at about the same time as the concept of the market economy and that one very important reason for the formation of the federal union was the need

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3.4 The Business Environment in Nigeria

In Nigeria the business environment calls for serious intellectual attention as the country strives to establish a market oriented economy in which the private sector will be the engine of growth. The general political and economic environment under which business decisions are made and business activities undertaken have to be made friendly for business if the country is to attract foreign direct investment (FDI) as part of the wider effort to build up a large stock of productive assets and diversify the economy. Key determinants of the flow of private investment have to be given serious attention in political and administrative reforms. These include profitability of investment, macroeconomic uncertainty, external shocks and the associated factors such as political and social stability, quality of institutions, level and structure of public investment and important factors that affect the business environment. This is the case because Nigeria has performed poorly on each of these factors.

In a recent analysis of the business environment of countries, the Economic Intelligence Unit provides a ranking of the business environment of countries between 1993 and 1997 and projected this to 2002. The determinants of the condition of the business environment are categorised into two broad groups of factors. The first is the political environment. This refers to such factors as political stability and political effectiveness. Political stability is usually measured by the frequency of armed conflict, social unrest, frequency in change of government, terrorism and international disputes. While political effectiveness is measured by the presence of appropriate government policy, the efficacy of these policies, bureaucratic competence in terms of degree of red tape, legal system, corruption and the rate of crime. The second is the economic environment. This refers to the macroeconomic environment, policy towards foreign investment and the financial architecture. Macroeconomic environment is measured by price stability, budget balance, government debt, exchange rate volatility, and external balance. The foreign investment policy and environment is measured by the size of foreign investors already in the economy, openness of national culture, expropriation risk, and investor protection. Health of the banking sector, state of the stock market, levels of financial distortions, financial regulations, and foreigners' access to the capital market and access to investment finance measure the strength of the financial system. These key elements of the business environment change over time. Nigeria's rating is presented in Table 1.

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Table 3.1: Business Environment Ranking of Countries 1998-2002

	Ia Political stability	Ib Political effectivenes	I Political environment	II Economic stability	III Market opportunitie	IV Private ent. Policy	VI FDI policy	VII Foreign trade &	IX Tax regime	VIII Financing	IX Labour market	X Infrastruc-ture	Total score	Rank
Netherlands	9.6	9.3	9.4	9.2	7.2	9.2	9.4	9.4	7.7	10.0	7.6	9.1	8.82	1
UK	8.2	9.6	9.0	9.8	8.1	9.4	9.4	8.9	7.5	10.0	7.4	8.2	8.77	2
Canada	8.2	8.5	8.4	9.6	8.4	8.9	8.9	9.4	6.7	9.3	7.3	9.6	8.63	3
USA	8.2	7.4	7.8	8.9	8.4	8.9	8.9	8.9	7.1	10.0	7.9	9.3	8.59	4
Singapore	6.0	8.5	7.3	9.6	6.0	8.0	9.4	10.0	7.9	9.3	7.9	8.7	8.40	5
Switzerland	9.6	9.3	9.4	9.7	6.0	8.3	7.8	8.9	8.2	9.3	7.4	9.1	8.39	6
Denmark	9.1	8.9	9.0	9.8	6.1	9.4	8.9	7.8	6.6	9.6	7.0	9.6	8.37	7
Sweden	10.0	9.3	9.6	9.6	7.3	8.3	9.4	9.4	5.4	8.5	6.5	9.6	8.36	8
Ireland	9.1	8.1	8.6	9.1	6.7	9.2	8.9	9.4	8.0	8.1	7.4	7.5	8.28	9
Germany	8.2	8.1	8.2	9.2	8.4	8.6	8.9	8.9	6.1	8.9	6.3	9.3	8.27	10
New	9.6	9.3	9.4	8.7	4.7	9.2	7.8	8.9	8.0	9.6	7.2	8.9	8.23	11
France	7.8	7.8	7.8	9.2	8.4	8.0	9.4	8.9	5.3	9.3	6.7	9.3	8.22	12
Hong Kong	6.9	7.4	7.1	6.3	6.4	8.3	8.3	10.0	10.0	9.3	8.0	8.4	8.21	13
Australia	9.6	8.9	9.2	8.7	7.7	8.6	8.3	9.4	6.8	8.9	6.8	7.8	8.21	14
Finland	9.6	8.9	9.2	9.8	6.2	8.9	8.3	8.3	7.1	8.9	5.7	9.3	8.17	15
Belgium	8.7	7.0	7.8	8.8	7.2	8.0	9.4	9.4	5.6	9.3	7.0	9.1	8.16	16
Norway	9.6	8.5	9.0	9.8	6.3	8.6	6.6	8.3	7.8	9.3	6.2	8.9	8.07	17
Spain	8.7	7.4	8.0	9.2	7.8	7.8	8.9	8.9	5.7	8.9	7.1	8.2	8.04	18
Taiwan	6.9	7.0	6.9	8.7	7.9	8.0	7.8	8.9	8.0	8.1	8.1	7.3	7.97	19
Austria	9.1	8.1	8.6	8.5	6.6	8.3	8.9	8.9	5.7	8.1	7.0	8.4	7.91	20
Chile	7.8	7.8	7.8	8.0	6.6	9.2	8.9	6.6	8.2	8.9	8.5	6.2	7.88	21
Portugal	9.1	7.4	8.2	9.1	5.7	8.6	8.9	8.3	6.0	8.5	7.2	7.3	7.77	22
Italy	9.1	6.3	7.5	8.8	8.1	7.5	8.9	8.3	5.2	8.5	7.0	7.1	7.68	23
Japan	9.6	7.4	8.4	8.1	7.6	7.5	7.2	7.8	5.1	8.5	7.0	8.7	7.57	24
Argentina	6.9	6.3	6.5	8.7	7.5	7.8	8.9	7.2	5.1	8.1	6.4	5.5	7.16	25
South Korea	6.4	6.6	6.5	7.0	6.9	6.9	7.8	8.9	6.6	7.4	6.3	7.3	7.15	26
Malaysia	8.7	5.9	7.1	7.8	6.1	6.1	7.2	8.9	7.6	7.0	7.3	5.7	7.08	27
Israel	4.2	6.3	5.3	6.3	5.2	7.5	10.0	6.6	6.5	7.4	6.8	7.5	6.90	28
Poland	8.7	5.9	7.1	6.1	6.9	7.5	7.8	8.9	5.4	7.0	6.6	5.7	6.88	29
Philippines	6.9	4.8	5.7	7.2	5.7	6.9	7.8	8.9	7.4	6.6	7.6	4.6	6.83	30
Hungary	7.3	5.9	6.5	5.2	5.1	7.5	8.3	8.3	6.1	7.4	7.5	6.4	6.82	31

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Table 3.1 cont'd.

	Ia Political stability	Ib Political effectivenes	I Political environment	II Economic stability	III Market opportunitie	IV Private ent. Policy	VI FDI policy	VII Foreign trade &	IX Tax regime	VIII Financing	IX Labour market	X Infrastruc-ture	Total score	Rank
Czech Republic	8.2	5.9	6.9	7.0	5.3	7.2	7.8	8.9	4.6	6.3	7.5	6.6	6.79	32
Mexico	5.5	4.8	5.1	6.7	8.2	7.2	7.2	8.9	6.0	7.4	6.3	4.8	6.78	33
Thailand	6.4	5.5	5.9	8.3	5.8	6.6	7.8	8.9	7.2	6.6	6.2	4.4	6.76	34
Greece	7.3	6.6	6.9	7.4	5.1	6.9	7.8	7.2	5.7	7.8	6.2	6.2	6.71	35
Brazil	8.7	4.8	6.5	5.4	7.4	6.9	7.8	6.1	4.6	7.8	5.9	4.8	6.32	36
South Africa	6.0	5.1	5.7	6.7	6.3	6.3	6.6	7.2	6.1	7.8	3.8	6.6	6.31	37
Peru	6.0	5.1	5.5	6.3	4.7	6.3	8.3	6.1	6.8	6.3	7.0	4.6	6.19	38
Colombia	5.1	5.1	5.1	4.9	5.2	6.1	8.9	6.6	5.6	7.8	7.2	4.4	6.18	39
Turkey	5.1	5.1	5.1	2.9	6.5	6.1	7.2	8.3	5.5	6.6	6.3	5.3	5.97	40
Egypt	5.5	5.1	5.3	6.6	5.3	5.5	7.8	6.1	5.5	6.3	6.2	4.6	5.91	41
Slovakia	6.4	5.5	5.9	5.7	3.9	5.2	6.6	8.3	4.4	5.5	7.5	6.0	5.90	42
Saudi	4.6	5.5	4.9	8.3	5.3	6.6	4.9	6.6	5.7	5.5	5.6	5.3	5.88	43
Sri Lanka	4.6	5.1	4.9	5.8	4.2	6.1	7.2	7.2	6.5	5.5	6.8	4.2	5.83	44
China	5.1	4.8	4.9	7.0	8.4	4.4	6.6	7.8	4.6	4.8	5.6	3.7	5.76	45
India	6.4	5.1	5.7	6.2	7.5	5.2	6.6	6.1	6.0	5.9	5.9	2.4	5.75	46
Indonesia	3.3	3.6	3.5	6.1	4.4	5.5	5.5	8.9	6.6	5.9	6.2	3.9	5.63	47
Bulgaria	6.4	4.4	5.3	7.5	3.3	5.8	6.6	6.6	4.1	5.1	6.3	5.7	5.63	48
Russia	5.5	3.6	4.5	6.7	7.1	4.9	4.4	7.8	4.1	5.1	6.8	4.8	5.62	49
Romania	7.3	4.8	5.9	4.6	3.9	5.8	6.6	6.6	4.8	5.5	6.7	5.5	5.60	50
Venezuela	5.5	3.6	4.5	5.6	5.9	4.4	6.1	6.6	6.0	5.5	5.6	5.3	5.54	51
Vietnam	5.5	4.0	4.7	5.8	4.7	4.7	6.6	6.6	5.7	4.4	6.7	2.4	5.23	52
Pakistan	3.3	3.6	3.5	4.5	4.7	5.5	6.6	6.6	5.5	5.5	5.8	3.9	5.21	53
Kazakhstan	6.0	3.6	4.7	6.0	4.8	4.4	5.5	6.1	4.1	4.4	6.2	4.2	5.02	54
Ecuador	5.5	4.0	4.7	3.9	3.5	5.5	5.5	6.1	6.1	5.1	5.5	3.5	4.94	55
Ukraine	6.0	3.6	4.7	6.0	4.0	4.4	4.9	5.5	3.8	4.4	6.6	4.4	4.86	56
Algeria	4.2	4.0	4.1	6.3	4.4	4.1	5.5	6.6	5.3	2.9	4.2	3.9	4.73	57
Nigeria	2.4	1.8	2.0	5.5	5.3	3.0	4.9	4.4	6.9	2.9	5.0	1.9	4.17	58
Iran	4.6	3.6	4.1	5.3	5.6	2.7	2.7	2.7	2.8	2.9	2.6	3.7	3.51	59
Iraq	1.5	1.8	1.6	3.7	3.1	1.0	1.6	1.0	1.3	1.0	2.5	3.5	2.03	60
Average	6.9	6.1	6.5	7.3	6.1	6.8	7.5	7.7	6.0	7.1	6.5	6.3	6.78	
Median	6.9	5.9	6.5	7.1	6.1	7.0	7.8	8.3	6.0	7.4	6.7	6.1	6.83	

Sources: The Economic Intelligence Unit

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From this table, Nigeria takes the 58th position of the 60 countries surveyed. Its total score of 4.17 is far below the average score of 6.78 and the median score of 6.83. It ranks only above Iran and Iraq. Of the four African countries, South Africa, Egypt, Algeria and Nigeria included in the survey, Nigeria is the poorest. South Africa takes the 37th position, Egypt 41st and Algeria 57th. Nigeria did very poorly in terms of political stability scoring 2.4 below the average score of 6.9. The reasons for this are not far fetched. The country has become politically volatile since 1993 when a presidential election was annulled. In that year alone Nigeria recorded two undemocratic changes of government. Under the tyrannical rule of General Sani Abacha (1993-1998) governance witnessed unprecedented arbitrariness and political assassinations became the order of the day. Unfortunately the return to democratic rule did not immediately return peace to the country. Rather democratisation provided room for the explosion of bottled up grievances. The country witnessed the proliferation of militant youth movements who engaged the police in violent conflicts in several cities. The current elected government has taken steps to check these groups.

Nigeria also falls below average in regard to political effectiveness. It falls below the three other African countries. The economic policy environment is also dismal. The only indices that appeared good is tax regime where Nigeria scores 6.9 above the average score of 6.0 and the median score of 6.0. This has been made possible by the adoption of neoliberal reforms from 1986. Nigeria's poorest score is the area of private enterprise promotion policy (3.0) and Financing (2.9) against an average score of 6.8 and 7.1 respectively.

In a recent survey done by the Development Policy Centre (DPC) on the private sector, it was discovered that the following were responsible for the high cost of doing business in Nigeria: '...uncertainties and frequent changes in government policies, corruption and bureaucratic bottlenecks, harassment by government officials, and virtual powerlessness in getting redress through the judicial system in the event of contractual default' (DPC, 1999:69).

Although the Federal government has provided a list of approved taxes to be collected by the various tiers of government via Decree No. 21 of 1998, private business continue to suffer from the unauthorised actions of sub-national governments striving to increase revenue, and who refuse to comply with the list. The judiciary is very weak and there is little or no confidence in the court system. Corruption is rife. One of

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the most challenging problems is at the ports and the borders. Apart from the prolonged transit time, custom agents collect illegal levies and taxes at roadblocks and harass business people at the borders. At the ports, customs agents hoard information and charge unofficial fees rendering the movement of goods through Nigerian ports costlier than those of neighbouring countries. These have hampered export promotion within the Economic Community of West African States (ECOWAS) market.

The private sector also complains of undue delay in the refund system on the recovery of input VAT on raw materials used for non-VAT able goods. The ineffectiveness of government has resulted in very high transaction costs (MAN, 1999:7).

3.5 Federal Restructuring, Governance and the Business Environment in Nigeria

The origin of the federal structure in Nigeria is traced to the Constitutions of 1946 and 1951 which provided for a decentralised administrative structure consisting of Eastern, Western and Northern regions. Although it has been argued that the colonial authorities had no intention of complementing this administrative decentralisation with federal practice (Ayoade 1988:21), Nigerian rulers and politicians seemed to be enamoured of the federal idea since then. Indeed, the effort to improve federal practice has translated into repeated restructuring of the country.

The first restructuring of the country after independence was done in 1963 under democratic rule; the Mid-West was excised from the west, one of the three regions existing then. The second occurred in 1967 at the beginning of the civil war under military rule. Unlike the first, which was done after a referendum as prescribed by law, it was done by military decree. It also involved a radical departure from the first in terms of its implication for the status of sub-national governments in relation to the centre. Successive military governments turned territorial fragmentation into an instrument of political control that saw the country move from a twelve-state structure in 1967 to 19 in 1976, 21 in 1987, 30 in 1991 and 36 states from 1996. The number of local governments has moved from 301 in 1979 when the central government intervened in the local government system to 774 in 1996.

The 1963 state creation exercise was to deal with fears of domination by minority communities and interests. It was thought that creating a

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state for minority groups would protect these groups in regions dominated by major ethnic groups by expanding the room for self-determination. The second reason (particularly relevant to the 1967 exercise) was to restructure the federation in such a way that no one state or group of states could threaten the corporate existence of the country or hold the country to ransome. In carrying out the exercise, particular consideration was to be given to economic viability (Gowon, 1996:27). As time passed by, economic reasons became completely overshadowed by political expediency. For instance the 1987 and 1991 exercises were informed by three principles according to the views of the prime actors in the process. The first was the principle of social justice, which implied the mollification of those who have been cheated by previous state creation exercises. The second was the principle of even spread of development centres across the country, since new states and localities were to have direct access to federal funding. The third was the principle of equal distribution of units between the north and south, and between the east and west. In doing this adequate recognition was to be given to historical, socio-cultural and geographical relationships among the country's over 250 ethnic groups (Suberu 1994:16, Aikhomu, 1996:53). However, states and local government creation exercises in Nigeria have centralized the control of resources and stripped the powers of the lower tiers of government. These exercises have reduced states and local governments to mere channels for the distribution of revenue from centralised sources, albeit inequitably, to the constituent communities. In doing this, it carried away the independent revenue sources of sub-national governments, weakened administrative effectiveness and undermined accountability of the lower tiers of government to their populations.

Once the war began in 1967, the federal government divided the country into twelve states and centralized the management of resources in order to support the war effort. According to Decree No 27 of 1967 the 'Legislative and Executive powers of the newly created states in Nigeria were limited for the time being to residual matters.' Although, General Yakubu Gowon, the then Head of State, had assured the country that national institutions will be redefined after the war through a constitution that would be drafted by representatives of all sectors of the country, he later announced in 1974 that the implementation of the third national development plan had made it imperative that resource management remained centralized. According to him, 'If we are to rely

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on existing revenue allocation formula, no state government except two will be in a position to finance even a single year's program on the basis of the projected surplus.' The centralization of the management of resources was also accompanied by greater intervention of the central government in the economy.

Asobie (1998:18) has identified three manifestations of the centralisation trend in Nigeria under the military. The first is the increasing capacity of the central government to alter unilaterally and in its favour, the existing distribution of power between it and other tiers of government while the second is the increasing accretion to the federal government of functions that are previously allocated to the lower tiers of government. The third form is the reduction in the range and quantum of resources – coercive, bureaucratic, ideological and financial – that are directly available to the lower tiers for carrying out constitutional functions and the increase in those at the disposal of the federal government.

The repeated exercise of territorial fragmentation since the centralisation of economic management and the emergence of the country as an oil rentier state has put a question mark on the claim of territorial fragmentation as a development strategy. Suberu (1994: 3) has described it as 'a distributive policy that enhances access to federal resources for some of the nation's cultural territorial segments.' This is because the sub-national governments not only derive a huge amount of their revenue from oil revenue collected by the federal government, the central government has unilaterally appropriated or abolished the independent revenue jurisdiction of the these governments. The few left, such as personal income tax, vehicle licensing fees, land charges and sales tax, are inherently limited as sources of public revenues and are often weakly or inefficiently exploited by state administrations or sometimes regulated, restricted or even brazenly appropriated by the centre.

While, as Asobie has noted, the Constitution under which the military handed over to the elected government in 1979 provided for a high level of concentration of power at the centre, it is less so than the current 1999 Constitution under which the Fourth Republic operates. True, many matters which were previously in the concurrent list were transferred to the exclusive list and even those that were still left in the concurrent list were treated as though they were exclusive to the federal government in the 1979 Constitution. Indeed, under that constitution, the federal

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government acquired powers over the direction and management of the whole of the Nigerian economy and the promotion and enforcement of the observance of the fundamental objectives and directives principles of the Nigerian federation (Asobie, 1998:27). But the 1979 Constitution contained a residual list of matters reserved for sub-national governments. This list has been abolished by the 1999 Constitution bequeathed by the military. Centralisation is taken so far by this Constitution that marriages apart from those under customary and Islamic laws are placed under federal jurisdiction!

One very important political practice that has coloured the decentralisation programme is the practice of giving considerable importance to inter-state/local area equity in the distribution of allocation from federally collected revenue to sub-national units. Derivation as factor in the distribution of revenue among the various sub-national governments, which used to be emphasised in the period when agricultural export was the main stay of the economy had become insignificant by 1978 when non-oil export had all but disappeared (Tobi 1991). What is more, the federal character principle is interpreted and operationalised as a means of distributing federal amenities and opportunities including public employment on an equal basis among the states and local government areas of the federation. This principle works against rational decision-making that can produce a competitive and efficient system. The heavy financial dependency on the centre under the military gave 'the state every incentive to get more funds from this source, encourages financial irresponsibility and sets up strong forces for the creation of new states.' (Tom Forrest as cited by Suberu 1994:3). Indeed, states creation under the military became a by-product of pressures for greater avenues for political and material advancement by local elites and their communities (Suberu 1998:280). Thus, the political economy of state creation exercises show that they reflect the politics of patronage and were done without spelt out basis that reckon with need to promote both equity and competitive growth.

States and local governments creation exercises have also paid little premium on accountability and local preferences. They involved the unilateral splitting of states by the federal military governments through the issuance of decrees rather than by consultation and participation of those who were affected by the exercise. They therefore resulted from the usurpation of the powers of the federating units by the national government. Done under military rule, they constituted an arbitrary

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exercise. No constitutional procedures were observed. The fall out of arbitrariness has not only affected the legitimacy of the exercises, it has also affected social stability arising from agitations by discontented communities. They have, in some instances, generated inter-ethnic violence over the location of local government headquarters and inclusion of communities in states they never wanted to join.

Worse still, they have created a situation where sub-national governments suffer deficit in revenue powers that should enable them to prosecute their constitutional functions. The exercise has therefore amounted to a process of political and economic disempowerment for sub-national units. The states continue to rely heavily on allocation from the federation account to meet basic responsibilities. Table 2 shows the movement towards increased centralisation in Nigeria's fiscal federalism following the state creation exercises in the 1980s and 1990s.

Table 3.2: Independently Sourced Revenue of the States in Relation to Revenue Appropriated from the Federation Account: 1988-1999 (N Million)

Year	Independent Revenue (a)	Appropriation from the Federal Government (b)	Total	Extent of Dependence of States on (b) %
1988	2,169.0	8,823.0	10,992.0	80.3
1989	2,760.0	10,785.6	13,546.2	79.6
1990	2,726.2	15,943.8	18,670.0	85.4
1991	3,147.1	19,434.3	22,581.4	86.1
1992	5, 244.7	27,428.9	32,673.6	83.9
1993	5,726.2	32,014.4	37,740.6	84.8
1994	10,929.8	38,576.3	49,506.1	77.9
1995	17,287.3	118,714.7	69,641.6	75.6
1996	19,467.1	159,562.5	88,882.4	78.8
1997	27,368.2	166,557.0	193,925.2	85.9
1998	29,213.9	257,191.1	286,405.0	89.8
1999	34,109.0	303,871.2	337980.2	89.9

***Source:* Calculated from Central Bank of Nigeria (CBN) Annual Report and Statement of Account, several years.**

Here we see increasing dependence of the sub-national governments on national government for meeting their basic expenditure obligations. Federal allocation accounts for up to average of 80 per cent of total revenue of the states against the highest point of 55.7 under the four-region structure. The 'nature of the revenue (sources) assigned to the different levels of government and by the principles of allocation

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employed by the federal authorities' determine the revenue conditions of the various governments (Asobie, 1998: 47). It is quite vivid that the decentralisation programmes have not improved the administrative effectiveness of sub-national units. With ineffective and incompetent governments, it is no wonder that Nigerian governments have not been able to provide an effective and stable environment for private initiative to flourish. The few private sector operators continue to complain of the prohibitive cost of doing business in Nigeria owing to weak infrastructural base. This is why Nigeria is unable to attract foreign investment in the non-oil sectors in spite of its large market. Clearly, state and local government creation has not attained most of the gains of decentralization; it has brought several disadvantages. Nigerian physical infrastructure has collapsed. The transport system is terrible. Electricity supply is epileptic. Educational standards have fallen and other social services supplied by the state have witnessed a down turn. These are precisely what decentralisation measures were expected to prevent. Suberu sums up the negative impact of states and local government reorganisation exercises thus:

> The promotion of the 'cake-sharing syndrome; the augmentation of the centre's political and economic hegemony via the erosion of the size and resource base of sub-national governments; the proliferation of unproductive, corrupt, wasteful and unviable political and administrative units; the intensification of ethnic, regional and communal tensions over the beneficiaries and modalities of territorial restructuring; the stimulation of 'neoethnicity', or new forms of parochial, divisive and exclusionary identities; and the legitimisation of autocratic military rule (Suberu 1998:292)

These political problems have direct impact on the strength of the state as an enabler. Indeed, the decentralisation programmes are themselves expressions of the governance crisis that has affected the management of the economy.

The communal unrest and the feelings of discontent that have attended the series of decentralization programmes have worsened the problem of order and security that affect the environment of business. Indeed the 1996 reorganization occasioned series of communal unrest in

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almost all parts of the country. The way and manner the decentralization programmes were done further deepened distrust among ethnic groups in Nigeria. Political discontent has thrown up ethnic militias that have become prominent in the post military era. In Lagos, Nigeria's commercial nerve centre, the activities of Oodua People's Congress' (OPC) virtually reduced some sections of the city into war zones.

Also, the changes that have attended the repeated reorganization exercises, which usually involved the redefinition of territorial jurisdictions, have made the regulatory environment of business highly unpredictable. In fact, within a short period business organisations find themselves having to relate with different governments at both the state and local governments even though they have not relocated their offices and plants.

Moreover, the multiplication of administrative structures placed greater regulatory demands on the central government far beyond the capacity of the central administration. The transfer of items like the registration of business names, labour and trade union matters, police, tax of incomes, profits and capital gains, incorporation of companies, and trade and commerce from the concurrent list to the exclusive list since 1979 worsened this. For instance in order to register a company in Port Harcourt, River State, an investor has had to relate with the Corporate Affairs Commission (CAC) in far away Abuja. It was not until the 1990s that branches of the CAC were opened in the state capitals. Registering a business can be a complicated issue indeed. Apart from having to deal with the federal government, with motley of conflicting laws, the weakness of the judiciary present a challenge of its own. Indeed the frequent recreation of states also worsens the legal institutions at the lower levels of government. The courts were weakened by ouster clauses included in military decrees and the penchant to disobey court orders by government officials. Judges are also known to have connived with dictators and sold justice to the highest bidder. Thus, private actors have no basis for confidence in the power and capacity of the courts to judge objectively and get their judgment enforced.

In terms of the macro-economic environment, the reduction of territorial reorganization into an instrument of political control and regime legitimacy has undermined budgetary discipline that was supposed to ensure stabilization and support economic liberalisation. This is the case because the possibilities of arbitrary behaviour by dictators were given full rein in the exercises. Extra budgetary

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expenditures were usually incurred as the central government tried to provide take off grants for new states and localities. Because such grants were often un-programmed into the budgetary system they engender deficits and inflationary pressures.

The federal character principle which is interpreted and operationalised as a means of distributing federal amenities and opportunities on an equal basis among states and local government areas, works against rational decision-making in public investment. All that the ruler has to do is to think out a programme and distribute it evenly across the country even when it is not needed in some parts. The implication of this for public investment as Utomi (2000:93) has explained, is 'the dispersion of inappropriate industries to zones where their uncompetitiveness is heightened. Instead of locating factories as per the factor of endowments of these regions of the country, the need to get the same things evenly spread has stymied possibilities of growth and development.'

Although government has continued to remove barriers to foreign investment and expand the room for private actors through the series of liberalization measures since the late eighties, lack of transparency and unpredictability of the regulatory environment that were occasioned by the ill-conceived restructuring exercises have adversely affected business decision making and limited growth.

The failure of public infrastructure is particularly telling on private sector development. Private businesses incur large overheads in providing water and electricity thereby reducing the competitiveness of Nigerian firms. In fact, a survey by the Nigeria Institute for Social and Economic Research (NISER) attributes the non-competitiveness of Nigerian exports to 'low quality and astronomical domestic production cost traceable to infrastructural deficiencies' (NISER; 2000:75). Yet the provision of infrastructure could benefit from popular participation and broad involvement of private and non-governmental organisations in their provision and maintenance.

Overall, poverty has deepened in the last decade, while social crime is on the rise. These, coupled with the public unrests that have characterised arbitrary rule of the military, made the Nigerian environment the investors' nightmare. There is need for Nigeria to come out of the infrastructural neglect and institutional failures that were inherited from the military and redefine its federal structure to minimise

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intergovernmental conflicts over functions and jurisdiction of government and improve the effectiveness of the state.

Indeed, the imperative of federal restructuring has been widely recognised. The weakness of the 1999 Constitution has also been recognised by the government and a review process is on. Such an exercise should be part of the overall process of promoting efficiency, effectiveness and responsiveness of government to popular needs. It should be such that would engender competition for the promotion of productive activities within the jurisdiction of the various tiers of government for development initiatives. It is clear that the way the Nigerian state has been organised has had remarkably negative effect on the opportunities and incentives for business development. It is little wonder that the informal sector has become the dominant sector of the Nigerian economy.

3.6 Summary and Conclusion

Decentralization programmes in Nigeria began from the colonial era. But they have largely taken the form of deconcentration. As a result, they have had the effect of increasing central control and reducing opportunities for citizen participation, and stultified creativity. The restraint in devolving power is attributable to the effort at regime sustenance in the face of limited state legitimacy, the problem of fragile national unity and the prevalence of military dictatorship with its centralizing tendencies.

Political regulation has been the major focus of the process as against political participation. Territorial fragmentation and internal boundary adjustment have resulted in a proliferation of states and local governments; but such levels of government have been without local power that can attract and stimulate participation. Spatial deconcentration has resulted in a bloated states sector, with minimal private sector development, and a suppression of innovative and entrepreneurial energy. The limited decentralisation and the resultant dependence of the various sub-national units on oil revenue from the centre has been one of the major reasons for the failure to diversify the economic base of the country. The competition that had characterised inter-state relations under the three and four-region systems in which derivation was a significant factor of horizontal revenue sharing gave way to political struggles for federal funds.

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Further, patronage politics under authoritarian military rules culminated in the clamour for more states and localities in the bid to corner more funds from the centre. This was worsened by the de-emphasis on derivation in revenue sharing among governments at the sub-national level. Once a state is split into two its allocation from federal revenue quickly multiplies. Thus, local spending became completely separated from local resources in the name of even development across the country's geography. While it has ensured spatial distribution of physical infrastructure by multiplying capital cities of concentration, the attendant weakened state capacity had affected the quality and maintenance of these infrastructures.

Gradually sub-national governments became a source of funds for private and group enrichment. States and local governments created as largesse or patronage to sectional elites and their communities for loyalties by military dictators naturally owed their accountability to the military rulers rather than the communities in which they exist. The result is absence of accountability and responsiveness in government.

Nigeria is paying heavily for its current ineffective and inefficient state structure: poor state of infrastructure, political instability and slow growth. Thus, further decentralization is an imperative considering the need to deflate the state, liberalize the economy and politics. But this will have to be done democratically. Such a programme should be preceded by wide spread consultation and negotiation. The aim of which is to reach a consensus on an ideological base that would determine the character of the envisaged decentralisation programme. It should also involve a clear cut distribution of the powers and functions of the various governments and clearly spelt out institutions of horizontal and vertical accountability that will enable effective and responsive governance.

The programme envisaged should be to transform the constituents of the country into relatively independent units with economically empowered governments that can carry out development programmes and attract private investment (foreign and local). In other words, it should be informed by a more practical concern about economic competitiveness, such that the country will be restructured into competing governmental units by providing room for public/private partnership in productive activities at the lower levels to enable the exploration of economic potentials of the various states. This has been made imperative by the high poverty rate in the country.

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It is clear that the centralisation of resources control and the adoption of a general revenue allocation formula provide no incentive for competitiveness among the various sub-national governments. Rather, it has deepened inequality and heightened feelings of injustice in the distribution of revenue from these centralised resources. There is need to reconsider this formulae to promote competition hand in hand with the drive for equity and accountability. However, caution should be taken during the process to avoid fanning the embers of centrifugal forces. Even so, making very clear institutional arrangement for managing the process as well ensuring a realistic distribution of functions based on the principle of subsidiarity should make it predictable. Finally, Nigeria stands to gain from successful decentralisation efforts in other lands.

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4

CONSTITUTIONAL AND LEGAL BOTTLENECKS TO PRIVATISATION IN NIGERIA

B. Olatunji Oloruntimehin

4.1 Introduction

Since 1985/86, it has been increasingly accepted in Nigerian policy circles that the path to sustainable economic development is to open up the business environment for private initiative to flourish, and de-emphasise direct government investment in and management of enterprises. That path will lead government to concentrate on creating and sustaining a physical, legal and regulatory environment that will conduce to good corporate practices.

Since the beginning of the process in 1986, governments have pursued its privatisation programme with an obvious lack of consistency, transparency and accountability. Implementation has been halted, and by 1995, under the Abacha-led *junta*, termination of the process appeared to have been contemplated. Not much happened between 1995 and mid-1999 when a new policy regime came into force with the promulgation of the Investment and Securities Act 1999.

This study examines the constitutional and legal environment that has impacted upon the formulation of the policy of privatisation and the process of its implementation from 1986. The study involves an examination of the relevant constitutional provisions on privatisation and commercialisation since 1986; the policies of the succeeding regimes, the decrees or laws established to provide the framework for conducting the privatisation process and reports of relevant regulatory institutions over the period. Focus group discussions were held with selected officials of the Bureau for Public Enterprises (BPE) Abuja, the Central Bank of Nigeria, (CBN), Federal Ministries of Industry and Commerce, Abuja; leaders of the organised private sector, especially officials and members

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of such umbrella private sector organisations as the National Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA), the Manufacturers Association of Nigeria (MAN), the Lagos Chamber of Commerce and Industry (LCCI) and some business law experts.

The analysis of the information is set in the context of the experiences of other countries that have been involved in privatisation of SOE's, account being taken of varying constitutional regimes under which privatisation processes have been conducted in such countries.

Apart from constitutional and legal bottlenecks that are identified, the study highlights other factors, which have contributed to the staccato manner in which the privatisation exercise had been conducted before the middle of 1999. It highlights the roles of socio-political forces and interest groups that have supported or opposed privatisation.

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4.2 The Rationale For Privatisation

Privatisation is used to describe an array of actions designed to broaden the scope of the private sector activity, or the assimilation by the public sector of efficiency enhancing techniques generally employed by the private sector. It embraces therefore, not only the outright or partial transfer of assets from the public to the private sector, but also all arrangements designed to involve the private sector in the design, construction, operation, maintenance and financing of public services. Variants of these arrangements include management contracts, leasing, investment concessions, building operates transfers (BOT) and related versions such as Rehabilitate-Operate-Transfer (ROT), Build-Own-Operate-Transfer (BOOT) and Build Operate and Own (BOO). Under such arrangements generally known as Public-Private Partnerships (PPPs), the government's role remains vital but is more focused on the provision of an adequate legal and regulatory framework.

There are several reasons why countries decide to privatise enterprises that were previously publicly owned. In Nigeria, one critical consideration has been the general realisation that state-owned enterprises (SOEs) have not only failed to deliver the benefits that were expected of them; they have become heavy drains on the national treasury. When SOEs provide the public services that are expected of them, they do so at far too high a cost. They have generally been crippled by massive corruption perpetrated by public officials and bureaucrats. All of these problems have generally led the enlightened

public to the conclusion that there should be other approaches to attaining the purposes for which SOEs were created.

The need to redress the rather unsatisfactory and disturbing development, whose genesis is traceable to government's acquisition of company securities in the era of indigenisation, has made the call for privatisation possible.

By 1985, statistics relating to government investments in parastatals revealed a disturbing picture, which called for urgent attention. Nigeria's public expenditure sector grew rapidly during the oil boom years into a vast array of sectors, including prospecting, exploration, refining and marketing of oil, sugar, fertilizer, cement, paper and steel industries, hotels, transportation, banking and insurance. There are an estimated 1500 public enterprises, of which about 600 are under the Federal Government of Nigeria. The remainder are under state and local governments. As at the end of 1993, Federal Government of Nigeria's equity investment in public enterprises was 25.83 billion Naira. At the same time, public enterprises held an outstanding stock of loans from the Federal Government amounting to 11.79 billion Naira. The existing public enterprises represents about 30-40% of fixed capital investment and about 20% of formal sector employment.

The majority of the public enterprises are inefficient and many show poor financial results. The burden that the public enterprise sector has imposed on public finances has been considerable. Financial transfers from the Federal Government to these public enterprises have taken the form of direct subsidies, but equity contributions and loans have been the most important means of support to the public enterprises sector. In 1990 alone, the Federal Government invested about 9.76 billion Naira in the public enterprises, thus doubling its equity portfolio in the public enterprises. Again in 1993, there was an increase of 34%. These transfers were concentrated on a few public enterprises, all of which have not been privatised. For instance, the following gives the increase in equity between 1990 and 1993: Ajaokuta Steel (₦529 million), National Fertilizers Company (₦375.5 million), NAFCON II Project (₦444 million), Savannah Sugar Co. (₦336 million), NNPC (₦4.92 billion), Aluminum Smelter of Nigeria Ltd. (₦331 million), NIDB (₦377 million), NITEL (₦5.0 billion), NEPA (₦3.5 billion), and Nigeria Airports Authority (₦208 million). Transfers also took the form of loans, with a very poor record on repayments by public enterprises. (Nzekwu 1999).

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But, it took over two years before its intentions were actualised with the promulgation of the Privatisation and Commercialisation Decree on 5 July 1988. Early in 1991, a Study Group on the Legal Aspects of Privatisation and Commercialisation was appointed by the Technical Committee on Privatisation and Commercialisation (TCPC). In its report submitted on 6 May, 1991, the Study Group made wide-ranging recommendations some of which formed the basis of certain sections of the Bureau of Public Enterprises Decree, 1993 (BPED), which repealed and replaced Decree No. 25 of 1988.

The objectives of the current phase of privatisation in Nigeria are succinctly stated in an official document titled: *Blueprint of the Privatisation Programme (December 1999 - March 2003)* published by the National Council on Privatisation.

According to the blue print, the primary goal of the privatisation and commercialisation programme is to make the private sector the leading engine of growth of the Nigerian economy, to reintegrate Nigeria into the global economy, as a platform to attract direct to foreign investment in an open, fair and transparent manner.

The specific objectives of the Programme include:

(i) to move substantial ownership, control and operations of certain key economic enterprises from the public to the private sector;

(ii) to attract the private investment necessary as a catalyst for economic growth, so as to close the supply and efficiency gaps in the Nigerian economy;

(iii) to check the present absolute dependence on the Treasury for funding by otherwise commercially oriented parastatals and so, encourage their approach to the Nigerian and international capital markets to meet their funding needs; and

(iv) to create jobs, acquire new knowledge, skills and technology, and expose Nigeria to international competition.

The 1979 and 1999 Constitutions, maintained the trend towards centralisation, even though they were made "by the people" for the operations of a democratic and federal system of government. Thus, instead of the 45 items in the Exclusive Legislative list as in the 1960/63 Constitutions, there were 66 items in the 1979 Constitution and 68 in the 1999 Constitution. Basic State matters like (i) Drugs and

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Poisons, (ii) Election of State Governors and State Houses of Assembly (iii) Finger print identification and criminal records (iv) Labour and Trade Union matters, (v) Meteorology, (vi) Police, (vii) Prisons, (viii) Professional occupations, (ix) Stamp duties (x) Taxation of incomes, profits and capital gains, (xi) The regulation of tourist traffic, (xii) Registration of business names, (xiii) Incorporation of companies (xiv) Traffic on Federal Trunck roads passing through States, (xv) Trade and Commerce and census, were transferred from the concurrent to the exclusive list.

This unitary absolutism in the political sphere has been complemented by unitarism in the economic sphere since 1966. Thus by the petroleum Decree (No. 51) of 1969, the Federal Military Government declared that the entire ownership and control of all petroleum resources in, under or upon any lands in Nigeria was vested in itself. For the avoidance of any doubt, Section one spells out in detail the type of territory covered by this exclusive Federal Government ownership. These are, all lands in Nigeria, including land covered by water, land under Nigerian territorial sea and land forming part of our continental shelf.

Ownership of minerals by the Federal Government is thus absolute. Not only are individuals on or under whose land minerals are found denied any right to them, so too are mineral producing communities, local government areas and states. This wholesale expropriation of the properties of people, communities and state governments could only have been contemplated in the context of military absolutism over the nation-state. It runs counter to the pluralistic nature of the nation and its constitutional status as a federation.

The Federal Government's assumption of absolute ownership of all minerals in Nigeria's land and maritime territory was progressive. The claim to absolute and total ownership of all minerals, no mater where they were found or located only reached its climax in 1971. By Section 140(6) of the 1963 Constitution, all minerals, both solid and oil, found in the continental shelf of a region of Nigeria, belonged exclusively to that region. For the purposes of exploitation of minerals, including mineral oil, the continental shelf of a region was deemed to be part of that region. But by offshore oil Revenue Decree 1971 (No. 9 of 1971), the rights of the regions (states) in the minerals in their continental shelves were abrogated, and ownership and title to the territorial waters, and continental shelf as well as royalties, rents and other revenues derived

from or relating to the exploration, prospecting, or searching for, winning or working of petroleum from these seaward appurtenances of the states became vested in the Federal Government.

This has been replaced in all subsequent constitutions. Thus, in Section 44(3) of the 1979 Constitution (repeated in Section 44(3) of the 1999 Constitution), it is stated as follows:

> Notwithstanding, the foregoing provisions of this Section, the entire property in and control of all minerals, mineral oils and natural gas, under or upon the territorial waters and the exclusive economic zone of Nigeria shall rest in the Government of the Federation and shall be managed in such manner as may be prescribed by the National Assembly.
>
> Currrently, both the state and federal governments may make laws for the purpose of privatising any of the items listed in the concurrent list such as electricity-generation and distribution, industrial, commercial or agricultural development, university, technological and post primary education. The on-going privatisation programme engages the commitment primarily of the central government, because of the increased centralism bequeathed by the military rule.

The capacity of states to privatise is undermined partly by the 1999 constitution, which denies them, substantially, of control over resources within their boundaries.

4.3 Legal And Institutional Framework For Privatisation

The primary legislation which dealt with privatisation until 1993 was the Privatisation and Commercialisation Decree of 1988 (PCD of 1988). Although the Decree has been repealed by the Bureau of Public Enterprises Decree 1993 (BPED), the PCD of 1988 remains relevant in this report on issues in privatisation law. Appropriate references will also be made to some other cognate enactments such as the Nigerian Investment Promotion Commission Decree 1995 (NIPC Decree) and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree 1995 (FEMP Decree).

It is believed that these enactments combined to alter the complexion of the primary legislation on privatisation in terms of their scope and

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intendment. A general analysis of the PCD will be juxtaposed with the provisions of the BPED with a view to highlighting the effect of the two enactments on the process and likely effect of privatisation in Nigeria.

The Privatisation and Commercialisation Decree (PCD) dealt with two distinct subjects, namely privatisation and commercialisation. Section 14 defines "Commercialisation" as "the reorganisation of enterprises wholly or partly owned by the Federal Government in which such commercialised enterprises shall operate as profit-making commercial ventures and without subventions from the Federal Government".

Section 1 of the 1988 Decree dealt with enterprises to be partly privatised as listed in Part 1 of the First Schedule to the Decree, while Part II of the said schedule contained a list of enterprises to be fully privatised. The second schedule contained the list of enterprises slated for commercialisation. It is considered appropriate to quote *in extenso* Madaki Ameh's comments on the two schedules.

In a recent publication, he declared:

> An analysis of these schedules confirms the alarming quantum of Government holding in virtually all facets of commercial enterprises, ranging from banking and insurance, sugar manufacturing and distilleries, to such enterprises as poultry production and salt manufacturing. It also reveals the Government's reluctance to relinquish its shareholding, as it opted to maintain its percentage shareholding, in all the commercial banks and motor vehicle assembly plants, and marginally reduce its holding in development banks, oil marketing companies, steel rolling mills and fertilizer companies to mention a few.
>
> Ameh, *Privatisation: (June 1997), p. 88*

The above-quoted comments concisely mirror the pervasive influence and rather obtrusive involvement of the Federal Government in certain sectors of the economy where its role should be merely regulatory and certainly not participatory. The wide-ranging nature of government's involvement in such large areas of business activities was clearly a major factor in revealing the gross inadecuacy of bureaucratic methods for the

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running of business concerns. This, in turn, gave prominence to the call for the privatisation of such enterprises.

The second Schedule to the BPED, which contains the list of enterprises to be partially or fully privatised, still reflects "the alarming quantum of Government holding in virtually all facets or commercial enterprises". For example, Part 1 of the said Schedule relating to enterprises slated for partial privatisation includes oil marketing companies, steel rolling mills, fertilizer companies, newsprint, sugar and cement companies and a transport company. Listed under Part II of the said Schedule are enterprises slated for full privatisation. These include thirteen commercial and merchant banks, thirteen insurance companies, four hotels, eleven food processing companies, and six motor vehicles assembly companies. The third Schedule to the Decree contains twenty-three enterprises slated for partial commercialisation, while fourteen others are to be fully commercialised.

While Section 1 of the BPED established the Bureau of Public Enterprises (the Bureau), Section 2 provides for a Management Board comprising a part-time chairman and ten other members "who shall be persons with requisite experience and knowledge of the Nigerian economy". Under the repealed PCD, the members of the TCTC were required to be "persons with detailed knowledge and wide experience". It has been observed that there are no precise parameters for determining the said "detailed knowledge" and "wide experience". There is thus a potential danger that appointments to the Committee could easily be made without regard to the skill and/or expertise required for such fairly specialised assignment, as evidenced by its functions, which are outlined in Section 4 of the 1988 Decree.

It is difficult to see any material difference between the criteria in the repealed Decree and the ones in Section 2(2)(b) of the 1993 Decree *vis-a-vis* the functions of the Bureau. Accordingly, there is a potential risk that appointments made with reference to such nebulous criteria as "requisite experience and knowledge" of the Nigerian economy may not necessarily produce members who are well-equipped to deal with the functions of the Bureau, as outlined in Section 3(1) of the 1993 Decree.

The Bureau is empowered to recommend to the Federal Government the mode of disposal of any enterprise that is considered not suitable for disposal by public issue of shares (Section 3(3). Also, the prior approval of the Federal Government for the price of any share issue in respect of any designated enterprise and the pattern of its allotment must be sought

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and obtained (Section 3(4). Section 13(3) of the BPED requires shares of enterprises slated for privatisation to be offered for sale in the Nigerian Capital Market. To guarantee a good measure of openness in the disposal of such shares, the Section further makes it mandatory for the offers of the sale of shares to be by public issues. However, where the circumstances warrant a sale by private placement, the Federal Government, on the advice of the Bureau could so decide.

The provision relating to private placement is to be expected in view of the need to cater for relatively small enterprises, which may not be able to cope with the expenses of a public issue. To underscore this point, Section 13(5) empowers the Bureau, on approval of the Federal Government to privatise an enterprise through a willing seller or willing buyer basis or through the process of asset stripping where such enterprise is not fit for privatisation by public issue of shares or by private placement. The question can be raised whether this procedure could not be open to abuse.

At this juncture, it is considered appropriate to take a look at Section 16 of the decree before proceeding to the consideration of the allotment of shares of privatised enterprises, addressed by Section 15, the corresponding provisions of which have perhaps attracted more comments and analysis than any other part of the 1988 Decree. Section 16 provides that "the membership of the Board of Directors and the control and management of privatised enterprises shall, as from the date of privatisation, reflect the ownership structure of the enterprises."

It is obvious that the purport of the section is to give, for example, about 60% of "the membership of the Board of Directors and the control and management" of any privatised enterprise to the holder(s) of 60% of the equity capital of the said enterprise. While it is relatively easy to practicalise this concept in relation to the composition of the Board of Directors, the same can hardly be said of "control" and "management" of privatised enterprises. Anyone who is familiar with company law and practice will readily agree that a 30% holder of the equity capital of a company could be in effective control of the company. In saying this, account has been taken of the provisions of Section 116 of the Companies and Allied Matters Decree 1990 (CAMD), which prohibit the issue of non-voting and weighted shares in Nigeria.

Even with section 116 of CAMD, a holder with less than 50% of the equity capital of a company can be in control of the said company. Where individual holdings are so widely dispersed and fragmented in

this country, it only requires a fairly substantial holder of shares in a company to be properly focused before he is in effective control of the company. It is believed that this fact, coupled with the general apathy amongst shareholders, must have been the major reason for the government's regular breach of the laws and regulations relating to companies in which it has holdings. A typical example is the *Daily Times of Nigeria Plc* where the Federal Government not only dissolved the Board but also proceeded to appoint a sole administrator without calling a general meeting of the company. Cases have been known where the boards of such companies were dissolved and reconstituted by government without any reference whatsoever to the generality of other shareholders whose combined holdings were sometimes equal, if not in excess to that of the government.

It is difficult to comprehend the rationale behind the inclusion of "management" of privatised enterprises in Section 16 of the Decree. To require the management of a company to reflect the ownership structure of the company amounts to a negation of the reality of the operations of modern day companies. The twentieth century has witnessed a growing divorce between the managerial and financial power in companies, so much so that the great majority of members of management are either non-members or shareholders with relatively small holdings. The fact has not resulted in any adverse effect in the fortunes of such companies. Also, given the complexity and diversity of the shareholdings of the average privatised enterprise, the requirement that the management shall reflect the ownership structure of the enterprises appears rather unrealistic.

With regard to the importance of its provisions to privatised enterprises, Section 14, which is similar in some respect to Section 7 of the repealed Decree, will be reproduced *in extenso* before we proceed to discuss its implications. The Section provides as follows:

i) "14. (1) Subject to any direction of the Federal Government, the shares of the enterprises to be privatised under this Decree by public offer shall be allotted in accordance with the provisions of subsections (2) to (6) of this Section.

ii) Not less than 10 per cent and not more than 20 per cent of the total shares on offer on an enterprise set out to be privatised shall be allotted to an association of individuals or an interest group such as, but not limited to, State investment agencies, market

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womens' organisations, universities, friendly societies, local and community associations.

iii) In the case of an over-subscription for the purchase of the shares, not more than 1 per cent of the shares on offer shall be allotted to each state through its investment agency.

iv) Not more than 10 per cent of the shares on offer shall be reserved for the staff of the enterprise.

v) The remainder of the shares not distributed in accordance with the provisions of Subsection (2), (3) and (4) of this section shall be proportionately allotted to the indigenes of each State of the Federation and the residents of the Federal Capital Territory, Abuja.

vi) In the case of over-subscription, no individual shall be allowed to hold more than one per cent equity in any enterprises."

The above-quoted provisions relating to the allotment of shares of privatised enterprises raise a few problems, some of which are traceable to inelegant drafting, while others relate to inherent difficulties in applicability.

It is significant that 'workers' and 'trade unions' have been omitted in Section 14(2) of the 1993 Decree. Furthermore, the said subsection now makes it very clear that the reserved percentage range is applicable to the shares of each enterprise set out to be privatised (Akande, *Privatisation (1988) p. 35).* In spite of the attempt to address the shortcomings in the repealed PCD of 1988, there are still certain problems posed by the provisions of Section 14(2). In the very apt words of Akande while commenting on the similar provisions in Section 7(2) of the 1988 Decree:

> By prescribing the maximum that should be reserved (allotted) to this category of pur-chasers, the Decree may be unwittingly discriminating against the interest groups in this category. As it is, all the interest groups combined may not purchase more than 20 per cent of the shares offered for sale in respect of an enterprise. This is irrespective of their proportional subscription vis-a-vis other persons (individuals and corporate bodies).
>
> Akande, *Privatisation (1988).*

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Going by the strict interpretation of Section 14(2), an issue may well end up being under-subscribed even though there was in fact an over-subscription for the shares of the enterprise. For example, what happens if the interest groups in Section 14(2) subscribe over 20% of the total shares on offer while other investors outside the group subscribe marginally below 80%, but the totality of all the subscriptions results in an over-subscription? If the strict words of section 14(2) are to be followed, the resultant effect in the scenario described above would be an under-subscribed issue.

In its attempt to ensure that the ownership of shares in privatised enterprises was as widely-spread as possible and also in consonance with the spirit of the legislation on privatisation, the Technical Committee was said to have required, among others, the state of origin of each applicant for shares.

In a normal democratic setting, there is a lot to be said for the view that the requirement regarding state of origin in the offer forms is offensive against the provisions of Section 39(2) of the Constitution. However, having regard to the clear provisions of Section 1(1) of the Federal Military Government (Supremacy and Enforcement of Powers) Decree, 1994, the provisions of the two major enactments on privatisation would appear to override the constitutional provisions in respect of the individual's right to freedom from discrimination. Decree No. 12 of 1994, reaffirms the provisions of earlier decrees to the same effect that "the provisions of a Decree shall prevail over those of the unsuspended provisions of the 1979 Constitution."

It needs to be pointed out that the requirement of an applicant's state of origin would only have any serious meaning in respect of holdings in non-quoted companies. For the quoted companies, such requirements can only give succour to the protagonist of Federal character in the short run. Once the securities of such companies are listed in the stock market, the only constraint of a prospective investor is the regulatory apparatus of the stock market. Accordingly, shares owned by the indigenes of State A can readily be sold and transferred to the indigenes of other States without the need to adhere to the inhibiting requirements of the enactments of privatisation.

Indeed, it could easily happen that in a non-quoted company, an indigene of a state who is hardpressed for funds or who for other reasons wants to dispose of his shares in such a company would certainly proceed to do so subject, of course, to the regulations of the company.

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Therein lies the basic contradiction between the demands of business and those of politics.

One aspect of the BPED, which deserves some attention is Section 15 which insulates the implementation of certain decisions of the Bureau from any judicial proceeding in any court of law "where the Bureau has sought and obtained the approval of the Federal Government on the mode of privatisation under the relevant provisions of (the) Decree". It should be recalled that by Section 1(2) of the Decree, the Bureau may sue or be sued in its corporate name. Furthermore, provisions are made in Section 6 to limit access to court against the Bureau by an aggrieved party. Even where judgment is obtained against the Bureau, "No execution or attachment of process in the nature thereof shall be issued against the Bureau". All of these are complemented by Section 9, which provides indemnity for officers of the Bureau. The fact that the Decree then proceeds to exclude judicial proceedings in respect of the subject covered by Section 15 has weakened the efficacy of the power to sue the Bureau as contained in section 1(2) of the Decree.

We will briefly consider, the implications, if any, of the provisions of the Nigerian Investment Promotion Commission Decree 1995 (NIPC Decree) and the Foreign Exchange Monitoring and Miscellaneous Provisions Decree 1995 (FEMP Decree). The two 1995 Decrees will be examined under the sub-title of Cognate Decrees on Privatisati

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4.4 The Legal Framework: Under Democratic Rule

The current privatisation programme is spelt out in the *Blueprint of the Privatisation Programme* (December 1999 - March 2003), an official publication issued by the National Council on Privatisation (NCP). The *Blueprint* provides information on State Owned Enterprises (SOEs) slated for privatisation, the nature of the respective SOEs, the level of public ownership, the manner of divestment of public (government holdings) - whether by privatisation or by commercialisation) and the legal framework within which concerned SOEs were brought into the diversment processes. Laws listed for various SOE's include Decree 39 of 1972; laws of the federation of Nigeria (LFN) Cap 299, LFN Cap 323, LFN Cap 361, LFN Cap 396, Decree 40 of 1973; Decree 19 of 1976; Decree 33 of 1977; Decree 8 of 1978; Decree 60 of 1979; Decree 41 of 1972; Decree 82 of 1993 etc. A large number of enterprises listed for privatisation or commercialisation are to be dealt with in accordance with the specific provisions in their respective Memorandum of Association and articles of incorporation as limited liability companies.

The *Blueprint* also provides information concerning broad guidelines for the Privatisation/Commercialisation programme. The programme is spelt out in phases, and sector by sector. Obviously, one major bottleneck in the privatisation process has been the multiplicity of laws and regulations that have to be considered for appropriate application. A determined attempt to overcome the bottlenecks seems to have been found in the enactment of a comprehensive legislation, which encapsulates within it the essence, as well as major provisions, of those previously disparate laws and regulations. The new legal framework is provided in the Public Enterprises (Privatisation and Commercialisation) Act 1999, which repeals the earlier laws. It came into being as Decree No. 28 of 1999 and was promulgated a few days before the exit of the last military regime in May 1999.

In essence, the 1999 Enabling law absorbs previous laws on privatisation and commercialisation, together with their socio-political policy objectives, which are deemed imperative for a generally acceptable privatisation programme and process. The observations made in the first part of this section on the legal framework for the period 1988 to 1999 remain therefore relevant and valid.

The law spells out the lists of SOEs for privatisation or commercialisation, establishes institutions to take charge of the privatisation programme, mechanisms and instruments for resolving conflicts in the process, and provides for regulations to guide the activities of the bodies charged with implementing the programme. Attention needs to be focused on (a) mode of privatisation as defined notably in Part A, Section 2(1) - (3); and 5 (1) - (4) on allotment of shares of privatised enterprises. In particular, Section 5 (1) - (4) replicates the provisions of earlier legislations on privatisation regarding the application of the federal character provision and the limit to what shares individuals can acquire. As in previous laws, no individual can acquire more than 1% of the value of shares on offer. In essence, the analysis of the impact of these provisions and the prescribed mode/process of privatisation under earlier laws remains valid for the current situation.

The formula for privatisation reserves 40% maximum for strategic investor participation; 40% for Federal Government Parastatal participation and 20% for Nigerian individual investors. The law puts a limit of 1% for any single investor on individual shareholding in order to avoid monopoly control by individuals.

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First schedule Section 1(1) Part II lists "Enterprises on which Equity held shall be fully privatised". These are mainly Infrastructure Utility Companies in which Federal Government ownership varied form 100% (1 hotel company), through 47% (1 hotel company), 40% (Petroleum marketing companies (three); one Cement company; 30% (three Cement companies) 27% (one cement company); 10% (one cement company) 35% (in each of six motor assembly companies) to 25% (in each of 3 agro-allied companies). Second schedule, Section 6(1) Part 1 lists twenty-four companies for partial commercialisation while Section 6(2) contains a list of nine companies for full commercialisation.

With regard to companies for partial privatisation in which the Federal Government still intends to hold on to 40% through its parastatals, while individual Nigerian investors would share a total of 20%, thereby leaving a maximum of 40%. The issue of control still lying with Government on account of its assumption of proprietary rights, not only over its own 40% shareholding, but over the additional 20% to be held by individual shareholders who are dispersed, and therefore lack an effective voice in managing the companies', is still a major hurdle to either overcome by any strategic investor - individual or institutional.

With regards to the 100% divestment of Federal Government minority shareholding, the problem will be of a different order. Some of the problem resides in the structure of ownership and management of the individual companies. Some of the companies are currently held in partnership with state governments and foreign investors (such as the cement companies and certain banks), while some are held in partnership with foreign institutional investors, some of whom have even divested by selling their holdings to other investors, and have done so with or without prior consultation with the Nigerian Government. There is also the fact that most state governments are yet to buy the idea and programme of privatisation and therefore, continue to be obstacles in the wheel of privatisation.

In states where allotments of shares to the citizens could not be taken up on account of poverty and/or ignorance, governments are buying up such allotments, presumably in fiduciary trust for their citizens. Thus, privatisation through divestment of Federal Government holdings carried with it the contradictory development that it is expanding the state control of the enterprises, albeit at the lower tiers of government.

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4.5 Constitutional Issues in Privatisation

Nigeria attained sovereign independent statehood on October 1, 1960. Since then, it has been governed under several constitutional regimes, starting with the federal constitution that created a central government with restricted jurisdiction and three strong regions with extensive responsibilities and powers, to the current highly centralised state with rather dependent constituent states.

Each of the constitutions under which the country has been governed has been rather ephemeral in duration. Thus, the 1960 Constitution with which the country assumed nationhood was amended in 1963, to make the country technically a republic. The 1963 Constitution survived until January 1966 when the military first seized power. The military ruled the country, until September 1979. Another Constitution was promulgated to herald in a second civilian republic in October 1979. That Constitution lasted till December 1983 when, again the military struck with a coup d'etat. From January 1984 till May 29 1999, the military, ruled the country. The current civilian regime assumed position under a constitution, which the last military regime foisted upon the country.

In between the listed constitutions, there were also unconcluded experiments in constitution making such as those of 1989, and 1994-1995. On each of these occasions, the military ruler in charge was merely wasting public resources playing hide and seek with their real goal being the perpetuation of their regimes.

Apart from various individual Decrees, the very first Decree issued by every successive military regime usually destroys the foundations of Federalism.

Thus, the first Federal Military Government, completely undermined the Federal status of Nigeria by giving itself the power to make laws for the peace, order and good government for the whole of Nigeria with respect to any matter whatsoever. It is as if the Regions or later, the states, did not exist.

The matter reached its apogee in the Abacha era, when by Decree 12 of 1994, the Federal Military Government declared itself as being established "with absolute powers to make laws for the peace, order and good governance of Nigeria or any part thereof (including of course all the states) with respect to any matter whatsoever".

Part II (A) of the law created the (I) National Council on Privatisation, and invested it with powers spelt out in Part II (B). Under

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the chairmanship of the Vice-President of the Federal Republic of Nigeria, the National Council on Privatisation (NCP) is invested with wide powers to carry out its functions.

Part II (A) lists membership of the NCP with the Vice President as Chairman. It comprises:

(a) the Minster of Finance, as Vice Chairman;
(b) the Attorney-General of the Federation and Minister of Justice;
(c) the Minister of Industries;
(d) the Minister of National Planning;
(e) the Secretary to the Government of the Federation;
(f) the Governor of the Central Bank of Nigeria;
(g) the Special Adviser to the Head of State, Commander-in-Chief of the Armed Forces on Economic Affairs; and
(h) the Director-General of the Bureau of Public Enterprises.

Notwithstanding, the provisions of subsection (2) of this section, the Council may co-opt the supervising Minister of an affected public enterprise to attend relevant meetings of the Council.

The supplementary provisions contained in the Third Schedule to this Decree shall have effect with respect to the proceedings of the Council and the other matters contained in the Schedule.

The functions and powers of NCP notably include the following:

$ determine the political, economic and social objectives of privatisation and commercialisation of public enterprises;
$ approve policies on privatisation and commercialisation;
$ approve guidelines and criteria for valuation of public enterprises for privatisation and choice of strategic investors;
$ approve the legal and regulatory framework for the public enterprises to be privatised;
$ determine whether the shares of a listed public enterprise should be by public or private issue or otherwise and advise the Government of the Federation accordingly;
$ determine the time when a public enterprise is to be privatised;
$ review, from time to time, the socio-economic effect of the programme of privatisation and commercialisation and decide on appropriate remedies;
$ approve the appointment of privatisation advisers and consultants and their remuneration;

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- supervise the activities of the Bureau and issue directions on the implementation of the privatisation and commercialisation programme;
- receive regular and periodic reports from the Bureau on programme implementation and give appropriate directions; and
- perform such other functions as may, from time to time be necessary to achieve its objectives.

Part III of the Enabling law creates the Bureau of Public Enterprises (BPE) defined in 12(2) as

> ... a body corporate with perpetual succession and a common seal and may be sued in its corporate name.

The functions are defined in Part III (B) 13- (1) (a)-(j) with regards to privatisation. We need to highlight the following functions:

13 (1) (a) implement the Council's policy on privatisation;

(b) prepare public enterprises approved by the Council for privatisation;

(c) make recommendations to the Council on the appointment of consultants, advisers, investment bankers, issuing houses, stock brokers, solicitors, trustees, accountants and other professionals required for the purposes of privatisation;

(d) advise the Council on the allotment pattern for the sale of the shares of the public enterprises set out for privatisation;

(e) ensure the success of the privatisation exercise, taking into account the need for balance and meaningful participation by the Nigerians and foreigners in accordance with the relevant laws of Nigeria; and

(f) perform such functions with respect to privatisation as the Council may, from time to time, assign to it.

The Enabling Law (1999) replaces previous laws concerning regulatory authorities. It is explicitly stated in Art. 32 that "The Bureau of Public Enterprises Decree 1993 is here repealed" and in Art. 33 that "The statutory functions, rights, interests, obligations and liabilities of the Bureau, existing before the commencement of this Decree under any contract or instrument, or in law or in equity shall, by virtue of this Decree, be deemed to have been assigned to and vested in the Bureau established by this Decree".

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The first phase of the privatisation programme involves the divestiture of the Federal Government's interests in banks, oil marketing companies and cement plants. Most of these are already quoted on the Stock Exchange.

The divestiture strategy is sale to core investors, (which attracts a premium for preferential allotment control) combined with public offer. This strategy allows the government to maximise revenue and ensure that no leadership vacuum is created by the privatisation. The BPE advertises core investor sales in national newspapers and foreign publications. Tenders from qualified prospective core investors are opened publicly. The Technical Committee of the NCP conducts negotiations with qualified prospective core investors and makes recommendations to the NCP for approval.

In line with the provisions of the privatisation act, the shares offered to the general public in these offers were allotted on the basis of equality of Federal constituencies, hence predetermined numbers of shares were assigned to each state of the federation. Upon collation and analysis of the various returns, it was discovered that indigenes of quite a number of states did not fully subscribe to the shares set aside for them. Consequently, the NCP directed the BPE to write to the affected state governments and their investment companies to purchase the shares. A deadline of 12th September 2000 was given after which the BPE would sell all unsubscribed shares to institutional investors. In the WAPCO offer, seventeen states recorded under-subscription as against ten states in respect of FSB. Ashakacem recorded the highest level of under subscription with eighteen states not applying fully for their entitlement.

The southern states participated actively in the privatisation of WAPCO, they showed less enthusiasm in the privatisation of Ashakacem, which is located in the north. The situation was reversed in the northern states, which showed a lot of enthusiasm in the privatisation of Ashakacem. They did not participated actively in the WAPCO offer. The FSB offer recorded a more even participation in both the north and the south, presumably because as a commercial bank with modest but nation-wide branch network, it was perceived as a national, rather than zonal institution.

State governments in the north were more active in the acquisition of shares than their citizen. Conversely, individual investors bought more shares in the south rather than state governments. What is of concern to

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the NCP is the relatively poor performance of the south east zone. The chairman of NCP has therefore decided to embark on a special mission to the south east to increase awareness and enlightenment to improve participation in the programme.

The second phase is concerned with public enterprises engaged in sectors where the prices of their respective output/services are largely determined. Accordingly, a total number of thirty nine (39) public enterprises would be involved under this phase.

This phase of the programme will involve enterprises that can be broadly grouped into two:

i) those operating in competitive markets where no regulation of price or market behaviour is of primary concern to government; and

ii) those utilities and other firms operating in monopoly or near-monopoly markets where public interest regulation is necessary.

Accordingly, the implementation of the privatisation programme would in some cases require sector reform and restructuring, prior to or side by side with the divestiture transaction. In the monopoly sectors like electric power and telecommunications, sector reforms are being undertaken in a logical sequence as follows:

Xpolicy formulation or review;
Xlegal/regulatory framework design;
Xrestructuring and liberalisation; and
X privatisation transaction.

The National Council of Privatisation (NCP), the apex policy body charged with the responsibility for the implementation of the current privatisation and commercialisation programme of the Federal Government has established the 'Transaction Marketing Committee' with the following broad mandate and terms of reference:

- Liaise with the BPE and the Technical Committee to review the design and timing of each transaction;
- Review and discuss the situation analysis of each enterprise prepared by the Communications and Marketing consultants;
- Identify and suggest ways the council could address the key issues identified and otherwise reach the key people who could influence the transaction;
- In conjunction with the consultants, assist in marketing the transactions through activities complementary to the overall privatisation marketing plan; and

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- Submit a report at the end of the transaction to appraise the Council on the lessons learnt and report any special issues that would enhance the marketing efforts of other enterprises; and
- Perform such other functions as may be directed by the Council.

4.6 Conclusion

The constitutional and legal bottlenecks, which this report has dealt with, are a reflection of the intricate problems involved in transiting from one form of economic management to another. In the case of Nigeria, the intricacy is a factor of the socio-political divergencies, which define the polity. The analysis is illustrated with the insight provided into how privatisation is being pursued, showing the delicate balance being maintained between the primacy of the objective of keeping the nation-state stable and united, and the need to transform the economy into a market-oriented one through the instrumentality of privatisation.

Komai, cited earlier in this report, has rightly made the point that the transition from a planned state-controlled economy to capitalism has to be an organic process. It is a curious amalgam of revolution and evolution, a trial and error process, with which some old companies will survive while others vanish, and new firms are tested before being accepted or rejected. Some developments are rapid, others slow. Some call for a one-stroke intervention, while many others come about through incremental changes.

Constitutional obstacles identified in the study include:

- ephemeral nature of constitutional regimes, signifying instability of the state and governments;
- the preponderance of unitary despotism and severe undermining of the rule of law, a situation that was not conducive to building and sustaining investor confidence, whether within or outside the country;
- a shift from federalism which had determined the structure of the Nigerian state and its governance up until January 1966 to an increasingly unitary one with an over-centralised governance, controlled for most of the time by the military;
- constitutional imposition on government and its institutions of an ideology of state and economic management that made it mandatory to ensure public sector control of the "commanding heights" of the economy; and
- federal character in the conduct of public affairs.

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The legal obstacles derive from the constitutional obstacles. Laws and regulations that are set for privatisation have to conform to the provisions of the constitution regarding the fundamental principles and objectives of state policy, and of the federal character principle that is stipulated. The bureaucracy and regulatory institutions that control the processes of privatisation were also handicapped by the necessity to conform to the constitution.

- As defined at the beginning of this study, privatisation is a much wider concept and process than has been implied by the procedures adopted so far by the government. The primary objective of privatisation is to empower the private sector. The reality that the private sector in Nigeria (especially the organised private sector) is still in its infancy. The approach to privatisation needs to be widened to embrace other arrangements that would involve private sector investors in the design, construction, operation, maintenance and financing of public services.
- The private sector in Nigeria needs to be weaned from its clientelist relationship with a prebendal state system. Investors who are stakeholders in the development of the country will work for the enhancement of the democratic values of openness, competitiveness, accountability and transparency, and will join in demanding the same of political office holders and bureaucrats.
- In particular, we recommend that as in other countries, efforts should be made to grow and deepen Public-Private-Partnership (PPP) as part of the framework for privatisation. A recent development in that direction is the coming together of private companies with some state governments to jointly buys over federal government shares in public enterprises. A notable illustration is the recent arrangement for selling Nigeria Telecommunications Limited (NITEL).
- It is generally acknowledged that with recent developments, especially with the Investment and Securities Act 1999, Nigeria has an up-to-date legal and regulatory framework not only to continue with privatisation, but for effective control and management of the economy in all aspects. However, there is still the need to tackle corruption critically. It has become a cancerous force in the management of both the public and the private sectors. Vigilance is needed to ensure that the campaign against corruption

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through the anti-graft law and the anti-corruption commission is sustained.

Commitment to good corporate governance needs to be deepened and made to spread across layers of public and private sector operators. The policy recommendations proposed here raise challenges that need to be tackled in the future. Although democratisation has begun with the transition from military autocracy to civilian governance under the 1999 Constitution, governance system still bears negative imprints of years of rule by military *juntas*.

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5

ISSUES IN CONFLICT MANAGEMENT IN NIGERIA

Dauda Abubakar, V. Adefemi Isumonah and E. Remi Aiyede

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5.1 Introduction

Conflict research in Africa is still at a developing stage largely because of the presumption that conflict is mostly ethnic in character. In other words, not much effort has been devoted to unraveling the multifaceted nature of conflict in Africa. Without groundwork, it is understandable that conflict research has not benefited policy much (Osaghae 1999).

The dominant view that conflict in Africa is ethnic permeates individual African countries particularly Nigeria, which is reputed both for ethnic diversity and ethnic conflicts. It is not surprising that research is focused almost exclusively on ethnic conflict either to determine its nature, or the effectiveness of the management strategies that have been adopted to address its negative effects (e.g. Nnoli 1978, Osaghae, 1995, 1998). This gives the impression that other kinds of conflict are non-existent or at best, derivatives of ethnic identity. It is clear from this narrow focus and fragmented approach to conflict that a comprehensive documentation of the patterns and distribution of conflict in Nigeria is yet to be undertaken. The result is that local conflicts and their peculiar problems of management strategies have been neglected. This study represents an effort to fill this gap by investigating issues in contention in major conflicts that occurred in Nigeria between 1984 and 2000, analyse the Government's responses to the conflicts and their consequences; and lay out the policy implications of the conflict management strategies adopted, the responses they elicited and make recommendations.

5.2 Framework of Analysis

As earlier pointed out, conflict study is at a rudimentary stage in Nigeria and almost entirely preoccupied with ethnic conflict. The result of this is that several manifestations of conflicts and the issues involved in their management have not been systematically investigated. To achieve this, *issues in conflict management* are here conceived as conflict factors or sources of conflict, which necessitate the search for management strategies and the conflict-generating attributes of management strategies in practice. In a sense, the two strands of this conceptualisation have an organic connection in that the second reflects the transformation of the first. Strategies deployed against the causes of conflict transform them from raw matters of concern to individuals or groups to political matters as decisions, which as the input-output analytical framework indicates, are not often settled once and for all (Easton 1960). The reason is that political decisions elicit feedback from dissatisfied sections and continuously reflect the dynamics of power relations in the polity. This is particularly true where group interests are involved. Equity and propriety of management strategies become as important to dissatisfied groups as the response embodied by them. Thus, it is relevant to speak of issues even beyond the threshold of response to a conflict situation, that is, after decisions have been made to deal with it just as it is in the course of implementing decisions because of the inherent difficulty in the implementation process.

One of the most important common issues in conflict management in Nigeria is revenue allocation, whose dimensions are vertical and horizontal sharing patterns. Vertical revenue sharing describes the proportion of federally collected revenue that goes to each level of government, while horizontal revenue sharing relates to the distribution among the states their share of federally collected revenue. "Although now partly eclipsed by vertical revenue sharing conflicts, the debate over horizontal revenue sharing has never been far from the epicenter of Nigeria's federalism" (Suberu 2001:57). The overwhelming salience of vertical revenue sharing is evident from the various layers of contention between sub-federal levels of government and the federal level.

The first layer of this conflict is the demand for greater share of federation account by all states and local governments against the federal government. The second is the demand for resource control. The third, which is the most salient, considering its intensity and moral issues raised, making it the most illustrative of revenue allocation conflicts, is

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the conflict over the control of oil resources and benefits in which the minority states in the oil-producing areas are pitched against the federal government. This conflict has passed through all but one phase of insurgency identified by Zartman (1995). There are four insurgency phases, which for him, do not follow a unidirectional sequential path. "The first phase is one of cultural protest led by groups of educated elites petitioning the government for political reform with political means. Such groups express many different and specific grievances and expect redress. The second phase involves the formation of a single movement led by charismatic organisers who seek to unite the disparate groups and force the attention of the government to the grievances by means of coercive civil action. The third or insurgent phase turns from political to violent means of pressure through a mass movement with a more ideological and action-oriented leadership that contests the ability and legitimacy of the government to meet its demands" (p. 14).

As the sequence indicates, conflict involving the minorities in the Niger Delta was on the verge of entering the fourth phase of military confrontation when the military handed over power in 1999. It went as far as the third phase, obviously because the dominant group(s) in Nigeria were not disposed to adopting management strategies that were from the viewpoint of the minorities, equitable. It is recalled that the Oil Mineral Producing and Development Commission (OMPADEC) was set up in 1992 with 3% of oil revenue for financing the provision of social infrastructure and development of human resources for the benefit and apparently in response to the growing mobilisation of the minorities in the Niger Delta. The 3% allocation fell far short of the demand of the minorities for control of natural resources exploited from their homeland. To make matters worse, inadequate funding, administrative bottlenecks arising from the centralised structure of the Commission and charges of corruption seriously hampered OMPADEC's ability to discharge its responsibilities. The Federal Government responded to the charges of incompetence and inadequacy against OMPADEC only by changing its leadership and repression in response to hardening of position of the minorities and in the process stimulated violent protest embracing sabotage, hostage-taking and murders.

At the root of the issue of revenue allocation is the unilateral approach favoured by the federal government in a supposedly federal political framework where dialogue should reign and serve as an adjunct instrument for conflict resolution. Over the years, the federal government

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has not only fixed revenue allocation formulas for vertical sharing between the centre and the component units: states and local governments, but has also determined the principles for horizontal sharing among the lower levels of governments without regards to the expectations and the different conditions of the states, especially those states where most of the national revenues are derived. The principle of derivation for the horizontal sharing nose-dived from 50% in 1967, 45% in 1969, 20% in 1975, becoming non-existent in 1979/83 period of civilian dispensation. This de-emphasis is beside the distinction the federal government at various times made between onshore and offshore that gave 100% offshore revenues to it (Human Rights Watch 1999). It arbitrarily chose January 2001 as the effective date of implementation of the allocation of 13% derivation to the oil producing states, given that the 1999 Constitution took effect on 29th May 1999. However, this new derivation principle has certainly contributed to the reduction of violent protest in the oil bearing Niger Delta since it engenders the stake of state governments and communities in this region in the continuity of oil production. This is evident from the comparison of the current and past situations by Shell Petroleum Development Company's (SPDC) External Affairs Division, "State governors are now joining Oil firms to ensure that Oil production is not disrupted. And when we complain of difficulties in certain host communities, they participated actively in resolving the problem. This was not the case two years ago" (*Warri Mirror*, 31, March 2001, p.18).

However, the implementation of the 13 % derivation has raised the new issue of the proper recipient or beneficiary of the accruing revenues. Some have argued that the derivation revenue should go to local governments in whose territories oil is produced or spent exclusively to develop them (Edevbie 2001). Ijaw-Isoko-Itsekiri Traditional Rulers and Leaders Forum demanded to the contrary that derivation income should be shared among the oil-bearing communities and their traditional rulers. This contention is fiercest in Delta state, which is currently the largest oil producing state in Nigeria. For example, Delta State's 2000 budget based on expected revenue from the federation account and internal sources was ₦18 billion, while revenue from the derivation principle in the same year was ₦28.9 billion (*The Punch,*, Lagos, 18 Sept. 2000, p.18). Pitched against the state in the debates over the proper beneficiary are traditional rulers and chiefs of Ijaw, Isoko and Itsekiri, reflecting old class divisions and aspects of ethnic conflict in the state.

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Crisis of authority at any level is prejudicial to conflict resolution. It is worse if the legitimacy of state power is under attack. As Zartman (1997) has observed, in contrast to America, the African assumption is that conflict exists between groups and government, suggesting that government is viewed as a party to conflict. This notion of conflict makes conflict management difficult for two reasons. First, the notion turns conflict management from "third party exercise into a direct exercise between conflicting parties." Second, the notion creates a "situation that weakens and de-legitimises government, since government is seen by large parts of society as part of the problem, not part of the solution" (p. 15). To these may be added three more reasons equally derived from the partisanship of government in a situation of conflict. First, is the fact that state actors will be slow to intervene positively where they are themselves implicated in a conflict situation. Second, where they do, their measures will be half-hearted or entirely biased. Third, objective recommendations by a judicial commission of enquiry will not be faithfully implemented toward an equitable resolution of the conflict, leaving it to stew on.

Related to this is the issue of divine right to rule mentality the "core north" comprising Hausa/Fulani is believed to maintain toward state power. This mentality, whether as an affliction of an individual or power bloc, presents both fundamental and practical problems in the conflict resolution process. First, it stultifies constitutional development and the power of the constitution as a tool for conflict resolution by blocking a people-derived constitution from emerging. As a consequence, it bequeaths what Okoth-Ogendo (1991) has referred to as "constitutions without constitutionalism," which expresses constitution-making that is not accompanied by political leaders' commitment to society and the will to comply with the provisions of the constitution.

The demand for a new constitution in Nigeria remains loud precisely because the military architects of the 1999 Constitution were preoccupied with it as an instrument for perpetuating the status-quo or defence of class privilege rather than instrument for ensuring accommodation of wider interests for better conflict management. Both in terms of process and content, the constitution is very flawed. General Abdulsalami Abubakar Administration's appointed Constitution Review Committee received written submissions from 405 un-elected people, who, nevertheless, generally favoured a return to the 1979 Constitution. The administration instead, decreed a constitution with an immunity

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clause for the military class (Ogowewo 2000). Not being process-led, involving the participation of important demand-bearing groups either through a Constituent Assembly or Sovereign National Conference (SNC) as desired by many regional blocs and large segment of the Nigerian populace, the constitution failed to serve as a genuine social contract by not resolving momentary conflicts and laying the rules for resolving future ones (Zartman 1997). The federal government has turned away from the persisting demand for a conference or SNC, which its advocates hope to use to achieve the political restructuring of the over centralised state with cosmetic measures. It recently set up a National Security Committee to help, among other responsibilities, identify measures for controlling violent ethnic clashes which advocates of conference or SNC believe are the result of lack of a popular constitution after its own appointed Constitution Review Committee failed to calm the quest for constitutional reform.

Second, the divine right mentality leads to flouting of electoral rules and uneven or unequal participation in the political domain to the extent that certain offices- political and administrative, are seen as the preserve of the regional bloc that is afflicted by it. As Gboyega (1997:150) observed about Nigeria, "electoral victories are only expected to confirm the North's predetermined right to rule, and if they do not, they are treated as illegitimate and subject to reversal." Third, it is not accommodating, whenever it emerges, of the underdog's demand for equal participation in the political process. The conflict situation generated is mature for resolution only when the divine right mentality is infected by the tactical problem of sustaining it. This is evidently why a southerner is in the saddle of power in Nigeria today (Isumonah 2001).

Religious fundamentalism is an obstacle to conflict management. This is because it denies others the freedom to a religious opinion. Its only weapon of evangelism is force, which others who are jealous of their religious beliefs will resist with force, leading inexorably to violent hostility.

Total commitment of parties to conflict poses a serious problem in the management of conflict. With such a commitment, conflict tends to be very destructive. This is unfortunately, the attitude to conflict in many African states. As Dorn (2001) observes, "the ultimate reversal of development is the scorched earth policy applied by some combatants" in Africa. In Nigeria, it has been observed that protest for equitable distribution of resources is often characterised by the destruction of

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public property. Why is inter-group conflict in developed multicultural western societies not characterised by the inclination to destruction of even public property as in Nigeria, for example? Why is there so much commitment to conflict in Africa, and to the detriment of desirable development?

Absolute commitment to conflict, without doubt, lacks a feeling of collective loss as much as the realisation that the destruction of public property depletes collective wealth available for redistribution. It thus stems from absence of a national or sub-national idea/ideology, and values formulated from broad consensus if as Dudley (1982) has observed, both values or beliefs define behaviour patterns in a society. Without common values, there is no national project and without which conflict easily degenerates into spoiler activity, prejudicial to the safety of public property. Existence of a national project imbues a sense of collective treasure and the restraint on the individual not to take action that is detrimental to it. Parties to a conflict constantly relate this national project to other national projects out of fear of being overtaken, surpassed or humiliated or left behind in development in the prosecution of internal conflict. Broad agreement on political and economic orientation in the United States of America helps explain the acceptance of the Democratic Party of the inexact presidential victory of the Republican Party of November 2001 and contrasts sharply with the annulment of the June 12 1993 Presidential Election, carried out without regards to the cost to the Nigerian body politic.

Acceptance of a national ideology also helps demand-bearing groups recognise that conflict is both inevitable and functional, and therefore, that the political terrain is a contested one. Seen in this light, state authorities countenance and view demands by groups for redress as reminders of uneven development; inter-group inequalities; the need to improve upon accountable and responsible leadership; as well as constructive challenges to power holders that are not liable to violent repression. Without denying the persistence of racial problems in America and the repressive response to the black civil rights movement of the 1960s, America provides an example for countenancing the message of this movement and legislating to deal with the problem.

Total commitment of parties to conflict is influenced by the dominant response of state authority to internal challenges, which is itself determined by type of regime. Institutionalised democracies' dominant response to internal challenges from "practical as well as

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normative consideration" is "compromise", embracing non-coercive conflict management techniques such as "increased channels of political participation, redistribution, symbolic and substantive shifts in public policy, cooptation of opposition leaders, diversion of affect and attention onto external targets" (Gurr 1988:54). On the other hand, the dominant response of autocracies to internal challenges is repression.

As well illustrated by the search for redress in respect of oil exploitation activities, a cumbersome legal process is unhealthy for conflict resolution. Frynas (1999:123) has observed that compensations for oil-related grievances are often based on "the tort of negligence, tort of nuisance and the rule in Ryllands v. Letcher." Except for the principle of *res ipsa loquitur* (the facts speak for themselves), which shifts the burden of proof of negligence from the plaintiff to the defendant and makes success of plaintiff in claiming damages high, "proving negligence is very difficult because of the technical nature of oil operations" (p. 124). Of the two types of nuisance: private and public, damages can only be claimed for public nuisance if it can be proved that an individual is peculiarly affected. In this regard, group action is ruled out. In oil-related complaints, it is the Attorney General who can press charges against an erring oil company, a very unlikely action given the dependence of the government on oil revenue.

The issues that very well illustrate conflict management practice in Nigeria include struggle for land, and state benefits, intra- and intercommunity competition over benefits from hosting of oil companies, assertion of ethnic identities or autonomy in intra and inter forms, and legitimacy of traditional and modern state authority. Each of these is the thrust of subsequent sections. Each of those conflicts will be illustrated by examples drawn from particular parts of Nigeria.

5.3.1 Struggle for Land

Land is the most important resource in Nigeria given her predominant agrarian economy. As a result of population explosion, land tenure practice and penetration of capital of the agricultural sector, land is invariably the main object of competition and conflict especially in the rural areas (Ewgu 1998, Nnoli 1995). This chapter documents the pattern of this competition and the conflict resulting from it.

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Taraba State

The combination of fertile plains with ample water resources and different mountain ranges with flat top overgrown with grasses, trees, and numerous streams endowed the Adamawa region of Adamawa State with the greatest potential for supporting large numbers of people and animals (Polngri 1987). The rich fertile soil for agricultural practice attracted immigrants in large numbers. Intermarriages, mutual understanding and trade reinforced cultural fusion and diffusion. Differences in religion and ethnic background were not a barrier to harmony in a mixed population of animists (traditional religionists), Muslims and Christians. Eventually, population explosion resulting in scarcity of land began, raising the issue of indigene-settler questions.

In a similar vein, the bank of Gongola River in Guyuk LGA of the state attracts, yearly, from October of the dying year to March of the following year, the cattle Fulani of Chadian, Cameroon and Niger origin, leading their cattle to Guyuk in large convoys for pasture. Invariably, the migrant Fulani cattle herders come into conflict with the indigenous ethnics. These migrants are alleged to be inconsiderate while leading their flocks round for grazing by allowing them to trample down agricultural fields with impunity.

It was alleged that in 1998, a cattle Fulani cut off the hand of a Longuda man, Mallam Timo of Banjiran village, for pointing a finger at him over the destruction of the former's plants during grazing. The children of the victim rushed home to raise alarm. In response, the villagers mobilised and headed for the location of the incident for vengeance. They killed the Fulani and some of his cows while others strayed. They also attacked some other settlements of the Fulani in the area. A counter-offensive by the Fulani in 1999, led to more casualties in property and human life. Majority of the about 1,600 lives lost in the conflict were Fulanis mobilised from Chad, Cameroon, Niger and within Nigeria. There is clearly a lack of an institutionalised mechanism for conflict resolution in this context (interview with informants March 2000).

Overwhelming number of Hausa immigrants from the 1950s onwards has come to dwarf the population of indigenous Bachamas and overstretched the marshy farmlands in Tingno and Waduku in Larmurde LGA of Gongola State to the extent that there is no more virgin land in the area. The growing concern of Bachama elite comprising civil servants, public officers, retired military and police officers over this

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situation led them to mobilise an awareness among the rest of Bachama populace using the Waduku Group Farmers Club as their platform in 1986. Its specific objective was to recover farmlands in and around Waduku from their Hausa neighbours. To make matters worse, the Hausas were alleged to be desecrating traditional ritual places and failing to pay tribute to their landlords.

Thus in 1986, one Elam Kachalla dispossessed over seventy Hausa farmers of their farmlands while one Sergeant Militus Daniel (Rtd.) dispossessed sixteen others. These acts strained the relationship between the Bachama and the Hausa to the point that they stopped trading with each other. In 1987, Mr. Kachalla seized another 60 Hausa farmlands. An exchange of offensive language between five Bachama youth in search of farm job and an Hausa potential employer resulted in a clash that claimed the Village Head of Waduku, Mr. Ndewode Kotohula Kleru and Mr. Lasco Miwa, a retired civil servant, invoking reprisal killings and looting and burning of houses and other property on August 19 1987. The crisis spread to other villages such as Fadama, Gyakan, Tingno, Kogi, Rigange, Cheto, Sabon Garin Kabawa and Mai Chibi.

Skirmishes between Wurkun, Bandawa, Jonjo on the one hand and Fulani nomadic cattle herders on the other hand have been recurrent since the 1970s. In 1992, a Wurkun man, Mr. Daura reported to the Police that nomadic Fulanis had overrun his farmland and they allegedly took no action. He and his folks took the law into their hands by launching an offensive against the nomadic Fulani in his part of Taraba State, resulting in the loss of several lives and property. It escalated into a full-scale war with the full backing of the warring factions by influential individuals and organisations such as Miyeti Allah Cattle Association and Karim Lamido Group Farmers Union. The conflict resurfaced again in the worst forms in 1997 and 1998. These re-occurrences led to 150 estimated deaths and destruction of property and food crops worth ten million Naira. The recommendations of a Judicial Commission are still to be implemented as other past recommendations. Violent clashes occasioned by destructive grazing activities are also common between the Kambu, Kaka on the one hand and Panso Fulani on the other in the Sardauna LGA of Taraba State. The same is true of the relationship between the Tiv and Fulani herdsmen in Ardo LGA of Taraba State. In 2000, a re-occurrence claimed five lives and several huts in Sunkani.

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Land disputes between the Jukun-Chamba and Tiv, later settlers in Wukari area of Taraba State resulted in the death of about 1,000 including the Chief of Nyankwala, Alhaji Umaru Sule (Chamba), Miss Kasuwa Agbu (Jukun lady member of the Taraba State House of Assembly) and the destruction of the following villages: Sonid, Kente, Feyi, Riti, Akwana, Sukundi, Gidan Idi Chunku, Bye Pyi Gindin Waya, Bakyu, Nwuban (Jukun) and Iboa, Varse, Tor Musa, Bantaju, Gindin Dutse, Tunari, Nwuko, Ando Iko, Uhwe, Ndo Daa and Anyii (Tiv) between 1990 and 1994. Several peace initiatives including the Wukari Local Government Peace Committee comprising the Tiv and Jukun; Tiv Culture Association and religious leaders; two separate peace resolutions aided by the Office of the Vice-President; Taraba State Government Ad-hoc Committee and the federal government delegation comprising eminent traditional rulers like the Sultan of Sokoto, Alhaji Ibrahim Dasuki, Shehu of Borno, Alhaji Mustafa Umar El-Kanemi, Emir of Kano, Alhaji Ado Bayero, Gwom Gong Jos, Fom Bot, Emir of Zazzau, Alhaji Shehu Idris, Tor Tiv, Alfred Akawe Torkula, and Ukwe Takum, Alhaji Ali Ibrahim failed to yield fruits.

Peace was restored only after the Tiv were forced to accept their alien status in Wukari with re-settlement conditions including respect for the Wukari traditional institution and permission before embarking on the use of any piece of land in the area.

Land disputes between the Kuteb and Jukun-Chamba have resulted in the death of several people and destruction of huts and other valuable property since 1979 in the Takum area of Taraba State. These disputes are said to be often triggered by unemployed youth who loot and plunder the property of the people of other ethnic groups. The contention over land is intertwined with the chieftaincy dispute between the two ethnic groups over the throne of Takum to which both have historical support to claim.

Historically, the Kuteb who are the first settlers in Takum lived on the mountains and caves and were ruled by spiritual leaders known as '*Kwen Kwens*' while Jukun-Chamba, the later settlers who migrated from the Cameroons as a result of the pressure of the Fulani jihads in about 1830, lived in the plains including Takum with their paramount rulers. However, in 1914, the British colonial authority deposed two Chamba traditional rulers based in Ibi for their continued involvement in the slave trade and appointed a Kuteb as the paramount ruler of the newly amalgamated Zumperi and Takum Districts (Temple 1901). Before the

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amalgamation, Zumperi District was predominantly Kuteb while Takum District was a mixture of Jukun-Chamba, Kuteb, Itchen and other minority ethnic groups.

Postcolonial state politics has compounded the chieftaincy dispute. In 1963, the Northern Nigerian Government enacted a legislation which established two exclusively Kuteb ruling houses: Akente and Likam. The resistance of the Chamba through petitions forced an investigation and a public hearing leading to a revised Order giving right to the Takum throne to Chamba ruling houses as well but to the eternal displeasure of the Kuteb. This land-cum-chieftaincy dispute was aggravated by the dissolution in 1997 of USSA LGA, which had been created from Takum LGA in 1996.

The Federal Government's White Paper that followed the creation of USSA placed all the Kuteb villages in the new USSA LGA, while Jukun-Chamba villages were to remain in the old Takum LGA. The Kuteb saw this boundary adjustment as an attempt by the Jukun-Chamba to displace them from Takum. However, the dissolution of the new LGA failed to calm frailed nerves but even provoked an unprecedented carnage in the history of hostility between the two groups. At the end of it, over 1,000 people died, 500 people in serious body harm and 20 villages were left in ruins. Another carnage followed the attempt by Kuteb youth to invade Takum in 1998.

Delta State

The creation in December 1996 and take off by March 1997 of south-west Warri Local Government in Delta State was the immediate cause of the violent hostility between the Ijaw and Itsekiri, which is yet to be fully resolved. The new local government was in a predominantly Ijaw district with a sizeable Itsekiri minority. When its creation was first announced in 1996, Abuja had announced Ogbeh-Ijoh as its headquarters. But there appeared to have been second thoughts on the part of Abuja with Itsekiri's influence when the military administrator of Delta State changed the headquarters from Ogbeh-Ijoh to Ogidigben, an Itsekiri town. This change made sense in terms of equity: having a minority town of Itsekiri as headquarters of a local council predominantly Ijaw in population. But the Ijaw were outraged that what they perceived as an Ijaw local government should have its headquarters outside Ijaw area. They allegedly started an ethnic cleansing war against the Itsekiri not only in the new local government but wherever Itsekiris were in the

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Warri area. The Itsekiri claimed that by May 1997, the pogrom had engulfed not less than 32 of their communities from a systematic campaign of extermination by prominent Ijaw leaders. The Itsekiri organised a counter attack on the Ijaw but later also on the Urhobo.

Periodic attacks and counter attacks continued over the two subsequent years. It degenerated after the creation of four autonomous ethnic communities each with its own traditional ruler in early 1999. The youth on both sides got arms via access to funds extracted from oil companies. For example, Ijaw youth were said to be disrupting oil operations and had become a menace to oil production activities in Odidi communities by causing spills and then negotiating what they should be paid as compensation for those spills. Part of the proceeds is suspected to have gone for arms purchases. Thus, when the soldiers of the 7 Amphibious Battalion Effurun attacked the youth in the Pessu, Macaiver and Ogbe-Ijoh areas of Warri in December 1999 killing five and arresting 50, their mission was to rid the area of rifles allegedly stockpiled by the youth (*The Guardian*, December 7,1999).

Related incidents occurred in other communities, a ripple effect of the Warri showdown. For instance, some youth from Ekpan community in Uvwie Council on Wednesday, 18 August 1999, invaded and vandalised the Warri office of Texaco Overseas Petroleum Company, Nigeria (TOPCON). Claiming to represent the Ekpan Development Committee, the youth numbering about 1,000, chanting war songs and carrying a coffin wrapped in red linen, invaded the expansive office complex, destroyed the glass doors and windows of the first floor, ransacked the visitor's reception office near the gate, locked up all the workers and barricaded the gate. Their grouse was that the company had been deceiving the community since 1995 over issues relating to employment. They alleged that at several meetings with the company's representatives and the local council officials, no jobs had been offered as promised. They were determined to barricade the complex for three days until the management addressed their grievances (see *The Guardian*, 19 August, 1999 p. 56).

Similarly, Itsekiri youth insisted that oil companies operating in their areas must quit so as to make the Itsekiri less vulnerable to attack by their militant Ijaw neighbours. They pointed to the alleged killing of September 17 and September 24 respectively of two Itsekiri youth, one Chris Ikomi, a Chevron staff, and Isaa Charley a staff of an oil servicing company owned by the Olu of Warri. Furthermore, they passed a vote of

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no confidence in the government of James Ibori for failing to guarantee the security of their lives and property (*The Punch*, October 1, 1999 p.40). Soon thereafter (November 1999), the Niger Delta Itsekiri Liberations Youths raised an alarm over the disappearance since May 29 of four of their kinsmen after alleged raid on Escravos by an armed group suspected to be made up of Ijaw youth. The Ijaw had attacked a group of Itsekiri who were defending oil installations in the Escravos area of Warri. The Liberation Youths claimed that this was part of a systematic plan to eliminate the Itsekiri by the Ijaw in the Niger Delta, necessitating their organising a civil defence group to defend themselves as government appeared incapable of dealing effectively with the menace confronting them (*The Punch*, November 17, 2000 p.40).

These were the trying circumstances in which Delta Governor James Ibori explored several ways to ease tension and ensure a permanent resolution of ethnic feuds in Warri city. He imposed curfew on the city for months and threatened that any person who engaged in acts of violence, arson, hijacking of vessels, piracy, illegal blockade of waterways or victimisation would be treated as a common criminal. He conferred with Olu of Warri, Ogiame Atuwase on August 17 and subsequently on what could be done as he was anxious to lift the over two months old curfew to ease the untold hardship on the citizens and avoid further socio-economic damage. He incessantly appealed to the Warri people to desist from violence, which apart from the monumental destruction it caused, had had ripple effects on investment (*The Guardian*, Thursday 19 August, 1999 p.5).

Community leaders responded with reconciliatory moves. Mid-January 2000, Ijaw and Itsekiri leaders finally made peace for the first time in years. The peace brokers, Chief Joseph Popo, Chief (Dr) Roland Oritsejafor, Chief Mabiaku and Mr. Walter Odili for the Itsekiri, Chief E. E. Ebinami, Chief Bare Etolor for the Ijaw were lent a mediatory hand by the Isoko represented by Chief Etaluku and the President-General of the Isoko Development Union, Chief A. P. J. Okpaakpor. The team visited Chief Edwin Clark, the Ijaw national leader and the Itsekiri monarch, the Olu of Warri Ogiame Atuwase II to symbolise end of hostilities (*ThisDay*, January 18, 2000 p.3).

Urhobo/Itsekiri conflict over land is long-standing. The Itsekiri claim superiority over all of Warri and in fact got the old Western Region under Chief Awolowo to change the traditional ruler's title from Olu of the Itsekiri to Olu of Warri. This has never been acceptable to the

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Urhobo and other stakeholders in Warri. The Delta state government in recent times tried to resolve the problem of Warri by creating different autonomous communities in the city. The last Military Administrator, himself an Ijaw man, came up with the idea of four autonomous communities based on the four major ethnic groups in the city with a traditional ruler each. Accordingly, there is the Ovie of Agbara waterside (for the Urhobo of Agbara Otor descent); Ovie of Okere for the other Urhobos who dominate the Okere area of Warri, the Amayanowei of Ogbeh-Ijoh for the Ijaw and Olu of Warri for the Itsekiri.

The Itsekiri are allegedly unhappy with this development, hence the ethnic violence between them and Urhobo that visited Warri in 1999 and 2000. In the Urhobo/Itsekiri mutual annihilation, it is alleged that in a surprise attack of the Itsekiri on Okere, the Ovie's palace and many houses were destroyed besides loss of lives and millions of Naira in other property. However, the Urhobo soon regrouped and fought back. Assisted by the Ijaw, the Urhobo devastated the Itsekiri in a counter attack, forcing most to run away to Sapele and environs. Intervention by combined military and police forces and appeal by the Presidency and by other well-meaning Nigerians in high places helped to restore peace at the time.

5.3.2 *Demand/Competition for State and Hosting Benefits of Mineral Mining Companies*

This section presents the various manifestations of competition for benefits at the local level and shows how in some instances they shape identities and define the "indigene" or "stranger."

The conflict between the Sayawa and Hausa in Tafawa Balewa LGA of Bauchi State is over state appointments and positions and quest for autonomy by the Sayawa. The Sayawa, the older settlers had for long alleged marginalisation in the distribution of state appointments and positions both at the state and federal levels. Besides, they have felt marginalised that the District Head of Tafawa Balewa appointed by the State Government over their predominantly Christian population was always a Muslim. Their quest for equity in state appointments and autonomy by means of their own District divided Tafawa Balewa along religious lines. Thus, it took only a controversy over the sale of meat considered offensive by Muslims for the bad blood between the Hausa-Fulani and Sayawa to explode into a full-scale violent conflict that claimed from official sources, the lives of over 500 people and property

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worth more than 100 million Naira destroyed in 1991. This conflict spread to Bauchi, Ningi, Toro, Dass, and Daraqzo, all in Bauchi State in violent clashes between Muslims and Christians.

The Choba 1999 conflict, which attracted national attention for the sex scandal accusation against soldiers deployed there to restore peace, goes back to 1989 when for the first time, the youth confronted Willbros over employment opportunities and provision of social services like water, light, roads and a secondary school for the village. Willbros agreed to offer some employment, a promise it did keep. It trained several Choba indigenes in its school for welders and offered them jobs with high pay. Choba became rich in experienced welders and in high income for its people. But the company agreed to and did little in the area of social services besides periodic grading of one untarred street, annual post-rainy season filling of a couple of gullies on the main street, and award of some scholarships and minor contracts. Even these awards were on what was called "landlord basis," that is to say that only members of families that actually own the land Willbros leases benefited from the scholarships and contracts. These families formed a strong landlord association that ensured this.

Three things impacted on the youth in those years that shaped the confrontation in 1999. First, it was observed that although Choba boys were usually the last to be hired, they were the first to be relieved of duties during slack periods. Disproportionate sacking was often justified on the ground of stealing on the part of the sacked employees. This was hardly arguable because nearly everybody stole at Willbros. As a former employee there (now an assistant lecturer in a university) put it: "To work in Willbros without stealing is seen as queer." Secondly, competitors such as Nissco came and with initial, and as it turned out, temporary higher pay, attracted away to Warri and other places, current and previously sacked Willbros workers. Returning Choba boys who were discriminated against by Nissco and other oil servicing companies in favour of indigenes became a rallying point for those they left at home in a renewed effort to get Willbros adopt the new morality in full. Funding was hardly their problem! They had money to organise meetings and attend to "juju oracles" and get "juju power".

It is not surprising that all the officers of the Choba Youth Association since the late 1990s have been Willbros trained welders at some point in their careers. Under the impetus of this Association, Choba youth, alleging marginalisation of the community in terms of

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employment, provision of social amenities and welfare packages, mounted a blockade of Willbros gates on September 7, 1999. They set some of the workers' buses on fire and looted gadgets and machine parts. This halted operations at the base. Thirdly, the events leading to, and following the declaration of, the Ogoni Bill of Rights in 1993 (and the ensuing Kaiama Declaration), had made company obligation to host communities, including employment of the youth, the new morality and political correctness.

The Rivers State Government brokered an agreement in which Willbros was to build a modern secondary school in the town; abide by all applicable state and federal laws relating to employment (an oblique reference to giving preference to indigenes in the low cadre or junior staff categories of employment); construct street roads, provide water, patronise Choba indigenes as vendors/suppliers/contractors, award four each of Secondary and University scholarships to Choba indigenes, recruit a Choba indigene to fill the vacant post of Administrative Manager; pay ₦20, 000 monthly to the Nyewe-Ali Choba or his regent and ₦5, 000 monthly to each of the 19 members of the Choba Council of Chiefs with effect from October, 1999. An implementation committee on the agreement comprising three members of Choba community, two of the State Government and two of Willbros to work under the arbitration of the Rivers State Government as represented by the Commissioner of Environment and Natural Resources was set up. It was provided that terms of the agreement shall be subject to review after every two years.

Problems started almost immediately with implementation, largely on the Choba community side. With regards to the position of Administrative Assistant that was to be filled within one month, Choba preferred to present Willbros with their own choice rather than send several nominees and let the company select the most suitable. Internal wrangling made consensus difficult. Choba had zoned their choice to the Rumuati sector of the village comprising Chakara and Rumuocha compounds. Between them the two compounds agreed the nominee should come from Chakara, which incidentally is the compound of the immediate past Nyewe-Ali (Traditional Ruler). The Choba youth preferred a competent person who had shown boldness in character, morally upright, knowledgeable, understanding and active in their movement. The Chiefs who thought the young man was already a "big shot" at the University of Port Harcourt and should be left there to grow

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bigger for the future benefit of the community opposed their choice based on these qualities. Instead, they proposed two candidates both of them fresh graduates still serving in the National Youth Service Corps. One of them had earlier had his appointment at Willbros terminated for stealing. The other was a fine gentleman, one of the 35 signatories of the Agreement with Willbros, but like the Co-nominee, he was of the direct family of the Igwes (one of the royal families of which the late Igwe was immediate past Nyewe-Ali). Because of these blood ties, the youth saw a sinister motive by the Igwes to impose one of their own on the village. The Igwes had not been in the good books of many because they were viewed as selfish and oppressive. The feeling was "not another Igwe, please". In these circumstances, and through no fault of Willbros, the recruitment of an Administrative Assistant for the company was put on hold.

A similar problem attended the secondary school matter. The Owhipa sector of the town, which had promised to give land for the project suddenly changed their mind. The community therefore had to turn to the University of Port Harcourt, which occupies much of Choba's land (courtesy of federal government might) to come to its rescue. For this reason, and the fact that the design of the school had not been agreed upon, "the process of building the school with effect from October 1999 (less than two weeks after the agreement was signed) became clearly unrealistic.

The youth, however, took umbrage and accused Willbros of bad faith and engaging in divide and rule tactics to scuttle implementation of the agreement. In 1999, using women as human shields, they blockaded the Willbros gate and occupied its premises for days. Initial negotiations failed. The speaker of the Rivers State House of Assembly who came on a peace mission was said to "make some careless remarks" that revealed him "as having been bribed" and was declared *persona non grata* in Choba. Occupation soon degenerated into a rampage as the youth engaged in the worst looting and destruction to date. In response, the mobile police were sent in to bring the situation under control.

The conflict took several twists before long. First, was an attack on national morality when newspaper reports across the country flashed news of soldiers terrorising residents, raping women in broad daylight, sometimes in front of the women's children. Second, was inter-ethnic conflict between Chobas and Igbos in Choba. Choba community was reported to have strongly urged Willbros to sack all Igbo natives in the

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company's employ and had followed this up with the harassment of non-natives (mostly Igbos) living in that community, charges, which Choba community deployed as half-truths, mischievous and meant to create unnecessary sense of enmity between the Igbo and Choba people. It also claimed never to have asked for the retrenchment of all Igbo natives working in Willbros, although it did demand the removal, for security reasons, of the company's Administrative Manager, Mr. John Nwasuruba (an Igbo), and its Security Consultant, retired Brigadier-General Sam Oniyide (a Yoruba). It may be true that at the height of the Choba crisis, a number of non-indigene shops were looted and most non-indigenes could have fled the village for their safety as a result of breakdown of law and order.

Following this series of events, Willbros abrogated the agreement with Choba. It instead, offered the community ₦15million for the building of their school and the provision of the agreed services and threatened to pull out and relocate elsewhere as Nissco did a few years back. It took the intervention of the state government to get Willbros to rescind its unilateral decision to abrogate the agreement and not to carry out its threatened pull out. However, it has relocated its office far away from the village center, and with round-the-clock mobile police protection (Discussion with a Choba Chief, other indigenes and activists in the struggle and with a highly placed Willbros worker. Also see *The Punch* May 6, 2000 p.35, *The Punch* March 21 2000 p.10).

The Nembe in Rivers State are a host to SPDC. From the beginning, Shell, Agip and the other oil companies had dealt with the Amanayabo and the chiefs in respect of community relations. Projects and programmes for the community were discussed and selected in conjunction with the chiefs; money appropriated for these and those for general public relations were paid to the chiefs; relevant contracts were awarded by the chiefs, often to their own companies or to cronies; local candidates for employment were selected and recommended by the chiefs. In the last few years, however, the local youth hijacked these functions and entitlements. The youth would use intimidating tactics such as seizing oil workers or locking them out, shutting down oil flows etc., and "negotiating" terms with the oil company executives. Often, they ended up with 60 to 80 million Naira in Ghana must go bags to be shared among themselves. They spent this money ostentatiously on clothes, shoes, gigantic electronic gadgets, women and alcohol. At first, they also demanded and got jobs for their members. Later, however,

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because of a combination of glut in employment in the oil companies and inadequate qualifications, emphasis shifted to a "waiting list system" by which the youth were simply placed on the payroll but doing no work for the oil company.

It reached a point, however, when the oil companies could no longer cope with the wages of youth demanding their turns on the payroll. In late 2000, some second and third generations youth (*medium fish* and *little fish* as they were referred to in local dialect), apparently with the connivance of the oil companies, decided to deal with the first generation youth. When the latter went to Yenagoa the state capital to collect their "entitlement" from the oil companies, the second and third generation youth took over Nembe. Armed with machine guns and other deadly weapons, they banned the first generation youth activists from entering Nembe for five to ten years and generally terrorised the residents until the community decided that enough was enough.

The state Governor set up a peace commission comprising stake holders in the community to resolve the problem and prevent further bloodshed. A solution, which seemed to be supported is to set up an independent body to liase with the oil companies, take necessary decisions on behalf of the community, collect all money and decide what community projects or programmes it will be spent on and how.

The Epebu and Emadike are Ogbia communities in Avama LGA of Rivers State, engaged in conflict over ownership of where Nigerian Agip Oil Company (NAOC)'s exploitation is taking place. In early 1999, the two villages were locked in a war over Pregbene B oil well in their common boundary. Hostilities were so intense (because of sophisticated weapons) that NAOC had to suspend operations to stem loss of lives and property. For fear of further attack, residents who fled in the wake of the crisis are yet to return. This is particularly true of Emadike, the worst hit, which remains a ghost town.

Because of the huge amount that it is losing, NAOC decided to resume operations at Pregbene B but has met with stiff opposition from the youth supported by certain politicians. The Member of the National Assembly representing Ogbia Federal Constituency, for example, has appealed to NAOC not to resume operations for security reasons until permanent peace and security is restored to the area. Meanwhile, security agents have been placed on alert to forestall further killings and destruction as a result of the renewed NAOC interest in the disputed oil location (*ThisDay*, February 6, 2001 p. 8).

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Evwreni is a town just east of Ugheli of Delta State. Shell has a number of oil flow stations around the area and had been giving a lot of money to the community for various social and development programmes. In 2000, some Ewvreni youth accused the Ovie (traditional ruler) of misappropriating such donations for his own private use. Some other youth defended the Ovie but the arguments and disagreement soon degenerated into clashes. During one clash, it was alleged that the group supporting the Ovie killed two members of the opposing group. The latter group retaliated, killed and tied the Ovie to a car and dragged the body all over the town in the ultimate humiliation of the monarch. Meanwhile, the Urhobo Progressive Union, church groups and eminent traditional rulers have made several moves for reconciliation. There is peace now, but there are occasional skirmishes too.

5.3.3 *Chieftaincy/Autonomy, Local Democracy Disputes and Crisis of Authority*

This section focuses on chieftaincy, local autonomy and governance and crisis of authority both traditional and state (modern), in relation to conflict generation and management.

The chieftaincy dispute between two ruling houses in Longuda (Guyuk) in Guyuk Local Government Area of Adamawa state was created by the disruption of the succession order of the people when in 1984, the Military Governor of Gongola State, Major-General Muhammadu Jega, imposed his close friend, the Late Alhaji Jibril Grema (of Bwankubebe House) on the Longuda as Chief. Resistance of this imposition led to a violent clash that claimed several lives between the ruling houses. The conflict was temporarily checked through consultations and more or less permanently resolved in 1999, when the rightful heir to the throne in 1984, Mr. Wilfred K. Kimde of the Bwansibe ruling house, was installed following the death of Alhaji Grema.

The Ogbakiri community of six villages in the Emuoha LGA of Rivers State had periodically been engaged in violent chieftaincy struggles. The latest violent conflict, which virtually wiped out Ogbakiri community stemmed from the demand of community youth for accountability from their elders. The fighting claimed more than half a dozen lives. The Community Development Committee (CDC) was set up to supervise the sale of Oduoha community sand. Some youth who tagged themselves "Dodan Barracks", accused the CDC of

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misappropriating the nearly ₦6 million realised from the sale and insisted that the Chairman, then Registrar of the University of Port Harcourt account for the stewardship of his committee. When they perceived that they were being ignored, they started to destroy houses belonging to the CDC members. The elders and all others who urged the youth to exercise caution and use peaceful means also had their property destroyed. The political undertone to this was the support given to "Dodan Barracks" by one McClaude Amamina, former Chairman of the Emohua Local Government and a staunch party member in the early 1990s. Amamina had had family problems with his half-brother, Innocent Enyi, the Vice-Chairman of the CDC, over the living conditions of their mother. He had had political problems as well with Enyi who was a strong Social Democratic Party (SDP) (Political Party) member in the early 1990s, and a vocal voice opposing Amamina's political ambition in the latter years of the decade. (Personal communication with Choba indigenes in the University of Port Harcourt). The conflict acquired its own dynamics resulting in the destruction of more lives and property.

The Obeakpu is a community in Oyigbo LGA of Rivers State. Its inter-communal dispute has been festering since November 1999. The ostensible cause of the crisis is the demand of the Abam Uruogu people for autonomy from Obeakpu among the Ndoki. Such a demand came as a surprise to the rest of the Obeakpu community. As the Chairman of the Oyigbo Local Government put it: "The issue of autonomy was a surprising thing to the entire people of Obeakpu community because we have been living as a community, doing our things together as a community. Furthermore, in Rivers State we don't talk of autonomy. It is only Abia and the Imo States that create autonomous communities. It is not applicable in Rivers State". (*Independent Monitor*, November 20-22, 2000 p.5).

The real reason appeared to be who should collect compensation money paid by oil companies. The conflict emerged when an oil company, Elshcon Engineering came to the community. Some youth from Abam Uruogu wanted the company to pay them compensation. At the same time, the youth wrote Shell Petroleum Development Company and discussed a compensation of some ₦50 million for what they termed long neglect, another ₦50 million as yearly bonus to themselves and ₦100,000 as bonus to their leader. The community leadership found the demand on SPDC ridiculous. It also raised objection to the demand of

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Elshcon, arguing that once the company pays compensation to a particular group, other groups will also make similar demands and there will be no end in sight. It was suggested instead that the company pay compensation to the Abam and the Amobi youth jointly. Apparently, some of the youth were dissatisfied with this decision.

Shortly thereafter, there was an armed robbery attack on one Dr. C. Nworgu, in which he allegedly lost property worth millions of Naira. When the youth suspected to have committed the crime were arraigned before a Magistrate Court and no bail was granted them, their colleagues attacked the Divisional Police Office, smashing vehicles there. The police ran away and had not returned at the time of field work. Eminent personalities of Obeakpu who condemned the criminal activities of the youth have suffered vandalisation of their houses and disruption of their personal business. The SPDC, which has three major contractors in the community who incidentally are also among the youth leaders, vainly tried to ensure peace. That appeared to incense some of the other youth even more as one of the contractors, Eze S. N. Nwaeke was accused by the Abam youth of having taken what they perceived as the entitlement of the entire Abam people.

On November 19, 1999, the youth of Abam Uruogu descended on Shell Afam flow station, vandalized and looted it. Consequently, Shell's operation in Afam oil field was suspended leading to a hitch in economic activities. Attempts by the Local Government Chairman to set up a peace committee have not worked out for lack of cooperation on the part of Abam Uruogu people. The Governor was, therefore, requested to wade in. Meanwhile, the community remained unsafe for people as intimidation and harassment became the order of the day.

Okujagu-ama and Azubie villages in the Okrika community of Rivers State have since 1997 been embroiled in periodic violence ostensibly arising from chieftaincy disputes. One Adolphus Okujagu apparently had been installed a chief of the Okujagu War Canoe (ruling) House in November 23, 1996 after due permission from the Okrika Divisional Council of Chiefs. Chief Dennis I. Fingesi who claimed to have installed chief of Kpeya War House on November 27, 1987 by the entire community challenged this. Okujagu, he claimed had tried to take the same chieftaincy by changing the name to Okujagu War Canoe House. Although, an existing war canoe house cannot be changed, another house can be created from an existing one if the necessary permission and approval are given. This Okujagu had not done and for

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which the king makers had declared the chieftaincy title of Adolphus Okujagu null and void. Whereupon, Okujagu got his supporters to destroy Fingesi's property beginning March 15, 1999. Accordingly, Fingesi sought a court injunction against Okujagu. The latter claimed that Fingesi followed up the court injunction with the destruction of property of Okujagu's kinsmen at Okujagu-ama beginning March 15, 1999 and that he had to respond in kind. Whatever the basis for either's action, sporadic attacks and counter attacks continued until June 19, 1999 when the Okrika council of chiefs succeeded in causing the two sides to swear to an oath to stop all hostilities. Despite the oath, property destruction occasionally occurred including a recent one that led the Rivers State Government early in February 2001 to set up a fact-finding committee under the auspices of the Bureau of Local Government and Chieftaincy Affairs. The committee, led by the Eze Oha Evo 11, Eze Dr. Frank Eke, the Eze Gbakagbaka of Evo Kingdom, was empowered, inter alia, to conduct physical inspection of the area to identify damaged property on both sides (*The Tide*, February 12, 2001 p.3).

In the Omolema rural community of about 1.5 hours drive by road east of Port Harcourt and south of Ahoada, Abua/Odua LGA, Rivers State, a disturbance occurred at a burial ceremony in November 1999. The police arrested one Kiipoye Nwocha and took him to the police station in Abua. His supporters then invaded the police station and vandalised it. In consequence, anti-riot policemen were dispatched to Omolema where they arrested and detained 25 members of the community. The community thereafter wrote a petition to the Inspector-General of Police signed by one Mr. Thankyou Ogini and one Mr. Umor Edum, protesting detention of these people without formal charges against them. The petition also alleged that those arrested were not the actual hoodlums who vandalised the police station, but innocent people indiscriminately rounded up when the police swooped on the community. Furthermore, the crisis involved two factions but only people of one faction appeared detained (*The Punch*, January 21, 2000, p.10).

Crisis of state authority played out in a chain of events leading to the ruins of Odi in Bayelsa State in 1999. In November 1999, a battalion of soldiers was dispatched to Odi, a town of about 60,000 people inhabiting some 1500 houses in the Kolokuma/Opokuma Local Council Area where hoodlums allegedly captured and killed seven (other sources say twelve) policemen.

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The soldiers sent on the orders of the President literally levelled Odi in what was clearly a vengeful destruction. Only a church building and the branch of First Bank in the town stand as a reminder that a town once stood on that area beside armed security personnel standing guard.

It has been suggested that at the bottom of the crisis was demand that an oil firm give the indigenes a fairer deal and that the killing of the seven policemen was intended to press home the demand. This is hardly logical. According to Senator (Chief) Felix Oboro, Secretary to the Bayelsa State government, the incident had its genesis in the destruction of a place called "Black market" in Yenagoa, the Balyesa State capital. The state government had been receiving reports of incidents where hoodlums terrorised innocent people by mounting illegal road blocks in the night to extort money from unsuspecting motorists, seizing wares from traders and injuring anyone who would not cooperate. In September 1999, Government instructed the police and the ministry of works to demolish the "Black market". The police first mounted surveillance over the market and arrested some hoodlums who were charged to court. The court ordered that they be remanded in prison custody at Ahoada. On their way to Ahoada in a Black Maria, colleagues of the suspects accosted them. One attempted to snatch a gun from the police and was shot dead. The rest ran away, but a few days later, they allegedly attacked soldiers guarding the Shell ramp, killing one. This angered the soldiers who moved in and burnt down the hoodlum's hideout, the "Black Market". In the process, some of the hoodlums were reportedly killed, while those who escaped found their way to Odi, another town notorious for hoodlum activities including harassment of travellers on the nearby east-west highway. At Odi, they linked up with one Ken Niweigha, a wanted man by the police for a robbery committed some years back, who was in hiding but was apparently the head of the Odi hoodlum gang. They planned to avenge the burning of the black market and the death of their colleagues at the hands of the police and the soldiers. Indeed, there were reports that these hoodlums were planning to attack the state Governor and other high ranking members of government because of the destruction of the "Black Market" and the killing of their members. Meanwhile, they kidnapped some policemen and took hostage those who went to look into how best to solve the problem with little or no loss of blood (*The Punch*, January 21, 2000, p.12).

By sheer coincidence, news came that Ijaw people in Lagos were being killed and their houses destroyed by Yoruba Oodua Peoples

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Congress (OPC) members. There were frantic signals from the Government Liaison Office in Lagos that Ijaws were hiding in fear and that they wanted to be repatriated home. At the same time, refugees in their thousands arrived in Gbaraun to escape Ilaje-Ijaw feud in Ondo State. The Egbesu boys, already a phenomenon in the Niger Delta, were breathing fires of revenge. The killing of the policemen may, therefore, be interpreted as the first step in this regard, especially as the most senior officer in the lot was a popular, well respected Yoruba man who had received his letter of transfer but had accepted the Odi assignment as a duty call. Indeed, the OPC and Egbesu phenomenon led to widespread speculations about possibility of declaration of a state of emergency in Lagos and Bayelsa states. In this context, the Bayelsa government spared no effort in trying to save the lives of the policemen. This led to the decision of the Bayelsa state government to give the kidnappers ₦500,000 (some put the figure at ₦700,000) as ransom (ibid and discussions with high ranking police officers and the relatives of the late Yoruba officer in Port Harcourt). The police disputed the claim of the government that the ransom money had been released to them (*The Post Express*, January 19, 200 p.6). Whatever the case, the seven policemen had been killed before the ransom arrangement got off the drawing board while the invasion of Odi on the orders of the President is now history.

Three local governments in Bayelsa and Delta states set up a task force to effectively patrol the waterways in parts of the states to stop criminal activities of militant youth that have crippled navigation in the Ekeromor council area of Bayelsa state and parts of Bomadi and Burutu council areas in Delta state. The militants had been robbing, extorting and even killing passengers of commercial boats. Ostensibly organised to export patronage from multinational organisations, especially the oil prospecting and producing companies with cooperation from Ijaw leaders and the governments, the militant groups soon turned to piracy and intimidation. It was such a militant group that killed the seven policemen and precipitated the events leading to the devastation of Odi.

Expectations were high when the President visited the state in March 2001 that he would announce a package of compensation to the people of the town and to the state in the spirit of rapprochement, reconciliation and reconstruction. But there was nothing of the sort. As an editorial of *This Day* put it, "even the request for the establishment of a polytechnic in the community, landing jetty, construction of houses, electrification, and upliftment of Federal Government College Odi did not attract any

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categorical statement from the President. It was all admonition, preaching, talking down bordering on intimidation and blackmail as if he was addressing a conquered people" (*ThisDay* 21 March, 2001, p.15). Not surprisingly, the matter is being used to score political points by the South-South political zone whose Ideological Forum at the end of a meeting in Port Harcourt issued a communiqué "urging the President in the name of God to raise money through a supplementary budget to rehabilitate the town (of Odi)". (ibid. p.7).

Motor park riots in Effurun district of Warri, Delta state is just an example of challenge to modern state authority by park touts in most parts of Nigeria. Following the law, which empowers local governments to control motor parks, members of the Uvwie Local Government Council Revenue Committee in November 1999, went to the Effurun central motor park on a revenue drive. Members of the militant faction of the National Union of Road Transport Workers (NURTW) opposed them. The disagreement led to a major clash as touts and militant youth paralysed activities at the park. Carrying machetes, knives, pistols and other dangerous weapons, the touts barricaded major roads in Effurun, forcing motorists to turn back, smashing windscreens and extorting money. Four people were killed and six others critically wounded. The government in response closed all motor parks in the town. (*The Guardian*, November 11, 1999 p.3).

On 8 March 2001, some youth invaded the Afikpo LGA of Ebonyi State and destroyed some projects in apparent confrontation with the state government, which had opposed the illegal attempt to impeach the chairman of the local government. The chairman alleged that the youth were external hoodlums acting on the instruction of a few disgruntled political elements bent on destabilising the government. The police apparently had not intervened so as to appear non-partisan in a partisan political crisis. The Governor, Sam Egwu intervened by visiting the LGA headquarters where he condemned the political crisis and warned against deliberate confrontation with any arm of the state government without due process of the law. He pointed out that impeachment must follow the laid down rules in the constitution. He also decried the role of the police in the crisis and warned that they would be held responsible in the event of further breach of the peace (*The Post Express* March 21, 2001 pp.3).

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5.3.4 Response Rate to Potential Conflict-Generating Situations and Religious Intolerance

This section documents the few incidents of religious intolerance and the possibility that violent conflict could have been averted had state authorities responded to early warning swiftly.

The violent hostility between the Maitatsine Muslim sect and others in Gombe, Kano, Maiduguri, Yola and other northern cities in 1985 was provoked by the order of the Maitatsine leader, the Late Mohammed Marwa, to his followers to put to death anyone who did not belong to their sect. Hundreds lost their lives before the soldiers deployed to conflict areas brought the situation under control. In a similar vein, the plan to introduce the Sharia legal system in many northern states such as Niger, Zamfara, Kaduna and kano was greeted with violent conflicts because the Christians feared that their religious freedom will be curtailed under such a legal system.

Owerri youth in the last days of February, 2000 unleashed violence on residents as reprisal for the Sharia related killings of Igbo Christians in Kaduna state. Buildings were torched, northerners and other non-indigenes suspected to be Moslems were attacked. The Deputy Governor's appeal to keep the peace angered the youth who attempted an attack on his entourage in the city. A dawn to dusk curfew was largely ignored. At least two persons were officially acknowledged dead.

The deputy governor, the security agencies, traditional rulers and leaders of the Christian Association of Nigeria held meetings to find ways to stop the violence (*The Guardian*, March 21, 2000, p. 1, 2).

On January 12, 1998, some 40,000 barrels of crude oil spilled from the rupture of a 24-inch pipeline that ran from Mobil's Idoko production platform to the Qua Ibo terminal in Akwa Ibom state. The spill affected some 120 communities and fishing ports all the way from Akwa Ibom to Rivers state. Mobil neither offered the affected communities a timely warning of the danger nor took immediate action to stop and clean up. The negligence resulted in huge economic losses. It led to the destruction of thousands of hectares of farmlands and fishing grounds, tons of marine life, millions of Naira worth of fishing nets, traps and other fishing gears. It also led to the pollution of the environment with oil slime and noxious fumes. In short, it paralysed economic and commercial activities in the area. Even with these obvious effects, Mobil had the effrontery to deny that the spillage affected marine life and economic activities and consequently was slow on the matter of

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compensations. Consequently, Eket youth and those of neighbouring local government areas embarked on massive demonstrations. Neighbouring state governments, particularly those of Delta and Ondo and even Lagos also complained before Mobil paid serious attention to the matter (*The Post Express*, March 27, 2000 p.31).

Umuleri-Aguleri inter-communal clashes in Anambra State could have been averted if state authorities acted with dispatch. War began between these two communities in Anambra East local government area on April 2, 1999. Six months later, the war was still raging, more than 1000 lives were lost and the villages levelled.

The Mobile Police detachment sent from Awka by the military government of Wing Commander Emmanuel Ukaegbu claimed they were not given specific instructions and so simply watched the carnage. The civilian government of Chinwoke Mbadinuju held several meetings with the two sides without solution emerging even as at the time of this field work.

5.4.1 Conclusion

This report has highlighted the fundamental issues involved in the outbreak and management of conflict in Nigeria. In several of the conflicts reported, the issues were intertwined, meaning two or more conflict-generating factors such as identity and struggle for political and economic resources reinforced each other to produce a particular pattern of conflict. Hence, the presentation of conflicts in distinct categories in this Chapter does not necessarily mean that a single factor produced each given conflict situation.

The policy implications of these conflicts are as follows:

a) Some of the conflicts indicate the absence of a conflict resolution mechanism. The police force seems to be the common state agency for dealing with a conflict situation in Nigeria. When they are unable to cope with a particular situation, members of the armed forces are called in. Apart from being an inadequate agency for conflict resolution, the police are by large, distrusted and not seen as an agency that can genuinely help resolve conflict. Indeed, the police make both the complainant and the accused bear the brunt of investigation by extortion of both parties and in the process compromise their competence.

b) There is thus a crisis of confidence in the existing conflict resolution agencies sometimes buttressed by their keeping a

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blind eye to stewing conflict, halfhearted intervention or plain partial intervention, which explains the unwillingness to implement the recommendations of commissions of enquiry, derived from thorough investigation of past incidents of violent conflicts. The crisis of confidence leads inexorably to lawless self-defence, which in its own way escalates a conflict.

c) There is the sheer mischief of individuals who display a lack of regard for the rights and property of others. In other words, a problem of criminality exists in Nigeria. This may well be a structural problem inherent in the legal and economic foundation of the country.

d) State intervention by way of administrative re-organisation - creation of local governments and states has sparked discontent between rival cultural groups leading sometimes to violent encounters.

e) Lack of institutionalised and transparent channels for distributing benefits – state and non-state (oil companies) has many a time created volatile situations of conflict. This includes the unresolved issue of authority, between traditional and state authority, to confer citizenship.

5.4.2 Recommendations

1) The government and its agencies should be more committed to conflict resolution. In this regard, it should act promptly on early warning signals to nip potentially destructive conflicts in the bud. It may be necessary to mandate existing peace and conflict studies centres and institutions to supply government with early warning information for its use.

2) Administrative re-organisation or intervention in chieftaincy disputes should as far as possible be based on wide consultation before it is carried out. It may be necessary to conduct a referendum to determine the preferences of all concerned as part of such consultations.

3) Boundary disputes should be approached systematically. Those requiring a pragmatic solution should be handled accordingly while those that have deep historical roots such as the dispute over who is an indigene or settler may require a developmental approach, which replaces current objects of competition such as

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land with new economic possibilities that reduce unhealthy rivalry between communal groups.

4) The Nigerian Immigration Service should be strengthened and well equipped to deal with illegal immigration for preventing irresponsible behaviour and break down of law and order especially on the northern borders.
5) The citizenry should be socialised to respect the rights of others and their property.
6) Government needs to establish more conflict resolution mechanisms that have substantial representation of the communities that they are intended to serve.
7) Effort should be made to encourage, through transparent leadership at all levels, democratic political participation as an efficacious non-violent conflict resolution mechanism.

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6

REINVENTING LOCAL GOVERNMENT IN NIGERIA

E. Remi Aiyede

6.1 Introduction

Local reorganization has always been a difficult policy issue in Nigeria. Before 1976, local reorganization was a region/state responsibility because local government was on the residual legislative list. Under the 1976 reforms, the Federal Military Government in consultation with the states established principles to guide states in reorganizing their local governments.

During the Second Republic (1979-83), the state governments more than trebled the number of local governments in the country. Because they exercised their constitutional authority without recourse to the federal government, the creation of new local governments became embroiled in political controversy. Besides, some local governments were obviously created to gerrymander electoral constituencies, while others were perceived to be too small to be economically viable. Nevertheless, state control over local government policy was preserved during the Second Republic.

In 1984, the Buhari administration abolished all the new local governments created by the states during the Second Republic. In 1985, the Dasuki Committee tried to rationalize the timing and criteria for creating new local governments. It prescribed that new local governments should be created after ten years interval and also suggested the minimum taxable population necessary before a community could be constituted into a Local Government. By 1989, however, the federal government had taken over local government policy formulation. With the promulgation of Decrees No. 15 and 32 of 1989, the states

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completely lost any initiative in local government policy. Only President Babangida had authority to create new local governments and to dissolve them.

The 1999 Constitution appeared to place local government in the concurrent list, thereby crystallizing the ambivalence that has trailed the history of local government development in Nigeria. Under the current dispensation, states have in the bid to prove their power over local governments issued guidelines for administrative and financial activities of local government. In several states elected local government chairmen have been suspended by state houses of assembly. A few states went ahead to create new local government councils, although the national government refused to recognize these newly created councils for the purpose of statutory revenue allocation. These intergovernmental conflicts came to a head when the 2001 Electoral Act extended the tenure of elected local government officials from three to four years, an extension that was challenged by the Speakers of the Houses of Assemblies in the states.

The issues raised in respect of local government have been very wide ranging including the appropriate internal structure for local government, financial procedures and accountability, checks and balances, supervision, and the question of which tier of government enjoys or should exercise the power to reorganise local governments, and climaxing the Supreme Court judgement on the 2001 Electoral Act. The Supreme Court=s decision confirms the powers of the state governments over local government reorganisation. Subsequently, many state governments have commenced processes of local government reorganisation within their various territories, especially by multiplying them and through referenda. However, the yardstick for determining the particular local governments to be split are unclear. It is also not certain that these moves have been inspired by the goals of democratic deepening and socio-economic development. Indeed, some of these initiatives have witnessed public protests and violence.

There is a need, therefore, to revisit local reorganization if only to ensure that the process deepens democratic practice at that level.

While a lot of work has been done to capture the processes and politics of local government reorganisation in Nigeria, the same cannot be said of an effort to understand the question of the relationship between the current structure of local government, organisational processes of

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local government and actual challenges of democratisation and service provisioning at that level of governance.

One very important work in this area is that done by Gboyega (1998). In that work he assessed decentralisation effort in Nigeria from colonial period through independence to the end of the Babangida regime. His basic concerns were patterns of political participation promoted by the programme and the benefits accruing to different stakeholders in governance. He emphasised the centrality of military dictatorship and centralism to the successful implementation of a programme that devolves substantial powers from the states to local governments, thereby pointing to likely abuses of decentralised powers and the possibility of reversals under a democratic government. The failure of the Babangida democratisation programme, the crisis in the aftermath of the annulled June 12 1993 presidential elections, the persisting clamour for political restructuring, coupled with the revival of judicial intervention under the current democratic period justify a revisit of local government reorganisation in Nigeria.

The study reviews local government re-orgnanisation in Nigeria with a view to contributing to the effort at providing functioning local participatory self-governing institutions on which democracy and development can be anchored. Accordingly, it examines local government reorganisation's impact on democratic practice and the trajectory of socio-economic development, teasing out new opportunities and ideas for enhancing responsiveness, effectiveness and efficiency of grassroot government.

6.2.0 Theoretical Issues

Recent discussions of local government portray a wide spectrum of theoretical traditions in local government representing a diverse range of schools and approaches. Thus, as Stoker (1991) has noted, it is no longer possible to achieve a comprehensive review of theories on local government. In spite of these, two approaches can be used in a complimentary manner to examine local government in Nigeria. These are the localist view and the public choice approach. The one provides the value base of local government while the other enables us to examine interests and behaviours of actors in local government.

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6.2.1 The Localist Perspective

John Stuart Mill is credited to be a major contributor to the development of this perspective in local government theory. This perspective seeks to provide justifications for the existence of local government. According to Mill (1975), there are certain interests or concerns, which are peculiar to only a section of the community. These interests are better served when only those who share these interests participate in promoting and servicing them.

In his view, "the very object of having local representation is in order that those who have any interest in common, which they do not share with the general body of their countrymen may manage that joint interest themselves" (as cited by Gboyega 1987:2). This theory draws from liberal democratic analysis of the state and politics. Local government according to this perspective exists to provide services for the local community, to meet needs whose recipients dwell in a particular locality. Thus, local government is a device for local choice, for participation in local service delivery and local politics. Local government provides political utilities of popular control, local participation and responsiveness and accountability.

Jones and Stewart (1983) provide a four-fold argument for local government according to this tradition.

(1) Local government provides an avenue for the dispersion of legitimate power through the institution of elected bodies at the local level. The assumption here is that spread of power is a fundamental value to be sought.

(2) Local government enables the political systems to accommodate differences in needs, wishes and concerns from locality to locality. Besides, the diversity of responses enables local authorities to learn from each other different experiences in service provision. This promotes innovation and learning.

(3) Local government, because it is local, is accessible and within reach of citizens. Councilors and officers live close to the people who are affected by the decisions they have to make. Local government enhances government responsiveness.

(4) Local government makes government accessible to the people promotes legitimacy because it better meets local needs using local resources.

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6.2.2 Public Choice Perspective

This perspective belongs to the class of theories that perceives little compatibility between local democracy and local government. Indeed, it represents a new right critique of liberal democratic analysis of local government. Public choice perspective emphasises the market as the optimal mechanism for allocating resources. It seeks very limited role for the state in the economy. This is because it is believed that the expanded role of the welfare state has been responsible for the excessive growth in public sector expenditure; representative democracy leads to the multiplication of inefficient structures and waste of resources.

As self-interested politicians seek to maximise their votes and powerful organized groups jostle within the state in pursuit of private ends, public sector agencies become prone to excessive growth. Ultimately, the silent and unorganized majority who actually finance public expenditure suffer from poor and inefficient services.

The public choice theorists maintain that the bureaucracy tends toward the abandonment of collective goals in preferences for the self-interested goals of officials. This weakness which has become present in local government has driven local government towards wastes and inefficiency. Thus, this perspective recommend the fragmentation of existing bureaucracies in the form of a large number of local governments that can respond to the diverse preferences of citizens. It is recommended that competition among local governments should be encouraged to minimise the inefficiency that attend monopolistic delivery of public goals. Public choice exponents maintain that democratic arrangements as they currently exist are poor predictors of citizen's preferences and demands.

Public choice recommends the use of a series of private sector ideas for cost and efficiency savings. These include performance related pay for local government officials and contracting out of services.

Although each of these theories of local government has its own weakness and strengths, the local view remains the dominant perspective in local government studies and practice in Nigeria. This is because the processes of local government formation in the post-colonial period have largely been influenced by 'developmentalism' and liberal democratic values (Gboyega, 1987). The reforms of local government since the 1970s have also been sustained by this liberal democratic ideology. However, an understanding of dynamics of the failures of local government in achieving set developmental objectives requires the

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applications of the public choice perspective. This is because it has dominated public sector management globally and its prescription for the practice of local government has become very influential. Besides, it provides a powerful tool for analyzing local politics as it became entangled with national politics since the intervention of the national government in local government from 1976. Both perspectives together enable us to understand the contexts, dynamics and future direction of local government in Nigeria.

6.3 Local Government Reforms in Nigeria

6.3.1 From the 1950s to early 1970s

Local government in Nigeria developed from the native authority system introduced in the colonial era. The native authority system was one in which the traditional ruler was a go between in the relation between the colonial government and their people. By the 1950s the local administration reforms began to be effected in the southern part of the country as the two regions of the south started to enjoy some measure of self-rule. In both regions three basic layers of councils were introduced. In the West there were local councils, district councils and provincial councils. These corresponded to local, district or urban and divisional councils introduced in the East. According to Gboyega (1987), these reforms were introduced to promote liberal values of participation and efficiency in local administration.

In the North the case was different. The emirate system provided a good environment for the thriving of the native authority system. At independence the native authority system came to its own, and the emirate councils became the *de facto* local administration. Thus, in 1960 when the country became independent, separate development patterns in local government had emerged between the north and the south. In fact, within the south there were variations in the internal management of these different layers of local administration.

The intervention of the military in the governance of the country was to have a lasting impact on the direction of local administration in Nigeria. When the military took over government in 1966, it dissolved all local councils and appointed sole administrators to head the districts in the south. It also abolished the native authority system in the north. The military created 12 states in 1967 and introduced two-layered administrative system below each of the 12 state governments. This

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brought about some uniformity in the governance of the various states of the country and reduced the differences in regional patterns of local administration.

It however gave the state governments free hands to determine the internal management arrangement of these authorities. By 1973 some states had embarked on some forms of experimentation with local management. Most of this experimentation was affected by the mood of the nation (coming out of civil war in 1970) and the way national challenges were perceived or interpreted by the ruling military junta. Local government became enmeshed in the drive for social and political integration and conceived as instruments for the implementation of the country's development plans designed by the national government at the grassroots.

These experimentations with local government in the states did not escape the attention of the Public Service Review Commission set up in 1972 by the national government as part of the effort to secure adequate development and optimum use of manpower for meeting the challenges of developing the country. The commission in its report submitted in 1974 made two important submissions relating to local government that had influence on the 1976 reform. The first was the proposal for a single tier local government and the second was its recommendation of a financial and functional review of state-local relation in favour of local government.

6.3.2 The 1976 Reforms

The 1976 reforms changed the face and direction of local government as well as its politics. The 1976 reforms (1) created a multipurpose single-tier local authority to be called local government; (2) increased the functions of local governments; (3) abolished the old divisional administrations; (4) recognised local government as the third tier of government in the Nigerian federal structure and granted five percent of federally collected revenue to local governments and 10 percent of their states total recurrent revenue to guarantee adequate revenue source for local governments from both state and federal governments; (5) maintained local government as representative bodies; (6) gave it constitutional guarantee (1979 Constitution); and (7) improved the working conditions of local government staff and secured their tenure by establishing the local government service Board (Nigeria, 1986; Gboyega, 1987; Yahaya , 1989).

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But several issues relating to the political context of the local government service were left unconfronted and undefined. It was assumed that the financial and functional independence of local governments would secure good quality service delivery at that level. The short sightedness of this assumption is shown in the limitation of horizontal accountability to democratic participation through the election of local government chairmen in the reforms. Not only that, the reform had no answer to important problem of reducing local government into an epiphenomenona of the struggle for power (politics) at the state level under civil rule in the first republic. It retained vertical control and supervision of local governments by the state governments and paid little attention to the likely erosion of the weak democratic content of local government, occasioned by the inevitable dependence of that level of government on statutory allocation for revenue. It was therefore not surprising that this problem resurfaced in the second republic when the country returned to civil democratic rule.

During that period, there was massive interference of state governments in local government affairs. Many State Governments disregarded the essence of local governments and failed to pass statutory allocation from the federation account and other revenues accruing to local governments to them. The States further destroyed the democratic foundation of local government by appointing management committees. They multiplied the number of local governments in the country by creating several new ones. Many of which were created to gerrymander electoral constituencies. Most of them were clearly too small to be economically viable. Because they exercised their constitutional authority without recourse to the federal government, the creation of new local governments became embroiled in political controversy. Therefore, once the military returned there was enough justification available to the national government to buttress an intervention in local government (Osaghae, 1989; Yahaya, 1989; Adeyeye 1995, Gboyega, 1989, 1998).

6.3.3 The Babangida and Abacha years

In less than six months on assumption of office, General Buhari, who took over power on eve of 1984, abolished all the new local governments created by the states during the Second Republic and set up the Dasuki Committee to look into local government. This committee observed that the problem with local government was operational, "arising directly from the behaviour and attitudes of the persons who operated the

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system." Against this background, the committee suggested that replacing sole administrators with representative management committees would preserve the participatory element of local government. It approved the national government intervention in local government and asked the government to formalise its role by establishing a National Local Government Service Commission to oversee local government. It also suggested that the creation of new local government be done at an interval of ten years and should be based on a minimum taxable population. It also recommended the creation of a maximum of seven field offices for local government.

The report was however to be received by the Babangida government which succeeded the Buhari regime. The Bureau, whose terms of reference included local government, approved many of the recommendations of the Dasuki Committee. The General Babangida regime also carried out exclusive reforms in local government as part of the long experimental transition from military to democratic rule, from 1987 to 1993 when the transition process collapsed.

Early in 1986, the regime had inaugurated a Political Bureau to organise a national debate towards determining a viable future political philosophy and structure of government for Nigeria. The Bureau did not fail to deal with the issue of local government. In fact, the Bureau endorsed the views of the Dasuki Committee on the need for local government to concentrate on the performance of some basic services only. It also upheld the proposal that local governments should further decentralise their operations through the creation of development areas. But it underscored the political role of local government in promoting political mobilisation and popular participation. In the opinion of the Bureau, "political objective have tended to be ignored, efficiency tend to be regarded as an end in itself" in local government reform in Nigeria. While recommending a management and organisational format for all local governments, it stressed that the village clan or autonomous community or urban neighbourhood should be the primary unit of local government and should be organised for productive and community action. It recommended the delegation of responsibilities to committees at the level of these subordinate units of local government, emphasising the need to apply the presidential system of separation of powers to local government and the use of elections to fill political positions in local government councils. Furthermore, it stressed the need to improve the autonomy of local government, which had suffered from the excessive

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state government control and interference in the performance of their duties (Nigeria, 1987). Thus, the recommendations of the Dasuki Commission came to have a strong bearing on local government in Nigeria through the effort of the Political Bureau. Babangida described the type of local government that his reforms sought to bequeath to Nigeria in the following words.

> Local governments are no longer there just to pay salaries. They are there to ensure collective participation in governance, create the conditions for employment opportunities, and provide social services which can improve the well-being of our people . . . (with) necessary freedom and authority to operate . . . not as mere adjuncts of the state but as a true coordinate and effective local of government.

While these words portray a very strong concern about the state of local governments and a clear expression of commitment to local government as an autonomous level of government, the Babangida regime seemed to be unsure of what should constitute autonomy as demonstrated in the series of changes and reversals that the local government system experienced during the period. Thus, Gboyega has correctly described the Babangida reforms as "crossing the stream while searching for the pebbles." Following the report of an 11-man committee, officers on grade levels 07 and above were put under the control of a unified local government service in each state of the federation. This was to promote professionalisation, to protect career local government officials from the fallouts of partisan politics, ensure maximum use of available manpower at the local level, and ensure that the local government service is able to attract, retain and maintain qualified people.

The structure of internal management of local government was redesigned to ensure accountability. Each local government was to have a Junior Staff Management Committee (JSMC) with responsibility for the appointment, promotion and discipline of officers on Grade levels 01-06. Any officer in this cadre who is dissatisfied or aggrieved as a result of any decision of the Junior Staff Management Committee was to appeal first to the Chairman of the Local Government Council and later to the Local Government Service Commission, and then the Governor of the state.

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To ensure that the local government system further reflects the presidential system, separation of powers was introduced through Decree 23 of 1991. Legislative powers were vested in the Local Government Council who will exercise those powers by passing byelaws. Similarly, the executive powers of a local government were vested in the Chairman of the Local Government who could exercise the powers directly or through the vice-chairman or supervisors of the local government or officers in the service of that local government.

Although the various reforms under Babangida were designed to strengthen the capacity of local governments to initiate and carry out development programme, it did not quite succeed. In the first place, advocates of local government autonomy found some aspects of the reform very circumscriptive of local government freedom. The powers of supervision, control and monitoring of local government by state governments were particularly decried. This was also said of the spending limits, based on annual internally generated revenue imposed on local governments.

Besides, after operating for several years, it became clear that there was inadequate provision for intergovernmental mechanisms concerning conflicts between the Executive and the Legislature in the Councils. As the elected occupants of these arms strove to keep to their often divergent party programmes and guard their constitutional powers, they increasingly went into conflict, thereby undermining democratic practice.

Instead of creating an effective mechanism of intergovernmental conflict resolution, the rules of operation were changed as the president deemed fit. The internal workings of local government became subject to the politics of patronage. Local Government Chairmen endeavoured to win the military president's favour by conferring on him the title of "Grand Redeemer of Local Government in Nigeria". These chairmen lobbied the military president to extend their tenure of office by 12 months, in outright disregard of the constitution and the limits of the democratic mandate they received in December 1990 when they were elected into office. This behaviour was to be repeated in 2002, when the local government lobbied the National Assembly to commit the illegality of extending the tenure of elected local government officers by one year through the year 2001 electoral Bill. The Supreme Court subsequently declared the action null and void.

Generally, between 1985 and 1993, the Babangida administration executed drastic structural changes by creating additional local councils

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three times. The local government creation exercises were purportedly done to match federal constituencies with local government areas in the first instance and to right the wrongs of the preceding re-organisations in the second and third instances. Later on, the drive for autonomy became the ideology used to promote the series of reforms carried out in that sector by the Babangida government. However, under that regime local governments began to be created around personalities (Roberts, 1997:46-47) and became immersed in the Babangida personal rule project that was underplayed by an instrumental use of corruption. The regime picked and chose from the recommendations of these bodies set up to examine the local government system only to the extent that they would strengthen its hold at the grassroots. Rather than set up committees at the neighbourhood and village clan level to strengthen local government as grassroots government as recommended by the Political Bureau for instance, Babangida incorporated local government reorganisation into the politics of distributive federalism by direct allocation of local government and expanding federal involvement in local government operations to extend his grip on the country to the grassroots.

In 1988, the Ministry of Local Government was abolished and replaced by a Department of Local government in the Office of the Governor. The new department was "not to control but to provide guidance and supervision of local governments." States were to incorporate local governments into their planning process. Statutory allocations were then sent directly to the local governments to avoid them being diverted by states as has been the case in the past. It was also mandatory that states should remit 10 percent of their internally generated revenue to local governments. Babangida emphasised his commitment to reinforcing the autonomy of local government and his aversion to any effort by the states to undermine his efforts. All of these moves were to strengthen his reach at the grassroots even though they were purportedly done to promote local government autonomy. Thus, under the Babangida regime the federal government took over local government policy formulation and local government became a delicate policy arena where it was safer for state governments not to act independently of the centre (Gboyega, 1998:33). But the conversion of local government reorganisation into an instrument of regime sustenance served to entrench arbitrariness in the process.

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In July 1989, Babangida removed the elected chairman of Enugu local government for allegedly becoming a security risk and in the same year he dissolved all councils elected in 1987 (Fajonyomi 1997:40).

In January 1992, the Local Government Service Commission was abolished to put all local government staff under the firm control of the Chairman. However, the National Union of Local Government Employees (NULGE) members' protests against high handedness and witch hunting by the local government chairmen led to the resuscitation of the Commission six months later.

The same year, the supervisory roles of state governments were removed when the federal government introduced a model financial memorandum to guide the financial operations of local government. According to the circular "it shall no longer be necessary to maintain spending limits for the Executive Committee of Local government…subject to the following conditions: (a) the provisions of the Financial Memoranda should be scrupulously adhered with, particularly those relating to the control of expenditure as well as contract, purchases, payments and personal advances procedures; (b) the projects should be contained in the approved budget or approved supplementary estimates of the Local Government for the year; (c) for the avoidance of doubt, it shall no longer be necessary to refer any contract, whatever it size, to any organ or functionary of the state government for approval provided it had received prior approval of the Legislative arm of the Local Government during the normal process of the annual budget" (as cited by Gboyega, 1998:). For the purposes of accountability, an office of the Auditor General of Local Government and an audit alarm committee were establish.

Finally, relief came concerning conflicts between the chairmen and councillors in the Handbook of Local Government introduced in 1992 to define the scope and limits of the functions and responsibilities of each arm of government at the local level. The essence was to reduce areas of tension and conflict in the operations of the government at the local government level.

It is important to note that during General Abacha's administration, additional local governments were created in 1996 raising the number to 774. The exercise was markedly arbitrary and was trailed by widespread inter-communal conflicts over the location of local government headquarters and/or the inclusion of communities in local governments they never wished to join. Chairmen of Local Governments were

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removed as the Accounting officers, and Career officers became secretaries to the Local Government as well as the Accounting officers and the Chief Administrative officers of Local Governments. The regime through the Central Bank of Nigeria, continued the practice of directly paying monthly Statutory Allocation from the Federation Account into the bank accounts of each Local Government. However, local government elected officials were removed and replaced by caretaker committees largely headed by retired military officers. In the bid to ensure loyalty and personal accountability, General Abacha insisted on a veto right over candidates for appointments as chairpersons of local government caretaker committees. Later on five percent of statutory allocation to local governments were paid to traditional rulers to secure their support for the Abacha self-succession project. Local government powers and structures have to be repeatedly modified as civilian and military governments have replaced one another for forty odd years in post independence Nigeria.

Thus, at the inception of the fourth republic the developmental goals (local democracy and responsiveness to local needs) of local governments had paled into insignificance. Local government process became submerged in the personal rule that characterized military governance under Generals Babangida and Abacha, as the regimes combined shrewd management of patronage with systemic application of terror to consolidate their hold on power. As we shall see presently the decline and de-institutionalization at the local level was very grave indeed. Hence it is appropriate to talk about reinventing local government rather reforming local government in Nigeria.

6.4 Local Government Effectiveness and Accountability

In a survey of three local governments (Mushin, Shomolu and Ajeromi-Ifelodun local governments) in Lagos, both citizens and local government officials were asked to evaluate and rate local government in terms of performance, operational activities, project execution, conduct and administration in a survey carried in three local governments in Lagos State. The results show a wide disparity in the perception of local government performance between citizens and local government officials. On a 5 point descending order scale with 5 as excellent performance and 1 as poor performance, the average score from citizens for local government performance was 2.1. The three local governments recorded 2.0, 21 and 2.3 respectively i.e. between fair and poor.

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According to the report, "neither the upper-middle-class nor the lower social class citizens see the Local Governments as doing well. This perception is the same across gender lines". On the contrary local government officials recorded an average score of 3.4 for local governments. This is a favourable score of very good (Integrity 1998).

A detailed review showed that local government is anything but local. The citizens are clearly alien to the activities of local government. They hardly directly participate in local government budget process nor determine through other means what the local government does or fails to do.

From another survey conducted in 2002 by the Development Policy Centre in collaboration with the United Nation Economic Commission, 60.3% of an expert panel believe that local governments have poor or no capacity to manage decentralised responsibilities. Also, 57.7% of respondents maintained that service delivery institutions in local governments have inadequate or no mechanisms for involving community participation, while few Nigerians (4.1%) think they have effective mechanisms for involving community participation. 38.4% believe they have moderately or fairly effective mechanisms that enable participation[2].

Correspondingly, more than half the population (63.0%) insist that local governments rarely or do not respond to basic needs of the community in an efficient manner while 12.3% of the populace think they moderately respond to the needs of the community. None think they fully respond to the needs of the community.

Also, as we have noted earlier, the derivation of a large chunk of revenue from the Federation Account had created a disjunction between the location of local government expenditure and the sources of local government revenue, thereby undermining public accountability. Local governments have been reduced to mere instruments with which politicians and interested groups at the local level enrich themselves and organise to impact on decisions at the federal centre.

Only recently, the Chairman of the Independent Corrupt Practices and other Related Offences Commission, Justice Mustapha Akanbi, announced that his Commission has established prima facie cases against 78 council chairmen out of the over 300 petitions received in respect of local government councils. He however lamented that the commission has been hindered from carrying out its functions because of poor staffing and funding, poor public enlightenment and more importantly,

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the spate of litigations challenging its constitutionality (Ogbodo, 2001:1). In Lagos State, the Attorney General reported to the House of Assembly in November 2002 that of the 37 billion naira disbursed to local governments, the dissolved councils accounted for only 20 billion naira.

Recently Obasanjo has decried the level of corruption at the local level saying "chairmen and councilors just share the allocations for councils among themselves" (as cited by Ezomon, 2001: 11). The local government chairmen continue to contest the claim that corruption is prevalent in local government. Some have even argued that the prevalence of corruption was not enough justification for state government encroachment, insisting that local government is an autonomous tier of government. Why has the national government not taken over any state government because of corruption? They questioned. In a discussion with some senior local government officials, the bureaucrats believe corruption at the local government level is being overstressed. They insist that a comparative analysis of corruption of level of government will show that corruption is not more prevalent in local government than in the higher levels of government.

Even so, accountability mechanisms put in local government has not proven to be very effective (this is also the case at the higher levels of government). Neither the audit alarm committee has been of significant use in any part of the country even though claims of corrupt practices by local governments are perpetually published in the dailies.

Commenting on these accountability bodies, Gboyega (1998:40) has this to say:

> The impact of the Auditor-General of local government has not been felt at all. There is no state in the country where it has demonstrated that he was effective. Their offices are understaffed, and their itinerary, if they have one, is too slow to move them where they are needed urgently, e.g. where there are allegations of impropriety and impeachment process are threatened. Nor can the situation be remedied easily as there are a general scarcity of qualified professional accountants and auditors in the country.

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As for the audit alarm system, he noted, "there is no known record of this system having been activated to check irregular payments." The point is that these provisions were never made to promote accountability given the ethos underlying the reorganisation process. At best they were made to provide the needed veneer of public accountability to give the regime a positive image. In any case, these provisions like the other provisions relating to democratic processes in local government were subject to the disposition of the military junta that was clearly above the law in Nigeria.

The survey of three local governments (Mushin, Shomolu and Ajeromi-Ifelodun local governments) in Lagos state revealed that most citizens do not even know the functions of local governments regardless of their gender and social status. More disturbing is the discovery that even local government official themselves are not apprised of the statutory functions of local government (Integrity 1998:15-16). What is more, citizens are not aware of how local governments derive their budgets. Most citizens felt that corruption "constitute a problem in local government administration and many were convinced that little could be achieved by citizen's seeking services from local government officials without making illegal payments or bribes." (Ibid.: 53)

Furthermore, in the same survey, 75% of citizen respondents, across gender and social classes, claim to be unaware of any avenues for consultation in local governments. On the contrary a large percentage of local officials claim there are several avenues and that these avenues are in fact available to the citizens. Among the avenues mentioned were Community Development Associations/Centres, market associations, through community leaders/rulers/area chiefs. The report noted that only 11% of staff surveyed mentioned Ward Forum (a system whereby local officials meet with the people), was mentioned by only 7% of the population. Going directly to see the Chairman was mentioned by only 5% of respondents and as low as 2% in a local government. The impression correctly inferred by the report is that avenues for consultation in local governments are secondary avenues, information handed down to community groups or market associations (ibid.).

A World Bank commissioned study on local government in Nigeria has this to say on accountability:

> Informants generally saw government servants as self-serving, high-handed and unaccountable, and believed the misuse of public funds to be

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> widespread, even general. The monitoring and evaluation of projects appeared to be non-existent. In discussion, local government officers often seemed unfamiliar with their own areas, and rural communities attested that, like the councillors, they rarely, if ever, visited (Francis et al 1996).

The bottom line is that the stakes for local government were raised with the increase in statutory allocation to local governments from 10 to 15 per cent in 1990 and to 20 per cent in 1992. The multiplication of local governments did not only increase the number of openings for the position of local government chairmen but also for councillors and other local government employees. Furthermore, there emerged absentee local government officials, people who have been elected or appointed into positions in local governments in their areas of origin even though they are not resident in those localities, as patrons install their clients at the local level. More significant is the emergence of organised groups (strong forces) within local government councils pressing for more autonomy for local government in relation to the state and pressing for further national government intervention in the internal management arrangement in local government in order to protect their peculiar interests. There are three noticeable groups. The first is the National Union For Local Government Employees (NULGE). The second is the National Conference of Local Government Chairmen (now Association of Local Governments of Nigeria (ALGON). The third is the National Councillors' Forum (NCF). Thus, local politics have been reduced to politicking between these groups for a good share of the "national cake."

In one instance, councillors in Cross Rivers State have demanded for a monthly pay of ₦120, 000 blackmailing the governor with a threat that he would lose their support in the contest of the 2003 elections if he fails to do so (Eno-Abasi, 2001:1,2). This was occurring at a time when the federal government issued a circular requiring that all monies paid to councillors in excess of the ₦53,803 approved by the Revenue Mobilisation and Fiscal allocation Commission be recovered from the beneficiaries in the public interests (Egede at al 2001:1,2). It is public knowledge that councillors in some local governments have been able to extort a monthly salary of up to ₦125,000 from their local government, a sum that is considered outrageous considering the general wage levels in the country, the demands of the job, and the general level of skills of councillors across the country.

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Indeed, the conference of speakers of state Houses of Assembly have decried this state of things but could only begin to revise downwards the emoluments of local government political officials after the Supreme Court's judgments of March 28 2002 which establish the power of states over local governments.

The persistent Federal Government tinkering with local government under the military has been accompanied by a diminished importance of internally generated revenue and state allocations as sources of revenue to local governments. The table below show the revenue profile of local governments in Nigeria. From this table, it is clear that local government rely on the federation Account for over 70 percent of its revenue.

Table 6.1: Revenue profiles of Local Governments 1996—2000.

Year	1996	1997	1998	1999	2000
Total revenue (TR)	23,789.6	32,795.8	44,952.7	60,800.6	129,635.6
Federation Account Allocation (FAA)	17,586.5	22,300.5	30,199.3	43,870.3	102,521.3
FAA as % of TR	73.93	68.0	67.18	72.15	79.08
Internally Generated Revenue (IGR)	2,211.1	2,734.0	4,448.6	4,683.8	7,030.0
IGR as a % of TR	9.29	12.26	14.73	10.68	6.86
Tax Revenue	253.4	416.4	698.4	1,209.1	2,115.0
Non Tax Revenue	1,957.7	2,317.6	3,750.2	9,187.3	1,056.3
Value Added Tax (VAT)	3,306.9	6,826.1	9,187.3	9,559.8	12,357.9
State Allocation	681.9	703.5	1,097.8	419.8	681.9
Stabilization Fund and General Ecology	0.0	0.0	0.0	1,056.3	4,311.1
Grants and Others	0.0	231.7	19.7	1,210.6	2,734.0

Source: Central Bank of Nigeria Annual Report and Statement of Accounts 2000

Under the Nigerian tax system, tax powers of local government depend largely on the discretion of state governments. The state government regulates such important source of local government revenue like the property tax. These ensures that local governments have limited tax powers, and as such rely on external sources for revenue.

This poor state of IGR does not owe only to the weak tax powers of local governments but also to their weak tax collection capacity. Local government do not pay much attention to ways of increasing internally generated revenue largely because it is politically costly to do so. Yet effective local taxes remain the missing link that will promote

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accountability at the local level because of the pervasiveness of representation without taxation.

The inability of local government to source for a substantial part of their revenue creates a disjunction between the source of revenue and the locus of expenditure. This has made local government look like a gift from the federal centre to local communities. Thus, by the time the transition that led to the current democratic government came on stream, the local government system had largely become devoid of its local and democratic content of governance. Local governments were therefore reduced to grassroots satellites of the national government, a strong leverage for the national government in its dealings with the state government.

6.5 Local Government Reorganisation in Fourth Republic

Under the current democratic experiment local government creation exercise became complicated, not just by distributive federalism and electoral politics but also by the tension that arose from the distorted intergovernmental relation that characterised military federalism.

The root of these problem is to be found not only in the flux and tension that come to characterise the exercise of power and control over local government involving both states and national governments, but also in the ambivalent provisions of the 1999 Constitution concerning local government creation process. This was why during the larger part of the first term of the fourth republic local government became mired in intergovernmental power struggles between the national and the state governments. The battle of wits between the state Houses of Assembly and the National Assembly had been fuelled by the failure of the Independent National Electoral Commission to prepare the ground for election into local government councils before the expiration of the three-year term of elected local government officials.

Indeed, the Association of Local Governments of Nigeria (ALGON) lobbied the National Assembly to extend the tenure of local government chairman from three years to four years. This was going to be effected through the Year 2001 Electoral Act before the Supreme Court in Landmark judgment on 28 March 2002 declared that:

(1) No law enacted by the National Assembly can validly increase or otherwise alter the tenure of office of elected officers or as chairman and councillors of local government councils in Nigeria except in relation to the Federal Capital Territory alone.

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(2) The National Assembly has no power except in relation to the Federal Capital Territory alone to make any law with respect to the division of Local Government Areas into wards for purposes of election into Local Government Councils in Nigeria; the qualification or disqualification of a person as a candidate for election as chairman, vice-chairman or councillor or member thereof vacates his seat in the Local Government Council; and the prescribing of the event upon the happenings of which a local government stands dissolved or the chairman or vice-chairman of a local government council vacates his office or a councillor or member thereof vacates his seat in the Local Government Council.

The above pronouncements by the Supreme Court gave the States the leeway and confidence to assume full control of local governments. When the tenure of elected officers in local governments expired in June 2002 many state government replaced them with caretaker committees.

6.6 Summary and Conclusions

Nigeria has embarked on a series of local government reforms and restructuring that dates back to the 1950s. In the early period, the reform of local government was essentially underlined by the need to introduce participatory government at the grass root. In this phase, the need for participation and accountability enjoyed pre-eminence, this was because, the reforms were motivated by liberal values of popular participation.

The second phase, which was part of the reconstruction programme after the civil war (1967-1970), was informed by the perception of local government as engines for transforming the society towards economic development. Local government was seen as an instrument for realising the contents of the national development plans at the grassroots.

The third phase was informed by the complex factors that emerged from economic decline, structural economic reforms and the transition to democratic governance. The multifaceted, incremental, experimental and rapid (changes, including reversals) nature of these reforms reflect the instability and uncertainty and de-institutionalisation that came to characterize local government as Nigeria entered this new millennium.

Through these reforms local government has moved from the position of being under strict control by state governments, in terms of finance and personnel, to a point where they now operate the presidential system with separation of powers at the local level. Efforts have been made to

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restructure the management of local governments and provide financial guidelines of accountability.

In spite of these, the reforms did not achieve the stated goals of improving on the performance of local governments. This is because the reforms were undermined by the use of local government reorganisation to achieve distributional objectives. The use of local government reorganization to achieve redistributional objectives has made nonsense of public service accountability at the local level, because of dependence of local governments on statutory allocation for the bulk of their revenue.

In the main, local elected officials and workers try to expand their influence and clout at the centre where power and resources are concentrated. The focus of local government therefore became the federal centre. There has been a radical erosion of the local content of government at that level, such that for most local governments, participation by and accountability to the local population has failed. This follows from the logic of the politics of distributive federalism in which rents from oil are distributed through federal governance structures to the populations and communities of the constituent units, albeit as booties of political warfare.

Under nascent democratic governance, the incorporation of local government into the politics of distributive federalism has reflected in the persisting struggle between the states and national government over control of local government, transforming intergovernmental politics in a way that frustrates local government as grassroots government. Apart from the violence and conflicts that have trailed recent efforts to create additional local governments by several states, some of these local government creation exercises have come under severe criticism. The National Assembly and opposition parties in the States in question have been at the forefront of those objecting to the exercise.

The National Assembly, which had tried unsuccessfully to abrogate the powers of the states over local governments have consistently opposed the effort with a two-fold argument. The first is that it is being done for political reasons, as part of the efforts of incumbent state governments to increase their chances at the 2003 elections. The approval of these councils will mean the approval of gerry meandering. Opposition parties in Kogi, Lagos and Ogun States have also complained that the move is designed to further marginalize the strongholds of the opposition parties by gerry meandering. In Kogi State, for instance, with the creation of additional local governments, the All Nigerian Peoples'

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Party in government took 33 local government councils up from its original 11 while the Peoples Democratic Party, the second largest party in the state, took control of 13 local councils, up from its original 10.

The second is that the inclusion of the new councils in the constitution will mean more money to states from the allocation to local governments. Every state will therefore increase its number of local government to increase its share of the allocation from the Federation Account, leading to their proliferation.

At any rate, local government creation has replaced practical effort to build the capacity of local governments and shore service delivery. A review of the Hansards of various State Houses of Assembly show that key problems and challenges of local governments did not feature on the debates that preceded the local government creation exercises. Debates in these Houses of Assembly have centred mainly on the location of local government headquarters, and the appropriate names for the new local government areas being proposed. This was inspite of the fact that investigation into the state of local governments by the Houses of Assembly in almost all states reveal serious problems of corruption, inadequate funds, over bloated staff, weak ability of political office holders (especially councillors) to understand and effectively participate in the operations of local government, and the general non-performance of local governments in service delivery.

Although Nigeria's constitutions have always provided for a democratically elected local government council since 1979, local government political positions have not always been filled through elections, even under civil democratic rule. For instance, in the second republic state governors freely dissolved local governments councils and held no fresh elections to fill local government posts. Furthermore, several local governments were created bringing the number to almost a thousand from the three hundred and one (301) local government bequeathed by the 1976 reforms. Under the current democratic dispensation, local government has been under control of state government appointed caretaker committees since the expiry of the three-year tenure of officials who assumed office in June 1999. Thus, the assumption by democratic theory that the prospect of removal will cause officials to be accountable in the conduct of public affairs have not had the chance of being realised in local government even under democratic rule in Nigeria.

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Structural and behavioural changes are required to reinvent local government in Nigeria. To do this with success, the changes have to be gradual and deep rooted. Efforts should be made to learn from previous experiences in Nigeria as well as draw on best practices from across the world. First, it must be noted that the attempt to uniformise local government across the country has not only failed, it has become counter productive to stated goals of local governments. As such local government should reflect specific cultural and service delivery peculiarities across the states.

While autonomy remains critical to an effective local government system, it has to be redefined. So far autonomy has meant freeing local government from the control of the state. It has also meant the securing of funds to local councils by direct allocation from the Federation Account. This idea of autonomy is wrong headed as it fails to reckon with financial independence and democratic accountability. The question that should define autonomy is: How can local government reflect local needs being met by local resources? As a minimum a local government should be able to pay for its main bureaucracy.

Concerning transparency, a lot of lessons can be learnt from practices worldwide. Each state government could provide a clear and practical procurement and accounting procedures that meet international accounting standards for its local governments. Citizens of local governments should be free to make complaints concerning any matter connected with the business of the local government at a council meeting of the local government. A copy of the minutes of the proceedings in a council of a local government area should be made available to a citizen at the payment of the required cost of photocopy. Any duly registered elector of a local government should deposit a copy of the annual estimate of a local government in a suitable place in the office of the local authority for inspection. These are some of the ways transparency and accountability has been promoted in Mauritius (Dukhira, 1994:185).

Local government should be made legal creatures of states and be subject to the exclusive monitoring and control from the states. It is clear that the idea of local government as a third tier of government has failed. It merely expanded politicking while diminishing performance of local government as grassroots government.

However, the constitution should make it mandatory for states to ensure that occupants of local governments political positions are employed by direct elections. Where states fail to conduct elections after

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a given period of time then the federal government can intervene through the judicial process. It is our strong belief that local officials' link with the citizens remain the only way to enhance local government autonomy vis-à-vis the state governments.

Finally, one of the major problems in Nigeria is the absence of a merit-based approach to filling government posts across every level of government. Coupled with this is the associated problem of corruption. These twin issues have to be addressed in the effort to transform the culture of governance generally. They have had severe consequences on the performance of government, especially at the local government level. Critical institutions like the office of the Auditor General of Local Government that will promote public service in the local governments should be revisited with a view to enhancing their effectiveness.

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ENDNOTES

1. The one for councillors did not emerge until the current democratic dispensation for obvious reasons.
2. This survey was conducted in 2002 by the Development Policy Centre in collaboration with the Federal Office of Statistics. The survey which was part of an effort to prepare the Nigeria Country Governance Report was done for the United Nations Economic Commission for Africa.

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7

ATTRACTING FOREIGN INVESTMENT THROUGH PRIVATE SECTOR PARTNERSHIP: WHAT HOPE FOR NIGERIA?

M.O. Kayode and O. Oyeranti

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7.1 Introduction

Attracting Foreign Direct Investment (FDI) has become a policy priority in many countries, both developed and developing. Unfortunately, debate over the right route towards the attainment of this priority remains inconclusive. This is principally because; most host economies of foreign investment often see the route from an angle that is different from the key factors that influence the decisions of foreign investors. For governments in the host countries, the age-long belief on how to attract FDI is by employing foreign direct investment incentives[1], especially as governments can manipulate them more easily than other factors that are associated with the investment decisions of foreign investors.

For an investment partnership to be consummated, that is, in order to effectively attract foreign investment, the host countries and the foreign investors must both use a common route to their destinations. Two preliminary issues arise which are discussed and dismissed in this introductory section. The first relates to the 'destinations' and the second to the 'routes'. The resolution of both issues as discussed and in practice provides the answer to the question, what hope for Nigeria?

The destinations: A common route is possible if the destinations of foreign investors and host countries are the same. Where the destinations diverge, there must be a common stop before the different destinations. The common 'stop' or the common destination for actors in a partnership

is essentially **profit,** which is specified in most partnership acts. For example, *The Partnership Act (1890)* of the UK defines 'partnership' as, "the relation, which subsists between persons carrying on a business in common with a view of profit." In the U.S., the *Uniform Partnership Act* defines 'partnership' as, an association of two or more persons to carry on, as co-owners, a business for profit". To be successful, there are a number of partnership requirements, including:

$ the existence and knowledge of profit potentials; and
$ the existence and knowledge of investment incentives and other determinants of FDI motivations.

The Route: The route has several components, which are viewed differently by the major actors. For foreign investors who are often multinational corporations (MNCs), three broad categories of factors influence their foreign investment decisions:

(a) *Firm specific* (or ownership) *advantages* (Hymer, 1960), which give a firm competitive advantage in global markets, including, technological assets, product differentiation, management skills, production efficiencies, size and concentration.
(b) *Internalisation advantages* (Buckley and Casson, 1976). These advantages exist when the internalisation of cross-border transactions within a firm becomes a more efficient form of servicing markets than arm's length transactions.
(c) *Locational advantages* (Vernon, 1966). These occur when the local conditions of potential host countries make them a more attractive site for FDI operations than the home country.

According to a United Nations Report on incentives and FDI, incentives do not rank high among the determinants of FDI motivations. For example, in a study of 247 United States foreign investors, only 10 per cent listed fiscal incentives as a condition for FDI. In contrast, currency inconvertibility (57 per cent), political instability (39 per cent), and limited markets or sources of supply (26 per cent) were more important factors determining investment decisions (Barlow and Wender, 1955). In yet another survey of 205 companies involving 365 investments in 67 countries, investors revealed that the key non-policy determinant of their investment decisions was maintaining market share (or expanding into new markets). To actualise this major objective, the policy variables considered as against foreign direct investment-incentives were: market size, labour costs, productivity, non-discrimination against foreign-controlled enterprises, political stability,

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economic stability, ***and more importantly a favourable government attitude towards the private sector*** (IFC, 1997).

The question of what manner of relationship should exist between would-be foreign investors and the host country's private sector, ably represented by private firms or enterprises, is also part of the route. Informed opinion from the International Finance Corporation (IFC) reveals that FDI provides more than just finance. It provides an operational link between an enterprise in the host country and a foreign partner. This implies that a private sector partnership with foreign investors is a probable means of attracting FDI by the former into an economy.

The focus of this paper is, therefore on, how to effect inflows of FDI through the private sector in Nigeria. Following this introduction, the paper examines investment opportunities in Nigeria. It also discusses investment opportunities in Nigeria with respect to FDI. The paper briefly explores the basis for partnership between the indigenous private sector and foreign investors. The paper then shifts focus to an analysis of the inflow of FDI in terms of its trend, sources and composition, followed by an assessment of the Nigerian investment climate. The paper ends with some concluding remarks.

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7.2 Investment Opportunities

Nigeria's enormous investment potential, which exists in virtually all sectors of the economy are measured not only by the magnitude of resources, but by the structure of the economy and its discernible trends. The gap between the possible and the actual is a good proxy for measuring the potential for investment in an economy generally, in a sector specifically, and in a product particularly. Table 7.1 brings out some of the structural changes in the Nigerian economy since independence. The highlights of the table include:

- $ The declining and, to some extent, unstable contribution of agriculture to GDP. Agriculture, which accounted for about 63% of the GDP in 1960, contributed 47 per cent in 1970 and less than 30 per cent from 1974 to 1984. It picked up again from 1986 to almost 33 per cent and has hovered around 32 per cent ever since until 1998 when it inched up to 35.5 per cent.
- $ The increasing contribution of petroleum to GDP which changed the structure of the economy from being predominantly agricultural-based to a predominantly petroleum producing

country. The contribution of petroleum to GDP exceeded agriculture in 1974. It has also become the largest single contributor to the Federation Account.

$ The performance of manufacturing has not been impressive, representing less than 10 per cent at any time. And yet, hope has always been placed on this sector to pull up other sectors, especially agriculture.

The business potential in Nigeria is demonstrated by other measures that are not shown in Table 7.1. For the manufacturing sector, the capacity utilisation has remained at such a low level that the contribution of the sector would be significantly raised simply by greater utilisation of the already installed capacity. As shown in Table 7.2, raising the capacity utilisation from the current level of a little over 30 per cent to the 1981 level of 73 per cent can double the volume of manufacturing activities.

Nigeria's business potential is perhaps highest in agriculture. Agricultural productivity is low and progress in agriculture is slow, as Table 7.3 clearly illustrates. The Table shows an improvement of 50.7 per cent in agricultural productivity between 1979-81 and 1996-98, compared with over 200 per cent for Singapore and South Korea over the same period. It may sound like day-dreaming but the Singapore/South Korea figure, or even higher, is achievable in Nigeria. Such an increase can be brought about by increased industrialisation of agriculture. Indeed, industrialisation of agriculture is the only route to a sustained high increase in agricultural productivity and a similar increase in the contribution of agriculture to the economy. As of now, the relationship between agriculture and manufacturing is very weak. A strengthening of the relationship will greatly expand the opportunities for a private sector partnership. Indeed, and interestingly, the relationship would be better strengthened by a partnership.

The relationship between petroleum and manufacturing is also weak. At present, the petroleum sector supplies fuel to manufacturing plants and a limited variety and quantity of inputs through the petrol-chemical sub-sector. Yet, petroleum is the source of synthetic fibres being what is used for all manner of manufactured products.

That the relationship between manufacturing and other sectors of the economy, especially agriculture, could be strengthened is well brought out by Okigbo (1999). He asserts that:

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From a single person, it is now possible through biotechnology to produce in eight months 2 million tubers on 40 hectares, while tissue culture and cloning are changing the cultivation of cassava, yams, etc. The major players are the multinationals like UpJohn, Pfizer, ICI, Sandoz, DuPont, American Cyanamid, Ceiba Geigy, Montsanto, etc. All these together control more than 42 per cent of the patents. In another ten/fifteen years, we, as Africans, will have to go to these companies abroad to buy the licence to obtain and use the seeds with which to grow the food we eat but which their nationals do not eat. Edward de Bono is right in proclaiming, "technology is the grammar of the future."

Table 7.1: Structural Change in the Nigerian Economy, 1960-1998

Contribution to GDP at Current Prices (%)	1960	1965	1970	1974	1980	1983	1984	1986
Agricultural	62.9	54.4	47.0	23.0	21.4	26.7	26.9	32.8
Oil	0.6	4.6	10.4	45.0	16.3	29.0	15.2	17.0
Manufacturing	4.8	6.9	7.3	5.1	5.0	8.4	8.6	8.0
Trade	12.4	13.1	12.9	19.1	16.9	14.7	19.5	11.9
Government	3.3	3.1	3.3	6.3	8.5	8.6	7.3	6.8
Contribution to GDP at Current Prices (%)	1989	1990	1991	1992	1994	1995	1996	1998
Agricultural	31.2	30.1	30.4	30.2	30.7	31.6	30.7	35.5
Oil	35.4	33.4	37.5	46.8	26.8	40.4	43.6	35.7
Manufacturing	8.2	8.1	8.5	7.4	6.9	4.6	4.2	4.6
Trade	14.6	13.9	13.0	14.6	16.1	14.0	13.0	14.7
Government	3.1	3.1	2.7	2.6	2.5	1.1	0.9	0.9

Source: Federal Office of Statistics

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Table 7.2: Capacity Utilisation in the Nigerian Manufacturing Sector, 1981-1999

Year	Capacity Utilisation (%)
1990	40.3
1995	29.1
1996	36.8
1997	34.0
1998	34.9
1999	34.3

Source: Central Bank of Nigeria

Table 7.3: Agricultural Productivity, 1979-81 and 1996-98 (US Dollar)

Country	1979-81	1996-98	% Change
Nigeria	414	624	50.7
Japan	15,655	30,272	93.4
Singapore	13,937	42,851	207.5
South Korea	3,745	11,760	214
Brazil	2,047	4,081	99.4
Chile	3,174	5,039	58.4
Malaysia	3,275	6,061	85.1

Source: Compiled and computed from World Bank (2000b)

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Demonstrating the relevance of the assertion, especially to agriculture, Okigbo further observed:

> Nigeria has 23 institutions that do research in agriculture in addition to 8 Universities of Agriculture. But altogether, Nigeria devotes only 0.3 per cent of the GDP to science and technology whereas the average in the Western world is over 3 per cent. In the developing world, India dedicates some 2 per cent, the Philippines 1.5 per cent, Brazil 2 per cent, Thailand 2 per cent, and South Korea 2.1. to 3 per cent. In Africa, (excluding South Africa), Cameroon takes the lead with 0.8 per cent followed by Egypt with 0.5 per cent. But science and technology in the abstract is not relevant now for our progress as what we need is to bring to bear on our development the fruits of research in science and technology undertaken world-wide and already well known and documented.

A factor that can greatly assist the actualisation of Nigeria's business potential is a carefully managed partnership within and beyond the country. More can be said on this. For now, it is enough to observe that a private sector partnership can put into more effective use Nigeria's vast expanse of idle land, and thereby raise the productivity of the small holder farmers and turn into a "Prairie" of Canada such large and idle farms as the "Mokwa-Bida Junction Project".

7.3 Tapping The Potentials

The investment potentials of the resources demonstrated in section two of this chapter is virtually limitless. In the final analysis, it is the tapping of the potentials that determines the position of a country in the development hierarchy. Therefore, a country's potentials remain mere potentials, until they are tapped. We focus here on FDI and the incentives offered by host countries to facilitate it. For both partnership and FDI, the critical consideration is their perceived usefulness and effectiveness.

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Foreign Direct Investment (FDI)

The International Monetary Fund's (IMF) *Balance of Payments Manual* defines foreign direct investment as investment made to acquire a lasting interest in a foreign enterprise with the purpose of having an effective voice in its management. The World Trade Organisation (WTO) (1996) observes that FDI occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage that asset. The IMF and the WTO have given a similar definition, which suggests that the management dimension is what distinguishes FDI from portfolio investment in foreign stocks, bonds and other financial instruments. FDI, therefore, comprises three components as follows:

(a) new equity from the foreign company in the home country to the company in the host country;
(b) reinvested profits earned from the company; and
(c) long- and short- term net loans from the foreign to the host company.

Accepting the meaning of FDI, as defined by the IMF and the WTO carries a number of conceptual and practical implications, which will be of little interest for now. It is important however, to ensure that, actual acts of investments as, implied by the IMF/WTO definition, have

occurred. It is also necessary to note that an increase in measured FDI does not necessarily signify that expenditure has been incurred to increase the capacity of plant and machinery.

We should conclude this section by highlighting an approach that could increase the mutual benefits of FDI, especially to the host country. It is important that partnership should be demand-driven at least from the viewpoint of the host country. That being so, FDI must be decomposed into partnering requirements which, as may be inferred from our discussion so far, could include: finance, technology, management, market, marketing, material inputs, labour, etc. The requirement(s) for each sector, or even sub-sector, should be studied with appropriate notes made of modifications that size may dictate. It is important that this exercise should be done at least for the real sectors. A matrix such as the one shown in Appendix 4 would be the outcome of such exercise. This would provide useful information to potential foreign investors, at the very least.

A decomposition of FDI will help correct the impression that FDI is only a source of capital funds, rather than the optimal use of funds. The following reasons help to understand in a better way why host countries to FDI should have a correct perception of its value:

(a) Recorded inflows of new equity or debt into the host country may be undertaken for purposes of buying up an existing firm or merging it with an existing one. In this case, FDI fails to add to plant and machinery or stocks.

(b) The profits of a subsidiary in a host country, whether repatriated or not, are notionally regarded as an inflow in the current account of the host country's balance of payments. For undistributed profits, these are regarded as an inflow of FDI from the home country to the host country and recorded as a national inflow in the capital account of the host country's balance of payments.

Conceptual and practical problems in appreciating the meaning of FDI notwithstanding, South Centre identifies the following as plausible explanations for FDI in any economy:

$ the transfer of technology to individual firms and technological spill-over to the wider economy;

$ increased productive efficiency due to competition from multinational subsidiaries;

$ improvement in the quality of the factors of production including management in other firms and not just the host firm;

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$ a healthy balance of payments through the inflow of investment funds;
$ increases in exports;
$ increases in savings and investment;
$ faster growth of output and employment; and
$ welfare improvement due to lower prices of goods and the introduction of new or better quality goods.

For a fuller assessment of FDI, Biersteker (1978) raised seven key disputed issues about the role and impact of FDI in developing countries. A number of questions can be raised on each of the issues, as shown in Table 7.4.

Table 7.4: Seven Key Disputed Issues About the Role and Impact of Foreign Direct Investment in Developing Countries

S/N	Key Issue	Source of Dispute
1.	International capital movements (income flows and balance of payments)	a. Do FDIs bring in much capital (savings)? b. Do FDIs improve the balance of payments? c. Do FDIs remit 'excessive' profits? d. Do FDIs employ transfer pricing and disguise capital outflows? e. Do FDIs establish few linkages to the local economy? f. Do FDIs generate significant tax revenue?
2.	Displacement of indigenous production	a. Do FDIs buy out existing import competing industries? b. Do FDIs use their competitive advantages to drive local competitors out of business?
3.	Extent of technology transfer	a. Do FDIs keep all R&D in home countries? b. Do FDIs retain monopoly power over their technology?
4.	Appropriateness of technology	a. Do FDIs use only capital-intensive technologies? b. Do FDIs adapt technology to local factor endowment?
5.	Patterns of consumption	a. Do FDIs encourage inappropriate patterns of consumption through elite orientation, advertising, and superior marketing techniques? b. Do FDIs increase consumption of their products at the expense of other (perhaps more needed) goods?
6.	Social structure and stratification	a. Do FDIs develop allied local groups through higher wage payments, hiring (displacing) the best of the local entrepreneurs, and fostering elite loyalty and socialisation through pressures for uniformity? b. Do FDIs foster alien values, images, and life-styles incompatible with local customs and beliefs?
7.	Income distribution and dualistic development	a. Do FDIs contribute to the widening gap between rich and poor? b. Do FDIs exacerbate urban bias and widen rural-urban differentials?

Source: Biersteker, (1978)

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The best use to which Biersteker's seven key disputed issues can be put is to apply them as relevant premises for the assessment of FDI in developing countries, as well as using them to suggest appropriate guidelines or criteria that a private sector-foreign investor partnership should satisfy.

The Incentives

At the incentive level, UNCTAD (1996) presents three classifications of incentives for FDI as fiscal, financial, and other incentives. Table 7.5 enumerates the major elements of the fiscal incentives.

Putting all these incentives together appears complex. Unfortunately, there are strong indications that incentives tend to become less effective as they become more complex and are more frequently altered. This is so because, intermittent changes in incentives will increase the information costs and uncertainty facing potential investors. Worse still, since many developing countries rely on the same set of incentives, it may be somehow difficult for a country to attract significantly more foreign direct investment by small increases in its existing incentives, especially if other countries competing for the same investment match such incentives. In effect, it will indeed be wise for a group of countries to agree on limiting competition in granting incentives. This could be done through regional organisation rather than the multilateral route.[2] However, the regional route might pose more practical problems for developing countries that are in a perpetual state of struggle against economic stagnation.

A major puzzle that revolves around the use of foreign-direct-investment-incentives is the question of where they belong in the course of attracting FDI. This is more so if incentives are seen as *incremental* ingredients. In the face of mounting empirical evidence that determinants of FDI are more relevant than FDI incentives in our understanding foreign investors' behaviour (Guisinger and Associates, 1985; Fry, 1993; Harrison, 1996; and IFC, 1997), it is going to be a question of 'a stitch in time saves nine' for developing countries like Nigeria to shift attention to guaranteeing the country's attractiveness to FDI via a different route. One obvious way of attracting FDI is to work towards the emergence of a competitive private sector charged with the responsibility of providing the domestic foundations required for a successful contact with FDI in an economy. If investment determinants are perceived as *survival* ingredients, then they become a *sufficient*

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condition, while the *incremental* ingredients become a *necessary* condition.

Table 7.5: Main Types of Fiscal Incentives for FDI

Profit-based	Reduction of the standard corporate income-tax rate; tax holidays; allowing losses incurred during the holiday period to be written off against profits earned later (or earlier).
Capital investment-based	Accelerated depreciation, investment and reinvestment allowance.
Labour-based	Reductions in social security contributions, deductions from taxable earnings based on the number of employees or on other labour-related expenditure.
Sales-based	Corporate income-tax reductions based on total sales.
Value-added-based	Corporate income-tax reductions or credits based on the net local content of output; granting income-tax credits based on net value earned.
Based on other particular expenses	Corporate income-tax reductions based on, for example, expenditures relating to marketing and promotional activities.
Import-based	Exemption from import duties on capital goods, equipment or raw materials, parts and inputs related to the production process.
Export-based	a) Output-related, e.g., exemptions from export duties; preferential tax treatment of income from exports; income-tax reduction for special foreign-exchange-earning activities or for manufactured exports; tax credits on domestic sales in return for export performance. b) Input-related, e.g., duty drawbacks, tax credits for duties paid on imported materials or supplies; income-tax credits on net local content of exports; deduction of overseas expenditures and capital allowance for export industries.

Source: UNCTAD, (1996)

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7.4 Foreign Direct Investment Through Partnership

We learn from microeconomics that one way for a business enterprise to grow is to have more than one owner contributing to its operations. The source of growth is expected to be in the heterogeneity of skills that contributors will bring into the firm. This underlines the practice and concept of partnership. For FDI, the existence of operational links between foreign investors and local partners is sometimes a precondition for successful cross-border investment. Such joint venture arrangement suggests that *each side has comparative advantages in the relationship to be evolved by coming together.*

Like all ventures, FDI is exposed to a range of risks. Weak markets, weak management, government controls, and cost overruns are among the principal ones. Unfortunately, FDI by its very nature, increases these risks in several ways. Firstly, cross-border investments pose additional informational challenges. Implementation delays, cost overruns, and misjudgement of market prospects are likely problems that foreign investors may face because they are less familiar with the host economy's business environment. Secondly, cross-border business has extra hurdles to navigate especially trade, capital and labour restrictions. Sometimes, policies specifically directed at facilitating FDI can equally pose entry problems to other types of foreign investors.

In contrast to the limitations confronting foreign investors, Blomstrom and Kokko (1997) reveal that local firms have superior knowledge of local markets, consumer preferences, and business practices. While it is difficult to believe that local businesses are problem-free, it is reasonable to expect that marketing advantages will cut both ways: foreign partners will have superior access to international marketing channels, while their local counterparts will provide better access to the local market. The need for partnership is evidently clear here. The foreign partners will share with the domestic partners' market advantages, and *vice-versa.* A number of other reasons for partnership between foreign investors and the domestic private sector may be put forward, in addition to those already discussed.

Firstly, partnership, or joint ventureship as it is sometimes called in practice, ensures a means of sharing control, risks, and rewards through equity holding by both parties. For the local investors, partnership guarantees the suppliers' (foreign investors) interest in the success of the enterprise in question. For foreign investors, bringing in local partners helps to achieve the following:

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- reducing the risks to the venture through greater familiarity with the local business climate, government policies, and economic conditions;
- reducing the financial commitment of the foreign investors and cross-border transfers of resources; and
- local partners can help mobilise additional local financing and may have better access to land resources.

Secondly, because many countries restrict entry by foreign investors without local partners, foreign investors may have to find local partners so as to comply with domestic legal requirements, as against meeting a business need. The result is the emergence of large joint ventures with minority FDI partners. This reflects policy restrictions on foreign ownership, as foreign investment and the technology associated with it can only come through such minority partnerships with local companies. In Nigeria for example, international dry battery manufacturers did not set up a local production facility until sometimes in the 1980s when a local investor established a successful manufacturing plant with technical support from a foreign battery producer who held a minority equity stake (IFC, 1997).

In recent years, the effects of globalisation have added one important dimension to partnership arrangements between foreign investors and local private firms: the international integration of production, supply, and marketing chains makes companies more reliant on their partners' performance.

From the foregoing, one deduction that can be made for partnership between the local private sector and FDI is that, it is *mutually beneficial to both parties, if allowed*. Indeed, opinions in the literature converge on the fact that FDI can only promote economic development through spillovers that are passed on to their host countries. However, FDI's ability to affect host economies is dependent upon the extent of its linkage with the domestic firms. Spillovers are expected to occur when local firms benefit from the foreign investor's superior knowledge of the product or process technologies or markets, without incurring a cost that exhausts the whole gains from such partnership. As identified by Blomstrom and Kokko (1997), linkages can take two forms: *backward and forward linkages*. The former arises from FDI's relationship with the suppliers in the host economy, while the latter develops from FDI's contacts with the consumers.

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In summary, it is safe to argue along with the IMF that FDI can only be mutually beneficial by cooperating with a host country's chosen development strategy and show a willingness to consider alternative arrangements, such as partnership and minority equity participation. For developing economies like Nigeria, preparing their private sectors for partnership with foreign investors ought to fit well into their calculations of how to attract FDI. In fact, a recent empirical study of foreign investment and productivity growth in Czech enterprises found that joint ventures and foreign direct investment appear to have negative spillover effects on firms that do not have foreign partnerships. The same study also found that with FDI alone, the magnitude of the spillover becomes much smaller and loses significance (Djnakov and Hoekman, 2000).

7.5 Inflow of Foreign Direct Investment (FDI) And Assessment of Nigeria's Investment Climate

Table 7.6 details Nigeria's FDI flow for the period 1970-98. It shows the highest FDI value of ₦111, 295.0 million in 1996 and the lowest value of ₦74.52 million during the period of 1976-98. By coincidence, these values correspond to the highest and lowest proportions of FDI in GDP of 4.1 and 0.3 per cent respectively. The Table indicates that, of late, the annual percentage change in FDI has been declining absolutely, with the result that the percentage change for 1997 against 1996 value stood at –0.8. The decline increased in 1998 to –26.9 per cent of 1997 level. It is equally clear from Table 6 that FDI constitutes only a small percentage of the nation's GDP. The proportion of FDI in GDP, which stood at 4.1 per cent in 1996, has been declining steadily, with the 1998 figure being 3.0 per cent.

Table 7.6: Foreign Direct Investment in Nigeria, 1970-98

Year	Nominal FDI (₦' m)	FDI As A % of GDP	Growth Rate of FDI
1991	6916.1	2.2	47.6
1992	14463.1	2.7	109.1
1993	29675.2	4.3	105.2
1994	22229.2	2.4	-25.1
1995	75940.6	3.9	241.6
1996	111295	4.1	46.6
1997	110456.2	3.9	-0.8
1998	80751.2	3.0	-26.9

Source: Computed by Authors

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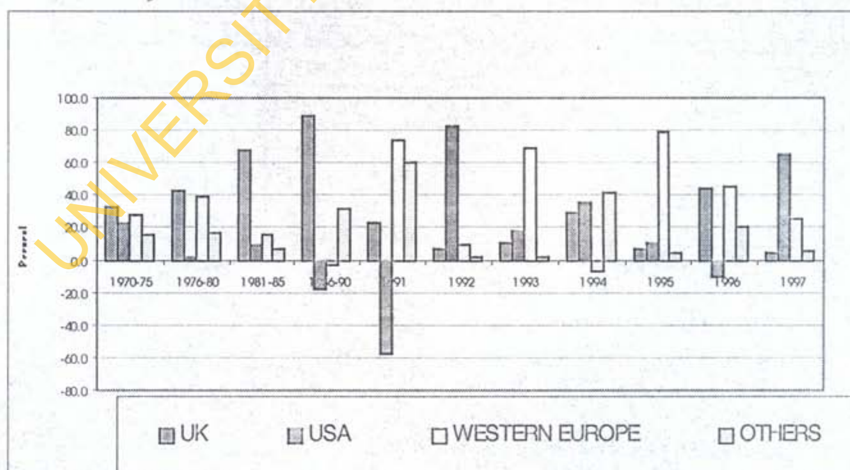
The overall net inflows of FDI in Nigeria increased from ₦2, 731.0 million in 1996 to ₦5, 731.0 million in 1997. This increase represents 109.8 per cent. A closer look at Table 7 reveals that companies of U.S. origin contributed the bulk of the net flow as they accounted for ₦3, 768.7 million or 65.8 per cent of the total. However, the net flow of foreign private capital from the other regions fell in 1997 (See Table 7 and Fig. 1 for the details).

Table 7.7 Flow of Foreign Private Capital into Nigeria by Source, 1970-97

Year	United Kingdom	USA	Western Europe	Others	Total
1991	419.5	-1035.9	1330.2	1094.2	1808.0
1992	560.5	6836.8	747.4	124.5	8269.2
1993	3633.3	6041.7	22558.3	761.1	32994.4
1994	1136.7	1387.6	-267.4	1650.3	3907.2
1995	3216.0	5043.6	38285.0	2132.5	48677.1
1996	1194.8	-288.2	1249.4	575.0	2731.0
1997	232.6	3768.8	1437.6	292.0	5731.0

Source: Computed by Authors

Figure 7.1: Proportions of Sources of Foreign Private Capital in Nigeria, 1970-97



Source: Drawn Based on Data in Table 2

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A further breakdown of the net flows reveals that *'liabilities to head office' component contributed the lion share,* amounting to ₦4062.9 million or 70.9 per cent of total net inflow of ₦5, 731.0 million. Again, the volume of investment through this component is associated with the U.S., which increased its outflow of ₦194.8 million in 1996 to a record ₦2, 045.5 million in 1997. For unremitted profit, it rose slightly to ₦1, 942.5 million in 1997 from ₦1, 758.2 million in 1996 (Table 8).

One way of analysing the flow of foreign private capital is by sectoral aggregate. The economic sectors/sub-sectors that are often considered are mining and quarrying; manufacturing and processing; agriculture comprising forestry and fisheries; and transport and communication. Others are building and construction; trading and business services; and miscellaneous. Cumulative foreign investment in the manufacturing and processing, transport and communication and other miscellaneous activity sectors/sub-sectors increased by 5.0, 38.6 and 7.9 per cent respectively in 1997 over the preceding year's levels.

Table 7.8: Components of Net Capital Flow by Origin (₦ = 'Million)

Year	UNPROT	DFSK	TR&SSCR	OTHOLAB	LABHDO	Total
1970-75	80.4	13.7	95.5	-31.2	75.9	234.3
1976-80	168.2	49.1	100.2	-14.1	-37.0	266.5
1981-85	289.0	62.0	268.0	43.9	-26.2	636.8
1986-90	773.4	315.1	1860.4	-743.1	-1481.5	724.3
1991	2101.5	669.1	707.2	-664.3	-1005.5	1808.0
1992	889.5	227.0	8964.4	-110.7	-1700.9	8269.2
1993	2734.5	5011.4	17803.1	-4305.7	11751.1	32994.4
1994	1749.7	429.5	214.8	209.4	1303.8	3907.2
1995	4428.8	10858.1	16936.4	8342.8	8111.0	48677.1
1996	1758.2	707.7	-535.5	579.0	221.6	2731.0
1997	1942.5	461.5	1071.8	-1807.6	4062.9	5731.0

Source: Computed from Appendix 3

Notes:

UNPROT means Unremitted Profit

DFSK means Changes in Foreign Share Capital

TR&SSCR means Trade and Supplier Credit

OTHOLAB means Other Foreign Liabilities

LABHDO means Liabilities to Head Office.

However, the shares of cumulative investment in mining and quarrying, agriculture consisting of forestry and fisheries; building and

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construction; trading and business services declined to 46.1,0.9, 1.0 and 2.8 per cent from 46.3, 1.0, 1.5 and 3.0 per cent in 1996, respectively (See Table 9 for the details). These are the sectors, which, we have argued earlier, need a faster rate of development than at present. Thus, the need for urgently reviewing the contributions of FDI cannot be overemphasized.

Table 7.9: Cumulative Foreign Private Investment in Nigeria by Type of Activity, 1970-97 (₦ = Million)

Mining and Quarrying				Manufacturing & Processing			Agriculture, Forestry & Fisheries		
Year	Total	% Change	% Distribut-ion	Total	% Change	% Distribut-ion	Total	% Change	% Distribut-ion
1991	-810.0	-140.9	-6.6	8692.4	103.9	71.0	382.8	126.8	3.1
1992	6417.2	-892.2	31.3	9746.3	12.1	47.5	386.4	0.9	1.9
1993	27686.9	331.4	41.5	12885.1	32.2	19.3	1214.9	214.4	1.8
1994	26680.0	-3.6	37.7	14059.9	9.1	19.9	1208.5	-0.5	1.7
1995	56747.3	112.7	47.5	27668.8	96.8	23.2	1209.0	0.0	1.0
1996	56792.3	0.1	46.3	29814.3	7.8	24.3	1209.0	0.0	1.0
1997	59221.4	4.3	46.1	31297.2	5.0	24.4	1209.0	0.0	0.9

Source: Computed by the Authors

Table 7.10: Cumulative Foreign Private Investment in Nigeria by Type of Activity, 1970-97 (₦ = Million) Cont'd.

Transport & Communication				Building & Construction			Trading & Buz. Services		
Year	Total	% Change	% Distribut-ion	Total	% Change	% Distribut-ion	Total	% Change	% Distribut-ion
1970-75	15.7		1.0	47.3		2.6	304.2		18.3
1976-80	45.0	186.4	1.5	214.1	352.4	7.1	551.3	81.3	19.2
1981-85	74.7	65.9	1.4	416.9	94.8	7.5	1969.2	257.2	33.4
1986-90	143.1	91.5	1.4	536.5	28.7	5.2	2898.2	47.2	27.9
1991	373.2	160.9	3.0	1471.6	174.3	12.0	1452.2	-49.9	11.9
1992	391.5	4.9	1.9	1406.6	-4.4	6.9	1482.5	2.1	7.2
1993	426.4	8.9	0.8	71.2	-94.9	0.1	1864.5	25.8	2.8
1994	429.6	0.8	0.6	170.0	138.8	2.4	2247.6	20.5	3.2
1995	374.8	-12.8	0.3	1553.0	813.5	1.3	2990.7	33.1	2.5
1996	485.6	29.6	0.4	1864.3	20.0	1.5	3668.7	22.7	3.0
1997	673.0	38.6	0.5	1259.8	-32.4	1.0	3625.7	-1.2	2.8

Source: Computed by the Authors

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Table 7.11: Cumulative Foreign Private Investment in Nigeria by Type of Activity, 1970-97 (₦ = Million) Cont'd.

Miscellaneous			Total			
Year	Total	% Distribution	% Distribution	Total	% Change	% Distribution
1970-75	50.9		2.9	1626.7		100
1976-80	199.9	292.5	6.7	2901.4	78.4	100
1981-85	356.7	78.4	6.4	5662.5	95.2	100
1986-90	406.6	14.0	4.0	10396.4	83.6	100
1991	682.0	67.7	5.6	10243.5	-1.5	100
1992	682.2	0.0	3.3	20512.7	100.3	100
1993	22638.0	3218.4	33.9	66787.0	225.6	100
1994	24381.1	7.7	34.5	70714.6	5.9	100
1995	28848.0	18.3	24.2	119391.6	68.8	100
1996	28766.7	-0.3	23.5	122600.9	2.7	100
1997	31046.2	7.9	24.2	128331.9	4.7	100

Source: Computed by the Authors

The result of the suggested analysis should bring out two important revelations. Firstly, that *there is no sector that cannot benefit from FDI.* The analysis will cast doubt on the finance component of FDI, especially if handling the issue of capital flight and the repatriation of the wealth of Nigerians abroad were to recognise the 'pull' and 'push' factors by tactfully managing the following variables:

- protecting or promoting the interests of key actors, including the interests of the country of;
- lodgement's finance institutions, as well as the interests of Nigerian owners; and
- carefully reconciling probable conflicts between the demands of ethics and effectiveness.

The actual estimate of the total Nigerian wealth involved is not known, but it is assumed to be substantial. This situation would seem to reinforce the perception "that Africa has more of its assets in proportion to the total located outside the region than elsewhere in the world". A related observation "that Africa relies more heavily on foreign resources (aid and investment) relative to total investment than any other region of the developing world" (Oyejide, 2001) reinforces the urgent need for more effective partnering mechanisms between companies in developed and developing countries.

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At this point, it may be necessary to ask one question: How has Nigeria faired in terms of inflow of FDI? Available records show that a fairly stable group of countries have been the largest hosts of FDI in three successive 10-year periods, from 1970-96. While Nigeria occupied the third position among the top twelve developing-country recipients of FDI in the period of 1970-79, her position went down to tenth in 1980-89. Disappointingly, Nigeria failed to make it in the list of the top 12 in the period of 1990-96 (See Table 7.12).

Table 7.12: Top 12 Developing-Country Recipients of FDI, 1970-96

Rank	1970-79	1980-89	1990-96
1	Brazil	Mexico	China
2	Mexico	Brazil	Mexico
3	**Nigeria**	China	Malaysia
4	Malaysia	Malaysia	Brazil
5	Indonesia	Egypt	Indonesia
6	Greece	Argentina	Thailand
7	South Africa	Greece	Argentina
8	Iran	Thailand	Hungary
9	Egypt	Colombia	Poland
10	Ecuador	**Nigeria**	Colombia
11	Thailand	Indonesia	Chile
12	Algeria	Chile	Czech Republic

Source: IFC, (1997) p.17

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A look at the major macroeconomic indices in Nigeria shows that Nigeria's flow of FDI has not only been low in proportion to GDP but declining. Major indicators of economic performance, such as the growth rate of the economy, budget deficit/GDP ratio, price level captured by inflation rate, manufacturing capacity utilisation rate, and growth-inducing variables, such as the gross domestic investment/GDP ratio, among others have been performing poorly in recent years. Where there have been improvements, they have been essentially in terms of maintaining a positive, but low level of performance, such as the gross domestic investment/GDP ratio, which increased from 17.4 per cent in 1997 to 28.3 per cent in 1998 (ADB, 2002)..

It therefore becomes appropriate to raise the issue of how to attract FDI through the private sector. At the moment, a distinct shift has emerged in the role of government in the development process, characterised by renewed interest in the private sector as the engine of

growth and a greater reliance on market mechanism. Elements of a private sector-led economic growth, as spelt out in the current administration's economic blueprint include: divestiture, deregulation, de-bureaucratisation, democratisation of decision-making processes, provision of an enabling environment and frontier shifting.

While the current civilian administration deserves credit for encouraging efforts to produce a vibrant Nigerian private sector, Emery *et al* (2000) have observed that all countries in sub-Saharan Africa countries (including Nigeria) are pursuing various elements of adjustment reforms. These policy reforms appear adequate to put the private sector firmly in the driver's seat of Nigeria's development vehicle. The question remains, however, whether the government is, indeed, going to be a catalyst that provides the enabling environment for the private sector to thrive, as well as being the creator of enabling macroeconomic environment? A comparative analysis would be useful in addressing the question.

According to the *World Development Report (2001),* domestic credit provided by the banking sector (a proxy for financial sector efficiency and depth) as a percentage of GDP declined from 23.4 in 1990 to 15.4 in 1999 in Nigeria. Corresponding figures for South Africa[3] are 97.8 and 73.4 per cent respectively. While it is true that the figures show a downward trend for both countries, the absolute value of the ratio for Nigeria is not investment-friendly, to say the least. At the level of *energy consumption*, Nigeria had a record of 38 per cent of transmission and distribution losses of its energy output in 1990. This figure managed to decline to 32 per cent in 1999. In South Africa, the comparative figure for 1999 was 10 per cent. All indicators of investment risks that foreign investors often rely upon to define the *health of an economy* are not in favour of Nigeria when compared with South Africa, or indeed, when compared with the average for the low-income countries. For example, *composite incremental country risk guide* (ICRG[4]) as at March 2000 for Nigeria was 53.3 per cent, for South Africa 70.5 per cent, and the average for low- income countries was 57.9 per cent. The story is not different when one considers the *institutional investor credit rating*: Nigeria had 18.3 per cent in March 2000, while South Africa had 45.2 per cent. What is more disturbing is that, in December 2000, the figure for Nigeria declined to 18.1 per cent while South Africa improved in her credit worthiness to 55.1 per cent in December 2000. And perhaps, *FDI*

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as a percentage of gross capital formation in Nigeria declined from 14 per cent in 1990 to 11.8 per cent in 1999.

A conclusion from all this is that, *the management of the Nigerian macro economy is beset with serious problems,* which may make it difficult, if not impossible, for its private sector to induce FDI, a necessary precondition for partnership formation with foreign investors. In addition, the public sector, or whatever remains of it, must be made to function effectively and efficiently. Obadan (1997) observed that the public sector had failed in Nigeria. The provision of goods and services has been a disaster owing to a culture of poor management as a result of the following problems identified by Usman (1996):

- inadequate or conflicting objectives,
- poor human resources management,
- lack of strategic planning,
- weak capital structures of public enterprises,
- poor and inadequate systems and procedures,
- poor debt management,
- persistent loss-making by public enterprises,
- inappropriate tariff (or pricing) policies,
- absence of an audit culture and accountability in particular, and
- lack of transparency in general.

Attracting foreign investment through the private sector will involve conscious effort on the part of the government to tackle the factors identified as responsible for public sector failure in Nigeria. If this is done, the government would not have to only surrender its involvement in direct production of goods and services to the private sector, but also ensure the viability of the private sector to attract regular and substantial foreign investment.

All said and done, the bottom line is that the public sector should avoid the temptation of competing with the private sector. Rather, government should rigorously pursue its liberalisation policy with greater urgency. The dominance of state enterprises in any economy is not FDI-friendly. Yet, because of Nigeria's sentimental attachment to state enterprises (arising largely from equity considerations), privatisation and liberalisation must be properly aligned if the former is to be effectively pursued. Appropriate lessons on this should be learned from the Aviation sector. It appears that privatisation is easier to handle if a sector is first liberalised. With this approach, opposition tends to reduce

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because the efficiency benefit from a market-driven system becomes more apparent.

7.6 Concluding Remarks

This paper examines the question of how Nigeria's private sector can be used to attract more foreign direct investment. A review of what it takes to have a steady and substantial inflow of FDI has revealed that FDI incentives are not as important as FDI fundamentals. Such fundamentals must guarantee the profitability of FDI in the host economy, as well as ensure that it would be mutually beneficial to foreign and local partners. Aware that investment generally stimulates economic growth and development, and that the potential of FDI's contribution to the economic growth and development of its host country is a function of the linkages between foreign investment and local firms, a case is made for partnership arrangements between foreign investors and private local investors in the host economy. The firm position of this paper is that the state (government) must play the all-important role of strengthening the private sector by first eliminating anti-investment forces, particularly infrastructural and policy, that can weaken the domestic private sector, thereby making it inhospitable to FDI. The extent to which the state succeeds in creating a private sector-friendly environment, which promotes private sector partnership, is the extent to which Nigeria's hope will be high. The hopes would dim considerably if, as in the past, the state is bugged down with politics and undue preoccupation with short-run gains. The trade-off between effectiveness/efficiency and equity will, in the final analysis, be the light switch of Nigeria's hope of a rapid economic recovery.

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END NOTES

1 Three broad classifications of FDI incentives are found in the literature. They are fiscal incentives, financial incentives, and other incentives. These incentives are examined in chapter two of this paper.

2 For more detailed discussion *see,* T. Ademola Oyejide, Negotiating African Integration into the Global Economy (2001)

3 The choice of South Africa is informed by the need to relate Nigeria with an African country with more traits of growth and development.

4 ICRG: The index is based on 22 components of risks (political, financial and economic) and converts the information into a single numerical risk assessment figure ranging from 0 to 100. Rates below 50 indicate very high risk and those above 80 suggest 'very low risk'. This implies that while Nigeria is close to 'very high risk, benchmark, South Africa is close to the 'very low risk' benchmark.

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8

NIGERIAN TRADE POLICY IN THE CONTEXT OF REGIONAL AND MULTILATERAL TRADE AGREEMENTS

T. Ademola Oyejide

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8.1 Introduction

Trade policy is increasingly shaped by the forces of globalization and determined largely in the context of regional and multilateral trade agreements. Nigerian trade policy is not an exception to this general and universal trend. The extent to which Nigerian trade policy reflects this global trend has, of course, varied over time. The trade policy regime that prevailed in Nigeria between the early 1960s and the mid-1980s can be described as inward-looking. Combined with the emergence of the dominant oil sector, this regime appears to have generated considerable anti-export bias, which stifled incentives for non-oil exports. As a result, Nigeria's export of non-oil products has stagnated and the opportunity to participate in and benefit from the growth of international trade missed. The policy reforms embedded in Nigeria's structural adjustment programme of the mid-1980s recognized this problem and explicitly accepted the superiority of a more outward-oriented trade regime as a key component of a growth-enhancing strategy for the country. Hence, the broad objectives of Nigeria's trade policy since the mid-1980s can be expected to reflect this strategic shift.

But the stance of a country's trade policy is affected not only by domestic concerns but also by globalization. This is one of the key factors shaping the current environment for economic development in many countries. The process of globalization is advanced by rapid improvements in communication and transportation technology that have

reduced the cost of moving people, goods, money and information across political frontiers, increasing global integration of markets for goods, services and factors of production and increasing convergence of policies and institutional environment which constitute the rules and context within which international economic interactions occur.

By providing enhanced access to world markets, finance and technology, globalization could enable countries accelerate their development process. But these opportunities can be most fully realized by countries that pursue outward-oriented policies. In addition, the benefits of globalization depend on the nature and form of integration; the process of globalization is also associated with risks. In particular, the costs of globalization can be high, especially in the short term for small and fragile economies as they are suddenly exposed to external shocks.

Regional and multilateral trade agreements may be viewed as arrangements designed, in varying degrees, to enhance the benefits of liberalization while also moderating the costs associated with globalization. In this context, regional trade agreements could represent preliminary steps to full liberalization; a sort of controlled experiment which may be used by a country to prepare itself for the more demanding competitive pressures in the global arena. While multilateral trade agreements tend to widen a country's exposure to global competition they also often contain special arrangements or safeguards which enable participating countries to protect themselves against disruptions. In the more positive sense, commitments made in the context of regional and multilateral trade agreements can be used to shield rational trade policy from the onslaught of domestic special interests, which typically seek protection.

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8.2 Trade Structure and Performance

The Nigerian economy experienced radical structural changes during the 1970s and 1980s. These changes were particularly significant in the external sector of the economy. For instance, agriculture was the most important sector of the Nigerian economy in the 1960s. It provided the largest share of the country's gross domestic product (GDP), employment as well as export earnings. This picture changed dramatically in the 1970s, as crude petroleum became the economy's leading sector by accounting for more than 90 percent of the country's export earnings and about 70 percent of total government revenue. This

dramatic structural shift had an additional effect. The resulting heavy reliance on crude petroleum exports made the economy highly vulnerable to external shocks, which were periodically transmitted through sharp changes in the world demand for and prices of petroleum products. In other words the agricultural-based Nigerian economy of the 1960s was considerably less vulnerable to external shocks than the petroleum-dominated economy of the 1970s and beyond. The greater vulnerability of the economy since the 1970s was dramatically demonstrated in the early 1980s with the collapse of the world oil market, which generated large negative growth of Nigeria's GDP. It also led to huge trade, current account and fiscal deficits as well as massive increase in external debt. The ultimate response to these crises was a series of structural and policy reform efforts, beginning in the mid-1980s, whose main aim was to diversify the productive base of the economy away from its heavy reliance on crude petroleum.

A more detailed analysis of the country's trade structure and performance should help to put these developments in better perspective. To begin with an indicator of performance, Table 1 shows that the value of exports rose rapidly from US$ 3.47 billion in 1973, to a peak of US$26.10 billion in 1980. Export earnings then fell, almost as dramatically from this peak to only US$13.49 billion ten years later. This performance worsened further to US$12.65 billion in 1995 before rising marginally to US$12.88 billion in 1999. These sharp shifts are, perhaps, more vividly portrayed by the movements of export earnings index (also shown in Table 8.1). According to this performance indicator, which is 100 in 1980, export earnings of 1973 had an index only 13.30 in 1973, although this rose more than two-fold over the next two years to reach 30.61 in 1975. It subsequently increased more than three-fold between 1975 and 1980. Having peaked in 1980, the index fell sharply by more than 40 percent over the next five years. It remained less than half of the 1980 peak figure through the second half of the 1990s.

This pattern of sharp increases up to a peak and dramatic declines thereafter is exhibited by export earnings movement to some extent, replicated by the movements in imports. This value of imports rose from US$1.87 billion to its peak figure of US$14.30 billion in 1980; an almost eight-fold increase, which roughly parallels the percentage increase experienced by export earnings over the same period. This suggests the prevalence of what has been described as 'autonomous' trade policy in which imports are determined largely by the availability of foreign

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exchange generated by export earnings rather than by changes in the standard instruments of trade policy, such as tariffs.

Table 8.1: Trade Movements, 1973-1999

	Exports		Imports	
	Value US$ Billion	Index	Value US$ Billion	Index
1973	3.47	13.30	1.87	13.08
1975	7.99	30.61	6.04	42.24
1980	26.10	100.00	14.30	100.00
1985	15.63	59.89	6.19	43.29
1990	13.49	51.69	7.18	50.20
1995	12.65	48.47	8.22	57.48
1999	12.88	49.35	8.59	60.07

Source: Central Bank of Nigeria, Annual Report and Statement of Accounts,various years

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Within the first five years after its peak in 1980, the value of imports fell sharply, reaching US$6.19 billion in 1985, almost the value it achieved first ten years earlier. But unlike export earnings, the value of imports subsequently rose gradually and maintained its small upward trend through the 1990s.

A sharper picture is, again, presented by an analysis of the movement of import value index. This was only 13.08 in 1973 compared to the peak value of 100.00 in 1980. In between the two years, the import index rose faster than that of exports, the former was 42.24 in 1975 compared with 30.62 for the latter. Imports also experienced a sharper descent after the 1980 peak; by 1985, import index was down to 43.29 compared to 59.89 for exports. However, the import index also recovered faster than exports such that by the end of the 1990, it had risen to 60.07, i.e. only 40% percent below the 1980 peak value. At that point in time, export index remained less than 50 percent of the peak value. Apparently, trade policy and associated changes from the mid-1980s through the 1990s have had a more expansionary impact on imports than exports. This result should not be surprising, given the structure of Nigerian exports. The dominant sector of exports, i.e. crude petroleum, is generally not amenable to the manipulation of standard trade policy instruments since its value depends more crucially on

movements in world demand and prices as moderated by the production decisions of the Organization of Petroleum Exporting Countries (OPEC).

This also partly explains why the structure of exports remained virtually unchanged through the 1980s and 1990s. Table 2 presents the relevant data. As the table shows, the mining sector's contribution to export earnings was more than 90 percent throughout this period. There was a marginal decline from 96 percent in 1980 to 93 percent in 1990; but this was subsequently reversed through the second half of the 1990s. Correspondingly, the shares of agricultural products and manufactures rose marginally between 1980 and 1990; the former from 2.4 percent to 2.8 percent and the latter from 1.8 percent to 4.2 percent. But both of these relative gains were reversed during the second half of the 1990s. By 1999, the share of agricultural products had fallen back to 1.5 percent while that of manufacturers was down to just over 2 percent.

Table 8.2: Structure of Trade (%), 1980 - 99

(a) Exports	1980	1985	1990	1995	1999
Agriculture	2.4	2.1	2.8	1.2	1.5
- food	2.2	1.7	1.7	0.8	1.0
- raw materials	0.2	0.3	1.1	0.4	0.5
Mining	95.7	96.0	92.9	97.6	96.4
- crude petroleum	95.4	95.8	92.7	96.8	95.7
Manufactures	1.8	1.9	4.2	1.2	2.1
Chemicals	1.5	1.2	2.5	0.8	1.3
(b) Imports					
Agriculture	15.5	16.4	9.1	11.9	12.5
- food	15.1	15.1	8.3	11.0	11.9
Manufactures					
- chemicals	82.6	80.2	88.5	85.5	81.4
- machinery	17.6	23.5	18.7	22.3	22.9
and transport equip.	40.2	36.8	42.9	35.9	34.2

Source: *Central Bank of Nigeria, Annual Reports and Statements of Accounts, various years*

The structure of imports also appears to have largely remained unchanged during the 1980s and 1990s. Manufactured products accounted for at least 80 percent of the value of total imports throughout this period. This sector typically contributes in the range of 80-82

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percent, but its share increased further to between 86 percent and 89 percent in the 1990-95 period before reverting to the typical range during the second half of the 1990s. The historical dominance of this sector by machinery and transport equipment imports continued through the 1980s and 1990s as they accounted for close to 50 percent of the share of manufactured products in total imports. The share of food in total imports has usually attracted policy attention due to concerns about food prices and food security. This share was steady at around 15 percent during the first half of the 1980s, then fell to about 8 percent at the start of the 1990s, but subsequently rose again to reach almost 12 percent at the end of the 1990s.

Questions regarding the destinations of a country's exports and the sources of its imports matter for the country's trade policy, especially as it relates to regional and multilateral trade agreements whose negotiations are usually influenced by such questions. Data on the destination of Nigerian exports and sources of its imports during 1980 - 99 are shown in Table 3.

The destinations of Nigerian exports were more diversified in 1999 than they were in 1980. Europe and America accounted for 95 percent of these exports in 1980. By 1999, these two dominant destinations of Nigerian exports had their share reduced to about 78 percent. But the major drop in relative contribution was experienced by Europe. Thus, while the share of the Americas remained fairly steady at around 45 percent, Europe's share suffered a twenty percent decline during the 1990s. The major gainers, in relative terms, were Asia and Africa. The former had a share of Nigeria's export market which was less than one percent up to 1990; it then experienced a 16-fold increase in relative share between 1990 and 1995, and a doubling of its 1995 share in 1999. Africa's share of Nigerian exports remained below 2 percent over much of the period between 1980 and 1995; but this share experienced a five-fold increase between 1995 and 1999. Clearly, therefore, only Asia and Africa achieved relative market share increases and much of these occurred in the second half of the 1990s.

Just as Europe and the Americas have constituted the largest markets for Nigerian exports during 1980 - 1999, they were also the main sources of Nigerian imports. Together, these two regions provided about 80 percent of Nigerian imports in 1980, which declined to 74 percent in 1999. Over this period, however, the contributions of the two regions moved in opposite directions. While that of the Americas increased from

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11.3 percent in 1980 to 20.2 percent in 1990; Europe's share declined from 68.9 percent to 53.4 percent over the same period. But in terms of regional ranking, Asia rather than the Americas was in fact the second most important source of Nigerian imports. Asia's share was 18.6 percent in 1980; although it declined to 10.8 percent in 1985, it resumed its upward climb, which reached 24.3 percent in 1999. Africa was the least important among the regional sources of Nigerian imports. Its less than 2 percent share of the Nigerian import market in 1980 fell sharply to only 0.3 percent in 1985. However, its share experienced an approximately two-fold increase during the 1990s.

Table 8.3: Direction of Trade (%) 1990-1999

(a) Exports estination	1980	1985	1990	1995	1999
Americans - United states	45.9 42.5	37.5 19.9	53.4 47.2	49.8 40.0	43.8 33.7
Europe - European Union	49.2 45.2	60.7 59.5	44.7 43.9	36.1 34.3	22.8 20.5
Asia	0.9	0.5	0.8	12.7	24.8
Africa	2.0	1.2	1.2	1.4	8.6
(b) Import Sources					
Americas - United States	11.3 7.9	26.7 10.4	15.0 10.5	18.1 12.2	20.2 16.1
Europe European Union	68.9 62.9	62.1 57.8	66.1 61.8	57.3 53.3	53.4 50.1
Asia	18.6	10.8	17.7	22.3	24.3
Africa	1.1	0.3	1.2	1.8	2.1

Source:* *Central Bank of Nigeria, Annual Reports and Statements of Accounts, various years

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8.3 Trade Policy Trends

The evolution of trade policy and the trade regime in Nigeria over the last four decades has had its twists and turns. But underlining the observed periodic changes appears to be the pivotal principle that views

trade as an engine of growth; a perspective, which presumes that the trade regime can be influenced by trade policy changes as a means of promoting overall economic development. This perspective borrows from the trade and development literature the policy lesson associated with the observed, and apparently robust, relationship between increasing manufactured exports and rapid economic growth.

Various national development plans designed and implemented in Nigeria during the 1960s and 1970s attempted to translate this principle into a development strategy through a set of mechanisms linking the growth objective to trade regime and structure. These plans typically argued that established overall economic growth and development targets would be achieved by promoting greater linkages in the domestic economy and by increasing and stabilizing export revenue. These intermediate objectives would, in turn, be achieved by promoting the growth of manufactured exports and by diversifying Nigeria's export basket and market. Manufactured exports are more closely related to economic growth because they are associated with greater linkages with the rest of the economy and because they tend to have more dynamic and growing markets abroad. In general, it is typically assumed that the expansion of manufactured exports can be achieved most rapidly through the processing of the country's large endowment of agricultural and mineral resources. The need to diversify Nigeria's export basket reflects concerns about the inherent instability associated with its market. The desire to diversify Nigeria's export markets is to take advantage of changing dynamics of the global economy.

This more outward-oriented trade policy stance emerged most forcefully as part of the structural and policy reforms adopted by the Nigerian government from the mid-1980s. In the context of these reforms, the broad thrust of trade policy was to restructure and diversify the productive base of the economy in order to reduce the country's dependence on the oil sector and on imports. The aim was to promote economic efficiency in the process of expanding non-oil exports and reducing the import content of locally manufactured products.

Within this broad thrust and aim of trade policy, it is useful to distinguish several sectoral components. In relation to imports, the primary objectives were to protect existing domestic industries and reduce the country's dependence on imports. By focusing on ensuring the availability of intermediate inputs and capital goods that cannot be obtained from domestic sources. In relation to the export sector, the

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central objective of trade policy was the expansion and diversification of non-oil, and particularly manufactured exports. The industrial focus of trade policy with respect to exports included the desire to increase local content of manufactured products on the assumption that an increase in the level of locally sourced raw materials and intermediate products is important for raising capacity utilization of domestic industries. In comparison, the focus of trade policy with respect to agriculture was to discourage food imports and encourage local production of agricultural raw materials for local industry.

Before the trade policy reforms that were initiated in the mid-1980s, Nigeria's main instruments of trade policy were quantitative import and export restrictions, including import and export prohibitions as well as a comprehensive system of import licensing. The import prohibitions affected key agricultural and industrial sectors in which domestic production was being promoted. The major prohibited items included most livestock products, major grains, vegetables, fruits, some beverages, processed wood, textile fabrics, and plastic products. Two important components of subsequent trade policy reform included the elimination of the import and export licensing system and the reduction in the number of import - prohibited items. In addition, the commodity marketing boards were abolished and import procedures were considerably simplified. The number of items in the import prohibition list was reduced, in 1986, from 72 to 17 broadly defined product categories. Two years later, further review produced a list of 20 product categories under absolute import prohibition and 18 under conditional prohibition. At the beginning of 1989 import prohibition applied to roughly 29 percent of agricultural products and 20 percent of industrial products, in terms of tariff line numbers.

Export prohibitions have typically been applied to a wide range of primary and processed agricultural and forestry products on at least two grounds. One concern has been to avoid shortage in the domestic market and the other has been expressed in terms of the desire to promote local processing so that higher value-added items could, subsequently, be exported. This is a practice that continued in spite of the trade policy reforms of the mid-1980s. Thus, processed or unprocessed timber and wood in the rough were placed under export prohibition in 1988. These were followed by export prohibitions on cassava tuber, maize, yam tuber, beans, rice and their derivatives as well as other imported food items (in 1989), raw hides and skins (in 1990), and raw palm kernels (in 1991).

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The trade policy reforms have also gradually reduced average import tariffs in Nigeria. The process began in 1986 when interim reductions in tariffs were introduced, pending the results of a comprehensive tariff review exercise. In January 1988, a completely new tariff system was introduced. This was designed to rationalize, harmonize and restructure the tariff system. It established the structure of tariffs to be applied for seven years from 1988 to 1994. The length of time over which the tariff structure was established was meant to provide a more stable and predictable tariff regime over the medium to long term. Frequent changes in specific tariff rates over the period substantially reduced the stability and predictability features built into the tariff regime by the reform. These changes included considerable increases in import duties for a wide range of finished goods and sizable reductions in duties on intermediate products used in local industries. The new tariff structure specified fairly low rates for a number of import-banned products, products that were thought to be abundantly available locally and those that were considered difficult to obtain in local markets. But much higher rates were specified for those product groups which were meant to be protected from import competition. Thus, while the 1988 review reduced average tariffs to about 36 percent from well over 40 percent, the tariff structure retained fairly wide variations across products.

A further liberalization of Nigeria's tariff regime was set in motion with the introduction of a new tariff schedule in 1995. This new structure was meant to cover the seven - year period of 1995-2001 and was designed to increase efficiency through further exposure of domestic industries to import competition. It reduced the variation of tariffs across products by increasing duties on raw materials, intermediate inputs and capital goods, while slightly reducing tariffs on final consumer goods.

Indicators of the gradual liberalization of the tariff regime are shown in Table 4. Overall average tariff declined by 23 percent between 1990 and 2001, while its range fell by 50 percent. Over the same period, the average tariff rate applied to consumer goods fell by 31 percent, while the average tariff rates for intermediate inputs and capital goods declined by 19 percent and 6 percent respectively. As noted earlier, however, since the 1995 tariff review attempted to reduce the variation of tariff rates across product groups by *increasing* tariffs on intermediate and capital goods, the comparisons above may be somewhat misleading. In fact, between 1990 and 1995, average tariff rates *declined* as follows: consumer goods (30 percent), intermediate inputs (33 percent) and

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capital goods (34 percent). But between 1995 and 2001, the scheduled changes in average tariff rates are as follows: consumer goods (- 1.3 percent), intermediate inputs (+ 19 percent), and capital goods (+ 42 percent).

As Nigerian trade policy evolved in the general direction of gradual import liberalization from the mid-1980s, it also articulated explicit export promotion measures. One of these measures is not particularly new. A duty drawback scheme was first introduced in 1959. It permitted exporters to claim reimbursement of import duty paid for materials used in producing export goods. A new duty drawback and suspension scheme was established in 1986, aimed specifically at non-oil exporters. Under this scheme, an exporter is entitled to 50 percent repayment on import duties, levies, surcharge and excise duties paid in respect of all imports used in export production. The duty suspension component of this scheme allows recognized exporters to import raw materials and intermediate inputs free of customs duties, excise taxes and other surcharges provided they are used in export production.

Table 4 : Import Tariff Indicators (%), 1990-2001

	1990	1995	2001
(a) ***Import Duties***			
» Average	35.7	24.4	27.5
» Range	0-200	0-150	0-100
(b) ***Consumer Goods***			
» Average	55.2	38.6	38.1
(.c) ***Intermediate Inputs***			
» Average	31.3	21.1	25.2
(d) ***Capital Goods***			
» Average	17.1	11.3	16.1

Source: World Trade Organization (1998), Trade Policy Review: Nigeria, WTO, Geneva.

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Several other export incentive measures exist. There is, for instance, an export expansion grant fund which offers cash incentives to exporters who have exported a minimum of N50, 000 worth of semi-manufactured or manufactured products. The cash inducement is equivalent to 4

percent of confirmed and repatriated export proceeds. The export adjustment scheme provides compensation to exporters for high cost of production arising from infrastructural deficiencies and other factors beyond their control. The manufacturing-in-bond scheme is an alternative to the duty drawback. It permits exporters to import their raw materials and other inputs free of duty provided they are backed by bank bonds which guarantee that all of the end-products will be exported. This scheme is applicable to the manufacture of exported products with a minimum value-added of 20 percent.

In addition, non-oil exporters can access a wide range of tax incentives. Manufacturers who export at least half of their turnover qualify for corporate income tax holiday of up to five years. Profits on exports are exempted from corporate income tax. Such profits are repatriated to Nigeria and used for the purchase of raw materials, equipment and spare parts. Similarly, profits of firms exclusively producing inputs for manufacturing non-oil exports are tax-exempt. Finally, there are special capital asset depreciation allowances for qualified exporting firms, while interest income on loans and advances granted by banks to non-oil exporters is tax free. Many of these special incentives are available to firms that operate under the export processing zones and factories scheme established in 1992. In 1996, approval was given that export processing factories can be set up in any part of the country to benefit from all the incentives that are applicable in designated export processing zones. Finally, the Nigerian Export Credit Guarantee and Insurance Corporation (NEXIM) was established in 1991 to provide a range of financial services to exporters. Included among these are the refinancing and rediscounting facility, which offers credit for pre-and post-shipment finance and the stocking facility, which enables exporters to procure stocks of raw materials.

Whether and the extent to which Nigerian trade policy succeeded in achieving its objectives over the period covered by this analysis are questions of considerable policy significance. As far as export promotion measures are concerned, it would appear that limited progress has been made in implementing the various schemes; many of which are underfunded and extremely difficult to access. Import restriction measures and very high tariffs have been more actively used in pursuit of the policy objectives of increased local sourcing of industrial raw materials as well as increased capacity utilization. Since these

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constituted two of the key objectives of Nigerian trade policy during this period, they deserve a closer examination.

In 1985, for instance, the Nigerian government established minimum local sourcing targets for a number of manufactured products over a five-year period of compliance. The products groups covered and the corresponding minimum local sourcing targets are : soft drinks and breweries (100%), agro-food industries (80%), agricultural processing (70%), chemicals (60%), petrochemicals (50%) and machine tools (50%). Table 5 shows the share of import-banned items for a number of industrial products and their corresponding local sourcing rates at the end of the 1980s. The table suggests a weak relationship between import restrictions and local sourcing of raw materials.

Table 5: Import Restriction and Local Sourcing of Raw Materials:

Selected Products, 1989	Import Ban (%)	Local Sourcing Rates (%)
Textiles/Clothing	95.8	58.0
Furniture	92.6	82.0
Wood and Cork	45.2	82.0
Chemicals	1.1	66.0

Sources: CBN, Annual Report and Statement of Accounts, various years.

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More direct evidence comes from the various annual surveys conducted by the Central Bank of Nigeria during the 1980s and 1990s. The results of these surveys suggest a definite pattern that can be summarized as follows. First, local sourcing of raw materials in the Nigerian manufacturing sector rose, on average, from about 40 percent in the mid-1980s to around 45 percent at the end of the 1980s. Second, the actual rates of local sourcing achieved during the second half of the 1980s fell considerably short of the targets established in 1985 for almost all the specified product groups. Third, while some product groups (such as food, beverages and textiles) managed to increase local sourcing of raw materials, others (such as electrical and motor vehicle assemblies) suffered from increase difficulties in obtaining imported raw materials. Fourth, it may be concluded that despite the incentives provided to encourage the use of local raw materials, Nigerian manufacturing sector remained heavily dependent on imported raw materials.

The trade policy objective of increased capacity utilization in the manufacturing sector was also largely not achieved. On average,

capacity utilization in Nigeria's manufacturing industry rose to around 45 percent during the second half of the 1980s but fell back to around 34 percent during the 1990s. The trend in industrial capacity utilization can be linked to the use of local raw materials. It has been shown, in this connection, that 'the industrial groups which depended largely on local raw materials operated above the average (capacity utilization) rate (CBN, 1989, p.30).' Examples of such product groups include tyres and tubes (64.4%), leather products (63.3%), beer and stout (59.2%), textiles (53.6%) and sugar confectionery (51.7%).

To what extent have increased local sourcing of raw materials and above-average capacity utilization rates generated increase output? Table 8.6 provides data that can be used to address this question.

Table 8 6: Growth of Manufacturing Output, 1985 - 1999 (1985 = 100)

	All Manufacturing Products	Soft Drinks	Beer & Stout	Textiles	Vehicle Assembly	Radio & Television
1985	100.0	100.0	100.0	100.0	100.0	100.0
1990	162.9	364.4	97.8	118.0	24.1	12.2
1995	136.3	153.2	103.3	89.6	11.7	6.0
1999	137.7	170.5	125.5	91.8	15.8	3.5

Source: *Central Bank of Nigeria, Annual Report and Statement of Accounts, various years.*

Three products that have been more successful in using local raw materials are represented in the table. These are soft drinks, beer and stout, and textiles. At the other extreme are two product groups (i.e. vehicle assembly, and radio and television products) that rely more heavily on imported raw materials. The soft drinks group has been particularly successful in translating its local sourcing of raw materials and high rate of capacity utilization into increased output. Its output index increased by 71 percent between 1985 and 1999 compared to 38 percent for all manufacturing products. The beer and stout product group also increased its output index by 26 percent over the same period. The textiles product group was relatively less successful; its output actually declined by about 9 percent over this period. But this is nothing

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compared to the performance of the vehicle assembly and radio and television product groups whose output *declined* by 80-95 percent over the same period.

8.4 Regional Trade Agreements and Trade Policy

Nigeria is involved, in varying ways, in the full range of formal trade relations with other countries in the framework of bilateral, regional and multilateral trade cooperation arrangements and agreements. Thus, Nigeria has maintained bilateral trade arrangements with several countries, including such African countries as Benin, Equatorial Guinea, Niger, Uganda and Zimbabwe, European countries such as Bulgaria, Romania and Turkey, as well as Jamaica in the Caribbean. These bilateral trade arrangements have not included trade preferences and, therefore, have had no significant impact on Nigeria's direction of trade or its trade policy.

There are three distinct dimensions to Nigeria's involvement with regional trade agreements. First, the country has been encouraging and participating in efforts aimed at creating and sustaining intra-African regional and sub-regional economic groupings and in the process, developing and expanding intra-African trade. Second, Nigeria has sought economic cooperation through trade with other developing countries (African and non-African) in the context of the Agreement on the Global System of Trade Preferences (GSTP). Third, Nigeria has been engaged in regional trade linkages with developed countries in the context of the Lome Convention (which brings together many African, Caribbean and Pacific - ACP - states with the European Union) and more recently in the context of the Africa Growth and Opportunity. Act - AGOA - aimed at establishing closer trade and investment relationships between the United States and a range of African countries.

The second of these three dimensions has been the least important in terms of the focus of Nigerian trade policy. The GSTP Agreement was signed by 48 developing countries on 13 April 1988; it entered into force on 19 April 1989 for the first 15 countries, including Nigeria. In accordance with the articles of the GSTP Agreement, Nigeria conceded lower tariffs on imports from other participating countries on a range of products. These tariff rebates cover about 10 HS-Four Digit product groups, including pharmaceuticals, machinery, cars and trucks. Although Nigeria has continued to honour these commitments, the benefits

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associated with the tariff preference arrangement have been substantially eroded by the reduction in Nigeria's applied tariffs since the mid-1980s.

The primary focus of Nigeria's regional trade policy has been on intra-African economic cooperation. This has been pursued in the context of two regional agreements; the first is the treaty establishing the Economic Community of West African States (ECOWAS) signed in 1975 while the second is the agreement, which created the African Economic Community (AEC) that was signed in 1991.

Nigeria is a founding member of ECOWAS, which was established as a preferential trade arrangement. Quite early in its existence, ECOWAS articulated a trade liberalization scheme (TLS) as the key component of its market integration programme. This scheme was scheduled to take off in 1979; but it was postponed at least three times before it was finally launched over a decade later in 1990. Beginning from 1 January 1990, the TLS was supposed to be implemented in the following four stages: immediate and full liberalization of trade in unprocessed goods and traditional handicrafts; consolidation of customs and charges of equivalent effect and non-tariff barriers; liberalization of trade in industrial products originating in member states and establishment of a common external tariff (CET). Implementation of the third stage of TLS was itself phased such that the four most developed ECOWAS member-states (i.e. Cote d'Ivoire, Ghana, Nigeria, and Senegal) would eliminate all duties and taxes against intra-ECOWAS trade within the six years at annual reduction rates of 16.6 percent. The least developed countries in the group were given up to ten years to achieve the same objective.

Thus, total elimination of all duties and charges on intra-ECOWAS trade was scheduled to occur by January 2000. By the end of 1999, however, the TLS remained virtually unimplemented. In December 1999, the Nigeria-Ghana 'fast-tract' initiative on ECOWAS trade liberalization was launched, essentially as an attempt to rescue the TLS. This initiative included the decision to implement the TLS fully by 15 April 2000 and to implement an ECOWAS common external tariff of four rates (0, 10, 15 and 20%) with effect from January 2001. If and when these decisions are fully implemented in Nigeria, the country's tariff regime will change dramatically as the tariff rates are compressed to four and zero preferential rates apply to imports from all ECOWAS countries.

The AEC Treaty was expected to lead to the creation of a pan-African economic and monetary union over a 34-year period beginning from

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1993. But no concrete measures have been taken to implement the trade component of this treaty partly because the sub-regional integration institutions (such as ECOWAS) which are to serve as the building blocks of the AEC have, themselves, not been fully implemented. In other words, the AEC has not been reflected in Nigeria's trade policy and tariff regime in any practical way.

Trade linkage between Nigeria and developed countries in the context of regional agreements has been most prominent in terms of the Lome Convention and the succeeding Cotonou Partnership Agreement. Nigeria was a signatory to the Lome Convention, which linked the European Union (EU) countries with ACP countries over a 25-year period ending in February 2000. The Lome Framework enabled the ACP countries, including Nigeria, to gain non-reciprocal duty-free access to the EU for their exports of a wide range of agricultural and industrial products. But several elements of its export structure made it difficult for Nigeria to take full advantage of the benefits offered by Lome preferences. Although Nigeria was the largest single ACP exporter to the EU from the mid-1980s through the 1990s, its exports were made up of mostly crude oil, which normally entered the EU duty free on a most-favoured-nation (mfn) basis. Thus, over 95 percent of Nigeria's exports to the EU attracted no Lome preferential margin. For the export products, which qualified, Nigeria's average Lome preference margin was only 0.2 percent.

Three factors account for Nigeria's inability to benefit substantially from Lome preferences. First, the country has not developed significant production and export capacity in the sectors where Lome preference margins have been significant such as chemicals (5.0%), footwear (5.5%), and textiles (7.0%). Second, Nigeria's agricultural exports have not been centred on those products associated with large Lome preferential margins such as live animals and animal products (7.4%), prepared foodstuffs, beverages and tobacco (8.3%). Third, large preference margings apply in the cases of processed fishery products and fish and Nigeria's fisheries exports (shrimps, crabs, oysters, perwinkles, and sharle fins) have grown considerably during the 1990s, but stringent EU sanitary and phytosanitary (SPS) measures have effectively prevented the country's processed fish products from reaching the EU markets.

Since Lome Convention provided non-reciprocal market access, it has had no effect on Nigeria's import tariff structure. But the trade

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arrangement envisaged in the successor Cotonou Partnership Agreement (CPA) will be reciprocal and would therefore directly affect Nigeria's import tariff concessions to imports from the EU. Negotiations with respect to the trade arrangement to be embedded in CPA are scheduled to begin in September 2002 and become effective in 2008. To the extent that Cotonou results in substantial opening up of Nigerian market to EU imports, it could be associated with significant costs to Nigeria in terms of de-industrialization, loss of fiscal revenue and balance of payments deficits.

Nigeria's trade relations with the United States is also in the process of being formalized in the context of a regional free trade agreement. The vehicle for this formalization is the African Growth and Opportunity Act (AGOA), which was enacted by the United States Congress in 2000. Prior to this, Nigeria - US trade relations have experienced at least two difficulties. First, Nigeria was excluded from benefiting under the generalized system of preferences (GSP) of the U.S because of its membership of the Organization of Petroleum Exporting Countries (OPEC). Second, Nigeria has had its export of textiles and clothing products restricted in the U.S market. In particular, on 30 August 1990, the U.S imposed restrictions on imports of Nigerian textiles by invoking Section 204 of its Agricultural Act of 1956 to protect its textile market. In February 1991, a memorandum of understanding established an annual ceiling of 25 million square metres for Nigerian exports of all brands of textiles to the United States.

If the U.S. President determines that Nigeria is qualified to trade with the U.S. under the provisions of AGOA, the two problems referred to above would have been solved. This is because AGOA would authorize GSP status for Nigeria, in spite of its OPEC membership, over the next ten years and extend the GSP product coverage to include goods normally under statutory exclusion, such as textiles and clothing. This is in addition to the approximately 1900 tariff lines of agricultural and light manufactured goods, including leather and other products, which may enter the US market duty-free.

It is important to note two important caveats in relation to AGOA. First is the issue of qualification, which involves a wide range of economic social and political 'conditionalities'. These include maintaining an open rules-based trading system, rule of law and political pluralism, protection of intellectual property, and protection of internationally recognized workers rights. It is the sole prerogative of the

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U.S. President to determine whether any African country becomes a beneficiary under the terms of AGOA. Second, the extension of the GSP product coverage to textiles and clothing is heavily qualified. Section 112 of AGOA states that preferential treatment applies only to 'apparel articles assembled (in a beneficiary African country) from fabrics wholly formed and cut in the United States, and yarns wholly formed in the United States.' Thus, even if Nigeria meets the eligibility criteria of AGOA, it is not likely to derive substantial benefits from the projected textiles and clothing export preferences unless its exports are derived from raw materials imported from the United States. As long as AGOA benefits remain GSP-based and therefore non-reciprocal over the next ten years, they should have no direct effect on Nigeria's tariff structure and trade regime.

But AGOA implies two phases; the first is a GSP-based non-reciprocal trade arrangement, which spans a ten-year period, while the second envisages the negotiation of a reciprocal free trade agreement (FTA) between the U.S and selected African countries. Such an FTA between Nigeria and the U.S will involve opening the Nigerian market to imports from the U.S in exchange for duty-free entry of Nigerian exports to the U.S market. Given Nigeria's level of development, this could be associated with substantial cost to Nigeria in terms of de-industrialization, loss of fiscal revenue and balance of payments deficits.

8.5 Multilateral Trade Agreements and Trade Policy

In broad terms, multilateral trade agreements define the conditions and terms under which countries that sign the agreements will engage in the exchange of goods and services among themselves. Hence, multilateral trade agreements establish the contours within which each participating country's trade policy can be articulated. By its membership of the General Agreement on Tariffs and Trade (GATT) from 1960 and the successor body called the World Trade Organization (WTO) from 1995, Nigeria has placed itself under the umbrella of the multilateral trade agreements negotiated in the context of both institutions. But these have had little or no effect on Nigerian trade policy until the Uruguay Round of Multilateral Trade Negotiations.

Like most other Sub-Saharan African countries, the results of the Uruguay Round (UR) have not significantly improved Nigeria's trade and growth prospects. Market access for Nigeria's exports have not improved; in fact, the erosion of Lome and other GSP preference

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margins due to the general reduction in tariffs brought about by the UR has probably inflicted some costs on Nigeria and other ACP countries. In addition, Nigeria has also taken on a number of obligations in the area of multilateral rules and domestic regulatory systems that are proving quite costly to implement, due to lack of human, administrative, technical and other institution capacity. Such areas include intellectual property protection, customs valuation, sanitary and phytosanitary measures, and technical barriers to trade.

Prior to the UR, only one tariff item was bound in Nigeria's tariff structure. During the UR, Nigeria agreed to a 100% tariff binding on agricultural imports at 230% (i.e. ceiling rate of 150% plus a maximum of 80% for other duties and charges). For industrial goods, customs duties of 333 six-digit tariff items have been bound. This corresponds to 6.5% of all tariff lines. In this case, the bound rate of 80% includes customs duties and other charges. The bound rates for agricultural and industrial products are considerably higher than the currently applied rates of duties and other charges. This phenomenon - which is common to virtually all developing countries - can be viewed from two perspectives. One is that countries such as Nigeria need the flexibility offered by this practice to vary their tariff rates as they pursue their developing objectives. The other is that wide differences between bound and applied rates threaten the credibility of trade policy which may deter investment to the extent that they provide too much room for discretionary changes in tariff policy.

The on-going implementation review of a range of WTO Agreements and the new negotiations on agriculture and trade in services could provide the opportunity for Nigeria and other African countries to redress the imbalances contained in the agreements. From Nigeria's perspective, the following are some of the priority areas where beneficial changes would be needed:

$ rethinking of the special and differential treatment of developing countries in the WTO framework to establish more objective, development-related, criteria for classifying WTO members, and identifying the rules with respect to which full or partial derogation may be granted as a means of enhancing the supply capacity of the low-income countries.

$ extending the transitional periods within which low-income countries are required to meet their obligations under various WTO Agreements on rules and disciplines and linking the duration of

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such transitional periods to the adequacy of the resources required to meet the challenges of technological developments.

$ granting greater policy flexibility to low-income countries with respect to the use of trade and trade related measures required to more effectively address their supply capacities, and

$ making obligatory and multilaterally bound all the promises and offers of technical and financial assistance made to low-income countries by the developed countries in the context of many of the WTO Agreements.

These and other priority issues of common interest to African and other developing countries obviously need to be brought to the negotiations not just by Nigeria but preferably as a collective African negotiations strategy.

Meanwhile, Nigeria has found itself under pressure regarding the consistency of various elements of its trade policy with its obligations in the GATT/WTO and even the legitimacy of some of the trade policy measures taken in the 1980s and the 1990s. These pressures suggest that Nigerian trade policy is indeed subject to GATT/WTO review and scrutiny. A few examples should illustrate this point. First, Nigeria's import prohibition measures and their stated justifications have been the subject of many discussions in both GATT and WTO fora. In April 1982, Nigeria introduced a number of trade policy measures for balance-of-payments reasons. These measures included the prohibition of certain imports, more restrictive import licensing, tariff increases on a number of products and compulsory advance deposits for imports. To justify these actions, Nigeria invoked. GATT Article XVIII: B for the first time since its membership of GATT in 1960. In accordance with the terms under which this article could be invoked, Nigeria consulted with the GATT Committee on Balance of Payments Restrictions in April 1984. Further consultations were held in October 1986 and 1988 as well as in March 1991. During these consultations, Nigeria repeatedly argued that it found import prohibitions easier to implement and monitor than the equivalent but more transparent price-based measures. Finally, in 1996, the Committee on Balance of Payments Restrictions found that import prohibitions in force in Nigeria could not be justified under Article XVIII: B of GATT 1994. Following this finding, Nigeria offered to eliminate the restrictions in the context of a phased schedule lasting eight years between 1997 and 2005. Nigeria considered this period necessary to allow time for on-going customs and port reforms to take root and thus

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ensure the effective administration of the resulting price-based measures. In February 1998, the Committee was unable to reach a conclusion on the phase-out programme proposed by Nigeria. The issue of import prohibition has thus remained a source of continued friction between Nigeria and its trading partners.

Second, although Nigeria does not have specific domestic regulations on safeguards, it invoked safeguards reasons in 1998 to justify import prohibitions on such products as millet, sorghum, wheat flour and gypsum. Third, although pursuant to Article 5.1 of the WTO Agreement on Trade-Related Investment Measures, Nigeria had notified the WTO Committee on TRIMS that it had no local-content laws or regulations, the country continues to implement an industrial policy which explicitly provides incentives for the use of local raw materials. Fourth, although Nigeria had notified the WTO that it did not maintain any state-trading entities, imports of petroleum products remain the exclusive preserve of the Nigerian National Petroleum Corporation (NNPC) which is a government parastatal. Finally, Nigeria has justified some tariff increases on the ground of the need to combat alleged dumping or subsidies on imported products. But contrary to the appropriate WTO regulations and its own domestic laws on this subject, import duties on the allegedly dumped products have typically been raised against all countries, rather than solely against the suppliers found guilty of dumping.

These and other infringements of GATT/WTO agreements suggest that greater attention needs to be paid by policy-makers to ensure that Nigeria's trade policy remains consistent with the country's obligations freely taken on in the context of multilateral trade agreements. In addition, appropriate steps should be taken to incorporate these agreements into domestic law so that the legal status of these obligations can be clearly established in the domestic legal system. This is an important means of enhancing the transparency and credibility of the country's trade policy.

8.6 Concluding Remarks

This paper has argued that Nigeria's trade policy is shaped by considerations relating to development strategy, the structure of the country's exports and imports, as well as its obligations under the various regional and multilateral trade agreements that the country has entered into. As its development strategy appears to have shifted, from the mid-

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1980s, from an inward-oriented to an outward-oriented stance, trade policy has been liberalized gradually. This has occurred through the gradual phasing out of quantitative restrictions and their replacement with price-based measures, as well as through significant reductions in the average tariff rate and narrowing of the variation of tariffs.

Progress made in terms of liberalizing the imports tariff structure has not been matched on the export front; export promotion measures exist in abundance on paper but have not been satisfactorily implemented. It should not therefore be surprising that Nigeria's non-oil export sub-sector has remained small and stagnant.

Regional trade agreements have not had much of an impact on Nigeria's trade policy partly because the country has not fulfilled its obligations under the ECOWAS Treaty. But if the new Nigeria-Ghana 'fast-track' initiative becomes effective and ECOWAS implements its common external tariff, Nigeria's import regime will undergo perhaps the single most radical change in its entire history. The impact of this radical shift demands careful study and attention of policy-makers. But in spite of the importance and urgency of this issue, current discussions on the review of the tariff structure do not appear to be focusing sufficiently on it.

Since regional trade linkages with the EU and the US are currently covered by non-reciprocal arrangement, they have had little impact on Nigeria's trade policy. Likely shifts in both cases towards reciprocity will also radically affect the country's trade policy. It is also important that research and policy attention be focused on the forthcoming negotiations on the new reciprocal arrangements so that the country can respond from a position of strength based on knowledge. Clearly, multilateral trade agreements are already impacting Nigerian trade policy rather significantly, especially since the Uruguay Round. Further multilateral negotiations under the WTO are on with respect to the review of several existing agreements. It is also likely that a more comprehensive and full round of multilateral negotiations will start before the end of 2001 or early 2002. These negotiations present Nigeria with both opportunities and challenges to seek improved market access for its exports and to ensure that resulting agreements do not harm its own development strategy. Seizing the opportunities and confronting the challenges require improved capacities for research, trade policy articulation and negotiations that are far beyond what Nigeria currently possesses.

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9

A REVIEW OF NIGERIA'S PRIVATISATION PROGRAMME

A. Soyibo, Kolawole Olayiwola and Babatunde Alayande

9.1 Introduction

The private sector has been recognised in the past two decades as the powerhouse for development of nations, particularly in Sub-Saharan Africa (SSA) with the trend towards globalisation in world economy. The private sector acts in this way by participating in wealth-creation activities and generate long-term gainful employment opportunities. This helps to fight the acute problem of mass poverty; taking on tasks currently performed by the state, thereby relieving pressure on public expenditure and allowing governments to concentrate their resources on key social and physical infrastructure. The sector also broadens the economic base by diversifying into new sectors, making developing countries more resilient and less vulnerable to external shocks.

The private sector plays a significant part in capacity building, especially in human resource development-education, training, on the job skill formation. It teams up with foreign partners to invest in promising sectors like transportation, power, communications, and information technology. This provides a springboard for foreign firms investment in vital infrastructure works hampered through lack of capacity; collaborating with foreign firms and multinationals to tap the nation's undeveloped potential. It forms partnerships with foreign companies in their strategy of relocating industrial and other activities so as to remain globally competitive and maintain market share; and generating economic dynamism through multiplier and cascading effects e.g, the movement of goods, services, capital, technology and people.

The perceived absence of such a class in Nigeria of the early post-independence era made governments at various levels got involved in various sectors of the economy, including manufacturing, the service

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sector like construction, hospitality and tourism as well as wholesale and retail trading. The result was that when the government revenues fell drastically, government found that it had spread itself so thin to meet all its responsibilities. It was obvious that something had to be done to save the situation. This led to the adoption of structural adjustment programme (SAP), in which privatisation of public enterprises was a major plank.

Privatisation is the transfer of the ownership and control of a state-owned enterprise (SOE) from the public to the private sector. The transfer may be full or partial, and the transfer may be made to domestic or foreign private investors or both. In the first instance, SOEs were established in the 60s and 70s because the local private sector was too backward to take advantage of emerging market opportunities, and also the foreign investors were generally not interested in investing in the country. Moreover, some SOEs were established as a solution to problems created by significant market imperfections. Where economic enterprise requires huge amounts of capital and technological know-how that cannot be raised or found in the private sector due to the absence of a well-functioning international market, underdeveloped local capital market and limited local technological knowledge, government therefore becomes the only agency capable of organising the necessary economic enterprise. In addition, SOEs have traditionally been created around large public utilities that are considered to be natural monopolies.

In spite of the laudable objectives of establishing SOEs, the enterprises have been plagued with numerous problems. They lack appropriate incentives for efficient operation, and also those who control them have been known to be using them to promote their own selfish interest. The SOEs have typically passed the costs of their operational inefficiencies to the state. Heavy reliance on public funds made the scrutinisation of managers by the capital market very difficult. Hence, privatisation aimed at correcting all these problems and enhances the capacity of the private sector to live up to expectation as the "hub of development".

There are different channels through which privatisation can enhance private sector development. First, the private sector can grow through "displacement effect" as the public sector reduces its participation in key economic activities through privatisation. Second, when the public sector receives cash in exchange for public assets transferred to the private sector, it may use the money to finance investment and

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infrastructural expenditure. The pattern of these resulting expenditure should impact on the private sector which can be expected to respond to the increased public sector demand for goods and services. Third, privatisation processes and capital market are inter-connected. The privatisation process and the mode of assets transfer may stimulate the development and strengthening of the capital market. This involves a generally positive feed-back effect: a deepening and broadened capital market facilitates the sourcing of investment finance for industrial enterprises and private sector development. Fourth, privatisation may either stimulate or hinder aggregate private savings and investment that are key indicators of private sector development. The effect runs essentially through two channels. One is investment opportunities. Private savings is generally contingent on the availability of profitable investment opportunities, and also attract the inflow of foreign savings. The basic question is how has the programme fared in Nigeria?

In view of this question, the paper assesses how the programme of privatisation has performed in Nigeria. To achieve this objective, we profile the ownership structure of entreprises in Nigeria before privatisation. It analyses the Nigerian privatisation programme and discussed its implementation. A brief analysis of data on the effects of privatisation on enterprise performance, and subsequently, private sector development is also undertaken. In our conclusion, we articulate some policy recommendations.

9.2 Pre-Privatisation Enterprise Structure in Nigeria

In discussing privatisation, the first objective should be to determine why privatisation becomes necessary in the Nigerian context. There is a consensus that the oil boom of 1973 injected much confidence into the public sector about its central role in economic management. The philosophy of the oil boom era was encouraged by the fact that indigenes were generally capital-deficient and could not afford to invest adequately in most industrial ventures. This inadequacy left the commercial sector largely in foreign hands, making the indigenisation programme inevitable if Nigerians were to have a meaningful role in the economy. During this period, government had an obligation to hold a stake in trust for the people of Nigeria.

As a result of the oil boom, the private sector led development strategy was replaced with a public sector led one. In this sense, there was an increase in the government participation in all spheres of the

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economy and also in the development process. Not only that government occupied the commanding heights of the economy, it effectively became the engine of growth with huge investment in economic, social and infrastructural sectors. The role of government in productive activities became visible, as public entreprises (PEs) were established deliberately for intervention in the development process and to serve as engine of growth (Obadan, 2000).

Moreover, government developed a large number of PEs in all economic activities comprising banking and insurance, oil prospecting, exploration, refining and marketing, paper and steel mills, hotels and tourism, fertilizer plants, rail, sea and air transportation and sugar. With the sole aim of accelerating and stimulating development, new public enterprises were established and existing ones were expanded. Many of these companies were fully-owned by government, or jointly with the private sector. Some of them were owned with expatriates (see Table 9.1).

A survey of TCPC(1993) showed that 1500 public enterprises owned by governments accounted for between 30% and 40% of fixed capital formation and formal sector employment, and a sizeable percentage of GDP. In 1990, the federal government investment in public enterprises worth over ₦36.5billion. At current replacement costs, and taking cognisance of inflationary trends, government investment worth about ₦500 billion in year 2000.

The oil boom of the 70s made the problems of public enterprises to be invisible, as not much attention was paid to the wastes and inefficiencies of their operations. The economic recession of the early 80s marked the beginning of the exposure of these inadequacies. When the oil bubble burst, government seemed to have suddenly discovered that the burden of funding parastatals, which brought back a ridiculous return on investment in comparison with private sector alternatives, was too much to bear. As at 1985, the government has sunk a whooping ₦23 billion into its parastatals, while ₦11 billion in equity investments were yielding the Federal Government a meagre return of 1.39 per cent.

The Onosode Report of the Presidential Commission on Parastatals in 1983 revealed that most public enterprises were infested with critical problems of defective capital structures resulting in heavy reliance on the national treasury for financial operations. Others are mismanagement of funds and operations, corruption, misuse of monopoly power, and bureaucratic bottlenecks in their relations with supervising ministries. Other notable problems are low operating and maintenance budgets,

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overprotection which led to inefficiency and lack of competitive capability, lack of techno-managerial capacity to respond quickly to changing economic environment, and unstable macroeconomic policies (Obadan, 2000).

Table 9.1: Federal Government investment in various Companies as at 1985

Company	Investment (Million)	FGN % Holdings
Durbar Hotel	10	100%
National Cargo Handling Co.	1.5	100%
Nigeria Hotels	5.8	51%
National Freight Co.	8.5	100%
Tourist Company of Nig.	27.6	100%
Aba Textile Mills	10.5	70%
Ashaka Cement Co.	35.0	72%
Benue Cement Co.	20.7	72%
Calabar Cement Co.	6.0	68%
Cement Company of Northern Nig.	7.44	32%
Dunlop Industries	0.35	3%
Electricity Meters Co.	2.7	60%
Flour Mills of Nigeria	3.0	12%
Impresit Bakolori Nig. Ltd.	3.0	60%
Leyland Nigeria Ltd.	5.25	35%
National Salt Co of Nigeria	9.5	100%
New Nigerian Newspapers	4.6	99.9%
National Trucks Nigeria	7.0	35%
Nigerian Engineering Co. Ltd.	3.0	60%
Road Construction Co. Ltd.	1.2	60%
National Shipping Co. Ltd.	2.0	51%
Nigerian Machine Tools Ltd.	18.1	85%
New Nigeria Salt Co. Ltd.	16.5	100%
Nigercem Nkalagu	1.35	10%
North Breweries Ltd.	7.5	50%
Nigerian Sugar Co. Ltd.	1.97	19%
Nigerian Yeast & Alcohol	0.57	51%
Nigerian Romanian Wood Co.	3.0	25%
Nichemtex Industries Ltd.	1.2	10%
Nigerian Beverages Prod. Co.	2.5	55%
Savannah Sugar Co.	47.12	22%
Serumwood Industries Calabar	2.44	20%
Peugeot Automobile of Nigeria	5.25	35%
Steyr Nigeria Ltd.	7.39	35%
Specomill Textile Ltd.	2.4	60%
Sunti Sugar Co. Ltd.	3.17	90%
Volkswagen of Nigeria	6.0	35%
West African Distilleries Ltd.	2.0	100%
West African Portland Cement	13.0	20%

Source: Olashore,O. Challenges of Nigeria's Economic Reform pp139-144

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The "crisis of confidence" that worsened the Nigeria's economic crisis in the 80s was largely due to the sustained poor performance of the public enterprises. The crisis resulted in dwindling domestic and foreign exchange revenues which put government in a very precarious fiscal position in which it could no longer accommodate the lapses, wastes and inefficiencies of the public enterprises.

The need to reduce the burden of dependency by the companies and parastatals of government-owned companies whose inefficiency was causing government much embarrassment and costing the public much money in losses, led to the consideration of privatisation and commercialisation. It was also thought that government parastatals were riddled with high levels of corruption, which made it seem that the industries or enterprises existed to benefit any group that captured them as their share of the national cake. Reformers, anxious to outline the pervasive corruptions of these agencies, argued that the only way forward would be to divorce these establishments from government.

9.3 The Nigerian Privatisation Programme

The importance of the private sector in Nigeria is underscored by the fact that it accounts for a greater proportion of the economic growth potentials or sources of growth. For example, sectoral distribution of gainful employment and gross domestic product (GDP) shows that agriculture, manufacturing, distribution, transport, and services, which are all dominated by private sector activities, accounted for 98% of gainful employment in 1994, 97% in 1995 and 1996 and 84% of GDP in 1994 and 1995 but declined to 82% in 1996. Consumption expenditure constitutes the largest single component of the national income. Changes in consumption expenditure dictate the direction of changes in the national economy. Private final consumption expenditure accounted for between 81 and 84% of gross national income in 1992-96[2]. These few statistics serve to highlight the importance of the private sector to Nigeria's economic growth. In addition to this, the informal sector of the private sector has continued to be a source of skill acquisition and small-scale technological innovations (Obadan and Odusola, 1996, Abumere et al, 1998).

Privatisation is the transfer of full or partial ownership and control from the public sector to the private sector with a view to increase the operational efficiency of the privatised enterprises and thus encourage competition. Although the objectives and motives for privatisation vary between countries and have altered overtime, the exercise was linked with the macroeconomic burden of the public enterprise sector in

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developing countries. However, the objectives of privatisation in Nigeria include the following:

- to improve the efficiency of parastatals, through better role definitions between the supervising Ministry and the public enterprises;
- to reduce their dependence on the treasury for the funding of their operations; and
- to increase participation of Nigerian citizens in economic activities through share ownership of productive investment.

Like in other developing countries, State Owned Enterprises (SOEs) were established in almost every sector of the Nigerian economy especially in the 1960s as a means of achieving rapid economic development. This took a rapid expansion in the 1970s when the government had enormous revenue from oil. By the end of the 1970s, there were more than 1,800 SOEs in Nigeria. A fall in the oil revenue in the 1980s revealed the problems of the SOEs. These had hitherto been hidden under the continuous subventions from the Federal Government. By October 1985, Government had invested a total sum of ₦23billion in the SOEs. The total dividend received by government during the period 1980-1985 was 933.7 million naira, which average 159 million naira per year. The implication of this is that return on investment was not more than two per cent.

The major problem of the SOEs as identified by the different panels appointed to find solutions to their problems since the 1960s include:

- unclear and conflicting missions: This has to do with both economic and non-economic missions. The economic mission include: control of strategic resources, delivery of essential goods, services, employment and price control. The non-economic missions include: social obligation to political patronage, supplying goods below costs in effort to subsidise the public or hiring workers to meet national employment objectives. All these are contrary to the commercial and social goals of the private sector. This implies that SOEs have had to be subsidised from taxpayers fund;
- political interference in operating decisions: This has often resulted in excessive employment, poor choices of product and location, lack of investments and ill-defined incentives for managers. All these have more often than not resulted in persisted losses incurred by the SOEs;

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- misuse of monopoly power: This is as a result of the absence of competitive environment. It has been shown that firms will perform better in a situation of very high competition;
- defective capital structure: This derives from the fact that SOEs have easy access to government finance and capital acquisition at highly subsidised interest rate. All these give SOEs some reasonable degrees of immunity from bankruptcy and reorganisation with a consequence on management complacency; and
- bureaucratic red tape in their relationship with supervisory ministries: This often results from excessive control and interference with the operational decision of SOEs managers by the supervisory agencies and government department. This often results in loss of managerial incentives, inefficiencies and loss of accountability.

It was against this background that the Nigerian government embarked upon the privatisation and commercialisation programme in 1988, and promulgated the Privatisation and Commercialisation Decree number 25. To this end, the government clearly announced a four-pronged policy of full privatisation, partial privatisation, full commercialisation and partial commercialisation. The institutional framework for the implementation of the privatisation and the commercialisation programme was vested in the Technical Committee on Privatisation and Commercialisation (TCPC). It was established and vested with powers for implementing the programme for the reform of the SOEs.

However, by 1994, the TCPC was replaced by another body known as the Bureau of Public Enterprises (BPE), which had, since January 1999 been replaced with the National Council on Privatisation. There is also the Utility Charges Commission (UCC). The UCC was to regulate user charges of commercialised public enterprises with a view to expanding output, ensuring greater capacity utilisation and the reduction of the rate of inflation in the country.

In order to allow for the effectiveness of the privatisation exercise, the committee on privatisation and commercialisation recommended that the exercise should be carried out sectorally and in phases. In this respect, all exercises done from 1988 to 1997 fell under the first phase of the programme. Privatisation of public utilities and NNPC downstream petroleum, i.e refineries and distribution facilities are categorised under

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phase 2, (1998-2000). Privatisation of these enterprises will have a major positive impact on and stimulate immediate growth of the economy. These enterprises are recommended in the following order:

- National Electric Power Authority, (NEPA);
- Nigeria Telecommunication, (NITEL);
- Nigerian National Petroleum Corporation-Downstream; and
- Urban Water Supply.

In the first phase of the guided privatisation programme, enterprises in telecommunications, electricity, petroleum refining, petrochemicals, coal and bitumen production and tourism development would be affected. Specifically, in 1998, NITEL was to be privatised while NEPA was to be reorganised for privatisation. This was to entail breaking up NEPA into its three main activities of power generation, transmission, and distribution to facilitate privatisation. Also the guided privatisation programme also involved:

1) the setting up of a high-powered National Committee on privatisation. This committee would approve and concretise the sale of any venture; and
2) the setting up of Nigeria Trust Fund to manage the proceeds of privatisation. Such proceeds would be used for investment abroad, and for improvements of education, health, agriculture, settlement of Nigeria's debts and financing of share ownership of Nigerians in the enterprises to be privatised.

However, the second phase of the privatisation programme commenced in November, 1999 and by January, 2000, the privatisation of enterprises in the first batch of the resumed programme commenced. The phase three, (2001-2005) of the privatisation programme was to witness the privatisation of spillovers from phase two and enterprises from the strategic industries like NNPC upstream, Cement and fertilizer companies.

9.4 Implementation of the Privatisation Programme

The methods used for privatising public enterprises in Nigeria are (DPC, 2000):

- *Public offer of equity for sale.* This was carried out through the Nigerian Stock Exchange for enterprises that qualified for listing on the stock exchange. Thirty five SOEs were privatised through this method and more than 1.5 billion shares were sold to private

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individuals and associations throughout the then 593 local government areas in the country;

- Private placement of equity shares to institutional investors, core groups with demonstrated management and/or technical skills and workers of specific enterprises, organised as a co-operative or limited liability company. This method was used mainly where the share holdings of government were very small and the TCPC could not persuade shareholders to make a public offer of shares. Seven enterprises were privatised using the private placement method;
- *Sale of assets.* This approach was adopted after rigorous examination has shown that the affected SOEs had unimpressive track records and their future outlook seemed hopeless. Consequently, they could not feature under the public offer or private placement method because they did not possess the listing requirement. These enterprises were liquidated, and their assets sold piecemeal to the public through public tender. Twenty six enterprises were sold through the sale of assets approach. The Ministry of Agriculture and Transport had sold 18 of these enterprises before the establishment of TCPC in 1988.
- *Management buy-outs.* Under this method, the entire affected enterprises or a substantial part of its equity capital was sold to the workers. Just one enterprise was privatised through this method and this is the National Cargo Handling Company Limited; and
- *Deferred public offer.* This approach was adopted where it is felt that if some viable SOEs were sold by shares, the expected revenue would be lower than the real values of their underlying assets. This method was used in order to revalue assets and sell the enterprise on a willing buyer/willing seller basis, at a price that was more reflective of the current value of affected SOEs. The new owners were required to sell not less than 40% of the equity to the Nigerian public within five years of take-over. Four hotel enterprises were privatised through the deferred offer method.

Among the measures taken to ensure equity in the sale of shares of these enterprises, and allay the fears and misconceptions of the privatisation and commercialisation programme were:

- creation of public awareness of the programme through the use of radio, newspapers, television, seminars, conferences and workshops. Through these media, the main issues connected with the programme were to be explained as simply as possible,

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particularly in the three main local languages- Hausa, Yoruba and Igbo;

- issuing of a directive to all commercial banks in the country to grant prospective shareholders overdrafts to finance their share purchases;
- the provision to allocate a minimum of ten per cent and a maximum of twenty per cent of equity shares to associations and interest groups, e.g. workers, trade unions, market women, local community associations etc. Besides, a maximum of ten per cent of the available equity shares on offer was to be reserved for the staff of affected enterprises;
- printing and nationwide distribution of application forms ranging from 200,000 to 600,000 in respect of each public offering of shares, depending on the size of the offer;
- employment of non-traditional outlets for distributing share application forms. These included post offices, local government headquarters, state ministries of commerce and industry and all chambers of commerce and industry;
- setting the minimum number of equity shares per application to 100 and multiples of 50 thereafter to encourage low income persons; and
- legislation against multiple applications and outright rejection of suspected ones.

Apparently on the ground of the myriad of problems that characterised privatisation policies and implementation in the country, there was a break in the implementation of the programme especially between 1994 and 1997. These problems range from ideological opposition, opposition from the managers and staff of public enterprises, and absence of competition and other regulatory framework to unanticipated delays and inaccessibility to credit facilities on the part of potential buyers. Consequently, the government had to abandon the exercise until 1995 when government in its budget presentation affirmed its commitment to disengage itself from activities that could be more efficiently and effectively carried out by the private sector.

In view of the above, government in 1995 introduced a new policy of contract leasing to replace the sale of shares in public enterprises. The arrangement was to involve leasing the enterprises to both local and foreign entrepreneurs on as-it-were basis. The key elements of the leasing arrangement were to be as follows:

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- the lessees (entrepreneur) must have proven track records and possess the managerial and technical skills peculiar to the enterprise as well as the financial resources needed to manage the enterprise;
- the lease arrangement would initially be for a period of ten years with an option for renewal on a mutually agreed basis;
- during the lease, the lessees would have unfettered use of all the facilities of the enterprises and they would be required to pay government an agreed percentage of their profits and foreign exchange earnings; and
- the lessees would be responsible for the maintenance of the enterprises and required to make adequate provision for the depreciation of the equipment so that whenever the enterprises were due for handing-over to government, there would be adequate funds to replace the plant and equipment of the enterprise.

Incidentally nothing has been achieved on the leasing arrangement since 1995 because the decree to back this arrangement was to be promulgated in 1996. Consequently, even as at 1997 government could not achieve much in terms of implementing the arrangements (1995 - 1997). However, by 1998, government announced its decision to commence the privatisation programme as a means of ensuring wider business ownership and stimulate the competition necessary to ensure efficiency in the system. In this respect, government decided to embark on the policy of **guided privatisation.** This is an approach where an enterprise will be privatised at a time so that the lessons of experience would be used to improve upon subsequent exercise. The key elements of the guided privatisation programme include the following:

- limiting share ownership to some core strategic investors with the relevant expertise to participate in the ownership of the enterprise under a specified share holding;
- government retention of at most 40 per cent of the equity in the enterprise to be privatised while 20 per cent of the shares would be sold to Nigerians, thus suggesting 40:40:20 per cent equity structure for government, foreign entrepreneurs and Nigerian investors;
- ensuring by government of widespread share ownership among Nigerians who were to be given financial assistance to acquire shares in the privatised enterprises; and
- the setting up of a team of experts on privatisation in order to ensure that the privatisation exercise achieved its desired objectives of job creation, acquisition of new knowledge, skills and technology and

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exposing the country to international competition. The team would be expected to examine and advise on all aspects of the programme.

The Privatisation and Commercialisation Decree Number 25 identified a total of 111 enterprises to be privatised fully or partially and another 35 enterprises to be wholly or partially commercialised. The Decree aimed at:

- lessening the dominance of unproductive investments in the SOEs sector;
- reorientating SOEs towards performance improvement, viability and overall efficiency;
- checking SOEs absolute dependence on the treasury for funding; and
- disposing of SOEs providing goods and services that the private sector can best provide.

The decree provided for the necessary legal and institutional framework for the planning, organisation and implementation of the commercialisation and privatisation programme. It also contained portions, which allowed for widespread ownership with the issue of distributional equity coming to the fore. Thus by 1995, work on a total of 87 enterprises were successfully completed out of the 111 enterprises that were slated for full or partial privatisation.

Table 9. 2: Number of Privatised Enterprises

Sector	Number Privatised
Development Banks	1
Oil Marketing Corporations	3
Cement Plants	3
Hotels and Tourism	2
Textiles	3
Transport Companies	1
Salt Companies	2
Food and Beverages	6
Insurance Companies	14
Dairy Companies	2
Flour Milling	1
Construction and Engineering Companies	4
Cattle Ranches	2
Commercial and Merchant Banks	10
Agric & Livestock production	18
Others	15
Total Privatised	87
Enterprises yet to be privatized	24
Grand Total	111

Source: Report of the Vision 2010 Committee, Vol.2. Book 3

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An insight into the process of privatisation shows that the total sales value of privatised enterprises as at June 1999 was estimated at $207 million which, in comparison with other African countries, ranks Nigeria among the top ten African countries (Table 3). However, in terms of sales value, Nigeria is just about 9.4% of that of South Africa.

Table 9.3: Top Ten African Countries in Sales Value, 1997

Country	Total Numbers of Transactions	Total sales Value in US$ Million
South Africa	7	2,209
Ghana	219	555
Senegal	50	262
Nigeria	87	207
Mozambique	549	201
Kenya	155	186
Zambia	217	180
Uganda	88	134
Tanzania	124	132
Cote d'Ivoire	47	357

Source: World Bank, African Development Indicators, 1998/1999

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9.5 The Effect of Privatisation on Private Sector Development

In this aspect of analysis, the impact of privatisation on private sector development is measured by using the efficiency, financial and distributional impacts of privatisation in Nigeria as indicators. Using seven fully privatised companies as case studies, all these indicators were examined through the difference in their values before and after privatisation. We also test whether the differences between the value changes are significant, using the t-test. We further examine the pattenrns of share distribution to ascertain if the programme has made for widespread share-distribution of shareholding in Nigeria.

The sampled firms were selected from the manufacturing and services sector. The period of analysis is five years prior to, and five years after privatisation of each firm in the sample space. The list of the enterprises considered are (i) Okomu Oil Palm Plc, (ii) United Nigerian Insurance Co. Plc. (UNIC), (iii) Royal Exchange Assurance, (iv) Aba Textile Mills Plc., (v) Flour Mills of Nigeria. (vi) National Salt Company of Nigeria Plc (NASCON), and (vii) Nigerian Yeast and Alcohol Manufacturing Plc. (NIYAMCO).

The data used in this study were derived from secondary sources. Fact Book from the Nigerian Stock Exchange contains data on each company's financial and operational performance before and after privatisation. Also the published Annual Reports offer Prospectus and Financial Statements of the privatised companies served as a major data source. Industrial survey questionnaires of the Federal Office of Statistics (FOS) and the Central Bank of Nigeria (CBN) were also employed. The publications of the Federal Ministry of Industries, Bureau of Public Enterprises (BPE), were supported by data from World Tables and International Financial Statistics. However, because of the enormous data requirement of the study, any resulting data gaps were complemented through primary data resources such as on-site visits, interviews, questionnaires and mails.

Profitability

Privatisation is designed to substitute the single objective of profit maximisation for the other objectives of the public parastatals. We measure profitability by using two ratios: return on sales (ROS) and return on assets (ROA) for the seven selected companies. Two of the companies, Aba Textile and Royal Insurance, recorded positive improvements on the three ratios. The return on sales (ROS) recorded negative changes after privatisation of four companies. For instance, ROS fell from 14% before privatisation to 7% after privatisation of UNIC. Okomu Oil and Flour Mills fell from 19%, 4.8% to 17.6% and 3.6% respectively, using the return on sales. NIYAMCO also recorded a negative change of about 2.8% using the ROS, while NASCON recorded positive changes in ROS, its RAO fell from 45.8% to 6.5%. UNIC recorded negative changes in profitability, using the three ratios. Only Royal Insurance recorded significant improvement in ROS and ROA at 5% and 10% level respectively, while ROS shows a significant change in Okomu oil and NASCON at 5%.

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Table 9.4: Profitability Level of Selected Privatised Enterprises

Name of Firm	Variables	Mean Before	Mean After	Mean Chang	T-Test
Aba Textiles	ROS ROA	'0.085 0.070	0.125 0.165	0.04 0.10	0.546 1.491
Royal Insurance	ROS ROA	0.029 0.027	0.230 0.102	0.102 0.08	3.11 5.84
NIYAMCO	ROS ROA	0.183 0.145	0.154 0.183	(0.028) 0.04	0.565 (0.553)
Flour Mills	ROS ROA	0.048 0.11	0.036 0.268	(0.011) 0.158	0.693 0.951
Okomu Oil	ROS ROA	0.183 0.145	0.154 0.183	(0.028) 0.038	0.173 0.417
UNIC	ROS ROA	0.140 0.038	0.071 0.028	(0.069) (0.010)	0.978 0.386
NASCON	ROS ROA	0.035 45.79	0.598 0.065	0.563 (45.73)	(2.455) 2.058

Source: ***Computed by the authors from Fact Book from the Nigerian Stock Exchange; Prospectus and Financial Statements of the privatised companies; Industrial Survey of the Federal Office of Statistics (FOS), and the Central Bank of Nigeria (CBN) (Various publications); and the publications of the Federal Ministry of Industries, Bureau of Public Enterprises (BPE)***

Efficiency Changes

By exposing firms to market competition, government hoped that these firms would employ their resources more efficiently. In removing the non-economic objectives from the state firms, government explicitly stated that the trade-off it expected has increased operating and financial efficiency. The efficiency measures employed included inflation - adjusted sales per employee and net income per employee. Net income per employee show a significant increase in Royal Insurance, NIYAMCO, Okomu Oil and NASCON. The results show positive increases following privatisation in all the seven companies considered. The results agree with the general expectation in the hypothesis.

Changes in Capital Investment

It is expected that greater emphasis on efficiency will lead newly privatised firms to increase their capital investment. Once privatised, firms should increase their capital expenditures because they have greater access to private debt and the capital market, and have more

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incentive to invest in growth opportunities. Also, if privatisation is accompanied by deregulation and market opening, the former parastatals will face very large investment spending needs, in order to become competitive with other private firms.

We computed investment intensity, using the two proxies of capital expenditures divided by sales (CESA) and capital expenditures divided by total assets (CETA). For the seven companies considered, both indicators improved in the post privatisation period, except in the cases of Flour Mills and NIYAMCO, where CESA showed a reduction in the post privatisation period. In the case of Flour Mills, the CESA fell from 7% to about 4%, while it fell from 27.6% to 16.2 % in the case of NIYAMCO. This result of CESA is contrary to expectation for these two cases. In all, only Royal Insurance and Aba Textiles recorded significant improvement at 10% level in both CESA and CETA, while UNIC also shows significant increase at 10% level in CETA.

Changes in Output

Privatisation, when correctly conceived and implemented, should improve efficiency and stimulate investments and, therefore, new growth and employment (Kikeri -et -al, 1992). Boycko et al, (1 993) argue that effective privatisation will lead to a reduction in output, since the government can no longer entice managers (through subsidies) to maintain inefficiently high output levels. We tested these competing predictions by computing the average inflation adjusted sales level for the pre-privatisation period and comparing it to the post-privatisation period for the seven companies in our samples. We recorded positive increase in output in the post-privatisation period for Okomu Oil, Aba Textiles, Flour Mills and NIYAMCO. The result is in line with the first argument. On the other hand, three companies recorded a reduction in output in the post-privatisation period. These are UNIC, Royal Insurance and NASCON. This is in line with the second theoretical argument.

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Table 9.5: Changes in Output of Selected Privatised Enterprises

Name of Firm	Mean Before	Mean After	Change	T-Test
Aba Textile	142,483.8	295406.3	1529225	(8.518)*
Royal Insurance	151531.4	146988.2	(4543.3)	0.367
NIYAMCO	364339.2	63143.3	26704.1	(3.171)*
Flour Mills	1559718.2	2188348.7	628630.5	(0.718)
Okomu Oil	55131.7	144143.9	89012.2	(3.738)*
UNIC	295248.9	291487.1	(3761.8)	0.109
NASCON	80155.4	46679.14	(33476.3)	1.342

Source: ***Computed by the authors from Fact Book from the Nigerian Stock Exchange; Prospectus and Financial Statements of the privatised companies; Industrial survey of the Federal Office of Statistics (FOS), and the Central Bank of Nigeria (CBN) (Various publications); and the publications of the Federal Ministry of Industries, Bureau of Public Enterprises (BPE).***

Changes in Leverage

The switch from public to private ownership should lead to a decrease in leverage because the government's removal of debt guarantees will increase the firm's cost of burrowing and also because firms will have increased access to public equity markets (Meginston et al 1994). We measure leverage by using the total debt assets (LEVI), and by long term debt to equity ratio(LEV2). Our results here is mixed, while some companies conform to the expectation, others did not. For instance, leverage, using total debt to total asset, LEVI has not fallen in companies like NASCON, NIYAMCO, Aba Textiles, Flour Mills and Royal Insurance after privatisation. This is contrary to expectations. Only UNIC and Okomu Oil had recorded reduction in leverage in line with the predictions. Using the longterm debt to equity ratios LEV2, only NASCON and Okomu Oil recorded increased leverage, while the other five companies' leverages were in line with the expectations.

Employment Changes

Prior to privatisation, most parastatals tend to be over-staffed. The great fear of all governments contemplating privatisation programmes is that efficiency and profitability will be achieved only at the cost of large-scale job losses. In other words, people expect high decline in employment level following privatisation. We examined this by

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computing the average employment levels for the pre-privatisation and post-privatisation periods, in order to see if employment has fallen after privatisation. Four companies recorded reduction in employment in the post-privatisation period. Okomu Oil staff strength fell from 1000 to 993.4 on the average. UNIC recorded a reduction from 701 to 697.5, also Royal and NASCON recorded a reduction on the average from 495.5, 331 to 411.25 and 197.6, respectively. The result conforms to expectations. The other three companies recorded increase in employment in the post-privatisation period. From an average of 159 to 163.2 for NIYAMCO, Flour Mills recorded 989.5 before and 1,795.25 after, while Aba Textiles moved from 1,300 employees to 1,468.75 employees, although recently, these companies had recorded massive lay off of workers. In all, Okomu Oil, UNIC and Royal Insurance recorded significant reduction in employment level, while Aba Textile and Flour Mills recorded significant increases at 10% and 5% levels respectively.

Table 9.6: Employment Changes of Selected Privatised Entreprises

Name of Firm	Mean Before	Mean After	Mean Change	T-Test
Aba Textiles	1300	1468.75	186.75	2.995**
Royal Insurance	495.5	411.25	(84.25)	3.543*
NIYAMCO	159	163.2	4.2	0.209
Flour Mills	989.5	1795.25	805.75	6.194*
Okomu Oil	1000	993.4	(6.6)	(5.116)*
UNIC	710	697.5	(3.5)	6.617*
NASCON	331	197.6	(133.4)	(0.802)

Source: Computed by the authors from Fact Book from the Nigerian Stock Exchange; Prospectus and Financial Statements of the privatised companies; Industrial survey of the Federal Office of Statistics (FOS), and the Central Bank of Nigeria (CBN) (Various publications); and the publications of the Federal Ministry of Industries, Bureau of Public Enterprises (BPE).

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Changes in Dividend Payout

Dividend payment is a classic response to the atomised ownership structure to which most privatisation programmes lead. This payment is measured using total dividend payments divided by net income (Payout), dividend divided by sales (DIVSAL) and changes in earnings per share (EPS) following privatisation. The earning per share shows substantial improvement for all companies except NASCON and Royal Insurance, where EPS recorded negative and zero values for the period (Table 6.4).

There was significant increase in DIVSAL for all the seven selected companies except for Flour Mills and UNIC. This means that investors are better off in terms of DIVSAL. In the case of Payout, it recorded a negative value after privatisation except in three sampled firms i.e. Aba Textiles, Flour Mills and UNIC (Table 7).

Table 9.7: Changes in Earning Per Share of Selected Privatised Enterprises

Name of Firm	Variables	Mean Before Privatisation	Mean After Privatisation	Mean Change	T-test
Flour Mills of Nigeria Plc.	Payout DIVISAL	0.016 0.329	0.006 0.104	0.010 0.225	2.001 0.755
United Nigeria Insurance Co. Plc. (UNIC)	Payout DIVSAL	0.067 0.508	0.043 0.376	0.024 0.132	1.893 0.484
Nigerian Yeast and Alcohol Manufacturing Co. Plc. (NIYAMCO)	Payout DIVSAL	0.06 0.31	0.08 0.55	0.03 0.24	5.97 0.40
Royal Exchange Assurance Co. Plc.	Payout DIVSAL	0.03 0.19	0.10 0.44	0.08 0.25	5.99 1.31
Okomu Oil Palm Plc.	Payout DIVSAL	0 0	0.02 0.17	0.02 0.17	2.22 3.25
Aba Textiles	Payout DIVSAL	0.0199 0.311	0.0313 0.213	0.0144 (0.098)	1.880 (2.248)
National Salt Co. of Nig. Plc.	Payout DIVSAL	0 0	0.04 10.21	0.04 10.21	0.97 13.10

Source: *Computed by the authors from Fact Book from the Nigerian Stock Exchange; Prospectus and Financial Statements of the privatised companies; Industrial survey of the Federal Office of Statistics (FOS), and the Central Bank of Nigeria (CBN) (Various publications); and the publications of the Federal Ministry of Industries, Bureau of Public Enterprises (BPE).*

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Labour Income and Welfare

One important issue in the privatisation debate concerns the welfare of the workers. It was argued that privatisation would lead to increased unemployment through massive retrenchment. It was also alleged that privatisation would lead to a general insecurity of the labour force and reduction in workers' welfare as a result of the exploitative abuses under private sector management. We look at workers' income in terms of salaries or total packages before and after privatisation. We also examine the share of wage income in the value-added of the parastatals.

We recorded a positive improvement in all the companies in our sample, in terms of wage income, as the income to workers increase after privatisation. This is contrary to expectations. In terms of the share of workers' wages to company's overall value-added, the result shows a significant increase in the seven companies, except for Flour Mills and NASCON where the ratio was 48% and 22.9% before privatisation and 27% and 18% after privatisation, respectively.

9.8 Conclusion And Recommendations

This report reviews extensively the theoretical and empirical literature underlying privatisation including the methods of privatisation. It analysed the implementation of the privatisation programme and reviewed briefly the various methods and process of privatisation exercise in Nigeria. It found that Nigeria's privatisation programmes faced a number of constraints like ideological opposition, including opposition from managers and other employees of the firms to be privatised, absence of competition and regulatory framework, inaccessibility of credits to potential buyers, and lack of political will among others. It adopted limited number of options when compared with the privatisation that took place in the transition economies of Central and Eastern Europe. Because of the constraints, Nigeria's privatisation programme fell into fits and was abandoned in 1995, before it took off again.

Analysis of the performance of a small-sample privatised firms showed that privatisation led to some improvement in the economic and financial position of the enterprises. Although, most of the firms considered were profitable before privatisation, however, there is an improved performance in most companies after privatisation. The operational efficiency measures show significant improvement. The result of output changes is, somehow, mixed, so also are changes in leverage. Most of the companies' cost of borrowing remains high in spite of increased access to public equity markets. The observed increase in share prices indicates strong performance and high capital appreciation.

Earning per share and dividends show substantial improvement, as shareholders received more dividend as a result of privatisation. Also, the wage income of workers increased, as the share of workers income in the value-added, in most sampled companies, show a significant improvement. The impact of privatisation on employment is mixed.

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Contrary to expectation, privatisation did not lead to unemployment in some enterprises, as they recorded employment growth after privatisation. But in others, there was a reduction in the number of workers employed.

On the part of government's financial position, there is no evidence of direct government subsidies or subventions in the sampled companies after privatisation. In terms of taxes, nearly all the sampled firms recorded a significant increase in payment of taxes to the government. One can therefore conclude that a lot of revenue accrued to government after privatisation.

Based on these findings, the government must see privatisation as a major tool for developing the private sector. Privatisation's positive impact on profitability, turnover, investment spending, operating efficiency, dividends payment and employment level is a clear attestation to the fact that privatisation has enhanced private sector development in Nigeria. To consolidate on these achievements, there is the need to give due recognition to the fact that a necessary condition for the acceptance of privatisation is a high degree of social usefulness of the privatised enterprises. This can only be achieved in an environment that is competitive. Therefore, government should not relent in its efforts on privatisation, deregulation and commercialisation programmes. Of utmost importance are transparency in the privatisation process and satisfactory use of the proceeds realised in the programme. Appropriate policy and institutional environments for proper implementation of privatisation have to be provided. The money and capital markets have to be strengthened and adequate financial resources must be provided to those agencies implementing the programme. Also, there must be adequate public information as well as ensuring that all stakeholders are adequately involved in its implementation.

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10

EVALUATION OF PROGRAMMES AND POLICIES FOR SUPPORTING SMALL-SCALE ENTERPRISES IN NIGERIA

Olanrewaju Olaniyan; Kola Olayiwola;
B.A. Alayande and Semiu Alayande

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10.1 Introduction

The importance of Small-Scale Enterprises (SSEs) cannot be overemphasised in any economy. This is because they contribute to the creation of employment opportunities, free competitive market environments, inputs for large-scale industries, industrial innovations and the promotion of indigenous technology among others (Olaniyan et al, 1998). The failure and problems of large-scale enterprises in achieving the desired industrialisation for Nigeria despite the large protection that they have enjoyed over the years have further boosted the need to encourage and support SSEs. SSEs are assumed to be in a better position to boost employment and guarantee a more even distribution of industrial development in the country (Innang and Ukpong, 1992). The advantages of the SSEs are further enhanced by the introduction of the adjustment reforms, which brought to the fore, the flexibility and rapid market responses of these SSEs.

By the end of 1996, SSEs accounted for 70 per cent of all employment in the non-formal sector of the economy (First bank of Nigeria, 1987). Incidentally, SSEs face a myriad of problems that limit their positive contribution to the economy. It therefore became inevitable that institutions that package programmes to support the SSEs have to be set up. The problems faced by SSEs vary from financial constraints to low skill development of the entrepreneurs, hence such institutions must cater for these problems. The apparent failure of the large scale import dependent industries to ensure growth and development and the

increasing awareness of the potential roles of SSEs have prompted the government to shift attention to the promotion of SSEs. As a result, the development of SSEs is one of the main platforms of government policy in Nigeria.

In view of the importance accorded the SSEs, government has initiated many policies and programmes to support them. There have been a few studies analysing the impact of these policies on the performances of these SSEs. The recent liberalisation and deregulation in the economy places SSEs as a disadvantaged position vis-à-vis the large-scale enterprises. It is thus necessary to evolve policies and programmes to assist these SSEs in achieving their objectives. All levels of government from the federal to the local governments have made efforts at promoting the development of SSEs. Incidentally, many of them have not been able to redress the fundamental problems of finance, inputs and entrepreneurial skills that these enterprises need. The impacts of these programmes have hardly been noticeable. In order to have SSEs that would serve as a catalyst for rapid development, there is the need to investigate what has happened to the various programmes that government has initiated in order to refocus them if they have fallen short of expectations.

Given the foregoing, the present paper hopes to examine the institutional arrangements for promoting SSEs in Nigeria as well as explore the policy framework for promoting SSEs in Nigeria. The paper is therefore structured in a way that examines the structure and characteristics of the Nigerian small-scale enterprises. This is followed by a review of some theoretical and empirical issue on small-scale enterprises. The paper also undertakes an evaluation of programmes and policies of supporting SSEs in Nigeria and ends with a conclusion.

10.2 Structure and Characteristics of Nigerian Small-Scale Enterprises

In Nigeria, there are a plethora of definitions for Small-Scale Enterprises (SSEs). The Central Bank of Nigeria, in its Monetary Policy Circular No. 22 of 1988, defined SSEs as having a turnover not exceeding 500,000 Naira. Also, by 1990 commercial banks defined SSEs as those enterprises with annual turnover not exceeding 500,000 Naira, while for the merchant banks, they are defined as those enterprises with annual turnover not exceeding two million Naira. In addition, the Companies and Allied Matters Decree of 1990 defines a small company as one with an annual turnover of not more than two million Naira, and a net value of not more than one million Naira.

In addition, the National Economic Reconstruction Fund (NERFUND) puts the ceiling for SSEs at ₦10 million while the CBN

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Monetary and Credit Policy Guidelines for 1993 defines a SSE as one whose total cost, excluding cost of land but including working capital does not exceed ₦10 million. The current national definition of Small Scale Enterprises as adopted at the National Council on Industry is to classify small scale enterprises as those with total cost (including working capital but excluding cost of land) above one million Naira, but not exceeding 40 million Naira and with a labour size of between 36 and 100 workers.

Small-scale enterprises play a significant role in both rural and urban economies of Nigeria and they abound in all sectors of the economy. According to Adegbite (1997), a study conducted by the International Finance Corporation in 1972 estimated the number of modern sector SSEs at 90,000, which was extrapolated to 125,000 in 1983. This number has been estimated to be above 200,000 in 1997. This however excludes the numerous ones that are operating in the informal sector of the economy. While a comprehensive and current data are not available, there are indications that small and medium scale enterprises account for about 70 per cent of industrial employment and 10 to 15 per cent of manufacturing output (CBN, 2000). A sectoral composition analysis of Nigerian industrial structure by CBN (2000) shows that while over 95 per cent of industrial establishment engaged less than 50 persons; only 2.5 per cent engaged more than 2.5 per cent.

Table 10.1: Structure of Industrial Establishments in Nigeria

S/N	Activity	Small-Scale and Micro Enterprises	Medium-Scale Enterprises	Large- Scale Enterprises	Total
1	Agriculture, Forestry and Fishing	43.4	53.8	2.8	100
2	Mining and Quarrying	29.9	55.2	14.9	100
3	Manufacturing	65.2	31.3	3.5	100
4	Electricity gas and Water	25.0	51.0	24.0	100
5	Consumption	41.7	47.7	10.6	100
6	Wholesale and retail	75.9	23.0	1.1	100
7	Transport, Storage and Communication	46.9	46.9	6.2	100
8	Financing, Insurance and Real Estate	50.9	45.0	4.1	100
9	Community, Social and Personal Services	68.2	30.9	0.9	100
	Average	69.68	22.75	7.57	100

Source: CBN (2000)

As revealed by Table 1, the highest concentration of SSEs is in the Wholesale and Retail Trade sector of the economy, where 75.9% of the

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enterprises operating in the sector are either small of micro. This is followed by the community, social and personal services sector and the manufacturing sector where 68.2 and 65.2 per cent of enterprises in the sectors are either small-scale or micro-enterprises. In contrast, SSEs are less prevalent in sectors such as Mining and Quarrying and Electricity, Gas and Water. An explanation of this is that SSEs tend to concentrate in sectors where the initial capital is low and also where the technology required is not too sophisticated. The initial capital in Mining and Quarrying and Electricity, Gas and Water are very high and the sectors also require sophisticated technology.

The profile of the small-scale enterprises alone without comparing them with the medium and large-scale enterprises shows that only 14. 58 per cent of SSEs are in the manufacturing sector of the economy (see Table 2). A vast majority operates in the services and the wholesale and retail trade sectors of the economy. This can be traced to the fact that operating in these sectors requires fewer years of apprenticeship as well as venture capital.

Table 10.2: Sectoral Composition of SSEs in Nigeria (percentage)

Activity	Share in all SSEs(%)
Agriculture, Forestry and Fishing	13.70
Mining and Quarrying	4.68
Manufacturing	14.58
Electricity gas and Water	3.59
Consumption Services	9.32
Wholesale and retail Trade	18.97
Transport, Storage and Communication	10.49
Financing, Insurance and Real Estate	9.38
Community, Social and Personal Services	15.25
	100.00

Source: CBN (2000)

In terms of geographical distribution, SSEs are more concentrated in the southern part of the country with majority operating in the south west of the country (Table 3). According to 1992 Federal Office of Statistics (FOS) survey of registered establishments, 45 per cent of all small scale enterprises are located in the south west of the country, while 31, 12 and 11 per cents of SSEs are located in the South East, North West and North East of the country respectively.

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Table 10.3: Geographical Distribution of SSEs

	Micro-Enterprises	Small-Scale Enterprises	Medium-Scale Enterprises	Large-Scale Enterprises
South West	51	39	41	54
South East	25	38	28	21
North West	13	12	16	14
North East	11	11	15	11
Total	100	100	100	100

Source: CBN (2000)

The high concentration of SSEs in the South West of the country is largely in the capital towns and this is not surprising as the region has the highest number of large towns and cities in Nigeria. As a result, many SSEs are established to take advantage of urbanisation and infrastructural developments in the areas.

10.3 Review of Some Empirical and Theoretical Issues on Small-Scale Enterprises

There is no unique definition for Small-Scale Enterprises (SSEs) in the literature. This is because there is no single index for determining a small or medium scale industry. The indices often used include employment level, start-up capital, installed capital and annual turnover. However, confusion usually arises in the use of the size of plants and equipment to classify firms, since valuation of assets of companies usually present a problem. Also the definitions of small scale often vary due to the changes that occur in the economy. The assistance required by SSEs are many. Literature identified five main types of assistance required by SSEs in a developing economy. They include financial assistance, acquisition of management skills, enabling environment, adequate information and education.

Finance appears to be the most binding constraint to the development of SSEs. There are essentially two financial problems. The first one is the relative high cost of financing which can be traced to the high risks associated with SSEs, and the unrealistic repayment demands or collateral requirements by the lending authorities in the private sector. Olaniyan et al (1998) found out that lack of finance is one of the most important constraints to the development of SSEs in Nigeria. This tends to support the earlier findings of Ekpenyong and Nyong (1992). Olaniyan et al (1998a) also noted that SSEs are denied access to credit by

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commercial and merchant banks because of their inability to train its personnel, which in turn affects productivity and expansion. These formal banks require collateral, which the SSEs find difficult to provide. They also prefer handling large loans than the small ones needed by the SSEs, and their loan application procedure is too complex for many SSEs. The informal credit market has not fared better because of limited loanable funds available in this type of market.

In addition to getting finance, the management of these funds (if and when eventually got) is another major constraint. Rather than seeing the credit as investment funds, many entrepreneurs in developing economies often see the funds as windfalls especially if they are from government. Even when they are not from government, there is always no motivation to pay back the loans.

The policy environment is another major problem that has been identified in the literature. The macroeconomic framework that existed before the adoption of the structural adjustment reforms sustained this problem. The policy frameworks that existed largely favoured the large-scale enterprises (LSEs) to the disadvantage of the SSEs. The structure of tariffs, interest rate policies, the overvalued exchange rates, import licensing and quotas, and controlled prices of inputs served as disincentive to SSEs, thereby creating barriers to their entry into the product market and impeding the creation and expansion of SSEs. Although government has often declared their intentions to promote the activities of SSEs, the policies on ground have fallen short of creating a conducive environment (see Banigo, 1987).

Access to the right information on production, and distribution opportunities and strategies are also major constraints. This usually happens especially where networking is rare among entrepreneurs. The gap in networking is further widened when firms operate outside clusters and have no way of linking with other firms in exploiting opportunities available to them (see Olaniyan 200). Lack of information limits access to credit facilities. Oladeji (1990) found out in a survey of Oyo State of Nigeria that only 40.5 per cent and 7.9 per cent of respondents are aware of Nigerian Bank for Commerce and Industries (NBCI) and National Economic Reconstruction Fund (NERFUND) loan schemes respectively. Oguntoye (1987) also identified the problem of lack of adequate information as very detrimental to the development of SSEs. Furthermore, low educational attainment by the entrepreneurs is another important factor militating against the development of SSEs. Most

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surveys of SSEs in Nigeria reveal that more than 60 per cent of entrepreneurs have education level below the secondary school (see Olaniyan et al, 1998; Usman, 1990).

10.4 Evaluation of SSEs

There are a plethora of studies evaluating the performances of government programmes on the performance of SSEs (see Yaron, 1992; Gurgand et al, 1996). One clear consensus from these studies is that the framework for evaluating these institutions should focus on two main issues, which are outreach (or accessibility to the programme) and self-sustainability of the programmes. The outreach index that is often considered in the literature include the value and number of loans extended and savings accounts opened, the number and growth of branches or units and the proportion of targeted clientele served. The other one is the rate of participation of women. Soyibo et al. (1999) argue that outreach index is both a short run and long run measure of performance of financial institutions.

Using micro finance as a case study, Gurgand et al. (1996) submit that the outreach performance of micro financial institutions in Sub Saharan Africa is significant. Christen et al. (1994) however revealed that the number of borrowers reached by the micro-finance programmes is lower than those reached by successful institutions in Asia and Latin America.

Sustainability index on its own measures the self-sustainability of a particular programme or policy. In this case, the programme should depend less on external sources of funds (especially from government and/or donor agencies). Chaves and Gonzalez-Vega, (1993) argue that self-sustainability is the ability of a programme to generate enough income to cover at least the opportunity cost of all employed factors of production and its assets, and also being able to honour all its liability as and when due. One of the most important criteria for the success of any programme for the development of small-scale enterprises is the ability to achieve financial sustainability.

Yaron (1992) identifies factors that can make it possible for a financial programme to be sustainable. These factors include having positive on-lending interest rates high enough to cover non-subsidised financial costs and administrative costs; and achieving a high rate of loan collection. Others include administrative costs through efficient procedures in its operations.

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In a study of four East Asian formal rural financial institutions, Yaron (1994) utilised the sustainability index to conclude that they have achieved a high level of sustainability. However, Rahman (1999) argues that if the attainment of the sustainability involves too large a cost in terms of borrowers, socio-economic impoverishment, it becomes contradictory to the objective of reaching the proposed SSEs. As a result, the objective of support programmes should not be sacrificed for financial sustainability.

10.5 Evaluation of Programmes and Policies of Supporting Small-Scale Enterprises in Nigeria

The importance of SSEs has long been recognised by the Nigerian government. Apart from what is normally contained in the early development plan documents, the first conscious effort by the federal government in promoting the development of SSEs is the establishment of a co-ordinating umbrella called the Small Scale Industries Corporation (SSIC) in 1971. This SSIC has the responsibilities of providing extension services, technical and managerial assistance, as well as training entrepreneurs. Other policies and programmes have also been initiated for the development of SSEs. These programmes and policies can be classified broadly into two, which are:

i) Entrepreneurship Development programmes and institutions.
ii) Finance and Micro-credit programmes and institutions.

Incidentally, it is often the case that a particular institution will be given the two types of assistance stated above.

10.5.1 Entrepreneurship Development programmes and Institutions

Entrepreneurship plays a crucial role in the development and performance of small-scale enterprises. The development of entrepreneurship skills especially of small-scale enterprise owners is therefore a critical factor in achieving rapid socio-economic development through an improved performance of small-scale enterprises (Olaniyan, 2001). The Nigerian government has put in place many policies and programmes aimed at developing and enhancing the productive capacities of small-scale entrepreneurs. Such programmes include the following:

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10.5.2 National Directorate of Employment (NDE)

The NDE was established in 1986 to create job opportunity for Nigerians especially school leavers. The NDE has four core programmes. They are the vocational skills development programme, the special public works programme, the agricultural employment programme and the small scale enterprises and graduate employment programme. Out of these four programmes, it is only the vocational skills development programme and the small-scale enterprises and graduate employment programme that are of direct relevance to this study. The vocational skills development programme involves four schemes, which are the national open apprenticeship (NOA), schools on wheels, waste to wealth and the resettlement schemes. The small-scale enterprises programme on its own is organised into four job creation schemes: the entrepreneurship development programme, graduate job creation guarantee, motorcycle transport and matured peoples' scheme.

The vocational skills development programme has the objective of assisting youths to acquire marketable skills that would enable them to be easily absorbed into the work force. However, those of them who opt out for self-employment would be given tool kits relevant to the apprentices' trade and working capital as loans under the job creation guarantee scheme of the directorate.

Under the small-scale industries programme, unemployed graduates and other young entrepreneurs are encouraged to set up small-scale enterprises with the provision of loan facilities. For this scheme, a sum of 55 Million Naira was initially deposited with 20 participating banks to serve as collateral for the loan beneficiaries, who generally do not have any security for the loan. The maximum loan grantable is ₦50,000.00 at nine per cent per annum, which is repayable over five years with one-year moratorium.

One main distinguishing feature of the loan scheme is that all participants are required to undergo a two-week training programme in entrepreneurship development before they can be eligible for loan. This is because of the belief that it is the combination of low entrepreneurial skills and low access to finance that prevents graduates from setting up their own business enterprises.

The programme encountered some financial problems between 1989 and 1991 due to low repayment by beneficiaries but assistance from the International Labour Organisation helped to revitalise the programme in 1991. Since then, the programme has been able to train more than 132,000 unemployed youths in its National Open Apprenticeship

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Scheme (NOA). In addition, resettlement tools and equipment as well as loans were given to some graduates of the NOA scheme in order to prevent already trained persons resurfacing in the unemployment market.

While the NDE is a laudable programme, the major obstacle to the full realisation of the programme is the shortage of loanable funds as well as the high rate of default by loan beneficiaries.

10.5.3 Working For Yourself Programme (WFYP)/ Entrepreneurial Development Programme

The two programmes were initiated separately by separate government agencies but were later merged together. The Working for Yourself Scheme was initiated by the Federal Government of Nigeria in collaboration with the International Labour Organisation and the British Council in 1987. Its objectives are to stem the high mortality rate of the SMEs, reduce the incidence of loan default as a result of lack of entrepreneurial skills and to inculcate a culture of self employment into educated youths who perceive virtually non-existent white-collar jobs as the only means of survival. The scheme was administered by the Federal Ministry of Industry.

The programme is designed to encourage participants in the scheme who are supervised by designated trainers/motivators not only to explore their own skills as a basis for the development of ideas but also to turn such ideas into viable business ventures. The programme consists of a six week-training designed to help individuals recognise their entrepreneurial skills. Ideas are expected to be developed by the participants at the training. In a situation where the idea developed by a participant is considered by the trainer motivator as good, the participant then seeks financial assistance from the participating banks.

In addition to the WFYP, there was also the entrepreneurship development programme, which was initiated by the NBCI in 1986. In order not to duplicate functions and further enhance the performance of these programmes, both of them were merged in 1987 to provide formal and comprehensive training package for potential and existing entrepreneurs. Between 1986 and 1992, 613 persons had been trained but only 99 projects from the 613 identified projects were funded.

The major shortcoming of the project is the limited funds for on-lending to the remaining 514 entrepreneurs as the ₦11.5 million provided by the Federal Ministry of Industries and channelled through the National Bank for Commerce and Industry was grossly inadequate.

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This was compounded by the fact that banks were not willing to extend credit to most SSEs who are perceived to be "high risks".

The programme only recorded very limited success due to this lack of funds. Incidentally, State governments were not positively disposed to the programme and thus did not provide funds for a minimum of five projects under the scheme as suggested by the Federal Ministry of Industry.

10.5.4 Industrial Development Centres

One of the major policy areas and strategies to help the SSEs is the establishment of Industrial Development Centres (IDC). The first one was established in 1962. They are essentially designed to help small entrepreneurs with their problems and providing them with essential services. They are expected to provide industrial estates and layouts where SSEs can rent spaces and benefit from centrally provided infrastructure. Five major industrial sub- sectors were chosen for concentration. These are woodworking, metalworking, automobile repairs, textiles, and leather works. There are four major zonal centers, which are Bauchi, Oshogbo, Owerri, and Zaria, with all the states of the federation having a satellite centre each. Each centre has a workshop for the training of entrepreneurs and staff on efficiency skills, assistance in product design, processing of loan applications and preparation of feasibility studies, assistance in plant and equipment installations.

In the first half of the nineties, the IDCs covered 800 companies and an additional 5000 weak SMEs were identified and assisted. In addition, feasibility studies were prepared for some intending entrepreneurs. Incidentally, the performance of the IDC has been constrained by lack of funds, inadequate staffing, low staff morale and discouraging attitude of some State governments and entrepreneurs.

10.5.5 Industrial Estates and layouts

This is usually established by states and local governments where a particular area of a town is set aside for business enterprises. In Nigeria, we have areas like mechanic villages, sawmill areas, and plank markets. The belief is that agglomeration and concentration of small firms in a specific area can lead to collective efficiency through cross fertilisation of ideas and learning strategies that would be imbued in such a system.

The third national development plan even saw this as the way to promote industrialisation and hence, the plan proposed to finance the

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creation of a model industrial estate in each state of the federation. The federal government thus budgeted ₦60 million as "*aid to states*" for industrial estates while the then twelve states of the federation on their own budgeted a total sum of ₦626 million for the establishment and development of these industrial estates. The programme failed to achieve the desired objective, as most states did not build the industrial estates. Although the programme was put as one of the fourth development plan projects, the downturn of the Nigerian economy also thwarted the laudable project. While this project continued to be hammered on, there is little commitment to a successful establishment of such estate.

For example, while ₦10 million was voted as the Federal government's counterpart fund for the development of the estates in 1988, only ₦3 million was released. Also, ₦8 million was voted as the Federal government's counterpart fund for the development of the estates in 1988, only ₦2 million was released and in the 1990-92 rolling plan, a sum of ₦5 million was provided for the development of industrial estates, but nothing was actually released for the purpose.

The main problem with this policy is the inability of strict enforcement of an industrial estate. In most states of the federation, the industrial estates are just a mixture of both residential buildings and some companies side by side in the same area.

10.5.6 Finance and Micro-credit Programmes and Institutions

10.5.6a Commercial and Merchant Bank Lending

One of the main functions of commercial and merchant banks is to provide credit facilities to the customers. It has been generally assumed in Nigeria that there is a high-unsatisfied demand for credit. Among those whose credit demand are not satisfied include small scale enterprises, who do not have the capacity to demand for large credit facilities that commercial and merchant banks would be interested to give.

As a result, the federal Government of Nigeria through the Central bank of Nigeria has always mandated these banks to give certain proportions of their credit to the small-scale enterprises. This proportion was 10 per cent in 1971 when the scheme started and was increased to 16 and 20 per cents in April, 1980, and January 1990 respectively. In order to encourage compliance, stiff penalties were imposed on non-compliance. One of such penalties is the forfeiture of the amount of

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shortfalls of such loans by individual banks to the Central Bank of Nigeria. The extent of compliance by banks to this credit guideline is given in Table 1 for commercial banks and Table 2 for merchant banks.

As revealed by Table 4, after a period of non-compliance by commercial banks, the banks have actually lent more credit to the SSEs than the prescribed proportion. It should be noted that the turning point coincided with the introduction of structural adjustment in Nigeria. This is because many banks then recognise the potentials of SSEs as a potential engine of industrial growth given the structural problems that the large enterprises confront in Nigeria. The merchant banks on their own were not meeting the target until 1989 (see Table 5). Unlike the commercial banks whose credit exceeded the total permitted by the credit guideline until the policy was scrapped in 1996, the proportion of credit to SSEs by thepmerchant banks was lower than the stipulated proportion in 1995 and 1996. This can be traced to the nature of merchant banks itself which is to deal with long term finances which many SSEs are not interested in.

Table 10.4: Prescribed and Actual Credit to the SSEs by Commercial Banks

Year	Total Lending	Lending to SSE	Ratio of SSE lending to Total	Stipulated Ratio	Deviation from Stipulated Ratio
1988	19561.200	4166.50	21.30	16.00	5.30
1989	22008.000	4731.70	21.50	16.00	5.50
1990	26665.500	5413.10	20.30	20.00	0.30
1991	37646.900	7572.30	20.11	20.00	0.11
1992	40731.600	9785.60	24.02	20.00	4.02
1993	58158.900	15462.90	26.59	20.00	6.59
1994	89756.000	29552.50	32.93	20.00	12.93
1995	140225.400	29341.60	20.92	20.00	0.92
1996	157568.800	42302.10	26.85	20.00	6.85

Source: Central Bank of Nigeria (various Issues)

The policy of sectoral allocation of credit to SSEs was abolished in 1996 in line with the wide range liberalisation of the activities of the commercial and merchant banks. It is assumed that the liberalisation of credit administration can actually help the SSEs especially for commercial bank loans as the commercial banks were already giving credit above the stipulated minimum. However, the Medium scale enterprises that are well organised will be better off in this arrangement because they are the ones likely to have the required collateral demanded by the banks and also have a lower mortality rate which is a risk that commercial and merchant banks want to avoid.

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Table 10.5: Prescribed and Actual Credit to the SSEs by Merchant Banks

Year	Total Lending	Lending to SSE	Ratio of SSE lending to Total	Stipulated Ratio	Deviation from Stipulated Ratio
1988	4289.800	0.983	0.023	16.00	-15.98
1989	5668.200	1251.000	22.070	16.00	6.07
1990	8081.000	2090.000	25.863	20.00	5.86
1991	9895.900	2808.000	28.375	20.00	8.38
1992	14068.300	3467.200	24.645	20.00	4.65
1993	16917.100	3910.000	23.113	20.00	3.11
1994	17319.800	4052.700	23.399	20.00	3.40
1995	27945.500	5049.500	18.069	20.00	-1.93
1996	33516.600	5595.800	16.696	20.00	-3.30

Source: Central Bank of Nigeria (various Issues)

10.5.6b Community Bank

A community bank is a self-sustaining financial institution owned and managed by a community or a group of communities for the purpose of providing credit, banking and other financial services to its members largely on the basis of their self recognition and credit worthiness. The community bank was set up in 1991 in order to encourage communities to pull resources together for investment purposes. The belief was that this framework would provide avenue for small-scale enterprises that hitherto has limited access to finance from formal banking institutions to have access to credit.

Table 10.6: Indicators of Community Banks Performance in Nigeria

Year	Total deposits	Loan and Advances	Total assets	Loan Deposit Ratio
1991	76.7	15.9	126.9	20.73
1992	474.6	132.2	774.4	27.86
1993	2188.2	708.2	3252.3	32.36
1994	2721.2	1147.8	4117.2	42.18
1995	3344.6	1366.4	4448.1	40.85
1996	3356.4	1480.1	4947.9	44.10
1997	2730.9	1501.2	4393.4	54.97
1998	3870.8	1972.5	5320	50.96
1999	5648.4	2997.5	8943	53.07

Source: Central Bank of Nigeria (various Issues)

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Community banks are located all over Nigeria with more than 60 per cent in rural areas. Community banks are usually jointly owned by community development associations, co-operative societies, clubs and private individuals in the locality. Most of the lending of community banks in Nigeria is directed at micro enterprises and SSEs. The performance indicators of community banks are presented in Table 6.

Community banks have made tremendous growth from one bank in 1990 to more than 1014 in 1999. The growth can be traced to the low capital requirements relative to the conventional banks and the less stringent operational requirements relative to the conventional banks. As a result, as revealed from Table 3, assets and deposits in the banks increased over the years. Incidentally, loans and advances have been increasing at a rate higher than the rate at which deposits are mobilised. Hence, the loan deposit ratio, which was 20.73 in 1991, increased over the years to 53.37 by the end of 1999. During the mid nineties, many community banks suffered from the financial sector distress, which adversely affected their operational performance. The problem was more pronounced because of the weak capital base which was initially put at ₦250,000.00. The capital base was subsequently increased to ₦3 million. This is based on the belief that it would sustain their sustainability and outreach.

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10.5.6c Nigerian Bank For Commerce and Industries (NBCI)

The Nigerian Bank for Commerce and Industries was established in 1978 and jointly financed by the Federal Government of Nigeria and the Central Bank of Nigeria, with the objective of providing banking services to the business community, with particular emphasis on small and medium enterprises. NBCI was an offshoot of the Small-Scale Industries Credit Scheme (SSICS), which was established in 1971 to give credit to SSEs under more liberal conditions than those of commercial and merchant banks. NBCI was established on the belief that it would bring some prudence and financial discipline to the administration of credit than what obtained under the SSICS.

The bank has experienced low-level performance since the early eighties. Approvals were made for loans of ₦710.49 million during the period of the eighties, but only 40 per cent of these, which amounted to ₦281.62 million was disbursed. In fact the number of projects sanctioned reduced considerably, and only 36 projects were sanctioned in 1990 in contrast to 173 that was sanctioned in 1987.

Table 10.7: Indicators of Performance of NBCI in Nigeria

Year	Total Loans and Advances (₦ million)	Annual Growth rate (Percent)	Total Assets (₦ million)	Annual Growth rate (Percent)	Loan Asset Ratio
1990	240.2	-40	567.3	-21.1	42.34
1991	472.3	96.6	1091.2	92.3	43.28
1992	777.6	64.6	1245.5	15	62.43
1993	1761.6	126.5	1916.6	52.8	91.91
1994	2006.1	13.9	2355.2	22.9	85.18
1995	2179.2	8.6	2529.7	7.4	86.14
1996	14	-99.4	867.2	-65.7	1.61
1997	13.6	-2.9	849.5	-2	1.60
1998	1440.3	10490.4	2549	200.1	56.50

Source: Central Bank of Nigeria (various Issues)

By the beginning of the nineties, serious problems have been noticed, as the bank encountered serious liquidity and operational problems towards the end of the eighties. This was caused by inadequate financial resources and rampant mismanagement of the funds, poor administration and political interference. This led to the appointment of a sole administrator in 1992, injection of capital by the federal government and a wide range of rationalisation was also embarked upon. This includes a reduction in the number of branches as well as the use of other fund saving measures. Even then, for the major part of the nineties, the loan deposit ratio was very high insinuating the presence of a large proportion of non-performing loans. As a result, the bank has problems of performing its role of making loanable funds available to small and medium scale enterprises for more than a decade.

Table 10.8: NBCI Approvals and Disbursements (1981-1990)

Year	Number of approval (₦ million)	Disbursements (₦ Million)	Percentage of disbursements
1981	55.47	12.67	22.84
1982	29.88	27.16	90.90
1983	22.36	31.9	142.67
1984	0.2	0.24	120.00
1985	2.87	9.64	335.89
1986	16.88	17.14	101.54
1987	117.75	21.15	17.96
1988	142.96	15.92	11.14
1989	89.72	52.1	58.07
1990	132.4	87.7	66.24

Source: Central Bank of Nigeria (various Issues)

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10.5.6d The People's Bank

The People's bank was established in October 1989. The objectives of the bank include inter-alia complementing government efforts in improving the productive capacities of the economy and providing access to credit by people who do not have such access at the conventional banks. The bank gives loans mainly to micro and small-scale enterprises and when such loan is given, no collateral is required and no interest is charged apart from a five per cent service and administrative charge. Loan repayment is spread over one year with a moratorium of two weeks. Loan beneficiaries must however be members of approved craft union comprising fifteen or more persons who need not be in the same trade or business.

After adequate assessment, and verification, by the bank's field officers, loans are given in batches of five with the Chairman and Secretary receiving their loans last. The group is collectively responsible for any loan default. This helps in reducing transaction costs to the parties involved and also helps in achieving a higher rate of loan repayments.

At inception, the loans offered were very small ranging from 50 Naira to a maximum of 200 Naira. But these have been reviewed upward to between 5,000 and 20,000 Naira. At inception, People's Bank does not accept savings deposit and the major source of funding is subventions from the government. This has however reduced over the years. One of the reasons for this is that the bank is becoming self-sustaining as it began to accept savings from individuals and groups. Incidentally, there are limitations because the ability to mobilise savings is constrained by relative low lending rates.

Table 10.9 presents some indicators of the performance of People's Bank. In terms of outreach, the People's Bank is well spread over the country and the number of branches increased tremendously from one in 1990 to 278 by 1997. In addition, the loan and advances profile of the bank is also encouraging with a loan-deposit ratio of close to 100 per cent in 1997.

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Table 10.9: Indicators of People's Banks Performance in Nigeria

Year	Number of branches	Subvention from Government	Total deposits	Loans and Advances	Loan Deposit Ratio	Total assets
1992	228	451.7	181.5	136.7	75.32	600.6
1993	271	489.2	287.8	167.3	58.13	842.1
1994	275	696.3	275.4	178.2	64.71	928.3
1995	278	165.0	363	340	93.66	1015
1996	278	80.0	353.5	350	99.01	1073
1997	278	165.0	385.3	360.1	93.46	1137.4

Source: Central Bank of Nigeria (various Issues)

10.11.5 National Economic Reconstruction Fund (NERFUND)

NERFUND was established by decree 25 of 1988 as a scheme to provide long-term loans to SMEs in local and foreign currencies. The federal government of Nigeria and the Central Bank of Nigeria provided funds for the scheme by contributing 190 million Naira and 100 million Naira respectively. Counterpart funds were expected to come from the African Development Bank and the World Bank. The objective of NERFUND is to help SSEs have access to relative long-term loans (5-10Years) at concessionary interest rate in order to finance both investments and working capital. Loans are given in both domestic and foreign currencies while the interest rate is expected to be lower than the prevailing interest rates. The payment of principal and interest is to be in Naira. The foreign currency loans are also paid in Naira equivalent of the prevailing official (A)F EM exchange rate. The risk involved in the loan is shared between the SSEs and the participating banks. While the SSEs bear the foreign exchange risk, the participating banks bear the credit risk.

NERFUND's loans are channelled to the beneficiaries through participating banks, although it may disburse funds directly to machinery and equipment suppliers on behalf of the participating banks or the beneficiaries. In any case however, the participating bank is still responsible to NERFUND for the servicing of the loan, which means that

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the participating bank bears the risk associated with loan default by the beneficiary. As a result, participating banks are responsible for evaluating eligible project proposals, the approval of loans in accordance with normal banking practice as well as disbursements, monitoring and recovery of loans.

For any SME to benefit from this scheme, it must be wholly owned by Nigerians and they must go through participating banks. By the end of 1995, a total of 481 projects in different parts of the country had been sanctioned with a total cost of US$289.29 million and N1039.8 million. Out of these amounts, US$140.0 million and N448.7 million were disbursed in foreign and local currencies.

The scheme has not been able to achieve its set objectives because of the inability of entrepreneurs to come up with the minimum capital requirements of 25 per cent, even where approvals have been given. In addition, many participating banks were unwilling to fund SSEs because of the exchange risks and high rate of defaults by beneficiaries. Many SSEs are also wary of the high volatility of the exchange rate in Nigeria. This problem was however reduced when the National Insurance Corporation of Nigeria entered into an agreement with NERFUND and stated what is regarded as the NERFUND-NICON credit insurance scheme. Under the scheme, participating banks can insure up to 50 per cent of the cost of new projects. The interesting aspect of this scheme is that the debtor organisation is not a party to the contract although the cost of insurance is transferred to it. The scheme covers only two types or risks. First is the failure to repay the loan due to insolvency of the debtor and second is the case of protracted default. In order to reduce the risk, both NERFUND and the participating banks are primarily responsible for the assessment of the application for loan.

There is also the under-funding of NERFUND itself. NERFUND has often been unable to on-lend enough funds to the participating banks to back up approved projects.

10.6 World Bank Assisted Small and Medium Scale Enterprises Loan Scheme

This is one of the specialised financial schemes introduced by the CBN and the Federal Ministry of Finance on behalf of the federal government of Nigeria to facilitate credit delivery to SSEs and boost their contributions to a diversified production base. The Small and Medium Scale Enterprises Loan Scheme is a World Bank assisted loan scheme. The objectives of the loan scheme are:

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i) to enable small and medium scale entrepreneurs become more competitive through investment in the rehabilitation and expansion of their enterprises and the establishment of new ones;
ii) to revive production and improve performance of viable enterprises which are currently facing financial difficulties;
iii) to support a programme of assistance to micro-enterprises; and,
iv) to make the deliveries of technical support services more demand driven and responsive to the needs of SMEs.

The first agreement between the federal government of Nigeria and the World Bank was signed in 1984 under the SME I loan scheme, and was administered by the Nigerian Bank for Commerce and Industries. Under the SME I loan scheme, a total of 126 projects were financed while total disbursements amounted to US$21 million or 52 per cent of the total project fund. The projects covered a variety of SSEs with manufacturing SSEs receiving the largest share of 62.5 per cent followed by agro-allied SSEs, which received 15 per cent of the loan. The lowest proportion of 3.2 per cent each went to agriculture and mining SSEs respectively.

The SME II loan scheme commenced operation in 1990, but the administration was by the Central Bank of Nigeria. The loan was disbursed through a number of participating banks, comprising commercial, merchant and development banks.

The fund for this scheme was to be provided by three institutions, the World Bank, SMEs' entrepreneurs and participating banks in the ratio 65, 19 and 16 per cents respectively. The facilities to be provided by the scheme are:

i) Line credit which is a loan for fixed assets and working capital
ii) Loan for restructuring sick but potentially viable SMEs
iii) Loans for leasing industrial and business equipment
v) Loans to prepare feasibility and implementation studies.

By June 1996, US$107 or 80.62 per cent of the US$133 million allowed by the World Bank has been disbursed for 187 projects through the participating banks. Although reports received from the participating banks indicate that the scheme has generated employment for 40,000 people, 187 SSEs appear to be small compared to the number of SSEs operating in the country. Although the scheme was suspended in March 1994, loans to 79 projects have been fully repaid as at the end of December 1997. This forms part of the ₦1,157.1 million received from the participating banks by the CBN. However, some of the loans became

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bad as ten out of the twenty-seven participating banks became distressed during the period, thereby making it difficult or impossible to service the loans since 1994. It should be noted that less than half of the original loan package was disbursed at the end of the project life. Some of the reasons for this include the fact that there was a lack of interest by participating banks because of the credit risk exposure. In addition, there were insufficient bankable projects by entrepreneurs as well as arguments over who should bear the foreign exchange risk exposure. Also there were sharp practices by entrepreneurs who divert funds into non-project related activities.

10.7 Conclusion

This paper has attempted to identify some of the key policies and programmes that have been initiated to support the development of small-scale enterprises in Nigeria. The policies and programmes are divided into two, which are those aimed at developing the entrepreneurial skills of the SSEs and those that are aimed at enhancing the access of SSEs to credits. For most of the programmes, loanable funds are always inadequate and this affects the outreach of individual programme. One reason lies in the fact that there are too many programmes and policies, and government is the main financier of most of them. In a situation, where the government is the major provider of these funds, the various programmes compete for these funds. At the end of the day, none of the programmes is able to meet the finance availability objective. On a few occasions where certain institutions are to source for their own loanable funds, the coverage is often small and they are always constrained by lack of funds. A policy prescription from this is that the various programmes and schemes by the government should be streamlined so as to reduce duplication of efforts.

Furthermore, it should be noted that virtually all the programmes have no system of external evaluation. For the success of any programme or policies, there is the need for an entirely independent assessment free from any involvement by the sponsors of the programme. The assessment has to be periodic so as to identify danger signals and unexpected developments. These early warning signals would help in identifying the steps to take to remedy the situation.

In order to solve the problem of lack of interest by commercial and merchant banks in extending credit to the SSEs, a policy of credit guarantee and insurance schemes for SSE credit can be considered. The only institution that has credit guarantee scheme is NERFUND, which incidentally has the problem of adequate funding for its activities.

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Also, it was found that some of the loans outstanding are non-performing loans. This is due to inefficient portfolio management, as reflected in poor accounting and record keeping as well as political and social interference with recruitment of personnel, project selection and loan disbursements. As a result, there is the need to ensure transparency in the operation of the schemes as well as good management skills. Loan assistance should be given only to viable projects and should be effectively monitored.

The various programmes and schemes are established and managed without involving the proposed beneficiaries. Attempts should be made to include the SSEs entrepreneurs in the programmes designed to assist them.

It is widely accepted that the cost of doing business in Nigeria is very high compared to other nations. This is partly due to the infrastructural decay, which increased the unit cost of basic infrastructure, used by the SSEs. A major policy of developing the potentials of SSEs can be in improving the performance of infrastructure in the country.

Despite the array of institutions and policies on the ground to help the development of SSE in Nigeria, there are evidences that most of the measures have isolated intervention with significant limitations. Most of these institutions have insufficient links with the SSEs and are unable to meet their fairly diversified needs. They apply a rigid set of rules and regulations and suffer from bureaucratic inertia, inability to innovate and take risk. In addition, experience have shown that policies on paper are usually different from policies on ground. The average Nigerian entrepreneur is not aware of the existence of these supporting schemes and where they are, they are unaware of the processes of enjoying the schemes. As a result, each scheme should renew its efforts to increase the awareness level of what it does and how it is being done so as to increase the number of SSEs that would enjoy the programme.

We can then conclude that the various policies and programmes initiated by the government in Nigeria to support SSEs have made modest contributions and that there is the need to evaluate and rationalise some programmes in order to achieve better performance in this sector.

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11

BUILDING THE NIGERIA PRIVATE SECTOR CAPACITY: AN ASSESSMENT OF PROBLEMS AND POLICY OPTIONS

Sylvester I. Abumere, Ben E. Aigbokhan, and Azeez O. Mabawonku

11.1 Introduction

After about fifteen years of the adoption of the private sector development policy under the structural adjustment programme, the aggregate contribution of the Nigerian private sector to the economy is still very low. The questions that policy makers and analysts now ask are: what is the capacity of the Nigerian private sector to take up a leading role in the economic development of the country and how can this capacity be enhanced or built? In this regard, capacity, according to Giwa (1997), may be defined as the human resources, institutions and practices that enable an organisation to achieve its economic and/ or development goals. Capacity building therefore entails investment, not only in human capacity but also in institutions and practices. The institutions for private sector operations include the policy environment, the rules and regulations and the enforcement characteristics of the rules and also the financial system. To provide answers to the questions raised above therefore, it is important to understand the profile of the workforce in the private sector and their access to continued education and learning opportunities; the rules and regulations that characterise the operating environment including the infrastructural facilities; and the availability of capital both in terms of financial resources and technologies. An earlier study, which attempts to provide an insight into some of these factors is limited to small scale industries. Nonetheless, it found as follows that (CASSAD, 1992):

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i) Although most of the industries started with less than ₦50,000, many of them have appreciated in value markedly, with some valuing at over ₦5 million as at February - March 1992,

ii) The most common source of start-off fund was personal savings, many supplemented this source by loans from banks and especially the government loan scheme,

iii) A vast majority of the industries produced consumer items, which conditioned their location. Accordingly, availability of market for the final products came out to be the most important location factor. Other important factors included availability of land both for initial development and for expansion, hometown attraction, and availability of raw materials, in that order,

iv) The employment history of the enterprises showed a rather unsteady trend. Some have waxed and waned over the years,

v) Generally speaking, most of the industries were employing less than 20 people, while a few employed about 30,

vi) Contrary to the expectations of the small-scale industries policy of government, many of the industries were importing their raw material,

vii) The major problems include:
   (a) incessant plant stoppages due to lack of spares, non-availability of raw material, power cuts, dry taps and fuel shortages,
   (b) harassment by government agents

Private sector development, apart from stable macroeconomic policies, depends on structural and institutional reforms which must be aimed at (World Bank, 1995):

- improving the business environment;
- reducing the drain of public enterprises;
- developing a robust financial system;
- increasing the supply and quality of human resources; and
- providing functional infrastructural facilities.

Several authors have provided a comprehensive review and analysis of the government policies and programmes in each of the five areas. Obadan and Ayodele (1998) for example gave a comprehensive analysis of the privatisation and commercialisation policy, which is aimed at reducing public sector participation in the economy. Jerome (1999) analysed the different measures that have been put in place by government to improve the business environment in the country while

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Olayiwola and Busari (2002) reviewed the economic reform programmes of government as they affect the private sector development. The emphasis here is therefore on the policies and programmes, which are aimed at enhancing the institutional (financial access, incentives and infrastructural facilities) and human capacities of the private sector.

Although in literature, private sector development relates primarily to the formal, organised private sector (OPS), government recognised the fact that the informal private sector (IPS) is much larger than the OPS (representing up to 75% of total employment, Abumere et al, 1998), hence the policies and programmes for private sector institutional and human capacity development can be divided into two: Formal Sector Capacity Development and Informal Sector Capacity Development.

This study gives very useful insight into the problems and challenges of the private entrepreneurs engaged in small scale industries: The study assesses the existing institutional, infrastructural and technological capacity of the private sector and how these may have affected its performance; identifies the deficiencies or gaps that exist, and the needs there are in human, institutional, infrastructural and technological capacity, as well as proffers policy options and strategies that may be used to enhance or build the capacity of the private sector for greater productivity and economic performance.

11.12.0 Capacity Development Programmes

11.2.1 Formal Sector Capacity Development

a) *Polices and Programmes to Enhance Human Capacity:* The national policy on education is very robust to guarantee adequate manpower for the private sector. It was stated in the policy document that:
   i. Education will continue to be highly rated in the national development plans, because education is the most important instrument of change, as any fundamental change in the intellectual and social outlook of any society has to be preceded by an educational revolution;
   ii. Lifelong education will be the basis for the nation's educational policies;
   iii. Educational and training facilities will be multiplied and made more accessible, to afford the individual a far more diversified and flexible choice;

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iv. Educational activity will be centred on the learner for maximum self-development and fulfilment;

v. Universal basic education in a variety of forms, depending on needs and possibilities, will be provided for all citizens;

vi. Efforts will be made to relate education to overall community needs;

vii. Educational assessment and evaluation will be liberalised by basing them in whole or in part on continuous assessment of the progress of the individual;

viii. Modern educational techniques will be increasingly used and improved at all levels of the educational system;

ix. The educational system will be structured to develop the practice of self-learning;

x. At any stage of the educational process after primary school, an individual will be able to choose between continuing his full time studies, combining work with study, or embarking on full-time employment without excluding the prospect of resuming studies later on.

In line with these goals, there are clearly defined objectives and measures of implementation for pre-primary, primary, secondary, and tertiary education. Special emphasis was given to technical education as well as adult and non-formal education. Technical education was defined as that aspect of education, which leads to the acquisition of practical and applied skills as well as scientific knowledge. It includes the pre-vocational and vocational schools at post-primary level; the Technical Colleges; Colleges of Technical Teacher Education; Polytechnics and the University at the post-secondary level.

Apart from providing functional literacy education, the objectives of the adult and non-formal education in the country includes to provide further education for different categories of completers of the formal education system in order to improve their basic knowledge and skills; to provide in-service on-the-job vocational and professional training for different categories of workers and professionals in order to improve their skills; and to give the adult citizens of the country necessary aesthetic, cultural and civic education for public enlightenment. In line with the policy to provide in-service and on-the-job training to formal sector employees, there is the Centre for Management Development (CMD) and the Nigerian Institute of Management (NIM). These

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institutions, it would seem, tend to cater for the needs of large scale firms and the facilities may therefore be less suited for small scale firms.

b) *Policies and Programmes to Enhance Institutional Capacity:* These include policies and programmes to provide access to funds, incentives and infrastructural facilities. To provide finance to formal enterprises, there are finance institutions such as Commercial Banks, Merchant Banks and the Stock Exchange. There are other Institutions such as the Nigerian Economic and Reconstruction Fund (NERFUND), the Nigerian Bank for Commerce and Industry (NBCI) and the Nigerian Industrial Development Bank (NIDB). The NIDB provides loans as well as credit related services to small and medium scale enterprises. The same is true of NERFUND, which was set up by the Federal Government in 1989 to provide loans to small scale enterprises. The Fund is supervised by the Federal Ministry of Finance, which has appointed specific commercial and merchant banks to disburse the loans. The NBCI was set up by the Federal Government in 1973 to provide medium to long-term loans to industries. Since its inception, the NBCI has financed well over two thousand enterprises around the country. In addition to disbursing loans from its own resources, the NBCI also administers a special loan fund on behalf of the Federal Ministry of Industry. The Bank has also often secured loanable funds from the World Bank for disbursement to qualified enterprises.

In August, 1977, the National Council on Industries was set up, consisting of the Federal Minister of Industry and the Commissioners of Commerce and Industry in all States of the Federation. A major objective of this Council is to urge Federal, State and Local Governments and their agencies to patronise the goods of local enterprises thereby boosting demand, which will have an impact upon capacity utilisation. By 1988, the Federal Government adopted a number of policies aimed at offering generous tax relief of up to 20% to small and medium industries. The Federal Government also directed merchant and commercial banks to stimulate increased availability of equity capital to small and medium scale enterprises and to take equity positions in industrial enterprises.

The major initiative to enhance the provision of basic infrastructure for business development in the country is the privatisation and commercialisation policy, which was introduced in 1988. By this policy, most of the public enterprises producing utilities (electricity, water,

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communication and transportation) became fully/partially commercialised. The telecommunication sector and the downstream petroleum sub-sector have also been liberalised so that private operators are now involved in the provision of services. There are also plans to privatise the PE in the next phase of the privatisation exercise in the country (Alayande, 1999).

Informal Sector Capacity Development

Apart from institutional and human resource capacity in the informal sector, capacity building in the formal sector should also promote the transition from informality to formality, since no meaningful capacity can be developed in informal enterprises which are not directly under the influence of government. The fact that informal enterprises are not directly under the influence of government implies that there are a very few policies and programmes (at the Federal, State and Local levels) that directly address the sector. Many of the existing government policies and programmes are devoted almost entirely to small scale and medium enterprises. However, since informal enterprises represent the lower limb of the small scale enterprises continuum, the policies made for small and medium scale enterprises also apply to informal enterprises. In what follows therefore, we review existing government policies and programmes that address the informal sector directly and indirectly.

a) *Policies to Regulate the Enterprise*: These are policies making provisions for the regulation of enterprises in Nigeria. It includes the Companies Act of 1968, Business Names Act of 1961, Factories Act of 1956, Labour Act of 1974, Workmen's Compensation Act of 1942, the Nigerian Standards Decree, the Enterprises Promotion Degree of 1977, the Trade Union Act of 1973 and the Nigerian Patents and Designs Act of 1970.

The Companies Act, especially the Business Names Act, stipulates the procedures for registering a business. It says that anyone wanting to carry on a business with a name other than his real name or which includes any words other than those of the true name(s) of the owner(s), must register the business. Needless to say that most informal enterprises do not register. The Factories Act, Labour Act, Workmen's Compensation Act and the Trade Union Act were all designed to protect workers and apprentices and prevent them from being exploited. Some of the clauses attempt to prevent child labour while others attempt to

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establish minimum standards for workplaces, while at the same time allowing for the free association of workers. The Enterprises Promotion Decree of 1977 sought to reserve small enterprises exclusively for Nigerians. This was aimed at building indigenous capacity in the sector. There are, lastly, regulations designed to improve standards, protect patents and encourage innovations and designs. These include the Nigerian Standards Decree and the Nigerian Patents and Design Act.

b) *Policies to Enhance Human Capacity:* There are programmes and policies devoted to enhancing human capacity in the informal sector. These include the National Directorate of Employment (NDE), the Industrial Development Centres (IDCs), and the Crafts Centres operated by State Governments.

The NDE was set up in 1986 to promote entrepreneurship and combat the problem of unemployment. To achieve these, the NDE operates several programmes including the Small-Scale Industries Graduate Employment Programme, the Youth Employment and Vocational Skills Development Programme, the Agricultural Special Public Works Programme and the Mature Peoples' Programme. All these are meant to enhance skills and entrepreneurship among small-scale industry operators including informal enterprises. The Industrial Development Centres (IDCs), with offices in all the Nigerian States and the Federal Capital Territory, provide technical support services to small enterprises. They also provide operations, management and marketing advise in addition to conducting on-the-job training for artisans and technical personnel (Resman, 1992). Lastly, IDCs train entrepreneurs in project development, management methods and industrial practices. The Craft Centres, operated by many states in Nigeria also enhance capacity building in the informal sector in many ways. According to Resman (1991), the Craft Centres equip the students with practical knowledge and skills required for artisan jobs such as carpentry, bricklaying, masonry, etc, and craft jobs such as wood carving, pottery, mat and basket weaving, cane furniture making, etc. The same is true of Trade Centres and Technical Colleges which provide formal education in various artisan jobs such as building, carpentry, wood works, etc.

c) *Policies to Promote Access to Credit:* These include such programmes as the People's Bank, Community Banks, Family Support Programme (FSP), Family Economic Advancement

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Programme (FEAP) and National Directorate of Employment (NDE). The Peoples' Bank was established in 1989 to provide loans to small enterprises that would ordinarily not have access to credit from conventional banks and institutions. This has made it possible for many informal sector entrepreneurs to obtain loans easily from the bank especially as it does not require any form of collateral. The Community Banks, inaugurated in 1990, operate virtually as the rural equivalents of the Peoples' Bank. Most of the loan beneficiaries from Community Banks operate in the informal sector. It needs pointing out, however, that due to low capital base and the need to give loans to as many as possible, both the Peoples' and Community Banks are not able to give out big loans. This is a great handicap to entrepreneurs requiring large amounts to procure equipment and machinery. Both FSP and FEAP gave out loans mostly to small informal sector operators. The NDE itself also provides loans in cash and kind. Cash is given as working capital but for equipment and fixed assets, invoices are required from the loan beneficiaries, whereupon the NDE makes direct payment to the suppliers.

Despite the government's policies and programmes to enhance the capacity of the private sector in Nigeria, there is at present a controversy as to whether the private sector is capable of playing a leading role in the economic development of the nation. Although sectoral distribution of gainful employment and gross domestic product (GDP) shows that agriculture, manufacturing, distribution, transport, and services, which are all dominated by private sector activities, accounted for 98% of gainful employment in 1994, 97% in 1995 and 1996, and 84% of GDP in 1994 and 1995 but declined to 82% in 1996. These suggest that the private sector has potentials to contribute significantly to the economic development of the country. Obadan and Ayoade (1998) however, argued that the private sector has not been able to respond adequately to the country's desire for increased production and employment, and stable prices. They noted that the share of manufacturing in GDP is still very low, being 6.9% in 1994 and 1995 and that the average capacity utilisation in industry is also low, being only 32.5% in 1996. The average percentage of raw materials obtained locally was 54.4%. They also noted that exploitative prices characterise the goods and services produced by the private sector while non-oil export earnings in foreign exchange are abysmally low.

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Despite the controversy on the viability of the Nigerian private sector, there is a consensus that their performance is hindered by a number of factors which are outside their control. Some of these factors are: high cost of doing business, unstable macroeconomic policies, infrastructural bottlenecks, faltering consumer spending, lack of capital investment and the stifling effect of multiplicity of taxes and levies including bureaucratic rigidity and corruption. To release the potential for growth, which the private sector possesses, there is the need to understand more accurately how these factors affect the private sector organisations. A starting point in this effort is an assessment of what the existing capacity of the sector is and an identification of what deficiencies would need to be remedied if the sector is to perform its role more effectively. This is the central aim of this study.

Accordingly, both primary and secondary data were used for the study. However, because most of the available data from secondary sources were scanty and not in the form required for the study, the study relied mostly on primary data. The primary data was collected using a structured questionnaire, administered on each of the private enterprises (formal and informal) that were selected for the study.

The formal enterprises surveyed were those with legal status and employing 10 or more people. As for the informal enterprises surveyed, these were those that employ less than 10 people. The rationale behind these thresholds is that enterprises can be ranged in a continuum from 100% formal to zero percent formal. The informal enterprises are to be found in the lower limb of this continuum.

Six states were selected for the study, from each of the six geo-political zones into which Nigeria has been divided in the last few years. From each of the six states, Local Governments (LGs) were selected for the study. The first four LGs selected were those that had the highest level of private sector enterprises (both formal and informal), while the other LGs were selected randomly, using a Table of Random Numbers.

11.3.0 Capacity Assessment in the Formal Sector

11.3.1 Assessment of Current Human Capacity

a) *Quality and Adequacy of Workers:* Table 11.1 shows the distribution of firms by employment size, skill category and gender. The level of unskilled workers ranges from 22.7% in Lagos for men to 51.5% in

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Plateau in the 1-5 employment range. For women, the range is from 28.9% in Kano to 52.8% in Abia. Generally, women feature more among the unskilled than men. As Table 3.3 shows clearly, for the employment size 1-5, the level of skilled workers ranges from 32.3% to 55.9% for men and 39.5% to 58.8 for female. The numbers of skilled are higher than those of unskilled workers. The skills levels in the formal sector in terms of numbers must be considered adequately.

The dominance of the females among the unskilled workers may be explained in part by the structure of educational attainment. The survey shows that women constitute the bulk of workers with no formal education or with only primary education. From the level of trade certificate education and above, their share declined, to about 50% of that of the male at the polytechnic and university graduate levels, to a third at the postgraduate level.

The survey provides evidence which suggests that the skill composition of the workforce is satisfactory for the firms' operations. For example, 62.4% of sampled firms expressed satisfaction with the level skill of their workers. The survey evidence suggests that firms have found it easy to recruit skilled personnel since between 21 and 40% of the firms found it difficult to hire skilled workers while 60-79% found it easy. At the same time, between 21 and 40% reported that they have difficulties in equipping workers with higher skill to enhance their productivity.

Table 11.2 shows the distribution of firms by sources of skill acquisition and upgrading. Formal education is a popular source of skill acquisition, especially among the more industrialised states of Lagos, Abia and Bauchi, with 27%, 20%, and 20% respectively of the firms indicating it as their main source. Vocational training and technical education are also still a part of formal education, and this source is popular among over 20% of the firms, on average. It is interesting to note that apprenticeship and articleship or internship is a popular source of acquiring firm-specific skills, again with over 20% of the firms identifying it as a source. Informal training is also quite popular. In-service training, secondment to other organisations, and workshops are all forms of informal training. These together accounted for over 30% in terms of the number of firms, which identified them as sources of skill acquisition. It is interesting to note that these findings broadly corroborate those from earlier studies. For example, Fashoyin et al (1994), from a survey of 153 manufacturing enterprises, reported that the most preferred method of employee training is on-the-job means. This is

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clearly exhibited by 33% of the cases. The next popular choice is local courses and seminars. This is indicated for 26% of the cases. Besides, another 17% prefers formal in-house (classroom type) training for employees.

Table 11.1: Distribution of Firms by Employment Size, Skill Category, Gender and State

	Total sample		Abia		Bauchi		Kano		Lagos		Plateau		Rivers	
Employ-ment Size	M	F	M	F	M	F	M	F	M	F	M	F	M	F
Unskilled Labour														
1 – 5	35.6	40.5	31.5	52.8	39.0	49.0	41.7	28.9	22.7	31.6	51.5	46.5	24.7	36.7
6 - 10	13.6	6.1	16.1	3.2	17.8	10.9	15.9	5.3	13.5	6.4	8.9	6.5	10.1	2.2
11 - 15	5.0	2.9	3.2	4.0	8.9	2.0	4.6	1.3	5.4	4.8	4.1	2.9	3.4	1.1
16 - 20	3.7	1.3	3.2	8.0	6.8	2.7	4.0	-	4.9	2.7	1.8	-	-	1.1
> 21	13.4	4.0	6.5	4.0	6.8	1.4	6.6	-	37.3	11.9	4.1	1.2	14.6	4.4
Skilled														
1 - 5	42.7	44.7	50.4	39.5	43.5	45.6	32.2	40.8	32.6	40.1	55.9	58.8	44.4	42.0
6 - 10	17.8	8.9	17.6	5.6	17.0	17.0	23.0	4.6	16.0	9.6	18.2	8.8	13.3	6.8
11 - 15	8.9	2.6	2.4	1.6	16.3	4.8	17.8	3.3	6.4	4.3	5.3	0.8	3.3	-
16 - 20	4.5	1.5	2.4	0.8	5.4	1.4	5.9	2.0	5.3	2.1	4.7	0.8	1.1	2.3
> 21	11.7	4.1	4.8	2.4	4.8	2.0	11.8	2.6	29.4	11.2	4.1	1.8	10.0	2.3
Managerial														
1 – 5	60.8	26.5	69.6	24.8	59.9	29.3	65.6	32.2	48.7	28.6	62.4	21.2	65.6	21.1
6 - 10	8.0	1.0	4.8	0.8	8.2	-	12.6	1.3	15.0	2.2	1.8	0.6	2.2	1.1
11 - 15	2.6	0.7	0.8	0.8	0.7	-	4.0	0.0	7.0	2.2	-	-	2.2	1.1
16 - 20	1.3	0.2	-	-	-	-	0.7	0.7	4.3	0.5	0.6	-	1.1	-
> 21	3.8	0.7	1.6	0.8	-	-	1.3	-	14.4	1.6	0.6	0.6	1.1	1.1

Source: DPC Field Survey 1999

Table 11.2: Sources of Skills Acquisition

	Total	Abia	Bauchi	Kano	Lagos	Plateau	Rivers
Formal education	18.9	20.0	23.8	19.9	27.1	18.2	16.6
Apprenticeship/Articleship	20.0	23.6	21.1	20.3	18.7	22.0	23.3
Vocational training /Technical institute	21.9	20.8	21.9	23.8	20.8	20.3	15.6
In-service training	10.6	13.8	16.1	7.2	14.4	10.1	17.8
Secondment to other organisations	3.6	4.8	3.5	2.0	4.6	2.4	1.1
Workshops	23.2	20.8	15.9	15.1	18.3	27.1	25.8

Source: DPC Field Survey 1999

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11.3.2 Operational Constraints

A number of institutional constraints to the operations of the firms surveyed were identified. These are reported in Table 11.3. Infrastructure constraints constitute the bulk, with electricity problem accounting for the main problem of 67% of the firms. This is followed by water with 44%, and the lack of access roads with 20%. This pattern is broadly maintained across the states.

The dearth of infrastructural facilities and some of its consequences are also revealed by the survey. Between 11% and 42% of the formal sector firms surveyed, reportedly rely on owned-generators for electricity and energy supply. Although a large proportion rely on National Electricity Power Authority (NEPA) supply, an equally large proportion of these acquire owned-generators to supplement NEPA supply. A possible consequence of this is the inability to operate continuously or at the level of installed capacity. Another consequence is that in an attempt to maintain regular operations, significant amounts have to be expended on acquiring and maintaining their own generators. For example, 71% spend over ₦40,000 monthly on generators and about 12% spend over ₦80,000 per month. Further implication of this is that funds that could have been spent on raw materials or other forms of investment for fuller capacity utilisation are spent on owned-energy supply. To ensure profits, which is the goal of all private firms, some of them may have been passing on the higher cost of production to consumers thereby probably reducing consumer welfare.

The major constraints therefore are infrastructural with electricity problems (67.0%), shortage of finance (52.4%) and water problems (44.5%) ranking highest. Others are lack of machinery (27.1%), lack of access roads (20.3%), lack of raw materials (15.6%) and lack of skilled hands (14.3%). Note that the least complained about is the lack of skilled hands.

Table 11.3: Distribution of Firms by Identified Constraints and by State

	Total sample	Abia	Bauchi	Kano	Lagos	Plateau	Rivers
Lack of skilled hands	14.3	24	10.9	9.2	9.1	22.4	11.1
Lack of machinery	27.1	58.4	37.4	41.4	28.3	31.8	12.2
Lack of access roads	20.3	48.0	24.5	11.8	9.1	20.6	20.6
Lack of raw materials	15.6	32.8	13.6	28.3	26.7	19.4	12.2
Electricity Problem	67.0	85.6	77.6	75.0	55.6	52.9	61.1
Water problem	44.5	56.0	61.9	61.8	12.3	43.5	40.0
Shortage of finance	52.4	81.6	72.8	50.7	50.8	48.2	31.1

Source: DPC Field Survey, 1999

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11.4.0 Capacity Assessment of the Informal Private Sector

The level of the informal sector is inversely correlated with the level of economic development. That is, the lower the level of economic development, the higher the level of the informal sector. In addition, it has been proven that a high level of informal sector activities constitute a drag on the attainment of economic development. The goal of capacity enhancement in the informal sector should therefore be to reduce the size of the sector. However, in many developing countries, the size of the informal sector is very large. McNeill (1993) reckons that the informal sector contributes about 75% of total employment in Morocco, 51% in the Phillipines, 50% in Thailand and 70% in Bangladesh. Niham et al (1979) found that it was 50% in Togo. In the case of Zaire, the estimate is as high as 80% (Economist, Dec 17, 1994, p. 43). The estimates lie between 50% and 75% for Nigeria (see Fapohunda et al, 1975; Mabogunje and Filani, 1977 and Abumere, et al 1998). Given the size of the informal sector in Nigeria, any neglect of its capacity requirements can make the prospects for economic development very bleak. It could get the country into what has been described as an "artisinal trap" of low productivity and incomes, a trap which is so much more difficult to get out of.

11.4.1 Assessment of Current Human Capacity

a) *Adequacy of Numbers:* The size of the informal sector in Nigeria is not only large but also does not show any sign of declining (see Table 11.4). As to the number of people actually engaged in the sector, estimates vary from 50% to 75% of the workforce. Table 11.5 shows estimates of the number of proprietors/chief executives, managers, journeymen and apprentices in the informal sector in the six states surveyed. The number of workers per informal enterprise works out at an average of 0.97. In the case of years of experience, these range from 0.79 years for apprentices to 4 years for chief executives.

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Table 11.4: Nigeria: Size of the Informal Sector

Year	GDP (₦ Billion)	Informal Sector Size Computed from CBN (1994)[1]	Informal Sector Size After Adamu (1996)[2]
1986	71.1	39.5	48.9
1987	70.7	42.3	42.2
1988	77.8	44.5	41.8
1989	83.5	45.5	40.7
1990	90.3	40.1	39.5
1991	94.6	46.8	39.0
1992	97.4	48.9	38.3
1993	100.0	49.9	38.6
1994	101.0	48.9	39.1
Average	80.5	43.0	42.9

Sources: 1. Computed from Central Bank of Nigeria (CBN) (1994), Statistical Bulletin, Vol. 5, No. 2, p.6
2. Adapted from S.O. Adamu (1996) National Accounting in a Developing Country: The Case of Nigeria, SAAL publications.

Table 11.5: Status of Workers

Status	No. of Workers	No. of Workers per Enterprise	Average Year of Experience	Average Monthly Wages (₦)
Proprietor/Chief Executive	1,956	1	4	6,.157.00
Manager	1,210	0.62	2.8	4,782.00
Journeyman	1,658	0.85	1.1	3,795.00
Apprentice	2,674	1.4	0.79	1,062.00
TOTAL	7,498	0.97	2.2	3,949.00

Source: DPC Field Survey, 1999

Although the total number people engaged in the informal sector are quite large and adequate for the sector, the number of Managers and Journeyman may be considered as inadequate at an average of 0.62 and 0.85 per enterprise respectively. This has an effect on the effectiveness and efficiency of the entreprises.

b) *Quality of Personnel:* From Table 11.6, secondary education accounts for the highest level of education of informal sector workers in Nigeria. Elsewhere in Africa and Latin America, primary education or less accounts for the highest number (see Durston, 1987; Roberts, 1991). Indeed, in the Nigerian case, as high as 9.2% of men

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polytechnic graduates and 8.1% of university first degree holders are in the informal sector. The corresponding figures for women are 5.7% and 3.0% respectively. Given the generally low levels of education in the sector in developing countries around the world, the Nigerian situation must be considered impressive. The figures in Table 11.6 compare very well with those obtained by Abumere et al (1988), where the percentages of informal sector workers with secondary, polytechnic and university first degree qualifications were 42.4%, 8.2% and 4.9% respectively. The conclusion from all these must be that there is reasonably high level of qualified personnel in Nigeria's informal sector.

Table 11.6: Educational Levels of Employees

Educational Levels	Men (%)	Women (%)
None	4.1	9.2
Primary Education	32.4	12.1
Secondary Education	49.2	29.8
Trade Centre	6.4	2.4
Vocational Education	4.8	2.1
Polytechnic	9.2	5.7
University 1st Degree	8.1	3.0
University Higher Degree	2.9	1.2
Others	2.2	1.5

Source: DPC Field Survey, 1999

c) *Availability of Needed Skills:* The issue of availability of needed skills is related to the levels of formal education, vocational training, on-the-job and in-service training through workshops, conferences, seminars, outreach, etc. In order to effectively assess the availability of needed skills, it will be useful to examine all these.

In our field survey, the informal entrepreneurs were asked questions not only about the sources of skills acquisition by their workers but also the sources of skills upgrading. Table 11.7 shows that the most important source of skills acquisition in the informal sector is through apprenticeship. Formal education in schools, technical colleges, etc, only accounts for 14.8%. This is not surprising given the fact that there are a very few schools offering training in the dominant areas of the informal sector such as bricklaying, motor repairing, tailoring, blacksmithing, shoe making and repairs, trading, fabrication, plumbing,

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hawking, etc. In the case of skills upgrading (Table 11.8), the major sources are in-service training (41.1%), workshops and seminars (8.2%), secondment to other similar enterprises (3.7%), training through professional associations (3.2%) and training through government assisted programmes such as NDE, IDC, FEAP/Better Life, etc, (2.9%). It will be noticed from Table 11.7 that training through outreach programmes (1.6%) and training through trade unions (0.9%) are not very important. There is much variation in the sources of skills upgrading as between the states. For instance, while in-service training accounts for as high as 86.6% in Lagos, it only accounts for 9.2% in Bauchi.

Table 11.7 Sources of Skills Acquisition

Sources	Per cent
Apprenticeship	47.6%
Vocational Training	15.2%
Formal Education (in schools)	14.8%
Self Trained	4.3%
Others	2.7%

Source: DPC Field Survey, 1999

Table 11.8: Sources Utilised for Skills Upgrading

States	Sources Per cent						
	In-Service Training	Workshops and Seminars	Second-ment to other Enter-prises	Outreach Program-mes	Trade Union	Profess-ional Assoicat-ions	Government Assisted Programmes
Abia	44.2	8.0	2.0	1.1	0.3	2.3	2.8
Bauchi	9.2	7.8	0.3	0.9	4.6	4.6	6.0
Kano	19.8	3.8	15.0	5.1	1.3	1.3	0.5
Lagos	86.6	17.9	1.3	1.3	5.4	5.4	2,2
Plateau	36.4	6.5	1.5	0.6	1.9	1.9	3.4
Rivers	50.3	5.2	2.3	0.7	3.6	3.6	2.6
Total	41.1	8.2	3.7	1.6	3.2	3.2	2.9

Source: DPC Field Survey, 1999

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Table 11.9: Number of Skilled and Unskilled Personnel

States	SKILLED		UNSKILLED	
	Total	No per Enterprise	Total	No. per Enterprise
Abia	949	3	703	2
Bauchi	834	2	1068	3 -
Kano	561	1	1098	3
Lagos	1325	6	1072	5
Plateau	816	3	590	2
Rivers	865	3	730	2
Average	892	3	877	3

Source: DPC Field Survey, 1999

Table 11.10: Levels of Satisfaction with Skill Levels of Workers

States	Satisfied %	Not Satisfied %	Non-response %	Total %
Abia	55.3	13.1	31.6	100.0
Bauchi	74.4	4.0	21.6	100.0
Kano	77.9	4.6	17.3	100.0
Lagos	80.4	7.6	12.1	100.0
Plateau	73.8	6.2	20.1	100.0
Rivers	61.8	8.8	29.4	100.0
Total	70.3	7.3	22.4	100.0

Source: DPC Field Survey, 1999

Table 11.9 shows the levels of availability of skilled and unskilled workers in the informal enterprises surveyed. From this Table, it is clear that there are about three skilled workers per enterprise. Given that most of the enterprises surveyed did not employ more than ten people, this level of availability of skilled workers must be considered to be satisfactory. From Table 11.9, Lagos state is the most endowed with skilled workers in the informal sector. The northern states of Bauchi and Kano are the least endowed.

In our field survey, it was necessary to find out from the informal entrepreneurs how satisfied they were with the available skills in their enterprises and also whether or not the available skills were adequate for the tasks they had on hand. From Table 11.10, it may be concluded that the informal entrepreneurs were highly satisfied with the available skills. Indeed, as high as 70.3% of them expressed such satisfaction. Since

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Lagos State had the highest level of skilled informal workers (Table 11.10), it is not surprising that the entrepreneurs in the state expressed the highest level of satisfaction with the skills available.

Table 11.11: Skill Levels Adequate for Tasks on Hand

States	Adequate %	Inadequate %	Non-response %	Total %
Abia	51.6	21.7	26.8	100.0
Bauchi	73.3	4.9	21.8	100.0
Kano	73.0	13.0	14.0	100.0
Lagos	77.7	9.8	12.5	100.0
Plateau	70.1	11.4	18.5	100.0
Rivers	62.1	12.4	25.5	100.0
Total	67.6	12.3	20.1	100.0

Source: DPC Field Survey, 1999

Table 11.12: Any Difficulty in Recruitment of Skilled Personnel?

States	Yes %	No %	Non-Response %	Total %
Abia	41.6	36.5	21.9	100.0
Bauchi	25.3	62.4	12.4	100.0
Kano	57.3	31.3	11.5	100.0
Lagos	17.0	70.1	12.9	100.0
Plateau	43.5	38.6	17.9	100.0
Rivers	36.3	36.6	27.1	100.0
Total	38.5	44.3	17.2	100.0

Source: DPC Field Survey, 1999

As to whether or not the skills available were adequate for the tasks on hand, Table 11.11 shows that as high as 67.6% of the informal entrepreneurs consider the skills to be adequate. Only about 12.3% thought otherwise. Again, Lagos State informal entrepreneurs were most optimistic since as high as 77.7% of them considered the available skills as adequate. From Table 11.13, it can be inferred that it is fairly difficult to recruit the right skilled personnel. About 44.3% of the entrepreneurs responded that it was not difficult to recruit skilled personnel, while about 38.5% thought that it was difficult. The northern states of Kano and Plateau found it most difficult to recruit skilled personnel while Lagos found it the easiest to do.

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The obvious conclusion that can be drawn from all these is that there are really no serious problems concerning available skills in the informal sector in respect of number, availability, adequacy and performance. If there are any problems about capacity utilisation in the informal sector, therefore, the blame must belong elsewhere. If the skills required in the sector are generally available and adequate, then we must turn to the institutional and other provisions to identify the problems of the sector.

d) *Degree of Effective Use of Existing Skills:* In the focused group discussions, it was observed that available skills could have been put to better and more effective use. For instance, in the marketing of products (Table 11.13), the informal enterprises could have broadened the market outlets beyond individual households. There is at now too much concentration on self/family and household patronage. Many of the informal enterprises have skills and capacities to produce for export but as Table 11.15 shows quite clearly, the opportunities for export are not seriously taken up. In the same way, patronage by private formal enterprises are not seriously explored. From Table 11.14, only 1.2% purchases are made by such private formal enterprises. There is a need to forge linkages between the formal enterprises and the informal enterprises. Such linkages will be mutually beneficial to both sectors. The informal sector can provide inputs for formal enterprises. The formal enterprises can provide the market, skills enhancement, quality control, etc, for the informal enterprises. In addition, there is a need to explore the government and export sectors. All these will enhance demand for products of the informal sector which will in turn help to enhance capacities in the sector and lead to more effective use of the skills available.

Table 11.13: Major Customers

Major Customers	No.	Per cent
Self and Family	413	21.1
Individual Households	1414	72.3
Government	22	1.1
Companies (formal)	23	1.2
Export	5	0.3
Others	17	0.9
Non-response	62	3.2
Total	1956	100.0

Source: DPC Field Survey, 1999

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e) *Assessment of Under-Utilisation of Capacity and Facilities:* It is difficult, if not outrightly impossible, to estimate capacity utilisation in the informal sector. This is because there is usually no installed capacity against which to measure performance. There are usually no records or any forms of book keeping that will provide the basis for assessment of levels of capacity utilisation. Indeed, the fact of no records or book keeping is one of the factors that distinguish informal from formal. In the absence of direct indicators upon which assessment of under-utilisation of capacity may be based, we have had to resort to surrogate indicators.

Table 11.14: Assessment of Workers' Productivity

States	Highly Product-ive (%)	Product-ive (%)	Fairly Product-ive (%)	Hardly Product-ive (%)	Unproduct-ive(%)	Non-response (%)	Total (%)
Abia	24.2	45.3	8.5	0.0	0.6	21.4	100.0
Bauchi	21.3	54.3	5.2	0.3	0.3	18.7	100.0
Kano	25.4	52.4	3.8	0.3	0.3	17.8	100.0
Lagos	29.0	58.5	4.0	0.4	0.0	8.0	100.0
Plateau	30.2	46.6	6.8	0.9	0.0	15.4	100.0
Rivers	18.0	42.2	10.8	1.3	0.0	27.7	100.0
Total	24.5	49.6	6.5	0.5	0.2	18.2	100.0

Source: DPC Field Survey, 1999

Table 11.15: Assessment of Work Habits of Employees

States	Work Very Hard %	Work Hard (%)	Work Fairly Hard (%)	Lazy (%)	No response (%)	Total (%)
Abia	30.5	42.2	5.7	0.6	21.1	100.0
Bauchi	25.0	52.6	3.2	0.6	18.7	100.0
Kano	37.7	47.3	3.8	0.0	11.2	100.0
Lagos	32.1	52.2	7.6	0.4	7.6	100.0
Plateau	35.8	42.9	5.9	0.3	15.1	100.0
Rivers	27.1	43.5	8.8	0.7	19.9	100.0
Total	31.6	46.5	5.6	0.4	16.0	100.0

Source: DPC Field Survey, 1999

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First, we consider the assessment of informal sector workers' productivity provided by the Heads of the enterprises and summarised as in Table 11.6. From this Table, about 24.5% of the entrepreneur (Heads) consider their workers as highly productive. A significant number (49.6%) considers their workers as productive. In Table 11.16, the non-respondents are really the "don't knows" or those sitting on the fence. We may be right to classify them as not really approving of the productivity levels of their workers. This would leave us with the column of highly productive and productive. If we added the percentages of these two columns, the result is 74.1%. Roughly 74.1% of the informal sector workers may be considered productive according to the responses of the entrepreneurs.

Next, consider Table 11.15 showing the assessment of the work habits of informal sector workers as provided by the Heads of the enterprises. About 31.6% of the Heads consider their workers as very hard working while another 46.5% consider them as hard working, making a total of 78.1%. Clearly, the assessment of the informal sector workers as provided by the Heads of the enterprises portray the workers as productive (Table 11.14) and hard working (Table 11.15). With these characteristics of the workers, it will be safe to infer that the levels of capacity utilisation among the informal enterprises will be reasonably high.

11.4.2 Constraints

In this section, we concentrated on the human, operational and institutional constraints to capacity building and utilisation in the informal sector. Some of these constraints arise from the nature and characteristics of the informal sector itself. For instance, the ease of entry into the sector (ILO, 1972) results in unusually large numbers in the sector as all sorts of people go into the sector including the lazy, incompetent, unskilled and the ill-motivated. The dominance of family ownership in the sector makes it difficult to attract capital and inhibits the free flow of skills into the sector. The small scale of operation makes it impossible to reap economies of scale. Its use of labour intensive and adapted technology pose formidable limits on capacity utilisation while the low income of the sector makes it difficult to attract skilled and competent hands. The sector's reliance on skills acquired outside of the formal school system makes the grading and certification of skills in the sector difficult. For instance, in the case of mechanics, it is not possible

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to grade the levels of skills acquired. The same is true of several other categories of the informal sector. Lastly, the lack of official status of informal enterprises (do not register with government, do not keep records and hardly pay taxes) makes it difficult for them to secure loans through the formal banking system. Clearly, the characteristics and nature of operations of the sector itself limit capacity building and utilisation. In what follows, we discuss the constraints under human, operational and institutional categories.

Human Constraints

From Table 11.1827, it can be inferred that there are no human constraints to capacity building and utilisation among the informal enterprises studied in our six states. Only about 21.1% of the informal sector entrepreneurs complained about lack of skilled personnel.

Operational Constraints

These are the constraints encountered in the day-to-day transactions of the enterprises. They have been called operational constraints for want of a better nomenclature. They include problems of lack of machinery and spare parts, lack of raw materials, declining customers, declining incomes, competition from imports and competition from other local enterprises both formal and informal.

From Tables 11.18, it is possible to gauge the magnitude of these complaints.

For instance, from Table 11.16, it is clear that harassment from government agents (44.7%), declining incomes (44.5%) and declining customers (42.3%) are viewed as serious constraints by the entrepreneurs. In the case of income, Table 11.18 serves to buttress the point that incomes from the informal sector are very low indeed. Competition from other local enterprises, at (32.2%) was also regarded as a major constraint along with the lack of machinery and spare parts (34.0%). Raw materials do not pose much constraint since only 20.2% complained about this. Indeed, as Table 30 shows quite clearly, a considerable proportion (50%) of the informal entrepreneurs are able to procure their needed raw materials from within their states. The proportions of getting raw materials from outside their states are very low indeed.

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Table 11.16: Constraints encountered

S/N	Constraints	Per cent
1	Lack of skilled personnel	21.1
2	Lack of machinery and spare parts	34.0
3	Lack of raw materials	20.2
4	Lack of or shortage of land space	20.7
5	Declining customers	42.3
6	Declining Income	44.5
7	Harassment from government agents	44.7
8	Competition from imports	10.5
9	Competition from other local producers	32.3
10	Power/electric problem	71.9
11	Waste problem	45.4
12	Lack of access roads	21.4
13	Lack of or shortage of finance	73.7
14	Lack of government support	61.0

Source: DPC Field Work

Institutional Constraints

There can be little doubt that a significant proportion of the informal entrepreneurs ranked institutional constraints very high. The institutional constraints identified included lack of finance, problems of power/electricity, lack of government incentives and support, problems of water and problems of access roads.

From Table 11.16, the informal entrepreneurs ranked the lack of or shortage of finance as their most inhibiting constraint. This is not surprising given that as high as 80.2% of the entrepreneurs obtained their finance from personal savings. Clearly, there is not much that can be obtained from this source. Few of these entrepreneurs obtained their finance from banks. This is highly unsatisfactory. This calls for an institutional arrangement that will facilitate access of informal entrepreneurs to banks.

Table 11.17: Sources of Raw Materials and of Tools

Sources	Raw Materials		Tools	
	No.	Per cent	No.	Per cent
Within Local Government	415	21.2	301	15.4
Within State	566	28.9	616	31.5
Outside State	192	9.8	234	12.0
Imported	58	3.0	127	6.5
Others	4	0.2	5	0.3
Non-response	721	36.9	673	34.4
Total	1956	100.0	1,956	100.0

Source: DPC Field Survey, 1999

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Next in the hierarchy of institutional constraints identified is power/electricity problems. This constraint cuts across both the formal and informal sectors. Suffice it to say, however, that until this problem is solved, the problem of capacity utilisation will always remain with us.

The other institutional problems identified are lack of government incentives and support (61.0%), lack of water (45.4%) and lack of access roads (21.4%). The government has to provide the conducive environment under which the private sector, both formal and informal, may thrive. Incentives will need to be given and the problem of infrastructural provision has to be taken seriously in hand. The institutions providing the various essential services will need to be looked into along with the issue of creating new institutions. These will be taken up in our policy and programmes section.

From all these, it is clear that the three sub-heads of human, operational and institutional constraints can be ranked in the order of the level of inhibiting constraints posed for capacity building and utilisation. In this regard, the most inhibiting are the institutional constraints, followed by the operational and human constraints in that order. From this, the inevitable conclusion is that there are no serious human constraints to capacity building in the informal sector. The only constraints are operational and institutional.

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11.5 Conclusion and Recommendation

The capacity problem of both the formal and informal sectors is very similar. The human capacity problem is very minimal compared with operational and institutional constraints. In what follows, we examine the policies and programmes that may help ameliorate those problems and constraints in the formal and the informal sectors.

The level and quality of institutional resources is a function of the state of governance in any country. In the immediate past, Nigeria had a spell of bad governance, and this may explain a lot of the institutional deficiencies identified in the survey. However, specific areas where actions would need to be taken include measures to reduce the cost of doing business in Nigeria. Firms complained of uncertainties and frequent changes in government policies, corruption and bureaucratic bottlenecks, harassment by government officials, and virtual powerlessness in getting redress through the judicial system in the event of contractual defaults. No matter how willing entrepreneurs are to take risks, a minimum degree of certainty and low level of transaction costs

are required. Deliberate efforts must be made to address these concerns. Anti-corruption legislation and enforceable contractual agreements should be provided by government as an enabling environment.

Many of the infrastructural constraints such as those of electricity, water, roads, etc, are not peculiar to the private sector. They affect all segments of the Nigerian society. With respect to entrepreneurship development however, deficiencies in basic infrastructures raise the cost of transacting business. The survey revealed that there are deficiencies in the available infrastructures, especially electricity, water, access roads and communications. Where firms have to provide their own-infrastructures or supplement the available ones, a significant amount of financial resources that could have gone on genuine investments are thus diverted. There is thus, the need to improve the quantity and quality of basic infrastructures. This will reduce the cost of doing business, and if well harnessed, it will yield higher social returns on such public expenditures. The private sector will not only be more effective in contributing to the output and employment growth, it will additionally reduce the cost of public infrastructures as tax revenues (corporate and personal) will also increase. An improved allocation of financial resources to the infrastructure sector and a more effective utilisation of such allocations should form the thrust of policies toward the sector.

Shortage of finance was a major constraint identified by the firms. This must mean that the existing institutions such as NIDB, NERFUND, Commercial Banks, NBCI and Stock Exchange that provides finance for the formal sector will need to be strengthened. Their capital base, for instance, could be enlarged. Joint ventures could also be encouraged so that resources could be pooled together. Clearly no new institutions are required.

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SECTION III

POVERTY ALLEVIATION AND RURAL DEVELOPMENT

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12

THE IMPACT OF GOVERNMENT POVERTY ALLEVIATION ON ENTREPRENEURSHIP DEVELOPMENT IN NIGERIA

Adeboye Adeyemo and Tunde Alayande

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12.0 Introduction

One of the main issues in development thought is how to tackle poverty. Therefore, a major concern to multilateral institutions and policy makers in different countries is to identify appropriate strategy for poverty alleviation. Several scholars have contributed in this regard. For instance, a World Bank Poverty assessment report on Nigeria (World Bank 1996) focus on strategies that could help to alleviate poverty in the country. This assessment is one of the most authoritative poverty studies on Nigeria. However, the study fails to examine the link between entrepreneurship development and poverty alleviation. In a similar manner, the Nigerian Economic Society has as its theme for 1997 Annual Conference, "Poverty Alleviation in Nigeria". Some thirty-one papers were presented at the conference, eight of which focused on strategies for poverty alleviation without consideration for entrepreneurship development as a viable strategy.

Conceptually, according to Meredith *et* al (1982), an entrepreneur is one who has ability to see and evaluate business opportunities, and gather the necessary resources to take advantage of them; and also to initiate appropriate action to ensure success. Entrepreneurship is the process of wealth creation in a society. Therefore, an entrepreneur can easily be described as one who perceives needs, conceives goods and services to satisfy the needs, organises the factors of production, creates and markets products (Loucks 1988). Countries are generally endowed by nature with different resources such as land, labour, machinery, technology etc which when processed are able to generate economic goods and services; and in turn, used to promote socio-economic growth

and development. A key factor in the process of combination of various resource endowments for wealth creation is the entrepreneur.

This is why Joseph Schumpeter (1911) had early in the century recognised an entrepreneur as an important factor of production. He maintained that endogenous economic growth is generated and sustained by technology, innovation and knowledge. He therefore, advocated a process of 'creative destruction'. This is a process in which new products, new market, and new organisations simply replace the old system, process or products. For this to happen, Schumpeter maintained that the entrepreneur must undertake investment. A recent school of economic thought called Schumpeterianism, drawing inspiration, from Joseph Schumpeter's idea on entrepreneurship has also emphasised the importance of elements like technology, innovation and knowledge as holding the key to endogenous growth process. (International Business Week, May 16, 1994. P.44).

According to Umo (1995), "when entrepreneurship is situated in the emerging global context, it becomes that a modern entrepreneur has to be deliberately cultivated and assisted to perform". The question is how does a country recognise and encourage this special class of people? In developed countries, deliberate efforts are made to encourage entrepreneurial class through specialised training and provision of logistic support for business creation and running of businesses. Against the background of the implementation of Structural Adjustment Programme, by most African countries, in the early eighties, the expectation of policy makers is that, the opportunities created by the liberalisation, privatisation and deregulation components of the programme will be seized by the private sector to contribute to reviving most of the stagnant African economies. These expectations were however not met as the supply response of private sector enterprises were below average and uninspiring. The question that naturally arises therefore is whether there are enough entrepreneurs of the appropriate types that would be able to respond to the opportunities and challenges offered by the Structural Adjustment Programme. What are the determinants of African entrepreneurship and its capability to respond?

In an attempt to answer these questions, Oyejide (1991) found that the private sector in an African economy is made up of several types of enterprises, which include informal enterprises; micro enterprises; and small, medium, and large-scale modern firms. The study shows that firms with less than ten employees provide 59 per cent of total private

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sector employment in Kenya, 75 per cent in Nigeria, 83 per cent in Zambia and 90 per cent in Sierra-Leone. In other words, the sector is the largest employer of skilled and unskilled labour in Africa. Furthermore, the study found that, African private sector enterprises have low level of managerial skills, most operators also have low skills, and low technological capacities as many of them acquired their skills through a process of apprenticeship. This process of skill acquisition imposes a serious limitation on transferability of such skills to subsequent activities in the formal medium- and large-scale enterprises. In all, the study identified three sets of obstacles to enterprise development. These are;

i) shortfalls on the supply of individuals with the attributes of entrepreneurs;
ii) weaknesses in the external economic environment within which enterprises operate and associated high cost of gaining access to resources and markets; and
iii) regulatory environments which make erroneously burdensome demands on enterprises in their relations with government bureaucracy.

The study noted that most programmes targeted at promoting entrepreneurship development in Africa, Nigeria inclusive, have not been effective due to reasons that include inappropriate design and implementation. Also special training programmes were found to have fallen short of their targets. It was noted that, although, the various adjustment programmes adapted across Africa incorporated several measures to address the various deficiencies observed with entrepreneurship development, they have not been effective in enhancing the growth and performance of the African entrepreneur.

The literature on entrepreneurship in Africa is generally bereft of explanation concerning its link between impacts of poverty alleviation programmes. This may be because, to most scholars and policy makers, unemployment issues are regarded to be more serious than wealth creation. Again in most developing countries, solutions to unemployment are often addressed within the framework of macro economic policy. Entrepreneurship activities are often regarded as a micro issue. Adeyemo (1998) noted that "most people who create or run their own business are doing so as a second best option and in fact are struggling to do so because of poor technical and financial support from the authorities". Therefore, in most developing countries, most poverty alleviating programmes are targeted at tackling graduate unemployment.

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This notwithstanding, it can be observed that entrepreneurship development programme has various components such as financial assistance, training, technology, marketing, general research services, institutional brokering and raw materials and other inputs/services supply (Goldmark and Rosengard, 1981). These components are all required for a successful entrepreneurship development programme and they form a part of poverty alleviation programmes.

Poverty was shown to have increased in Nigeria over the last three decades. For instance the World Bank Report, (1996) showed that Nigeria has witnessed increased incidences of poverty due to economic policy reversal and policy incredibility. Corroborating evidence from the Federal Office of Statistics also showed that poverty increased from 42 per cent in 1992 to 69.3 per cent in 1996. Given the poverty situation in Nigeria, successive governments have realised the need to empower the poor and provide them the means by which they can make use of their abundant resources (labour). In this regard, various programmes and policies have been put in place that can provide the poor and the self employed the opportunities for self-actualisation through entrepreneurship (training and skill enhancement), cushioning them against economic shocks and providing them access to credit facilities. These programmes are based on the perceived role of entrepreneurship development in the transformation of any economy that operates a free enterprise economic system. Thus, the introduction of structural adjustment programme in Nigeria and the need to cushion its effect on the poor, motivated the government to establish programmes, which has serious bearing on entrepreneurship development. These include the following:

- those that focused on the opening up of rural areas through the provision of basic amenities. For example, the Directorate of Food, Road and Rural Infrastructure (DFFRI);
- those that focused directly on entrepreneurship development: Better Life Progamme(BLP), Family Support Programme(FSP), Family Economic Advancement Programme(FEAP) and he National Directorate of Employment(NDE);
- those that focused on micro-credit provision to the poor: People's Bank of Nigeria (PBN), Community Banks(CBs), the National Economic Recovery Funds(NERFUND), FEAP etc.
- those that focused on health and nutrition which have consequences for increased productivity e.g. BLP, FSP, FEAP etc.

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- those that focused on enhancing rural dwellers income, for example, Agricultural Development Programmes (ADPs), Nigerian Agricultural Land Development Agency (NALDA) DFFRI, BLP, FEAP, FSP etc.

The development of these programmes have serious implications for the growth of entrepreneurs in Nigeria, especially, judging from the number of small and medium scale enterprises (SMEs) that have sprung up in recent years. This is in line with the argument that periods of structural adjustment are periods of rising trend of entrepreneurship development in any adjusting economy. In line with this argument, the International Finance Corporation (IFC) in 1972 estimated the number of modern sector SMEs (i.e. those in the formal sector) at 90,000. This was extrapolated to 125,00 in 1983. SMEs operating in the country are currently believed to number more than 200,000 besides those in the informal sector whose number are currently beyond counting as they litter the entire landscape of the economy (Adegbite, 1997).

However, the continuous domination of micro-enterprises in the informal sector, the absence of indigenous entrepreneurs in some key sectors of the economy and the persistent shortages of credit facilities call into question the various programmes and activities that were supposed to promote entrepreneurship capacity in Nigeria. Thus, there is a need to investigate into the impact of the various programmes on entrepreneurship, given the fact that these programmes have been driven by the moral imperatives to alleviate poverty.

Given the foregoing background, the rest of this chapter highlights the impact of government poverty alleviation programmes on entrepreneurship development in Nigeria. Specifically, we provide an insight into the various government poverty alleviation programmes which entrepreneurs benefited from and types of benefit received; the relative ease with which firms can benefit from these programmes; the performance of firms that have benefited from the programme; and made policy recommendation for enhancing benefits of entrepreneurship development. Because there have been many poverty alleviation programmes over the years with some of them either duplicated in their functions or responsibilities and/or overlapped, it is difficult to really isolate the effectiveness of each of the programmes in promoting entrepreneurship development in the country. Therefore, the focus, is on the credit granting institutions such as the People's Bank and the vocational training/entrepreneurial development agencies such as the

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National Directorate of Employment (NDE) and the Better Life Programme.

12.1 Better Life Programme (BLP)

In 1987, the Better Life Programme was first introduced as a programme mainly for rural women by the then First Lady, Mrs. Maryam Babangida. The programme was generally aimed at complementing the existing Federal Government policy to develop the rural areas. The programme's objectives were:

- the desire to stimulate and motivate women in rural areas towards achieving a better and higher standards of life, as well as sensitize the general populace to the plight of rural women;
- educate women on simple hygiene, family planning, importance of childcare and to increase literacy;
- to mobilize women for concrete activities towards achieving specific objectives, including seeking leadership roles in all spheres of national life; and
- to raise the social consciousness of women about their rights, as well as social, political and economic responsibilities.

As the implementation of the programme progressed, it was realised that the scope of the programme had to be widened to include urban women and cooperatives where men were members. Thus, the name was changed from Better Life Programme for Rural Women to Better Life Programme (BLP). The programme generally covered many areas that relate to enhancing labour productivity and entrepreneurship development. The areas were: health, agriculture, education, social welfare and cooperatives. It is the formation of cooperatives that has direct bearing to entrepreneurial development. Numerous fishing, farming, marketing, weaving and sundry craft cooperatives were set-up. The cooperatives were supported in greater access to credit facilities from People's Bank, which owes its existence partly to the Better Life Programme. Thus a linkage was effectively created between the two agencies.

During the Abacha regime, the programme appeared to narrow down its activities and was re-named Family Support Programme (FSP) with greater emphasis on the health component. However, in an attempt to create a more embracing socio-economic poverty alleviation programme by the regime, a new agency called Family Economic Advancement Programme (FEAP) was established. The FEAP was established to

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stimulate economic activities by providing loans directly to Nigerians through cooperative societies and informal associations. Between 1997 and 1998, a total sum of ₦5.9 billion was committed to the programme by the Federal Government. Out of this amount, the sum of ₦4.50 billion was earmarked as loans to co-operative societies. A total of 70,000 cooperatives nation-wide registered with the organisation. The organisation is now defunct while its assets and liabilities have been taken over by the newly created National Agricultural Cooperative and Rural Development Bank. (NACRDB).

12.2 National Directorate of Employment (NDE)

This is a skill formation and credit-granting scheme with consequences on accelerating entrepreneurship development. The Directorate was set up in 1986 with the underlying philosophy of self - enterprise, which emphasizes self-employment in preference to wage employment. The Directorate implements four core programmes namely, Vocational Skills Development Programme (VSDP), Special Public Works (SPW), Small Scale Enterprises (SSE) and Rural Employment Promotion Programme (RPP). The Vocational Skills Development Programmes is a skill acquisition programme which consists of 80 trades spread through its four ancillary schemes of:

- The National Open Apprenticeship Scheme (NOAS): This scheme emphasizes on-the-job training by which apprentices are attached to master craftsmen or women, companies, ministries and parastatals for periods varying between six months to three years. Between inception and 1995, the scheme has trained 392,275 persons.
- The school on Wheel Scheme: This involves the use of mobile workshop to take vocational training to the rural areas. A total of about 15,000 youths benefited from this scheme through its mobile training workshops located in each of the old 21 states of the Federation and Abuja.
- The Wealth-to-Waste Scheme: Under this scheme, interested youths are trained to convert discarded materials to useful and valuable products such as jewelry, flower vase, key holders etc. About 6,394 participants have benefited from the scheme since inception.
- The Resettlement Scheme: The scheme was set up to assist selected NOAS graduates who lack the means to set up own

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businesses and cannot get wage employment. The scheme also provided management support services to young entrepreneurs who may be in need of professional advice.

12.3 People's Bank of Nigeria (PBN)

The PBN was set-up by Decree No. 22 of 1990 with the following mandate:

- the provision of basic credit requirements of the under privileged Nigerians who are involved in legitimate economic activities in both rural and urban areas and who cannot normally benefit from the services of orthodox banking systems due to their inability to provide collateral securities; and
- the acceptance of savings from the same group of customers and make repayment of such savings together with any interest thereon, after placing the money, in bulk sums, on short-term deposits with Commercial and Merchant Banks.

Arising from the mandate are the following specific objectives:

- Extension of credit facilities to the less privileged members of the society who cannot normally benefit from the services of the conventional banks.
- Provision of opportunities for self-employment for the vast unutilized and underutilised manpower resources in the country.
- Complementing of government's efforts in improving the productive base of the economy.
- Inculcating banking habits at the grassroots and reducing the rural-urban migration.
- Eradication of poverty and provision of succor to the poor
- Bringing relief to the financially marginalized groups in the society.

By implication, the People's Bank is to serve as an alternative banking institution providing easy credit access to the poor who otherwise would not have had access to credit and other banking services at affordable rates of interest and without the complicated requirement of collateral security. It became the most significant financial institution providing micro-credit as part of poverty alleviation programme with special focus on small-scale enterprise development. In order to further strengthen the delivery of credit to small-scale entrepreneurs and the poor as part of the current effort at poverty alleviation, the activities of FEAP and Nigeria Agricultural and Cooperative Bank have been

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rationalized to avoid duplication and overlapping of functions. Thus, a new institution called the Nigerian Agricultural, Co-operative and Rural Development Bank (NACRDB) was established mainly to do what these institutions were created to do with a more clearly defined focus.

12.4 Impact of Poverty Alleviation Programmes on Entrepneurs

The data for the analysis in this section was collected from a survey of small-scale enterprises in the Southwestern Nigeria. The full description of the data and methodology of data collection was given in Adeyemo and Alayande (2001). The survey covers three states and in each state, questionnaires were administered to 50 entreprises in two different sectors (manufacturing and services). The scope was however narrowed down to three main sub-sectors namely Textile and Garments, Metal work (e.g. welders, iron benders and tinkering) and Artisans (e.g. mechanics, hair dressers, barbers, shoe makers). The questionnaire was administered to obtain: nature and characteristics of business enterprises; enterprise ownership characteristics; type of benefits from government poverty alleviation programmes; and to see whether poverty alleviation programmes have improved entrepreneurship development.

12.4.1 Nature, Ownership and Characteristics of Business Entreprises

As shown in Table 12.1, 38.8 per cent of the sampled business entreprises were established before the Structural Adjustment Programme (SAP). During the period of active implementation of SAP, 1986-1990 Only 29 firms representing 21.6 per cent of the respondents were established. While in the period of passive SAP implementation (1991-1998), 53 of the firms covered representing 39.6 per cent began business. On ownership structure, at the start of the business, about 82.8 per cent of the respondents were owned by local entrepreneurs, while only 17.2 per cent were owned by both local and foreign investors. However, as at the time of survey, the structure remains unchanged. In terms of number of employees, firms employing between 1-10 persons as at 1990 were 39 (29.1 per cent); those employing 11-35 persons were 28 (20.9 per cent); while those employing above 35 persons were only 15 (11.2 per cent). Some firms did not respond because they claim not to have record of staff employed in 1990. There were 52 (38.8 per cent) of such firms. As at year 2001, the statistics of employees have changed. Firms that employed between 1-10 persons have increased to 51 (38.1

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per cent) and others employing between 11-35 (26.8 per cent) and above 35 persons (18.7 per cent). Only 16.4 per cent did not respond.

Table 12.1: Characteristics of Respondents

	Frequency	Percentage	Cumulative Percentage
1. Date of starting Business			
1970 - 1985	52	38.8	38.8
1986 -1990	29	21.6	60.4
1991 - 1998	53	39.6	100.0.
2. Ownership (Foundation)			
Local	111	82.8	82.2
Joint (local & International)	23	17.2	100.0
3 Ownership (Now)			
Local	111	82.8	82.2
Joint (Local & International)	23	17.2	100.0
4. Number of Employee (1990)	39	29.1	29.1
1 - 10	28	20.9	50.0
11 - 35	15	11.2	61.2
Above 35	52	38.8	100.0
No response			
5. Number of Employee (2001)	51	38.1	38.1
1 - 10	36	39.5	64.9
11 - 35	25	36.6	83.6
Above 35	22	0.0	100.0
No response			

Source: Field Survey 2001

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In Table 12.2, the interest was in the financial profile of the responding firms.

Table 12.2 shows that the firms' sources of capital follows the usual trend in the literature, for instance, 58 firms representing 43.3 per cent source for start-up came from personal savings and ploughing back of profit. This is followed by a combination of personal savings, bank loans, and ROSCAS/ESUSU sources, which account for 14.9 per cent. Firms representing 10.4 per cent sourced for start-up capital through bank loans. Other sources include a combination of personal savings, ROSCAS/ESUSU, PAP and cooperative representing 11.2 per cent and Bank loan/PAP representing 9.0 per cent. It is interesting to note that no respondents identified PAP as the main source of start-up capital. At the start of business, 32 firms representing 23.9 per cent had a capital of

between ₦50,000 - ₦100,000; 53 firms (39.5 per cent) had a capital of ₦100,000 – ₦500,000; 49 firms (36.6 per cent) had a capital of between

Table 12.2: Trend in Business Capital

	Frequency	Percentage	Cumulative Percentage
1. Sources of Start-up Capital			
Personal savings/ploughing back	58	43.3	43.3
profit	10	7.5	50.8
Family/ Friend	14	10.4	61.2
Bank Loan			
Personal savings/Bank loan and	20	14.9	76.1
ROSCAS/Esusu	1	0.7	76.9
Family/Friends and	4	3.0	79.9
ROSCAS/Esusu	12	9.0	88.8
Family/Friends and Cooperative	15	11.2	100.0
Bank loan and PAP[1]			
Personal savings,			
ROSCAS/ESUSU, PAP and			
Cooperative			
2. Amount of start-up capital			
₦ 50,000 - ₦ 100,000	32	23.9	23.9
₦ 100,001 - ₦ 500,000	53	39.5	63.4
₦ 500,001 - ₦ 1 million	49	36.6	100.0
Above ₦ 1million	0	0.0	100.0
3. Capital (year 2001)			
₦ 50,000 - ₦ 100,000	0.0	0.0	0.0
₦ 100,001 - ₦ 500,000	35	26.1	26.1
₦ 500,001 ₦ 1 million	29	21.6	47.8
Above ₦ 1million	70	52.2	100.0
4. Reasons for the trend in business			
capital	78	58.2	58.2
Increase in demand	21	15.7	73.9
Access to credit from Banks	4	3.0	76.9
Access to credit from PAP			
Increase in demand and Access	8	6.0	82.8
to credits from Banks			
Increase in demand and Access	4	3.0	85.8
to credits from PAP	6	4.5	90.3
Access to credits from Banks and			
PAP	13	9.7	100.0
Increase in demand, Access to			
credits From Banks and PAP			

Source: Field Survey 2001

[1] PAP - Poverty Alleviation Programme

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₦500,000 - ₦1million. By year the 2001 however, the structure of business capital has changed significantly in a reverse order. Not one of all the firms surveyed still had a business capital of between ₦50,000 - ₦100,000. Equally, the number of firms, having a business capital of between ₦100,000 - ₦500,000 has reduced to 29 firms (21.6 per cent). While 70 firms representing 52.2 per cent now owns capital above ₦1million. In an attempt to explain the trend in capital structure, expansion of market (increase in demand) accounted for 58.2 per cent. This is followed by access to credit from Banks, which accounted for 15.7 per cent. A combination of factors such as increase in demand, access to credit from Banks and PAP accounted for 9.7 per cent, increase in demand and access to credit from banks (6.0 per cent), access to credits from Banks and PAP (4.5 per cent); and increase in demand and access to credits from PAP (3.0 per cent). Again, no firm point to PAP as singularly responsible for the increasing trend in business capital.

As part of the profile of the responding firms, we examine the trend in capacity utilisation. After the period of actual implementation of SAP starting from 1990, one firm (0.7 per cent) says its capacity decreased by 30% and by year 2001, it has increased to four firms representing 3.0 per cent. However, seven firms representing 5.2 per cent say their capacity increased to 60 per cent and by year 2001, the figure has increased to 26 firms representing 19.4 per cent. While firms whose capacity increased by above 60 per cent increased from 19 firms (14.2 per cent) in 1990 to 80 firms (59.8 per cent) in 2001, close to 44.5 per cent and 3.0 per cent did not respond in 1990 and 2001 respectively. To know the reasons for the trend in change in capacity utilisation, the response was poor, as 73.9 per cent of the firms did not respond. However, reasons such as low demand, inflation in the economy, increase in production, high patronage etc were given.

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12.4.2 Benefits from Poverty Alleviation Programmes

One of the questions of interest is to find out which component of PAP entrepreneurs benefited from government poverty alleviation programmes. This is illustrated on Table 12.3.

Twenty firms representing 14.9 per cent benefited from the People's Bank (PB) followed by Better life Programme (BLP) from which 17 firms (12.7 per cent) benefited. No other component had 10.0 per cent benefits except for a combination of Better Life Programme (BLP), National Directorate of Employment (NDE), and National Economic Reconstruction

Fund (NERFUND), whose 26 firms representing 19.4 per cent claimed to have benefited. Another 16 firms representing 11.9 per cent also benefited from a combination of Peoples Bank (PB), Community Bank (CB), Better Life Programme (BLP), and National Directorate of Employment (NDE).

Table 12.3: Government Poverty Alleviation Programmes from which Entrepreneurs Benefited

	Frequency	Percentage	Cumulative Percentage
People's Bank (PB)	20	14.9	14.9
Better Life for Rural Woman Prog (BLP)	17	12.7	27.6
Family Economic Advancement	4	3.0	30.6
Programme. (FEAP)	1	0.7	31.3
National Directorate of Employment	13	9.7	41.0
(NDE)	4	3.0	44.0
CB and PB	3	2.2	46.3
CB and BLP	10	7.5	53.7
CB and NDE	26	19.4	73.1
DFRRI, BLP, FEAP and NDE	16	11.9	85.1
BLP, NDE and NERFUND	8	6.0	91.0
PB, CB, BLP and NDE	12	9.0	100.0
PAP			
No response			

Source: Field Survey 2001

Note: CB: Community Bank

DFRRI: Directorate of Food, Roads, and Rural Infrastructure

NERFUND: National Economic Reconstruction Fund

PAP: Poverty Alleviation Programme

About 9.7 per cent benefited from CB and PB alone, while another 3.5 per cent benefited from CB and BLP and 2.2 per cent benefited from CB and NDE. About 7.5 benefited from a combination of DFRRI, BLP, FEAP and NDE. The FEAP accounted for 3.0 per cent benefit derived by respondent firms. While the current civilian administration's PAP contributed 6.0 per cent of benefits, twelve firms representing 9.0 per cent did not respond. It is interesting to note that the NDE had the least beneficial programme and yet it is one of those that still survive till today.

Table 12.4 examines the kind of benefits received by respondents. As can be observed, 50 firms representing 37.3 per cent indicated credit and loan; 16 firms (11.9 per cent) indicated equipment provision. While social services/infrastructure also had 16 firms representing 11.9 per cent. No other benefits singly accounted for up to 10 per cent (0.7%). A

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combination of benefits from equipment provision and social services infrastructures and skill acquisition, networking and social services/infrastructure account for 7.5 per cent respectively. Employment generation benefit accounted for 6.0 per cent, while, a combination of credit/loan and equipment provision gave rise to 5.2 per cent of the benefits. Networking with other supporting agencies, credit/loan and skill acquisition/training and combination of Networking and social services/infrastructure accounted for 4.0 per cent of benefits reserved by respondents respectively. Still on table 4, responding firms were asked to assess their access to services offered by these programmes. Some 59 firms found it very easy, some 35 firms (26.1 per cent) found it easy, while 32 firms (23.9 per cent) found it difficult, eight firms (6.0 per cent) responded that they do not know.

When asked about their opinion on the interest rate on the loan component of the programmes, some 25 firms representing 18.7 per cent reported it is very high, about 39 firms (29.1 per cent) indicated high and 34 firms (25.4 per cent) said it is low, while 26.9 per cent of the firms do not know.

From this table, it can be clearly observed that the largest benefit come from credit and loan. It appears therefore, that the programmes emphasised only the financial aspect and this may be the reason why the programmes did not have appreciable impact on entrepreneurship development, as it is difficult to monitor how creditors apply the credits. The NDE, which is supposed to promote the skill acquisition and training, has been identified on Table 3 as one of the least benefiting programmes with less than one per cent contribution (0.7 per cent). It is therefore not surprising that Table 4, which gives the kind of benefits received also indicated that skill acquisition/training is the least beneficial with 0.7 per cent benefits. Therefore, the NDE programmes, which has survived till now needs to be re-organised and strengthened to achieve its aims and objectives. Invariably, credits without necessary skill development through training cannot but have limited impact.

Though, from the respondents opinion, access to these programme services are relatively easy, the loan component is seen to attract high interest rate. This may constitute a disincentive to prospective entrepreneurs who may want to borrow from the programme and thus limit the impact of the programme.

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Table 12.4: Benefits Received by Respondents

	Frequency	Percentage	Cumulative Percentage
1. Kind of Benefits received by Respondents	50	37.3	37.3
Credit/Loan	1	0.7	38.1
Skill acquisition/Training Equipment provision	16	11.9	50.0
Networking with other supporting agencies	4	3.0	53.0
Social services/Infrastructure	16	11.9	64.9
Credit/Loan and skill	7	5.2	70.1
acquisition/training	4	3.0	73.1
Credit/Loan and Equipment provision	4	3.0	76.1
Credit/Loan, skill acquisition/training Networking and Social services	10	7.5	83.6
Equipment provision and social services/infrastructure	10	7.5	91.0
Skill acquisition, Networking and Social services/Infrastructure	8	6.0	97.0
Employment generation			
No response	4	3.0	100.0
2. What is your assessment of access to services?			
Very easy	59	44.0	44.0
Easy	35	26.1	70.1
Difficult	32	23.9	94.0
Don't know	8	6.0	100.0
3. What is your opinion on the interest rate of the loan component of the programmes?			
Very high	25	18.7	18.7
High	39	29.1	47.8
Low	34	25.4	73.1
Don't know	36	26.9	100.0

Source: Field Survey 2001.

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12.4.3 Impact of Benefits on Entrepreneurship

Tables 12.5 to 12.8 examine the impact of the programmes on some specific factors. As can be observed from Table 5, 86 firms representing 64.2 per cent indicated that the programmes of PAP agencies have assisted them to introduce new machine while 45 firms (35.8 per cent) said No. In an attempt to know how the machine affects productivity, 62 firms (46.3 per cent) reported that it has increased their productivity. Some 24 firms (12.9 per cent) observed no change in their productivity,

two firms (2.2 per cent) said it led to a decrease in their productivity and 41 firms (30.6 per cent) don't know, while four firms did not respond.

Table 12.5: Impact of Programmes on Machine Acquisition

	Frequency	Percentage	Cumulative Percentage
Introduce new machine with the support of Poverty Alleviation Agencies			
Yes	86	64.2	64.2
No	48	35.8	100.0
New machines affects productivity			
Increase Productivity	62	46.3	46.3
Decrease Productivity	3	2.2	48.5
No change in productivity	24	17.9	66.4
Don't know	41	30.6	97.0
No response	4	3.0	100.0
Being able to acquire machine without agencies support			
Yes	59	44.0	44.0
No	59	44.0	88.0
Not sure	16	11.9	100.0

Source: Field Survey 2001

In order to know whether the respondent firms would have been able to acquire machine without PAP agencies support, equal percentage of respondents, 59 firms (44.0 per cent) indicated Yes and No respectively while 16 firms, (11.9 per cent) are not sure.

Table 12.6 examines the impact of the programmes on Training.

Some 62 firms representing 46.3 per cent admitted their staff were trained on the operation and maintenance of the machines acquired through the programmes, while 72 firms representing 53.7 per cent said No. On some other types of training, 75 firms representing 56.0 per cent said they received other types of training while 59 firms representing 44.0 per cent said they did not.

As can be observed from Table 12.6, to know the type of training received and how important it is to them, they were asked to rank from 1 to 5, with 5 being most important. 83 firms representing 61.9 per cent identified training on finance and bookkeeping as the most important, while general management is seen as the least important with 118 firms representing 88.1 per cent selecting the option. This is followed by repair and maintenance of equipment accounting for 57.5 per cent as least important. Training, marketing and sales are also considered least important as they account for 55.2 per cent. This result is a general confirmation of the poor attitude of entrepreneurs to training. They appeared to be bothered more on how to keep accurate account than

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improving the quality of their products, marketing strategies and general management. This may be the case, as most small firms generally do not engage experts in their operations. One 'man show' who often is the owner-manager characterises most small firms. This attitude greatly tends to limit the impact of the PAP programmes.

Table 12.6: Impact of Programmes on Training

	Frequency		Percentage		Cumulative Percentage	
1. Was any of your staff trained in the operation and maintenance of the machine?						
Yes	62		46.3		46.3	
No	72		53.7		100.0	
2. Did you benefit from any other types of training from these agencies?						
Yes	75		56.0		56.0	
No	59		44.0		100.0	
	1 –2 Least Important		3 Important		4-5 Most important	
	Freq.	%	Freq.	%	Freq.	%
3. If Yes, Rank type of training received (rank 1-5) with 5 being most important.						
Finance and Book keeping	51	38.1	-	-	83	61.9
Quality control	61	45.5	24	17.9	49	36.6
Marketing and sales	74	55.2	31	23.1	29	21.7
General Management	118	88.1	1	0.7	15	11.2
Repair & Maintenance of Equipment	77	57.5	27	20.1	30	22.4
	Freq.	%	Freq.	%	Freq.	%
4. Rank possible effects of the training received on your operation (Rank 1-5 with 5 being most important).						
Improve Productivity	38	28.3	25	18.7	71	53.0
Cost reduction	43	32.1	33	24.6	58	43.3
Improved quality of products	51	38.1	33	24.6	50	37.3
Increased sales	82	61.2	10	7.5	42	31.3

Source: Field Survey 2001

In order to asses the effects of the training on the respondents operation, 53.0 per cent indicated it as having the most important effect by improving productivity but has importance and the least important effects apparently on all the options. But 83 firms representing 61.2 per cent reported the training had the least importance on sales increase. The impact of the programmes can be observed on Table 12.7.

One hundred and three firms representing 76.9 per cent agreed that support received from PAP brought about a change in production

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process, while 21 firms representing 15.7 per cent did not agree and 10 firms (7.5 per cent) did not respond. The firms that agreed that PAP has led to a change in the production process attributed it to loans and credit facilities. Some 61 firms (45.5 per cent) believed that it is due to loan support, while another 16 firms representing 11.9 per cent attributed it to credit facilities support. Those that did not respond were 42.6 per cent of the respondent firms. When the firms were asked the type of change introduced, 37 firms (27.6 per cent) replaced their old machines while 51.5 per cent bought some additional equipment. About 20.9 per cent of the firms did not respond.

Table 12.7: Impact of Programmes on Production Process

	Frequency	Percentage	Cumulative Percentage
1. Did the support received from Poverty Alleviation Programmes lead to change in Production?			
Yes	103	76.9	76.9
No	21	15.7	92.5
No response	10	7.5	100.0
2. If Yes, what kind of support?			
Loan	61	45.5	45.5
Credit facilities	16	11.9	57.4
No response	57	42.6	100.0
3. Type of change introduced.			
Replacement of old machine	37	27.6	27.6
Bought some additional equipment	69	51.5	79.1
No response	28	20.9	100.0
4. Which Poverty Alleviation Programme brought about the change?			
NDE	11	8.2	8.2
PAP	7	5.2	13.4
Community Bank	6	4.5	17.9
People's Bank	21	15.7	33.6
No response	89	66.4	100.0

Source: Field Survey 2001

In an attempt to know the components of the PAP that brought about the change in production process, about 89 firms representing 66.4 per cent did not respond. Only 15.7 per cent of the firms identified People's Bank. Both the NDE, PAP and Community Bank did not have up to 10-per cent share respectively. In fact the Community Bank only has only 4.5 per cent share. In order words, as far as change in production process is concerned, these components of PAP have limited impact.

From Table 12.8, it can be observed that 105 firms representing 78.4 per cent agreed that PAP has brought about an increase in productivity. Six firms representing 4.5 per cent observed no change while 23 firms representing 17.2 per cent do not know.

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Table 12.8 : Impact of Programmes on Productivity

	Frequency	Percentage	Cumulative Percentage
Increase in Productivity	105	78.4	78.4
No change	6	4.5	82.8
Don□t know	23	17.2	100.0

Source: Field Survey 2001

In order to examine the response of the firms to traditional bank credit service within the same period, Table 12.9 provides respondent's view on access to bank credit within the period.

As can be observed, in year 1990 and 2001, almost equal number of firms believed that access to bank credit is some how easy. For year 1990 it was 48 firms representing 35.8 per cent and year 2001, it was 49 firms representing 36.6 per cent. However, for firms that think it is difficult or somehow difficult in the year 2001, the figure rose from 27 to 37 (27.6 per cent). And for firms who think it is somehow difficult in year 1990, they are 27 (20.1 per cent) but for 2001, it has increased to 42 (31.3 per cent). This can be justified on the ground that during this period, more private commercial banks were licensed, while the development banks became moribund and their activities became highly impaired.

Table 12.9 : Access to Bank Credit

	Frequency	Percentage	Cumulative Percentage
Year 1990			
Somehow easy	48	35.8	35.8
Difficult	22	16.4	52.2
Somehow difficult	27	20.1	72.4
No response	37	27.6	100.0
Year 2001			
Somehow easy	49	36.6	36.6
Difficult	37	27.6	64.2
Somehow difficult	42	31.3	95.5
No response	6	4.5	100.0

Source: Field Survey 2001

In order to know whether firms consider interest rate before borrowing, 91 firms representing 67.9 per cent confirmed they do, while 37 firms representing 27.6 per cent do not. Only 4.5 per cent of the firms did not respond (Table 12.10).

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Table 12.10 : Interest Rate and Decision to Borrow

	Frequency	Percentage	Cumulative percentage
Do you consider interest rate on your decision to borrow?			
Yes	91	67.9	67.9
No	37	27.6	95.5
No response	6	4.5	100.0
Why?			
Low interest rate	53	39.6	39.6
High interest rate	6	4.5	44.1
No collateral	22	16.4	60.5
No response	53	39.5	100.0

Source: Field Survey 2001

On why firms would borrow or not, 53 firms representing 39.6 per cent considered low interest rate for their borrowing while, six firms representing 4.5 per cent indicated high interest rate as the reason for their not borrowing. Some other 22 firms (16.4 per cent) reported not having collateral (Table 12.10). Generally, in Nigeria, cost of borrowing in commercial banks is very high compared to developed countries in Europe and America. But the reason why one investor would consider a rate low and the other consider it high in the country may be difficult to discern. For firms that lack collateral, it is a general practice for borrowers to have adequate coverage for loan required, so collateral security is an important decision for both the lenders and borrowers regardless of the rate of interest.

The questionnaire sought to know the opinion of the responding firms on major constraints faced by their enterprises. The following are a list of responses from the firms:

i. Shortage of finance.
ii. Inadequate skilled personnel.
iii. Lack of machinery and spare parts.
iv. Harassment from government agencies.
v. Lack of raw materials.
vi. Shortage of land space.
vii. Low patronage.
viii. Competition from local producers.
ix. Electricity problems.
x. Water supply problems.
xi. Lack of access road.

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In the same way, they were asked to give their views on strategies they adopted to overcome the constraints in their operations. The list is as follows:

i. Get loan from commercial banks.
ii. Adopt the use of local materials.
iii. Provide electricity through generating plants.
iv. Obtain loans from friends and relatives.
v. Searching for more customers.

The survey questionnaire finally asked for the respondents' opinion on how to improve PAP. Their opinions as expressed are listed as:

i. Provision of infrastructural facilities.
ii. Provision of funds to the less priviledged.
iii. Encouragement of private sector development.
iv. Ban importation of goods that can be locally made.
v.. Channel resources directly to small scale industries.
vi. Unemployed people to be paid monthly benefits.

12.5 Summary of Major Findings, Future Policy Recommendations and Conclusion

12.5.1 Summary of Major Findings

The following are the main findings on the impact of government poverty alleviation programmes on entrepreneurship development in Nigeria.

- a larger percentage of small-scale entrepreneurs have relied heavily on personal savings and informal financial sources such as ROSCAS/Esusu, friends and relatives as sources of starting-up their businesses. In other words, the old tradition of personal financing is still in vogue.
- Poverty alleviation programmes' sources of finance constitute a smaller proportion of total finance to small-scale entrepreneurs. This implies that perhaps the money is not getting to the intended beneficiaries or are wasted on other things.
- People's Bank and Better Life Programmes have benefited entrepreneurs more than any other poverty alleviation programmes but not enough to jump-start a virile and sustainable entrepreneurship development.

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- Firms that have benefited from one form of poverty alleviation programme or the other tend to have marginal incremental impact on productivity.
- The NDE programme that specifically incorporated entrepreneurship development were found to have less benefits to small-scale entrepreneurs. This is perhaps due to poor programme conception, implementation and weak institutional support.

12.5.2 Future Policy Direction

From the analysis so far, it is clear, that PAP in its various forms had failed to achieve the desired impacts on entrepreneurship development since the days of SAP. In fact as can be observed from the opinion of respondent firms on major constraints being faced by their enterprises, they were mostly the same reasons why these programmes were set up. Nothing appears to have changed. Considering the huge resources that have been committed and still likely to be committed, and the determination to continue with these programmes, it is important to define clearly what future policy option should be.

The following are suggested options:

1. *Clear Conceptual definition*

   An entrepreneurship programme should be seen as a component that consists of mutually exclusive but interrelated activities. Those activities are: financial support; training; appropriate technology; marketing; institutional brokering; vocational and technical training; raw materials development; and extension services. If PAP is to achieve the desired impacts, these various components of the entrepreneurship development programme must be institutionalised in an integrated form with clearly focused mandate without duplication as it is currently the case.

2. *Institutional Reforms*

   The current practise where most components of PAP engage in one financial services or the other should be reviewed. Each institution should be made to handle specific aspects of entrepreneurship development. Nonetheless, networking among the institutions should be encouraged through referral process.

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3. *Reform in Education Policy*
   The current orientation of the country's education cannot mitigate unemployment or lead to entrepreneurship development. The need for reform in education policy is to complement entrepreneurship development components of PAP.

12.5.3 Conclusion

The authorities in Nigeria have demonstrated committment to alleviating poverty among the citizens through the establishment of various programmes. However, the impact of these programmes in creating opportunities for entrepreneurship development among the beneficiaries has been limited by poor conception and weak implementation.

As it has been noted in this study, most of the so-called poverty alleviation programmes in the country since SAP are not targeted to any particular poor group, neither are they targeted to foster entrepreneurship development. It is therefore not surprising that the programmes have limited impact in promoting entrepreneurship. The programmes have largely failed to solve major constraints of entrepreneurs. Even the NDE, which was to focus on promoting employment opportunities through entrepreneurship training and support, has been identified as one of the least beneficial programmes. Ironically it is still one of the programmes that have survived to date. Given its pivotal role in promoting and enhancing entrepreneurship culture in Nigeria, the institution has to undergo reforms to meet the challenges of creating and fostering entrepreneurship development in Nigeria.

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13

PENSION SCHEMES' ADMINISTRATION IN NIGERIA: PROSPECTS, PROBLEMS AND POLICY OPTIONS

Kolawole Olayiwola

13.0 Introduction

This chapter discusses the problems and prospects of the existing pension schemes in Nigeria and proffers alternative policy options for making the scheme more effective and more responsive to the needs of its customers and the economy. In the next section, we focus on the policy and institutional arrangements of pension schemes in Nigeria, while section three discusses different pension arrangements in selected countries. Section four discusses prospects and problems of the Nigerian pension schemes and in section five, we discuss options for effectiveness of pensions schemes in Nigeria. The last section gives the concluding remarks.

13.1 Pension Schemes Administration in Nigeria

The pension system in Nigeria comprises both an unfunded and funded but publicly managed schemes.

13.1.1 The Public Pension Scheme: The Policy Arrangement

The national pension scheme is a very important part of a comprehensive social security programme. Its aim is mainly to provide a wide range of social security benefits. The policies guiding the scheme can be found on the Policy Paper emanating from the Udoji Commission Reports, Pensions Decree No. 41of 1972 and Official Gazette of 1993.

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The pension policy recognises pension as every employee's right and that cannot in any circumstances be reduced or withheld. The vesting of the rights to pension becomes operative after an employee has served a minimum of ten years in service. This is supported by the fact that an employee cannot draw the pension earned until he has reached the age of 45, but it approves in principle the payment of a short-term gratuity of one year's salary to any employee who withdraws from service after completing at least five years, but before completing ten years to qualify for pension.

Unless, otherwise stated, only a continuous and unbroken service is taken into account as qualifying service. Any break in service caused by a temporary suspension from employment, not arising from misconduct may be disregarded for the purpose of calculating the qualifying service under the Act.

The approved rate of calculating pension and gratuity benefits is given by schedule (vii) of the Act.

Table 13.1: Schedule vii of the Pension Act of Nigeria

Years of service	gratuity	Pension as a % of terminal salary
10	100%	30%
15	150%	40%
20	200%	50%
25	250%	60%
30 and above	300%	70%

Source: Vision 2010 Document

An employee's pension is calculated on his/her terminal salary. The pension and gratuity are charged to and paid out of the Consolidated Revenue Fund of the Federation. Such sums of money may from time to time be granted by the Federal Government by way of pension and gratuity in accordance with this Act.

In the computation of qualifying service, no period during which an officer was less than 15 years of age or was absent from duty on leave without pay is taken into account. The exemption was when such absence was for the purpose of utilising a bursary or scholarship awarded to him by the government of the Federation or of a state thereof, or the absence was on account of such other purposes as the Minister may permit.

The statutory age of retirement is 60 years. However, for officers retiring on or before 31st March, 1977, the compulsory retiring age was

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55 years. Moreover, an officer can be retired from service at any time if he has attained the age of 45 years subject to three months' notice in writing. A retired officer can also be reemployed under a yearly personal work contract for a maximum of 5 years subject to a satisfactory annual medical report.

The types of benefits provided by the Nigerian pension scheme is as follows:

Disability Pension - this is paid to a worker's accrued normal retirement pension subject to a maximum of 30 % of his terminal salary. However, if the disability occurs prior to the completion of ten years service, the person is treated as having voluntarily withdrawn from service and he/she is paid a cash sum equivalent to his year's salary.

Death gratuity and pension - this is paid in respect of employees who die while in service for more than 5 years. An amount equal to the accrued pension up to the date of the employee's death is paid to his designated survivor(s) for a period of 5 years in addition to a lump-sum benefit equivalent of one year's salary. Designated survivor(s) of an employee who dies after completing a period of ten years or more in service also receives a pension equivalent to the accrued pension of the deceased at the date of death, for a period of 5 years in addition to a lump sum benefit equivalent to one year's salary of the deceased.

As per section 16 of the Pension Act cap 147, unless an employee holds a pensionable appointment and has been confirmed in the appointment, no death gratuity is paid to his estate in the event of his death. With the new scheme, the death gratuity should be paid to the estate of every officer who dies in service, notwithstanding the length of service or whether his appointment has been confirmed or not.

But if an officer is reported missing, his dependants will not be paid any awards until the statutory period of seven years of presumption of death has elapsed. The payment of pension to the designated survivors of such an employee is also for a period of 5 years.

Under the pension arrangement, the maximum pension cannot exceed 70% of the highest pensionable emoluments, while the minimum cannot be less than ₦360 per annum. Provisions were being considered whereby retirement benefits are automatically adjusted in line with rising costs of living. As an interim measure, an increase of 50%, 30% and 15% is being paid to pensioners earning less than ₦720, ₦720-₦3000 and over ₦3000 respectively. This arrangement is meant to be

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periodically reviewed, in line with similar revisions for remunerations of civil servants.

The nation's pension scheme totally defines its benefit and for the public service, it is non-contributory. For local government staff, however, the scheme involves partial funding. It is mandatory to operate a Local Government Pension Funds, to which local authorities must contribute not less than 10 % of their annual wage bill. The fund benefits are the responsibility of the Consolidated Account.

To encourage greater mobility of labour within the public sector, and between the public and private sectors, the Pension Scheme agrees that years spent in services which provide pensions schemes compatible with those for public servants and teachers should count as continuous. Employees are thereby able to move from one government services to another. However, for enterprises with different pension plans, continuity of service can be provided only, through the payment of "transfer value" of the retirement benefits to the employee by the new employer. The Superannuation schemes of universities were also entrenched in the national scheme in order to ensure that services with those institutions were counted as continuous for employees who move from the universities to the government's service and vice-versa.

The unfunded publicly managed pension scheme pays pensions that are positively related to workers' earnings and it is financed by the Consolidated Account on a pay-as-you-go (PAYG) basis. This means that the contribution from various taxes and other sources of government revenue are being used to pay the pension of those who have retired.

13.1.2 Private Sector Pension Scheme-Institutional Arrangement

Nigerian Provident Fund (NPF) was established by an Act of Parliament immediately after independence in 1961. The basic objective for its establishment was to cater for the pensions and old-age security of employees in the private sector. The administration of the Fund is undertaken by government and treated as a parastatal in the Presidency. Pension plan under the Fund is operated on as defined-contribution basis. This means that during the period of establishment up to1973, for every 2 pounds contributed by the employee per month, the employer also contributed. This makes an average yearly total of 48 pounds per employee. With the introduction of Naira, the contribution rate was converted to ₦4 per month and the same for the employer, thereby making a total of ₦96 per worker annually.

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Under this arrangement, there are four types of benefits. These are (1) Old-age benefit (2) Withdrawal benefit (3) Disability benefit and (4) Survivor's benefit. Numerous problems, however, were in this scheme. The benefits paid are not adjusted for inflation. This makes the benefit collected at the end of a working life almost meaningless and of relatively little value. Furthermore, it is a lump-sum benefit. The maximum benefit a member of the scheme that contribute ₦4 monthly can expect to collect after 35 years of continuous service , that is from 1961 to 1995 is only x3,360.00. Secondly, it is a compulsory savings scheme and the same rate of deduction is charged for both the lower-income employee and the high income one. This means that the rate of contributions are not adjusted for increases in earning capacity. Thirdly, the Fund has no department for counselling. This makes many retirees use the benefits without due and relevant advice as to what they can do with them.

Given all these problems, the Nigerian Labour Congress decided to intervene and correct these flaws. Their effort was supported by the Technical Committee for Commercialisation and Privatisation (TCPC). The outcome was the transformation of the Nigerian Provident Fund (NPF) to the Nigerian Social Insurance Trust Fund (NSITF) in July 1994.

The NSITF was established by Decree No 73 of 1993. Its objective was to change Provident Fund to a social insurance scheme. It also sought to tie the percentage of contribution to earnings in order to make the take-home benefit of worker more meaningful. The NSITF is a self-accounting parastatal, that is not being subsidised by the government.

The NSITF covers every workers who is employed by a company incorporated or decreed to be incorporated under the Companies and Allied Matters Decree 1990. It also covers those who are employed by a partnership irrespective of the number of workers employed, as well as those employed by any other employer or organization, which has a place of business and whose the number of workers is not less than five. The scheme exempts all categories of civil servants as well as workers in establishments with diplomatic privileges and immunities, foreign nationals who are employed in Nigeria for a period less than six years at a- time, or are covered by Social Security Scheme of other countries. It also exempts Ministers of religion engaged in the propagation of religious activities.

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The current rate of contribution is 7.5% of a registered workers salary/wages subject to a maximum amount of x48,000 per annum. Out of this, the worker is expected to contribute 2.5% while the employer contributes 5%, making a total of 7.5% to the credit of workers. This rate of contribution is subject to periodic reviews (every 2 years) in line with actuarial evaluation and recommendations. However, in the event of changes in the current rate of contributions, prior notification is given to employers and workers.

Employers are required to deduct the contributions from the salaries/wages of their registered workers and remit these together with the employers' contributions to the nearest office of the Fund not later than the 16th day of the succeeding months.

The following categories of benefits are payable under the scheme.

Retirement Pension - under this benefit, a worker can make claims if he fulfills the following conditions: he has attained the age of 60 years and above; he has made contributions into the scheme for up to 120 months i.e. 10 years. The rate of pension for a worker who satisfies these conditions is 30% of his final average monthly insurable earnings. This can be paid periodically to qualified members for life.

Retirement Grant - The qualification for this benefit is that the worker is 60 years old and has made contributions into the scheme for not less than 12 months. This grant is a lump sum payment equivalent of the member's final monthly total contributions multiplied by the number of months of paid contributions.

Invalidity Pensions - A member is entitled to this type of pension if he has paid contributions into the scheme for at least 36 months out of which he is expected to have worked continuously for 12 months. He must also be certified as permanently invalid as a result of some bodily or mental disability. The basic invalidity pension on the minimum qualifying period is 30% of the final average insurable earning of the invalid member. On every completed 12 months of paid contributions in excess of the qualifying period, the pension is increased by 1.5% up to the period the member will attain retirement age.

Invalidity Grant – This is also payable to a member ratified to be permanently invalid and for whom contributions have been paid for not less than 12 months of insurable employment. The amount payable is equal to the final monthly contributions immediately prior to the invalidity multiplied by the number of months of contributions.

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Survivors' Pension - This is payable to the dependants of a deceased member who at the time of death was receiving or would have qualified for Retirement/Invalidity Pension. Those who qualify to receive this type of pension are the spouses of deceased members or any child of the deceased under 18 years at the time of death. Such child can receive the pension till he/she starts work after which the pension stops. The rate of survivors pension will be 100% of the deceased's retirement/invalidity pension.

Survivors' Grant - This is a lump sum equivalent to the deceased's retirement/ invalidity grant. Those who qualify for this grant are the survivors of a deceased member who at the time of death was qualified for retirement/invalidity grant.

Funeral Grant - This is a lump sum payable in respect of a deceased member. The amount is presently fixed at x2000.00. This grant is paid in respect of the funeral expenses of the deceased member. Those who qualify for this benefit are (a) A deceased member who prior to the time of death was receiving invalidity or retirement pension (b) A deceased member who had contributed to the scheme for not less than 60 months.

Apart from all these primary benefits, the Fund is also charge with the responsibility of converting members' benefits into investment. As stated in the Official Gazette (1993; A816), "a contributor may apply to have his contributions converted into credits towards the purchase of real property intended for use by himself or his family for residential purposes or (b) apply to have his contributions converted into credits towards the purchase, or acquisition of equity holding in a company which employs the condition".

The condition for these types of conversion as stipulated by this gazette is that "at least b of the employees in the company concerned collectively elect to exercise the right to purchase or acquire the equity holding in the event of the equity being available for sale".

Benefits paid by the Fund are totally exempted from tax and inalienable. Moreover, the contributions to the fund is inalienable and shall not be assets for the benefit of creditors in the event of the bankruptcy and insolvency of the contributor. However, contributions whether by an employee or an employer shall form part of the tax deductible expenses in the computation of taxes payable by an employer or by an employee under any relevant law applicable to income tax.

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13.2 The Pròspect and Problems of the Nigerian Pension Schemes

The Nigerian pension schemes can be assessed from three perspectives: (1) the performance of the schemes in achieving the three main objectives-savings, alleviating old-age poverty via redistribution and insurance or old-age security; (2) the institutional environment in terms of operations and activities of the Consolidated Funds, Budget operation and Nigerian Social Insurance Trust Fund (NSITF); (3) the performance of the schemes in comparison with other countries.

13.2.1 The Performance with Respect to the Objectives of Pension

Although the normal retirement age is 60 years, the generosity of the Nigerian Pension Schemes is reflected in several additional characteristics. First, people can start collecting a pension before the retirement age if they have accumulated five years of covered employment and second, people can continue to work even after they have started collecting old-age pension.

As a result, coupled with the relatively high level of pension compared to the wage rate, the replacement ratio of labour in Nigeria is very high. A full pension represents about 70% - 80% of previous earnings. On the other hand, nominal wage has been static for a long period, dating back to the Udoji award of 1974. Given the spiralling inflation to which the economy has been subjected over the last two decades, its real value had fallen alarmingly inspite of the various adjustments made to salary level during this period. In the period of 1980 to 1995, the lower-level officer real salary had fallen more than five times from ₦201.3 in 1980 to ₦94.10 in 1995. The worst hit are upper level officers whose monthly salary had fallen more than five times from ₦2110.10 to ₦379.70. It is also confirmed that during this period, the middle-class workers are no more in existence, as their real salary of ₦189.20 in 1995 was not up to the real salary of lower level officer in 1980 (Olayiwola, 1998).

According to the World Bank report on Nigeria, people who are not able to spend US$325 per month are living below the poverty line. In Naira terms, at 1992 price and exchange rate, this is an equivalent of ₦5,622.5. The assumption that the retirees have no other source of income other than pension indicates that majority of them are living below the poverty line. When the real salary of a senior civil servant was below the poverty line, it can therefore be asserted that all pensioners living only on pension are extremely poor (Olayiwola, 1998).

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13.2.3 The Institutional Environment

All the factors discussed under the performance of the pension schemes, have contributed to a high level of spending on pensions. Pension expenditure in Nigeria represents an increasing proportion of the total recurrent expenditure i.e. 0.89% in 1980 to 8.97% in 1998. The pension of transfer payment also increased from 1.13 in 1980 to 17.5 in 1998 (Table 13.2). This is relatively high if this figure is compared with other countries. The comparative expenditure in lower-middle income countries is 2.9% and 6.9% in upper-middle income countries.

Table 13.2: Trends of Public Expenditure on Pensions and Gratuity in Nigeria (₦=million)

Years	Total Rec. Exp. (TRE)	Transfers	Pension and Gratuity (P and G)	P and G/ Transfer (%)	P and G/ TRE (%)
1980	15,300.1	12,106.4	136.3	1.13	0.89
1981	15,541.9	11,078.3	99.2	0.90	0.64
1982	14,767.9	11,219.3	61.6	0.55	0.42
1983	11,917.9	8,243.1	67.8	0.82	0.57
1984	6,275.4	2,503.3	231.2	9.24	3.68
1985	7,215.3	3,129.5	220.4	7.04	3.05
1986	14,174.4	10,123.0	615.3	6.08	4.34
1987	24,617.0	17,008.8	147.9	0.87	0.60
1988	30,469.2	10,296.2	961.4	9.34	3.16
1989	39,484.6	14,074.6	700.6	4.98	1.77
1990	57,409.3	24,669.7	744.8	3.02	1.30
1991	64,913.4	27,309.4	792.8	2.90	1.22
1992	10,3161.1	37,184.5	791.6	7.7	1.2
1993	89,974.6	50,314.1	1,593.0	3.17	1.77
1994	89,974.6	51,388.7	1,728.4	3.36	1.92
1995	127,629.8	75,045.8	1,996.9	2.66	1.56
1996	129,416.3	58,765.2	4,672.0	7.95	3.61
1997	146,421.0	55,963.3	7,650.1	13.7	5.22
1998	206,477.5	105,860.8	18,525.7	17.5	8.97

Source: FOS Annual Abstract of Statistics, 1999

In the 1990s, the sharp economic contraction put great strain on the pension system. While the number of beneficiaries increased from 1.2% of the population to 6.6% in 1993, and 19.8 % is envisaged in the year 2016, the pension allocated from the consolidated funds has been

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declining (see Table 13.2). This is because, when the three-tier level of government is faced with resource limitation, they resort to different measures. Firstly, they stop any significant budget transfers to the Funds and second, they divert the funds meant for pensions and gratuity to other budgetary activities. The end result of all these is the high lead-time of collecting the gratuity by retired individuals.

In terms of the private pension scheme, the NSITF is divided into eight zones. These zones are supported by state offices and district offices. This arrangement was resulted from the discovery that geographical spread can pose a problem to pension administration. This problem has been solved through decentralisation to districts, state and zonal offices, each of which is charged with the responsibility of collecting contributions and disbursing benefits.

There is also a Benefits Department that has the responsibility for counselling members. At initial stage, it has been found that lack of enlightenment poses problems. These facts, coupled with people's perception of government in terms of bureaucracy and unfulfilled promise, necessitated reorientating people's focus and perceptions about the scheme. This department was found necessary because of the ignorance of most members on how to manage their pensions. Moreover, some companies were reluctant to join the scheme because they could not see what direct benefit it yields.

There are other supportive regulating devices to promote the NSITF. In 1993, their was a regulation stipulating that any company wishing to register with government or to subscribe to foreign exchange must have a certificate of involvement with the NSITF. Their operations are also tax exempted.

In recent times, the NSITF has embarked on massive restructuring and staffing programme in order to prevent the popular adage of putting 'round pegs in square holes'. It also sponsored massive enlightenment campaigns coupled with highly computerised operations. Infact, there is a proposal for extending information technology facilities to the district offices to aid their performances. All these are done to achieve at least 50% coverage rate by 1998 and 100% in the near future.

NSITF also promotes pension portability. Benefits are transferable within the private sector. This is made possible because unlike the former National Provident Fund (NPF), a unique number is given to an employee which he carries around during his working life and even when he retires.

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The operation and activities of the NSITF are, however, still largely controlled by the Federal Government. Infact, it is claimed that the contributions in their custody are not invested and that there is no linkage with both money and capital markets. The only encouraging prospect, is that the benefits paid are inflationary indexed.

13.2.3 Comparison with Other Pension Schemes

In terms of the coverage rate, the Nigerian Pension Scheme fares well. Nonetheless, unlike in other countries, its linkages with both the private and the public pension schemes leave a lot more to be desired.

Table 13.3 : Percentage of Minimum Old-Age Pensions to Minimum Wages (International Comparison)

Country	%
Chile	79.5
Yugoslavia	115.4
Mexico	46.5
Italy	46.5
Nigeria	8.1

Source : Compiled by the Author

Table 13.3 shows that the value of minimum pension in Nigeria is low compared to the position in countries like Yugoslavia and Chile. While many advanced countries rely on pension contributions as a source of savings and long -term capital formation, the pension arrangement in Nigeria is not seen as a channel for promoting savings and investment in the country. This, of course, may not be unconnected with the colonial origin of the National Pension Scheme.

13.3 Problems inherent in the Nigerian Pension Schemes

Perhaps the most critical problem confronting the Pension Schemes is demographic, arising from the increasing agedness of the working population. A minimal increase in fertility rate of about 6.4 % in 1994 and rising adult life expectancy from 39.5years in the 1960s to 51years in 1990s have combined to produce a rapid increase at the apex of the population pyramid. The proportion of persons entitled to pension is rising and so is the volume of total pensions required to support these older people who, for a complex mix of social, economic and

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psychological factors, can no longer support themselves through participation in the labour market.

Second, is the trend towards pension system maturity. Public pension based on PAYG principles tends to be cheap to operate when new since they have few beneficiaries. Over time, these ratios change and the costs rise. Costs can be temporarily contained by incorporating new groups of workers into the pension system, thereby expanding the contribution base. But once most of the population is covered, the scope for further expansion becomes minimal.

Third, is the economic and political consequences of a global slowdown in the rate of economic growth. The expansion of public pension provision since the 1960s has been financed by largely public revenues generated by a higher overall level of taxation. Ageing and pension system maturity are together creating further pressures for tax increases to cover rising pension costs. But tax increases are politically more difficult to sustain when overall incomes are stagnant or falling than when they are rising.

There is also the problems of high payroll taxes and tax evasion. Under PAYG systems, when the population is young, small contribution from the large number of workers allow for payment of generous benefits to a few pensioners. As the population ages and the systems mature, however, pension scheme must charge higher taxes to pay the same benefits to the growing number of retirees. Payroll taxes for pensions are already over 7 per cent of gross wages in Nigeria. As the population ages more over the next 20 years, the contribution rates will have to rise dramatically if the PAYG system and current benefits are to be retained. Impliedly, high payroll taxes mean less take home pay or more unemployment for workers still in service.

High payroll tax rates that are linked to benefits also lead to evasion. In Nigeria, the private sector accounts for over 45 per cent of modern sector wage employment (Fashoyin, 1990). If this trend continues, higher payroll tax would be needed to cater for the public sector retirees. This high tax rate can lead to evasion. This may be in form of labour force being diverted to the informal sector like in many Latin American countries such as Argentina. Evasion undermines the system's ability to pay pensions. It also makes it necessary to raise payroll taxes further, and hurts the economy since people who work in the informal sector are often less productive.

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Misallocation of resources also constitutes problems to the Nigerian pension scheme. In the years 1990, 1991 and 1992, Nigeria spent 1.29%, 1.22% and 7.67% of recurrent expenditure on pensions and gratuities. Based on the 1991 National Population Census, these expenditure were being used to service the population that constituted the pensioners in these periods (see Table 13.4).

Table 13.4 Age structure of the Nigeria=s Population in 1991

Age group (years)	% of population
0-19	55.4
19-34	23.4
35-54	14.6
55-74	5.2
75 and above	1.4

Source: National Population Census 1991

Using the same age structure of Nigerian population for projecting into the next 20 years, and given that the life expectancy of Nigerians will remain on the rise, an average of 37.6 per cent of recurrent expenditure will be spent for pensions and gratuities to cater for 19.8% of the population that would constitute the old-age people. (see World Bank, 1994 for the computation of the projected ageing of the population). The problem is further compounded because at the lower end, an increasing proportion of the population (32.4%) will not be workers but children in their schooling age. The burden of servicing the young and the pensionable old will definitely spill over to the general treasury as tax revenues earmarked for old-age pension will definitely fail to cover the system's growing expenditure. High public pension spending can hurt the economy if it squeezes out government spending on growth-promoting public goods such as infrastructure, education and health services.

The average retirement age in Nigeria is 55 years and the payroll tax is 17 per cent. The public sector employee can voluntarily retire at 45 years. Using Table 1 result as an example, if this retirement age remains the same; in the year 2016, the economy would have to provide pension for not less than 13.6 % of the population. The fact is that early retirees stop making contributions and begin drawing benefits, thus doubly hurting the scheme financially while also depriving the sector of their experiences.

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The Nigerian pension system has actually induced people to save less. There is the believe that inadequate national saving rates hamper growth, but PAYG systems have not used the old-age pension system to induce people to save more.

Publicly managed system financed by tax revenues are sometimes justified on the ground that they help the poor. Despite seemingly progressive benefit formulas, however, studies of public pension plans have found little, if any, redistributive effects from the lifetime rich to the lifetime poor. Infact, studies of such plans in the United States, Columbia and Sweden have found that, in the early years of these plans, high income groups have benefited the most.

As a result of all these factors, publicly managed systems are usually in serious financial trouble in all the countries studied. Current payroll tax rate are much lower than those needed to pay off these benefits and the country concerned will have a hard time raising them enough to close the gap. This is evident in Nigeria by the continuous delay in paying gratuities. The average lead-time for gratuity payment in Nigeria now is three years. Some pensioners even die before their gratuity is paid. Others have collapsed whilst queuing up in the States' secretariats to collect their pension.

For private pension scheme, the most striking problem is with record keeping. The attitude of the people towards government- the belief that money with the public sector are difficult to collect- really hinder the performance of the scheme. There is also the problem of unstable value of the Naira. This is evidently shown with the fact that despite inflationary indexation of benefits, the value of the real benefits have been very unimpressive.

The bureaucracy involved in administering these schemes is also deterrent to the efficient operation of the system. The fact that pension contributions cannot be borrowed also pose constraint to the schemes. Lack of linkage with money and capital market pose problems for the investment objectives of the schemes.

13.4 The Policy Options to Pension Reform in Nigeria

13.4.1 Policy Issues in Pension Reforms in Nigeria

There are a number of challenges to be faced by countries seeking to set up or develop pension funds (Vittas and Skully 1991). These include the role of contractual savings institutions in retirement income

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provision; their impact on savings and capital markets; their effects on economic efficiency and social equity; the role of government in promoting them; the case for preferential fiscal treatment; the needs for compulsion; and the appropriate regulatory framework.

The primary role of pension funds is a supplementary one in all the countries studied. There are no cases where they provide the only form of old age support although the height of the social security safety net varies widely. This, in turn, has a crucial effect on the development of funded schemes. In this analysis, we consider such a mixture sensible, given the conflicting arguments for funding as opposed to PAYG.

The impact of pension funds on savings and long-term financial resources is to boost the latter, albeit not in a one-to-one manner, whilst also stimulating the development of securities and equity under certain conditions. As regards the development and functioning of capital markets, pension funds may be beneficial by promoting innovation, liquidity and efficiency, while also influencing market structure. These effects may be stimulated by certain regulations and the structure and behaviour of the fund management sector. There are strong arguments in favour of developing private funded schemes especially as the benefits to the capital market would be absent in the case of book reserves. The side effects, if considered sufficiently undesirable, could be dealt with in the context of economic policy generally. These are usually features of the equity markets and/or of institutional investors rather than the pension funds.

The development of pension funds for economic efficiency includes their effects on labour mobility and the distortioning effects on their taxation. Social equity is affected by the rules on internal transfers and equity of treatment, coverage, rules in relation to tax privileges, the safety net of social security and the scale and indexation of benefits offered. It is therefore necessary to define appropriate regulatory mechanism to minimise these difficulties. Indexation, at least up to a certain point and rules facilitating a degree of portability are particularly desirable.

The role of government in promoting pension funds has been shown to be a crucial one. This is particularly important in respect of the level of state benefits provided and the ability of employees to opt out of the state scheme and personal pensions. Changes in taxation on pension and alternative assets, legislation on the nature of benefits and legislation on provisioning all have a role to play in making the setting up of pension

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funds attractive to firms. More indirectly, the provision of a stable macro-economic environment and steady economic growth, through its influence on returns in the capital markets also influence the cost of providing funded pensions. Against this background, it is our considered view that, defined benefit plans retain an advantage over those of defined contribution given their superior Aemployee retirement insurance@, especially if regulations are set to overcome the key problems. Generally, for both types, company- based schemes are superior to personal pensions schemes given their lower transactions costs and their avoidance of market failure. Finally, separate funding is felt superior to book reserves, not only because of the effects on the capital market but also the concentration of risk in systems that depend on book reserves.

In most countries studied, the case for preferential fiscal treatment has been found very persuasive. The myopic argument was suggested as the most crucial, although reducing the burden of social security and increasing saving may also play a role. We consider these arguments persuasive and hence suggest that pension funds should be tax advantaged even if other forms of savings are not.

Compulsion is needed if the view that individuals are myopic is taken seriously; and the evidence seems quite strong. It could be argued that if pension savings are compulsory, then relative tax advantages are not needed and all forms of savings should ideally receive expenditure tax treatment. We feel that compulsion in ensuring social security is crucial for any society; and with appropriate tax incentives, should be sufficient to induce employers and employees to give it due attention.

Some of the regulatory preconditions for the development of pension funds require a balance between cost to the sponsor, economic efficiency, equity and benefits security. Funding rules, adequate institutional structures, effective regulatory structures, rules on treatment of surpluses, portability, vesting indexation, protection against fraud and control of the Nigerian factors are clearly essential. We therefore suggest that the following rules provide an appropriate balance: a degree of mandatory indexation of pensions (at least annually using an empirically valid inflationary rate); minimum and maximum funding rules tailored to the nature of the obligations but do not discourage equity holding by penalising temporary shortfalls; independence of the funds from the employer insurance against fraud; disclosure to members, indexation of accrued benefits for early leavers; and vesting periods of

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around five years. A Dutch style supervisory structure appears a good model to follow.

The advantages of pension funds relative to other forms of savings include the superior retirement insurance they offer, as well as the reduction of the demographic burden associated with PAYG Social Security. The choice of funding itself raises numerous policy issues such as inter- and intra- generational equity, pressure on domestic rates of return, the costs of tax exemption for funded pension, and the costs to existing workers in the transition. Also, there are important policy questions: whether the difficulties of an aging population can really be avoided by funding, if funds are invested in domestic assets or whether there are advantages in investing the funds in more credible international securities.

From the cross-country analysis, it has been found that the sustainability of pension funds is thus not only a function of the level of economic activity, demographic factors, and the set of rules that govern the pension system, but also to a large extent on factors which induce the transformation of informal to formal sector activities and reduce tax evasion. Among these factors are changes in the pension system, which aim at ensuring its sustainability while preserving a minimum standard of living to low-income pensioners. The sharp reduction in the benefit level combined with a high rate of taxation, as well as the loosening of the links between contributions and benefits have transformed the social security contribution into almost a pure tax on labour. In addition, the growing incapacity of the government to provide an adequate level of protection to the old has reduced the credibility of government-managed social security programmes, inducing the development of private pension schemes.

The challenge for any country that wants to reform, is to find a politically viable transition path to a more economically efficient system. However, many countries are finding it difficult to move away from their pay-as-you-go (PAYG) system because of their large public pension debts. Old people are unwilling to give up the pension promises that were made to them years ago, while young people are unwilling to pay the taxes needed to sustain or reform the systems. In some countries, the result has been political paralysis and economic deterioration.

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13.4.2 Policy Options for Pension Reforms in Nigeria

An analysis of other countries' pension reforms shows that "a successful reform programme will probably take three to four years to prepare and many more years to implement" (Vittas, 1994: 23). We therefore identify some policy challenges to ensure that the growth and poverty-alleviation benefits of the pension reform come to function. These recommendations are being categorised into two (1) policy to be institutionalised before the reforms and (2) those to be put in place after the reforms.

1. Policy to be Institutionalised Before Reforms

The complex institutional changes required by the pension reform should be executed effectively and promptly. These include determining the solvency of national pension funds, starting new institution (the national and regional pension payment programmes and the distributive transfer programmes), supporting smooth changes in contribution affiliation, and ensuring effective regulation and supervision.

The government should decide on how it will finance its pension reform deficit. While this decision could be revised over the years as part of overall fiscal policy decisions, it would be beneficial to identify certain forms of financing from the outset. The use of finance from Petroleum (Special) Trust Fund (PTF), privatisation and issuance of explicit government debt would be the first choice if the government wants to de-link its pension reform from a contractionary fiscal policy.

The government should also develop an actuarial model to estimate transition costs (See Cooper 1977 for the analysis of the model). One of the most difficult and intractable questions is the estimation of the costs of transition from a "PAYG" to a multi-pillar scheme with a fully funded component. Despite the lack of accurate and detailed records, use of an actuarial model would be essential for estimating these costs. Other policies to be institutionalised are as follows:

Draft and enact laws for social security, pension and insurance reforms. Drafting these laws would be effective if experts with knowledge of foreign experience are employed along side local specialists. In this way, the lessons from the experiences of other countries will be utilised, while the drafted and enacted laws will also comply with local practice and customs. The time required for drafting good laws should not be underestimated, while the difficultly of

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maintaining the integrity and logic of proposed legislation should not be overlooked.

Issue specific regulations for pension funds and insurance companies. Laws usually cover the basic principles that should govern the operations of pension funds and insurance companies. Detailed regulation are normally required for a host of issues that would be subjected to periodic review and re-assessment. The regulatory agencies should be properly staffed and motivated to issues well drafted, sensible and timely regulations, working with markets practitioners and professional experts who can help to expedite the whole process.

Train the regulators and professional staff, including fund managers actuaries, accountants and auditors. In Nigeria, an extensive training programme would be needed to raise the professional standard of regulators and to help develop experienced professionals.

Undertake publicity campaign to explain reform programme. A well mounted and effective publicity campaign could help to mobilise public support for the programme by explaining its benefits and spelling out the non-viability and inefficacy of the existing arrangements.

Each firm, no matter how casual the nature of its work, should be compelled to have a pension scheme in order to complement the pension benefits. There should be no limitation to vested rights. If the state cannot ensure that occupational scheme are run in the workers' benefit, it should incorporate these private schemes into the national scheme. Moreover, to accommodate those workers moving from one employment to another, the state should encourage the transfer of pensions right between occupations. This entails that pension legislation should reflect a rational and integrated system of Adeferment', Avesting', atransference' and assignment of unique social security number to individuals.

The national minimum pension should be the one that the worker can live on without too much discomfort in his old age. The minimum pension of ₦360 annually is too small for comfort. The minimum pensions need to increase not only with changes in the cost-of-living, but also with changes in the average national standard of living, even if this requires a subsidy out of the national budget.

Employees should become eligible for superannuation at an earlier period in life. The retirement should be brought forward and later put back as the rate improves. Also, certain benefits within the social security system need to be increased i.e. insurance benefit, fringe benefit

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and education etc. This should follow the demographic trend of the country.

2. Policy Recommendations after Reforms have been instituted

The role played by Consolidated Funds and NSITF as important providers of pension services should be clarified and , in the long term revised. First, there is the risk that the efficiency and equity costs of a state-managed PAYG will be preserved. Second, considerable financial and economic uncertainty arises from the right of contributor to shift affiliation back and forth between public managed and privately managed pension. Diversification of investment portfolios of pension funds towards private and international instruments should be gradual, but continuously permitted to ensure reaching higher risk-return frontier.

Pension reforms need to be complemented by other reforms of social securities and labour market programmes that are currently being financed by payroll contribution. In order to reduce evasion of payroll taxes, and raise the share of formal sector employment and production of the high pure-tax components of today, very large payroll contributions should be eliminated. This requires identifying alternative sources of general taxation to finance these programmes.

Use compensatory pensions or recognition bonds for vested pension rights. One of the greatest obstacles of pension reform is how to handle the vested pension rights in the old system. Chile has opted for the use of recognition bonds, whereby workers transferring to the new funded scheme are issued with bonds recognising their accumulated pension rights. The recognition bonds earn real interest rate at 4% per year and mature when the workers retire. Thus, the liability of the state is spread over many years. Argentina has retained an explicit public pillar, offering a minimum pension to all workers who has opted for the use of compensatory pensions, whereby workers with accumulated pension's right will receive two pensions from the state as (1) relating to the minimum pension; and (2) relating to their accumulated pension rights. The cost of the transition is spread over a longer period in the Argentine system, which may thus have more appeal for countries with large levels of current pension spending.

There is the need for simplification in the procedure for making a claim for benefits. There should be a reduction in the time-lag between making a claim and receiving benefits.

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13.5 Conclusion

The earlier analysis show that real and nominal pension benefits in Nigeria have been reduced and the range of payments compressed. This has transformed the pension system from a highly redistributive system and a social assistance programme designed for a large proportion of the population, to the one that aggravates poverty level in the country. The analysis leads to the conclusion that this would become a permanent feature of the system as sustainability would continue to pose a big problem.

Therefore, reforms are imperative and urgent. Even with a fairly optimistic growth scenario, there is little prospect that the difficulties faced by the pension system will gradually disappear. Moreover, restoring the past features of the system would be too costly, whilst, keeping the system as it is would maintain the mechanism that tends to make it unsustainable. Consequently, there is the need to embark immediately on a gradual reform of the present system of pension schemes in Nigeria. It is advisable to reformulate policies towards the integration of the defined-benefits and defined contributions plans and work towards institutionalising the multi-pillar system in the country.

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14

RURAL DEVELOPMENT IN NIGERIA: TOO MANY PROGRAMMES; TOO LITTLE RESULTS

Oluwemimo Oluwasola

14.0 Introduction

The constraints to developing the rural areas as well as the problems of this critical sector have come to loom very large. For over four decades, all attempts to put the rural areas on course of development have failed. Conditions have continued to worsen and poverty has become a major issue in the rural areas in spite of their potentials.

This paper examines the various efforts at bringing development to the rural areas to enhance rural well-being. It also tries to find out why past policies have failed and profers suggestions on how to achieve sustainable growth in the rural areas.

14.1 Rural Nigeria: An Overview

Rural Nigeria, no doubt, is central to the development aspirations of the country. It is the source of the nations wealth. It is endowed with human and natural resources. In terms of human resources, an estimated 69.4% of the national population reside and make a living in the rural areas. In current estimates, a whopping 79 million of the 114 million Nigerians live in the rural areas. The natural resources are exploited for food and fibre to meet domestic and industrial consumption needs of the nation. In addition, they are important sources of foreign exchange earnings. Simply put, the wheel of the national economy is oiled with the resources exploited from the rural areas.

The rural areas however present problems that are a contradictory paradox of its natural resource endowment. As noted by Chinsman

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(1998), rural communities are seriously marginalized in terms of most basic elements of development. In addition, the inhabitants tend to live at the margin of existence and opportunities. Most rural communities lack potable water, electricity, health care, educational and recreational facilities and motorable roads. They experience high population growth rates, high infant and maternal mortality, low life expectancy and a peasant population that lacks modern equipment to sustainably exploit the natural resources on which they live.

These factors have translated into a number of problems that have continually affected the sustainable development of the rural areas. Some of these problems include:

(1) High incidence of poverty. Dependence on rudimentary technology and the over-exploitation of the natural resource base have adversely affected the productivity and hence, income earning potentials of the rural dwellers. Todaro (1979) opined that the vast majority of the worlds poorest people live in the rural areas. The level of rural poverty in Nigeria is readily observed in any rural community in terms of the quality of housing, unhygienic water sources, poor sanitation, poor nutrition and poor hygiene.

(2) Low productivity, high unemployment/under employment leading to low per capita earnings. Most rural communities are mainly farmers depending on rainfed agriculture. During the dry season, very little earnings accrue to many farm families.

(3) Poor infrastructural support services of water, electricity and roads necessary to provide a catalytic impetus for a private sector led development. In addition, lack of social services like health, communication and educational facilities make the rural areas unliveable.

These problems have significantly contributed to the sustained migration of youths particularly those aged between 18 and 30 years (Onokerhoraye and Okafor, 1994) who find the place uncondusive to life chance development. Incidentally because of poor skill acquisition, such migrants move into cities that are not designed and/or prepared to welcome them. The migration stream show a clear male bias in most areas although in the southern states of Nigeria where education is relatively easy to access, this bias is less pronounced. Consequently, more than 50% of the rural population comprises largely of children below 18 years.

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The rural areas are also saddled with the aged who depend on rudimentary farm equipment to till the land and meet family food consumption needs. They also have to produce in excess of this to exchange for cash to meet family needs for urban goods and services. After many years of urban employment and existence, many people find it more realistic on their retirement to stay in the urban centres than to return to the dreary and monotonous lives of their villages.

What this translates to is that rural Nigeria has a dependency ratio that is higher than the average. With rural-urban migration, the proportion of adult male to female in the rural population is significantly less than in the normal population. This leads to the increasing socio-economic problems of female-headed households that lack access to productive resources and therefore tend to be poorer in the rural milieu.

Because of the very high rural population, the problems confronting the rural areas ripple strongly through the national economy. As Todaro (1979) observed, the core problems of widespread poverty, growing inequality, rapid population growth and rising unemployment all find their origins in the stagnation and often retrogression of economic life in rural areas. If sustainable improvement in the quality of living of Nigerians is to be achieved, the problems confronting the rural areas must be tackled (Onokerhoraye and Okafor, 1994).

With 7 out of every 10 Nigerians living in rural areas, successive governments have long realised the need to invest in the development of the sector to increase rural income and enhance the living standard of the larger majority of the people. Different governments have placed varying emphasis on ways of tackling these problems. Most of the programmes designed to improve the rural areas have failed to yield desired results. Where noticeable achievements were made, they have been ephemeral. On the whole, the rural areas have remained largely disadvantaged with the situation presenting a facade of hopelessness as revealed by an examination of the status of available infrastructure and access to social amenities as shown in various statistics provided by the Federal Office of Statistics. The rural areas also suffer from shortage of credit because of high risk elements; high transaction cost, poor banking habits (see Zeller et al 1997 and Soyibo 1996, 2000; Onokerhoraye and Okafor, 1994 and Yaron, 1997), which make them unattractive to financial institution.

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14.2 How and Why did the Rural Areas Become Stagnated?

A fair discussion of this issue requires that the development thinking for achieving development prevailing at the beginning of achieving nationhood be clearly understood.

The concept of rural development has been thoroughly defined in the literature (see Udo, 1984; Williams, 1978; World Bank, 1975). All authorities in rural development studies agree that it is a strategy designed to improve the economic and social life of the rural poor. Several theoretical models have emerged in trying to analyse and interpret various aspects and approaches to the subject. In Nigeria, the development process in the rural areas have followed a combination of the Basic Resource Theory; The Dual Economy Theory; Export-led Growth Model and the High Input Pay Off Model.

The basic resource theory stipulates that economic development depends on the presence, quality and magnitude of basic natural resources within particular areas (Onokerhoraye and Okafor, 1994). This theory seems to apply to the development of south western and eastern Nigeria where the availability of rich soils and mineral resources have aided in the transformation of the countryside relative to other areas.

The dual economy theory postulate the existence of a modern industrial sector side by side with the rural subsistence sector. The theory articulates a development strategy which emphasizes the concentration of resources on the modern dynamic commercial sector and withdrawing resources from the subsistence sector for this purpose with the assumption that the strategy would ensure cumulative growth of incomes, employment and rapid structural transformation of the nation including the rural areas (Onokerhoraye and Okafor, 1994; Essang, 1975; Yaron et al, 1996).

The export-led growth model emphasizes the role of external factors in the development of a region. The model postulates that factors of production will move to any area that has a commodity that can be traded in the export market (Onokerhoraye and Okafor, 1994). This seems to be the case with oil producing areas of Nigeria.

The high input pay off model argues that in order to improve the productivity in rural areas, there should be a package of high yielding and profitable new inputs on which farmers could invest (Schultz, 1964). The erstwhile farm settlement programmes seem to have been based on this premise.

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It is within these theoretical models for development that past policies aimed at bringing development to the rural areas of Nigeria should be analysed.

Nigeria like other third world countries saw industrialisation as the key to attaining the economic successes of the imperial powers. As Mabogunje and Onyemelukwe (1978) puts it, industrialisation came to be widely canvassed and accepted as likely to help the newly developed countries to achieve their transition to the status of becoming developed. Consequently, policy response placed the pursuit of industrialisation into focus with rural development equated to agricultural production. All policy measures were thus geared towards ensuring surplus agricultural output to feed the nations industrialisation led development strategy.

Rural development was thus narrowed down to sectoral policies particularly in the areas of agriculture which today has led to the intractable problems of the rural areas. However, the confusion that accompanies such negative development philosophy manifests itself in the failure of the development strategy to recognise the linkages between rural and agricultural development on one hand, and between rural development and the development of the total economy on the other.

The rural areas were largely neglected in the early years of independence because of the adoption of economic dualism strategy model. In addition, the nation also adopted an import substitution industrial strategy which in the main involved the substitution of local technology with imported ones rather than the substitution of imported components with local raw materials. These theories in their adoption and implementation did not yield the desired results of achieving the greatest socio-economic benefit for the majority rural dwellers. Situations deteriorated and the gap between the urban and rural areas widened the more.

The view is widely held that the pattern of input substitution industrial development strategy adopted led to the present urban structure. In reality however, the rate and volume of the migration of people out of the rural areas to the cities is a measure of some of the negative impact of the industrialisation strategy on the rest of the country, making it imperative for the people to move enmass from the rural areas. For in order to protect the nascent assembling industries, high tariff barriers were imposed against cheaper and often better finished imports. For the rural population, this meant paying higher prices for manufactured goods especially at a time when the prices they

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received for their export products were declining. To worsen matters, the growing concentration and organization of industrial labour in the cities exerted political pressure on the wage structure as to affect the cost of labour to farmers in the rural areas. For farmers, the competition for Aover-priced@ labour was disastrous and the growth of urban centres came to be marked by a sharp decline of rural productivity. Even for those farmers who stayed on in the rural area because they could not leave, government=s desire to satisfy restive urban population via the importation of cheap agricultural products like rice, maize, vegetable oil, etc. affected the farmers and the rural economy adversely.

The development trends affecting the rural areas can be examined from two main time perspectives.

Before independence, the colonial administration prepared and implemented the Ten-Year Plan of Development and Welfare for Nigeria: 1946-1956, essentially with the sole objective of improving cash crop production and urban infrastructure, particularly roads and communications. Little attention was paid to rural development as it had little relevance to the imperial interests. The period before 1954 witnessed the development of the regional export economies-cotton and groundnut in the North; cocoa and rubber in the West and oil palm and kernel in the East. The 1954 Federal constitution and the process of regionalisation placed rural development as a residual item and it was therefore treated as a regional responsibility, just like agriculture, education, etc. This autonomy gave each of the three regions of the country a free hand to set its own pace for development. Since revenue came mostly from agricultural exports, the regional governments tried to provide basic infrastructures particularly roads to haul commodities from the rural areas. Since the population was largely rural, and the regions were largely supported by the wealth of the rural areas, educational facilities, potable water as well as health facilities were provided the rural areas.

Although these were inadequate, they marked a humble beginning and a conscious attempt to improve the lot of the rural people. During this period of internal self government which lasted till 1968, the various regional governments operated and based their development plans on the assumptions of perfect knowledge of the problems of the rural people. Some of the schemes undertaken during this period include the Farm settlement/school leavers farms by the three regional governments; the Tree Crop Plantation (developed through the Development Corporations)

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of the Eastern and Western governments and the Small Farmer Credit Scheme.

With the attainment of independence however, the subject of rural areas assumed greater importance in the scheme of national development. Thus the First National Development Plan: 1962-1968 allocated 13% of the gross capital outlay to agriculture and primary production. However, whatever gains made were wiped off by the civil war.

By 1965, the new federal ministry of Agriculture was very cautious not to mention Aagriculture@ in its plan so as not to hurt the spirit of the 1963 constitution yet, the political powers of the old regions brought out the need to coordinate agriculture at the centre. Consequently, three areas were identified for federal assistance to agriculture in the second National Development Plan- 1970-74. These were:

1. grants for the development of agriculture, forestry, and livestock and fishery;
2. establishment of a National Credit Institution; and
3. special Agricultural Development Schemes where the federal government enters into both financial and management partnership with state governments in carrying out projects.

The Second National Development Plan; 1970-1975, focussed on economic policies for setting up the framework for internal growth. Among its objectives were the promotion of balanced development among the various communities in the different geographical regions in the country, and the development of the rural areas through increased output. Agriculture and rural development thus took 12.9% of the planned budget estimates.

The Third National Development Plan: 1975-1980, which allocated 7.2% of the N43.36 billion budget estimates to agriculture and rural development sector was essentially a continuation of the development process and policies begun in the preceding plan. The post 1975 period witnessed series of rather panic measures embarked upon by the Federal Government, including the Operation Feed the Nation (OFN), Agricultural Development Programmes (ADPs), River Basin and Rural Development Authorities (RBRDAs), and the Green Revolution Programme. Of all these, the ADPs received better attention and a systematic approach to project planning while the other schemes mentioned above remained as political slogans.

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By the second half of the 1970s and early 1980s, the trickle down development strategy has started to wane. Emphasis shifted towards addressing development and poverty issues at the grassroots in rural areas with the believe that the rapid growth in the rural economy is the most promising way to reduce poverty and check rural-urban drift. Nigeria was not left out of this new thinking. Several programmes were initiated with varying degrees of successes at the on set. Over time, the rural areas have remained poorer. Francis et al (1996) observed that A poverty has rural-urban dimensions. Poverty incidence in rural areas was 36% compared to 30% in urban areas with the equivalent figures for extreme poverty being 15% and 11% respectively. In 1992, rural areas accounted for 66% of the incidence of poverty , and 69% of the extreme poor.

14.3 Past Efforts Aimed at Improving Rural Areas

As indicated above, the governments of Nigeria had taken rural development on hand until petroleum became the main foreign exchange earner. It subsequently neglected the rural economic base and the budding infrastructure that had been put in place for rural transformation when it depended on the exploitation of agricultural exports to survive. Following the collapse in oil price and the resultant problems of balance of payment and debt crises, a new impetus towards the regeneration of the rural areas developed and a number of programmes such as National Agricultural Land Development Authority (NALDA); Directorate of Food, Roads, and Rural Infrastructure (DFRRI); the River Basins and Rural Development Authorities; the National Accelerated Food Production Programme; the Green Revolution; Operation Feed the Nation (OFN); the Agricultural Development Projects (ADPs); the Better Life for Rural Women, and the Family Support Programme were put in place.

These programmes were meant to provide a catalytic impetus for the take-off and subsequent advancement of the rural areas towards:

1. Linking them to national and international economic systems;
2. Increasing rural household income;
3. Providing basic socio-economic and physical infrastructure;
4. Efficient resource allocation to shift attention and interest of the private sector towards investment in rural areas to enhance rural development; and,
5. Enhancing rural welfare.

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14.3.1 The Agricultural Development Programmes

This was introduced in 1975 in three enclaves but now covers the whole country. The main objective of the ADPs have been to increase production of food and fibre as well as producer incomes. The distinguishing characteristics of ADPs include:

a) an input and credit supply system through a network of farm service centres which ensure that no farmer travels more than 5-15km to purchase needed farm inputs;
b) a massive feeder road network that has opened up new areas for cultivation and has facilitated rapid evacuation of farm produce and prompt delivery of inputs;
c) a revitalized unified extension and training system backed up by timely input supply and adaptive research services;
d) joint state-federal collaboration from project implementation; and
e) solid project management together with built-in project monitoring and evaluation.

The ADPs represent a truly innovative approach to agricultural and rural development both in their integrated supply of farm inputs and infrastructural support and in their efforts to revamp and revitalize extension services.

Along with the implementation of the ADPs, some states of the federation initiated a variety of new schemes to deal with new and old problems. For example:

1. The Lagos State Government embarked on the Agricultural Input Credit Scheme to promote mechanized farming, while its Graduate Farming Scheme was to tackle the twin problems of graduate unemployment and food shortages through the provision of land, equipment and all necessary inputs for cropping. And, its School Agriculture Programme was designed to popularize agriculture in schools.
2. The Niger State Back-to-Land and the Small Scale Farmers Programmes guaranteed loans to various categories of farmers;
3. The Bauchi State Graduate and School Leavers Farming Schemes were similar to those in Lagos State.
4. The River State School-to-Land Programme was designed to reduce unemployment among school leavers as well as act as a catalyst to revolutionize agriculture, while its Community Block Farms was to encourage farming cooperatives in the state.

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5. The Oyo State Integrated- Self Employment and the Graduate Self-Employment Schemes were designed to solve the unemployment problems of school leavers and graduates respectively in the state.
6. The Shell Company of Nigeria also has community Land Development Programme in the oil producing states. This is designed to provide alternative means of livelihood to the original land owners of oil well sites.

14.3.2 Land Reform Measures (land use decree)

Land reform measures have not been taking very seriously in the country until 1978 although in northern Nigeria, the colonial administration had to enact the Land and Native Rights Proclamation No. 9 of 1910 vesting control and ownership of all lands in the north in the state to control the excessive taxation and the marginalization of the Hausa indigenes by the Fulani over lords who had appropriated the land and reduced the Hausas to mere tenants. In the southern parts of the country, communal ownership of land prevailed.

In 1978 however, the government of Nigeria embarked on the first major land reform when it enacted the Land Use Decree of 1978. The Land Use Decree was meant to free land from the bottleneck of institutional constraints to among other things, enable landless but enterprising farmers have access to productive land. The decree sought to take over ownership of land from individuals and vest power of control over such lands in the state governors. In practice however, especially in the country side, the customary tenure is still widely adhered to. Except for rich land speculators, the accessibility of poor peasants to productive farmlands has remained as difficult as ever. The unintended fallout has been incessant warfare over land by adjoining communities.

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14.3.3 The Directorate of Food, Roads and Rural Infrastructure (DFRRI)

The Directorate of Food, Roads and Rural Infrastructure (DFRRI) was created in January, 1986 as an integrated approach to rural development. DFRRI was designed to act as a policy catalyst for the development of the rural areas of the country and lay particular emphasis on the provision of water and the construction, rehabilitation and maintenance of an effective rural feeder road network. The directorate had the following objectives:

1. To promote a framework for grassroots social mobilisation.
2. To mount a virile programme of development, monitoring and performance evaluation.
3. To provide rural areas with access roads and potable water.
4. To improve rural sanitation, literacy and technology.

The main task of DFRRI can thus be categorised briefly into two. First, it was to make rural areas more attractive to live in (through the provision of improved, well-maintained rural infrastructure such as roads, water and electricity) in other to stem the migration to urban areas. Secondly, it was to change for better, the rural ways of life and modes of production in order to meet the challenges of increased agricultural and industrial production, and raise income thereby reducing urban-rural disparities. It was involved in the production and distribution of improved seeds and other planting materials; the promotion of rural and urban fish farming, storage and processing of grains as well as encouraging the production of small animals such as sheep and goats. The Directorate operated through its coordinating officers in the states and in each local government. As far as available information can reveal, DFRRI more or less duplicated what other agencies such as the ADPs, RBDAs, State Ministries of Agriculture, etc. should be doing. Table 7 shows some of the achievements of DFRRI until it was dismembered and merged with some ministeries in 1994.

By the end of 1993, DFRRI had constructed 90,857km of rural roads valued at N720 million. While some of these are likely to be in use today, most of these roads are likely to have been abandoned given the culture of poor maintenance of utilities in the country. It also accessed 708 rural communities with electricity and provided 22,267 communities with bore holes or ponds for domestic water consumption. Commendable as this programme was, it could only touch the lives of very few rural dwellers and because the people saw the programme as belonging to government, rural people did not internalize the very ideals of self-development of the programme.

14.3.4 The National Agricultural Land Development Authority (NALDA)

To solve the problems of low utilization of farmlands, increase farm sizes and hence productivity to alleviate rural poverty, the Federal Government initiated a national agricultural land development

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programme under the National Agricultural Land Development Authority (NALDA) in 1991.

NALDA as an executing agency was empowered to develop between 30,000 and 50,000 hectares of land in each state of the federation during the 1992-94 National Rolling Plan period. It was also to see to the placement of at least 7,500-12,500 farmers within the area developed such that each participating farmer member lives within 3km-5km radius of his farmland. The programme on the whole was to:

1. provide strategic public support for land development;
2. promote and support optimum utilization of the nations land resources for the accelerated production of food and fibre;
3. encourage and support economic size farm holdings and promote the consolidation of fragmented farm holdings;
4. encourage the evolution of economic size villages;
5. provide gainful income and employment opportunities for rural people;
6. address the special problem of the nations rural majority;
7. expand production capacity in agriculture;
8. contribute significantly to the attainment of national food and fibre self-reliance; and
9. facilitate the appropriate cost-effective mechanization of agriculture.

As at 1994, NALDA had only succeeded in constructing 652.3km farm road. It did not succeed in its attempt at creating economic villages.

14.3.5 The Better Life for Rural Women Programme

The Better Life for Rural Women was launched in September 1987. The objectives of the programme include:

1. to create awareness in women to help them realize, utilize and develop their potentials so as to lead more fulfilling lives;
2. to encourage women to attain functional education
3. to encourage women to be innovative in their activities and in the management of their time and resources;
4. to encourage women in self-sufficient and income generating activities so that women can reap adequate benefits from their labour as well as enjoy some economic independence.
5. to draw attention to the problems and needs of the rural communities and highlight the plight of women in the country.

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Although the programme was gender specific, it blazed the trail for the setting up of small scale cottage industries in the rural areas. The industries so developed used local raw materials. It also helped in opening up the rural market to urban consumers.

14.3.6 The Agricultural Credit Guarantee Scheme

In 1977, the Agricultural Credit Guarantee Scheme Fund Decree, whose objective was to provide cover in respect of loans granted for agricultural purposes, was promulgated. It was believed that this will encourage commercial banks to loan investment funds to the agricultural sector including the small scale rural dwellers. However, the main beneficiaries of this programme were the large scale and educated farmers.

14.3.7 The River Basin Development Authorities

Also in 1977, eleven of these were established to undertake food production and the provision of rural infrastructure. In 1986, they were re-organised and directed to focus on land and water resources development.

14.3.8 The Peoples Bank of Nigeria

The Peoples Bank was established in 1989 as a specialized bank to provide small loans to the poor As contained in PBN (1999) document, its mandates were to:

i) provide basic credit requirements to the under-privileged Nigerians who are involved in legitimate economic activity in both rural and urban areas but who cannot normally benefit from the services of orthodox banking systems due to their inability to provide collateral securities, and,

ii) accept savings from the same group of customers and make repayment of such savings together with any interest thereon, after placing the money in bulk sums, on short-term deposits with commercial and merchant banks.

The enabling decree stipulates that the PBN will among other things perform the following functions:

i) extension of credit facilities to the less privileged members of the society who cannot normally benefit from the service of the commercial banks;

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ii) acceptance of savings from customers and payment of such savings together with any interest thereon;
iii) provision of opportunities for self-employment from the vast unutilised and underutilised manpower resources;
iv) complement governments efforts in improving the productive base of the economy;
v) inculcate banking habit at the grassroots level and reduce rural-urban migration; and to
vi) cushion the painful effects of the Structural Adjustment Programme on the poor.

Clearly, the mandate of the PBN goes beyond servicing only rural areas. However, it is discussed here because its activities extended up to the rural areas. Available records published by the PBN did not disaggregate the number of branches in rural areas nor the number or amount of transactions in the rural areas. It is enough to say however that in spite of whatever claims of achievement the bank makes, rural dwellers access to production credit has not improved any significantly in the eleven years of the banks existence. In fact, the Federal Government has found it necessary to merge it with NACB and FEAP.

14.4 An Evaluation of Past Programmes

It is quite clear that rural poverty and marginalization has continued to increase even as the number of programmes designed to solve these problems increased. In fact, the programmes in most cases only raised the hopes of the people only to be dashed. There are a number of factors responsible for these.

The first major problem is the wrong conception of what rural development should be by planners. Most of the time planners with a culture of urbanism has a wrong perception of rural dwellers and thus, their needs. There is thus the tendency to confuse rural development with agricultural development. Most interventions in the rural areas were meant to service farming process with little emphasis on social infrastructure necessary to both support farming and transform the rural areas to agrobased cottage industries. Little or no efforts were made to provide simple cheaper and adaptable alternatives to peasant implements that could reduce the drudgery of the farm business hence, farming remained unattractive to the youths. This encourages persistent rural-urban migration.

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In the second place, most of the programmes were planned and executed in a top-down fashion by urban experts, military dictators, and their wives who were >seriously concerned= about the plight of the rural folks. Some of these concerned urban elements had no knowledge of the terrain of the rural areas nor of their needs and dynamics of the rural enclave. Without inputs from the rural dwellers, the programmes were not particularly relevant to the needs of the rural people. In the process, planning for agriculture was devoid of a human approach. Emphasis was placed on plantations, government farms, large irrigation projects, group farming, Better Life etc.

Thirdly, some of the projects like the River Basin, ADP were too capital intensive and as donor-support waned, they became unsustainable.

Four, some of the programmes had political rather than development intentions. Programmes like the BLP was politicised. Attempts were even made to stiffle other programmes that existed before it but with similar objectives. Most of the time, the participants were beamed on TVs to the urban folks when the rural dwellers who needed a change in attitude knew nothing of them.

Five, in most of the programmes, very little attempt was made to let the people own them. Before DFFRI, rural inhabitants have been building roads communally. When DFFRI came it employed contractors and the projects were not handed over to the communities. BLP preferred to bring technicians to repair machines in the rural areas than training local artisans resident in the community with the project.

14.5 Pathways to Achieving Sustainable Rural Development

To enhance living standards and increase opportunities in the rural areas, attitudes and approaches to rural development planning must change. Planners must know their rural clientele and the dynamics of the rural society. Rural areas connotes a kind of landscape where most of the inhabitants are engaged in primary activities, which are essentially agricultural. In addition, it also refers to a system of human settlements characteristically small in size and simple in form and functions. They act primarily as centres of primary production and sometimes as rural central places. By their nature and numerical strength, rural settlements are vital to the spatial economy of a region as the production, collection and forwarding centres for food and materials for commerce and industry

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and as producers of services to the rural inhabitants as well as urban dwellers due to linkage effects.

Rural development therefore should be pursued in terms of the extent to which the rural areas and settlements are performing these critical functions. Put simply, it should be a process of improving the quality of the rural dwellers social well-being. This process should comprise of:

i) raising the income and consumption levels of the rural people
ii) creation of conditions conducive to the growth of the peoples= self esteem; and
iii) increasing the freedom of choice in consumption/development variables.

To achieve these three components the following should be taking into consideration in planning for the rural areas.

There should be the provision of basic infrastructures to open up the rural areas. Such infrastructures will include:

(a) all-season-roads that are permanent and constructed to link up the rural areas as well as nearby urban centres. In swampy areas, water ways should be efficiently developed while the possible extension of railway lines to remote areas should be considered. This is necessary to transport goods and people over space.

(b) development of communication network including postal services, telephone, radio, television, newspapers and public libraries all of which enhance the dissemination of information especially in such critical areas as weather, farming systems, innovations and extension services.

(c) provision of public service networks such as electricity, potable water points, schools, health facilities, environmental sanitation and security. In providing schools, technical schools that provide vocational training should be favoured. The present system of providing educational opportunities that have no relevance to rural vocation only increase the tempo of rural emigration.

(d) The provision of infrastructure will open the rural areas to urban investors while rural producers can also access urban markets as well as basic information that can improve rural productivity. It will encourage the development of rural non-farm business activities. They will also make the rural areas liveable and even attractive to urban dwellers particularly retirees.

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2. The cost of providing the infrastructural facilities mentioned above will be very enormous. In fact, the atomistic nature of rural settlements make this economically unwise. A way out is to promote model villages in each local government area where three to four settlements with social and cultural affinities can share some of this services. Such villages will form growth poles around which development can be channeled to adjoining rural settlements. This way over time several villages could be reached. Each model village should have a comprehensive health centre, a post-primary technical school and all other infrastructural support services.
3. A conscious attempt should be made to promote the development of agrobased industries. For over forty years, Nigeria has sank billions on increasing food output. Research has shown that substantial part of the farm products are lost after the farm gate due to poor handling and storage of farm products. There is need to add value to the products on the farm. Resources should be channeled at processing farm products. As part of this programme farmers cooperatives should be encouraged to invest in vital agri-business areas like fertilizer production etc. One of the surest way of doing this is to provide rural infrastructure and encouraging rural development financial institutions to provide financial services (credit, advise and monitoring) to rural farm groups.
4. There is the need to redefine the institutional structure of governance to accelerate rural development. If development must take place in the rural areas, the best level of authority to do this is the local government council. The federal and state governments are too far and ill equipped to transform the rural areas. Voting millions annually won't do this. It is only those who live in the rural areas and understand the rural people and their needs who can do this. The local government stands at a vantage point in helping in this regard. What is required is to empower the local government in terms of finance, personnel and monitoring to ensure they deliver.

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5. Rural development policy planning and implementation should be left for experts in rural development. Rural development planning cannot be an all-comers affairs. It requires a careful analysis and comprehension of the rural environment. It requires a conscious inclusion and building the capacity of rural inhabitants which only experts in the field can handle. Politicians/Military dictators and their wives no matter how benevolent cannot replace experts in the field. In the same vein, it must be realised that rural development, except where ruralites have television sets and for purpose of their mobilization, are better done on the field not on TVs.
6. Since agriculture is the main economic activity of rural dwellers, there is the need for technological transformation of the rural sector to increase productivity. Policy measures should be put in place to access farmers with improved farm inputs and implements. This paper still feels, the time has not come for government to withdraw subsidy in the procurement of modern farm machinery. If oil is taking out of the national economic variables, the rest is largely agricultural. If that is where our strength lies, then the future of the nation must be built in this direction.

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LIST OF CONTRIBUTORS

1. **Oyejide, T. Ademola** is a Professor of Economics at the Department of Economics, University of Ibadan, Ibadan. He was formerly Executive Director of the Development Policy Centre.

2. **Soyibo, Adedoyin** is a Profesor of Economics at the Department of Economics, University of Ibadan, Ibadan. He was formerly Head of the Economic Policy Unit, Development Policy Centre.

3. **Oloruntimehin, B. Olatunji** is a Professor of History and currently Managing Director of the Development Policy Centre.

4. **Dr. Aiyede, Remi** is a fellow and Acting Head of Socio-Political Policy Unit, Development Policy Centre.

5. **Dr. Olayiwola, Kolawole** is a fellow and Acting Head of Economic Policy Unit, Development Policy Centre.

6. **Abumere, S. I.** is a Professor of Geography at the Department of Geography, University of Ibadan. He is also a Senior Research Fellow and Head of Environment and Technology Policy Unit, Development Policy Centre.

7. **Okafor, S. I.** is a Professor of Geography at the Department of Geography, University of Ibadan. He is also a Senior Associate Fellow of the Development Policy Centre.

8. **Dr. Oluwasola, Oluwemimo** is a fellow in the Environment and Technology Policy Unit, Development Policy Centre.

9. **Dr. Adeyemo, Adeboye** is a Program Officer at the African Capacity Builoding Foundation (ACBF), Harare, Zimbabwe. He is formerly a fellow in the Economic Policy Unit, Development Policy Centre.

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10. **Dr. Alayande, Tunde** is a fellow in the Economic Policy Unit, Development Policy Centre.

11. **Dr. Isumonah, Adefemi** is a lecturer at the Department of Political Science, University of Ibadan. He is also an Associate Fellow of the Development Policy Centre.

12. **Dr. Abubakar, Dauda** is a Senior Lecturer in the Department of Public Administration, University of Maiduguri, Maiduguri.

13. **Kayode, M. O.** is a Professor of Economics at the Department of Economics, University of Ibadan. He is also a Senior Associate Fellow of the Development Policy Centre.

14. **Dr. Oyeranti, O. A.** is a lecturer at the Department of Economics, University of Ibadan, Ibadan.

15. **Dr. Olaniyan, Olanrewaju** is a lecturer in the Department of Economics, University of Ibadan. He is also an Associate Fellow of the Development Policy Centre.

16. **Mr. Alayande, Semiu** is formerly an Analyst with the Development Policy Centre.

17. **Aigbokhan, E. Ben** is a Professor of Economics at the Department of Economics, Ambrose Ali University, Ekpoma. He is formerly Senior Fellow, Economic Policy Unit of the Development Policy Centre.

18. **Dr. Mabawonku, O. Azeez** is a fellow in the Environment and Technology Policy Unit, Development Policy Centre.

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