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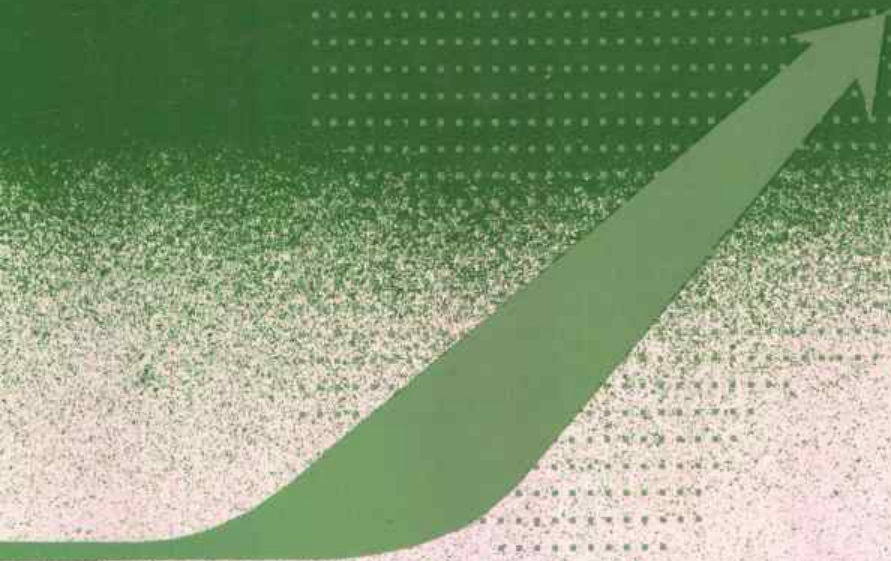
REPORT ON THE

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FOURTH  
NIGERIAN  
ECONOMIC  
SUMMIT

1997



# **Report on the Fourth Nigerian Economic Summit**

**18-20 November, 1997  
Abuja**



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## Introduction

Although a sound macro-economic foundation had been put in place by the end of 1996, as a result of the imposition of tight fiscal and monetary discipline, the 1997 budget failed in its stated aim of initiating economic growth. Thus, by mid-1997, in spite of the stability of the exchange rate and the progressive reduction in inflation as well as lower interest rates and increased foreign reserves, the overall economy was not growing. Capacity utilisation was relatively stagnant and there were no significant improvements in the standard of living of the people.

In essence, the 1997 budget had relied heavily on the public sector to trigger the economic growth necessary to improve the quality of life of all Nigerians. There had been no major steps taken to further liberalise and deregulate the economy and the upstream oil sector remained troubled by uncertainties in the provision of development funding. In addition, the downstream sector was virtually in a state of collapse with the supply and distribution network unable to meet its basic day-to-day requirements. These problems had a major impact on the ability of the private sector to operate on a consistent basis and the workforce was also continually struggling to cope with the lack of transport due to the irregular supply of fuel.

By the middle of the year, while the overall economic indicators showed a progressive improvement in inflation, foreign reserves and exchange rate stability, the delay in capital spending had resulted in a major reduction in the spending power of the people, and this had a consequential impact on the market for manufactured products. There was a build up of inventories in the productive sector which was also beset with high operating costs due to the proliferation of multiple taxes and the poor performance of public utilities.

However, the establishment of the Vision 2010 Committee in November, 1996 had introduced an entirely new dimension into the effort to revive the Nigerian economy and it was clear, by the middle of the year, that the outcome of its deliberations could provide the impetus necessary to “jump-start” the Nigerian economy. With the Vision 2010 Committee presenting its final report to the Head of State on the 30 September, 1997, it was decided that the 1997 Economic Summit should focus on those aspects of the report which could be introduced in the 1998 budget. This decision was predicated on the urgency of the need to activate the process of change so necessary to the achievement of the demanding targets set by the Vision 2010 Committee.

The Head of State thus agreed that the Fourth Nigerian Economic Summit should focus on the implementation of Vision 2010 and, specifically, on those recommendations relevant to Budget 1998. Although the Head of State had dissolved his cabinet shortly

before the 1997 Economic Summit was to be held, he immediately re-instated the Minister of Finance who had been the principal architect of the dramatic improvement in the macro-economic variables over the previous three years. Thus, the continuity of the major policy direction was assured and with the groundwork already in place, it only remained for the 1998 budget to introduce the key measures which would allow Nigeria to build on this foundation and initiate a period of systematic growth to ensure the realisation of Vision 2010.

### **The Vision 2010 Committee**

On the 30 September, 1997 Nigeria's Vision 2010 Committee presented its report to Nigeria's Head of State, General Sani Abacha. The Committee, which was chaired by former Head of the Interim National Government of 1993, Chief Ernest Shonekan, had been inaugurated in November, 1996 with a remit to identify a vision for Nigeria's future and to establish specific targets to ensure the achievement of identified goals by the year 2010.

The Committee was broadly representative of most of the stakeholders with interests in Nigeria's future and while, initially, there were 176 members, the numbers were later increased to more than 240 as the Committee's remit was extended to embrace a number of classified areas such as the future of the police and the military. Members included current and past ministers as well as many former political activists and trades union representatives. There were also several expatriates representing foreign investors as well as many academics and representatives from a wide range of non-governmental organisations.

The Committee embraced a number of modern techniques in carrying out its task - including "brain storming", systems dynamics and scenario building. Initially the Committee identified thirteen critical success factors which were then analysed in-depth, with the Committee addressing three questions for each critical success factor. Where are we now? Where do we want to be? How do we get there?

The next phase involved the identification of seventeen economic areas and these were also addressed using the same three question technique as that used for the CSFs. Finally, the Committee identified a number of what it called "third wave" factors which needed to be reviewed before finalising its report. Throughout the ten months of its deliberations, the Committee also established workshops at all levels throughout the country, in order to allow all stakeholders an opportunity to provide input into the final deliberations. State and local governments were encouraged to hold workshops and guidance was provided by the main Vision 2010 Committee. The man in the street was



also provided with a booklet which included a hundred questions and answers on Vision 2010. These were representative of the many thousands of submissions forwarded to the Vision 2010 secretariat.

Of course, many cynics have cast doubts on the possibility of the recommendations of the Committee ever being implemented, given the track record of Nigerian governments over the years. However, there must be a glimmer of hope since the report of the Committee has not received the sort of treatment which has become standard over the years for any report submitted to government. Traditionally, each report is subjected to a review by yet another Committee after which the government produces a white paper which will reflect only those elements which the government is prepared to accept. This particular report was accepted as submitted on the 30 September and was formally launched, without any changes, on the 27 November even though it pulls no punches in its analysis and does not hesitate to be critical where criticism was considered relevant.

A further indication of the intentions of General Abacha to implement the recommendations of the Vision 2010 Committee was his agreement to the Fourth Nigerian Economic Summit basing its own discussions on the recommendations of the Vision 2010 Committee, with respect to identifying those measures which should be implemented in the 1998 budget. Moreover, General Abacha also sat for close to two hours to hear the conclusions of the Fourth Summit which concluded its deliberations on the 20 November.

## Section 1:

# Fourth Nigerian Economic Summit

*The Fourth Nigerian Economic Summit was held at the Nicon-Noga Hilton, Abuja from Tuesday, 18 November, 1997 to Thursday, 20 November, 1997. Once again the Summit provided an opportunity for a reunion of leaders of the organised private sector, top level public sector officials and policy makers, members of the diplomatic corps and representatives of private development agencies and international agencies who had first met through the medium of the First Nigerian Economic Summit which was held between 18 and 20 February, 1993. The following is a summary of the events and proceedings of the Fourth Summit.*

## Wednesday, 19 November, 1997

*“Implementation of Vision 2010: the 1998 Budget Issues”* was the central theme of the Fourth Nigerian Economic Summit. The choice of the theme presupposed that participants at the Summit would be people who were already familiar with the detailed recommendations of the Chief Ernest Shonekan-led Vision 2010 Committee. But this was not true for some of the people attending the Summit. The organisers, therefore, arranged for a briefing session to update Summit participants on both the work and key recommendations of the Vision 2010 Committee.

## **Vision 2010 Work: Critical Success Factors (CSF) – Mohammed Haruna**

The presentation provided a brief overview of the recently-concluded Visioning exercise that produced a vision for Nigeria by the year 2010. It started with an explanation of what a vision was all about, describing it as “dreaming with one’s feet firmly on the ground.” A country’s vision must capture the collective aspirations, needs and desires of its people. The visioning process, although involving planning, is more inspiring than any planning process. Planning is rather mechanical and entails projection of the present into the future while visioning is much more creative. With visioning you create a mental picture of where you want to be and then work backwards to the present.

A Vision 2010 Committee was inaugurated on 27th November, 1996 by the Head of State and Commander-in-Chief of the Armed Forces, General Sani Abacha. Membership of the Committee cut across all levels and sections of the Nigerian society.

Two important factors distinguished this committee from other similar ones before it. First, membership was based purely on merit and, second, the emphasis of its work was on baking, a bigger national cake rather than just sharing the existing cake.

The Vision 2010 Committee had nine items in its terms of reference. These items cut across every facet of the nation's life, ranging from economic, political and social issues to others such as sports development, public/private sector partnership, environment and ecology.

In carrying out its assignment the Committee identified four broad categories of issues and then created sub-committees to deal with specific areas within each category. The first category focused on Critical Success Factors for the country, the second on economic issues/ sectors, the third on issues not covered sufficiently by the first two categories and the roles of the military, police and traditional rulers.

The visioning process involved finding answers, in the various categories outlined above, to the following three questions: "Where Are We?; Where Do We Want To Be?; How Do We Get There?" The process also involved the application of two modern tools – Scenario Building and Systems Dynamics, within the context of emerging global trends defined by the forces of liberalisation, globalisation and technological change.

Output of the thirteen Critical Success Factors (CSF) groups was further pulled together into four broad categories namely Value System, Human Capital, Governing System and Global Competitiveness. Finally, the work of the CSF and other groups culminated in the adoption of a clear and succinct vision statement for Nigeria.

The vision for the year 2010 is a country which is a "united, industrious, caring and God-fearing democratic society committed to making the basic needs of life affordable for all Nigerians and creating Africa's leading economy."

The CSF groups then determined the strategies needed to realise this vision. They also drew up elaborate action plans for implementing these strategies, categorised into immediate, medium and long-term plans. The immediate action plans were particularly relevant to the 1998 budget. The Committee also made the important recommendation for the establishment of a National Council for Nigerian Vision to oversee the implementation of the Vision 2010 recommendations.

## **Key Economic and Sectoral Issues - Bunmi Oni**

Mr. Bunmi Oni, managing director and chief executive officer, Cadbury Nigeria Plc, made a slide presentation on “*Economic and Sectoral Issues in the Vision 2010 Committee Report*”. His wide-ranging presentation covered macro-economic, real sector, development and capital mobilisation issues. It also included a statement of what sort of society Nigeria would like to build by the year 2010 and the policy targets necessary to achieve the vision. Beyond quantitative targets, Mr. Oni identified policy shifts that would facilitate realisation of the ten economic objectives proposed for the country by the Vision 2010 Committee.

### **Macro-economic Issues**

These were categorised into fiscal policy, monetary policy, international trade, trade and distribution and the policy process. The current fiscal policy regime was considered inadequate in many respects: taxes that are too high to promote compliance and attract investments; weak and corrupt tax administration and institutions including the ports; skewed expenditure pattern with the Federal Government accounting for 75 per cent of total expenditure; wastage on capital expenditure and neglect of asset maintenance. The speaker emphasised that growth in non-oil revenue since 1995 has been due to improved collection; not productivity increases in the real sectors.

On monetary policy, Mr. Oni also pointed to significant weaknesses: lack of autonomy for the Central Bank (by virtue of Decree No. 3 of 1997); avoidable lag in policy response to money market developments and the presence of excess liquidity as abiding features of the economy. Mr. Oni lamented that Nigeria’s share of world trade was a negligible 0.3 per cent in 1995 compared to 1.3 per cent for Malaysia. He regretted the ineffective implementation of export incentives leading to 95 per cent of Nigeria’s export earnings coming from oil in 1995 compared with 64 per cent in 1970.

Poor infrastructure, high cost of product distribution and lack of a clear strategy to develop commerce were blamed for the absence of a vibrant trade and distribution sub-sector. Also cited as factors militating against trade and distribution were poor product quality and outright faking or product adulteration. Similarly, the policy process was characterised as weak due to poor policy formulation and implementation, lack of continuity and the frequent establishment of parallel policy implementation structures.

### **Real Sectors**

The presentation covered agriculture, industry, solid minerals as well as petroleum - both upstream and downstream. The Committee, Mr. Oni said, attributed the poor

performance of Nigerian agriculture to the dominance of subsistence farming, declining productivity, low technology base, fuzzy land tenure policy, poor linkage to industry and inability to minimise post harvest losses. The lack of venture capital, the persistence of inward-looking strategies, the poor infrastructure base of the economy and the dependence on imported skills were cited as the main obstacles to rapid industrialisation. The result, the Committee emphasised, was that in 1996, industry accounted for only 6.9 per cent of GDP.

Factors hindering solid minerals development were listed to include: absence of policy framework; retrogressive laws; inadequate funding and infrastructure; and low technological know-how. Although Nigeria accounts for about 3 per cent of world crude petroleum output, the upstream sector of the industry was observed to be affected by a host of problems. Prominent among these were poor funding and erosion of value incentive, lack of consultation among the joint venture partners and lack of openness leading to mistrust. Also cited as obstacles were poor linkage of the industry with other sectors, non-realisation of the potential for gas, failure to adequately address community relations and environmental issues. Also, the downstream petroleum sector was described as being in a state of decay due to poor management, funding constraints, low capacity utilisation as well as poor planning and logistics, even of imports of finished products.

## **Development Issues**

The issues considered included SMEs, the informal sector of the economy, rural and urban development, poverty alleviation and infrastructure. According to Mr. Oni, the Committee regretted that while some efforts had been made to harness the potential of SMEs, they were plagued by lack of access to credit, weak management, poor linkage to major enterprises and increasing politicisation of SME development.

The informal sector was seen as a reservoir of indigenous technical capacity and a major source of capital formation. Despite this, the committee noted that the informal sector was often treated as an "unknown quantity" in the scheme of things. On the welfare of rural dwellers, it was observed that although about 62 per cent of the Nigerian population resides in the rural areas, rural development continues to suffer major setbacks due to deficiencies in healthcare, education, communications, land tenure and technology. Urban development, the Committee agreed, had done no better due to rapid urbanisation, estimated at 5 - 7 per cent yearly, leading to the development of blighted areas given deficiencies in urban infrastructure. The result is that poverty accelerated in the past decade - a point amply illustrated by the grim social statistics: 50 per cent of

the population lives below the poverty line of one dollar per day; 60 per cent has no access to safe water; and 50 per cent are illiterate.

## **Capital Mobilisation**

Banking and finance, capital market development, domestic savings and debt management were discussed in this section. The banking and finance subsector was said to suffer from uncoordinated development, lack of CBN autonomy, high transaction costs, short-termism, asset-liability mismatch, capital inadequacies and weak internal controls. Similarly, cumbersome transaction procedures and shallowness of the capital market were said to be limiting the pace of economic development.

Low nominal disposable income, inconsistent tax regime, widespread unemployment and the high inflation rates of the recent past were blamed for low domestic savings in the country. Similarly, an uncoordinated borrowing channelled to unproductive projects, and lack of political will to conclude negotiations with the World Bank and IMF on a Medium Term Economic Programme were cited as factors worsening the external debt problem. Besides, unbridled and inefficient public spending had led to build-up of a huge domestic debt.

## **Where We Want To Be**

Having given a description of where we were as a nation on the development ladder, Mr. Oni then gave Nigeria's vision statement as agreed by the Vision 2010 Committee:

*To make Nigeria a major industrialised nation and economic power that continually strives for sustained economic growth and development towards improving the quality of life of all Nigerians.*

To achieve the Vision statement, steps would be taken to grow the GDP at a minimum of 10per cent yearly and work towards a single digit inflation rate over the period to 2010 with a target of 5 per cent. Mr. Oni said the Committee recognised that this would require shifts in attitude and policy orientation as follows:

<b>FROM</b>		<b>TO</b>
Corruption	-	Positive values reinforced
Under-investment in skills development	-	Radical education drive

Closed, isolated economy	-	Embrace global realities, liberalise, encourage open competition
Ailing infrastructure	-	Priority development
Low domestic savings	-	Savings boosted for investment
Public sector as “control agent”	-	Public sector as facilitator
Vicious cycle	-	Virtuous circle

### **Economic Objectives**

These are encapsulated in 10 objectives drawn up by the Vision 2010 Committee. Mr. Oni elaborated on the strategies for achieving each of them as stated in the Vision 2010 report.

The objectives are:

- Reduce the dominance of the public sector in the economy and develop a viable, dynamic, highly motivated, socially and environmentally responsible private sector;
- Diversify the economic base through the development of an internationally competitive and export-oriented production, manufacturing and industrial non-oil sector to reduce the dependency on oil;
- Develop production technologies to accelerate the growth and development of small and medium-scale businesses to provide wider economic opportunities, employment and alleviate poverty;
- Develop fully the oil and gas sector to provide the launching pad for the development of the rest of the economy;
- Develop a modern, well-structured, efficient and competitive financial system that provides for the long-term funding of the economy;
- Put in place an effective macro-economic framework that attracts investments, promotes economic stability, sustains non-inflationary growth and social justice;

- Invest massively in and develop education, health, technology, information systems and infrastructure as a lever for investment and job creation;
- Make Nigeria a preferred country for investments by both Nigerian and foreign investors and increase significantly the level of domestic savings;
- Reduce population growth rate from the current 2.83 per cent to under 2.0 per cent;
- Maintain assets and achieve food security.

### **Welcome Address – Pascal G. Dozie**

Mr. Pascal G. Dozie, the chairman of the Nigerian Economic Summit Group (NESG), welcomed participants to the Fourth Nigerian Economic Summit noting that, since its inception in 1993, the Summit had consistently provided an important forum for dialogue between public sector leaders in government and the members of the Summit Group. He said this partnership had enabled both sectors to register many successes in policy formulation and implementation in the past few years.

Mr. Dozie particularly thanked the Head of State and his government for their unflinching support for and encouragement of the Summit process. He declared that it was through the material and other support provided by the government that the Summit process had been sustained and that it was this support which ensured that public sector perspectives were brought to bear on Summit deliberations. Mr. Dozie also highlighted the unprecedented consensus which had resulted from the public/private sector partnership developed through the Summit process, and the positive impact this had on the economic fundamentals.

The NESG chairman extolled the positive changes resulting from the consistency of policy formulation and implementation listing these to include stability of exchange and interest rates. Mr. Dozie also acknowledged the benefits accruing from the imposition of fiscal discipline. He described the Summit process as unique for its focus on cross-sectoral consensus building in the national rather than in narrow sectoral interests.

The chairman praised both the Vision 2010 initiative and the membership of the Committee noting with satisfaction that it represented all the nation's stakeholders. He, however, reminded the audience that formulating a vision represented only the start of an even greater challenge - the implementation of the vision itself. He warned that there



would be many temptations to change the course or even reverse the direction of change as a result of obstacles which would inevitably have to be faced. But he was optimistic that the resolve already demonstrated by the nation's leadership and by the people would ensure the attainment of the vision.

Mr. Dozie explained that recognition of the importance of Budget 1998 to the implementation of those measures recommended in the Vision 2010 report dictated the theme of the Fourth Nigerian Economic Summit. He reminded participants that there was a need to "kick start" the implementation process of Vision 2010 and that Budget 1998 provided the best opportunity to do this.

The chairman said the Summit would, as usual, involve deliberations in working groups followed by the presentation of the various groups' work in plenary session. He informed participants that there would be a keynote address by the Head of State as well as presentations by guest speakers.

### **The Success of the Chinese Economic Reform and its Significance for Nigeria: Africa's Secret Weapon for Peace – Helga Zepp-LaRouche**

Mrs. Helga Zepp-LaRouche argued that the international financial system was bankrupt and on the verge of global collapse. She identified the recent surges in capital markets especially in South East Asia as some of the many symptoms of financial distress. She also highlighted the negative impact of the derivatives market - suggesting a crisis similar to that affecting the global economy from 1929-31.

China on the other hand was cited as the only country experiencing an unprecedented economic boom with an average GDP of 12 per cent since 1990 with considerable improvement in the living standards of its populace. China, she believed, had achieved this record by adopting the Eurasian land-bridge model, the alternative economic dynamic to the modern western capitalist model. To her, the land-bridge concept represented the physical structures/networks that would link up the industrial centres of Europe with the Asian population centres. The existence of these "infrastructure corridors" should yield economic dividends as new cities emerge while agricultural production increases. However, there were no indications as to just where the funding for the land-bridge concept would be derived.

China has now integrated the concept of the Eurasian land-bridges in its long-term plans. The country over the next century intends to embark on extensive industrial, transportation, water and energy projects within China. The Nigerian government was commended on the Vision 2010 exercise which could be used as a platform to transform

the African continent. She identified agriculture as Africa's immediate economic option for growth.

This conclusion was based on the premise that a significant portion of African soil was of very high quality and that 75 per cent of agriculturally viable land was presently not being cultivated. This comparative advantage could be exploited positively only if the continent had a solid infrastructural base. This, she believed, could be achieved through the adoption of the Eurasian land-bridge model whereby the African continent was linked to Asia and Europe. She sought to buttress this point by listing specific transnational projects that should be implemented in Africa.

She closed her presentation by stressing that agriculture could provide the platform for further growth and diversification throughout Africa.

### **Policies for Nigerian Economic Growth – Professor Paul Collier**

Professor Collier's paper assessed the state of the Nigerian economy and explored the possibilities for growth as an option to reduce current poverty levels. He acknowledged the macro-economic stability achieved over the last three years but noted that stabilisation could only get the economy to the starting line for growth which he said was currently 3.4 per cent.

He illustrated the inadequacy of the current stabilisation: fiscal deficit reduction should evolve institutionally into a cash budget, while encouraging a sound banking system should mean allowing weak banks to fail with the rest being effectively supervised. Noting that policy reforms, including the removal of distortions without investment, could trigger growth, Collier warned that such growth as was the case in the late 1980s, could not be sustained.

To get the economy on a sustainable growth path, he recommended a five-point policy recipe:

\* **Open the economy and make it competitive**

This, he said, required a competitive (preferably undervalued) exchange rate, low and uniform tariffs, deregulated, competitive markets, and low and stable corporate taxes. These policies, he said, add around 2.3 per cent to the growth rate while liberalisation could spectacularly increase productivity. However, he cautioned that to encourage investment, it was not enough to liberalise; policy changes must be credible.

\* **Build “social capital” and ensure low transaction costs**

Nigeria has very high transaction costs which could be reduced by encouraging “social capital”, the networks of firms and the associational life of civil society. Social capital, he explained, enabled firms to help each other through learning about opportunities and about trustworthiness. Collier said government could encourage social capital both through political freedoms and by facilitating cheap communications, especially reliable and cheap telephones.

\* **Improve Social and Economic Infrastructure**

Telecommunication services, he pointed out, should be made competitive with multiple suppliers. In electricity, technology has changed so that the service could now be shared by several suppliers, with an incentive to compete, while in the road network, funds should be generated through tolls to build and maintain roads.

Collier considered privatisation essential for the development of infrastructure in Nigeria. However, he believed government would need to provide a good regulatory environment in which private suppliers would have incentives to deliver cost effective services. He stressed that privatisation was fully consistent with social ownership: the poor could be given shares in the companies. This would give them marketable rights and incomes instead of their current unusable and amorphous rights in state property.

\* **Reduce risks facing investors**

Professor Collier noted that Africa was rated as the riskiest region in the world in terms of investor risk ratings. These ratings, he said, mattered because they, or the risks they reflect, strongly influence investment. He explained that on a scale of 0 (very risky) to 100 (safe) in 1980, Nigeria was 50. Today it is 16. Yet African countries have moved up as well as down. In the past five years Uganda has moved from 5 to 20. High investment countries such as Mauritius and South Africa are now around 40-50.

The main risk identified by investors, he said, was policy reversal. Reforms must therefore be “lock-in” to be credible, he said, adding that lock-in mechanisms included independent central banks, pre-announcing policies, and low, uniform taxes and tariffs rather than special deals.

\* **Enhance peace and security**

Collier noted that societies with far worse ethnic divisions than Nigeria were regarded as completely safe from violent conflict. He attributed this to their status as high-income countries. To him, what distinguished Belgium and Quebec from Rwanda was not ethnic or linguistic composition, but per capita income. He therefore postulated that Nigeria would become safer if the economy could achieve substantial growth.

Professor Collier observed that the above combination of policies worked in Indonesia, a country initially very similar to Nigeria, to turn the economy round very quickly from pre-1967 decline, to subsequent rapid growth. And in Africa the policies were currently working in Uganda, Ethiopia, Tanzania and Mozambique. These countries, he said, were growing at very high rates despite many disadvantages compared to Nigeria which he claimed had an additional advantage.

The guest speaker identified Nigeria's hidden advantage as the estimated 70 per cent of Nigerian-owned private wealth taken out of the country in the last 30 years. If this capital was returned, it could triple Nigeria's private capital stock, he stated.

The question, he noted, was not whether this policy turn-around would happen in Nigeria, but when it would happen.

## **Keynote Address – General Sani Abacha**

In his keynote address, the Head of State and Commander-in-Chief of the Armed Forces, General Sani Abacha welcomed participants to the Summit which he said had become a regular forum for public and private sector leaders to reflect and devise ways and means of rejuvenating the country's economy. He reiterated his administration's commitment to the speedy and faithful implementation of the Vision 2010 Committee recommendations with effect from 1998. He therefore considered it timely for the organisers of the Summit to have selected "*Implementation of Vision 2010: the 1998 Budget Issues*" as the theme of the Summit. In this regard, he stressed that the success of the implementation of the Vision 2010 recommendations was the joint responsibility of both the public and private sectors through mutual trust, consultation and cooperation. He observed that a major issue that would emerge from the formulation of the 1998 budget as the starting point for implementing Vision 2010 was how to translate the macro-economic successes the country had achieved so far, to produce the measures that would realign the management of the national economy to increase the purchasing power of the Nigerian people and improve their material well-being. He expressed his

desire to receive the Summit's inputs to the 1998 budget in the expectation that they would facilitate the implementation of those aspects of the Vision 2010 programme requiring immediate attention.

The Head of State reaffirmed his government's unwavering commitment to putting the country's economy on a steady path of recovery. He highlighted the economic policies initiated by the government between 1995 and 1997 to address the problems which had plagued the macro-environment. These included:

- a shift from direct to indirect control and market-based instruments of monetary management;
- liberalisation of the financial sector to stimulate competition and promote efficiency in resource allocation;
- deregulation of interest rates;
- moderate growth in money supply with its attendant positive impact on inflation which fell sharply from 72.8 per cent in 1995 to 26.7 per cent in January 1997 and now under 10 per cent;

In addition, the Head of State said the following economic indicators demonstrate the satisfactory progress made by the country in 1997:

- a budget surplus of ₦5.025 billion in the first half of 1997;
- a substantial increase in net foreign exchange inflow exemplified by a significant rise in official external reserves from US\$4.074 billion at the end of December 1996 to US\$6.773.5 billion by end of September 1997;
- a rise in industrial production by 0.6 per cent;
- an increase in GDP from ₦107.03 billion in 1996 to ₦111.07 billion as at September 1997 showing a growth rate of 3.77 per cent as against 3.40 per cent for the same period in 1996.

Other areas where the Head of State said the country had recorded appreciable progress included:

- telecommunications where all the outstanding interconnectivity issues had been resolved to enable licensed private operators to interconnect with NITEL;

- full linkage to the internet by the end of the first quarter of 1998;
- relaxation of the conditions governing the provision and operation of satellite-based services to allow competition. This had yielded about ₦6 billion in investment by the private sector and 5,000 new jobs over the past 12 months; and
- licensing of private operators to provide digital cellular services and private network links services to complement NITEL's efforts.

Looking ahead, the Head of State challenged members of the recently inaugurated governing council of the Nigerian Investment Promotion Commission to:

- make appropriate recommendations for the removal of the remaining bureaucratic bottlenecks hindering foreign investment in Nigeria; and
- join forces with the Federal Ministry of Industries and UNIDO's Investment Promotion Service Centre to attract investment to Nigeria;

Reflecting on the roles of government and the private sector, the Head of State identified a number of major challenges ahead:

- sustenance of the above achievements and resolution of the outstanding problems of economic management through people-oriented policies;
- greater investment by the private sector to ensure attainment of the projected economic growth rates of 6 to 10 per cent per annum from 1998 onwards;
- removal by the government in 1998 of the factors constraining the real sector's huge potential for growth and development;
- sustenance of improvement of facilities in urban and rural areas to increase the contribution of agriculture and industry to the GDP growth rate in 1998. The private sector should, in this regard, invest in the provision of storage and initial processing facilities for agricultural products so as to reduce post-harvest losses;
- upgrading of local research and development efforts to boost industrial capacity utilisation and generate employment; and

- response by the private sector to the concessions made by the government to encourage the use of local inputs.

The Head of State appraised the summit process and acknowledged the positive impact that ideas generated at the First, Second and Third Economic Summits had made on the economy. Not only had the summit process initiated and sustained a mutually beneficial partnership between the private and public sectors, it had also provided an organised approach to defining the nation's economic priorities and identifying the most effective ways of mobilising and channelling national resources towards accelerated economic development. In his words,

*“Unarguably, it is on record that many of our achievements in the economic arena in the last two years have been largely due to the consensus generated at the Nigerian Economic Summits. The policy of guided deregulation, the encouragement of the organised private sector to gradually assume a leading role in economic activities, the introduction of incentives to attract foreign investments, and the adoption of economic measures to promote sustainable growth and development are all clear evidence that these Summits have been able to positively influence national economic direction. This is a welcome development which should be continued”.*

On this note, the Head of State declared the Summit open and wished participants fruitful deliberations. The full text of the Head of State's speech is attached as Appendix G.

### **Vote of Thanks - Chief Rufus Giwa**

Chief Giwa acknowledged the progress made since the summit process started in 1993 saying it had provided a unique platform for dialogue between the public and private sectors. By bridging the gap that existed between them, the two sectors no longer viewed each other with mutual suspicion. It was now normal, he noted, for the private sector to be accepted as part of the government policy-making process, particularly through inputs to annual budgets. In particular, the Summit had helped to promote a growing trust between the public and the private sectors. He observed that the tenure of the Head of State, General Sani Abacha, had more than any other time in Nigeria's history witnessed greater collaboration and partnership between the public and private sectors. What is more, at no other time had a private and public sector initiative like

Vision 2010 been given a national priority by the government than General Abacha's tenure. On this basis, he thanked the Head of State for his presence at the Summit saying it was a demonstration of his unflinching commitment to issues affecting the economy.

Chief Giwa alluded to the positive reforms already initiated by the government namely the repeal of Exchange Control Act, 1962 and the Nigerian Enterprises Promotion Decree, 1989; the inauguration of the Nigerian Investment Promotion Commission, the deregulation of the economy and improvement of the macro-economy typified by continuous fall in inflation from 70 per cent in 1995 to about 24 per cent in 1996 and, presently, at around 10 per cent; stability of exchange rate and availability of foreign exchange. For all these, the Vision 2010 activities to date, and promises by the Head of State to revamp the country's social infrastructure, Chief Giwa commended General Abacha for his courage and his positive disposition to private sector initiatives.

Finally, the MAN president thanked the Head of State for making the Fourth Economic Summit possible and gracing the Summit's opening session with his esteemed presence. He also thanked the chairman of the Nigerian Economic Summit Group, Mr. Pascal Dozie, and the guest speakers at the Summit's opening session, namely, Professor Paul Collier and Mrs. Helga Zepp-LaRouche, for their contributions to the Fourth Summit.

## **Group Discussions and Presentations**

After the exit of the Head of State, General Sani Abacha, and his entourage, participants dispersed to their various meeting rooms to discuss the following topics earmarked for group discussions:

- |                                |  |
|--------------------------------|--|
| 1. Private/Public Sector Role  | 13. Science, Engineering & Technology  |
| 2. Economic Role in Africa     | 14. Investment Climate                 |
| 3. International Trade         | 15. Rural Development                  |
| 4. Fiscal Systems/Reforms      | 16. Rule of Law                        |
| 5. Monetary Systems/Reforms    | 17. Pensions, Savings, Social Security |
| 6. Capital Markets             | 18. Agriculture & Agribusiness         |
| 7. Sustainable Economic Growth | 19. Small & Medium Scale Enterprises   |
| 8. Infrastructure              | 20. Trade & Distribution               |
| 9. Anti-Corruption             | 21. Oil Upstream                       |
| 10. Privatisation              | 22. Oil Downstream                     |
| 11. Education                  | 23. Industry                           |
| 12. Health Care                | 24. Solid Minerals                     |



In the evening, all the participants re-assembled in plenary session for presentation of the various group reports by the co-chairmen. A few groups were able to make their presentations that night while the rest made their presentations the following morning.

Thursday, 20 November, 1997

## **Global Competitiveness of Agro-related Products and Viable Avenues of Replicating Success Stories in Nigeria**

On behalf of the Industrial Surveys Team of the Research and Studies branch of the United Nations Industrial Development Organisation (UNIDO), Mr. Vinanchiarachi Jebamalai presented a paper titled "*Global Competitiveness of Agro-related Products and Viable Avenues of Replicating Success Stories in Nigeria*". The paper is structured into three parts, namely:

*Chapter 1:* Conceptualisation of Manufacturing Competitiveness;

*Chapter 2:* The Global Competitiveness of Agro-related Industries in Nigeria; and

*Chapter 3:* Global Competitiveness Perspective of Guidelines for the Development of Agro-related Industries in Nigeria.

In Chapter 1, the author defined manufacturing competitiveness as the ability of a manufacturing activity to develop and acquire competence in the market for its products over other similar lines of activities in particular circumstances. Competitiveness in this context could be in the form of export competitiveness, technological dynamism, innovation, import competitiveness, price competitiveness and productivity. After examining the emerging challenges and changing dimensions of competitiveness, he stated that competitiveness at enterprise level was determined by such pre- and post-manufacturing activities as research and development (R&D), design, international outsourcing, training, marketing and after-sales service. The competitiveness of large industrial companies with transnational operations rests on:

- their economies of scope in terms of wide product range;
- the ability to systematically outsource the delivery of special parts and components and services;
- the ability to effectively follow and respond to international market developments with the capacity to organise and quickly adjust their international production and distribution systems;
- the ability to pursue market dominance strategies through mergers and acquisitions and re-disposition of assets; and

- the ability to control and manage worldwide their large number of specialised affiliates as profit centres at different geographical locations.

The national economy was not left out in the scramble for international competitiveness as national policy makers in different countries compete with each other in designing and applying economic and industrial policies and institutional measures which could enhance their national economy's competitive advantage versus other economies. Examples of these were effective physical and institutional infrastructure, the judicial system, the maintaining of macro-economic balance and well-functioning price and market systems for production factors and products; privatisation of public enterprises and reversal of direct state interventions in form of selective subsidies, import protection, export restriction, currency allocation, restricted procurement and investment regulation.

The author further compared "intangible" investments (i.e. R&D investments) between developing countries (0.6 per cent of GDP) and the industrialised countries (2.9 per cent of GDP). The same gap was noticeable in education and training where developing countries invest significantly less than developed countries. The impact of this was evident enough, and in the author's words, "Developing countries thus have a substantial task in catching up in this field so as not to be caught in the trap of low skill industrial development in the globalisation process".

In his "observations, implications, challenges and opportunities", the author said that globalisation offered enormous prospects for development to all entities and all countries. After long periods of protectionism and over-regulated national economies, the scope for an enhanced international division of labour based on economic efficiency had dramatically improved. The open international markets and the mobility of goods, services, production factors, technology, know-how and information had brought unprecedented opportunities to producers, traders and consumers all over the world. Globalisation offers vast opportunities for economic development. Though the opportunities were not readily available, they could be identified and conquered in a highly competitive world. It was up to individual entrepreneurs to recognise the emerging niches in the national and international markets and to pursue a strategy for capturing these niches through competitiveness. Only the competitive enterprise and production system would economically survive, the author said.

The abridged version of Chapter 2 of the report dealing with "The Global Competitiveness of Agro-related Industries in Nigeria" is published as Appendix I to this report.

Essentially, the author selected six agro-related subsectors, namely:

- food products such as cereal and grain milling, vegetable oil and oil seeds, sugar, cocoa, coffee, roots and tubers, fruits and vegetables, livestock, poultry products, beverages, fish and fishery products;
- textiles and clothing;
- rubber products;
- leather and leather products;
- fertilisers and pesticides; and
- agro-related metal working industries.

He listed the following as the macro-determinants of competitiveness of non-oil exports:

- macro-economic stability and stability in economic policy;
- a competitive real exchange rate;
- the removal of anti-export bias associated with Nigeria's import substituting trade regime;
- improvement in infrastructure;
- improvement in the "investment climate"; and
- an efficient banking and financial system.

The author examined each of the above products by reference to their market prospects; other aspects of the external environment; market structure and its influence on external environment; market structure and its influence on global competitiveness; determinants of price and non-price competitiveness, constraints on each subsector's expansion; firm-level issues affecting global competitiveness; protection against imports; and product-specific performance indicators.

A key feature of this chapter of the paper was the use of examples drawn from countries which have recorded success stories in their endeavours on these products. These are Kenya (maize), Malaysia (palm kernel processing), India (sugar, fertiliser and

automotive/non automotive spare parts), Egypt (cocoa processing), Thailand (tapioca), Lesotho (textile and clothing), Indonesia (rubber), South Africa (tanning industry).

In Chapter 3 (“Global Competitiveness Perspective of Guidelines for the Development of Agro-related Industries in Nigeria”), the author reiterated the factors militating against Nigeria’s global competitiveness, that is, the country’s ability to sustain non-oil exports and to develop industries which can eventually compete against imports without the need for tariff or quota protection. These were:

- Overvaluation of the naira until 1986 when the Structural Adjustment Programme started;
- Macro-economic policy, inconsistency and instability which persisted until 1995;
- The climate of rent-seeking;
- Inefficient administration of export incentives;
- Failing infrastructural support, in terms of electricity and water supply, transport and communications;
- Land tenure system preventing easy access to land;
- Low capacity utilisation due to low consumer purchasing power;
- Labour shortages, particularly in the rural areas due to rural-urban drift and inadequate supply of skilled workers for many urban enterprises; and
- Informal sector problems in terms of lack of access to finance, poor quality control and hygiene, lack of labour skills and lack of mechanisation.

The author made the point that virtually all the subsectors had increased export potential and optimisation of import substituting opportunities. As the above factors show, the problem was not so much from the demand side as the supply side.

Citing the examples of Indonesia (whose manufactured exports from the early 1990s contributed over half of export earnings from a low two per cent in 1980), and China (which has developed a succession of new manufactured exports, ranging from garments, footwear, toys and plastics to machinery and electronics products), the author expressed optimism about Nigeria’s ability to overcome the above constraints with a determined government and international help.

## **Final Presentation**

The final presentation was made in three parts with Mr. Pascal Dozie, the chairman of the Nigerian Economic Summit Group, introducing the theme and structure of the presentation and Alhaji Mohammed Hayatu-Deen detailing the problems presently facing the economy and the measures recommended for implementation in Budget 1998 in order to start the implementation process of Vision 2010. Mr. Dozie then concluded the presentation with a call for co-operation and teamwork between the public and private sectors emphasising the importance of this relationship to the attainment of the national vision established by the Vision 2010 Committee.

## **Summary of Discussions and Recommendations**

Mr. Dozie first detailed the objectives of all Nigerian Economic Summits as being the creation of dialogue on economic issues, between public and private sector leaders, for the overall benefit of all Nigerians. He then highlighted the importance of Budget 1998 to the attainment of the vision created by the Vision 2010 Committee.

He went on to assess the economic situation, to look at past achievements and then to address the current situation as a means of establishing the basis for the overall discussions which had taken place during the course of the group work by the participants in the Fourth Nigerian Economic Summit. He then outlined the structure of the presentation which would assess the economic outlook and then make major recommendations for implementation in Budget 1998. It would next review the importance of the public sector/private sector roles and conclude with a private sector commitment to the achievement of the targets established in the Vision 2010 report.

Mr. Dozie acknowledged the establishment of monetary stability and the introduction of fiscal discipline as well as the social stability created during the past few years. He noted that the imposition of fiscal discipline as well as tight money controls had worked together to produce predictability in the exchange rate of the naira while also reducing interest rates and inflation.

The NESG chairman identified the dangers of failing to control inflation stressing that it misallocates resources, taxes the poor, destroys savings and investments and fosters speculation while also creating a culture of “short termism”. He demonstrated it was only in the last three years that the overall fiscal balance as a percentage of Gross Domestic Product (GDP) had been positive since 1990. In 1993, he noted, the fiscal

deficit reached 17 per cent of GDP. On inflationary trends since 1990, the picture was one of dramatic change from a figure of less than 10 per cent in 1990 to a high of over 70 per cent in 1995 and back to less than 10 per cent by November 1997. A similar pattern was reflected in the prime lending rates of the commercial banks which moved from just under 30 per cent in 1990 to a high of 60 per cent in 1994 and then progressively down to about 17 per cent in 1997. Meanwhile the nations's foreign reserves had increased from a low of about \$800 million in 1992 to about \$8 billion in 1997.

Malam Mohammed Hayatu-Deen then took over the baton. He stated that although the pursuit of stabilisation had proved successful, the challenge was how to sustain it through non-inflationary growth. The speaker pointed out that, in spite of the solid macro-economic foundation already established, the economy had seen little or no growth in 1997. In addition, the standard of living of the average Nigerian had not improved. "Why then, after all the efforts of the past few years, had the economy remained sluggish?", he wondered.

The basic assessment was that the 1997 budget had been structurally defective since it relied almost exclusively on the public sector to act as the trigger to activate the economy and build on the achievements of the previous three years. The weak purchasing power of the generality of the population, particularly those in the public sector, was identified as a key factor in the failure to achieve any significant growth and this was compounded by the delay in releasing capital allocations. At the beginning of the year, a period of excess liquidity was followed by an extended period of over-control and the overall result was an increase in unemployment and high inventories.

Essentially, it was considered that the 1997 budget had failed to maintain the economic reform momentum of the previous few years since there were no bold measures to further liberalise and deregulate the economy. In addition, the efforts to reform the financial sector stagnated and there was also a failure to abrogate all laws inhibiting competition as had been promised in the 1997 budget itself.

A key factor which could have a major impact on the economic reform programme was identified as the reduction in exploration and production activities in the oil and gas sector. It was pointed out that the consequences of this failure would manifest in about eighteen months when growth targets would probably be difficult to achieve. Meanwhile, the downstream oil and gas sector was facing almost total collapse through the poor maintenance of the refineries and distribution facilities. This had resulted in the scarcity of petroleum products being the rule rather than the exception while the periodic importation of fuel was only a temporary expedient which could not resolve the root cause of the problem. It was pointed out that the Nigerian public suffered a double

punishment since they had to contend with black market prices as well as the frequent adulteration of products. It was concluded that it was the inappropriate pricing of the product which was central to the resolution of the problem.

The negative impact on all aspects of the economy, and particularly on the costs of doing business, of the poor state of the nation's infrastructure was also stressed, although some credit was given for the positive developments in the communications sector - both telecommunications and the road network. For the rest, the power sector and the education sector were both virtually at the point of complete breakdown while the water, ports and health sectors were consistently under-performing. The result of all these failings was that the private sector was required to invest heavily in alternative infrastructure services inducing cost inefficiencies of the order of 28 per cent. This resulted in high product prices which in turn led to weak demand and low capacity utilisation and finally to a lack of re-investment or expansion.

Other factors affecting the business environment, and hence the economy, included the lack of quick and fair dispensation of justice as well as the general insecurity of life and property. These problems were compounded by the proliferation of multiple taxes and levies imposed by the state and local governments and a general failure to acknowledge the sanctity of contracts. The result of all these accumulated problems was a relatively passive private sector which tended to embrace short termism as the best way of sustaining their operations. The problems also encouraged capital flight as well as tax evasion and other economic crimes.

Given the need to activate, as a matter of some urgency, the non-inflationary growth required to meet the targets set by the Vision 2010 report, it was necessary to establish some clear targets for attainment in 1998. It was, therefore, decided that the per capita GDP should be increased by 5 per cent and inflation reduced to 8 per cent (indeed this figure could even be attained before the end of 1997). The savings ratio should be of the order of 20 per cent and there should be a significant reduction in unemployment while money supply should be supportive of the concept of non-inflationary growth.

With respect to the human capital aspects such as health, education and population, the 1998 budget should adopt the relevant proposals in the Vision 2010 report, with 20 per cent of the budget allocated to education and 5 per cent to the health sector. The reform of the public sector should start with a comprehensive assessment/audit by March 1998 with the consequent rationalisation and restructuring targeted for June, 1998. There should also be an exercise to introduce modern information technology into the civil service administration starting in June, 1998 and a significant upgrading of the compensation structure to be introduced by April, 1998. In order to make best use of



all these changes it would also be necessary to invest massively in training and development with some 5 per cent of the budget being allocated to this exercise.

If the private sector was to be the “engine of growth” there was a clear need to reduce the cost of doing business. Such an exercise would also improve the well-being of the consumer while also reducing bureaucracy and opportunities for corruption. There was also a clear need for the introduction of major tax reforms and these could be most effective if they were concentrated on indirect rather than direct taxation. Concentration on efficient taxes would also reduce tax evasion. The business environment would also welcome the immediate banning of all the multiple levies and taxes imposed by the lower tiers of government.

Other tax reforms should include a reduction in personal income taxes through an increase in the initial tax bracket to ₦100,000 and a reduction in the highest rate to 15 per cent. The requirement for tax clearance certificates should also be abolished and excise taxes should be eliminated as should capital gains tax and stamp duty. Corporate tax should be a maximum of 20 per cent while the tariff on raw materials should be a maximum of 10 per cent and there should be a zero duty rate for machinery and spare parts.

There was an urgent need to continue the reforms at the ports in order to make them competitive with neighbouring ports and to reflect the sort of charges generally imposed internationally. The ports should also quickly develop a 24-hour operating capability and the target for clearing goods should be no more than 48 hours. In addition the concept of pre-shipment inspection should be abolished and there should be a policy of “release on indemnity” for duty rate disputes. The customs entry should be a true “one-stop” procedure and the imposition of special levies should be abolished.

The benefits consequent to the introduction of reductions in the cost of doing business include: lower prices; increased demand; higher sales, increased production and hence capacity utilisation; higher employment; service industry growth and, ultimately, non-inflationary growth.

The urgency of the need to introduce a programme of liberalisation and deregulation was made clear and it was proposed that such a programme should be introduced in the 1998 budget as should the necessary enabling legislation and the establishment of an implementation monitoring body. In January 1998 a number of areas should be opened up to competition/privatisation. These include: the downstream petroleum sector; waterworks and transport; telecommunications; power generation; fertiliser/sugar/cement/airlines and paper mills. There should also be a programme for the gradual elimination of subsidies and price controls and this should be announced in January

1998 while, at the same time there should be created a number of regulatory bodies to ensure fair and ethical competition which should also be supported by anti-trust laws.

The adoption of a single exchange rate should be announced in the 1998 budget and a framework to make the naira freely convertible by the end of 1998 should also be announced. In addition, the West African markets should be opened up through the liberalisation of all trade barriers and measures to achieve this should be announced in the 1998 budget.

While the formal establishment of the NIPC was greeted with praise, it was pointed out that it should be a promotional and not a regulatory body. It was also necessary for all contradictory laws to be removed from the statute books by January 1998 while the NDIC should be empowered to speedily resolve the distress in the banking sector - also by January, 1998.

In order to encourage investors it was recommended that expatriate quota requirements should be replaced by work visas and permits obtainable from missions abroad and that these measures should be introduced by March 1998. It was also recommended that a special status should be created, by March 1998, which would allow expatriate investors to obtain four year multiple re-entry visas. The repeal of Section 8 of the Immigration Act of 1963 was also recommended - this section is the one requiring business permits.

There was a need for the amendment of the Consumer Protection Council Decree of 1992 to include a proviso to allow service providers and SOEs to be sued, in order to protect customers. This should be put in place by January 1998. There was also a need to streamline, by January 1998, all investment laws and codes in line with international best practices. There was also a call for the abolition of the requirement for Governor's consent on land transactions and also for the abolition of aliens' cards and expatriate quotas, all of which could be managed through visa controls.

With regard to upstream petroleum and the community relations problems, it was recommended that the allocation of 13 per cent of oil revenue allocations should go directly to state and local governments from the beginning of January 1998. It was also proposed that OMPADEC should be replaced by a planning and monitoring body and that the oil sector should be adequately funded in the 1998 budget with provision also being made for any outstanding payments. In order to ensure the development of trust among all the stakeholders it was proposed that there should be regular reports on and accounts for all the activities of the industry. The need to separately fund, in the 1998 budget, on-going projects in the gas sector was also highlighted as was the need to use

appropriate energy and fiscal policies to make gas the fuel of first choice. The need to dialogue on the subject of marginal fields was also to be encouraged.

With respect to the financial system there was a strong recommendation for the Central Bank to be given autonomy and for it to be modernised. There was also a need for reform in the capital market and in the pensions and insurance industry.

Mr. Dozie then returned to the podium to stress the importance of the public/private sector partnership in resolving the key challenge of implementing the Vision 2010 recommendations. He made it clear that success could only be achieved through co-operation and teamwork and that this requirement should be foremost in the thoughts of all stakeholders as they took up the challenge of attaining Nigeria's vision. He announced the intentions of the private sector to play its part in the process through investment and expansion and by operating efficiently. He recognised the need to undertake trade and investment missions to support the NIPC and also the need for the private sector to assist in the funding of education and infrastructure and to improve business practices. He confirmed the private sector's willingness to assist government in eradicating corruption in all sectors of the economy and agreed to encourage the private sector to become better corporate citizens through the timely payment of taxes and other legitimate dues and levies.

The need for the private sector to assist in the fight against illiteracy and poverty was also acknowledged as was the need to pass down to the citizenry the benefits of any incentives. He also agreed that the private sector should assist in actively promoting the image of Nigeria abroad. Finally, Mr. Dozie reaffirmed that the successful attainment of the Vision 2010 recommendations could only be possible through the joint co-operation of the public and private sectors and he reminded participants that the Economic Summit structure could only have been sustained through such co-operation and it was now incumbent on everyone to use this powerful relationship in the attainment of the Vision 2010 dream for the benefit of all Nigerians.

### **Closing Address – General Sani Abacha**

In a seventeen-paragraph closing address, the Head of State, Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria, General Sani Abacha, GCON, congratulated participants for a successful Summit. He expressed profound delight at the concern for Nigeria's economic health demonstrated by participants, describing the atmosphere of frankness that pervaded the presentations and discussions as praiseworthy.

The Head of State assured that the government would study the recommendations of the Summit with a view to deciding what aspects to include in the 1998 budget. Noting that one of the greatest challenges of our time was how best to improve the quality of life of the entire citizenry, General Abacha pledged his administration's continued commitment to economic reforms. In this regard, the Head of State told an appreciative audience that his government had already made market-oriented and market-friendly policies the foundation stones of its economic philosophy. This, he said, was being pursued by implementing "economic reforms capable of laying a solid foundation for the private sector to perform its natural role of being the main engine of economic growth and development".

General Abacha also expressed the hope that future administrations would continue to encourage private sector-led development given the directions in which the forces of globalisation and technological change were moving the whole world. "This is the best and surest route to sustainable growth, development and material prosperity", the Head of State noted. He then charged the private sector to build on Nigeria's comparative advantages to give the Vision 2010 programme a "really good beginning" by raising real sector output in 1998:

*"Economic performance in 1998 must show the resolve of all the major operators to start to take those quantum leaps that will bring that level of growth we aspire to. Both the public and private sectors must begin in 1998 to lay a new and solid foundation for the attainment of the goals of the Vision 2010 programme in agriculture, agro-allied industries, manufacturing, trade and distribution, solid minerals and other economic subsectors".*

The Head of State recognised that transformation of the Nigerian economy, a key objective of the Vision 2010 programme, would require greater discipline by all stakeholders to curb and remove the shortcomings of past efforts at development plan implementation.

To make this possible, General Abacha pledged that the government would study the presentations at the Summit by Mrs. Zepp-LaRouche of the Executive Intelligence Review and Professor Paul Collier of Oxford University for lessons.

General Abacha returned to the theme of stronger and purposeful teamwork between the public and the private sectors. "We all know where we want to go", he stated amid thunderous applause, stressing, "what remains is for us to take and implement the tough decisions required to get us there".

The Head of State described the private sector as a full partner with government saying his administration expected it to mobilise effectively and take on the role expected of it under the Vision 2010 programme. “The private sector is expected to increase its pace of investment, create new local and international markets for the nation’s goods, learn to compete at the global level and do what it can to assist in improving the living standards of Nigerians”, General Abacha said.

Lastly, the Head of State assured genuine offshore investors of the safety of their lives and investments.

### **Economic Diplomacy and Foreign Policy - Ambassador George Dove-Edwin**

Ambassador Dove-Edwin presented his paper at a dinner, hosted by finance minister, Chief Anthony Ani, to close the Summit.

Employing the use of definitions, he explained the components of foreign policy and differentiated it from diplomacy. To both, however, he identified economic interests as a common feature. The goal of foreign policy was to increase national income, wealth, prosperity and the security of the people, while the motive power of diplomacy as far back as the days of the ancient Greeks had been economic which in those days gave rise to trade and/or territorial expansion and empires. Although the practice of territorial expansion might have given way to peaceful co-existence, economic interest remains an important component of diplomacy and foreign policy.

The retired diplomat traced the advent of “economic diplomacy” in Nigeria’s foreign policy back to the run-up to the country’s independence in the nucleus of the Nigeria Commission of 1954 which comprised trade and associated units within the trade section manned by officials from the Department of Marketing and Exports. This was to be followed by a large “world economic mission” of ministers and business men in 1959 led by the then finance minister, Chief Festus Okotie-Eboh.

The trend, Mr. Dove-Edwin noted, developed to a point where high-level experts were posted to look after trade and investment affairs.

He paid tribute to Major-General Ike Nwachukwu who, as foreign minister in 1988 sought to give economic interest its rightful place in the conduct of the country’s foreign policy, in line with increased national income being the over-riding goal of foreign policy. He, however, regretted the inconsistency in the execution of this policy saying this had put Nigeria at a disadvantage with regard to the new negotiations for the next

agreement between the European Union and the African, Caribbean and Pacific States (Lome V) due in less than 10 months. Nigeria, he disclosed, presently had no substantive head of mission at its embassy in Brussels.

With the use of examples, he took economic diplomacy into the broader realm of multilateral diplomacy, where he cited ECOWAS as a success story for Nigeria even though there were still outstanding problems such as the implementation of the 23 protocols which provide legal form for the implementation of agreed specific programmes for harmonisation and co-operation.

Also explaining the importance of economic diplomacy in the emerging global village, Mr. Dove-Edwin observed that following the First Ministerial Review conference of the World Trade Organisation in December last year, the body, the World Bank and the International Monetary Fund (IMF) now constitute a tripod of monetary policy in an arrangement intended to provide coherence in global economic policy making. The trend, he said, had given rise in some countries to a structure where ministries responsible for foreign affairs and international trade combined into a Ministry of Foreign Affairs and International Trade.

He also cited the example of the Commonwealth of nations, which thirty-three years after the late prime minister, Sir Abubakar Tafawa Balewa observed that it could give a lead to "the rest of the world in the economic field", re-emphasised economic co-operation at its last CHOGM in Edinburgh. Mr. Dove-Edwin therefore urged the country to resolve its jurisdictional disputes with the WTO and to empower its delegation to the organisation by mandate and timely guidance to work in concert with other delegations for the completion of WTO negotiations for the proposed Multilateral Agreement on Investments.

Rising to the challenges of economic diplomacy however raised even more challenges at home. The retired ambassador listed such challenges as increased local productivity, training and capacity building in the civil service and improved information technology.

## **Section 2:**

# **Group Reports**

## **Group 1: Private and Public Sector Roles**

The group started its work with a careful delineation of the functions of both sectors in economic development. It described the primary function of the public sector as the provision of an enabling environment for private investment to thrive and to expand the frontiers for future private investment, achievable through legislation, policy formulation and administration, funding and infrastructural development, effective governance, stable polity and safeguarding security of life and property, among others. The private sector on the other hand, had the responsibility to grasp opportunities inherent in the economy while continuously striving for improvement in the provision of goods and services and showing corporate responsibility.

### **Issues Identified**

Mutual distrust and lack of communication and consultation were identified by the group as factors encumbering the complementary roles of the two sectors. It therefore dwelt elaborately on the promotion of co-operation and elimination of areas of distrust between the public and the private sectors.

### **Issues Discussed**

A wide range of issues was discussed and recommendations were made.

### **Recommendations**

These included:

- The promotion of greater co-operation and the elimination of distrust between the public and private sectors through improved communication and dialogue, periodic consultations, and a two-way exchange of personnel to enhance mutual understanding;

- The enacting of legislation prohibiting the use of tax contractors/consultants and armed forces personnel to collect taxes;
- The elimination of laws which inhibit competition and discourage investment. Provide level playing field for all investors;
- Rationalising multiple taxes and toll gates to reduce the cost of doing business;
- Maintaining a peaceful, secure and stable polity;
- Establishing a comprehensive set of fiscal incentives to encourage the development of industries in areas of high comparative advantage;
- Reviewing the pre-shipment decrees to reduce bottlenecks and eliminate added costs;
- Repealing the laws establishing commodity boards and encourage the establishment of commodity exchanges;
- Building social capital to reduce transaction costs and rapid improvement of infrastructure;
- Reducing the multiplicity of regulatory agencies;
- Pursuing a single exchange rate policy;
- Resolving existing conflicts arising from Federal Government ownership of mineral rights and state government control of land titles;
- Repealing Section 8 of the Immigration Act which requires business permits and abolishing alien registration requirements which are now obsolete;
- Overhauling the bureaucracy and improving its reward pattern to make it more responsive to the demands of the private investor;
- Strengthening the Nigerian Investment Promotion Commission;
- Shifting government investment in favour of human resources development, poverty alleviation, and disburse accumulated revenue from the education tax; and



- Provision of more primary healthcare services in each community and promoting awareness towards improvement of health education and family planning.

### **Areas of Increased Collaboration**

The group urged government to:

- Reduce its involvement in the areas of infrastructural development and tertiary education.
- Introduce enabling law to facilitate implementation of the recommendations and build bridges between the public and the private sectors;
- Implement the Strategic Grains Reserve Programme for greater food security through a system of re-distributing food from surplus to deficit areas and increase investment in the preservation and processing of agricultural produce by both sectors;
- Continue to invest in virgin areas to open up opportunities for private investment and withdraw when the private sector shows competence to take over;
- Invest in basic research that would offer opportunities for future private investments,
- Adhere to a policy of improving government fiscal operations through revenue mobilisation and transparent accounting of same, prudent spending, efficient payment and budgetary discipline;
- Borrow from the financial markets at market determined rates to instil fiscal discipline as far as possible;
- Improve audit consultative and investigative services to ensure effective and efficient utilisation of funds, and the three tiers of government should be involved;
- Agree on the Medium Term Economic Strategy (MTES) with the World Bank/IMF as quickly as possible so as to resolve the Paris Club debt overhang;

- Develop an appropriate and well co-ordinated training programme to improve manpower support for debt management and for operators in the capital market for both the Federal and state governments;
- Further liberalise the Debt Conversion Programme (DCP) to make it more attractive;
- Promote joint research among research institutions, private companies and universities on technological requirement of targeted manufacturing industries;
- Strengthen the Nigerian Industrial Development Bank (for large enterprises) and the Nigerian Bank for Commerce and Industry (for small and medium enterprises) to be able to assist in meeting at least 50 per cent of the financial requirement of targeted manufacturing projects both in management and funds;
- Use government procurement policy in the proposed establishment of a comprehensive set of fiscal incentives to encourage the development of our high potential industries.

The group also found time to make recommendations on other issues which affect the mutual co-existence of the two sectors and made appropriate recommendations. Arising from this, it urged government to:

- Review pre-shipment inspection decrees to reduce bottlenecks and eliminate added costs;
- Review multiplicity of regulatory agencies checking goods at the ports for instance Customs, NDLEA, NAFDAC and Immigration are all checking persons and goods;
- Repeal the laws setting up commodity boards since they have been abolished. It was discussed that commodity exchanges should be a priority area and to involve the private sector to get good varieties of feeds, animal breads, fertiliser, irrigation and feeder roads;
- It was considered that there should be extension and improvement of the quality of science, engineering technology and mathematics education training at the vocational, secondary and tertiary levels.

## **Group 2: Economic Role in Africa**

### **Introduction**

The group deliberated on Nigeria's Economic Role in Africa against the background of the Report and Recommendations of the Vision 2010 Committee on this subject. At the onset, it was agreed that **Nigeria's Role in Africa should be driven by economic interests.**

In terms of Gross Domestic Product (GDP), Nigeria with \$37 billion is currently Africa's fourth largest economy after South Africa (\$125 billion), Algeria (\$42 billion) and Egypt (\$38 billion). The long-term objective is for Nigeria to be the leading economy in Africa.

### **Issues Identified**

The group considered Economic Role in Africa under the following headings:

- foreign policy infrastructure
- regionalisation
- "Gateway to Africa Concept" as national policy
- Point industries to enhance continental competitiveness
- promotion of external image
- sound domestic economic base

### **Issues Discussed**

#### **1. Foreign Policy Infrastructure**

The group recognised that an efficient and effective foreign policy infrastructure was critical to Nigeria's economic role in Africa. A number of observations were made regarding the current situation. These included:

- lack of adequate diplomatic representation at key missions in Africa and overseas;
- absence of co-ordinated economic agenda and support infrastructure consistent with political and military role currently being played in Africa;

- the link between the Nigerian private sector and the public sector, particularly in foreign missions, needed to be strengthened;
- given the image problems overseas, the need to appoint strong and nationalistic staff to our foreign missions was emphasised;
- the current CBN advertorial on advance fee fraud could be more positively worded and less apologetic;
- information on Nigerian private sector (Business Directory) and promotion of Nigeria's brands at foreign missions was essential to promote Nigeria's economic competitiveness.

## 2. Regionalisation

The group reviewed Nigeria's role in ECOWAS and the current level of success in ECOWAS integration. Developments in other parts of Africa (Southern Africa – SADCC, Central Africa and North Africa) were reviewed.

The following observations were made:

- Nigeria had made and continues to make significant contributions to ECOWAS and currently funds more than 30 per cent of ECOWAS budget;
- Nigeria was the largest investor in African Development Bank (ADB);
- After twenty-two years of ECOWAS, true economic integration was yet to be achieved;
- Issues relating to transportation, monetary transfers, customs union and harmonisation of commercial laws, though covered by treaties, were yet to be resolved due to non-implementation;
- UEMOA, covering the francophone countries was considered to be more successful in economic integration. The relative merits of Nigeria and other English-speaking countries seeking admission into UEMOA as a means of accelerating economic integration was exhaustively debated;

- The expansion of ECOWAS and creation of “GREATER ECOWAS” to include Nigeria’s eastern neighbours (Chad, Cameroon, Gabon, Equatorial Guinea, Sao Tome and Principe) was considered desirable;
- Overall, the group concluded that Nigeria should be in the forefront of regional economic integration to support economic diplomacy.

### **“Gateway to Africa” Concept as Nigeria’s National Policy**

- Given Nigeria’s population, geographic location, captive traffic, airports and seaports infrastructure, the country was ideally suited to be the GATEWAY TO AFRICA. This could be realised in a number of key sectors:
- Nigeria as the centre for regional air transportation (air hub);
- Nigerian ports to operate as the cargo centre and freeports;
- Investments in Nigeria as gateway to the African market.

The benefits to Nigeria in adopting the GATEWAY POLICY are several:

- increase in foreign exchange earnings from airports and seaports;
- increase in domestic activities in hotels and tourism and employment, as more international airlines and shipping companies operate out of Nigeria;
- development of strategic alliances between Nigeria and international operators.

The group recognised that the infrastructure to support the GATEWAY POLICY did not fully exist, and significant policy shifts, and infrastructure development would be required in key areas. Such areas include:

- liberalisation of air services agreements and adoption of open sky policy;
- greater level of efficiency and cost competitiveness at sea and airports to achieve world class quality;
- operation of freeports and accelerated clearance of transit cargo;

- improvement in ports and telecommunications infrastructure;
- adjustment to immigration and customs operations to make Nigeria the most efficient centre for transiting of persons and cargo.

The group recognised that, already, Cote d'Ivoire and Ghana had adopted and were promoting the gateway concept to the international community. South Africa, despite its disadvantaged geographic location, had been promoting a similar policy.

The group recognised that, if appropriately implemented, the investment in GATEWAY POLICY could contribute to GDP increase higher than petroleum given the experience of countries like Singapore.

### **Point Industries to Enhance Continental Competitiveness**

Nigeria had key advantages in some sectors that should drive the country's economic role in Africa. These competitive advantages include:

- abundant oil and gas reserves;
- sizeable domestic population and market;
- the largest concentration of well-trained professionals in the African continent;
- emerging national entrepreneurship in the banking sector;
- These competitive advantages should lead to the development of continent-wide industry and service sectors;
- The group also recognised that South Africa was the leading industrial economy with well-developed petroleum refining and petrochemicals, iron, steel and metallic, chemical process, and consumer product manufacturing. Egypt was also very well established in quality textile manufacturing, Algeria's petroleum downstream sector was also well developed.

### **External Information Management**

External image was critical to Nigeria's economic role in Africa. Direct communication from source to facilitate external information flow (by removing delays and distortions)

was considered desirable. It was agreed that ministries and ministers should have direct accountability for communicating information in their areas of responsibility. If implemented properly, there would be no need for a separate Ministry of Information.

### **Sound Domestic Economic Base**

To play a leading role in Africa's economy, Nigeria must develop a sound domestic economic base. The proposals to achieve this had been covered in the work of other Summit discussion groups.

### **Conclusions and Recommendations**

#### **Nigeria's Foreign Policy infrastructure should be strengthened**

This would be achieved by:

- immediate appointing ambassadors and key personnel to all embassies;
- establishing economic agenda for Africa and appropriate support infrastructure;
- establishing a National Agency for International Trade and Investment to promote Nigerian enterprises' products and services in Africa and the world;
- integrating public/private sector partnership as instrument of foreign economic policy;
- establishing infrastructure to obtain information on African markets.

#### **Ensure speedy achievement of ECOWAS Union and build a "GREATER ECOWAS"**

- implement all protocols to resolve problems associated with customs, monetary transfers, transportation, telecommunications, commercial laws and practices in the region;
- integrated Anglo/Francophone West Africa. Nigeria should consider joining UEMOA as a means of accelerating this. The political difficulties of this proposal were well-recognised, but still surmountable;

- Nigeria to lead the initiation of a regional (ECOWAS) vision project;
- Nigeria should seek expansion of ECOWAS to include her eastern neighbours.

### **Establish Nigeria as the Gateway to Africa**

Policy decisions to support this should be immediately implemented:

- immediately announce and launch a GATEWAY policy;
- operate open-sky policy in place of existing bilateral air services agreements and support strategic alliances between domestic airlines and foreign operators;
- improve airports and seaports infrastructure, handling efficiency and cost competitiveness;
- amend immigration and customs policies to establish Nigeria as the most efficient transit centre for cargo and persons in Africa.

### **Adopt policies to support Nigeria's role in key industries for export**

Target industries include:

- oil and gas
- banking
- manpower export

### **Promote Nigeria's image abroad**

- direct communication from source to facilitate information flow to remove delays/distortions. Ministries should have direct accountability in this arrangement.

### **Establish sound domestic economic base**

Detailed recommendations in this regard would come from other groups' discussions.



## **Group 3: International Trade**

In this era of increasing globalisation with countries making conscious efforts to take advantage of the opportunities therefrom, the group identified international trade as playing a significant role in national development.

### **Issues Discussed**

The group discussed how best Nigeria could reap the benefits of international trade and the need to reduce the cost of doing business in the country, which it noted, was higher than most other countries because of bottlenecks to smooth trade flows. It also discussed the following:

- Policies that constitute disincentives to international trade;
- The importance of establishing export outlets in some selected countries and the globalisation of some Nigerian companies;
- The role of the EPZ, NEXIM, NEPC and the NIPC in promoting exports;
- The case of 419 (scam) cases viewed as one of the fundamental problems disrupting smooth international trade.

### **Recommendations**

As a first step for the 1998 budget, the group advised that policies that amount to disinvestives should be fine-tuned and possibly eliminated. It therefore recommended among others:

- The abrogation of the Pre-shipment Inspection Decree and other bottlenecks;
- Harmonisation of trade procedures and documentation in line with the international trade transactions model;
- Improved efficiency of export incentives which includes provision of funding for administration of schemes such as the Duty Drawback Scheme; payment of export raw materials duty to a special account; the provision of a bank bond; and the re-opening of NEPC commercial offices in missions overseas;
- Scrapping cargo allocation by NMA because of the constraints it poses to trade;

- Need for consistency in policy formulation and implementation;
- Reduction of multiple regulatory agencies at the ports;
- Promotion of tourism as a foreign exchange earner through the provision of relevant incentives;
- Re-orientation programme for the Customs Service incorporating a selective recruitment scheme and elimination of undesirables within the service;
- Provision of necessary infrastructure for the EPZ and ensuring its effective functioning;
- Elimination of bottlenecks at the ports to enhance the easy clearing of goods.

## **Group 4: Fiscal Systems**

### **Introduction**

The group browsed through the Vision 2010 Action Plan recommended for immediate implementation and noted pertinent issues, especially some of the macro-economic issues. The group also drew inspiration from the Head of State's keynote address on growth prospects which hinged on fiscal discipline and increase in purchasing power of the people. Members agreed that revenue mobilisation through taxation was a major area begging for reform to improve the existing situation.

### **Issues Identified**

Six (6) key issues were identified for discussion as follows:

- Personal income tax rate and non-taxable allowances;
- Corporate income tax rates;
- Relative superiority of indirect over direct taxation;

- Cost of doing business in Nigeria considered high and non-competitive;
- Need to publish government expenditures and revenues for transparency and accountability;
- Need to widen the VAT net to capture informal sector.

## **Issues Discussed**

### **Downward Review of Existing Personal Income Tax Rates**

The group noted that personal income tax was being administered in an environment of very low wages especially in the public sector. In the case of non-taxable allowances, the group agreed that these were too low since personal income tax reduced the purchasing power of tax payers through PAYE. Members stressed that the same was true of the private sector, especially, minimum wage earners. The existing income tax regime was blamed for eroding consumer purchasing power leading to build-up of unsold stock and widespread retrenchments. Besides, the group believed that lower personal income tax rate increased compliance and willingness to pay while at the same time, enhancing citizens' purchasing power.

### **Downward Review of Corporate Tax Rate**

The group discussed the lowering of corporate tax rate for the same reason of increasing purchasing power, enhancing compliance and increasing profitability for the firm. It was noted that the use of tax consultants and armed forces/police personnel for tax collection was unhelpful for tax administration. Members believed that the practice was poisoning the business environment and discouraging would-be investors. The group also noted that the Joint Tax Board in 1997 decided a list of taxes payable to each tier of government, but observed that some states and local governments had ignored this and continued in their habit of subjecting corporate entities to multiplicity of taxes.

### **Movement Towards Indirect Taxation**

The group discussed the success of Value Added Tax (VAT) and noted that as an indirect tax on consumption, it had largely ensured compliance. Members also noted its shortcomings in the area of refunds and offsets and felt that a system would be established to facilitate these. It was recognised that if the system was improved upon,

VAT could attract fuller compliance. The group also examined downward review of import duty on spare parts and components including raw materials and agreed that it could help reduce cost of inputs generally thereby improving competitiveness on outputs especially products for export.

### **Government Revenue/Expenditure Programme**

The group noted that revenue drive to meet perceived expenditure programmes was fundamental to a sound fiscal operation and policy. It noted however that accounts of aggregate revenue and expenditures at the end of the year were hardly audited and published especially by state and local governments. The group agreed that publication would bring about transparency and openness in governance needed to attract investments and enhanced tax compliance by both individual and corporate citizens. Members strongly felt that government expenditure should focus on infrastructure and social services and that such infrastructure should be commercialised or privatised to bring in additional revenue for their maintenance (e.g. airports, toll gates and roads). Government, it was observed, should avoid commercial ventures that the private sector was better placed to handle.

### **Conclusions and Recommendations**

The group agreed that with the macro-economic indices stable at the moment, what was needed were reforms to bring about economic growth through additional investment and increased consumer purchasing power. The group therefore asked the government to include the following recommendations in the 1998 budget:

#### **Personal Income Tax Rate**

Allow 15 per cent maximum tax rate to improve the purchasing power of individual tax payers.

#### **Corporate Tax Rate**

- Lower corporate tax rate to 25% from the current 30%;
- Abolish excise duty;
- Introduce legislation to give legal backing to the decisions of the Joint Tax Board on multiple taxes.

## **Measures for Lowering Cost of Doing Business**

- Introduce a workable offset or refund mechanism for VAT;
- Reduce import duty on spare parts, raw materials and components;
- Abolish the use of tax collectors, members of the armed forces and police personnel in tax administration and train Inland Revenue Service personnel to perform these roles.

## **Government Expenditure**

- Ensure that government expenditure focuses on infrastructure and social services rather than commercial ventures;
- Commercialise public utilities including airports and roads;
- Introduce measures to ensure that the revenue and expenditure accounts of all tiers of government are audited and published regularly.

## **Group 5: Monetary System/Reforms**

The group started by examining the main objectives of monetary policy. It identified the key objectives of monetary policy in 1998 and up to the year 2010 as the achievement of domestic price stability with sustainable economic growth. This was informed by the fact that low and stable prices were key to real economic growth and welfare. It was, however, recognised that low inflation may not necessarily translate into high real growth or improved standard of living. This appeared to be the case in Nigeria currently as inflation had fallen significantly since late 1995 while real output had remained low.

## **Issues Identified**

Issues identified for discussions in support of the agreed objectives of monetary policy included:

- autonomy of the Central Bank of Nigeria
- single market-related exchange rate for the economy
- outstanding restrictions on current account transactions
- strengthening the institutional environment in the financial system
- improving the payments system

## **Issues Discussed**

### **a. Central Bank Autonomy**

Inflation rate variations between countries, as noted in the Vision 2010 report, could be explained by the degree of autonomy of individual countries' central banks. Countries with strong, autonomous central banks tended to achieve lower and more stable inflation rates. It was noted that attainment of low and stable prices involved a long-term view and effort. This, therefore, could not be entrusted to the political class which usually have relatively short-term goals. The 1992 Maastricht Treaty embodies the ideals of a modern central bank and strongly advocates an independent central bank to ensure long-term price stability.

### **b. Single Market-Related Exchange Rate**

The current dual exchange rate regime results in unintended sterilisation. As an example, the government monetises its oil revenue at the official exchange rate of ₦22.0/US\$ but sells such dollar inflows at a much higher rate in the autonomous foreign exchange market (AFEM). But as long as AFEM sales proceeds are not kept with and spent through the Central Bank it would amount to withdrawals from the system.

Also, government's non-debt expenditure was effected at the autonomous rate of exchange. Government, in effect, short-changes itself, since it monetises its revenue at the official exchange rate.

These factors leads to distortions in the system and encourage rent-seeking activities.

### **c. Outstanding Restrictions on Current Account Transactions**

Nigeria was yet to fully adopt the provisions of Article VIII of the IMF Articles of Agreement that would make for current account convertibility of the naira. Subregional currency convertibility was also within the context of the ECOWAS Monetary Union.

### **d. Strengthening the Institutional Environment in the Financial System**

Public confidence in the financial system remained low due to persisting distress. Efforts at solving the distress problem by attempting to salvage terminally distressed banks amounted to chasing bad money with good money.

It is also noted that lingering distress could contaminate healthy institutions. Although the Central Bank and the Nigerian Deposit Insurance Corporation (NDIC) had already submitted proposals on resolving distress in the banking system, these proposals were yet to be implemented.

**e. Improving the Payments System**

Banks currently spend a lot of time and incur high costs, sorting and counting naira notes. Members of the public also suffer the inconvenience and risk of carrying large sums of naira for purposes of making purchases. That the highest denomination of the naira remains fifty naira adds to this problem which has been made worse by the existing stoppage of the printing of fifty naira notes. In addition, cheques were a popular mode of payment in the country.

## **Recommendations**

In order to address the issues identified and discussed above, the following recommendations were made:

**a. Central Bank Autonomy**

- the target rate of inflation in 1998 should not exceed 9 per cent;
- the Central Bank of Nigeria (CBN) should be granted autonomy in order to effectively pursue the objectives of maintaining a stable price level. In this regard, the provisions of the CBN Decree, 1991, making the Governor the chairman and chief executive of the board of directors of the CBN should be restored. The Governor should report directly to the Head of State in the military regime, but to the legislature under a civilian government;
- there should be a provision in the revised CBN Decree that the Governor and other members of the CBN board should be appointed by the President but with confirmation of the Senate. Also, composition of the board of directors should be structured in form of executive members; and
- the revised CBN Decree should compel government not to borrow from the CBN; it should borrow from outside CBN at market-determined rates.

**b. Single Market-Determined Exchange Rate**

- the official exchange rate should be unified with the AFEM rate in order to remove existing distortions and discourage any form of rent-seeking;
- exchange rate determination should be left to market forces, as much as possible. Any intervention should be dictated by changes in economic fundamentals.

**c. Outstanding Restrictions on Current Account Transactions**

- Nigeria should accept full obligations under Article VIII of the IMF Articles of Agreement requiring current account convertibility;
- The country should also start working towards naira convertibility within ECOWAS by taking actions to meet the agreed conditionality.

**d. Strengthening the Institutional Environment in the Financial System**

Distress in the banking system should be fully resolved in 1998 so as to restore full public confidence in the system.

- all terminally distressed banks should be allowed to die;
- all the proposals already submitted by CBN and NDIC on distress resolution should be implemented in 1998; and
- existing specialised institutions should be rationalised and recapitalised.

**e. Improving the Payment System**

- ban on printing of ₦50 notes should be lifted immediately while ₦100 notes, and even higher denominations, should be introduced;
- Government should give a lead in popularising use of cheques by accepting cheques for debt settlement;



- the Dud Cheques Decree should be more effectively enforced through diligent prosecution of offenders. A special division of the high court could be created for that purpose.

## **Group 6: Capital Markets**

### **Introduction**

The group's proceedings were based primarily on the vision of Nigeria's capital market as articulated by the VISION 2010 Committee. That is, that by the year 2010, Nigeria's capital market shall be "transparent, efficient, liquid, competitive, transacting in widely-held and diverse securities, and supported by pro-active regulations".

Major capital market developments and policy initiatives in 1997 were identified by the group. These were:

- commencement of the automated delivery and settlement module of the Central Securities Clearing System;
- submission of the Odife Panel's report on "Review of the Capital Market" and initiation, by government, of consultations with various concerned groups;
- drafting of various decrees regarding the funding and management of pension schemes;
- inauguration of the governing council of the Nigerian Investment Promotion Commission.

### **Issues Identified**

The following issues were identified for discussion:

- market capitalisation as a ratio of GDP;
- diversity and sophistication of traded instruments;
- trading volume (market liquidity);
- level of integrity and professionalism;
- development of cross-border listing of securities.

## **Issues Discussed**

### **a) Market Capitalisation**

The current ratio of market capitalisation relative to GDP is very low. The target ratio for the year 2010 is 250 per cent. An active primary market is important for attaining this ratio and the reactivation of the privatisation programme will provide a major boost in this regard.

### **b) Diversity and Sophistication of Traded Instruments**

Instruments currently traded are rudimentary and narrow in range. There is a need to enhance the efficiency of the existing market in such basic securities as shares, bonds and debentures while at the same time working towards introduction of more sophisticated instruments such as warrants, options and other derivative securities.

### **c) Trading Volume**

Market liquidity remains low. Improved volume could be achieved through enhanced transparency, efficiency and speed of the trading, settlement and delivery system. The recently introduced Central Securities Clearing System (CSCS) is still going through teething problems and is yet to earn the confidence of capital market players.

### **d) Level of Integrity and Professionalism**

The market needs to develop a higher level of integrity and professionalism as well as a strong research focus. These are necessary to build public confidence in the market.

### **e) Development of Cross-Border Listing of Securities**

This is desirable, particularly with the privatisation programme that is expected to bring very large volumes of securities into the market. The simultaneous offering of shares of major institutions such as NEPA and NITEL on the Nigerian and foreign stock exchanges would boost take up of the shares.

## **Recommendations**

### **a) Market Capitalisation**

- the privatisation and commercialisation programmes should immediately resume through the Nigerian capital market;
- Government should provide fiscal incentives and enlightenment programmes, along with other capital market institutions, to encourage companies to seek listing on the stock exchange;
- incentives for Venture Capital Companies (VCC) as engines of entrepreneurship, should be provided. VCC activities usually result in initial public offerings of shares;
- Government debts should be securitised and issued through the capital market on a regular basis. Also, states, local governments and other governmental agencies should be encouraged to raise funds from the local capital markets.

### **b) Diversity and Sophistication of Traded Instruments**

- Establishment of Over the Counter Market (OTC) should be encouraged to formalise trading in stocks of unquoted public limited companies;
- Take steps to set up a national mortgage guarantee agency. The agency would issue mortgage bonds guaranteed by government and would purchase housing loans from banks and other mortgage institutions;
- sections of the Companies and Allied Matters Decree, and the Securities and Exchange Commission Decree impeding market development should be amended;
- the framework should be established for development of options and future exchanges as well as markets for trading in fixed contracts on Nigeria's major commodities such as crude oil, palm oil, palm kernel oil and cocoa.

**c) Trading Volume**

- listing process should be reviewed to reduce cycle time from the current four to twelve months to between three and four months;
- the Stock Exchange should adopt a price and order-driven bid and allocation system to boost trade and transparency;
- Unit Trusts and other special purpose investment vehicles should be conferred with tax-exempt status to encourage savings mobilisation for capital market investment;
- a legal framework for pension funds' management and funding should be developed to encourage build-up of long-term investible funds;
- the stock market delivery and settlement systems should be merged to same day to conform with international best practices;
- legislative constraints on portfolio composition which impede trading in marketable securities such as contained in the Trustee Investment Act and Insurance Decree should be reviewed;
- policies and measures should be put in place to encourage return of Nigerian capital abroad.

**d) Level of Integrity and Professionalism**

- regulators and operators should design a comprehensive code of conduct for market operators to, among other things, ensure prompt settlement of claims among brokers and submission of interim and final results by company secretaries;
- SEC should insist on recomposition of the Council of the Stock Exchange with dealing members in majority;
- the capital market should be opened up for participation of foreign firms to enhance acquisition of new skills and technology and new products introduction.

e) **Development of Cross-Border Listing of Securities**

- cross-border listing of Nigerian shares should be encouraged. NSE listing rules should be reviewed while the NSE should sign MOUs with foreign stock exchanges to make this possible;
- double taxation treaty negotiations with key countries should be concluded to make the Nigerian market more attractive to foreign investors.

f) **Transaction Costs**

- cost of transactions in the market should be significantly reduced to encourage higher level of activity;
- costs of primary issues should be rationalised to a maximum of six to seven per cent in line with international levels;
- regulatory authorities' fees should be based strictly on nominal value for transactions not involving raising of fresh capital;
- combined SEC, NSE and other statutory charges on secondary market transactions should be reduced to a maximum of 0.25 per cent as against the current rate of one per cent;
- fiscal incentives by way of elimination of VAT, capital gains tax, stamp duty and other taxes on all capital market transactions should be provided in line with the practice in other emerging markets;
- stockbrokers' commissions should be deregulated to encourage competition.

## **Group 7: Sustainable Economic Growth**

The group, in line with the guidelines, restated the target of 10 per cent average GDP annual growth rate during the Vision 2010 period and deliberated on inputs to the 1998 budget.

## Issues Discussed

It reviewed this year's economic indicators and set targets for the 1998 budget as follows:

	<u>1997</u>	<u>1998</u>
- Real GDP Growth Rate	4.0	5.0 (minimum)
- Inflation	Single Digit	<8%
- Government Operations	Surplus	Balanced Budget
- Unemployment	High	Lower

To achieve 1998 target, the group noted the necessity to institutionalise macro-economic stability and take growth-inducing actions.

## Recommendations

Towards the achievement of these set goals, the group urged government to do the following:

- institutionalise macro-economic stability;
- grant autonomy to the Central Bank of Nigeria;
- unify the dual exchange rate;
- allow oil companies to sell their foreign exchange to the market;
- make government borrow at market rates;
- ensure speedy liquidation of failed banks;
- harmonise port tariffs with neighbours to win back traffic lost to neighbouring ports;
- abide by signed international agreements and protocol;
- limit the federal budget deficit to not more than 3 per cent of GDP by legislation.

## Growth – inducing Actions

- privatisation with competition in the following sectors: power supply, telecommunication, downstream petroleum and transportation;
- generation of employment through such windows as direct labour/public works;
- faithful implementation of FEAP in favour of small-scale enterprises; and the strengthening of institutions like the People's Bank, Community Banks and the

NACB based on market principles; as well as streamlining and monetising public sector compensation;

- agreeing with the World Bank and International Monetary Fund on the Medium-Term Economic Programme;
- reducing Corporate and Personal Income tax;
- abolishing pre-shipment inspection;
- abolishing excise duties;
- banning the use of tax consultants;
- boosting exports by streamlining port processes; abolishing pre-export inspections; and giving exporters tax incentives.

## **Group 8: Infrastructure**

The group reviewed the state of the country's infrastructure, observing with a warning that some facilities were near collapse, and made a number of wide-ranging recommendations which include those to be considered in the 1998 budget.

### **Issues Discussed**

The various components of social and economic infrastructure were itemised and discussed. They include:

- Power supply which the group noted had almost collapsed;
- Telecommunications where there were some signs of deregulation;
- Transport (Air, sea and land);
- Water supply;
- Surveying and mapping;
- Ecology and environment.

## **Recommendations**

The recommendations of the group were in three categories. These were broad recommendations, those that needed urgent attention in the 1998 budget, as well as those classified as Vision 2010 support.

### **Broad Recommendations**

- Infrastructure to grow at twenty per cent per annum for a GDP growth of ten per cent to be realised;
- Rehabilitation of all facilities in 1998 to their installed capacities, but not less than twenty per cent above 1998 capacity;
- Integration of all transport modes under one ministry or alternatively create a Transport Commission;
- Improvement of aviation safety and passenger comfort by the judicious use of fees collected;
- Liberalisation of laws and practices to be introduced in power, aviation, highway, water supply; with power to derive income and to spend;
- Undertaking a study for appropriate scale management of solid waste, re-collection, disposal, biomas, land till and re-cycling, and tree-planting as well as catchment management in respect of water channels;
- Embarking and mapping as well as introducing a national electronic databank network.

### **Recommended Inputs to the 1998 Budget**

#### **Power**

- Rehabilitation of all thermal stations and the Kainji Hydro Station;
- Commencement of construction of new thermal stations and transmission lines to achieve 20 per cent growth;
- Liberalisation of the industry by law and attraction of private sector participation;



## **Telecommunication**

- Continuous improvement and installation of additional 20 per cent capacity;
- Licensing additional national carriers and provision of free licences for increased participation of other investors by the first quarter of 1998;
- NITEL to provide full Internet connectivity by the first quarter of 1998.

## **Transport**

- Transfer of highways and aviation matters to Ministry of Transport for effective coordination of all transportation modes or creation of a Transport Commission under the Presidency for coordination;
- Upgrading approach and navigational aids to full international standard along with full radar and satellite communication;
- Transfer of Aviation Regulation and BASA administration to autonomous Civil Aviation Authority by the first quarter of 1998 and the use of income from all airport charges to improve aviation facilities and manpower productivity;
- Pursuing highway and railway rehabilitation with minimum 20 per cent improvement in 1998 (using collected toll directly in the case of highways);
- Liberalising highway ownership by law;
- Providing funds to jump-start waterways transportation with sustainable methods other than dredging;
- Putting in place, a regime of 24-hour sailing, with a maximum 48-hour turnaround time and introducing competitive operations and charges.

## **Water Supply**

- Achieving at least 45 per cent reach in 1998 by the use of World Bank and PTF in addition to private sector investment;
- Initiating and providing water utilisation education, as well as initiating public/private sector joint venture in water supply schemes;

## **Ecology and Environment**

- Undertaking environmental impact mitigation through catchment management, tree planting, etc.;
- Commissioning studies on waste management, biomass resources, land filling and re-cycling;
- Embarking on comprehensive aerial surveys and mapping, as well as the use of electronic data bank network and Geographical Information System (GIS).

## **Vision 2010 Support**

In line with the targets established by the Vision 2010 Committee, the group also made the following recommendations:

- Establishment of milestones for each infrastructure activity;
- To monitor implementation, there is a need for the creation of a Vision 2010 Implementation Committee in each state, in each ministry (Federal/state) and in each local government area;
- Invitation of professional associations, organised private sector associations and NGOs including those in the informal sector to set up similar monitoring bodies for each infrastructural area;
- Periodic briefing of government and private media organisations by the National Council at the national level and by state and local government area councils at their levels.

## **Group 9: Anti-Corruption**

### **Issues Identified**

- The culture of corruption in Nigeria;
- Causes of corruption.

## **Issues Discussed**

### **The Culture of Corruption in Nigeria**

Corruption was defined by the group as the placement of one's personal interest above those of the people and ideals one serves in both public and private sectors as well as the misuse of policy instruments or other procedures. The group acknowledged the fact that corruption was widespread and systemic in all facets of the Nigerian society. The group then suggested that the Vision 2010 action plan be implemented in such a manner as to achieve a corrupt free society.

### **Causes of Corruption**

- Low income levels;
- Low income levels translated into poor standards of living as a significant number of Nigerians has little or no access to the basic necessities such as education, health care, housing facilities and adequate food supply;

Wage levels were believed to be depressed because of the following:

- the current tax regime was believed to be too high and therefore contributed to the continuous erosion of the consumers' purchasing power;
- inadequate remuneration packages especially in the civil service;
- high levels of illiteracy and unemployment.

Low income levels increased the temptation of underpaid workers to augment their salaries through corrupt practices. The group however noted that although poverty was related to corruption, it was not necessarily the cause of corruption.

### **Ineffective Control Measures**

The current control measures (legal or otherwise) have not been effective in curbing civil disobedience and the blatant disregard of the rules and regulations. The group members noted that people, Nigerians alike, tend to disobey unenforceable laws.

## **The Organisational Structure within the Nigerian Civil Service**

The relationship between superior and junior officers was identified as being unbalanced whereby a lot of powers were vested in superior officers. Junior officers were, therefore, unable to question or caution their superiors. Subordinates in most cases were forced to pledge their allegiance to the boss rather than the establishment. This practice was believed to be rampant when internal/external audits are conducted, as superior officers were able to influence the outcome of these audits.

Bureaucratic bottlenecks within the service hinder and/or stall economic activity and encourage corruption. The group made special reference to the numerous agents that still exist in our ports and are therefore prone to corrupt practices.

## **Recommendations**

- Generate employment opportunities by creating an enabling environment. This could be helped by a comprehensive review of the current tax regime. Liberate the populace from economic dependence by improving the accessibility of the low-income group to education and other basic necessities;
- Provide the necessary guidelines to improve the accessibility of low income earners to good housing facilities through the promotion of the use of cheap local materials for building projects and the encouragement of house ownership through the provision of mortgage credit facilities. The group singled out the need to address the gross misallocation of resources within the housing industry whereby low income earners are denied access to good housing facilities, while many houses built by the well-off remain unoccupied;
- Improve the supply of agricultural products by directing attention to the needs and problems of the small-scale farmers;
- Strengthen the relevant agencies with powers to enforce appropriate sanctions and property rights to curb fraudulent practices and civil disobedience;
- Review remuneration packages, procurement/operational procedures and the organisational structure by clearly demarcating duties and responsibilities in the public sector. Eliminate bureaucratic bottlenecks. Reduce the number of agents at the ports;

- Inculcate the culture of hardwork in all facets of Nigerian society and practise it through the appointment of officers of proven integrity and the use of role models;
- Finally, every Nigerian must, through their individual effort, work towards revamping the country's poor image abroad.

## **Group 10: Privatisation**

Against the background of the theme of the Summit, the group identified and discussed the following privatisation issues and agreed on a number of recommendations for implementation in the 1998 budget.

### **Issues Identified**

The group reviewed extracts from the Vision 2010 report on privatisation and identified the following issues for discussion:

- the need for the government to issue a privatisation policy statement and define a timetable for the privatisation of public enterprises;
- the need for the government to define the objectives and strategies that would guide the implementation of its privatisation programme;
- the need for the appropriate institutional and legal framework for implementation of privatisation policy. This is in terms of (a) re-invigorating the Bureau of Public Enterprises (BPE) as the agency for implementing and monitoring the privatisation programme; and (b) the regulatory reform required to pave the way for the smooth implementation of the privatisation programme;
- the resolution of cross-debts between State-owned Enterprises (SOEs) and debts owed by SOEs to other creditors; and
- the role of the private sector.

## **Issues Discussed**

### **Privatisation Policy Statement**

The group expressed the urgent need for the government to articulate clearly a privatisation policy statement and to commit itself to a definitive timetable for full privatisation of SOEs with effect from 1998. The group cited instances of policy reversals by the government in the past and suspension from 1993 of the first phase of privatisation commenced in 1988. This had not augured well for the economy due to the dismal performance of the SOEs and the continued deterioration of infrastructure. Moreover, the SOEs had nothing to show for the continued funding of their operations by the government, out of its scarce resources, in spite of their commercialisation.

Finally, the group emphasised the need for Nigeria to be globally competitive because, in the global economy, it was no longer the norm for sovereign states to engage in business. Rather, there was a wave of divestment by governments throughout the global economy, since running businesses was not their traditional role. The government, therefore, must divest from business and concentrate on its traditional function of governance so as to create an enabling environment for private sector-led economic development. By consensus, the group agreed that a forward-looking privatisation policy statement by the government, and a privatisation programme that was faithfully implemented would send positive signals to the international community and win credibility for the government, while the confidence of investors in the economy would be regained.

### **Objectives and Strategies**

To ensure a purposeful and effective implementation of the privatisation programme, the group expressed the need for the government to articulate the objectives and strategies for privatisation. This would ensure that the interests of all the stakeholders in the Nigerian economy were protected and the country as a whole would benefit from the process.

### **Institutional and Regulatory Framework**

The group acknowledged that privatisation would fail if there was no strong institutional framework to steer the privatisation programme in the right direction within the appropriate regulatory framework. The group, therefore, discussed the issues to be

addressed by the government in strengthening the BPE as the agency for implementing privatisation in Nigeria, and the regulatory reform required to ensure that:

- a public sector monopoly was not replaced by a private sector monopoly;
- a conducive environment was created to ensure all operators in each industry or sector operated on a level playing field;
- no SOE was privatised without the involvement of BPE;
- anti-trust practices were checked; and
- due process of law was followed by the regulatory commissions monitoring the affairs of privatised enterprises and their competitors, and to ensure aggrieved operators had a right to seek redress against rulings of the commissions.

### **SOEs' Debt Burden**

The group viewed with concern the debt profile of the SOEs. In the utilities sector, for instance, the SOEs were mutually the biggest debtor of each other. The risk, it was emphasised, was that the debt problem was contributing to the crippling of their operations. In addition, they also owed other creditors in the financial system and, in some cases, international financial institutions. However, it was observed that consumers were indebted to SOEs providing utilities, due to corrupt practices and their ineffective revenue collection machinery. Although cross-debts owed by SOEs between themselves were supposed to have been reconciled and verified recently, the debts were not being paid and the approach to their resolution had not been clearly defined.

### **Private Sector Role**

In the spirit of partnership, the group agreed that economic reform and economic development by the government and the private sector respectively were complementary and not mutually exclusive. In the same manner that the government was obliged to initiate appropriate economic policy reforms, such as privatisation, the private sector had an obligation to rise to the challenge and revitalise the process of economic development.

### **Conclusion and Recommendations**

The 1998 budget should build on the following recommendations as a basis for privatising SOEs in Nigeria:

## **Privatisation Policy Statement**

The government should make an affirmative privatisation policy statement and give its unalloyed commitment to a definitive timetable for implementation of the renewed privatisation programme.

## **Objectives and Strategies**

### **Objectives**

The objectives and strategies for privatising SOEs in Nigeria should be defined to include the following:

- improving efficiency in the supply of goods and provision of services;
- reducing transaction costs;
- fostering economic growth;
- reducing state involvement in the running of business and confine the government to its traditional role of governance and the establishment of an enabling environment for private sector-led development;
- ensuring widespread public ownership of SOEs. This was to make it impossible for a few individuals to hijack privatised SOEs and thereby replace one public monopoly with another private monopoly; and
- establishing a level-playing field for competition.

### **Strategies**

The strategies for implementation to ensure the objectives were achieved should include:

- Adoption of public floatation as the most preferred option for privatising SOEs. The group stressed the need for transparency in the process to ensure that every stakeholder benefits and the programme was not hijacked by a few individuals to the detriment of the majority of the citizenry. Abuse of laid-down rules should be investigated and violators should be prosecuted;



- The ownership structure of SOEs after privatisation should be pre-defined and segmented to ensure all stakeholders had a fair deal. In this regard, the government should define the percentage of the equities of SOEs to be held by the following:
  - ▶ Nigerian public as the largest shareholder;
  - ▶ Government with a symbolic shareholding. While it may be represented on the board, the appointment to the board and removals therefrom should be independent of government. As a matter of fact, the government should have *no say* in the running and management of privatised SOEs;
- Institutional/Technical Operator: a negotiated percentage to enable the operator to recoup its capital over time and commit itself to public offer of part of the equity at a pre-determined date in future; and
- International community: through cross-border listing on international stock exchanges;
- It was recognised that it is not in all cases that all SOEs must be publicly quoted before they could be privatised. However, private sale should be the least preferred option, and where it was selected in preference to public floatation, there must be justification; and the process of sale must be open and transparent;
- Government should appoint international advisers, such as management consultants and investment banks, to advise it on all it has to do to ensure the effective privatisation of SOEs. The group agreed that the complexities of privatising electricity, roads and telecommunications were different from the country's privatisation experience to date. The use of international specialists experienced in this area in other emerging markets was crucial to give international credibility to the process and to attract the right type of capital injection into the economy since they themselves were agents of capital formation;
- There was no question that utilities could not be privatised without having a technical partner as investor in the company. The government was enjoined to invite international bids, and be transparent in selecting technical operators. The selected technical operator should be committed to investment and growth targets to ensure that privatised SOEs were well run and the economy ultimately benefits from privatising its assets;

- For road privatisation, the government was advised to employ Build Operate and Transfer (BOT) as the strategy and leverage on the experience of other countries; and
- To save scarce public funds, the subvention to SOEs should be stopped and the idea of re-injection of fresh capital to these enterprises and restructure them so that they could command higher price should be jettisoned. The objective should be to let the government cut its losses now and sell off the enterprises in their present condition. Capital re-injection would postpone privatisation, lead to further waste and, at the end, the nation would lose more money than if they were sold now.

## **Reform of the Institutional and Regulatory Framework**

This is two-pronged:

### **The Implementation Agency (BPE)**

- BPE should be the sole agency for facilitating the transfer of ownership of all SOEs to private hands. The supervisory ministry or parastatal may have the idea or take the initiative, but reference must be made to BPE for implementation. Therefore, the government should not undertake any future privatisation in whatever form or shape, without involving the BPE as was recently done with respect to the appointment of a petroleum marketing company to operate and manage a refinery in the country;
- It is acknowledged that the government must re-invigorate BPE, which had been out of action for some time, to ensure its effective performance in the renewed drive for privatisation;
- The BPE Decree should be amended to incorporate the updated list of SOEs to be privatised developed by the Vision 2010 Committee.

### **Regulatory Reform**

- Regulatory reform should start with the repeal or amendment, as the case may be, of laws and regulations that presently inhibit competition in the country. Incidentally, the Federal Ministry of Finance has recently conducted a study in

this regard. Examples of these laws are Electricity Act, NEPA Act, NAICOM Decree, NSITF Decree (to pave the way for new Pensions Decree), NITEL Decree, etc. Free competition was desirable to avoid a situation whereby a private monopoly succeeds a public monopoly or where a big operator squeezes out small and medium scale operators. For this reason, a level playing field must be established to ensure all operators operate fairly and competitively. If for example, a small telecommunications operator has to tap into NITEL's network to deliver telecommunication service to the public, NITEL's tendency to abuse its monopoly or act arbitrarily to squeeze out the small operator should be controlled by the appropriate regulatory agency. Thus, NITEL must be subject to the law and answerable to its sectoral regulatory commission as much as the small operators would. In the meantime, additional national carriers should be licensed to ensure that small operators do not have to look up to NITEL alone for interconnectivity; and

- For post-privatisation regulation of privatised SOEs, the government should establish sector-specific regulatory commissions for gas, electricity, water, roads, etc. and employ international experts in utilities regulation to provide initial technical leadership for their effective operation. The commission's role should include:
  - ▶ setting acceptable minimum standards for the operators in each industry;
  - ▶ licensing of operators;
  - ▶ dispute resolution between operators;
  - ▶ prevention and management of unfair practices;
  
- To avoid arbitrariness in price-setting and prevent consumer exploitation, the group recommended the need for a well-articulated tariff regime. In this regard, the Utilities Charges Commission should be strengthened to define pricing mechanisms for utilities providers. This should not be mistaken for price fixing, which is anti-liberalisation. In all this, the due process of law should be allowed to hold sway. Therefore, any operator aggrieved by the ruling of the Commission should have the right to seek redress. And to guide the Commission in arriving at a fair ruling on tariff setting within the pricing mechanisms, the composition of its membership should be evenly spread between the consumers, the industry operators and government representatives.

## **SOEs' Debt Burden**

The parameters for resolving SOEs' debt burden should be defined. This could be through set-offs, debt equity conversion, etc. For debts owed by consumers, the SOEs should embark on aggressive recovery and collection. Where necessary, the services of private debt collectors should be engaged.

## **Private Sector Role**

The private sector agreed to doing the following, among others, as partners in the privatisation process:

- Multinational companies operating in Nigeria would get their parent companies involved in the next wave of privatisation;
- Transparency and accountability in business dealings to entrench business ethics in the economy;
- Corporate social responsibility by paying all lawful taxes on a timely basis;
- Employment generation and technology transfer through education and training of their staff;
- Contribution to the competitiveness of Nigeria in the global economy by producing goods and services that meet international quality standards.

## **Group 11: Education**

### **Issues Identified**

The group identified the following issues for discussion:

- Administration of the education tax fund.
- Investment in education;
- Partnership between the private sector and universities / research institutions;
- Private sector involvement in the establishment of educational institutions;
- Revised basis for education tax assessment;
- Technical and vocational aspects of 6-3-3-4;

- Teaching of other languages;
- Teaching profession;
- Etsu Nupe Report on higher education;
- Scholarships and bursaries;
- Grassroots support for education; and
- Negative trends in educational institutions particularly at the tertiary level.

## **Issues Discussed**

The members of the group raised the following points during their discussion of the above issues:

### **Administration of Education Tax**

Although the Federal Inland Revenue Service (FIRS) collects education tax from companies in Nigeria, the federal government had not established the machinery for the administration and disbursement of the fund. Also, all the education tax collected to date by FIRS on behalf of the Federal Government were not being invested by the government pending its disbursement.

### **Investment in Education**

Investment by the government in education was still a far cry from UNESCO's minimum target of 26 per cent of national annual budget. The group also stressed the need for the government to review the personal cost component of the national budget.

### **Partnership between Private Sector and Universities, etc.**

The group acknowledged the role the private sector plays in other countries in educational funding and research. However, the group observed that a strong partnership was yet to evolve between the private sector and the tertiary and research institutions in Nigeria.

### **Private Sector Involvement in Establishing Educational Institutions**

Beyond primary and secondary schools, private sector involvement in establishing higher educational institutions was insignificant. In the case of universities, the government had not licensed the establishment of private universities.

### **Basis for Education Tax Assessment**

The group made the point that, presently, the basis of assessment of education tax was unduly burdensome for companies since they still had to pay the regular corporate income tax.

### **Technical and Vocational Aspects of 6-3-3-4**

The group observed that, presently, the technical and vocational aspects of the 6-3-3-4 educational system were not being given the attention it deserved.

### **Teaching of Other Languages**

The group was of the view that the focus of language education at the primary and secondary levels was largely, if not exclusively on English language while less emphasis was placed on other international languages such as French.

### **The Teaching Profession**

The group stressed the need for the government to promote professionalism in teaching. As of now, the country does not have a professional institute to regulate the teaching profession.

### **Etsu Nupe Report on Higher Education**

Although the Etsu Nupe Committee on Higher Education had completed its assignment, the government was yet to issue a white paper on the recommendations of the committee.

### **Scholarships and Bursaries**

The group noted with concern the dearth of sources of funds for financing education by indigent students, in the form of scholarships and bursaries.

## **Grassroots Support for Education**

According to the group, there had been a drop in school enrolment compared to a few years ago. Also, infrastructural support for education at all levels had deteriorated significantly over time.

## **Negative trends in Educational Institutions**

The integrity of the Nigerian educational system, particularly at the tertiary level, had become questionable in recent times amidst an increasing wave of cultism, admission frauds and examination malpractices.

## **Conclusions/Recommendations**

In concluding its discussion, the group made the following recommendations:

### **Administration of the Education Tax Fund**

The government should immediately establish a governing board for the Education Tax Fund. This should be done latest by January 1998. This would facilitate the immediate disbursement of the accumulated funds to reverse the trend of deterioration in educational institutions throughout the country. Pending full disbursement, all the funds collected to date should be lodged in an interest bearing account.

### **Investment in Education**

The federal government should use the opportunity of the 1998 budget to start the process of meeting the UNESCO minimum target of 26 per cent of the national annual budget for educational funding. At the same time, the personnel cost component of the budgetary allocation for education should not exceed 20 per cent. It was also important that the money allocated, either through the budget or education tax should be efficiently and effectively utilised. The following guiding principles were suggested.

- elimination of all wastage;
- setting and attainment of clear goals;
- strict accountability with timely audited accounts;
- audit alarm system; and
- pre-expenditure audit controls.

## **Partnership between the Private Sector and Universities / Research Institutions**

The government should introduce incentives to encourage the private sector to work closely with tertiary and research institutions in funding research.

## **Private Sector Involvement in Establishing Educational Institutions**

The private sector should be allowed, and in fact encouraged to establish schools at all levels after complying with the acceptable minimum standards.

## **Basis of Education Tax Assessment**

A new basis for education tax assessment should be introduced. The new basis should be inclusive and not exclusive. It should be either:

- 2 per cent of profit before tax; or
- 5 per cent of total staff emoluments, whichever is higher.

## **Technical and Vocational Aspects of 6-3-3-4**

The technical and vocational aspects of the 6-3-3-4 educational system should be accorded greater emphasis.

## **Teaching other Languages**

English language should not be the sole medium of instruction in schools. Proficient and fluent communication in French and other languages should be encouraged through continuous teacher/student exchange programmes with neighbouring French speaking countries.

## **Teaching Progression**

The government should ensure the immediate inauguration of the Teachers Registration Council. This should help to promote professionalism in teaching. At the same time, there should be an immediate review of teachers' salaries, emoluments, pensions, etc, with a view to enhancing their conditions of service.



## **Etsu Nupe Report on Higher Education**

The government should release a white paper on the Etsu Nupe Report on Higher Education for public consumption.

### **Scholarship and Bursaries**

To alleviate the needs of indigent students and to motivate exceptional students, all tiers of government should grant scholarships and bursaries. The private sector should also be encouraged to award scholarships and bursaries to deserving students.

### **Grassroots Supports for Education**

There should be mass participation to ensure reasonable enrolment as well as improved infrastructure for educational development. This should be achieved by mobilising grassroots support for education through:

- The involvement of communities and their leaders;
- Parent-Teacher Associations;
- Youth Development Associations; and
- Increased Public Awareness.

### **Negative Trends in Educational Institutions**

To restore the integrity of the Nigeria's educational system, the group advised the government to take necessary steps to eliminate the growing wave of :

- Cultism;
- Admission frauds; and
- Examination malpractices in tertiary institutions.

In this regard, the group urged religious groups, parents, student bodies and communities to co-operate with the institutions and government. Where necessary, appropriate legislation should be made and diligently enforced.

## **Group 12: Health Care**

### **Issues Identified**

The issues identified by the group were as follows:

- Health financing;
- Drugs and vaccines;
- Health education;
- Emergency preparedness and response;
- Overall Health policy and reform.

### **Issues Discussed**

The group critically considered the overall health indicators for Nigeria (e.g., life expectancy, mortality rate, health care and health service provisions) and concluded that significant improvement was required. Specifically, the group made the following points:

#### **Health Financing**

The budgetary allocation to the health sector had never at any time since 1992 been higher than 5 per cent of the total budget. This was responsible for poor funding and the failing health services in the country.

#### **Drugs and Vaccines**

There were problems associated with the supply, distribution and storage of drugs. The situation was no different for the local manufacture of research and development projects on drugs and medical services.

#### **Health Education**

The standard of personal and communal healthy living was low in this country due to inadequate health education. Health education did not feature at all in primary and secondary schools curricula. As far as solid waste was concerned, there were major problems with refuse collection and disposal making the environment generally unhealthy.

## **Emergency Preparedness and Response (EPR)**

EPR facilities for coping with medical emergencies, such as ambulance and blood transfusion services, were grossly inadequate. Consequently, otherwise simple medical problems develop complications which were sometimes irreversible.

## **Overall Health Policy and Reform**

In the absence of a clearly articulated health policy and initiation of health reform measures, the group concluded that the implementation of the healthcare provisions of Vision 2010 recommendations would be impossible.

## **Conclusions and Recommendations**

For the healthcare provisions of Vision 2010 to be implemented successfully with effect from 1998, so as to improve the quality of life of Nigerians, the group made the following recommendations:

### **Health Financing**

The budgetary allocation to the health sector by all the three tiers of government with effect from 1998 should be as follows:

- Federal Government - 10%;
- State Governments - 20%;
- Local Governments - 30%;
- National Health Insurance Scheme (NHIS) should be pursued with greater vigour through the promulgation of a decree and release of “seed money”.

These would serve as a good starting point for attaining the targets of 15%, 25% and 30% set for achievement by the year 2010 by the federal, state and local governments respectively.

### **Drugs and Vaccines**

The process of supply, distribution and storage of drugs needed to be reviewed drastically. It was also desirable to improve on the local manufacture, research and

development of drugs and medical devices. Quality control of imported drugs was equally desirable. Therefore, the following recommendations, for 1998 health budget, were made:

- Immediate completion and commissioning of the vaccine laboratory in Yaba (which was about 90 per cent completed);
- National immunisation and AIDS prevention and control programmes should be pursued with the same vigour as in 1997;
- Tariffs on drug manufacturing raw materials should be reduced to 1 per cent and zero-rated for VAT. Action on establishment of the aromatic phase of the petrochemical industry should be accelerated; and
- The provisions of the Fake and Counterfeit Drugs Act should be more vigorously enforced.

### **Health Education**

In order to improve the health of our people, it is considered imperative to encourage habits that would promote personal and communal healthy living. The cheapest option was through formal education and public enlightenment. Unfortunately, it may be necessary to enforce environmental sanitation through the force of law and the sanitary inspectorate system. To start the revolution in healthy living, the following were suggested for the 1998 budget:

- Emphasis on health education in primary and secondary schools curricula;
- All states/local governments should license private refuse collection companies and provide dumping and treatment site/plant;
- The Head of State should announce the resuscitation of sanitary inspectors by all local governments in the budget speech; and
- Adequate funding should be provided for all Schools of Health Technology in the budget.

## **Emergency Preparedness and Response (EPR)**

The gross inadequacy of our emergency preparedness and response facilities in our hospitals calls for immediate upgrading, to enable our health institutions to cope with emergencies. Examples include national ambulance and blood transfusion services. Therefore, the government should, under the 1998 budget:

- Establish a multi-sectoral committee to formulate policies, guidelines and programme on EPR;
- Enact the relevant legislation and establish appropriate procedures for the management of emergencies and disasters; and
- Establish a National Blood Transfusion Service.

## **Health Policy and Reform**

A good health policy would serve as a guideline for a successful implementation of healthcare provisions in the Vision 2010 recommendations. The following were recommended for inclusion in the 1998 budget:

- Implementation of the minimum health package at the local government level in addition to the adoption of the Bamako Initiative; and
- Development of guidelines for traditional medicine practitioners and the establishment of a board for the registration of traditional medicine practitioners in each state.

The reform was considered a *sine qua non* for a successful national health policy, as the need for the coordination of health provisions and management should ensure the attainment of high quality and healthy life for Nigerians. A National Hospital Services Commission (NHSC), to ensure the provision of a minimum standard of health care, should be established in 1998.

## **Group 13: Science, Engineering and Technology**

### **Issues Identified**

The issues identified by the group were as follows:

- Promotion of Research and Development;
- Information Technology;
- Development of Industrial Clusters.

### **Issues Discussed**

#### **1. Promotion of Research and Development:**

The group attributed the low level of research and development in Nigeria to:

- lack of linkage between the private sector and research institutions;
- lack of patronage for local research results;
- mismatch between research activities and industrial needs;
- lack of incentives for private sector funding of research and development by research institutions.

#### **2. Information Technology (IT)**

Areas of IT needs of the country discussed by the group were:

- internet connectivity;
- infrastructural facilities required to launch the country into the new information age;
- high cost of computers; and
- the need for a national IT policy.

#### **3. Development of Industrial Clusters**

The group stated that in spite of Nigeria's comparative and competitive advantage in rubber, palm oil, solid minerals, petrochemicals, cotton, textiles, leather, gas, plastics and cement, the country lacked industrial clusters. Not enough specialist research had been done on any of these industrial sectors.

## **Conclusions and Recommendations:**

The group proposed the following recommendations for the 1998 budget:

### **1. Promotion of Research and Development**

The government should establish a research council to serve as a clearing house for:

- Creating a linkage between the private sector and research institutions;
- Encouraging the use of local research results by industry;
- Ensuring that research activities were relevant to industrial needs;
- Prudent management and monitoring of venture capital and other funding; and
- Formulating and recommending incentives to encourage the funding of research and development by the private and public sectors.

### **2. Information Technology**

- The appropriate government agency should implement the Head of State's commitment to full Internet connectivity in Nigeria by the first quarter of 1998;
- The government should provide full data telecommunications infrastructure to link all educational, research and public sector institutions and enable them to connect to the Internet;
- Import duty on computer hardware should be abolished to encourage mass importation and usage; and
- The National Communications Commission (N.C.C.) should be empowered and strengthened to formulate and implement policies on information technology for the country.

### **3. Development of Industrial Clusters**

- The government should identify and create industrial clusters in line with the six geographical zones;
- The industrial clusters should focus initially on the following industrial sectors for which Nigeria had comparative and competitive advantage:

rubber, palm oil, solid mineral, petrochemicals, cotton/textile, leather products, gas/plastics and cement;

- Focus of research and development should be on the above identified industrial sectors and, where possible, research institutions should specialise to serve specific industries; and
- Nigerian engineers/scientists should be involved in the conceptualisation, design and implementation of industrial projects in Nigeria.

#### **4. Other Issues**

- Fiscal and other incentives should be provided to encourage industries to make use of natural gas;
- The Geological Survey Department should be properly equipped. The research facilities in the geological departments of Nigerian universities should be upgraded to serve both the oil and solid mineral industries;
- The capacities and capabilities of local fabricators to embark on production of machinery for preservation and processing of agricultural produce should be enhanced;
- The two Federal Science Equipment Manufacturing Centres at Enugu and Minna should be completed and privatised in 1998;
- There should be a programme for equipping schools with the products of the two centres;
- The private sector should be encouraged to participate in the training of high level technical manpower;
- The activities of Technical Business Incubator (TBI) should be enhanced to reach all the states of the federation, particularly the six industrial regions;
- The National Office for Technology Acquisition and Promotion (NOTAP) should be restructured to improve its skills base and enhance its effectiveness in technology assessment and negotiations; and



- Import duties on the components needed for the assembly of solar panels and accessories to encourage the use of alternative source of energy should be removed.

## **Group 14: Investment Climate**

### **Issues Identified**

The group identified the following issues as vital inputs to the 1998 budget:

- Infrastructure;
- Taxes, charges, levies, etc.;
- Risks and incentives;
- Government policies;
- Administrative machinery;
- Role of indigenous entrepreneurs;
- Availability of information;
- Import and export procedures;
- Legal framework.

### **Issues Discussed**

The group discussed each of the above issues in terms of their impact on the investment climate of Nigeria and the actions required under the 1998 budget to deal with them.

#### **Infrastructure**

The group considered that to ensure a healthy, competitive and favourable investment climate to attract credible investors, there must exist efficient basic infrastructure such as electricity, good roads and telecommunication services. These facilities were crucial to investment as they could either add to or reduce investment costs. Considering the current situation, the group was of the view that, in Nigeria today, these basic requirements were either in a poor state or non-existent. Thus, most of the roads were in a bad state while electricity and telecommunications were inefficient and unreliable. The group, however, hoped that the removal of monopolies from these sectors would make them more efficient.

## **Taxes, Charges, Levies, Duties, etc.**

The group considered these fiscal policy items and agreed that they could either enhance or militate against the investment climate because they could increase or reduce investment costs with the attendant consequences. The group agreed that these items had impacts on the investment climate of Nigeria. Thus, there were multiple taxes, charges, levies and several other overhead costs for investors to deal with. Furthermore, the rates and number of these items were always uncertain. Their mode of assessment and collection created many problems. The effect being to scare away prospective investors, e.g., the present diversion of ships and cargo to neighbouring ports due to the charges at Nigerian ports.

## **Risks and Incentives**

The group questioned why Nigerians did not invest in the country but preferred to either invest abroad or merely engage in trading. The reason advanced was that most of them perceived the risks resulting from many negative factors affecting the investment climate. Conversely, there were not enough incentives, while the few that existed were not granted on time even when claimed. All these had negative effect on the investment climate and thus deterred investors.

## **Government Policies**

Another factor considered by the group as militating against the investment climate in Nigeria today was the uncertainty of government policies. Sometimes, not only were there different and conflicting policies on the same matter, but they changed so often as to create confusion. Such policy changes or shifts increased the risks and uncertainties thereby compounding an already unfavourable investment climate.

## **Role of Indigenous Entrepreneurs**

The role of indigenous investors with regard to the present investment climate was also considered. The group observed that there were Nigerians, especially in the rural areas, who could make meaningful small-scale investments but they were not aware of the vast opportunities available to them. Similarly, there were those in the urban areas who had little or no confidence in investment. There were yet others who wished to invest but lacked the capital and access to bank loans.

## **Administrative Machinery**

It was also considered that the administration of investment incentives could either enhance or negate the investment climate. The group, therefore agreed that where the machinery was simple, efficient and less strenuous, it would create a favourable climate. It observed that the machinery was far from being conducive due to the multiplicity of agencies (some with duplicating roles), while the procedures were also, cumbersome and costly. All these had a negative effect on the investment climate.

## **Availability of Information**

Information was a vital tool in investment. Its availability was, therefore, a major factor in the creation of a favourable investment climate while its absence would have a correspondingly negative effects on the climate. Thus, where there was available information, investors would know at a glance all the investment opportunities, the procedures, incentives and all related costs and thus could plan with certainty and high expectation. The group was of the view that in Nigeria today, there was a lack of information and where it existed, it was either difficult to obtain or costly. Furthermore, information on investment could not be found at one single point but at different locations, agencies and so on. Moreover, the information, even where available, was manually processed leading to loss of valuable time, money, energy and resources. It was also rarely up-to-date or sufficient.

## **Import and Export Procedures**

In most cases, investment entailed either importation or exportation of either finished products, raw materials or plant and machinery. Consequently, business friendly import and export procedures were great assets to the investment climate of any country. Such because procedures would encourage free and easy movement of goods into and out of the country at minimum cost. Where the procedures were affected by bottlenecks, as the case with our port procedures today, investors would shy away. There was therefore a need to further simplify these procedures in the 1998 budget.

## **Legal Framework**

The legal framework, the group agreed, could hinder or enhance the investment climate. Where the laws were liberal, investors would be more willing to invest as they would feel more protected. The group also observed that the system of administration of justice

was also important to investors. Thus, where the judiciary was fair, just, efficient and effective, investors would feel more protected and invest or do business more freely in the economy. Similarly, substantive laws themselves were vital to investment. The group noted that some laws added to the cost of doing business. An example was the provision of the Land Use Act which requires governor's consent before creating mortgages, leases and other charges. The procedure was not only costly, but also cumbersome. In addition, the requirement in the Immigration Act that foreigners must obtain business permits to do business in Nigeria was considered a hindrance to investment.

### **Conclusions and Recommendations**

Based on the issues identified and discussed, the group made the following recommendations for improving the investment climate:

- The Nigerian Investment Promotion Commission (NIPC) should be answerable directly to the Presidency (as is the case in Cote d'Ivoire) to make it efficient and effective. It should also be funded adequately to enable it to discharge its duties;
- The government should target expatriate Nigerians in North America and Europe to make direct portfolio investments to follow the example of Ghana (in 1996 expatriate Ghanaians accounted for the second largest source of foreign exchange income after gold export).

The following laws should be revised:

- Land Use Act 1978, by removing the requirement for governor's consent for mortgages, leases and other charges;
- Immigration Act 1963, by repealing Section 8 which requires foreigners to obtain a business permit before doing business in Nigeria. Registration at Corporate Affairs Commission and NIPC should suffice;
- The government should review and modernise the Trade Marks, Patents and Design Acts and make them administrable by the NIPC. NIPC should computerise its operations, publish a Trade Marks journal quarterly and set commercial prices for them;
- Government should tackle corruption and further reduce the number of checkpoints and procedures at ports of entry of goods;

- Government should implement Vision 2010 recommendation of “low, unified, effective and corruption-free tax, tariffs and excise system”;
- Government should abolish the use of tax contractors/consultants in the assessment or collection of taxes; and
- The bottlenecks associated with the administration of incentives should be removed so that they could be easily accessed by the beneficiaries at minimum cost.

## **Group 15: Rural Development**

### **Introduction**

The group welcomed the Vision 2010 Committee’s definition of rural development: an integrated bottom-up programme that encouraged rural communities to identify their problems and suggest solutions to them. Members contrasted this with past practices of ad hoc and top-down programmes stressing that the new dispensation placed a high premium on the active involvement of target beneficiaries of rural development efforts.

### **Issues Identified**

Seven key issues were identified for discussion:

- Restructuring of the Industrial Development Centres (IDCs) to make them effectively serve the needs of SMEs;
- Funding of micro-credit institutions for self-sufficiency by the year 2003;
- Development and promotion of appropriate technology to increase agricultural production;
- Promotion of SMEs;
- Provision of safety nets for the disabled and the mentally retarded;
- Rationalisation of poverty alleviation programmes to distinguish those which provide infrastructure and support services from those which provide micro-credit;

- Enhancement of FEPA's capacity to meet national objectives.

## **Issues Discussed**

### **Industrial Development Centres (IDCs)**

The group observed that the existence of these centres which were expected to offer legal, business advisory and technical assistance to entrepreneurs, was not well known by the public, especially in rural areas. It was pointed out that in many parts of the country, existing equipment at most centres was not in good condition. While there was consensus that the country required many more IDCs than are currently available, members warned that it would be futile to establish new centres without first restructuring and equipping the existing ones. In addition, it was emphasised that the inability of IDCs to retain staff with the right training and experience was accentuated by poor public sector pay.

### **Micro-credit Institutions**

Members approved the creation of a general framework for micro-credit administration in the country to support micro and village industries nationwide. It was agreed that appropriate tax incentives should be employed to encourage commercial banks to participate actively in micro-credit provision, particularly through their rural branches.

### **Appropriate Technology**

The group noted that agriculture provided employment for the overwhelming majority of Nigerians. It stressed that sustained improvement in agricultural productivity was key to ensuring both food security and production of industrial raw materials. Members therefore acknowledged the need to assist the small-scale farmer to increase his output through the development of appropriate technology. For instance, the group cited production of organic fertiliser and bio-gas as an example of simple technologies capable of raising the productivity of small farmers at little cost.

### **Promotion of SMEs**

Members acknowledged the critical role SMEs could play in Nigeria's development. In spite of this, it was pointed out that many SMEs had, during the past decade, closed

their doors due to capital inadequacy worsened by the rapid depreciation of the naira against the American dollar during the period. Members, therefore, unanimously agreed on the urgency of the need for the rehabilitation of ailing SMEs and the establishment of new ones. It was agreed that this objective could be achieved by adequately funding institutions such as NIDB, NBCI and NERFUND that provide medium to long term financing for SMEs.

### **Safety Nets**

The group acknowledged a new wave of rural-urban migration involving the disabled and mentally retarded. It was suggested that the observed population mobility was accentuated by deteriorating welfare in the rural areas. Members emphasised that this disturbing trend had severely stretched traditional mechanisms for caring for the less privileged, especially during the last decade. They therefore agreed on the need to create social safety nets to cover the welfare needs of the disabled and the mentally retarded.

### **Poverty Alleviation**

The group noted that only three of the fourteen institutions dealing with poverty alleviation in the country were dealing with micro-credit provision. The remaining eleven, it was disclosed, devoted their resources to the provision of infrastructure and support services. Poor definition of the jurisdiction of supervisory ministries was identified as a factor militating against rationalisation of poverty alleviation programmes in the country.

### **FEPA and Achievement of National Objectives**

Members expressed concern at the lack of awareness, in the rural areas, of FEPA's activities. This, the group observed, was responsible for the worsening problems of blight and environmental degradation resulting from such actions as the indiscriminate felling of trees.

### **Conclusions and Recommendations**

The group resolved that the 1998 budget should accommodate the following recommendations:

\* **Industrial Development Centres**

Rehabilitate IDCs and re-position them effectively to serve SMEs nationwide.

\* **Micro-Credit Institutions**

- Develop a framework for the efficient use of funds allocated to micro-credit institutions.
- Release the undisbursed portion of the ₦4.3 billion allocated to FEAP in the 1997 budget (about ₦3.1 billion)
- Make a fresh allocation of about ₦4 billion to FEAP in the 1998 budget.
- Use appropriate tax incentives to encourage commercial banks to participate actively in micro-credit administration through their rural branches.

\* **Appropriate Technology**

Develop a national policy framework that would encourage the production of organic fertiliser and bio-gas to eliminate dependence on imported fertiliser.

\* **Promotion of SMEs**

- Develop, through existing federal agencies, profiles of small and medium scale enterprises similar to those prepared for FEAP by the Raw Materials Research and Development Council.
- Adequately fund NIDB, NBCI and NERFUND to raise the tempo of their activities.
- Provide the necessary infrastructure for the growth and development of SMEs in rural areas.
- Make government patronage of the products of SMEs mandatory.

\* **Social Safety Nets for the Handicapped**

- Establish a committee in the first quarter of 1998 to study and recommend appropriate measures for dealing with the problems of the disabled and the mentally retarded.



\* **Poverty Alleviation**

- Develop explicit performance evaluation criteria for all the fourteen institutions that have responsibility for aspects of poverty alleviation.
- Approve and implement the recommended organogram for the coordination of poverty alleviation policy.

\* **FEPA**

- Fund a vigorous campaign to create awareness of FEPA's activities in rural communities, particularly on the prevention of desertification, floods, erosion and pollution.
- Empower local governments to make by-laws on tree planting and tree felling.

## **Group 16: The Rule of Law**

### **Introduction**

The group agreed that in consonance with the suggestions of Professor Paul Collier, one of the two guest speakers at the Summit, there was a need to build institutions which recognised that the rule of law and due process were critical to the next stage of Nigeria's economic development.

### **Issues Identified**

The issues identified for discussion were:

- Separation of powers with emphasis on the independence of the judiciary;
- The process of law making and the content of laws;
- Administration of justice;
- Activities of law enforcement and supervisory agencies in the context of the rule of law;
- Self-regulation and the due process.

## **Issues Discussed**

### **Separation of Powers**

This was discussed in the context of strong and trusted institutions. It was agreed that an independent judiciary was needed to promote political and economic development and to protect the fundamental human rights of the entire citizenry. Accordingly, faithful adherence to the rule of law and due process was viewed as an instrument for strengthening the judiciary, other institutions, associations and organisations.

### **The Process of Law Making**

The group agreed that there should be concerted efforts to ensure internationally accepted standards of justice. In this regard, members called for a review of all obnoxious laws including:

- ad hominem laws;
- retroactive laws; and
- ouster clauses.

The group also resolved that the law making process should incorporate extensive consultation before any proposals become law.

### **Administration of Justice**

Members discussed measures for improving the administration of justice and agreed on specific recommendations (see below). They stressed the need for the enforcement and implementation of laws, regulations and administrative procedures to be seen to be transparent.

### **Activities of Law Enforcement and Supervisory Agencies**

The Police, the Prisons, SEC, CBN, NDIC, the Corporate Affairs Commission, the National Office of Technology Acquisition and Promotion, the Customs and the Immigrations Service were among agencies whose activities came under intense scrutiny in the context of the rule of law. Emphasis was placed on how to ensure that the implementation and enforcement of laws become more predictable, certain and devoid of arbitrariness and capriciousness.

## **Self -Regulation and Due Process**

It was agreed that the rule of law and the question of due process were matters of attitude that should be internalised - in particular, by those holding leadership positions. This, the group emphasised, was needed to bolster self-regulation. It should also encourage regulatory bodies to observe the rule of law in all their actions.

## **Conclusions and Recommendations**

The group recommended the following proposals for inclusion in the 1998 budget:

### **\* Separation of Powers**

- Repeal or amend all laws that derogate from fundamental human rights;
- Review all laws so as to meet internationally acceptable standards of justice;
- Introduce laws to make the offices of the Accountant-General and Auditor-General independent, accountable and strong;
- Amend the CBN Decree to make the apex bank independent;
- Fund the judiciary from the consolidated revenue fund and further improve the conditions of service of judges.

### **The Process of Law Making**

- Publish all draft laws in at least three (3) national daily newspapers to facilitate the consultation process;
- Publish all laws in at least three (3) national dailies upon enactment.

### **Administration of Justice**

- Introduce legislation making the Judicial Council to be headed by a retired Supreme Court judge;

- Exclude members of the executive arms of government (e.g. the Attorney-General) from both the Judicial Council and the Judicial Service Commission;
- Establish a panel of review of the working of the courts;
- Appoint more judges and improve the infrastructure;
- Repeal all laws that inhibit enforcement of judgments, e.g., the Attorney-General's fiat, the NNPC Decree and the NEPA Decree;
- Integrate tribunals into the regular courts as a prelude to abolishing them;
- Strengthen the Police through increased funding for equipment, welfare and training;
- Make the appointment of the Inspector-General of Police subject to Senate approval. The nominee should also be a member of the Police Force;
- Legislate, in clear terms, to prohibit the use of tax consultants and armed forces in tax collection.

## **Others**

- Amend the Land Use Act to eliminate the need for governor's consent for any land transaction;
- Make it mandatory for a Certificate of Occupancy (C of O) to be issued within three months of application;
- Minimise fees for obtaining C of O;
- Make a policy statement declaring the government's commitment to due process in every facet of life and that (senior) government officials and captains of industry should lead by example.

## **Group 17: Pensions, Savings and Social Security**

The group emphasised the critical role of long-term funding in meeting the investment needs of the country in a sustainable fashion.

### **Issues Identified**

- Law governing pensions industry;
- New savings schemes;
- Tax on life insurance premium and insured pension schemes;
- Tax on interest income;
- Monetisation of public sector benefits;
- Amendment of Trustee Investment Act;
- Reform of Nigerian Social Insurance Trust Fund (NSITF).

### **Discussion of Issues**

#### **\* Pensions Law**

Existing pensions law had become outdated and so could not cope with modern realities. Its coverage was severely limited in terms of organisations required to comply. As a result, the pensions industry had made a negligible impact on the nation's economy unlike elsewhere where it provides the primary source of funding required for long-term investment.

#### **\* New Savings Schemes**

New savings schemes, particularly of the long-term category, are not being introduced. This has had a negative effect on the growth of a strong savings culture and availability of long-term investment capital.

\* **Tax on Life Insurance Premium, Insured Pension Schemes and Interest Income**

VAT is charged on these and this has the effect of discouraging savings.

\* **Monetisation of Public Sector Benefits**

The present structure of public sector compensation is heavily biased in favour of benefits-in-kind. The monetary component constitutes a tiny proportion of the whole. As a result, public servants are unable to meet current consumption needs and still save from their legitimate income. Also, on retirement, their gratuities and pensions remain small since these are based on their basic salaries at retirement. It is, therefore, important to completely restructure their compensation to be more in line with private sector practices.

\* **Amendment of Trustee Investment Act**

The circumstances that informed enactment of the Act in 1962 have changed significantly. The Act is therefore out of tune with current day requirements. Many of its provisions are so inflexible and restrictive that they are now an impediment to the development of the mobilisation of long-term funds.

\* **Reform of NSITF**

The body which started off as the National Provident Fund was established by government soon after independence to provide a form of compulsory savings for private sector employees in the absence of proper pension schemes in those organisations.

Its impact has remained low and its continued relevance is now called to question as many private sector companies have long established their own fully-funded pension schemes.

A new role has to be found for the NSITF if it is to be retained.

## **Recommendations**

\* **Pensions Law**

- A new pensions law should be enacted to replace the existing one. It should be comprehensive and must cover employees in both the private and public sectors;

- Participation in a pension scheme should be compulsory for organisations employing five people or more;
- Minimum contribution to the fund would be twenty per cent, with the employee contributing five per cent and the employer fifteen per cent;
- Government should provide tax breaks for pension contributions to encourage employers to comply;
- The Individual Capitalisation System should be introduced. This would allow the creation of a single individual account per employee. This account would be transferable between employment and between fund managers;
- A separate statutory agency to regulate the pensions industry should be established. Such an agency would be responsible for licensing and supervision of fund managers and other participants as well as enforcement of the new pensions law. Industry participants and other private sector players should be represented in the body.

\* **New Savings Schemes**

- Encourage introduction of save-as-you-earn schemes by employers. Such schemes which would be voluntary would complement the compulsory pension schemes. Contributions would also be by both employees and employers;
- Contributions should be tax deductible to make them attractive.

\* **Removal of Tax on Investment Income**

Current tax on investment-related income should be removed to encourage savings. Included in this category are:

- VAT on life insurance premium and insured pension schemes;
- Withholding tax on interest income;
- Tax on income generally should be de-emphasised in favour of consumption tax such as VAT.

**\* Monetisation of Public Sector Benefits**

- Public sector employee benefits should be monetised as a matter of urgency;
- The scheme must be comprehensive covering virtually all benefits;
- This should result in significantly higher monetary compensation for public servants in line with their private sector colleagues.

**\* Amendment of Trustee Investment Act**

- Immediate amendment is recommended;
- The new Act should allow trustees flexibility in investing funds;
- The Act should, however, retain mechanisms for protecting funds against imprudent management;
- Private sector should be consulted in the process.

**\* Reform of NSITF**

- NSITF should become registrable as fund manager;
- Companies with their own pension schemes should be allowed to opt out of NSITF;
- A body of experts should be set up immediately to review the modalities for the above. It should also consider the role of NSITF after reform, including serving as a social security agency.

## **Group 18: Agriculture and Agri-Business**

### **Introduction**

The objectives for the agricultural sector within the Vision 2010 framework were identified as the following:

- Food security: To make food available to and affordable to all Nigerians;



- Agricultural productivity: Produce enough crops for exports and domestic demand;
- The small-scale farmer was singled out as the target beneficiary of the agricultural component of the 1998 budget. Emphasis therefore should be placed on policy initiatives that would improve productivity levels as well as the quality of agro-allied products.

### **Issues Identified**

The key issue identified by the group was the need to improve production procedures as well as increase productivity levels.

### **Issues Discussed**

Interventions were therefore required in the following areas:

#### **\* Land Preparation and Management**

- **In 1998:**
  - ▶ Improvement in the availability of accessibility;
  - ▶ Fertiliser and agro-chemicals seeds, seedlings and seedstock;
  - ▶ Credit - (soft loans).
- **1998 - 2000 (Rolling Plan)**
  - ▶ Effective pest and disease control of livestock and crops at national and regional levels.

#### **\* Farmer Support/Extension Services**

- **In 1998:**
  - ▶ Improvement in the availability and delivery of Extension Services for the provision of marketing support for the export of agro-allied products;

- ▶ Enlightenment programmes on rural technology for the benefit of farmers and processors.
- **1998 - 2000:**
  - ▶ Settlement of nomadic livestock owners and fishermen;
  - ▶ Provision of incentives in the form of a national award programme for farmers and processors;
  - ▶ Increase the availability of credit/soft loans to farmers for the procurement of agricultural inputs - removal of tariffs on agricultural tools and machinery.

### **Rural Infrastructure Development**

- **1998 - 2000:**
  - ▶ The provision of relevant infrastructure, i.e., potable water, power and machinery facilities;
  - ▶ Encouragement of the local fabrication of relevant processing machinery and spare parts.

### **\* Recommendations**

- **For 1998:**

The following recommendations were made in respect of the 1998 budget:

The establishment of an Agricultural Development Fund (ADF), to finance agricultural research and the delivery of extension services and credit, pest and disease control. Funds were also required to sustain the current level of activity in the agricultural sector with the recent conclusion of the World Bank assistance loan programme to the sector.

The fund should be financed from:

- Savings made from the abolition of the fertiliser subsidy:

- Tariffs on imported foodstuffs;
- External aid;
- Tax-exempt grants from the private sector and specific grants from the three tiers of government.
- **For 1998 - 2000:**
  - ▶ The rationalisation of government policies that relate to non-oil exports;
  - ▶ The improvement of commodity storage and preservation facilities.

## **Group 19: Small and Medium-scale Enterprises**

### **Issues Identified**

- The economic significance of SMEs;
- Profile of SMEs in Nigeria;
- Problems.

### **Issues Discussed**

#### **\* The economic significance of SMEs**

SMEs were identified as the engine of growth and were therefore a fundamental feature of the economy. It was noted that SMEs in developed countries generated over 60 per cent of economic activity.

#### **\* Profile of SMEs in Nigeria**

A small to medium-scale SME in Nigeria was defined as one with a capital base of less than ₦150 million and a maximum of thirty-five employees. The SMEs could be further broken down into three main categories: cottage, small and medium enterprises. These subgroups have sector specific problems and therefore required separate attention from the relevant bodies.

## \* **Problems**

- SMEs generally have a small/weak presence in external and domestic markets. In Nigeria, they have to contend with weak domestic demand brought about by low purchasing power and a high level of unemployment;
- SMEs operate within a hostile financial environment and have limited access to the appropriate credit facilities;
- Domestic linkages were not well developed. SMEs therefore did not fully benefit from these internal/informal networks;
- SMEs also suffer and from a dearth of manpower skills as well as from inadequate infrastructural facilities;
- The stated problems all contributed to a high incidence of failure/collapses experience in this sector and the inability of Nigerian SMEs to transform into large-scale enterprises.

## **Recommendations**

### \* **1988:**

- ▶ Rationalise the forty-nine institutions established to serve SMEs. The rationalisation should be based on how best to address the need of the three main categories of SMEs, i.e., cottage, small and medium;
- ▶ Improve the provision of short or medium funding for SMEs by strengthening the credit delivery system;
- ▶ The group called for an immediate resolution and the prevention of a recurrence of the lingering issue of outstanding debts to local contractors. Highlighting the fact that these companies were also exposed to the government;
- ▶ Foreign exchange rate refund to NERFUND loans;
- ▶ The group also advocated the removal of excise duties for SMEs, increased government patronage of locally manufactured

goods and the need for an effective Strategic Grains Reserve programme for the wholesale purchase of excess agricultural produce from small and medium-scale farmers.

## **Group 20: Trade and Distribution**

### **Issues Identified**

- The role of trade and distribution in the national economy;
- Factors that hinder the smooth flow of goods and services;
- Management of information.

### **Issues Discussed**

#### **\* The Role of Trade and Distribution in the National Economy**

Trade and distribution was identified as the third largest contributor to the nation's GDP and closely related to manufacturing, current account transactions, investment promotion and most importantly, Nigeria's leadership role in Africa. It was noted that Nigeria had the largest market in Africa.

#### **\* Factors that hinder the smooth flow of goods and services**

- The regulatory and institutional framework;
- Cumbersome port procedures, the pre-shipment inspection was identified as a major constraint;
- Operators still complain of the expensive port and incidental charges;
- The Aliens Act was singled out as another major hindrance to trade and distribution.

#### **\* Payment Systems**

Most transactions in Nigeria were made through cash payments due to lack of trust in the society which reduced the scope and use of credit transactions.

\* **Others**

Lack of adequate infrastructure and the non-resolution of regional trade disputes.

\* **Information Management**

The group identified the need to improve the dissemination of trade related information for the domestic and external markets and to provide the necessary linkages/bridges with the informal sector.

**Recommendations**

- Repeal the Aliens Act and other obsolete laws that hinder the movement of people and goods;
- Abolish Pre-shipment Inspection;
- Embark on a speedy resolution of regional trade disputes;
- Create more awareness of trade and distribution in schools and through a more vigorous use of market fairs to promote local output, in opposition to “trade fairs”.

**Group 21: Oil Upstream**

As directed by the guideline for group deliberations, this group focussed on the items of the Vision 2010 deliberations that could be incorporated in the 1998 budget , as well as those necessary for implementation in the medium term up to the year 2010.

**Issues Discussed**

The group identified and discussed pressing problems of the Upstream Petroleum sector that had slowed down operations and which threatened output in the immediate future. They were:

- Funding constraints resulting from cuts in joint venture budgets over the last three years;

- Erosion of incentives and the last Memorandum of Understanding (MOU) by inflation, proliferation of taxes, lack of consultation in the promulgation of decrees;
- Increasing discontent in oil-producing communities and the resultant upsurge of disturbances that not only disrupt oil production but also endanger life and property. The group also noted the failure of OMPADEC which was established by the federal government to ease discontent in the communities. This, the group noted, happened because of inequitable treatment of the communities by OMPADEC, the non-involvement of the communities in project determination and execution, lack of transparency of as well as the failure to accord the communities the necessary respect and recognition;
- Lack of trust and openness among stakeholders was a contributing factor to the climate of mistrust that was stalling the growth of the upstream petroleum sector;
- Continuous flaring of associated gas in spite of the losses that go with it. The group attributed this to inadequate appreciation by government of fundamentals such as pricing, market, required investment, timing cycles and required incentives;
- Poor infrastructural facilities in towns and cities supporting oil producing activities, causing additional social pressures in these areas;
- Disagreement between government and licence holders over marginal fields because of lack of dialogue.

## **Recommendations**

The group's recommendations as short and medium-term solutions to the above problems are also proposed inputs for the 1998 budget.

### **\* Funding**

- Government should start building, and implementing innovative funding schemes;
- Gradual reduction of government equity in the joint venture agreements with the selling of about 5 per cent equity as starters to reduce the funding problem;

- Cash call arrears should be addressed by the 1998 budget;
- By the first quarter of 1998, government should announce a process and time-table for the allocation of new exploration acreage.

**\* Community Relations**

- Implementation of the 13 per cent oil revenue allocation as from January 1998 with the funds passed directly to the state and local governments according to the revenue formula in the OMPADEC Decree;
- OMPADEC should be replaced by a planning and monitoring body composed of representatives of government, community, reputable NGOs and the petroleum industry for effective community development;
- Increased government presence in the oil-producing communities through the provision of social and economic infrastructure.

**\* Gas**

- Establishment and maintenance of fiscal framework that encourages investment;
- Improved incentives to encourage gas utilisation by adopting a comprehensive energy policy with effect from 1st January, 1998;
- Rehabilitation of existing power plant and making gas the fuel of first choice;
- Encouraging the development of gas infrastructure for commercial, industrial and domestic use;
- Allocation of funds specially to on-going gas projects;
- Ring-fencing new gas projects.

**\* Marginal Fields**

The use of dialogue to arrive at mutually beneficial terms and conditions which would achieve the intentions of the Marginal Fields Decree.



## \* **Trust among Stakeholders**

- Educating policy makers on the workings of the upstream petroleum sector;
- Involving all key stakeholders in the discussion of all matters that would impact on the operations of the industry prior to promulgation of laws;
- Fostering dialogue between policy makers, the media, opinion leaders, the industry and the wider public on the workings of the industry;
- Achieve better understanding of operations by involving government employees in assignments in the industry. Stop arbitrary and constant turnover and removal of trained and experienced staff in NNPC;
- Empowering the government representatives in JV and PSC activities (NNPC), while ensuring adequate and appropriate remuneration;
- Enable agreements already signed by enacting the laws backing them;
- The PSC agreements signed in 1993 need to be backed by law, in 1998;
- Respecting existing agreements, to protect agreed investors' margin;
- The process of taking decisions that impact on the industry, should be transparent.

## **Group 22: Oil Downstream**

### **Issues Identified**

The group identified the following issues:

1. Fuel Supply;
2. Fuel Margins;
3. Refineries Refurbishment;
4. Import Facilities;
5. Gas Distribution;
6. Petrochemical Privatisation;

7. Environment, Health and Safety (EHS);
8. Bridging.

## **Issues Discussed**

### **\* Petroleum Products Supply**

The group discussed how to ensure continuous uninterrupted petroleum products supply. It described the status of three (3) of the nation's four refineries as precarious: Kaduna refinery was shut down since July, 1997 while two others were working below 50 per cent under highly hazardous conditions. While lamenting the inadequacy of fuel import logistics, the group stated that it was **more economically, socially and politically correct to refine crude locally than to import finished products.**

### **\* Margin of all Stakeholders**

The group blamed the current state of decay of the downstream sector on inadequate margins to refiners, distribution, marketers, dealers and transporters. Members agreed that bridging expenditures had been rising without a corresponding increase in the funding of bridging activities.

### **\* Gas Distribution**

The group lamented the continued flaring of huge quantities of gas in the country blaming it on an insufficient gas market and the lack of distribution infrastructure to the final consumer.

### **\* Privatisation of Eleme Petrochemical Plant**

The group agreed that the plant was faced with a huge debt overhang and inadequate working capital. It therefore called for privatising it through international tender.

### **\* Environment, Health and Safety**

Members highlighted the dangers posed by oil pollution in downstream operations and called for improved pipeline, depots and refineries security. They emphasised the need to upgrade the existing pipeline distribution network.

## \* **Conclusions/Recommendations**

- ▶ Carry out TAM and refurbishing of three refineries in 1998 starting immediately with the Kaduna Refinery;
- ▶ Make concrete arrangements to import products while the refineries are being refurbished;
- ▶ Take immediate steps to refurbish/upgrade and maintain all import and distribution facilities;
- ▶ Allow equitable and adequate margins to stakeholders by January 1998 to cover the cost of future bridging;
- ▶ Settle outstanding bridging claims by June 1998;
- ▶ Allow the private sector to participate in gas distribution;
- ▶ Provide adequate working capital to the Eleme petrochemical plant;
- ▶ Reinforce the application of EHS regulations.

## **Group 23: Industry**

### **Introduction**

The group considered extracts from the Vision 2010 Committee report and endorsed the action plan presented. Members however recognised that 1998 was only the kick-starting year for implementing the action plan. Consequently, they limited their deliberations to only a few key issues. The group was optimistic that implementation of its recommendations would produce visible and appreciable impact in 1998.

### **Issues Identified**

Two (2) key issues were identified for discussion:

- Conducive environment for investment and growth;
- Industrial capacity utilisation with emphasis on how to raise it substantially above the current estimated 32 per cent.

## **Issues Discussed**

### **\* Conducive Environment for Investment and Growth**

The group agreed that this could be achieved through:

- Provision and improvement in infrastructure including energy, water, communication and road network;
- Provision of skilled manpower by ensuring effective human resources development;
- Provision of attractive investment incentives including tax holidays, reduction in tariffs and excise duties, easy repatriation of profits and dividends and protection of local industries;
- Ensuring political and economic stability as well as national security;
- Adherence to sound fiscal and monetary policies at all times.

### **\* Industrial Capacity Utilisation**

The group agreed that industrial capacity utilisation in the country, currently estimated at 32 per cent, was too low for comfort. Members attributed the present unsatisfactory situation to sagging consumer demand, high manufacturing costs which preclude reduction of prices below a certain threshold, and the closure of many factories in the past few years. They stressed the importance of measures to increase consumer purchasing power if industrial capacity utilisation was to increase appreciably in 1998.

## **Conclusions and Recommendations**

The group observed that rapid recovery of the Nigerian economy was predicated on a sound and achievable industrial policy and urged government to reflect the following recommendations in the 1998 budget.

### **\* Conducive Environment for Investment and Growth**

- Announce incentives that would attract Nigerian capital from abroad (it was estimated that about 70 per cent of Nigerian wealth was held abroad

due to absence of an investment-friendly environment in the domestic economy);

- Announce incentives to attract more foreign-owned capital;
- Provide seed money to re-ignite entrepreneurship development and replicate the manufacturing success stories of newly industrialised countries whose experiences were relevant to Nigeria;
- Faithfully implement the transition to civil rule programme so as to guarantee political stability.

#### \* **Industrial Capacity Utilisation**

Announce measures to stimulate effective demand. Fund development of utilities including energy, water and telecommunications to reduce manufacturing costs;

Step up implementation of Poverty Alleviation Programmes via rural development and SMEs as a means of raising consumer purchasing power;

Increase employment and income generation opportunities by focusing on the development of the agro-allied subsector.

## **Group 24: Solid Minerals**

### **Introduction**

The group examined extracts from the Vision 2010 Committee report in relation to the 1998 federal budget.

### **Issues Identified**

Three (3) key issues were identified:

- Dissemination of information on solid minerals to potential investors;
- Conflicts over land and mineral rights;
- Funding for the development of solid minerals including bitumen, coal and other strategic minerals.

## Issues Discussed

### \* **Dissemination of Information on Solid Minerals**

The group agreed that the creation of a computerised database on solid minerals is long overdue. Members concluded that this could be achieved through local area network system (LAN) consisting of micro-computers located in various offices and units connected to a central system. They stressed that the database would aid collation, storage and retrieval of information on solid minerals nationwide. In particular, the benefits were listed to include promotion of international trade in solid minerals by making vital information available to genuine foreign and local investors without the usual delays.

### \* **Conflicts over Land and Mineral Rights**

The group examined existing conflicts arising from Federal Government ownership of mineral rights given that title to land is vested in state governors who hold it in trust for the good and common benefit of all Nigerians. Members expressed concern over the possibilities of the Federal government finding it difficult to gain access to land for its projects in the states.

### \* **Funding of Solid Minerals Development**

The group agreed that there is urgent need to step up funding of solid minerals development especially in the following areas:

#### ▶ *Bitumen Development*

The group disclosed that a **direct application plant** for bitumen has recently been conceived. The idea, it was explained, is to urgently install a plant for harnessing the available raw material for immediate and direct use in road construction and rehabilitation. There was excitement over the prospects of the project effectively addressing the current acute shortage of bitumen for road building and development. It was also disclosed that both NEIC and the Federal Ministry of Works and Housing have already indicated support for the project.

#### ▶ *Coal Industry*

Members agreed that adequate funding is required to mechanise coal production, which is still done manually in the country. The problems of the industry were listed to include:

- lack of a special jetty at the port in Port Harcourt for handling coal exports.
- Poor state of the Enugu - Port Harcourt rail line needed to facilitate evacuation of coal to the port.
- Inappropriate technology in use at both the Enugu and Okaba mines.

▶ *Other Strategic Minerals*

The group stressed the need for continued government support for the production of strategic minerals for use in local industries especially those whose importation has been banned. Gypsum, barites and kaolin were cited as examples. Members drew attention to opportunities for exporting some categories of minerals not presently exploited optimally in the country.

## **Conclusions and Recommendations**

The group requested the federal government to include the following recommendations in the 1998 budget:

- Create a computerised database to provide information on solid minerals;
- Release, in January 1998, the Solid Minerals Policy, which had long been drafted;
- Open up the bitumen belt through adequate funding and provision of infrastructure to enable and encourage serious private sector investors to move into the industry;
- Revamp the Enugu - Port Harcourt rail line to enhance quick and timely evacuation of coal to the ports;
- Mechanise coal production from the pits both at Enugu and Okaba mines;
- Encourage relevant government agencies and local investors to invest in solid mineral exploration, production and export;

- Properly equip the Geological Surveys to enhance solid mineral mapping and exploration nationwide;
- Create a solid minerals loans scheme to assist indigenous entrepreneurs wishing to enter the industry.



## **Section 3:**

### **Part A**

## **Presentation on the Economy**

### **Introduction**

I would like to start by thanking his excellency, Gen. Sani Abacha for his magnanimity first, in agreeing to declare the Fourth Nigerian Economic Summit open and giving us a keynote address and affording us the most unique opportunity to spend time for us to present summary of discussions and recommendations.

### **Objective**

#### **Summit Objectives**

The main objective of the Summit is the creation or establishment of a process of dialogue between the public and private sectors on economic issues for the overall welfare of the country and its citizens.

The focus of all deliberations are national not sectoral and this is what is indeed, the hallmark of the Summit.

The purpose of this presentation therefore is to present to the Head of State and Commander-in-Chief of the Armed Forces, a summary of state of affairs and the recommendations for moving the country forward beginning 1998.

### **Presentation Outline**

The format of the presentations will be as follows:

- An assessment of the immediate past and present economic situation;
- Followed by a look at the economic outlook; and
- Major recommendations of policies and programmes that should be initiated and implemented. (*This section of the presentation, i.e., Economic Outlook and Major Recommendations will be handled by Mallam Mohammed Hayatu-Deen*)

Given the above recommendations, how will they be implemented? Who should do what? What should the public sector do and what roles should the private sector play?

## **State of the Economy**

In this assessment of economic situation, the focus will be on key fundamentals of the economy. The presentation will show that with respect to the economy a solid foundation has been achieved. We can claim to have:

- Monetary stability
- Fiscal discipline
- Social stability

## **Social Stability**

It is acknowledged by most people that the country enjoys a relatively high level of social stability. It is this social stability that has made achievement of macro-economic stability possible. This is indeed one of the key success areas of this administration.

## **Fiscal and Monetary Coordination**

The macro-economic policies succeeded because for the first time in recent past, there was proper coordination of fiscal and monetary policies. This resulted in:

- Predictable naira
- Lower interest rates
- Lower rate in inflation

The most critical target of economic policy is the control of inflation.

## **Inflation = Public Enemy #1**

The success of this administration in the fight against inflation cannot be over emphasised.

## How We Got There

However, in order to really appreciate the success so far achieved, one has to step back a bit and look at how we arrived at our present position.

### **Economic Situations (Past Achievement and Current Situation):**

Between 1991 and 1993, the Nigerian economy was on a free fall. Total lack of control on public expenditure during the period had brought the economy to the brink of collapse. To bring back sanity to the economy a severe stabilisation programme was needed. Hard choices and tough measures were required. These came in 1995.

The stabilisation measures of 1995 introduced sanity into the economic system. Government stopped spending and as a result of this it controlled the creation of money.

### **Overall Fiscal Balance**

As can be seen from the chart, the fiscal deficits rose from about eight per cent (8.0%) of GDP in 1990 to fifteen point five per cent (15.5%) of GDP in 1993. It was completely eliminated in 1995. From then on, a positive fiscal balance was recorded in 1996 and this year a positive fiscal balance of about four per cent (4.0%) of GDP is expected. As a result of this control in creation of money through public deficit the rate of inflation started to fall.

### **Consumer Price Inflation**

Between 1990 and 1995 the rate of inflation was on the increase reaching a peak of seventy per cent (70%) per annum in 1995. From a high of over 70 per cent (70%) per annum in 1995, the rate of inflation began to drop rapidly. This year, the consumer price inflation has almost approached single digit.

It is clear that inflation in Nigeria has been driven by fiscal deficits. Thus it is not surprising that given the determination in the control of public expenditure, and therefore, the fiscal deficits, the inflation monster alias *Public Enemy #1* has been tamed and brought under control.

Now as fiscal deficits began to be eliminated, the rate of inflation began to drop and as the rate of inflation began to fall, the cost of money, that is, interest rate began to fall.

## **Commercial Banks Prime Lending Rates**

In 1994, the prime lending rates charged by commercial banks were as high as sixty per cent (60%) per annum. This has come down to about sixteen per cent (16%) per annum. Again, as a result of strict control of public expenditure our reserves began to grow.

## **Foreign Exchange Reserves**

The build up in our foreign exchange reserves position has helped to strengthen our international financial position. We can say that the economy is now in a much more stable footing than it was when this administration came to power in 1993. This could not have been possible if the country did not enjoy a relatively high level of social stability. The challenge we face today is how to maintain the success already achieved while at the same time grow the economy. But what are the chances that this could happen? What is the economic outlook?

## **Talking Points**

### **Introduction**

Accountants will tell you that for every credit, there is a corresponding debit. Pascal (Dozie) has examined the nation's balance sheet and he has told us a good story about the economy. He has left me with the difficult job of balancing the books by asking me to talk about the liabilities side of the balance sheet.

I will tell my story in two parts. First, we shall go on a safari ride around the terrain of the economy and identify all the bumps and potholes that have constrained the economy from high performance. Secondly, we shall propose specific solutions and recommendations which will firmly place the economy on a path of recovery and growth in 1998.

In making this presentation, I salute the extraordinary energy and dynamism of the 600 men and women who have participated in this Summit. The product which I am about to deliver represents the consensus of our deliberations. Since every shade of opinion in Nigeria is represented in this Summit, this document may truly be called the "people's product".

The 1997 budget forecast a GDP growth of 5 per cent. It is doubtful if this target will be realised. Standard of living has not improved; whether this is measured in terms of

income per capita, infant and maternal mortality rates, stable power supply or access to safe water and good roads, the indicators are pointing downwards.

The 1995 and 1996 budgets were bold and progressive. It was widely expected that the 1997 budget will reduce the size of government in the economy. Instead government's role was considerably expanded with large capital votes earmarked for various public programmes. Since the budget relied heavily on public spending to grow the economy, and in reality there was little spending, the economy did not grow.

At the beginning of the year, there was excessive liquidity in the system, with consequential adverse effects on inflation. The government responded appropriately by clamping on money supply. However, we believe the response was excessive because while we have succeeded in controlling inflation, economic growth has been held back. The condition of service of public sector employees – the armed forces, police, civil service, judiciary is deplorable and antiquated. It is modelled on the colonial system whereby a colonial officer was given a large house in exclusive government reservation area, telephones, cook, steward, gardener and a naira salary just enough to feed him and meet his out of pocket expenses. However, the bulk of salary and allowance is paid to him in hard currency in England. Super-imposed on this is the fact that he virtually lives in paradise when he retires back home because of the social safety net in the UK. It is this system of compensation minus the offshore component that has been inherited by Nigerians. So where is the purchasing power?

There were great expectations in the 1997 budget. It was logical to assume that the bold reforms embarked upon in 1995 and 1996 would be further expanded through comprehensive and extensive tax/tariff reforms.

There were strong indications that various public enterprises will be opened up to competition and privatisation. Instead the budget only promised to set up a high power committee to study the subject and advise government. However, there would appear to be two exceptions. One is the telecoms industry where the downstream sector is being opened up to competition. While plans have been announced to introduce a second network carrier to compete with NITEL.

This government scores very high marks for sanitising the finance industry. However, the reforms have stalled. The resolution of distress in the banking system has been put at the back burners and no further foreign exchange reform have been implemented.

The 1997 budget contained a categorical statement that all laws inhibiting competition will be abrogated. Unfortunately this has not become a reality.

With regards to the upstream oil and gas sector, we concede that cash calls have not been as problematic as they had been in previous years. However, there has been a significant cut in exploration and production budget in 1997. Consequently many of the oil majors have had to realign their production programme by shipping rigs out of the country to cut down on expenses. The consequences will not manifest immediately, but will begin to take a toll in about eighteen months.

Refer to the rest of the bullet points on main slide.

There is a large section of the Nigerian private sector that is timid and passive. Several reforms and incentives have been provided by government but the response has been weak and feeble from the private sector. The Nigerian private sector is analogous to a bird in a cage. A bird in a cage is tamed, weakened and bereft of imagination and the longer it stays in the cage the weaker it becomes. However, when the lid is blown open, the bird stays in the cage and does not fly out. The average Nigerian has been so used to operating in a controlled and regulated environment that he can not exercise his freedom when incentives are thrown at him.

We are yet to wean ourselves out of the oil boom mentality of quick profits and quick fixes. Building a business and making it successful takes a long time. It is not an overnight affair. Because we fix our horizons on the short-term, we do not invest in those long-term businesses that are vital to economic success.

True enough there are significant impediments to investment in Nigeria, but the Nigerian capital market has offered for about three years one of the highest reforms on investment among the emerging markets. Yet many Nigerians have chosen to invest in other markets, even if such markets gave them lower returns.

There are many unscrupulous businessmen particularly in the informal sector who have contributed to the problems of capital flight through foreign exchange round tripping. A case in point was the decision by government to remove restrictions on Personal Travel Allowance and Business Travel Allowance.

There are a number of large companies who have been operating in this economy for decades and who have been successful. Some of them have stayed with Nigeria through thick and thin and continue to invest massively in expansion and diversification programmes. Yet there are some who for the last decade have simply been shipping out dividends, royalties and technical fees without putting back any new money to fuel expansion.

The level of tax evasion in Nigeria particularly in the informal sector is of endemic proportions.

There are so many bad eggs who give the private sector a bad name:

- Scam letters
- Drugs
- Fraud
- Beating customs duty
- Corruption.

Lack of good corporate citizenship

- Concern for environment
- Support for government.

The single most important strategic resource of any home, company or nation is its people. Without the right kind of people, you can not convert the potential of a country into a success story even if you assemble all of the world's natural and mineral resources in that country. What do I mean by the right kind of people. They must be of the right number, they must be well educated and they must be healthy and strong.

It is for this reason that we think Budget '98 should focus heavily on rebuilding the foundation of our human capital. Increasingly, focus on VAT as an indirect tax while gradually alleviating the burden of direct taxes (both corporate and personal). Shift from direct to indirect taxes will:

- Generate more savings and investment;
- Those evading direct taxes will be brought within the tax net at the point of consumption.

To make VAT more efficient:

- Introduce refund mechanism to strengthen the credibility of the VAT system or allow set off against other tax liabilities;
- Inaugurate the VAT tribunal;
- Multiple taxes and education tax, development levy, business premises tax, affluent tax, road tax, etc. They are far too many;

- Amend the constitution to define the limit of state government's power to impose taxes to only taxation of individual - PAYE, capital gains and withholding taxes;
- Local government's taxing power should be limited to tenement rate, parking fees, etc;
- Limit federal taxes to CIT, PPT, customs duties, capital gains tax and VAT;
- De-emphasise use of tax contractors.

### **Corporate Taxes**

Corporate income tax administration is generally okay and rate of 30 per cent is thought to be globally competitive. However, given infrastructural costs that businesses have to bear in Nigeria, the rate is considered too high to generate savings and investment.

There are price controls on petrol, aviation fuel, bankers tariffs.

Regulatory bodies to ensure fair competition:

- Consumer Protection Council Decree of 1992 has not been felt in spite of its lofty objectives. Consumers are essentially left with available remedies under the few relevant provisions of the Sales of Goods Act on defective goods;
- Scope of CPC decree is limited to products. Amend scope to include services particularly as (SOEs providing services become privatised and de-monopolised. Further, ensure consumer protection against exploitation (particularly arbitrary pricing, by defining price movement rules but not fixing prices), product liability, service ineffectiveness.

NIPC should be freed up completely from bottlenecks and bureaucracy. It should be a facilitating body and not a regulatory or approval body. It should be market friendly. It should regard the client as a bride that needs to be wooed.

Provisions of SEC Decree have not been amended since 1988 notwithstanding economic deregulation and new policy shift aimed at encouraging foreign investment.

NSE Rules and Regulations made it suit a regulatory era, have become outdated and needs to be revised to accord with the demands of a market driven capital market.



Repeal all laws conferring monopoly on State Owned Enterprises and allow competition across all industries.

Land Use Act 1978 - requirement of consent of governor to acquisition and alienation of land interest in urban areas and consent of the local government for land in non-urban areas. This effectively abolishes freehold interest in land and introduced right of occupancy system. Consent is characterised by delay.

Therefore repeal Land Use Act 1978 and re-introduce freehold land tenure system.

Repeal Land Tenure Law in the Northern states to restore freehold land tenure system nationwide.

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## **Part B**

### **Public/Private Sector Partnership**

#### **Public/Private Sector Roles**

Given the above recommendations the challenge is implementation. Who is responsible for what? What role is expected of the public sector and what role is expected of the private sector? Is there any room for joint action or teamwork?

#### **Partnership is Imperative**

To best achieve concrete results from now on, partnership between the two sectors is imperative. Both sectors should complement each other and work as a team with shared vision and single-mindedness. With this team spirit, achievement of national goals will be greatly facilitated since both the private sector and public sector will all be pulling in the same direction.

#### **Graphic Picture**

Let me illustrate graphically this partnership. This is the graphic picture of the new relationship being advocated. Although each sector has clearly defined roles there is ample scope for joint action and cooperation.

A key element for joint action is continuous consultation. This is what will keep the partnership alive and active. Continuous consultation will also yield greater consensus,

transparency and reduce mutual suspicion. This will promote greater credibility on both sides and enhance effective achievement of national goals.

From the presentation made earlier by Mohammed Hayatu-Deen what the public sector is expected to do has been amply stated. But what of the private sector? As stated earlier, from now on, the private sector is expected to work in partnership with government. It should be proactive both in its support of government programmes and in the taking of initiatives. Given what the government is expected to do what should the private sector commit itself to?

Commitment from the private sector should become more specific as the various sectors of the economy are opened up to competition. Meanwhile, the following should not be difficult to obtain:

### **Private Sector Commitment**

- Invest, expand and operate efficiently and create more jobs;
- Generates wealth which in turn increases government revenue;
- Embrace Vision 2010 and support its implementation;
- Undertake trade and investment missions to support NIPC;
- Fund education, infrastructure, etc.;
- Improve business practices;
- Help government eradicate corruption in all sectors of the economy;
- Become better corporate citizens:
  - ▶ law abiding
  - ▶ timely payment of all legitimate taxes, dues and levies
  - ▶ assist in fight against poverty, illiteracy and other social maladies;
- Pass down benefits of any incentive to the citizenry;
- Actively promote image of Nigeria abroad.

## *Re-emphasizing the Partnership Spirit*

### **Conclusion**

Once again, let me end this presentation by bringing back the graphic illustration of the new relationship between the two sectors for us to internalise its message, i.e., working in partnership, all the objectives of Vision 2010 and other national objectives will be successfully achieved.

# Appendices

## Appendix A:

### Programme of Events at the Fourth Nigerian Economic Summit Held in Abuja from 18-20 November, 1997

Theme: Implementing Vision 2010 - The 1998 Budget Issues

#### *Tuesday, 18 November*

14.00	Registration	All Participants
15.00	Group Leaders' Meeting	All Co-Chairmen and Rapporteurs, Facilitators and Organising Committee
18.00	Press Briefing	Organising Committee
20.00	Dinner	All Participants

#### *Wednesday, 19 November, 1997*

8.30	Group Leaders' Meeting	Co-Chairmen, Rapporteurs and Facilitators (not present at the previous session) and Organising Committee
9.30	Briefing on Vision 2010 Work	Mallam M. Haruna Bunmi Oni Udoma Udo Udoma Prof. Anya O. Anya
11.00	Welcome Address	Pascal G. Dozie <i>Chairman, Nigerian Economic Summit</i>
11.15	"The Success of China's Economic Reform Policy and its Significance for Nigeria and Africa"	Mrs. Zepp-LaRouche <i>Executive Intelligence Review, Germany</i>

11.30	“The Performance of Africa”	Prof. Paul Collier <i>Head, Centre for the Study of African Economies</i> Oxford University, United Kingdom
12.00	Keynote Address	Gen. Sani Abacha, GCON, mni <i>Head of State and Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria</i>
12.30	Vote of Thanks	Chief (Dr.) Rufus Giwa <i>President, MAN</i>
12.40	Head of State departs	
12.45	Group Discussions (Lunch served in the meeting rooms)	All Participants
19.00	Dinner (Served in the meeting rooms)	All Participants
20.00	Plenary Session (Group Presentations)	All Participants

***Thursday, 20 November, 1997***

8.15	Global Competitiveness of Agro-related Industries in Nigeria	Vinanchiarachi Jebamalai <i>UNIDO, Vienna</i>
8.30	Group Presentations contd.	All Participants
12.30	Lunch	All Participants
14.00	Closing Session	All Participants
15.00	Presentation to the Head of State, Commander-in-Chief Gen. Sani Abacha, GCON, FSS, MSS, DSS, mni	Pascal Dozie Mohammed Hayatu-Deen

17.00	Closing Address	His Excellency, Gen. Sani Abacha GCON, FSS, MSS, DSS, mni <i>The Head of State, Commander- in-Chief of the Armed Forces</i>
18.00	Press Briefing	
21.00	Dinner Hosted by Chief (Dr.) Anthony Ani, Hon. Minister of Finance	All Participants
	Dinner Speech - Economic Diplomacy	Ambassador George Dove-Edwin

## **Appendix B:**

### **Vision 2010 Critical Success Factors (CSF) - Mallam Mohammed Haruna**

#### **What is Vision?**

**It is dreaming with one's feet firmly on the ground.**

For a country its vision must capture the collective aspiration, needs and desires of its people.

The vision process involves planning but it is more inspiring than planning. The essential difference is that with visioning you have a mental picture of where you want to be and then you work backwards from there. Planning is rather mechanical whereas visioning is creative.

In Nigeria, until now we have had plans but no vision. The plans (four since 1962) have failed largely due to:

- Poor formulation;
- Poor implementation;
- Political instability;
- Resources constraints;
- Inadequate involvement of the private sector, communities and individuals.

The essential missing link of these was a lack of vision which could have brought clarity to our thinking and inspiration and commitment to our actions.

On 27th November, 1996 Head of State, Commander-in-Chief of the Armed Forces, General Sani Abacha, sought to provide this missing link by inaugurating a 174 - member Vision 2010 Committee. Membership cut across all levels and sections of the Nigerian society - traditional rulers, civil servants, the military, industrialists, academics, media, labour, market women, youths, religious leaders, NGOs and even foreigners resident in Nigeria. The Committee eventually expanded to 237.

Two important distinctions between this body and similar ones before were:

- the emphasis on merit vis-a-vis the partisan leaning of individuals in the choice of members; and
- the emphasis on baking a bigger cake as opposed to merely sharing it.



The Vision 2010 Committee had a nine-item terms of reference including:

- defining the right economic, political and social direction for the nation;
- setting goals, targets and time-frame for reaching our overall objective in 2010;
- turning Nigeria into a leading sporting nation in the world;
- prescribing a partnership role for the public and private sectors;
- identifying ways to protect our environment and ecology.

Why the year 2010? Mainly because it is the year in which we will be celebrating our golden anniversary as a nation and it will also be the end of first decade of the twenty-first century.

How did the Vision 2010 Committee carry out its brief? Between its inauguration in November, 1996 and the submission of its report on September 30, 1997 it held 12 workshops in plenary sessions.

There were fifty-one sub-committees with overlapping membership. These were divided into four broad categories namely:

- Critical Success Factor Groups that dealt with factors vital to the realisation of Vision 2010. There were thirteen such sub-committees.
- Economic Sector and Issues Groups that dealt with essentially economic issues. There were seventeen in these groups.
- Third Wave Groups that dealt with issues not covered sufficiently or at all by the CSF and Economic Groups. There were nineteen such sub-committees.
- Special issues (military, police and traditional rulers). These were sensitive issues that were considered at the last workshop.

The Critical Success Factor Groups (CSF) comprised the following sub-committees:

- Norms and Standards dealt with values that would guide our conduct and behaviour as citizens, leaders and the led-alike;
- Anti-Corruption examined how to root out corruption that has eaten deeply into the society;
- Openness examined ways to make society open and transparent;

- Cooperation examined ways to encourage teamwork among all stakeholders;
- Education dealt with the development of human capital;
- Population tackled the issue of population explosion in so far as it militates against improvement in the quality of life;
- Health tackled the problems of healthcare delivery;
- Law and Order tackled the problems of crime, social stability and justice;
- Good and Stable Governance worked out a blueprint for political stability and good governance both of which are essential for any meaningful development;
- External Environment dealt with our poor external image which discourages outside investors from doing business with Nigerians and Nigeria;
- Competition dealt with the issue of making our products competitive worldwide in quality and pricing;
- Sustainable Economic Growth derived on economic formula for sustainable growth;
- Science, Engineering and Technology dealt with the issue of how to develop home grown science and technology for development;
- Each sub-committee was led by a rapporteur, supported by a facilitator, a secretary and coordinator.

These sub-committees held many meetings and organised several workshops (forty-eight in all) on their various topics. In addition, they received inputs from external workshops (organised by outside organisations like banks, companies, parastatals, etc.) memoranda from individuals or organisations, commissioned studies, and presentations at plenary sessions by ministers, military administrators and experts both local and foreign.

Based on these inputs, the sub-committees produced reports on their various topics. The sub-committees and their reports were eventually pulled together into four broad categories as follows:

- Value System comprising Norms and Standards, Anti-Corruption, Openness and Competition.

- Human Capital comprising Education, Population and Health care.
- Governing System comprising Law and Order and Good and Stable Governance.
- Global Competitiveness comprising Science and Technology, External Environment, Competition and Sustainable Economic Development.

The CSF Groups like all the other groups used the visioning process which involved asking and answering the three questions:

**Where We Are  
Where We Want To Be  
How To Get There**

The answers to these questions were arrived at by the use of two tools namely:

- Scenario Building - building mental pictures of where we would like to be.
- System Dynamics - using a multi-disciplinary approach (political, socio-cultural and economic inter-relationships and linkages) for identifying various strategies for achieving set objectives.

Generally speaking, the CSF Groups' work-method was to examine our strengths and weaknesses as a nation, build scenarios of where we want to be, having in mind these strengths and weaknesses and then use System Dynamics to determine how best to get to the chosen vision. All this was done in the context of certain global trends which every country must adapt to if it is to forge ahead. These trends are technological development, increasing globalisation of national economies as well as their liberalisation.

CSF's determined that our critical strengths lie in our human resources as the most populous country in Africa, our huge land size and vast agricultural and mineral resources and our diversity. Our weaknesses include the absence of a democratic culture, the high incidence of corruption in society, mass illiteracy and mass poverty.

Towards the end of the main committee workshop, all four groups, i.e., CSF, Economic Sector/Issues, Third Wave and Special, agreed that the Nigeria we want by the year 2010 is one which is a "united, industrious, caring and God-fearing democratic society committed to making the basic needs of life affordable for all Nigerians and creating Africa's leading economy."

To realise this vision, the CSF Groups determined that the strategies must include:

- Democratisation of the country. As such the transition programme must be pursued honestly and vigorously.
- Have a true federation where the units are genuinely autonomous financially and otherwise.
- Invest massively in human capital development. For example, at least 26 per cent of our annual budget should go to education as opposed to the current 11 per cent.
- The economy should be privatised with government largely restricted to preserving law and order and providing infrastructure.

The CSF Groups drew up a fairly elaborate action plan for implementing these strategies and categorised them into immediate, medium (five years) and long term (ten years).

The most relevant for next year's budget is the immediate action plan. The major elements of this include:

- Establishing a National Council for Nigeria Vision;
- Entrenchment of NCNV into Constitution;
- Launching of the Vision 2010 Report;
- Creating mass awareness of Vision 2010 objectives;
- Announcing the budget on time;
- Adhering strictly to the October 31, 1998 date for handover to a democratically elected government;
- Providing living wages for public sector workers;
- Providing financial autonomy for the Judiciary;
- Adopt single exchange rate;
- Adopt true fiscal federal structure;

- Establish Prison Service Commission;
- Recruit additional 120,000 police, etc.

## **Appendix C:**

### **Economic Issues/Sectors - Bunmi Oni**

#### **Outline:**

1. The economic imperative:
  - An Economic philosophy;
  - Economic restructuring;
  - Key targets.
  
2. Overview of current situation:
  - Selected macro-economic indicators
  
3. Economic objectives and strategies:
  - Private and public sector action points

#### **Details:**

##### **1. The Economic Imperative**

- Prerequisites for National Self-Actualisation;
- Economic success is key to other challenges
- Search for an economic philosophy:
  - ▶ primary export orientation;
  - ▶ planned public sector-led economic development;
  - ▶ import substitution and indigenisation;
  - ▶ Structural Adjustment Programme;
  - ▶ guided deregulation.
  
- Need to restructure the economy:
  - ▶ from exploitation of natural resources to value creation;
  - ▶ from mono-cultural, import dependent to diversified export-oriented.

- Key Action Points
  - ▶ stimulate savings and investment;
  - ▶ invest in infrastructure, human capital, good governance;
  - ▶ pursue liberalisation, privatisation, fair competition.
  
- Key Targets
  - ▶ >10% growth per annum;
  - ▶ => double GDP in 7 years;
  - ▶ <5% inflation per annum;
  - ▶ manufacturing contributes 24% to GDP.

### Where We Are:

Life Expectancy	Mortality /1000	1993 HDI**		1995 GDP/CAP \$	1965 GDP \$b	1995 GDP \$b	
52	80	0.4	Nigeria*	260	5.8	26.871	(X27)
71	12	0.92	Malaysia	3,890	3.1	85	(X27)
64	51	0.68	Indonesia	980	3.8	198	(X52)
71	23		Venezuela	715	9.8	75	(X20)
59	73	0.48	Ghana	390			

\* 19th poorest nation

\*\* Composite of three indices - life expectancy, education index, PPP.

Developing countries 0.63 average

Industrial countries 1.02

### Where We Are:

## 2. Overview of Current Situation

### Macro-Economic Issues

#### a. Fiscal Policy

- ▶ Taxes too high to promote compliance and attract investment;
- ▶ Weak and corrupt tax administration and institutions (e.g., ports);
- ▶ Skewed expenditure pattern:

- 75% of total expenditure by federal government;
  - federal government recurrent expenditure is 45%, largely on debt service;
  - wastage on CAPEX, inadequate maintenance.
- ▶ Growth in non-oil revenue in 1995/97 due to improved collection and not productivity increase in the real sectors.
- b. Monetary Policy
- ▶ Institutional arrangement hampered by CBN Decree No. 3 of 1997;
  - ▶ Lag in policy reaction;
  - ▶ Excess liquidity an abiding feature.
- c. International Trade
- ▶ 0.3% of world trade in 1995 (c.f. 1.3% for Malaysia);
  - ▶ World trade growing 7% per annum;
  - ▶ 95% of 1995 export earnings from oil (c.f. 64% in 1970);
  - ▶ Ineffective implementation of export incentives.
- d. Trade and Distribution
- ▶ Hampered by dilapidated infrastructure;
  - ▶ High cost;
  - ▶ Predominance of cash as payment system;
  - ▶ No clear strategy to develop commerce;
  - ▶ Lack of integrity, poor quality, faking and adulteration.
- e. Policy Process
- ▶ Poor formulation;
  - ▶ Poor implementation;
  - ▶ Parallel structures to implement policy;
  - ▶ Lack of continuity.

## Real Sectors

- a. Agriculture
- ▶ Small-holder subsistence farmers;



- ▶ 30.1% of GDP in 1996, down from 62% in 1960s;
- ▶ Declining productivity, low technology;
- ▶ Poor infrastructure and preservation/storage;
- ▶ Fuzzy land tenure policy;
- ▶ Poor linkage to industry.

b. Industry

- ▶ Manufacturing only 6.9% of GDP in 1996;
- ▶ Persistence with inward-looking strategies;
- ▶ Import dependence for skills and updates;
- ▶ Poor infrastructure;
- ▶ No investment or venture capital.

c. Solid Minerals

- ▶ Absence of policy framework;
- ▶ Retrogressive laws;
- ▶ Inadequate funding and infrastructure;
- ▶ Low technological know-how.

d. Petroleum - Upstream

- ▶ 3% of world output;
- ▶ Poor funding and erosion of value incentive;
- ▶ Lack of consultation, openness leading to mistrust;
- ▶ Community relations and environmental issues;
- ▶ Non-realisation of potentials of gas;
- ▶ Poor linkage with other industries.

e. Petroleum - Downstream

- ▶ Currently in state of decay due to poor management;
- ▶ Funding constraints, and low capacity utilisation;
- ▶ Poor planning and logistics, even of imports.

f. Developmental Issues

## Developmental Issues

### a. SMEs

- ▶ Potentially vital linkage in industrial development;
- ▶ Enhances dispersal of economic activity;
- ▶ Some efforts to harness potential, but:
  - no access to credit;
  - weak management;
  - vulnerable in political power-play;
  - poor linkage to major enterprises.

### b. Informal Sector

- ▶ Probably accounts for 70% of economic activities;
- ▶ "Unknown quantity" in the scheme of things;
- ▶ Major source of capital formation;
- ▶ Reservoir of indigenous technical capacity;
- ▶ Low education.

### c. Rural Development

- ▶ 62% of population live in rural areas;
- ▶ Major setback due to deficiencies in:
  - health care;
  - education;
  - communications;
  - land tenure;
  - technology.

### d. Urban Development

- ▶ 38% of population reside in urban areas;
- ▶ Growth rate (5-7%), outstrips development;
- ▶ Major deficiency in urban planning.

### e. Poverty Alleviation

- ▶ 50% live below poverty line;

- ▶ 60% have no access to safe water;
  - ▶ 50% illiterate;
  - ▶ Consumes less than 30% of minimum RDA of nutrients;
  - ▶ Ignorance, a major threat to development.
- f. Infrastructure
- ▶ Unreliable and in general state of disrepair;
  - ▶ Suffered from poor management;
  - ▶ 34% has access to electricity;
  - ▶ 4 telephone lines (installed) per 1000.

### Capital Mobilisation Issues

a. Banking and Finance

- ▶ Uncoordinated development of industry;
- ▶ CBN role in monetary control suffered from political interference;
- ▶ Short-term orientation, high transaction costs;
- ▶ Asset-liability mismatch;
- ▶ Capital inadequacies and weak internal controls.

b. Capital Market

- ▶ Underdeveloped relative to economy served;
- ▶ Cumbersome transaction procedures.

c. Domestic Savings

- ▶ High inflation and unemployment;
- ▶ Low nominal disposable income;
- ▶ Inconsistent tax regime.

d. Debt Management

- ▶ Domestic
  - unbridled and inefficient public spending

- ▶ External
  - uncoordinated borrowing channelled to unproductive projects;
  - hampered World Bank/IMF negotiations.

### 3. Where We Want to be:

To make Nigeria a major industrialised nation and economic power that continually strives for sustained economic growth and development towards improving the quality of life of all Nigerians.

- **Policy Targets**
  - ▶ 10% GDP growth per annum, minimum (double GDP in 7 years approximately);
  - ▶ Single digit inflation rate over the period to 2010. Target 5%.
  
- **Imperative for Growth**
  - ▶ 1976-1996: Average growth 1.6%;
  - ▶ Low growth plus high population growth (2.8%);
  - ▶ Demographics:
    - \* 45% < 15 years old;
    - \* 3% > 64;
    - \* 52% > 15 < 64;
    - \* 48% > 5 < 24 (critical school age).
  - ▶ In 5 years 50% could be unemployed
  - ▶ Social dislocation, etc.

- **Capital Mobilisation Issues**

**SHIFT REQUIRED**

<b>FROM</b>		<b>TO</b>
Corruption	-	Positive values reinforced
Under-investment in skills development	-	Radical education drive
Closed, isolated economy	-	Embrace global realities, liberalise, encourage open competition
Ailing infrastructure	-	Priority development
Low domestic savings	-	Savings boosted for investment
Public sector as "control agent"	-	Public sector as facilitator
Vicious cycle	-	Virtuous circle

**Objectives:**

- Reduce the dominance of the public sector in the economy and develop a viable, dynamic, highly motivated, socially and environmentally responsible private sector;
- Diversify the economic base through the development of an internationally competitive and export-oriented production, manufacturing and industrial non-oil sector to reduce the dependency on oil;
- Develop production technologies to accelerate the growth and development of small and medium-scale businesses to provide wider economic opportunities, employment and alleviate poverty;
- Develop fully the oil and gas sector to provide the launching pad for the development of the rest of the economy;
- Develop a modern, well-structured, efficient and competitive financial system that provides for the long-term funding of the economy;

- Put in place an effective macro-economic framework that attracts investments, promotes economic stability, sustains non-inflationary growth and social justice;
- Invest massively in and develop education, health, technology, information systems and infrastructure as a lever for investment and job creation;
- Make Nigeria a preferred country for investments by both Nigerian and foreign investors and increase significantly the level of domestic savings;
- Reduce population growth rate from the current 2.83% to under 2.0%;
- Maintain assets and achieve food security.

## **Appendix D:**

### **Welcome Address by Pascal G. Dozie**

#### **Protocols**

It is with great pleasure that I welcome you all once again to this year's Nigerian Economic Summit, the fourth so far. Ever since its debut in 1993, the Summit has grown consistently to become an important forum for dialogue, among public and private sector leaders, on key economic issues facing our country. The many successes registered to date, both in policy formulation and implementation will remain a tribute to the vision and fortitude of our leaders in government and the members of the Summit Group.

We are particularly grateful to the Head of State and Commander-in-Chief of the Armed Forces, General Sani Abacha and his able lieutenants, for their unflinching support and encouragement to the Summit. There is no doubt that the sustenance of the Summit has been made possible, to a large extent, by the material and other support we have continued to receive from the government.

The full participation of the Head of State and his senior officials in the Summit process has ensured that public sector perspectives are brought to bear on Summit deliberations. With private sector inputs, the result has been unprecedented consensus among key actors in the economy. It is, therefore, not surprising that, in the past two to three years, the nation has been witnessing major positive changes in its economic fundamentals. Inflation remains tamed, stability of interest and exchange rates has been sustained, fiscal discipline is now entrenched in the polity and renewed signs of economic growth have been registered. These, among other positive changes, have been made possible by the consistency of policy formulation and implementation that have remained the hallmarks of this administration. May I, therefore, on behalf of the entire Economic Summit membership thank Your Excellency, the Head of State for these important achievements.

It is important, at this juncture, to reiterate the main objective of the Economic Summit. As stated earlier, the Summit was conceived as a unique forum for both public and private sector leaders to deliberate on key national economic issues, proffer solutions and jointly undertake implementation of recommendations. The uniqueness of the Economic Summit approach has remained its cross-sectoral consensus building and focus on the national interest as against the sectoral interests of participants.

A major landmark of the Third Economic Summit held last year was the announcement, by the Head of State, of the national visioning project, a project recommended by the Second Economic Summit in 1995. This was immediately followed by the inauguration of the Vision 2010 Committee by the Head of State in November 1996. Membership of the Committee, made up of eminent Nigerians and a few foreign friends of the country, covered the entire spectrum of the nation's stakeholders. It is heartening to note that this distinguished Committee has discharged its task honourably and in a timely fashion too, culminating in the submission of its report to the Head of State on 30th September, 1997. Again, may I seize this opportunity, on behalf of the Economic Summit, to thank General Sani Abacha, and all the members of Vision 2010 Committee, for a job well done. We in the Economic Summit Group and, indeed, the entire nation are proud of you.

However, it is imperative to state here that a vision that is not implemented remains a dream. Having formulated a vision for the future of our country, we are now faced with the greater challenge of implementing that vision. We have crossed the Rubicon and so must now garner the courage to embark on the journey of sustained implementation in order to realise our vision of a greater Nigeria in the year 2010 and beyond. This leg of the journey will not be easy. There will be many obstacles on the way, tempting us to change course or even to reverse the direction of change. But I am encouraged by the bold resolve demonstrated so far by the nation's leadership and the enthusiasm shown by our people, to strengthen my faith in our ability to carry through our vision.

The theme of this Fourth Economic Summit could, therefore, not be more apt. The theme "Implementation of Vision 2010: the 1998 Budget Issues" provides us the opportunity of coming up with recommendations of major Vision 2010 policies and programmes that can be immediately implemented as part of the 1998 budget. The 1998 budget is a significant watershed for the implementation of Vision 2010. It must, therefore, incorporate bold and symbolic elements of the Vision that can kick-start the entire process of implementation of Vision 2010. The task of this Summit, therefore, centres around identifying these key vision elements and the practical ways they can be implemented in the 1998 budget.

As usual, the methodology to be adopted in this Summit would follow the established pattern of past summits. The bulk of the deliberations will take place in the various group sessions while the feedback of such deliberations will be presented at plenary sessions by group co-chairmen. In addition, we shall have a keynote speech by the Head of State, as well as expert presentation by guest speakers.

I like to close this welcome address by specially thanking, on behalf of all Summit members, the Head of State, General Sani Abacha for finding time, in spite of his busy



schedule, to once again honour us with his presence at this Summit. I also want to thank him for his leadership and unwavering commitment towards our collective search for a greater future for our country. In the same vein, I thank the honourable ministers here with us, the Secretary to the Government of the Federation, our distinguished guest speaker, the leadership of the Economic Summit Group and all of you distinguished participants for making this Fourth Nigerian Economic Summit possible.

I wish you all happy and fruitful deliberations.

## **Appendix E:**

### **The Success of the Chinese: Africa's Secret Weapon for Peace! Economic Reform and its Significance for Nigeria:**

**By Helga Zepp-LaRouche**

Your Excellency, the Head of State and Commander-in-Chief, honourable members of the government, honourable members of the diplomatic community, ladies and gentlemen, after the earthquake which gripped all of the world's stockmarkets and currency exchanges, beginning with South East Asia, no competent person any longer doubts the collapse of the world financial system. The only illusions are that it might be only a 40 - 50 per cent "adjustment" of the stockmarket prices, or that the crisis manifests parallels to the world economic crisis of 1929-31.

The reality is instead that we find ourselves in the middle of a systemic crisis, whose potential civilisational consequences threaten to overshadow those of the collapse of the Soviet Union. While the IMF was still praising Malaysia, for example, at the beginning of this year, as a success-model for the development countries, all of Lyndon LaRouche's warnings have been confirmed in the meantime, who warned that the Malaysia model was not based on sound economic principles and that a new Mexico-crisis was imminent in all of South East Asia.

But the monetary and stockmarket collapses there are only the regional expression of the global collapse. The banking crisis in Japan is intimately related to that crisis, which has the potential alone to unleash an international chain reaction. There are further dramatic crises in Brazil, Mexico and Argentina, but also in eastern Europe, especially in the Czech Republic (another showcase of the IMF), Hungary, Poland, Lettland, and especially Russia, of course.

The most dangerous situation is in the area of derivatives speculation, where the payments of some 100 trillion dollars due in the coming months surpasses the GNP of all nations on earth several times. The same is true for the debt of nations. In other words, the international financial system is irretrievably bankrupt and there is no national economy in the world which can survive this situation without carrying out a formal bankruptcy proceeding for the entire international financial system.

Fortunately, in contrast to the collapse of the financial system associated with the IMF and the World Bank, which is the result of thirty years of mistaken neo-liberal policies, there is a completely different dynamic in the world. The Chinese government has taken the initiative for the development of the so-called "Eurasian Landbridge" and major steps of that project have already successfully been carried out. In the process, the

industrial centres of Europe are to be joined together with the population centres of East, South East, and South Asia by means of infrastructure corridors, and thus introduce, as the Chinese government says, "A new era of mankind."

For the first time in the history of mankind, the geographical situation of a country will no longer decide upon that country's economic conditions, but rather the infrastructure corridors will bring industrial and agricultural development into the land-locked regions.

Around so-called transportation arteries, that is, railways and high-speed levitation trains, highways, developed waterways, pipelines, electricity grids, and so forth, there will emerge corridors (which are approximately 100 kilometre wide) where new cities and industrial plants, and the rapid development of agriculture will blossom.

Over the past fifteen years already, China, under the leadership of Deng Xiaoping, focused on the development of large industrial projects as well as scientific and technological progress, and today it is the only country experiencing an unprecedented economic boom. Since 1990 alone, the average annual growth of GNP was approximately 12 per cent, while the living standard of the urban population improved annually by 7.5 per cent and that of the rural population by 5.7 per cent.

China has placed the development of the Eurasian Land-bridge in its strategic long-term planning up to the year 2010, and the country wants to bring the economic level of its internal regions as quickly as possible up to that of the developed coastal and southern regions, and by the year 2050 all of China is to be brought up to world-levels.

To indicate the orders of magnitude somewhat; the railway network will be extended by the year 2000 by 11,000 km, and by the year 2010 it will have 90,000 km of track, almost double what exists today. The Chinese road networks will be expanded by 12,000 km in the coming years; fourteen large Chinese cities will obtain subway systems and in the next five to ten years, 100 airports will be expanded or built completely new, and just as many maritime and internal ports will be built. For the next twenty to thirty years, 200 cities with a population of one million each are planned, since the estimate is that there will be a growth of population by 200 million in that time, which will have to be appropriately housed. In order to cover the requirements of the 1.2 billion Chinese population today for energy and food, China's water reserves will be mobilised and that on a grand scale. On the one hand, a whole series of gigantic hydroelectric powerplants will be built, and there will also be huge canalisation and irrigation projects in order to redirect water from the water-rich south into the arid north.

Four new nuclear power plants will be connected to the Chinese electricity grid in the coming years, and at present the only future-oriented high temperature reactor, an

inherently safe reactor-model, is being built in China and it has a solid position in the planning for the energy supply for the twenty-first century. One of the most exciting projects is the just begun Three Gorges Dam in the central section of the Jangtse, which is planned for completion by the year 2010. This dam will not only protect fifteen million people, who were hit with flood catastrophes in the past, in which often several hundred thousand people died, but hydroelectric power plants of the project will provide 17,620 megawatts of electrical power, which corresponds to about thirteen nuclear power plants of the types that are used in Europe. At the same time, the Jangtse will be made shippable over a stretch of 700 kilometre with a five-level lifting sluice system and water will be brought from the source-region of the Jangtse via a system of canals into the north, where, among other things, it will make the Gobi Desert flourish.

I can not mention all of the multiplicity of the other planned projects in China for time reasons. As an example, I would like to mention that there will be 3,600 infrastructure projects in the Bohai region alone in the next fifteen years, of which the construction of a fifty-seven kilometre long bridge over the Bohai Bay is the most spectacular.

Now, since the great success of the historic summit meeting between President Clinton and President Jiang Zemin, the centre of gravity of the political relationships in the world has shifted from the Atlantic to the Pacific. Both President Clinton as well as the Chinese government saw in the strategic relationship of the two countries, between the presently only remaining superpower and the country which will soon be the greatest economic power in the world, the indispensable precondition for a peaceful development of the world in the twenty-first century. With this partnership, the potential for the reorganisation of the bankrupt old financial system and the creation of a new, just Bretton Woods II System has been created.

The key for the development of Africa lies in this dynamic of the Eurasian Land-bridge and the strategic partnership between the USA and China. It will be decisive to show the countries which participate in the development of the Eurasian Land-bridge that the development of Africa is their own essential strategic security interests.

For the greatest immediate economic potential of Africa lies in its role as the potential breadbasket of the world.

Ten years ago, the FAO reported that only one-third of the world's population are well fed, one-third have sufficient food, but because of deficiencies still suffer from mental and physical disabilities, and one-third are continuously in hunger. This distribution has shifted in the meantime to the disadvantage of the second segment.

Practically the entire area of the former Soviet Union has degenerated from the first to the second segment, and countries such as Bulgaria, Romania and the Asiatic part of Russia have plunged into the third segment.

Given the extraordinary fertility of the African soil, where two-thirds of the agriculturally usable land have soil quality of the highest qualification, Africa could very quickly become a major breadbasket for the world. Africa presently is using only one-quarter of the land, which could be used for agriculture. China on the other hand has 22 per cent of the world population, but only 7 per cent of the agriculturally usable land worldwide. Africa could very easily produce half of the worlds' grain production.

Only if Africa is developed infrastructurally, then this continent can play a decisive role in overcoming hunger everywhere in the world, it can also guarantee the provision of all people on this planet with food at a level worthy of being called human. This requires, of course, that food is produced in the necessary quality and quantity, that it is processed and transported, and this is only possible if the remnants of colonialism are overcome in Africa and the scandalous lack of infrastructure, of ports, railways from the north to the south, from the east to the west, roads, waterways, irrigation facilities, energy production and distribution, is overcome.

Under the present conditions in the world, Africa has only one chance to overcome its underdevelopment; all of this can happen over the short term only if the Eurasian Land-bridge is extended over the Middle East and the Straights of Gibraltar to Africa, and this continent is opened up by means of infrastructure corridors in the same way as this is already occurring for Eurasia, moving outward from China.

It is most advantageous that the political leadership of Nigeria wants to shape the future through a "Vision for the Year 2010." There is nothing more important in a world in which all of the old institutions are collapsing, than to think big, than to have a grand vision for how Africa can overcome the underdevelopment - for which it bears no fault - within a relative short period of time. For the moment of the great crisis of the old system is at once an enormous opportunity for a completely new beginning!

Now the moment has come to realise the many programmes which have either been begun or are still only on the drawing boards. The construction of a railway line from Dakar to Port Sudan is the necessary central-line of a development corridor which can then be joined through Sudan and Egypt with the international network of the Eurasian Land-bridge. At the same time, of course, many new maritime ports, roads and railway lines must be built.

Of the many obvious infrastructure projects I would only like to briefly mention the Transaqua Project, where the main idea is to bring approximately 100,000 million cubic metres per year of fresh water from the basin of the Zaire River, through a canal system and the Baminqui and Chari river management system, into the Sahel zone and to Lake Chad, a project which would draw off only 5 per cent of the water flowing in the river, and would not even be felt in the water-rich south, but it would be of tremendous benefits in the Sahel region.

In this region of the Sahel, which is presently undergoing progressive desertification, some 12 to 17 million acres are estimated for agricultural usage by means of intensive and semi-intensive irrigation. For purposes of comparison, it is pointed out that forty million Egyptians live in an irrigated area of under seven million acres, although this area is cultivated very intensively.

This "water-transportation" must of course been seen in the context of the larger international transportation system of Africa; that is, the planned trans-African highway from Lagos to Mombasa, which connects the Indian Ocean with the Atlantic over 6000 kilometre, and the highway from Lagos to Algiers, which can practically already be used once it is fully built, which makes a rapid connection between the Gulf of Guinea and the Mediterranean possible.

The realisation of the Transaqua and similar large projects can turn the economic dynamic of Africa around in a relatively short period of time, and soon Africa will no longer be the target of wars of imperialist forces who want to exploit its cheap raw materials, but Africa can become the largest food exporter of the world, and so develop the economic resources in order to be able to process its own raw materials and build up its own industries as quickly as possible.

It has often happened in the past that entire cultures and civilisations collapsed in one part of the world, while other regions experienced flourishing periods of economic and cultural progress. For the first time in human history, we are now all sitting in the same boat. That means a great danger if we do not act and sink into chaos instead. But it also means a wonderful opportunity, to overcome the "childhood illness of mankind," oligarchism and colonialism once and for all, and to establish a just, new world economic order!

## Appendix F:

### Explaining African Economic Performance - Paul Collier and Jan Willem Gunning<sup>1</sup>

*ABSTRACT: Africa has had slow growth and a massive exodus of capital. In many respects, it has been the most capital-hostile region. We review and interpret the aggregate-level and macro-economic literatures to identify the key explanations for this performance. There is a reasonable correspondence of the two sets of evidence, pointing to four factors as being important. These are a lack of openness to international trade; a high-risk environment; a low level of social capital; and poor infrastructure. These problems are to a substantial extent attributable to government behaviour and the paper includes a review of the political economic literature which addresses that behaviour.*

#### 1. Introduction

Although sub-Saharan Africa includes the fastest-growing economy in the world, Botswana, it also includes seventeen of the twenty-four slowest growers.<sup>2</sup> Overall, in the past two decades African economic performance has been markedly worse than that of other regions and during the 1990s the gap has been widening. Indeed, in large parts of the continent per capita incomes have been falling.

Since 1993 a literature has rapidly developed which attempts to explain this performance by means of Barro-style growth regressions. By its nature, this approach is highly aggregative and reduced form. It is as yet largely unrelated to either the case-study or the macroeconomics literatures on African economic performance. We consider five causes of slow growth, and show that the microeconomic evidence broadly coheres with

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We would like to thank Anke Hoffler for research assistance in section 2 and Chris Adam, Janine Aron, Francis Teal and Steve Younger for comments.

<sup>2</sup> Over the period 1965-85 both Penn World Tables and the World Bank rank Botswana as the fastest grower. Of the 24 countries in the lowest growth quintile on the Penn World Tables data, 17 are African (Borro and Lee, 1993).

that from the growth regressions. Africa has had atypically high barriers to trade and has been an atypically risky environment. Its social capital and infrastructure have been weak, and its financial sector underdeveloped. Each of these has been damaging.

Section 2 describes aggregate economic performance and reviews the explanation offered by the endogenous growth literature. Slow growth can in part be explained in terms of a few variables measuring endowments and policies. However, this leaves a significant residual. Growth has mainly been reduced through low returns on investment rather than a low level of investment. In Section 3 we focus on three key agents: governments, rural households and manufacturing firms. We argue that African governments have behaved in ways which are damaging to the long-term interests of the majority of their populations because they have served narrow constituencies. They have been damaging partly through 'sins of commission', such as agricultural taxation, and partly through 'sins of omission', such as a failure to provide adequate infrastructure. In addition to dysfunctional government, private agents have had to contend with high risks arising from natural phenomena. Farm households have responded to this environment by devising institutions which have mitigated risk, by sacrificing income for security, and by retreating into untaxable activities, notably subsistence. Manufacturing firms have been less able to adapt and so have fared particularly badly. Drawing on the new literature on 'social capital', we argue that both households and firms have as yet not sufficiently created the social institutions which promote growth. In Section 4 we draw the implications of this public and private behaviour for factor and product markets. The high risk environment is both an opportunity for and a constraint upon financial markets, but in practice the latter has dominated. The early literature on African labour markets emphasised dysfunctional government intervention through wage regulation. We suggest that the process which accentuated financial repression, inflation, liberalised labour markets. Product markets have been characterised by extensive government interventions through taxation, price setting and public trading monopolies. Recently, many of these interventions have been reversed. However, such liberalisations have not been fully credible and so the effect of controls has proved persistent. In Section 5 we bring together the argument. High risk, dysfunctional government, and insufficient social capital have lowered the returns on investment. The low returns on investment have caused capital flight on a massive scale. Each of the three prime causes of slow growth is now improving. Although many African governments continue to be dysfunctional, some have now substantially liberalised controls and improve service provision. Democratisation is both underpinning these policy changes politically, and permitting formerly repressed civic institutions to emerge, so building social capital. While high natural risks are persistent, those risks



arising from government behaviour are starting to diminish. However, since these improvements are very recent, their effect on growth remains largely prospective.<sup>3</sup>

## 2. Aggregate Performance

### 2.1 *Stylised Facts*

Measured by per capita GDP economic performance of sub-Saharan Africa has been poor and deteriorating. During the 1980s it declined by 1.3 per cent per annum, a full five percentage points below the average for all low income developing countries. During the 1990s performance has worsened both absolutely and relatively: during 1990-94 the decline in per capita GDP accelerated to 1.8 per cent per annum and the gap with other low income developing countries widened to 6.2 percentage points. Before reviewing the more formal literature which attempts to explain this performance we present some simple growth accounting which tries to separate the effect of factor accumulation and productivity change. A comparison of Africa with all developing countries is shown in Table 1, covering 1971-91.

Over the whole period growth in the labour force was sufficiently similar to the developing country average that it played little part in differential performance. Africa invested less than other developing areas and this accounts for one-third of the shortfall in output growth. The remaining two-thirds is therefore due to lower productivity growth. During the 1980s, however, which was the decade of particularly slow growth in Africa, population growth exceeded labour force growth and both exceeded the developing country average. If the capital-labour ratio and factor productivity had changed in Africa as elsewhere, per capita growth would have been 0.2 per cent lower during 1965-80 and 0.4 per cent lower during 1980-90.

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<sup>3</sup> We should note that there is a large polemical literature explaining African economic performance. From the perspective of the left Africa has been impoverished by its unequal relations with the West, an example being *How Europe Underdeveloped Africa* (Rodney, 1972). This thesis has acquired a new lease of life with the international financial institutions replacing multinationals and colonial governments as the instruments of repression, and example being *The IMF and Ghana: the Confidential Record* (Hutchful, 1987). From the perspective of the right Africa has been impoverished by a lack of robust, morally-anchored institutions exacerbated by aid-dependency, an example being 'The Coming Anarchy', (Chaplain, 1994).

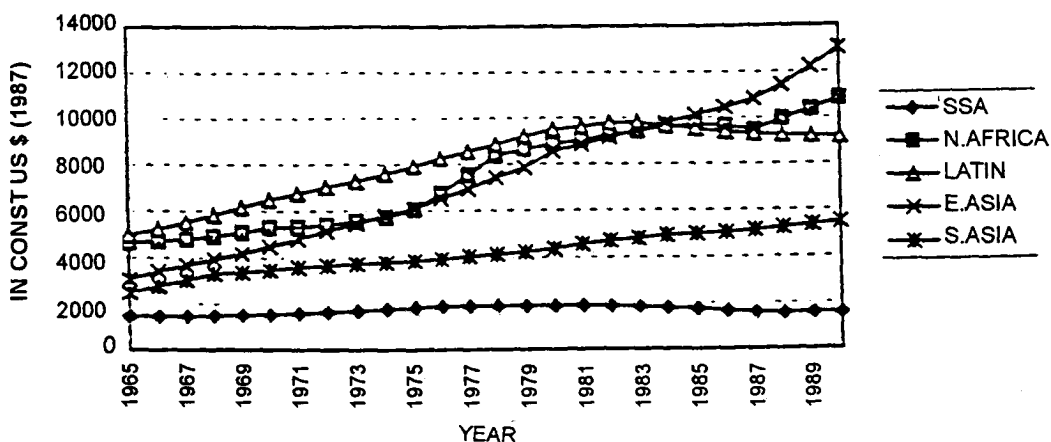
**Table 1: Output, Labour Force and Population Growth: Africa and the Developing Countries Average**

A. Contribution to Trend Output Growth, 1971-91		
	Sub-Saharan Africa	All DCs
Trend output growth	3.4	5.2
Labour contribution	1.3	1.3
Capital contribution	1.9	2.5
Total factor productivity	0.2	1.3

**Population and labour force growth, 1965-90**

	1965-80			1980-90		
	Pop	Labfce.	Diff	pop	labfce	diff
Sub-Saharan Africa	2.7	2.5	0.2	3.0	2.8	0.2
All Developing Countries	2.3	2.3	0.0	2.0	2.2	-0.2

Source: A: International Monetary Fund (1993). B: World Development Indicators, from *World Development Report* 1987 and 1996. Note: trend output is measured as a three year moving average of the growth rate of real GDP.



**Figure 1: The Capital Stock per Worker, 1965-90**  
AVERAGE CAPITAL STOCK PER WORKER

Source: Calculated from Penn World Tables

The capital-output ratio in Africa was lower in 1990 than in 1965. By contrast, in other developing areas it rose and by 1990 had converged on a level double that in Africa. This divergent outcome was not because Africa was using its capital atypically efficiently: African total factor productivity growth was much lower than elsewhere. Rather, as Figure 1 shows, unlike other regions, Africa did not accumulate capital per worker. In 1965, although the African capital stock per worker was lower than those of other regions, the differences were not massive: for example, it was half that of East Asia. By 1990 it was barely a quarter of the region with the next-lowest endowment, South Asia. Indeed, since 1979 capital per worker has declined by nearly 20 per cent. Yet, as we will show (Table 8), even at these very low levels of capital, the return on it was below that in other regions.

An important reason why African capital formation has been so modest is that Africans have chosen to shift their wealth abroad. In Table 2 we compare the portfolio choices of wealth owners across regions by combining data on capital flight since 1970 and the domestic capital stock (excluding housing and foreign-owned capital) to construct an estimate of regionally-owned wealth and its disposition as of 1990.<sup>4</sup> It is not surprising that in a wealth-abundant, capital-hostile environment like the Middle East, wealth owners have placed a high proportion (29 per cent) of their wealth outside the region. By contrast, both South and East Asia have a very low proportion of their wealth outside the region: presumably, East Asia compensates for its higher endowment of wealth per worker by being more capital-friendly. The choices of African wealth owners are startling. Despite a lower level of wealth per worker than any other region, African wealth owners have chosen to locate 37 per cent of their portfolios outside Africa, a higher extra-regional share than any other region. If Africa reduced its capital flight to that of Asia, its capital stock would increase by half.

**Table 2: Portfolio Composition and Factor Proportions by Regions 1990**

	Capital Flight/Wealth	Capital per Worker(\$)	Wealth per Worker(\$)
Sub-Saharan Africa	0.37	1,560	2,476
Middle East	0.29	10,844	15,273
Latin Asia	0.17	9,157	11,033
South Asia	0.04	5,440	5,667
East Asia	0.03	13,018	13,421

<sup>4</sup> Since the capital flight data estimate flows out of the country rather than out of the region, they will misstate regional capital flight to the extent that the capital is invested in other countries within the region. However, this is likely to be a small effect, particularly for Africa.

*Notes:* Capital flight based on Claessens and Naude (1993). We would like to thank them for releasing their data. We have recalculated the stock of flight capital by summing the flows during 1971-90 at constant 1985 dollars. Capital stock figures include public capital but exclude housing and foreign direct investment, computed from Penn World Tables at constant 1985 dollars. The data are complete only for 27 countries, 8 of which are African, and the capital flight/wealth column reflects only these 27 countries. Capital per worker is for the much larger set of countries in Penn World Tables. Wealth per worker is capital per worker/(1-(capital flight/wealth)).

To summarise, the African growth problems is accounted for mainly by low productivity growth, and additionally by low capital accumulation. Although capital accumulation was radically lower in Africa than other regions, a substantial part of this reflects capital flight. Evidently, something has been dramatically wrong with the African investment environment.

## 2.2 *Explanations from Growth and Investment Regressions*

We now review six explanations of why the African environment has been hostile to investment.

### *A Lack of Openness to Trade*

Africa is less open than other regions due partly to policy and partly to natural barriers to trade. Proxies for trade policy are problematic, but there is no doubt that African governments have had atypically restrictive trade policies. On one measure, not only was Africa the area with the highest trade restrictions, but the gap between it and the next most restrictive area, the Middle East, was wider than that between the Middle East and the most liberalised region, the Far East (Dollar, 1992). On a second, binary measure almost all African economies were closed whereas 37 per cent of other developing countries were open (Sachs and Warner, 1995, 1996). Africa also has an atypically high degree of natural protection arising from many countries being landlocked and poor port facilities. A further anti-trade effect is the Dutch disease arising from Africa's atypically large natural resource exports. Table 3 summaries various measures.

The effects on growth can be substantial: Sachs and Warner (1996) make the largest claim, finding that restrictive trade policy, poor access to the sea and Dutch disease between them account for a 1.2 per cent per annum growth shortfall. A more typical estimate would be the 0.4 per cent found by Easterly and Levine (1995).

Not only have trade restrictions been more severe in Africa, but this has been in the context of every much smaller economies. There is therefore a reasonable presumption that on average a given level of restriction would be more damaging. In

Table 4 we investigate this by adding to a standard growth regression a term which interacts an Africa dummy with a trade policy proxy, the parallel premium.<sup>5a</sup> The term is negative and significant: a given level of trade restrictions is around half as damaging again in Africa as in other developing areas. We return to the regression periodically below.

**Table 3: Openness and Growth: Differences between SSA and other LDCs**

	Means of Explanatory SSA	Variables Other LDCs
<i>Policy:</i>		
Sachs and Warner index(1-open)	0.04	0.37
Parallel premium (%)	0.40	0.26
RER misalignment (%)	0.128	0.069
<i>Endowment:</i>		
landlocked (1-yes)	0.4493	0.0565
market access	0.23	0.04
natural resources	0.14	0.11

Sources: Sachs and Warner index: Sachs and Warner (1995)  
parallel premium: Easterly and Levine (1995)  
RER misalignment: Elbadawi and Ndulu (1996)  
market access: Sachs and Warner (1996)  
natural resources: Sachs and Warner (1996)

**Table 4: The Effect of Openness on African Growth**

Variable	Coefficient	t-statistic
Premium	-0.0184	-5.21
Africa *Premium	-0.0111	-1.88
Landlocked	-0.00789	-2.40
Invest/GDP	0.00130	4.72
Africa *Invest/GDP	-0.00043	-2.48
Income	-0.0009	-6.97
School	0.0148	1.64
Fractionalisation	-0.0148	-3.76
War	-0.000004	-0.10
1960	0.068	8.60
1970	0.069	8.29
1980	0.057	6.37
Africa	-0.0052	-0.98
Latin America	-0.0132	-4.27
Adjusted R - 0.56: n-236		

<sup>5a</sup> The Sachs and Warner index gives similar results.

Considering that trade policy has been found to be so important for African growth it is surprising that it has not usually been included in studies of the determinants of African investment, although there is some evidence that investment has been retarded.<sup>5b</sup>

### A Lack of Social Capital

The strength of civil society may affect growth because trust lowers transaction costs, because networks facilitate social learning, or because it pressures government to deliver services. A striking feature of Africa's social structure is its high level of ethnic fractionalisation. An index of ethno-linguistic fractionalisation has been constructed, based on a measure created by Soviet anthropologists.<sup>6</sup> On this measure the average African country is more than twice as fractionalised as other developing regions. Fractionalisation might both lower the capacity of the political system to produce co-operative outcomes and reduce levels of trust and social interaction. The growth regression in Table 4 shows that fractionalisation has a significant negative effect and this is representative of results in the literature. Directly, it accounts for 35 per cent of Africa's growth shortfall. Additionally, fractionalisation is correlated with poor policies and taking these into account it is responsible for 45 per cent of the growth shortfall (Easterly and Levine, 1995).

Quite why fractionalisation reduces growth is unclear. One apparent effect is via corruption. Various measures of corruption and judicial ineffectiveness are correlated with fractionalisation.<sup>7</sup> Africa has on average higher levels of corruption than other developing areas, longer bureaucratic delays, and weaker processes for the enforceability of contracts (Table 5). For example, Nigeria receives the lower ratings both on the Transparency International Index of Corruption and on the BERI Property Rights Ordinal Index. These have been included in growth regressions and found to be significant.<sup>8</sup> A second effect of fractionalisation is on policy. The high correlations are with poor delivery of public services such as low levels of schooling ( $r = -.43$ ) and few telephones ( $r = -.50$ ), those with macroeconomic policy being much weaker.

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<sup>5b</sup> Bhattacharya, Montiel and Sharama (1996) find that ratio of trade to GDP is a significant determinant of foreign direct investment of Africa, and Kumar and Malambo (1995) find that the real exchange rate is a significant determinant of African private investment.

<sup>6</sup> The underlying measure is of the chance of two randomly drawn citizens being from different ethno-linguistic group.

<sup>7</sup> Mauro (1995) include nine African countries in his seventy country sample. He introduces an Africa dummy which is significant so that, at least for these nine countries, the corruption-growth relationship found globally appeared not to be different in Africa.

<sup>8</sup> See, for example, Knack and Keefer, 1995; Easterly and Levine, 1995; Mauro, 1995.

Quite all the effects of fractionalisation are negative. Africa has nearly double the incidence of civil war of other development areas and it might seem likely that this would be attributed to its high ethnic fractionalisation. However, Africa's high fractionalisation is actually peace-enhancing. The relationship between fractionalisation and civil war is non-monotonic. The most dangerous societies are those in which the fractionalisation index is around 45-50 such as might be found in a society with two fairly equal ethnic groups. The average African country is further above the peak danger than the average non- African developing country is below it: African ethnic diversity is an asset in reducing the risk of civil war.<sup>9</sup>

**Table 5: Socio - Political Variables and Growth: Differences between SSA and other LDCs**

	SSA	Other LDCs
Corruption	4.97	6.03
Bureaucracy	1.38	1.72
Enforceability	1.95	2.09
Civil war	1.27	0.72
Fractionalisation	67.6	32.7

*Notes:* The index of fractionalisation is on the range 0-100 with completely homogenous societies scored as zero.

*Corruption:* Data from International Country Risk Guide for 1982, low scores indicate high corruption; range is 0-6.

*Quality of bureaucracy:* Source as corruption, high scores indicate better quality; range is 0-6.

*Enforceability of contracts:* Data from Business Environmental Risk Intelligence for 1972; low scores indicate weak enforceability; range is 0-4.

*Sources:* Corruption and Fractionalisation from Mauro (1995); bureaucracy and enforceability from Knack and Keefer (1995); civil war (months per year) from Singer and Small (1994).

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<sup>9</sup> See Collier and Hoeffler (1996).

## High Volatility

Africa has experienced a high incidence of shocks, some originating from the natural environment and some from policy (Table 6).

Although the two sources of shocks are conceptually distinct, in practice in Africa they are correlated since governments have used trade policy to equilibrate the balance of payments. Variation in the real exchange rate is a useful proxy for these effects since it reflects the sum of policy and terms of trade shocks. African real exchange rates have been atypically volatile and there is some evidence that this has reduced growth.<sup>10</sup>

**Table 6: Volatility Variables and Growth: Differences Between SSA and Other LDCs**

	<u>Inflation</u>	<u>Comm.</u>	<u>Toft.</u>	<u>RER</u>	<u>Tax Rev/ GDP</u>	<u>Macro- Financial</u>	<u>GDP</u>
Sub-Saharan Africa	9.0	0.22	-3.11	15.1	3.3	1.048	6.14
Latin America	13.9	0.19		14.9	2.2	1.121	5.17
East Asia	6.0	0.19		6.6	1.7	0.733	4.38
South Asia	7.5	0.18		10.4	1.7	0.733	4.38
Middle East	7.2	0.18		11.2	1.2	1.094	8.01
OECD	4.1	0.13				0.455	2.81
Other LDCs			-1.60				

*Note:* For the Macro-financial and GDP measures of volatility Asia is treated as a single aggregate. The same figure has been used for East and South Asia.

*Sources:* Inflation: (Variance, 1960-89), King and Levine (1993); Commodity Prices: (Standard deviation of log, 1960-90), Mash (1995); Terms of Trade shocks: (medium annual average as % of GDP, 1970-90), Elbadawi and Ndulu (1996); Real Exchange Rate: (Standard Deviation of changes, 1966-88), Pritchett (1991); Tax Revenue/GDP: (Standard deviation of changes, 1974-89), Bleaney et al. (1995); Macro-Financial: (Standard deviation of equal-weighted average of four underlying measures of volatility: public deficit/GDP; monetary growth; real exchange rate misalignment; current account deficit/GDP, 1961-94), Elbadawi and Schmidt-Hebbel (1997); GDP: (Standard deviation of per capita GDP, 1961-94), Elbadawi and Schmidt-Hebbel (1997).

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<sup>10</sup> Real exchange rate variability has yet to be used in growth regressions but has been found to reduce African investment (Ghura and Grennes, 1993; Hadjimichael and Ghura, 1995; Bhattacharya, Montiel and Sharma, 1996; Fielding, 1993).



Because exports remain concentrated in primary commodities (itself partly a result of the lack of openness discussed above) Africa is highly exposed to terms of trade shocks. These shocks have had large short-term effects on output: a shock worth one percentage point of GDP directly changes constant price GDP by 0.6% (Deaton and Miller, 1996). Most evidence suggests that this volatility has reduced growth.<sup>11</sup> However, this is contentious. Exposure to trade shocks is potentially beneficial: if the economy is flexible construct export price series for thirty-six African countries and find no negative effect of price shocks on growth and investment in the short term.<sup>12</sup> There is a similar controversy over the effects of political instability.<sup>13</sup>

Two aspects of the external environment have deteriorated: the terms of trade and the climate. Neither has received much attention in the aggregate growth literature.

The terms of trade facing Africa deteriorated considered during 1980-1992, although there is surprising variation in the estimates, ranging between 6% and 36% (Table 7). Taking the whole period 1970-92 Africa's terms of trade deteriorated less than the average for other developing areas, and even improved on some measures. However, since 1980, which is the period during which African decline has been pronounced, the terms of trade has deteriorated more in Africa than in other regions on most measures. This deterioration in terms of trade has been estimated to account for a reduction in the African growth rate relative to that of developing countries of 0.7 percentage points (Elbadawi and Ndulu, 1996).

There has been a long-term deterioration in African rainfall.<sup>14</sup> However, there is too little evidence to infer the effect of this on growth.

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<sup>11</sup> See Wheeler (1984) and Helleiner (1986). Bevan et al. (1987, 1989) and Collier and Gunning (1997) argue that African trade shocks have caused economic decline because over-regulation has prevented private agents from responding efficiently, while the governments have lost control of public expenditure. They find that even favourable shocks give rise to large contractions in GDP in the post-shock period.

<sup>12</sup> As Deaton and Miller note, their approach rules out long-term effects since reversion to trend is imposed.

<sup>13</sup> Barro and Lee (1993) estimate that for the fourteen slowest-growth African countries political instability reduces growth by 0.3 percentage point, which is more than any other region. Three other studies reach qualitatively similar results: Azam et al., 1996; Wheeler, 1984; Fosu, 1991; and Barro and Lee, 1993. However, Deaton and Miller stress the severe econometric difficulties in determining causality in the relationship between political and economic change. Using African data and instrumenting by means of commodity price shocks, they find that causality runs entirely from economic to political change: regime change has no significant effect on growth, but 'If anything, ... any feedback from political exit is growth-enhancing.' (p. 185).

<sup>14</sup> Grove (1991) compares mean rainfall in the period 1960-89 with that during 1930-59. In the driest zone, covering the Sahel, the Sudan, and Northern Ethiopia, rainfall was 20-30% lower in the post-1960 period and in the intermediate zone, Natal-Kalahari, it was 10-20% lower. In the wet Equatorial zone, where marginal changes in rainfall were probably least important, mean rainfall increased by 10 per cent.

## Deficient Public Services

Africa has a lower stock of education than other regions but a faster rate of growth of the stock (Nehru et al., 1996). If the growth of output is determined by the growth of inputs then Africa should have grown atypically rapidly. Conversely, if the level of human capital directly affects the rate of growth then the lack of education might be an important explanation of slow growth. At present these issues are unresolved, partly because until very recently educational growth rates have been very poorly proxied by enrolment rates (Gemmell, 1996; Prichett, 1996).

In Section 3 we describe the atypically poor provision of infrastructure in Africa. The best-studied growth effect of this underprovision has been that of telecommunications where the effects are so large as to be incredible (Easterly and Levine, 1995). Probably, the measure of telecommunications provision proxies a wider range of infrastructure. There is some evidence that the infrastructure expenditure of African governments is growth-enhancing (Ghura and Hadjimichael, 1996; Oshikoya, 1994).

**Table 7: Five Official Series on the Africa Terms of Trade**

	1970	1980	1983	1985	1987	1992	1994	1995
World Bank: World Development Report								
Sub-Saharan Africa		100	95	94	88			
All low-income countries		100	93	94	89	80		
African Development Indicators								
Sub-Saharan Africa		100	-	83	69	64	63	
Adjustment in Africa	88	100	96	91	69	-		
Sub-Saharan Africa	127	100	99	95	86	-		
Twenty-four developing countries								
IMF: International Financial Statistics								
Sub-Saharan Africa	83	100	87	89	95	94		
Asia	103	100	98	99	99	97		
African Development Bank: African Development Report-Sub-Saharan Africa								
	36	100	-	-	-	70	69	70

*Sources:* World Development Report, 1987 Table 10, and 1994 Table 13. African Development Indicators, 1996, Table 5-15. Adjustment in Africa (World Bank, 1994), Figure 1.7. International Financial Statistics, lines 605 and 505. African Development Report, 1996, Table, Table 16.

## A Lack of Financial Depth

Africa has much less financial depth than other development areas: M2/GDP is 37 per cent lower. This is usually interpreted as being due to the curtailment of the banking system through financial repression. However, while M2/MO is indeed lower in Africa than elsewhere, the difference is only 16 per cent so that the main cause is low level of MO/GDP (Table 8). The low holdings of currency are probably attributable to the large share of the subsistence economy, in turn attributable to the high implicit taxation of agriculture.

Although the lack of financial depth in Africa has reduced growth, the effect has been modest: a loss of only 0.2 percentage points (Easterly and Levine, 1995). There is also some evidence that it has reduced investment.<sup>15</sup> Thus, the lack of financial depth is probably more a by-product of a lack of openness than of financial policies and has had only limited effects on growth. This contrasts with the considerable emphasis placed on financial liberalisation in reform programmes.

**Table 8: Financial Depth and Growth: Difference between SSA and other LDCs**

	Means of Explanatory Variables	
	<i>SSA</i>	<i>Other LDCs</i>
M2/GDP	0.22	0.35
M2/MO	2.18	2.61
Savings Rate	10.45	17.52
Fiscal Deficit	-0.0492	-0.0416

*Sources:* M2/GDP calculated from data supplied by King and Levine (1993). We would like to thank them for making their data available. M2/MO from simple average of thirty-five SSA countries excluding South Africa and sixty-seven non-African developing countries, excluding Europe, IFS Yearbook, 1994, data for 1989, Table 39 ab. Saving rate from Sachs and Warner (1996). Fiscal deficit from Easterly and Levine (1995).

<sup>15</sup> See Hadjimichael and Ghura, 1995; Hadjimichael et al., 1995; Oshikoya, 1994.

## **An Interim Assessment**

To what extent do the six groups of factor discussed in the growth and investment regressions account for the African growth shortfall? The evidence discussed above suggests that the lack of openness to trade and low level of social capital have had large, damaging effects on the growth rate. The effects of high volatility and poor infrastructure on growth may also be highly damaging but are less well established. While terms of trade deterioration during the 1980s was probably important, this may have been because it occurred in the context of restrictive trade and exchange rate policies and indeed accentuated them. Climatic deterioration must also have had some effect, but its scale is unknown. There is less basis for regarding the lack of financial depth as a serious impediment.

No regression based on the variable discussed above has yet convincingly eliminated the significance of the African dummy variable: Africa has grown unaccountably slowly. It has recently been argued that the East Asian 'miracle' is fully accounted for by its high level of investment. By contrast, the African 'tragedy' is indisputably more complex than a low level of investment. Indeed, the most obvious interpretation is that private investment has been low because private returns have been low. We investigate whether the return on African investment has been atypically low in the regression shown in Table 4. In this regression we interact the Africa dummy with the rate of investment. The average returns on investment in Africa are around one-third lower than elsewhere. Allowing for this there is no further Africa dummy to be explained. Even the costly effects of civil war appear to be via investment since the war variable is insignificant. This of course does not eliminate the Africa dummy, but rather pinpoints what remains unexplained: the low return on investment. One conclusion from the growth regression evidence is therefore that even controlling for the variable considered above, the returns to investment in Africa have been inexplicably low. We will return to this in Section 3.

### **2.3 Growth and Policy Adjustment**

An implication of the econometric evidence is that relatively straightforward policies account for much of Africa's slow growth: trade and exchange rate controls, macro-financial instability, and poor delivery of public infrastructure. On the whole this vindicates Bank-Fund liberalisation programmes, the centrepiece of which has been trade and exchange rate liberalisation and greater fiscal stability.

However, this gives rise to a new puzzle. Despite a decade of Bank-Fund liberalisation programme combined with massive aid inflows African

performance has remained poor. We will argue that there are three main reasons for this: low implementation, insufficient time for observable effects, and the effects of risks.

## Aid and Growth

Whereas aid is peripheral to low income countries as a group, for Africa, it is nearly five times larger as a share of GNP: 12.4 per cent as opposed to 2.7 per cent as of 1994.<sup>16</sup> Aid might have affected growth through four channels. First, it is intended to augment investment. Secondly, in Africa, aid is by far the largest component of external debt and debt might discourage investment due to its implications for future taxation. Thirdly, like natural resources it will cause Dutch disease and so reduce the growth of the tradable sector. Finally, it is intended to change the policy environment by means of conditionality.

The effect of aid on growth depends upon the policy environment (Burnside and Dollar, 1996). In good policy environments (proxied by a composite for macroeconomic policies) aid significantly increases growth whereas in poor environment it actually reduces it. On average the African policy environment has been poor on this measure. The critical policy score below which aid reduced growth was 1.5. Of the twenty-one African countries studied only Botswana consistently had a score above this level, fifteen consistently had score below it, with the rest having bouts of good policy. The fifteen had a mean score of only 0.8, a level at which the regression would predict fairly substantial growth reduction.<sup>17</sup>

The effect of aid on investment is either insignificant or negative. This applies to aggregate investment, private investment and private capital flows.<sup>18</sup> To the extent that aid is perceived to give rise to future liabilities it might indeed discourage private investment. There is some evidence for a debt Laffer curve with most African countries on the wrong side of it (Elbadawi et al., 1996). However, a problem with the analysis of the effects of debt is that it is likely to be correlated with poor and persistent policies.

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<sup>16</sup> From *World Development Report 1996*, Appendix Table 3.

<sup>17</sup> We would like to thank Burnside and Dollar for providing us with their underlying scorings of the African countries in their sample.

<sup>18</sup> See Boone (1996), Hadjimichael and Ghura (1995), and Rodrik (1996).

Aid to Africa has caused Dutch disease. The export sector suffers through the general equilibrium effects of aid, but whether this causes an overall reduction in growth depends upon different sectoral externalities in the growth process.<sup>19</sup>

Surprisingly, in view of the high profile of conditionality, aid appears to have had little if any effect on policy. In econometric analysis of policy, aid is insignificant and the same result is suggested by an accumulation of case studies. Of twenty-six countries classified by the World Bank according to whether policy was improving or worsening and whether aid was increasing or reducing, there was a perverse relationship: policy tended to improve where aid was being reduced and worsen where it was being increased.<sup>20</sup> Through inducing some governments to embark upon reforms which they soon reverse, aid may have contaminated the signal that would otherwise be transmitted by reforming governments. An interesting contrast with Africa is Vietnam which for the first four years of its reform programme was denied access to multilateral aid due to a veto by the American government. This may have enabled Vietnam to build reputation with investors more rapidly.

### Current African Performance

As the poor African performance during the 1980s came to be recognised, the extent to which the causes were due to African policies rather than external circumstances was vigorously debated. The debate was not primarily academic, but focused on the policy changes which the World Bank and IMF were attempting to introduce through attaching conditions to their lending programmes. Critics of Bank-Fund programmes argue that poor African performance has been because the programmes have excessively reduced demand and have provided too little aid (Helleiner, 1992). They have also argued that the programmes have under-emphasised public service provision relative to fiscal stability and trade liberalisation. The Bank-Fund defence is that in most of Africa programmes have not been implemented, and that where they have been, performance has been improved (Dhonte et al. 1993, World Bank, 1994).

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<sup>19</sup> See Younger (1992) and Collier and Gunning (1992) for applications of the Dutch disease effect of aid to Africa, and Sachs and Warner (1995) for a related analysis of the growth-retarding effects of natural resources.

<sup>20</sup> On the econometric analysis of aid and policy see Burnside and Dollar (1996); on the 26 country classification see World Bank (1994), Table A27.

In practice, donors have continued lending despite breaches of conditions: for example, the World Bank purchased the same reform (grain market liberalisation) from the government of Kenya four times in fifteen years. Killick (1996) summarises the remarkable gulf between government promises of policy change and what actually happened:

As at April 1993, only five out of a total of twenty-six ESAF programme had been completed within their planned period and eight had apparently broken down altogether. Three-quarters of the World Bank adjustment loans had installment tranche release delayed because of non-implementation of policy conditions in 1980-88, the latest period for which data are publicly available. (pp. 213-4).

Thus, only a minority of African governments were seriously intent on policy reform so that average continental performance offers little guide as its effects.

The few reform programmes which have actually been implemented are very recent. The World Bank study of the links from reforms to performance (World Bank, 1994), which remains the main investigation of the topic, considered the period 1987-91. The policy changes during this period were generally minor variations within a range of poor policies. The longest reforming country, Ghana, had liberalised its exchange rate only in 1987. Only during the 1990s have reforms become more widespread. The currently leading reform country is probably Uganda, but its key reforms date only from 1992. As late as March 1992, the rate of inflation was 230 per cent and the country had the worst risk-rating in Africa. Ethiopia, now another leading reformer, only ended its civil war in 1991. Zimbabwe, a third reformer, began its programme in 1991. The Franc Zone only corrected overvaluation in 1994. The World Bank study was arguably premature in analysing the consequences of policy change up to 1991. We now consider more recent performance.

We sort the low income African countries (those below \$1,000 per capita) according to three criteria which appear important for growth: peace, the avoidance of a high degree of macroeconomic instability, and the avoidance of large allocative inefficiencies, the latter two being the focus of the reform programmes. We consider the three criteria in turn.

During the 1990s seven countries have been severely affected by civil war: Angola, Burundi, Liberia, Rwanda, Sierra-Leone, Somalia and Sudan. Between them they account for 12 per cent of the population of SSA. The data on GDP for such countries are either highly unreliable or missing. With this proviso, during the 1990s all except Sudan experienced absolute economic decline. We estimate an average rate of decline in per capita income of 4 per cent.<sup>21</sup>

The next criterion concerns the macroeconomic environment. The appropriate fiscal stance for Africa is disputed. Bank-Fund programmes typically aims for an inflation rate of 5 per cent but seldom achieve it. In support of a target at around this level (1996) finds that inflation in excess of 8 per cent reduces growth. However, critics argue for a higher inflation ceiling, typically 20 per cent. We therefore set the inflation standard at the fairly undemanding level of an average rate below 25 per cent over the period 1992-94.<sup>22</sup> The following African countries which satisfy the condition of peace currently fail to meet the requirement of macroeconomic stability thus defined: Comoros, Equitorial Guinea, Ghana, Madagascar, Malawi, Mozambique, Niger, Nigeria, Sao Tome and Principe, Tanzania, Togo, Zaire and Zambia. This group covers 240 million people, which is 46 per cent of the population of sub-Saharan Africa. As with social disorders, one casualty of deep macroeconomic disorder is economic statistics. In 1992, the last year for which national accounts are available for Zaire, the economy declined by 10 per cent. For the other economies in aggregate, the per capita growth rate in GDP 1992-94 was -1.3 per cent.

The remaining criterion concerns policies which affect resource allocation. It is immensely difficult to get good quantitative measures of the efficacy of resource allocation policies. The only resource allocation indicator which is as readily measureable as the major macroeconomic indicators is the premium on the parallel market for foreign exchange. However, this is only one of the many ways in which policy can affect resources allocation. We assess five policy areas which concern resource allocation: trade and

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<sup>21</sup> Growth rates are from *African Development Indicators, 1996* (World Bank). An alternative estimate of the effect of civil war on growth comes from growth regressions discussed in Section 2.2 Collier (1997) finds that on average civil wars during 1960-92 reduced the growth rate of 2.2 per cent. If we take as the counterfactual for the war economies the per capita growth rates prevailing in sub-Saharan Africa as a whole during the 1990s, namely 1.8 per cent, that for the war economies would be around 4 per cent

<sup>22</sup> We supplement this with a scoring system developed by World Bank country economists (Bhattachali and Ray, 1995).



exchange rate system; the financial sector; factor and product markets; parastatals; and the composition of public expenditure. Again, we utilise a scoring system in which World Bank country economists rate each policy area according to minimum precise criteria (Bhattasali and Ray, 1995). We classify countries as having minimum adequate resource allocation policies if each of the five policies is above a common low threshold. Eight countries which have met the first two criteria do not satisfy this one: Cameroon, Chad, Congo, Eritrea, Guinea, Kenya, Lesotho and Zimbabwe. These countries have a combined population of 69 million, or 12 per cent of the population of sub-Saharan Africa. The growth rate of per capita GDP for this group between 1992 and 1994 was -2.8 per cent p.a.

The three criteria leave eleven low-income countries whose government are currently providing at least a modest level of social order, macroeconomic order and resource allocation: Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Ethiopia, Gambia, Guinea Bissau, Mali, Mauritius, Senegal and Uganda. Between them these countries account for 23 per cent of the population of sub-Saharan Africa. Our classification of the economic environment is based on data as of 1995. Prior to this many fewer countries satisfied all three criteria: for example, of the eleven countries five are members of the Franc Zone and only corrected exchange rate misalignment in 1994. During 1995 per capita GDP growth for the group was 3.2 per cent. While this is not a particularly high growth rate by the current standards of some other developing countries, it should be recalled that this group is defined not by particularly growth-friendly policies but only by the avoidance of a clearly growth-hostile environment.

Table 9 brings together the above discussion. To conclude, recent growth performance looks broadly consistent with the evidence from the growth regressions: a few variables seem to be important in determining African performance.

**Table 9: The Population of Sub-Saharan Africa in Five Environments**

Environment	%Population	Per Capita GDP Growth(%)	Period
Inadequate social order	12	-4.0	1990-94
Inadequate macro policies	46	-1.3	1992-94
Inadequate resources allocation	12	-2.8	1992-94
Minimal adequate environment	23	+3.2	1995
Already middle income	8	-	-

## The High-Risk Environment

However, there is no doubt that in Africa the economic response to policy reform has been less than its advocates expected. We will argue that a likely explanation is risky.

The growth literature discussed in the previous sections seeks to explain persistent slow growth and therefore focuses on performance over decades. This misses an important point, namely that African performance has been strongly episodic. Only Kenya has been characterised by persistent slow growth. Nearly all other African countries have had episodes of severe decline, the average being a six year episode (on a range of two to fourteen years) and a decline of around 25% in per capita GDP (on a range of 10-50 per cent).<sup>23</sup> Sometimes these episodes related to terms of trade shocks, sometimes to war, and sometimes to policy error. The growth regressions miss this feature: the episodes are either averaged into decades or split into annual innovations.<sup>24</sup>

Both this history and the current collapse of some neighbours saddle the few reforming governments with a perceived risk of collapse and this itself might retard their performance during reform. Africa is rated as the most risky region in the world and its position deteriorated sharply from a rating of 31.8 in 1979 to 21.7 in 1995.<sup>25</sup> Partially policy reform in a high-risk environment may have only limited impact upon investment because of the bad news principle. Potential investors may fear policy reversal and hold off until risk assessments have improved. Lagged risk ratings significantly reduced private investments during the 1990s: if the reforming African countries had the risk ratings of Botswana and Mauritius private investment as a share of GDP would have been around five percentage points higher (Jaspersen et al (1997)). If high risk is a major deterrent to investment we would expect to find low investment co-existing with high returns. As we have seen, in the past this has not been the case: returns have been low. However, for domestic agents this may reflect constraints upon capital

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<sup>23</sup> Other than Kenya, four countries have avoided episodes of decline but none are characterised by persistent slow growth regressions. The prolonged decline of Angola and Mozambique is largely explicable in terms of civil war, and Botswana and Burundi experienced prolonged rapid growth.

<sup>24</sup> This may even account for the significance of the Africa dummy in most growth regressions. During episodes of collapse African countries are often in the extreme range of the explanatory variables so that small non-linear effects may be missed when the episodes are averaged into decades.

<sup>25</sup> Institutional investor risk ratings are on a range of 0-100 being maximum risk.

flight. Although flight has evidently been feasible on a large scale, it has usually been illegal and most agents would find it costly. The one identifiable class of investment which capital controls do not make captive is the inflow of foreign direct investment and here we do see the high risk – high return – low investment pattern. Foreign investors identified risk as the major obstacle to investment in Africa.<sup>26</sup> The return on foreign direct investment in Africa during 1990-94 is around 60 per cent higher than that in other developing regions (in the range 24-30 per cent as against 16-18 per cent). Yet these high returns are insufficient to offset the high risks: private capital flows to Africa remain far below those to all other regions. In 1995 flows to Africa (excluding South Africa) were only \$2bn: less than 2 per cent of all flows to developing countries and less than half those to the next-lowest region, the Middle East (Bhattacharya et al., 1996).

Risk is the major problem in Africa's reform environments partly because African countries are on average severely rated, and partly because the few reformers happened to be those which were initially the worst rated. The ratings of the three major risk-rating services are largely explicable in terms of the economic characteristics of a country, such as its level of reserves, but Africa is rated significantly worse than warranted by these characteristics (Haque et al., 1997). There is thus a significant Africa dummy in risk ratings as well as in growth. Jaspersen et al find that the Africa dummy persists in all their regressions of foreign direct investment during 1990-94. This gives some support to the conjecture that investors may be irrationally averse to fundamental economic, political and social risk factors which have been most likely to reform, is apparent from Figure 2. We relate the risk ratings to a World Bank classification of 26 countries into strong reformers, weak reformers, and those in which policy has deteriorated (World Bank, 1994). The countries which became the strong reformers post-1987 had considerably the worst risk ratings right throughout the 1980s. Although policy reform has gradually improved their risk ratings, they started from a very low base.

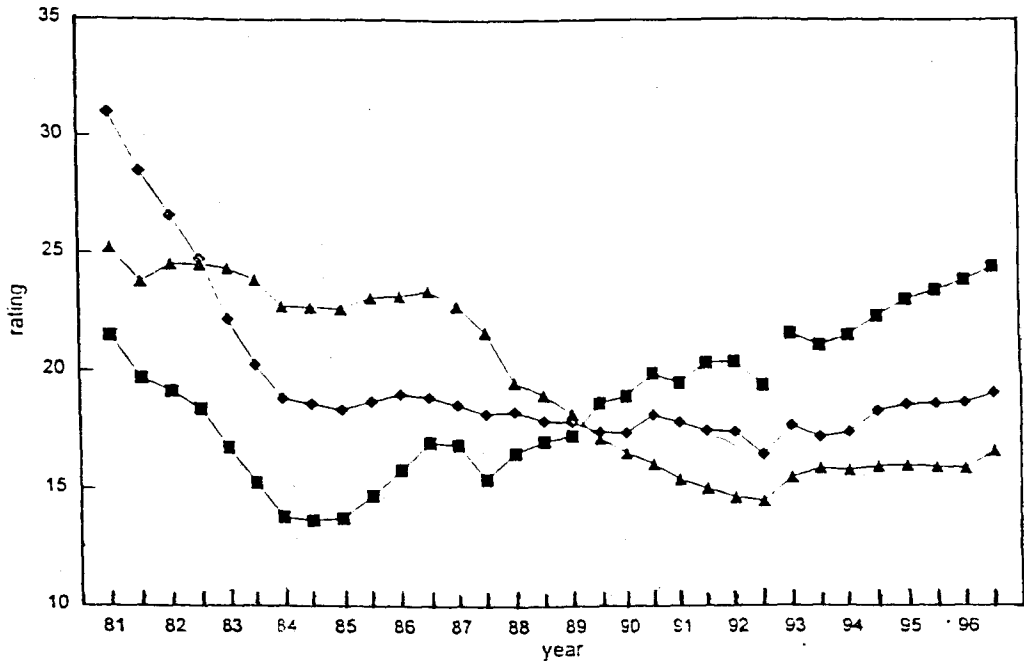
The severe risk rating of Africa reformers has not been without foundation. There have been numerous cases of policy reversal (Oyejide et al., 1997). Policy reforms have come to be seen as donor driven and thus subject to a time-consistency problem. The high profile of aid in Africa may therefore

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<sup>26</sup> A survey of 225 investors in Africa found fear of political instability to be the most important of ten obstacles (Blakey, 1992). A survey of 150 investors in East Africa rated the risk of policy reversal as the single most important impediment (World Bank, 1994a).

have reduced the capacity of genuine reforming governments to signal their intentions (Rodrik, 1989).

The resulting enhanced risk of policy reversal in Africa's reforming countries may account for both slow recovery and the weakness of the relationship between reform and growth. This is partly because high risk is likely to deter investment, but also because the reforms might have started from a disequilibrium in the capital stock. The remarkable exodus of capital from Africa (Table 2), the gradual decline in the capital stock per worker (Figure 1), and the negligible inflow of foreign private capital all suggest that in much of Africa the capital stock may still be larger than wealth owners would prefer. For example, tree crops and mines, the capital stock of the export sector, depreciate only very slowly. Although reform is likely to raise the desired capital stock, a risk of policy reversal will keep it below that which would be above that which would be chosen were the policies secure. The post-reform capital stock may therefore have remained above its desired level, implying a low short-term supply response to reform. Reform and its risk of reversal are hard to quantify but an analogue for which there is evidence is the recovery from civil war (Collier, 1997). Investors rate the fear of civil war next to that of policy reversal as an investment deterrent (World Bank, 1994a). The risk of civil war is enormously increased in countries which have had one and declines only slowly with the maintenance of peace. Hence, the desired capital stock in a post-war economy is lower than if it had had continuous peace. If risk-avoidance disinvestment is important and reduction of the capital stock can only be gradual, after short wars the economy will continue to decline whereas after long wars it will rebound, and this is indeed the pattern. If fears of reform reversal are akin to fears of renewed war, whether reform improves performance will depend upon the prior disequilibrium in the capital stock and perceived risk, so that there will be no simple short-run relationship.



**Figure 2: Risk and Policy Reform in 26 African Economies**

**Institutional Investor Risk Ratings for Africa**  
by World Bank Policy Groups.

■ large policy improvement      ♦ small policy improvement      ▲ policy deterioration

Ratings are averages across countries grouped by changes in macroeconomic policies

Source: Collier and Pattillo (1997)

To conclude, Africa has grown slowly because it has been an unusually capital-hostile environment. Some aspects of the environment can be identified as standard macroeconomic and trade policies, others are unidentified in growth regressions. As a result of the capital-hostile environment by 1990 thirty-seven per cent of African wealth had flowed out of the continent and the return on that remaining has been only two-thirds of that elsewhere. Potentially, the wealth held outside Africa could permit a rapid recovery to reform. However, those countries which have dismantled their control regimes are as yet rated as highly risky.

## Appendix G:

**Keynote address by the Head of State, Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria, General Sani Abacha, GCON, at the Fourth Nigerian Economic Summit in Abuja on Wednesday, November 19, 1997.**

### Protocols

I welcome, with great pleasure, the opportunity to address the Fourth Nigerian Economic Summit, an august gathering of leaders of our country's public and private sectors. It is praiseworthy indeed that a regular forum is now available for managers of our public and private sectors to reflect and devise ways and means of rejuvenating our national economy.

I commend the organisers for their choice of theme, 'Implementation of Vision 2010: the 1998 Budget Issues'. Let me reiterate that this administration is committed to the speedy and faithful implementation of the recommendations of the Vision 2010 Committee in order to accelerate economic growth and long-term development of our country.

It is even more important to stress that the implementation of the Vision 2010 recommendations is not the responsibility of government alone. It requires effective partnership between the public and private sectors for its success. This shared responsibility entails the pooling of resources and expertise, typified by mutual co-operation, consultation and good faith on the part of both sectors.

Ladies and gentlemen, the challenge of translating the laudable recommendations of Vision 2010 into concrete realities is very compelling. The deadline of the socio-economic vision of prosperity is barely thirteen years away. We must not kid ourselves about the enormity of the task of applying the proposals of the Committee in the formulation of the 1998 budget, but I am confident, that given your track record of competence, dedication and high sense of patriotism, you will live up to our high expectations.

This is the time to lay the foundation for the future and the Fourth Nigerian Economic Summit is a useful prelude to the preparation of the 1998 budget. A major issue that will emerge from the formulation of the 1998 budget regarding the implementation of Vision 2010, is how to translate the macro-economic successes we have attained so far, to produce measures that will realign the management of the national economy to increase the purchasing power of our people and improve their material well-being.

I took liberty at the Third Nigerian Economic Summit, to review our achievements in the economic sphere as at September, 1996. I also drew attention to the future challenges in our effort to consolidate and improve on the level of macro-economic stability attained by then. The desire to meet these challenges led to the adoption of a long range visioning process to provide a strategic insight into the direction in which our nation needs to move if we are to achieve the strong, stable and prosperous nation of our dreams in the foreseeable future.

I therefore welcome your wisdom in dedicating the Fourth Summit to the thorough examination of the major issues associated with the first year of implementation of the Vision 2010 programme. We look forward to receiving the Summit's inputs to the 1998 budget exercise in the expectation that they will help in the implementation of those aspects of the Vision 2010 programme that require immediate attention.

The effort to put our economy on a steady path of recovery and growth continues to receive the priority attention of this administration and I am pleased to note that our economic policies have substantially addressed the problems that have plagued the Nigerian macro-economic environment for years. We have adopted modern techniques and procedures in fiscal and monetary policies. A major innovation in this area was the movement from direct to indirect control and market-based instruments of monetary management.

In our cherished desire to improve the policy environment, the financial sector has been further liberalised to stimulate competition and promote efficiency in resource allocation. You will agree with me that distress within the system has been drastically curtailed and policy measures since 1995 have improved financial discipline and public confidence.

The interest rate regime has been deregulated, without any surge in rates as was feared in some quarters. Similarly, liquidity growth has been moderated through open market operations, and other measures, especially financial prudence, are leading to reduced governments borrowing from the banking system. This has, in turn, led to moderate growth in money supply with its attendant positive impact on inflation which fell sharply from its peak of 72.8% in 1995 to 26.7% by January, 1997 and now under 10%.

The downward spiral has continued due to our entrenchment of an effective mechanism for the management of foreign exchange, sustained fiscal discipline and tight monetary policy, all of which formed the bedrock of our 1995-1997 budgets.

It is heartwarming to see that vital sectors of the economy are responding favourably to the restoration of macro-economic stability and the emerging congenial economic environment. A review of recent developments shows that on balance, satisfactory progress was made during the current fiscal year in key areas. For instance:

The fiscal operations of the federal government during the first half of 1997 resulted in an overall surplus of ₦5.025 billion.

There was a substantial increase in net foreign exchange inflow, resulting in a significant rise in our official external reserves from US\$4.0747 billion at the end of December 1996 to US\$6.7735 billion at the end of September 1997. Industrial production also rose by 0.6 per cent.

Also, as at September 1997, the GDP (at 1994 constant factor cost) had recorded an increase from ₦107.03 billion in 1996 to ₦111.07 billion. This shows a growth rate of 3.77 per cent as against 3.40 per cent for the same period in 1996.

We have equally recorded appreciable progress in other areas such as telecommunications, a vital subsector of the economy. All the outstanding issues of interconnectivity have been fully resolved so that licensed private operators can now interconnect with NITEL and provide telecommunications services. Appropriate measures have also been put in place to ensure that Nigeria is fully connected to the Internet by the end of the first quarter of 1998.

The conditions governing the provision and operation of satellite-based services have also been relaxed to allow competition and choice both for local and international services. About ₦6 billion in investments and 5,000 new jobs have been generated as a result of deregulation and private sector participation in telecommunications over the past twelve months.

Government has also granted licences to three private operators to provide digital cellular services. To complement the efforts of NITEL, a number of private network links operators have been licensed to offer telephone services. Four of these operators are expected to commence services during the first quarter of 1998. These measures, taken to open up the telecommunications sector for private investment, are consistent with the commitment made in my 1997 budget address.

Ladies and gentlemen, the recently inaugurated governing council of the Nigerian Investment Promotion Commission has set in motion the necessary machinery to promote investment in the country. We expect that the Commission would make appropriate recommendations on the removal of the remaining bureaucratic bottlenecks



that hinder foreign investments in Nigeria. I urge members of the Commission to join forces with the Federal Ministry of Industries and take advantage of the United Nations Industrial Development Organisation's Investment Promotion Service Centre in Paris to attract more foreign investment to Nigeria.

Despite the aforementioned achievements, we shall continue to forge ahead with renewed determination, zeal and vigour. There are still many major challenges to be met. Apart from the need to sustain our recent successes, we must continue to evolve workable solutions to all our outstanding problems of economic management with particular attention on the need to put a human face on our policies and translate the momentum we have generated into concrete benefits for our people.

The projected economic growth rate of 6-10% per annum from 1998 calls for greater investment by our private sector entrepreneurs. For 1998 to witness enhanced output and employment growth, the organised private sector must invest much more in the economy. It is incumbent on both the public and private sectors to ensure that the economy operates at its full capacity. On its part, government will take further steps in the 1998 budget to address all those factors that have continued to constrain the real sector's huge potentials for growth and development. Considerable effort will be made to further reduce the high cost of doing business in our country so as to encourage greater investment in both new and existing enterprises.

The activities of government towards improving facilities in urban and rural areas will also be sustained and every effort will be made to see that agriculture and industry contribute higher quotas to our GDP in 1998. I strongly believe that the private sector ought to do more to explore and tap the opportunities for investment in agro-allied industries. The reduction of post-harvest losses through the provision of storage and initial processing facilities is one area that is virtually begging for private sector investment.

Any close observer of developments in our country, particularly in the economic sphere, in the last few years, cannot fail to notice the positive impact ideas generated at the First, Second and Third Economic Summits have had on our economy. The Summits have initiated and sustained a mutually beneficial partnership between the public and private sectors.

These worthy interactions have also entrenched the process of systematically defining the nation's economic priorities and helped us to explore the most effective ways of mobilising and channelling all our national resources towards achieving accelerated economic development.

Unarguably, it is on record that many of our achievements in the economic arena in the last two years have been largely due to the consensus generated at the Nigerian Economic Summits. The policy of guided deregulation, the encouragement of the organised private sector to gradually assume a leading role in economic activities, the introduction of incentives to attract foreign investments, and the adoption of economic measures to promote sustainable growth and development are all clear evidence that these Summits have been able to positively influence national economic direction. This is a welcome development which should be continued.

While taking stock of our achievements, however, I believe it is only fair to mention areas where our expectations have not quite been met. In this regard, I note with concern that the policy incentives put in place to boost capacity utilisation in our industries and provide more employment opportunities have not yielded the desired results. While government applauds the efforts of those industrial concerns that have been making progress in the promotion of local design and fabrication of plants, machineries and equipment, the challenge for more tangible local research and development efforts has to be faced squarely.

This is necessary if we are to generate that level of growth expected of a nation in a hurry to develop a healthy manufacturing capacity. Permit me to observe that the private sector is yet to effectively respond to the concessions made by government to encourage the use of local inputs. However, we shall continue to provide an enabling environment for the private sector to rise up to the challenges of developing abundant domestic resources.

While the challenges that lie ahead for the Nigerian economy may be daunting, they are not insurmountable. We appreciate the past contributions of our foreign partners and stakeholders but we call for even more support and understanding. I want to assure you that government will continue to take steps to improve the business environment so as to make your investments worthwhile, justify your confidence in our country and in our ability to revitalise our economy.

Distinguished ladies and gentlemen, it is, indeed, my pleasure to declare open the Fourth Nigerian Economic Summit. I wish you all fruitful deliberations.

Thank you and may God Almighty continue to bless and guide us. Amen.

## **Appendix H:**

### **Vote of Thanks – Chief Rufus Giwa**

#### **Protocols**

My task ordinarily should be an easy one – to say “Thank you”. But “Thank you” ceases to be ordinary when the occasion is not ordinary, the participants are not ordinary, and the guest of honour is not ordinary.

It is on occasions like the one Nigeria is now passing through that one is constrained to ask: “Who really loves this country? Who really cares for this country? Who is prepared to make a sacrifice for our great country, Nigeria?”

There was a time when the public sector saw the private sector as little better than a bunch of saboteurs, and some officials sincerely believed that only public sector officials were loyal and patriotic. In other words, patriotism was a monopoly of the public sector officials. The private sector, on the other hand, viewed the public sector with reciprocal suspicion – a bunch of people who made even the easiest assignment difficult, and were not content with official reward.

There were national development plans which relied on industrialisation as their pivot, but without inputs from industry or without regard for private sector roles. There were budgets without dialogue between the public and private sectors. But gone forever, hopefully, are those days. Progressively, we have developed greater trust between the private and public sectors and this has grown steadily overtime. But I dare say that the period that has witnessed the greatest respect for private sector collaboration; the period that has seen the private sector duly accorded recognition as partners in progress, and one in which a major public and private sector initiative like the Vision 2010 has got acceptance as a national priority, and accorded full importance by the number one citizen himself, is none other than the recent few years. And that number one citizen who has lent his full weight to this and other enabling and empowering initiatives, and who again, as a demonstration of his unflinching commitment to issues of the economy, has graced this occasion with his presence today, is none other than His Excellency, the Head of State, General Sani Abacha.

I certainly need to start by specially thanking the chairman of the Nigerian Economic Summit Group and his executive for the untiring efforts to continue to bring to focus all the critical issues of our national economy. The constructive engagement and dialogue on these issues are certainly engines of our economic reconstruction.

Similarly, we thank our guest speakers, Mrs. Zepp-LaRouche and Professor Paul Collier for their clear exposition on two very relevant topics.

Your excellency, you have demonstrated your total commitment to the economic emancipation of this country in diverse ways:

- We have witnessed concrete efforts and actions in removing restrictive business laws such as the abrogation of the Exchange Control Act of 1962 and the Enterprises Promotion Decrees;
- The putting in place of the Investment Promotion Commission;
- Deregulation of the economy and the positive impact on macro-economic variables such as inflation tumbling down from over 70 per cent in 1995 to about 24 per cent in 1996 and current level of around 10 per cent. The reduction in interest rate, the availability of foreign exchange and stability of the exchange rate of the naira to the dollar

The setting up of Vision 2010 Committee was certainly one of those visionary, patriotic and long term commitment actions of your administration.

The increased emphasis of the private sector as the engine of our economic growth is much due to your positive disposition to truly move our national economy forward.

Your declared commitment to revamp our national infrastructure including the setting up of the Petroleum Trust Fund (PTF) is applauded. When fully translated into action and hopefully ameliorate problems of electric power supply, water, communication, education and health institutions, these efforts will surely impact positively on our national economy.

We salute your courage; we applaud your commitment to the economic emancipation of our great country. We sincerely thank you for your positive attitude towards private sector initiatives and for bringing the private and public sectors closer. Finally, we thank you for making this Fourth Economic Summit possible and for gracing this opening session with your esteemed presence.

We pray for God's guidance and divine direction as you pilot the ship of state at this difficult hour. May God bless you abundantly.

## Appendix I:

### The Global Competitiveness of Agro-Related Industries in Nigeria\*

#### 1. Introduction

##### 1.1 Objectives

The objective of this chapter is to assess the potential global competitiveness of six agro-related subsectors, and to produce guidelines for enhancing global competitiveness both at the sectoral and the macro level. The six subsectors are:

- Food products;
- Textiles and clothing;
- Rubber products;
- Leather and leather products;
- Fertilisers and pesticides;
- Agro-related metal working industries.

##### 1.2 Methodology

There is an opening section outlining the macro determinants of competitiveness (Section 2). Section 3 sets out the subsectoral studies, and Section 4 provides a global competitive perspective for the Guidelines to SMID II.

The subsectoral studies follow a common format:

- **Introduction:** this gives an overview, stressing the subsector's trade performance, and also identifies the ISIC category of each industry in the subsector;
- **Market prospects:** looks at international and regional market developments;

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\* UNIDO gratefully acknowledges the substantial contribution of Prof. John Thorburn of the Overseas Development Grant, U.K. to this paper.

- **Other aspects of the external environment:** looks at issues such as the implications of the completion of the GATT/WTO Uruguay Round negotiations;
- **Market structure and its influence on global competitiveness:** looks at aspects of the international and domestic market structure;
- **Determinants of price competitiveness:** discusses, where available, material on the cost structure of the industry;
- **Determinants of non-price competitiveness:** concentrates on aspects such as branding, quality requirements;
- **Constraints on the subsector's expansion:** sets out the constraints as identified by the local Nigerian expert;
- **Firm-level issues affecting global competitiveness:** discusses competitiveness at the firm level stressing managerial capabilities, capital stock and technical competence. Also looks at avenues of enhancing firm-level competitiveness;
- **Protection against imports:** sets out the nominal tariff rates protecting the industries in the subsector, as provided by the Nigerian expert, and identifies relevant import or export bans. It has not been possible, given the time constraints of the project, to estimate effective rates of protection. ERP estimates are available in a consultancy report prepared for the World Bank,<sup>6</sup> but those of its estimates which are up to date are highly aggregative;
- **Product-specific performance indicators:** the indicator used here is *Revealed Comparative Advantage*. Three forms are calculated. The first (RCA1) relates Nigeria's share in world exports of the product to Nigeria's overall world non-oil export share. The second measure (RCA2) relates the *difference* between Nigeria's exports and imports of a product to the *sum* of its exports and imports of that product, in order to give its net exports in relative form. The third measure (RCA3) relates the importance of a product in Nigeria's net exports to that product's importance in

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<sup>6</sup> Enterprise Consulting Group Ltd, *Review of Nigeria's Tariff and Trade Policies 1988-2001*, Lagos, November 1995.

total world trade. All three measures, and the RCA calculations, are set out in an appendix to this report. They normally refer to 1994, the latest year for which published UN trade statistics are available at the time of writing.

### 1.3 More on trade performance indicators

It is worth saying more here about the use of RCA as a performance measure, about alternative performance indicators (specifically the Domestic Resource Cost criterion), and the meaning of protection against imports.

The RCA measures indicate Nigeria's *actual* trade performance in the product in question. They say nothing about *potential*, and they are affected by policy-induced distortions in the Nigerian economy which influence trade. The RCA1 measure, the one most commonly used, will be very large for any product for which Nigeria is an important exporter, such as leather, cocoa or rubber. That is because those exports' shares are related to Nigeria's overall share of world non-oil exports, which is very small. This is less a reflection of extreme competitiveness in the product in question than of past failures to gain a larger share of the world total non-oil export market.

An indicator of export potential would be the *domestic resource cost*. This measures the cost in domestic resources (value added) of earning or saving a unit of foreign exchange. Industries with low DRCs (<1 as the criterion is normally expressed) are ones in which the country has a comparative advantage. To estimate DRC requires detailed data on the input-output structure of each particular product, and (strongly preferably) shadow prices for major inputs such as labour which reflect their social opportunity cost. There has not been the time or the resources within the present project to make such calculations, but it is something to be considered for the future. However, data problems may be presented by the severe deficiencies in Nigeria's industrial statistics.

The only recent existing study which calculates DRCs for Nigeria, but does not use shadow prices, estimates DRCs for a range of industries which have little correlation with its estimates of effective rates of protection for those industries<sup>7</sup> (see next paragraph). Yet in theory  $DRC = ERP + 1$ , where DRCs are calculated without the use of shadow prices.

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<sup>7</sup>ECGL, *Review of Nigeria's Tariff and Trade Policies 1988-2001*, pp. 49-50, 54-7.

Finally, estimates of protection, whether nominal (measuring protection on gross output) or effective (measuring protection on value added), must be interpreted in a relative manner<sup>8</sup>. It is not an industry's absolute level of protection which is important, but its protection *relative to other activities*. Thus if an industry has a 10 per cent ERP, but all others have 20 per cent ERPs, resources will flow *away* from the first industry. Also, note that the overvaluation of the exchange rate caused by a high general level of protection (as in Nigeria), by appreciating the real exchange rate above its free trade equilibrium level, will reduce somewhat the protection offered by a given effective rate of protection. In other words, the *net* ERP, which takes into account the effects of the exchange rate appreciation, may be less than the apparent ERP.

## 2 Macro determinants of competitiveness<sup>9</sup>

### 2.1 Introduction

While the main part of this chapter (section 2.3) looks at the prospects for Nigeria's agro-based non-oil exports (and import competing activities) in terms of individual subsectors, this section provides a background against which the subsectoral studies can be set. The broader "macro" aspects of economic policy are necessary for the development of all of Nigeria's non-oil exports. This is particularly important because the Nigerian economy is characterised by a wide variety of policy-induced distortions which inhibit economic growth in general and export development in particular. The section also makes some observations about the building of international competitiveness, and discusses whether import protection could have any *positive* role to play in Nigeria. It concludes with a summary of Nigeria's recent non-oil export performance.

The key features of a macro environment which will enable Nigeria's non-oil exports to expand are:

- macroeconomic stability;
- stability in economic policy;
- a competitive real exchange rate;

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<sup>8</sup>Of course, since intermediate inputs in most cases can in principle be imported, it is the effective rate of protection on an industry rather than the nominal rate which is relevant.

<sup>9</sup>This section relies heavily for its information on recent Nigerian economic policy and performance on the World Bank's most recent country study, *Nigeria: Prospects for Development*, draft, October 1996. I am very grateful to the Bank's office in Abuja for making this study available to me.



- the removal as far as possible of the anti-export bias associated with Nigeria's import substituting trade regime. This includes the rationalisation of the structure of protection against imports, and specific measures to promote exports. In the longer term it should involve reductions of the level of protection against imports.

Nigerian non-oil export development also will require:

- greatly improved provision of infrastructure;
- improvements in the "investment climate";
- a well functioning banking and financial system which can provide trade credit and funds for capital investment;
- improvements in Nigeria's system of land tenure. The present system holds back the development of large-scale agriculture, which otherwise could make a useful contribution to the expansion of agro-based exports.

The *net* foreign exchange proceeds from exports could be increased by the efficient sourcing of local inputs. The efficient substitution of domestic for foreign inputs was a policy initiated under the Structural Adjustment Programme.

## 2.2 Macroeconomic context of industrialisation

There has been a gradual restoring of macroeconomic stability in 1995 and 1996 after the collapse of 1994. Inflation, which accelerated from under 10 per cent in 1990 to 90 per cent in mid-1995, had been slowed to 28 per cent by the end of 1996. The 1995 "guided deregulation" budget tightened the government's fiscal and monetary stance and permitted the autonomous foreign exchange market to engage in all transactions except those of the government. The 1996 budget continued these policies, undertook a range of tax reforms to improve business profitability, and indicated the intention to reform state enterprises. The 1997 budget reaffirmed the government's commitment to price stability, job creation, balance of payments equilibrium and exchange rate stability.

However, a consequence of the difficulties of the 1990s, and of the fiscal and monetary restrictions, has been a continual fall in the purchasing power of Nigerian consumers. The resulting lack of consumer demand has been one cause of the generally low degree of capacity utilisation in Nigerian manufacturing firms.

### 2.3 The policy environment

Under the Structural Adjustment programme, which started in 1986 after the dramatic fall in oil prices in the early and mid-1980s, economic growth restarted and averaged around 6 per cent annually. Real GDP per head fell by some 5 per cent from 1992 to 1994 as reform policies were abandoned, but has now resumed. The frequent changes in economic policy which Nigeria has experienced in the 1990s have contributed to short term views which prevail among many entrepreneurs. This "short termism" inhibits industrial investment, and in particular it inhibits the very long-term investment required for tree crops such as rubber. The continuation of economic reform would contribute greatly to changing this climate of opinion.

### 2.4 Exchange rate trends

The present dual exchange system was introduced early in 1995. It comprises an official rate and a rate determined in the legal parallel market, the Autonomous Foreign Exchange Market (which had been banned at the time of the 1994 crisis). The official rate is now used only for government transactions, while all other transactions go through the AFEM. The official rate is pegged at the 1993 level of twenty-two naira to the US dollar, while the parallel rate stands at around ₦80, having depreciated from a level which was about the same as the official rate in 1992 (₦22). The Central Bank of Nigeria now intervenes in the AFEM,<sup>10</sup> and the AFEM exchange rate has been stable in 1996-97 at around the ₦80 level.

Present efforts to increase non-oil exports must contend with the past effects of the appreciation of Nigeria's real exchange rate during the oil boom years. Figure 1 shows indices of the real effective exchange rate [REER] for Nigeria (that is, the nominal exchange rate trade-weighted and adjusted for inflation). REERs are shown for both the official market and for the parallel market. The substantial and sustained appreciation of the official REER from 1970 to 1981 is clear. Although the parallel rate depreciated from 1982 to 1984, the depreciation of the official REER was delayed to late 1986, with the introduction of the Structural Adjustment Programme. The "Dutch disease" effects of an exchange rate appreciation associated with

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<sup>10</sup> Central Bank of Nigeria, *Annual Report 1995*, Lagos, April 1996, p.175.

booming oil exports are well known.<sup>11</sup> In Nigeria's case they include the country's changing from a net exporter to a net importer of agricultural commodities, particularly of food. Although manufacturing grew by nearly 4 per cent annually from 1973 to 1980, this was largely the result of public investment of an import substituting kind, heavily protected from import competition.

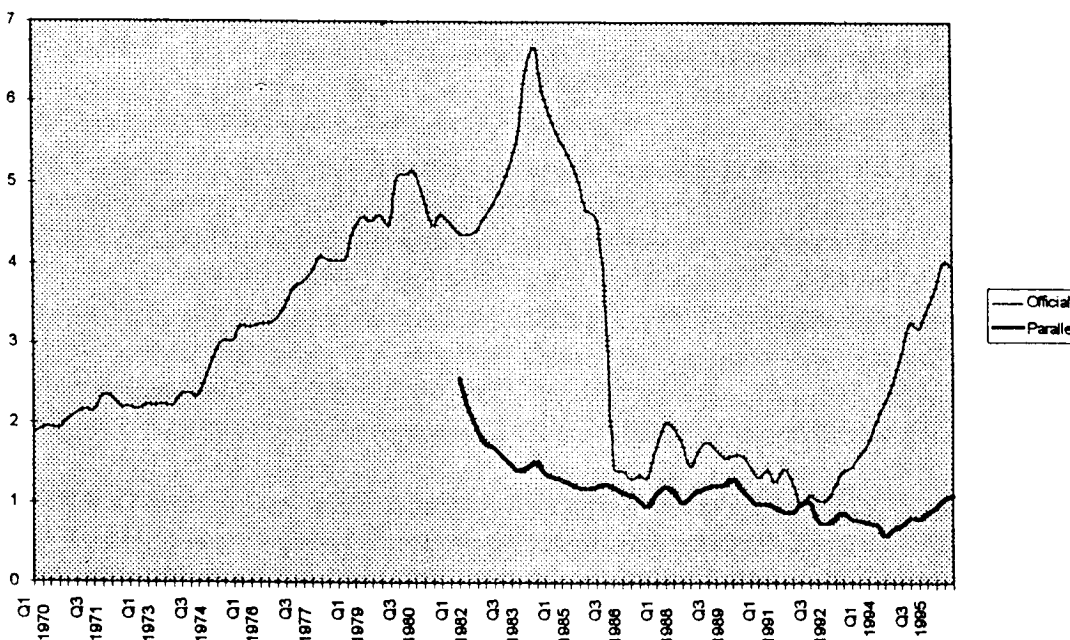
Figure 2.2.1 shows the substantial fall in the official REER index from late 1986, brought about by massive depreciation of the nominal exchange rate. As a result, the official rate moved close to the parallel rate, and this position was retained until 1992, when the official and parallel rates of exchange were more or less equal and the foreign exchange markets appeared broadly to be in equilibrium.<sup>12</sup> The appreciation of the official REER after 1992 reflects the acceleration of inflation combined with an unchanged official exchange rate. Since, from 1995, all non-government transactions legally can go through the AFEM, the parallel rate shown on the chart is for all practical purposes the rate relevant to exporters. Apart from a minor appreciation towards the end of the period, the competitiveness of the exchange rate broadly has been maintained. Note, however, that even where the foreign exchange market is left free to find its own equilibrium, the existence of high effective rates of protection on imports will keep the REER above (that is, more appreciated) than its free trade equilibrium level. In this sense, because of import protection, there will remain a degree of anti-export bias generated even via a "competitive" exchange rate.<sup>13</sup>

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<sup>11</sup> Named after the economic consequences of the Dutch discoveries of North Sea gas in the 1960s, the Dutch disease refers to a situation where booming exports of (for example) oil result in an appreciation of the real exchange rate. Such an appreciation reduces the profitability of other exports and damages the competitiveness of import competing industries. As a result, non-oil exports and all import competing industries are likely to contract. This problem could be prevented, as the World Bank report suggests, by the accumulation of the oil revenue in the form of foreign exchange reserves, assuming the effects on the domestic money supply of this reserve accumulation can be sterilised. The Dutch disease is a particularly serious problem if the export boom comes to an end, as it did for Nigeria in the early 1980s, since the destruction of capacity in the import competing and non-oil export industries cannot easily be reversed.

<sup>12</sup> Hence the choice of 1992 as the base year for the REER indices in the chart.

<sup>13</sup> This point is well made in the World Bank report, *Nigeria: Prospects for Development*, p.40. It is also widely accepted in the economics literature. See for example, D. Greenaway and C. Milner, *Trade and Industrial Policy in Developing Countries*, London: Macmillan, 1993, ch.7.



**Figure 2.2.1: Nigerian Real Exchange Rate Indices 1970-96 (2nd Quarter 1992 = 1, fall in index indicates depreciation)**

Source: World Bank Office, Abuja<sup>14</sup>.

Although Nigeria has maintained a broadly competitive exchange rate against competitors in the world economy, Nigeria's competitiveness has been damaged by the devaluation of the CFA franc in early 1994. This will make exporting more difficult within the West African region.

## 2.5 The structure of protection

A start was made in the Structural Adjustment Programme at reducing and rationalising Nigeria's protection. These changes included the elimination of import licencing, and a new tariff schedule converting all tariffs to an *ad valorem* basis. A start was also made on introducing some export promotion measures (see below).

<sup>14</sup> Data provided by Dr. Thomas Hutcheson of the World Bank.

By 1994, however, protection against imports still was substantial. Protection was also highly variable both between individual products and between categories of goods. There was an average *nominal* rate of protection (that is, protection on gross output) of 34 per cent on manufactured goods, which escalated from an average of 16 per cent on capital goods, to 31 per cent on intermediates and 48 per cent on consumer goods. Associated with these escalating nominal rates were *effective rates* of protection (that is, protection on value added) of 43, 69 and 89 per cent on capital goods, intermediate goods and consumer goods, respectively.<sup>15</sup> These differential rates distort further the allocation of resources in the economy, besides generating anti-export bias through exchange rate appreciation and reducing incentives for efficient production on the part of the protected industries.

A new schedule has been announced for import tariffs for the period 1995-2001. Under this schedule, the average unweighted tariff on manufactures will change from 25 per cent in 1995<sup>16</sup> to 26 per cent in 2001. Average tariffs on capital goods, intermediate products and consumer goods, respectively will change from 13/18/39 per cents in 1995 to 16/22/37 per cents in 2001. While the average nominal tariff on manufactures is marginally higher in 2001 than in 1995, the variation in effective rates of protection [*ERPs*] should be reduced by the rise in the duties on capital goods and intermediates relative to consumer goods. In general the variance in nominal rates of protection (that is, import tariffs)<sup>17</sup> is reduced in the 2001 schedule, though substantial protection remains. The World Bank in its latest draft report strongly presses Nigeria to lower its level of nominal protection, arguing that, anyway, Nigeria relies for less than 2 per cent of its government revenue on tariffs.<sup>18</sup>

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<sup>15</sup> Note that the overvaluation of the exchange rate caused by this high general level of protection will, by appreciating the real exchange rate above its free trade equilibrium level, have reduced somewhat the protection offered by a given effective rate of protection. In other words, the *net* ERP, which takes into account the effects of the exchange rate appreciation, may be less than the apparent ERP.

<sup>16</sup> However, there was a one-third temporary reduction on these rates introduced in 1995 to compensate importers for the switch to valuing imports at the AFEM exchanger rate instead of the official exchange rate.

<sup>17</sup> Remember, however, that a uniform set of nominal rates of protection [*NRP*] on final products would not necessarily (or, indeed, usually) generate a uniform set of ERPs. Where tariffs on inputs differ from tariffs on output, the difference between ERP and NRP for different products will vary according to differences in the input coefficients for each product's tradable inputs.

<sup>18</sup> See *Nigeria: Prospects for Development*, draft, October 1996, p. ix. Also, the amount of import duty actually collected in Nigeria is substantially less than would be expected given the value of imports and the tariff rates.

The Nigerian government continues to make use of various import and export bans. There are currently bans on exports of raw hides and skins, timber, raw palm kernels and unprocessed rubber. Import bans include maize, sorghum, millet and vegetable oils. However, some bans were removed in the 1997 budget, particularly that on the import of textiles, where the ban was replaced by a 45 per cent import duty.<sup>19</sup>

Also, delays and difficulties in getting goods to and from the ports are serious impediments to trade.

## 2.6 Export promotion policies

The overvalued real exchange rate which results from protection leads to a bias against both exports and import competing industries in favour of non-tradables such as services. In addition, there is a bias *within* the tradable sector (that is, importable and exportable products) in favour of import competing products. Nigeria already has in place a variety of the export promotion measures which have been developed in other countries in an attempt to counterbalance this bias. These measures were initiated during the Structural Adjustment Programme, and include an export processing zone [EPZ], duty drawbacks on imported intermediate products, and in-bond manufacturing. All three, in theory, allow exporters access to imported inputs at world prices, and an EPZ offers in addition good infrastructural facilities. One EPZ (at Calabar) is in operation, with the first few firms having signed agreements.

Export processing arrangements need to work in a speedy and efficient manner if they are to be effective. The 1995 annual report of the Central Bank of Nigeria<sup>20</sup> notes that only nineteen companies had benefitted under the Duty Drawback scheme, compared to a mere eight the previous year, and only six companies were approved to join the Manufacturing-in-Bond scheme. The drawback scheme is now administered by the Nigerian Export Promotion Council, which also administers the Export Development Fund and the Export Expansion Grant Fund. The NEPC also carries out market studies for promising potential exports and other promotional activities such as exporter "enlightenment programmes".

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<sup>19</sup> Arthur Andersen Consulting, *1997 Budget Newsletter*, Lagos.

<sup>20</sup> Published April 1996.

Export processing arrangements are far more relevant for some subsectors than others. For example, they would be vital for export garment manufacture based on imported textiles, whereas for leather products exports mainly using domestic leather they would be of much less importance. There is a danger that such arrangements, if they eventually are made to work effectively, would distort the choice between local and foreign inputs in favour of imports. To counteract this, it is equally important to give exporters remission of domestic taxes such as VAT which they pay on domestically produced intermediate inputs.

## 2.7 ECOWAS

The 16-member Economic Community of West African States, of which Nigeria is a member, is potentially an important market. According to 1991 statistics, Nigeria appears to sell less than 5 per cent of its total exports to ECOWAS countries.<sup>21</sup> However, there is considerable evidence of informal trade between Nigeria and its ECOWAS neighbours to avoid customs procedures. ECOWAS initiated a ten-year programme of internal trade liberalisation in 1990, but in practice many barriers remain and tariff revenue is important to many ECOWAS states. Traditional trade with Nigeria involves traders entering the country with goods to sell such as live animals, hides and skins, and then buying manufactures to take back to neighbouring countries.

## 2.8 The investment climate

The investment climate not only refers to investment incentives but also to the legal and regulatory framework, which has many deficiencies. Nigeria's prevalent culture of rent seeking is a severe constraint on export development as well as on most other aspects of the country's economic progress. In particular, it represents a strong disincentive to foreign investment. Incentives to investors will not counteract these difficulties, particularly where such incentives are administered by rent-seeking officials.

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<sup>21</sup>However, there are problems with the statistics. The statistics for Nigerian *total* exports to ECOWAS are listed as ₦5,097.4 million in the *ECOWAS Handbook of International Trade 1992* (the latest available as of March 1997), but this is a smaller amount than that listed for Nigeria's *oil* exports to ECOWAS (₦6,300.4 million) in the Central Bank of Nigeria's 1995 *Annual Report*, p.137, which was 5.4 per cent of Nigeria's total exports of oil.

## **2.9 Infrastructure**

Nigeria's provision of electric power and water is far below international standards. There are serious problems in telecommunication. The road network is poor, particularly in rural areas, and badly maintained. The rail system hardly functions. The costs and delays imposed by these deficiencies reduce Nigeria's international competitiveness. Where companies can provide facilities for themselves, for example electricity generators, boreholes and radio communications, this adds to investment costs.

## **2.10 Land tenure**

The lack of secure property rights to land constrains large-scale agricultural development, particularly plantation agriculture. All agricultural land is owned by individual states and, instead of freeholds to land, ownership is governed by customary and regional laws.<sup>22</sup>

## **2.11 Financing and the banking system**

There has been some loss of confidence in the banking system, with widespread evidence of distress and mismanagement. Some steps have been taken by the government to redress the problems. These include the removal (in October 1996) of the capping of interest rates to below the rate of inflation, and the removal of targets for the sectoral allocation of credit.

## **2.12 Building international competitiveness**

Although there is not space for an extended discussion here, it is worth stressing that the development of comparative advantage is not only a matter of macro policy and the trade regime, nor simply the provision of infrastructure and a good regulatory framework. "Natural" comparative advantage will not necessarily assert itself simply with the removal of policy-induced economic distortions. As a number of economists have

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<sup>22</sup> See World Bank, *Nigeria: Prospects for Development*, pp. 44-45.



argued,<sup>23</sup> economic reform and low wages are not in themselves enough to generate world-competitiveness in the sort of labour intensive industries in which low-income countries like Nigeria should have a comparative advantage. Managerial abilities, technical skills, and high task-level labour productivity are required too. This is an evolutionary process, much of it done at the level of the individual firm. For this process to occur, it sometimes may be necessary to expose firms only gradually to foreign competition, while keeping in mind the eventual aim of competing in the world market. Foreign investors may also have an important role to play in bringing domestic firms up to world standards. Joint-venture foreign investment has been important in countries such as China, Thailand, and Indonesia in developing exports of labour-intensive products like garments and footwear, both of which could also be based in Nigeria using agro-related domestic raw materials (in this case cotton and leather).

### 2.13 Import protection as export promotion?

Although most accounts of protection (rightly) stress its distortionary and anti-exporting effects, protection of a domestic industry against imports can in some circumstances act as an incentive for firms in that industry to become exporters.<sup>24</sup> The experience of the Republic of Korea has shown a way in which dynamic comparative advantage can be developed by the judicious use of protection. Protection allows a domestic (oligopolistic) firm to achieve larger total sales (home market + exports), and lower marginal costs, if there are economies of scale.<sup>25</sup> The arguments hold both for static economies of scale and for dynamic 'learning by doing'. In the latter case, if protection against imports is time-limited, there is less danger of the industry failing to grow out of its initial 'infant' phase. Firms planning to export from the secure base of a protected home market thus can install plant of minimum efficient size. In a concentrated domestic market structure, protection of the domestic market gives an opportunity for firms to price-discriminate between domestic and export market sales, cross-subsidising export losses by domestic market profits. However, in a more

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<sup>23</sup> See in particular S. Lall, Structural Adjustment and African Industry, *World Development*, December 1995; S. Lall, *Building Industrial Competitiveness in Developing Countries*, OECD, 1990; and H. Pack Productivity and Industrial Development in Sub-Saharan Africa, *World Development*, January 1993.

<sup>24</sup> See H.J. Chang, *The Political Economy of Industrial Policy*, London: St Martins Press, 1994.

<sup>25</sup> These arguments are discussed in an influential piece by Paul Krugman, 'Import protection as export promotion: international competition in the presence of oligopoly and economies of scale', in H. Kierzkowski (ed), *Monopolistic Competition and International Trade*, Oxford: Clarendon Press, 1984.

competitive domestic market, import protection would lead to excess domestic supply and to tariff redundancy. To develop motor vehicle exports, the Korean government limited the number of firms in the industry and made the highly profitable protected domestic market sales conditional on meeting export targets. The protection allows firms to export at a loss initially if necessary to establish themselves in overseas markets.

Such arguments may seem fanciful for Nigeria at present, when the available evidence suggests that protection of domestic production against imports simply has led to inefficiency. However, they may become relevant if some of the many other constraints against expanding exports are relaxed as a result of economic reform. Nigeria's large domestic market, if the government chose to retain some protection into the medium term, could provide a secure home base for producers to develop subsequent export production. It is certainly the case that high levels of protection on Nigerian textiles have been accompanied by significant (albeit informal) exports to neighbouring countries.

#### 2.14 Nigeria's non-oil export performance

Figure 2.2.2 shows the trends in Nigeria's major non-oil exports - food products, textiles, leather, cocoa, and rubber - over the period 1975-94, in constant 1990 dollars.<sup>26</sup> Total manufactured exports are also shown. It is clear from the chart that non-oil exports are still, in real terms, well below the levels of the mid-1970s for manufactures as a whole and food products. Cocoa, the most important non-oil primary export has been much reduced compared to the 1970s. Only leather and rubber exports appear to have increased consistently, though from a low base.

The climb back of exports after the start of the Structural Adjustment Programme can be seen, and there is some pickup again in the 1990s. Nevertheless, non-oil export performance can hardly be said to be strikingly successful, and Nigeria's already share of total world non-oil exports has continued to fall over the years.<sup>27</sup>

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<sup>26</sup>The deflator is the UN index of developed market economy exports of manufactures, from *UN International Trade Statistics Yearbook, 1994*.

<sup>27</sup>The share, which stood at 0.18 per cent in 1970, had fallen to 0.02 in 1986, and 0.01 per cent in 1991. See World Bank, *Nigeria. Prospects for Development*, pp.37-8.

Note, however, that statistics on Nigeria's export trade should be treated with much caution. Not only are there considerable differences between different sources about the value of a particular export in a particular year, but there may be differences in different editions of the same source with respect for a different year. For example, the UN *International Trade Statistics Yearbook's* 1994 edition gives Nigerian rubber exports (SITC 232) in 1990 as \$11.5 million; the 1992 edition gives a 1990 figure of \$77.6 million, and the 1990 edition gives a 1990 figure of \$92.6 million. The corresponding figures for Nigeria's 1990 cocoa exports (SITC 072) in the three editions are \$141.2 million, \$119.35 million, and \$388.57 million. Such extraordinary differences make it impossible to construct a consistent series from successive editions of the source. However, we have found consistent series for rubber and for cocoa in the UNCTAD *Commodities Yearbooks*.<sup>28</sup> For the other non-oil exports we have been able to use UNIDO's database of manufactured exports for Nigeria, which also gives

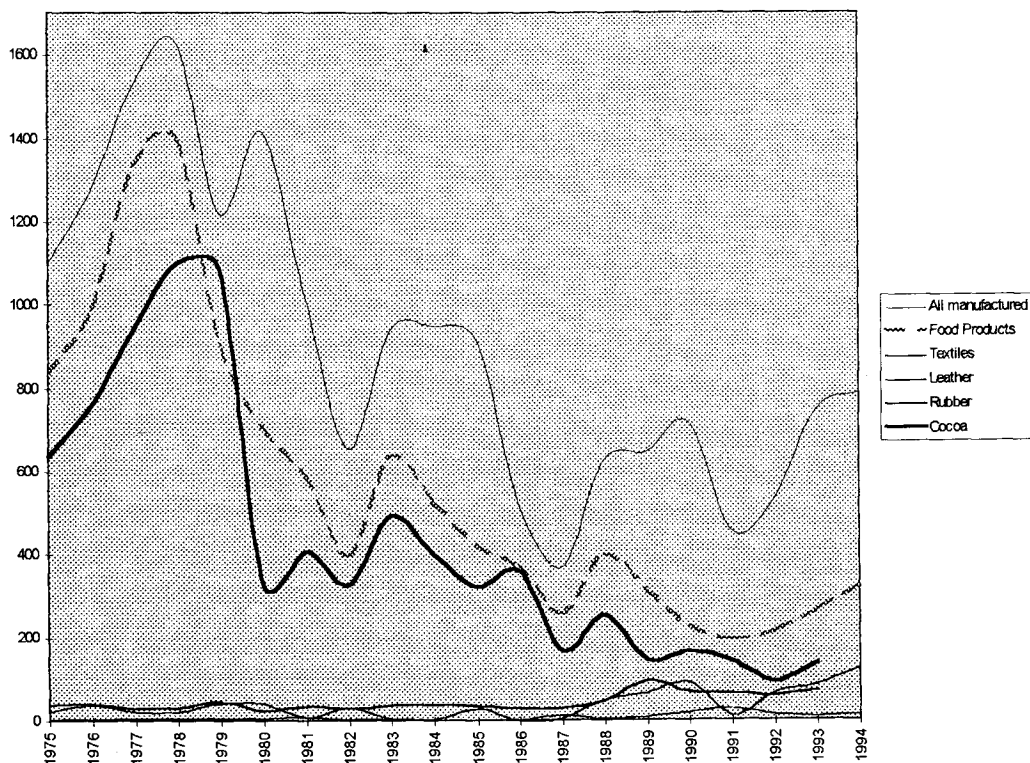


Figure 2.2.2: Selected Nigerian Non-Oil Exports 1975-94 (in constant 1990 dollars)

<sup>28</sup>Unfortunately, the latest UNCTAD statistics available at the time of writing only go up to 1993.

statistics which appear consistent over the years. We hope, therefore, that the trends shown in the chart are meaningful, even if the absolute dollar value of an export in a particular year may be open to question. Remember too that for some products such as textiles, unofficial exports are many times as important as official ones, and the figure shows only official exports. Also, there are products which are not shown in the official figures as exporting *at all*, but which our surveys show are important unofficial exports; agricultural machinery is an especially significant example.

### 3 Industry sectoral-level competitiveness

#### 3.1 Food products

- Cereal and grain milling
- Vegetable oil and oil seeds
- Sugar
- Cocoa
- Coffee
- Roots and tubers, fruits and vegetables
- Livestock
- Poultry products
- Beverages
- Fish and fishery products

This categorisation of the individual industries in the food products subsector follows that set out in chapter 2. However, we split the subsector *Roots and tubers, Fruit and vegetables* into two (via *Roots and tubers* and via *Fruit and vegetables*), since the two parts have rather different export potentials.

#### 3.1 Cereal and grain milling

##### Introduction

This subsector covers one ISIC 4-digit industry:

- ISIC 3116 Grain Mill Products

Nigeria remains a net importer of cereal and grain products despite increases in production. This is because of the increased industrial use of maize and sorghum in the manufacture of beer and non-alcoholic malted drinks, and for cocoa-based drinks and confectionary. In this sense, significant indirect

import substitution has already been achieved. At present, Nigeria is self sufficient in sorghum, millet and maize, and imports over 90 per cent of its wheat.

### **Market prospects**

Exports from this subsector are unlikely. Nigeria's primary interest is efficient import substitution, and this is constrained by domestic supply conditions. However, wheat prices are of significance, in view of Nigeria's continuing dependence on imports. This is discussed in the next subsection.

### **Other aspects of the external environment**

As a result of the Uruguay Round Agreement, and the resulting reductions in agricultural support and the reform of the EU's Common Agricultural Policy, wheat prices have been projected to rise by the FAO over the course of the late 1990s.<sup>29</sup>

### **Market structure and its influence on global competitiveness**

The world market for cereals is heavily influenced by patterns of agricultural protection and support in developed market economies. Changes in the degree of support and the openness of particular developed country economy markets can result in changes in volume and price for major cereals. For example, moves towards the opening of previously closed rice markets, such as Japan's, are expected to raise the volume of international trade in rice, and also to raise rice prices during the course of the late 1990s.

### **Determinants of price competitiveness**

Given the heavily restrictive nature of Nigerian trade in cereals, price competitiveness has had little opportunity to reveal itself. In the major cereals, there is less a problem of price competitiveness than limitations on domestic supply.

### **Determinants of non-price competitiveness**

Informal sector food processing suffers from serious problems of product quality which would inhibit acceptance even in regional export markets should domestic supply surpluses become available.

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<sup>29</sup> See FAO *Commodity Review and Outlook, 1994-5*, p.16.

## **Constraints on the subsector's expansion**

The constraints on sorghum (and maize) production will be discussed in the section on beverages, in view of sorghum's use as an input into that subsector. The main constraints on expanding rice production include a lack of mechanised farming practices and of high-yielding varieties, inadequate technology for handling, processing and packaging. The sector is damaged by large-scale smuggling in of rice, and the urban population's preference for the smuggled rice.

## **Firm-level issues affecting global competitiveness**

*Managerial capabilities, capital stock and technical competence:* There is a mechanised formal sector, and an informal sector using very simple technologies. In rice, most paddy milling in Nigeria is done on a small-scale. In sorghum processing, whose industrial use is a very recent phenomenon in Nigeria, there are the two major food processing multinationals, Cadbury and Nestle, have pioneered the import-replacing processing of sorghum malts. In maize, domestic flour milling collapsed as domestic maize production could supply no more than about 10 per cent of installed capacity. After the lifting of the wheat import ban in 1992, the flour milling industry has been over 90 per cent dependent on imports of wheat.

*Avenues of enhancing firm-level competitiveness:* Clearly, an increased availability of the subsector's raw materials would enhance its competitiveness. There have been successes in this direction in sorghum and maize production. Much remains to be done in increasing rice output. In processing, there is considerable scope for increased mechanisation in the informal sector. Locally fabricated threshing and shelling machinery have been developed but their use is limited by electricity supply problems, difficulties in obtaining diesel, and the high cost of the equipment in relation to farmer income. In the formal sector, there is still scope for technical improvements. Apart from the major re-tooling embarked upon by companies in the formal sectors in grain and flour milling, and in brewing, to cope with the malted barley and wheat import bans, there have not been any major changes in either equipment and process technology.

**Box 2.A. Benefiting from maize revolution:  
Kenya's success story**

Over 300 improved maize varieties and hybrids have been introduced since 1960 - the pace has accelerated significantly during the 1980s. Delivery of improved seed to smallholders is adequate in countries such as Zimbabwe but very low in Ethiopia and Tanzania. Hybrid maize has slowly spread to dryer areas in many eastern and southern sub-Saharan African countries and in the West African savannah areas about 33 to 50 per cent of the maize area is now planted with improved hybrids and other modern varieties (MVS). Improved varieties have often been introduced in areas where maize is mainly grown for domestic consumption.

Despite the introduction of improved maize varieties, productivity growth has been restricted by the fact that application of chemical fertilizers to maize is very low. A major increase in the use of phosphorous and other materials is oriented for increasing maize production. Fertilizer costs are prohibitive in many parts of sub-Saharan Africa due to inadequate transport and infrastructure and buying disadvantages associated with small purchases. Rates of return on application of fertilizer to both local and hybrid maize is low. Increasing fertilizer use efficiency - i.e the rate of conversion of materials into grain - remains critical in raising production in this sector. A key concern of industrial policy must be to provide inputs for soil enrichment and for increasing the production. Although much remains to be done to improve production systems and structures the principle constraint on the growth of cereal consumption remains that of demand.

The challenge is to create maize-based processed products, which can effectively substitute for wheat and rice-based product in urban markets. This calls for an analysis of the traditional milling industry and identification of possibilities for increasing its productivity and the range of products it is capable of producing. It also calls for an expansion of marketing system and development of marketing strategies to increase the acceptance of maize-based produce especially in urban markets. Increasing the processing of maize products in a manner which reduce the growth in demand for imported foodstuffs is the single most important element of a strategy which seeks to ensure food security. Rapid increase in the processing of maize for human consumption and industrial use can be an effective means for reducing the need for grain imports.

In Kenya maize milling has remained the largest industrial activity under the grains and grain products subsector. The product of maize milling is sifted maize flour and the byproducts are maize bran (used in animal feed), maize germ (used in oil extraction), and semolina used in breakfast foods and the brewery industry.

Almost all rural markets in Kenya have milling facilities commonly referred to as "Posho Mills". Most of them are operated by local entrepreneurs and self-help groups or cooperative societies. There are, however, major maize millers such as Jambo Flour Millers, Nairobi Flour Mills, Unga Maize Millers, Bakery Millers, the National Milling Corporation, Mombasa Maize Millers and Kirinyaga Flour Mills. These enterprises are located in the urban centres of the country.

Capacity utilization of the mills rose in 1994 when the maize market was liberalized and the production of maize flour increased to 232.2 thousand tonnes from 120.0 thousand tonnes in 1992.

*Source:* UNIDO.

### **Protection against imports**

Sorghum and maize:	Imports are banned. <sup>30</sup>
Rice:	Imports are banned (now replaced by 37 per cent import duty?) <sup>31</sup>
Malt:	Imports are banned.
Wheat:	The ban on wheat imports was lifted in 1992, having been made ineffective by smuggled imports of wheat flour. Starch (maize product).

### **Tariff rates on imports are:**

-	1995-96:	40 per cent;
-	1997-98:	40 per cent;
-	1999-2000:	45 per cent;
-	2001:	45 per cent.

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<sup>30</sup> See Arthur Andersen Consulting, *1997 Budget Newsletter*, Appendix 14.

<sup>31</sup> The information on the removal of the ban, and its replacement by an import duty, comes from a personal interview in Lagos in March 1997. Our sectoral report states the ban is in place, but it is not shown in the list of import bans in Arthur Andersen Consulting, *1997 Budget Newsletter*, Appendix 14.



## Product-specific performance indicators

### *Revealed Comparative Advantage*

In view of the import bans on the other cereals, we calculate RCAs only for wheat (SITC 041):

- RCA1: 0
- RCA2: -1
- RCA3: -1.837

The zero RCA1 figure indicates that Nigeria does not export. The negative RCA2 figure of -1 indicates that Nigeria only imports. This is indicated by RCA3 too, which also shows that net imports of wheat have a slightly greater importance in Nigerian trade than in world trade in general.

### 3.1 Vegetable oil and oil seeds<sup>32</sup>

#### Introduction

This subsector covers one ISIC 4-digit industry:

- ISIC 3115 Vegetable and Animal Oils and Fats

Nigeria has the potential to produce vegetable oils and seeds both for the domestic market and for exports, though at present the country is a net importer in the subsector both with regard to food and industrial requirements. According to the 1995 Central Bank of Nigeria annual report for 1995, Nigeria imported \$103 million of animal and vegetable oils and fats.<sup>33</sup> Nigeria is 100 per cent import dependent on butter and other animal fats (tallow and lard).

Nigeria's current performance in this subsector represents a massive deterioration compared to its historical position. In 1970 Nigeria was the world's largest producer

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<sup>32</sup> Malaysian Ministry of Primary Industries, *Profile: Malaysia's Primary Commodities*, Kuala Lumpur, 1990, pp.12-35, provides useful background information on this subsector, on which the present account draws.

<sup>33</sup> Note, however, that while the Central Bank of Nigeria gives the import figure as ₦7,222 million (which it has converted from US dollars at an exchange rate of ₦70=\$1), the FOS, *Nigeria Trade Summary* (December 1995) gives cumulative 1995 imports for the subsector (SITC 4) as only ₦1,027 million. FOS gives the corresponding export figure as ₦57 million. It is difficult to reconcile these enormous differences in statistics.

of palm oil. Although its production appears to have risen steadily in the 1980s and early 1990s, it has grown far more slowly than that of competing countries, and more slowly than domestic requirements. According to UNCTAD statistics, Nigerian exports of all oilseeds, fats, oils, oil cakes and meals fell from \$168 million in 1970 to a mere \$18 million in 1993 (in current dollar terms); 1993 exports of palm nuts, kernels and oil were \$1.5 million, against imports of palm oil of \$68.5 million.<sup>34</sup>

### **Market prospects**

There has been a significant expansion in the world demand for vegetable oils over recent decades. Increases in *per capita* income in large LDCs such as China and India have been accompanied by substantial increases in vegetable oil consumption. However, technical change in production techniques has allowed major producers like Malaysia, Indonesia and Brazil to raise output so that world prices have not risen. Increased vegetable oil consumption has been the most important way in which many consumers in LDCs have increased their calorific intake. If Nigeria could raise its output of oilseeds beyond its domestic market requirements, it could participate in this world market growth.

### **Other aspects of the external environment**

The tariff structure of OECD countries escalates with the degree of processing of oilseeds, even after the Uruguay Round.<sup>35</sup>

### **Market structure and its influence on global competitiveness**

If Nigeria were to become a net exporter of vegetable oils, it would have to compete in a world market where the production of many competing vegetable oils was subsidised by developed market economies, particularly the USA and the EU.

### **Determinants of price competitiveness**

The main types of vegetable oils - soybean oil, palm oil, rapeseed oil and sunflower oil - are very close substitutes, although in many uses a blending and combination of them is necessary. There have been marked changes in consumption of different oils according to changes in relative prices.

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<sup>34</sup> UNCTAD, *Commodities Yearbook 1995*.

<sup>35</sup> See World Bank, *Global Economic Prospects and the Developing Countries 1994*, pp.38-9,45. The 1994 issue concentrates on primary commodity prospects.

## **Determinants of non-price competitiveness**

The competitive position of vegetable oils generally has been strengthened by the international switch of consumption, on health grounds, away from animal oils and fats towards vegetable oils.

## **Constraints on the subsector's expansion**

The main constraints identified in our surveys of vegetable oils, vegetable seeds and by-products include difficulties in establishing estates to produce oil palm, which at present is mainly produced with old trees on scattered and wild holdings, and processed with inefficient techniques. There is also a lack of farm inputs, a shortage of high yielding seedlings, and poor rural infrastructure. Rural labour shortages are also a problem.

## **Firm-level issues affecting global competitiveness**

*Managerial capabilities, capital stock and technical competence:* Vegetable oil and oil seeds processing technologies used in Nigeria range from the informal cottage level, and the formal small-scale, to large-scale operations for the production of crude oil, refined, bleached and deodorised vegetable oil, and downstream production technologies for margarine, confectionery fats, bakery fats and soaps. However, the technologies in the formal sector range from advanced modern technologies to ones which are outdated by current standards. The major shortcomings in the formal sector are the ageing of plant and the increasing difficulties in sourcing replacement parts for equipment. In the formal sector, new products have been developed including cotton seed oil, soy oil, benniseed oil, sunflower oil and hydrolysed vegetable protein. However, in the informal sector, the main products remain crude palm oil, crude palm kernel oil, and crude groundnut oil. Major shortcomings in the informal sector include a low level of hygiene and sanitation, and lack of quality control with products having a short shelf-life. Firms in the formal sector, about one hundred in 1992, are working at only about 40 per cent capacity. Among the companies refining crude palm oil is the multinational Lever Brothers.

*Avenues of enhancing firm-level competitiveness:* The production of palm oil, a key raw material for this subsector, has been shown by the experience of major producing countries such as Malaysia to have great potential for increases in yield through the use of high-yielding varieties and intensive application of fertiliser. In the face of rural labour shortages, there is also scope for mechanised harvesting. Such improvements would require the development of estate production or small-

holder outgrower schemes. A switch to modern processing facilities would increase the present low rate of oil extraction. Superior varieties of soybeans have been developed for Nigeria, but their use requires a good supply of farm inputs.<sup>36</sup>

## **Protection against imports**

### *Vegetable oil*

Imports of vegetable oil are prohibited.

### *Margarine*

The tariffs are:

- 1995-96: 35 per cent;
- 1997-98: 35 per cent;
- 1999-2000: 40 per cent;
- 2001: 40 per cent.

## **Product-specific performance indicators**

### *Revealed Comparative Advantage*

Our RCA figures are for SITC 424, which includes palm oil and palm kernel oil. They relate to figures recorded for Nigeria for 1994 by the UN:

- RCA1: 0
- RCA2: -1
- RCA3: -0.921

The zero RCA1 figure indicates that Nigeria does not export. The negative RCA2 figure of -1 indicates that Nigeria only imports. This is indicated by RCA3 too, which also shows that net imports of SITC 424 have a slightly lesser importance in Nigerian trade than in world trade in general.

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<sup>36</sup> See US Embassy, *Nigeria Agricultural Situation Report*, September 1996, p.12.

## 3.1 Sugar<sup>37</sup>

### Introduction

This subsector covers one ISIC 4-digit industry:

- ISIC 3118 Sugar factories and refineries

Nigeria is over 90 per cent dependent on imports of sugar for its domestic consumption. Its choice as a target sector for priority attention must rest on its scope for the saving of foreign exchange, although the case for this is lessened by the fact that sugar can be imported at prices which are expected to remain low for the rest of the decade.

### Market prospects

Increases in Nigerian sugar production, and probably sugar confectionary too, will be directed at the domestic market, and it is almost inconceivable that there could be a surplus available for export in the immediate future. World market developments are relevant in the sense that the costs of domestic sugar production should not be such as to require significant protection against imports, particularly if world sugar prices fall. In fact, the 15 per cent import duty on sugar planned for the end of the century may not be high enough to give positive *net* effective protection,<sup>38</sup> so producers of raw sugar will have to compete against imports.

Domestic market prospects for competitively priced domestic sugar and sugar products are good once consumer incomes start to rise again after the effects of macro-economic restriction. Sugar in a low income country such as Nigeria has a high income elasticity of demand (that is, demand increases more than in proportion to increases in income), as was demonstrated by increased consumption during the oil boom years.

By 1994 sugar prices had risen to over \$260 per tonne, compared to under \$200 in 1991, and stood around \$240 in April 1997. UNIDO's 1992 study of sugar and

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<sup>37</sup>This account draws heavily on UNIDO, *Industry and Development Global Report 1992-3*, pp. 261-274 on sugar processing.

<sup>38</sup>Given that there are few importable inputs into raw sugar production, the ERP should not greatly exceed the 15 per cent NRP. The overvaluation of the naira caused by general tariff protection on imports will cause the *net* ERP to be less than the apparent ERP on any activity (see section 8.2). In any case, it is the level of ERP *relative to other activities*, not its absolute level, which determines whether resources are drawn into an activity.

sugar processing expected the cyclical nature of prices to continue, but that it also expected that increased liberalisation of the industry as more governments moved to market-oriented policies would cause some rationalisation in production. It is expected that sugar prices by the year 2000 would remain under \$250 a tonne in terms of 1990 purchasing power.<sup>39</sup>

### **Other aspects of the external environment**

Since sugar, both beet and cane, is a highly regulated activity in many countries, its production, price and market access arrangements can in principle be affected considerably by changes in international trading arrangements under the Uruguay Round agreements or the Sugar Protocol of the EU's Lome Convention. According to the FAO, world sugar imports were expected to increase as a result of liberalisation under the Uruguay Round.<sup>40</sup> What is relevant to Nigeria, however, is the world price, since Nigeria, as noted above, is highly unlikely to become a sugar exporter in the immediate (or indeed, foreseeable) future.

### **Market structure and its influence on global competitiveness**

Since Nigeria is not competing in export markets, the world structure of the industry does not have a strong direct impact. There are major international companies in sugar processing industry located in developed countries. Some rely heavily on imported cane sugar, others use domestically produced sugar beet. Such companies, under a favourable investment climate, might be potential investors in Nigerian sugar for local sale, given Nigeria's large domestic market.

### **Determinants of price competitiveness**

Low labour costs are by no means of overwhelming importance in determining the costs of sugar production. Various developed economies, such as Australia in cane sugar and the USA and a number of EU countries in beet sugar, have costs which are competitive with those of LDC producers. Formal sector sugar cane processing is a capital intensive activity.

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<sup>39</sup> See UNIDO, *Industry and Development Global Report 1992-3*, pp. 273-4.

<sup>40</sup> FAO, *Commodity Review and Outlook 1994-5*, p. 23.

## Determinants of non-price competitiveness

Cane sugar is a relatively homogeneous commodity, but the low standards of hygiene in sugar processing in the informal sector may reduce the product's attractiveness to consumers.

## Constraints on the subsector's expansion

The main constraints identified by respondents in our survey of the subsector include the high capital intensity of sugar cane production and processing, and inadequate raw material supplies. The informal sector suffers from a lack of suitable processing equipment, and cane sugar growing suffers from ageing canes and poor water supply.

## Firm-level issues affecting global competitiveness

*Managerial capabilities, capital stock and technical competence:* Only two estates are currently producing and processing sugar, but they have suffered from declining capacity utilisation. Sugar cane processing in the informal sector involves the production of a local candy (*alewa*) by juice extraction, concentration by boiling, and moulding. The product is not packaged but displayed for marketing in the open often without protective covering.

*Avenues of enhancing firm-level competitiveness:* As in other food processing sectors, there is scope for better packaging of products. The improvement of locally fabricated equipment used by small-scale processors would enhance their competitiveness. There are opportunities for producing a wider variety of products. These include alcohol, yeast, glucose, fructose and dextrose from molasses. There is also scope for the local fabrication of equipment for sugar processing.

## Protection against imports

The import duty rates on sugar/molasses/glucose/sugar confectionary are:

- 1995-96: 10/15/25/45 per cent;
- 1997-98: 10/15/25/45 per cent;
- 1999-2000: 15/20/30/40 per cent;
- 2001: 15/20/30/40 per cent;

Although we do not have the input data to calculate effective rates of protection in this subsector, it is likely, with these escalating rates of duty, that ERP will be substantially higher on processed sugar and sugar confectionary than the nominal rates of protection (that is, the import duties) on those products.

## Product-specific performance indicators

### *Revealed Comparative Advantage*

#### Sugar (SITC 061)

- RCA1: 0
- RCA2: -1
- RCA3: -3.60

The zero RCA1 figure and the RCA2 of -1 both indicate that Nigeria is an importer but not an exporter of sugar. The negative value of RCA3 again indicates that Nigeria is a net importer of sugar, and the absolute value indicates the value of net sugar imports in Nigeria's trade in relation to the importance of sugar in world trade.

### 2.3.1 Cocoa<sup>41</sup>

#### Introduction

As far as processed products are concerned, this subsector covers one ISIC 4-digit industry:

- ISIC 3119 Cocoa, chocolate and sugar confectionaries

The major raw material for processing in this subsector - cocoa - is entirely sourced locally, and is an export product in its own right. Cocoa is Nigeria's most important non-oil export. According to statistics in UNCTAD's latest *Commodities Yearbook* (1995), Nigeria in 1993 accounted for 7 per cent of world exports of cocoa beans and 5 per cent of world production. Production is less than half of that of 1970, when the country produced nearly 20 per cent of world output. UNCTAD records Nigeria in 1993 as exporting \$8.5 million of cocoa products compared to cocoa bean exports of \$134 million.

In cocoa products, the main emphasis in Nigeria is the production of cocoa butter. The cocoa butter is primarily exported, although some is used locally by cosmetics manufacturers. Cocoa powder is the cocoa product that is most widely used in the

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<sup>41</sup> Two useful background sources are Malaysian Ministry of Primary Industries, *Profile: Malaysia's Primary Commodities*, 1990, pp. 64-75 on cocoa; and UNIDO *Industry and Development Global Report 1993-4*, pp.126-143 on cocoa processing.



food processing industry. Chocolate manufacture is just beginning, with Cadbury Nigeria Plc introducing the first commercially produced and marketed chocolates.

### **Market prospects**

There was a significant growth in demand for chocolate confectionary over the decade to the early 1990s, accompanied, however, by an excess supply of raw cocoa. Dollar prices of cocoa in the international market fell from around \$2,400 in 1984 to \$1,100 in 1992-93, reflecting world oversupply as new producing countries such as Indonesia, Malaysia and Cote d'Ivoire expanded exports. By early 1997 prices had recovered only to around \$1,500 a tonne, about \$150 up on the previous year.

### **Other aspects of the external environment**

Nigerian cocoa and cocoa products can enter the EU market duty free under the Lome Convention.

The International Cocoa Agreement has placed emphasis on supply management but has had little influence on the market in recent years.<sup>42</sup>

### **Market structure and its influence on global competitiveness**

The global cocoa processing industry is highly concentrated, and large firms dominate in both the cocoa industrial processing sector (producing semi-finished or finished products for end-users) and in confectionary manufacturing, where the large companies do their own grinding. Within the industrial processing sector a small number of large transnationals dominate cocoa butter and powder production, and smaller companies make semi-finished products such as block chocolate and chips. Most European end-users prefer to buy their cocoa products from large European manufacturers. These manufacturers can supply cocoa butter and liquor in bulk liquid form on a "just in time" basis, which cocoa processors in cocoa producing countries cannot. The absence of domestic demand for chocolate products in Nigeria and the competition with highly efficient producers in consuming countries puts Nigerian (and other producing countries) cocoa processors at a disadvantage.

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<sup>42</sup> See C. Gilbert, International commodity agreements: an obituary notice, *World Development*, January 1996.

## Determinants of price competitiveness

Economies of scale are important in cocoa processing, and costs are halved as scale rises from 12,000 to 70,000 tonnes annually. Capacity utilisation also has a strong effect on costs. A fall in capacity utilisation from 100 to 50 per cent raises costs by two-thirds, and Nigerian capacity utilisation is one of the lowest in the world. For these reasons, and since their factories tend to be small, West African processing costs in 1992 were the highest in the world, about 16 per cent higher than the world average.<sup>43</sup>

Given that cocoa prices are historically low, there is some evidence that higher wage countries such as Malaysia are shifting away from cocoa bean production at the margin to more profitable crops.<sup>44</sup>

## Determinants of non-price competitiveness

West African cocoa products sell at a discount to western markets because their quality is perceived as poorer compared to those produced in western consuming countries.

Cocoa bean export competitiveness can be enhanced by aiming for uniform bean size through use of improved planting materials and grading. In Malaysia, grading of beans is compulsory prior to export.

## Constraints on the subsector's expansion

The main constraints on the expansion of cocoa include the old age of existing trees, labour shortages caused by rural-urban migration, problems of land availability, poor processing technology and the high cost of inputs. There are also problems on the demand side resulting from low consumer purchasing power. There is severe import competition in cocoa-based and malt-based drinks, glucose, sweets, and chocolates.

## Firm-level issues affecting global competitiveness

*Managerial capabilities, capital stock and technical competence:* Primary processing of cocoa into dried cocoa beans is dominated by the informal sector, whose process technologies are predominantly manual confectioneries. Unlike in the formal sector, the level of hygiene is low, quality and process control is subjective,

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<sup>43</sup> UNIDO *Industry and Development Global Report 1993-4*, p. 141.

<sup>44</sup> See World Bank, *Global Economic Prospects and the Developing Countries, 1994*, p. 49.

products are not standardised and there are differences in batch quality, manual mixing due to unavailability of appropriate and affordable mixers.

There are only four major cocoa processing firms in the country. All the four put together cannot process more than half of the cocoa beans produced locally. In addition, they have all been operating at below capacity.

*Avenues of enhancing firm-level competitiveness:* In principle there is scope for improving cocoa bean production by the use of improved seedlings, agro-chemicals, and better packaging. For cocoa powder and butter, packaging also could be improved.

### **Protection against imports**

The import duty rates on cocoa beans/cocoa powder/cocoa butter/chocolate are:

- 1995-96: 25/30/30/50 per cent;
- 1997-98: 25/30/30/50 per cent;
- 1999-2000: 25/35/35/45 per cent;
- 2001: 25/35/35/45 per cent.

### **Product-specific performance indicators**

#### *Revealed Comparative Advantage*

##### **Cocoa and products (SITC 072)**

- RCA1: 164.36
- RCA2: 0.997
- RCA3: 20.57

The high RCA1 figure indicates that the share of Nigerian cocoa in the world market is very large relative to Nigeria's share in total world non-oil exports. RCA2 being positive and near to 1 indicates simply that Nigeria is almost wholly an exporter of cocoa. The positive RCA3 figure also indicates that Nigeria is a net exporter, and its high value shows that cocoa in Nigeria's net exports is of much greater importance than cocoa in world trade in general. Note, however, that the statistics used here are from the *UN International Trade Statistics Yearbook*, whose figures for cocoa exports for Nigeria for any particular year vary considerably between different annual editions.

### **3.1 Coffee**

#### **Introduction**

As far as processed products are concerned, this subsector is covered by one ISIC 4-digit industry:

ISIC 3121 Other food products

Nigeria produces less than half of its domestic requirements of coffee (and about a third of its domestic requirements of tea). There is scope for efficient important import substitution by expanding output.

#### **Market prospects**

In the long term, world demand for coffee is likely to grow less rapidly than world income. However, there has been an excess demand for coffee in world market during the early and mid-1990s, associated with falls in Brazilian coffee supply. Dollar coffee prices more than doubled between 1993 and 1994. After a fall in 1996, prices again were high in 1997, at around \$4,000 a tonne, which is a third as high again as in 1994. This rise in import prices into Nigeria makes import substitution in coffee production a more attractive proposition, at least in the short term.

#### **Other aspects of the external environment**

The FAO estimates that the erosion of GSP and Lome preference margins in coffee as a result of the Uruguay Round agreements will be significant for African countries.

The economic provisions of the International Coffee Agreement were suspended in 1989.

#### **Market structure and its influence on global competitiveness**

Nigeria is a relatively minor producer of coffee in the world economy. The international coffee market is subject to substantial supply shifts in major producers and prices fluctuate considerably as a result.

#### **Determinants of price competitiveness**

Yields are important in determining competitiveness.

## **Determinants of non-price competitiveness**

Consumer preferences, and prices, differ according to the different types of coffee produced, namely arabica, robusta and milds.

## **Constraints on the subsector's expansion**

Constraints on increased coffee production are very similar to those of cocoa, such as the old age of the trees, the difficulties in securing new land for coffee development, and shortages of rural labour.

## **Firm-level issues affecting global competitiveness**

*Managerial capabilities, capital stock and technical competence:* Primary processing into dried coffee beans is dominated by the informal sector, whose process technologies are predominantly manual. However, the processing of green tea leaves is carried out in the formal sector using modern technologies. Also, the secondary processing of coffee into roasted coffee beans and milled coffee, is carried out in the formal sector. The major companies processing coffee in Nigeria include Lipton and Nescafe. The technology of processing coffee beans is simple. The flavour potentiator, chicory which is added to blend coffee beans to enhance its aroma and taste is sourced through importation.

There is no tertiary processing of coffee or tea into instant products or de-cafeinated products.

*Avenues of enhancing firm-level competitiveness:* As in cocoa, there is scope for improving coffee bean production by the use of improved seedlings and agro-chemicals. Encouraging large-scale production enhances the productivity of this industry.

## **Protection against imports**

*Data not available*

## **Product-specific performance indicators**

### *Revealed Comparative Advantage*

#### **Coffee (SITC 071)**

- RCA1: 0.268
- RCA2: -0.326
- RCA3: -0.008

The low RCA1 figure indicates that Nigeria's exports of coffee are small relative to the importance of its other exports in world markets. The negative RCA2 figure indicates that Nigeria is a net importer. This is indicated by RCA3 too, which also shows that net imports of coffee have a lesser importance in Nigerian trade than in world trade in general. Note, however, that there are considerable discrepancies between different sources. On exports, the FOS *Nigeria Trade Summary 1995* gives coffee exports almost as large as imports (which is very surprising, given our information about the subsector). The FOS export figures are half those given in the Central Bank of Nigeria *Annual Report 1995*, which we have used for the export statistics (it does not give coffee import statistics).

### 3.1 Roots and tubers

#### Introduction

This subsector covers one ISIC 4-digit industry:

- ISIC 3121 Other food products

Production of cassava and cassava products have been growing steadily since the mid-1980s. There is a potential export surplus, although exports are currently banned on the grounds of food security. Yam processing is mainly an informal activity producing chips for yam flour for domestic consumption, but it also includes an export potential for "instant pounded yam". Ginger is an export product in its own right, and it is also used as an input for ginger ale and ginger beer. It has potential for further import substitution when processed into spices and flavouring.

#### Market prospects

Cassavas and yams are on the export prohibition lists for the 1995-2001 period.<sup>45</sup> The FAO *Commodity Review and Outlook*<sup>46</sup> notes that the lifting of the export ban on cassava and the removal of export taxes could help boost production.

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<sup>45</sup> See *The Guardian* (Nigeria) January, 1997 and Enterprise Consulting Group Ltd, *Review of Nigeria's Tariff and Trade Policies, 1988-2001*, Lagos, November 1995, p.40. Neither yams nor cassava is listed on the list of banned export products in Arthur Andersen Consulting, *1997 Budget Newsletter*, however.

<sup>46</sup> See 1994-95 issue, pp. 86-89, on world cassava production.

World trade in cassava declined by about 20 per cent between 1993 and 1994. The bulk of the trade is in chips and pellets for feed and alcohol use, and the EU accounts for about three quarters of total world imports.<sup>47</sup>

The export potential of “instant pounded yam” lies in sales to Africans living in Europe or North America. The failure of this product on the domestic market, because of local consumer preference for the 'natural' rather than the processed variety, should not inhibit its development for exports to markets where the natural product is not easily available.

### **Other aspects of the external environment**

In sub-Saharan Africa, consumer incomes are still low enough for the demand for cassava not to be as highly income inelastic as it is in richer LDCs (that is, at African income levels the demand still will rise somewhat as income increases).<sup>48</sup> However, the CFA franc devaluation in 1994 is likely to improve incentives for cassava production in surrounding Francophone countries. Access to the EU market remained restricted into the mid-1990s by voluntary export restraints on the part of producers.<sup>49</sup>

### **Market structure and its influence on global competitiveness**

International trade in cassava is limited since it is a crop grown mainly in producing countries for their domestic food consumption. The main world export suppliers are Thailand, Indonesia and China, even though Nigeria is the world's biggest producer. Recent large rises in Nigerian cassava production generate export potential in the face of declines in production in many other producers.

### **Determinants of price competitiveness**

The price competitiveness of Nigerian cassava exports on international markets would depend in part on the prices for substitutes such as grains and soymeal, which are affected by the level of EU intervention prices. Reduction in these intervention prices would put downward pressure on alternative feedstuffs like cassava pellets.

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<sup>47</sup> See *FAO Commodity Review and Outlook, 1994-5*, p. 87.

<sup>48</sup> See World Bank, *Global Economic Prospects and the Developing Countries*, p. 37.

<sup>49</sup> See *FAO Commodity Review and Outlook, 1994-5*, p. 88.

## **Determinants of non-price competitiveness**

Cassava itself is perceived as a foodstuff for low income people, and demand tends not to rise in proportion to income.

## **Constraints on the subsector's expansion**

The main constraints on production of cassava include a lack of high yielding varieties, difficulties in securing key inputs, a low level of mechanisation, and difficulties in acquiring land. There is a lack of large-scale processors, and small-scale processing is wasteful and inefficient.

## *Firm-level issues affecting global competitiveness*

*Managerial capabilities, capital stock and technical competence:* The processing of roots and tubers is dominated by the informal sector. Yam flour is the only long shelf-life product obtained from yam processing in the informal sector and it differs from pounded yam which has more consumer appeal. Mechanical peeling of yams, cassava and other tubers remains a challenge for roots and tuber processing because of the non-uniformity of shapes and sizes of the tubers. Peeling is still being done manually. Although a cassava peeling machine has been developed, it is yet to be produced commercially.

The multinational Cadbury is also active in this subsector and has developed the production of yam powder, a potential export product.

*Avenues of enhancing firm-level competitiveness:* The emergence of some large-scale processors would enhance competitiveness, as also would the mechanisation of informal sector processing.

## **Protection against imports**

Imports of roots and tubers were on the banned import list in 1994. The ban was lifted in 1995.<sup>50</sup>

The import duty on tapioca (cassava product) is:

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<sup>50</sup> See Enterprise Consulting Group Ltd, *Review of Nigeria's Tariff and Trade Policies, 1988-2001*, Lagos, November 1995, p.38.



- 1995-96: 45 per cent;
- 1997-98: 45 per cent;
- 1999-2000: 40 per cent;
- 2001: 40 per cent

## **Product-specific performance indicators**

### ***Revealed Comparative Advantage***

These figures relate to SITC 056, which is the only code in which roots and tubers products are to be found in the Nigerian trade statistics, although it includes many other processed vegetables.

- RCA1: 0.014
- RCA2: -0.873
- RCA3: -0.006

The low RCA1 figure indicates that Nigeria exports little. The negative RCA2 figure near to -1 indicates that Nigeria is mainly a net importer. This is also indicated by RCA3 too, which also shows that net imports of this category have a lesser importance in Nigerian trade than in world trade in general.

### **2.3.1 Fruits and vegetables<sup>51</sup>**

#### **Introduction**

This subsector covers one ISIC 4-digit industry:

- ISIC 3113 Canning, preserving of fruit and vegetables

This subsector has great potential for export expansion. At present, Nigeria is performing far below its potential compared to other African countries in developing such exports.

Nigeria already has a potential exportable surplus of fruit and vegetables but there are many quality, transport and distribution difficulties hindering export development. Floriculture has been started anew with large-scale operations, and this also may be necessary for the development of export quality fruit and vegetables.

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<sup>51</sup> This account draws on Nigerian Export Promotion Council, *Export Potential Survey on Nigerian Fresh Fruit, Vegetables and Floriculture*, Abuja, May 1996. I am grateful to the NEPC for making this very useful report available to me before its publication.

Nigeria's domestic fruit and vegetable processing industry (producing products such as juices) also has many problems, though these would be much reduced if an adequate supply of good quality produce could be secured.

### **Market prospects**

Tropical fruits and off-season vegetables are subject to high income elasticity of demand in developed market economies (that is, their demand rises faster than in proportion to consumers' incomes). This particularly applies to vegetables and to 'exotic' fruits such as mangoes. The market has been developed by, for example, British retail chains, which have drawn in various African suppliers. The potential for expanding Nigerian exports includes mangoes, papaya, avocado, bananas, melons, pineapple, nuts and citrus fruits. Promising vegetable export products include chillies, okra, tomatoes, french beans, and lettuce.

There is a high income elasticity of demand for fruit juices made from tropical fruits, whose market also has expanded as consumers become more health conscious. Existing exporters include Cote d'Ivoire, Cameroon, Kenya and South Africa.

### **Other aspects of the external environment**

Nigeria's potential as a fruit and vegetable exporter is enhanced by the country's membership of the EU's Lome Convention. The market for bananas, however, is affected by the changed arrangements in the EU, the world's largest importer of bananas, which were set up alongside the introduction of the single European market in 1992. The new EU banana regime became operational in 1993.<sup>52</sup> Most other importing countries do not impose import barriers.

Previously, ACP countries' preferential access into the EU under the Lome Convention muted the competition from more efficient banana production in Central and Latin America - the so-called dollar bananas - where growing is organised in plantations with the participation of fruit multinationals. There is now a widespread system of tariff-quotas in use for bananas (that is, imports are limited in physical amount, and those imports are also subjected to a tariff). Non-traditional ACP exporters still receive some preferential access in the form of a quota of 90,000 tonnes.<sup>53</sup>

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<sup>52</sup> See FAO, *Commodity Review and Outlook, 1994-95*, p. 23.

<sup>53</sup> See FAO, *Commodity Review and Outlook, 1994-95*, p. 66.

The ending of apartheid in South Africa, and the consequent increase in the international acceptability of South African products, will mean Nigeria will face increased competition from South Africa in the world fruit market, where that country is an important player.

### **Market structure and its influence on global competitiveness**

One aspect of the international structure of the market which is relevant to Nigeria is the important role played by buying groups (retail chains) from Europe. These groups will be demanding in terms of quality requirements, but they do offer market access.

Multinational companies are still active in the world fruit. For example, three multinationals control 70 per cent of world trade in bananas. Multinationals have been of great importance in developing Chile as a leading world exporter of fruit.<sup>54</sup>

### **Determinants of price competitiveness**

Since fruit, vegetables and flowers are subject to rapid deterioration if not properly handled, price competitiveness depends heavily on good transport and storage arrangements. Nigerian exports in this subsector will rely on fast and efficient airfreighting of produce to Europe.

Although fruit and vegetables can be grown by smallholders, capital requirements for internationally competitive products can be substantial. The foreign exchange requirements for imports of items such as irrigation pipes, cold storage, seedlings, and computer-controlled drip facilities constitute a barrier to entry.<sup>55</sup>

For floriculture, the capital requirements are high too.<sup>56</sup> However, Nigeria has the potential to supply summer flowers to Europe during the winter season, and its low labour costs do confer some advantages.

### **Determinants of non-price competitiveness**

Meeting the exacting quality standards of importing countries is of overwhelming importance in developing fruit and vegetable exports. The colour, size and condition

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<sup>54</sup>See World Bank, *Global Economic Prospects and the Developing Countries, 1994*, chapter 2.

<sup>55</sup> See NEPC, *Export Potential Survey on Nigerian Fresh Fruit, Vegetables and Floriculture*, p. 5.

<sup>56</sup> About \$1 million to equip, set up and maintain a greenhouse of one hectare (NEPC, *Export Potential Survey on Nigerian Fresh Fruit, Vegetables and Floriculture*, p. 5).

of the product influences consumer choice. Packaging is important too, as is size grading of produce. The use of organic production methods may also increase acceptability to consumers.

### **Constraints on the subsector's expansion**

For the processing of fruits into juice, purees, preserves and other processed products, constraints in raw material supply include a lack of large-scale producers who could use higher yielding planting materials to produce better quality fruit and vegetables. The informal sector producers have poor planting materials, and there is a high degree of wastage as a result of poor rural transport and storage facilities.

### **Firm-level issues affecting global competitiveness**

*Managerial capabilities, capital stock and technical competence:* There are two major companies operating in processing: Cadbury and Vegetable and Fruit Processing Nigeria (VEGFRU). Tomato processing is a major activity.

There are six well-known companies involved in large-scale vegetable cultivation for export since the early 1990s.<sup>67</sup> There are two companies involved in floriculture, both new and both exporters, apparently the only ones in West Africa (though Zimbabwe, Kenya, Zambia, Malawi and South Africa are active in the trade). These two flower exporters generate annually about \$1 million of foreign exchange earnings.

*Avenues of enhancing firm-level competitiveness:* There is a need to invest in large-scale production, using improved seedlings, pesticides, and modern equipment. There is a need to shift where necessary from local varieties to varieties which are internationally accepted. Education about the packaging requirements of the international market is necessary.

The production of internationally competitive varieties of fruit would also improve the quality of raw materials supplies for firms in the domestic processing industry. For example, oranges of consistent quality would make juice production more cost effective, and non-local varieties of mango are more suitable for juice production than the local fruit, which contain little juice and have much fibre and large seeds.

Improvement of local transport and storage facilities in rural areas would reduce the present high level of wastage of fruit and vegetables.

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<sup>67</sup> See NEPC, *Export Potential Survey on Nigerian Fresh Fruit, Vegetables and Floriculture*, p. 11.

## Protection against imports

The import duty rates on fruit juices/jams are:

- 1995-96: 55/55 per cent;
- 1997-98: 55/55 per cent;
- 1999-2000: 50/50 per cent;
- 2001: 50/50 per cent.

Imports of fresh, preserved or processed fruits and vegetables were prohibited from 1986, although imported apples and significant volumes of smuggled tomato pastes and fruit juices have been readily available in the market. The import bans on fruit juices and on vegetables were removed in 1995.<sup>58</sup>

## Product-specific performance indicators

### *Revealed Comparative Advantage*

#### Vegetables (SITC 054)

- RCA1: 0.197
- RCA2: -0.021
- RCA3: -0.0003

The low RCA1 figure indicates that Nigeria is a relatively small exporter of vegetables compared to its other exports. The negative RCA2 figure indicates that Nigeria is a net importer. This is indicated by RCA3 too, which also shows that net imports of vegetables have a much lesser importance in Nigerian trade than in world trade in general.

#### Fruit (SITC 057)

- RCA1: 6.098
- RCA2: 0.990
- RCA3: 0.188

The high RCA1 figure indicates that Nigeria is exporter, and its share of world fruit exports is greater than its non-oil world market share. The positive RCA2 figure of

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<sup>58</sup>See Enterprise Consulting Group Ltd, *Review of Nigeria's Tariff and Trade Policies 1988-2001*, Lagos, November 1995, p. 39.

near 1 indicates that Nigeria hardly imports at all. This is indicated by the positive RCA3 too, which also shows that net exports of fruit have a lesser importance in Nigerian trade than in world trade in general.

### **2.3.1 Livestock and allied products**

#### **Introduction**

This subsector covers two ISIC 4-digit industries:

- ISIC 3111 Slaughtering, preparing and preserving of meat
- ISIC 3112 Dairy products

This subsector serves the domestic market and has further potential for import substitution, particularly in dairy products. In recent years the livestock industry has suffered from a shortage of feedstuffs, with the closure of two-thirds of installed feed milling capacity between 1988 and 1994. These problems arose from import bans on wheat and malted barley, which pushed up the price of maize, the main local substitute. The situation now has improved somewhat with the lifting of the ban on wheat in 1992, and the attainment of self-sufficiency in the production of maize, sorghum and soya bean cake.

#### **Market prospects**

The domestic market for processed meat is limited, as most Nigerians prefer to consume their meat in unprocessed form. In meat processing, the subsector is largely self-sufficient (except for capital equipment), and the importation of processed meat is banned. The formal sector meat processors, who are few in number, mainly serve a market of hotels and restaurants, processing mostly beef and pork into sausages and bacon.

Nigeria is heavily dependent on imports for its consumption of dairy products. It is constrained on production rather than the lack of a domestic market which inhibits expansion in this part of the subsector.

#### **Other aspects of the external environment**

The duty free importation of groundnuts (for groundnut cake) under the ECOWAS Trade Liberalisation Scheme has helped the livestock feedstock industry with its supply of inputs.

## **Market structure and its influence on global competitiveness**

There is a continued reliance on the informal sector, with its low standards of hygiene and lack of storage facilities, for supplies of raw materials. This limits the subsector's competitiveness.

### **Determinants of price competitiveness**

Good transport and storage facilities are important aspects of securing price competitiveness in this subsector.

### **Determinants of non-price competitiveness**

Microbiological standards are an important element in the competitiveness of dairy products. The local dairy industry still has a long way to go before it can produce suitable substitutes for imported dairy products, whether liquid milk, dry milk or cheese. The microbiological standard and fat content of local milk must be upgraded significantly before they will be competitive with imports. In the short-to-medium term, the best alternative to dairy milk is milk from vegetable sources, such as soya milk and groundnut milk.

### **Constraints on the subsector's expansion**

On the agricultural side of meat production, constraints include the high capital requirements for large-scale production, and the rural shortages of labour, and animal diseases. On the processing side, there is a lack of milk-producing cattle, an inadequate supply of feeds, shortages of drugs and vaccines, and problems of disease.

### **Firm-level issues affecting global competitiveness**

*Managerial capabilities, capital stock and technical competence:* Livestock processing is dominated by the formal sector. Processing technologies for meat mainly involve cold storage, including production and cold storage preservation of sausages. The major shortcomings of cold storage include the direct or indirect dependence on imported inputs and, consequently, the high cost of operation, maintenance and repair of the equipment, and the relatively high initial capital outlay for the technology. Meat processing in the informal sector using traditional technologies such as smoking is subject to various shortcomings, including dependence on the weather, low hygiene, pest infestation, and storage problems.

Informal sector slaughtering usually has little provision for the preservation of unsold meat, and display and transport are unhygienic.

In dairy processing, technologies include pasteurisation and packaging of fresh milk, and the production of butter, yoghurt, evaporated milk, milk powder, cheese, ice cream, and chocolate beverages. Processing of milk by the informal sector into local soft cheese and local yoghurt uses process technologies which are slow and have low levels of hygiene, and suffers from the unavailability of appropriate packaging.

*Avenues of enhancing firm-level competitiveness:* Effective meat inspection at the abattoirs, especially for informal sector production, and in the market place, would improve the quality of products.

The potential for the development of an economically-viable dairy farming in Nigeria to supply fresh milk to the dairy processing industry is still limited. Pre-conditions for such development would include complete freedom from tsetse infestation, provision of adequate veterinary services, availability of cheap livestock feeds all the year round, and a dairy market for produce. Fresh milk production systems are therefore likely to be feasible only in the immediate vicinity of a limited number of urban centres in the north of Nigeria using irrigation to produce fodder.

Backward integration by dairy processors into dairy farming is one avenue through which the quality and supply of milk products can be improved, and the West African Milk Company in Jos has made a small start in this direction.

### **Protection against imports**

The rates of import duty on meat/milk/butter/cheese/butter milk fat are:

- 1995-96: 25/5/55/55/5 per cent;
- 1997-98: 25/5/55/55/5 per cent;
- 1999-2000: 25/10/50/50/5 per cent;
- 2001: 25/10/50/50/5 per cent.

The importation of processed meats is prohibited.

### **Product-specific performance indicators**

#### *Revealed Comparative Advantage*



## **Meat (SITC 011)**

- RCA1: 0.026;
- RCA2: 1.0;
- RCA3: 0.001.

The low RCA1 figure indicates that Nigeria's exports of meat are small relative to the importance of its other exports in world markets. The positive RCA2 figure of 1 indicates that Nigeria does not import (according to the trade statistics). This is indicated by RCA3 too, which also shows that net exports of meat have a much lesser importance in Nigerian trade than in world trade in general.

### **2.3.1 Poultry products**

#### **Introduction**

This subsector is covered by one ISIC 4-digit industry:

- ISIC 3111 Slaughtering, preparing and preserving meat.

The industry has scope for import substitution and for regional exports:

#### **Market prospects**

There has been a substantial increase in world exports of poultry products during the 1990s, fuelled by rising demand. Some countries, notably Brazil and Thailand, have succeeded in developing poultry exports. For Nigeria, the ECOWAS market holds prospects for increased sales. The situation is complicated by the existence of informal trade, for example in imports of poultry into Nigeria.

#### **Other aspects of the external environment**

The reduction in EU subsidised export sales following the Uruguay Round agreement is a factor tending to reduce world poultry supply.

#### **Market structure and its influence on global competitiveness**

The structure of agricultural support in large producers such as the EU and the USA influences their production costs, since these affect the cost of the raw materials for feedstuffs.

## **Determinants of price competitiveness**

Feed costs and availability are important aspects of the cost effectiveness of poultry production.

## **Determinants of non-price competitiveness**

Efficient transport and storage facilities would help Nigerian regional exports of eggs, parent stocks and day-old chicks in the ECOWAS region.

## **Constraints on the subsector's expansion**

The 1986 ban on maize and other grain imports led to a shortage of feedstocks and placed severe constraints on the formal sector producing "exotic" poultry. It is estimated that two-thirds of the installed feed milling capacity was closed between 1988 and 1994, while poultry meat and egg production dropped by about 55 per cent over the same period. A recovery of poultry production followed the removal of the import bans on day-old chicks, vitamin, antibiotics and some other inputs in 1995.<sup>59</sup>

## **Firm-level issues affecting global competitiveness**

*Managerial capabilities, capital stock and technical competence:* the industry includes both household poultry and "exotic" poultry. Rearing and processing of the latter is a large-scale, capital intensive activity. There is only the capability in Nigeria at present to engage in the primary processing of poultry, that is slaughtering, defeathering, freezing (for preservation) of whole chickens or chicken parts. There is no other commercial processing. For example, Nigeria lacks the technology for the processing of egg into egg powder.

*Avenues of enhancing firm-level competitiveness:* Increased availability of feedstuffs obviously would improve competitiveness in the formal sector, as would further development of large-scale poultry production.

## **Protection against imports**

The importation of live or dead poultry (except day-old chicks), and of eggs, is prohibited. However, there are said to be substantial unofficial imports of poultry.

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<sup>59</sup> Central Bank of Nigeria, *Annual Report 1995*, p. 85.

## Product-specific performance indicators

### *Revealed Comparative Advantage*

#### Eggs (SITC 025)

- RCA1: 0
- RCA2: -1
- RCA3: -0.203

The zero RCA1 figure indicates that Nigeria's does not export eggs. The RCA2 figure of -1 shows Nigeria is solely an importer (despite the import ban). This is indicated by RCA3 too, which also shows that net imports of eggs have a lesser importance in Nigerian trade than in world trade in general.

#### Poultry

This is covered under meat, SITC 011. See our subsection 2.3.1 (vii) on livestock. Note that these figures, of course, exclude unofficial trade.

### 2.3.1 Beverages

#### Introduction

This subsector covers four ISIC 4-digit industries:

- ISIC 3131 Distilling, rectifying and blending spirits
- ISIC 3132 Wine industries
- ISIC 3133 Malt liquors and malt<sup>60</sup>
- ISIC 3134 Soft drinks and carbonated waters<sup>61</sup>

The subsector principally serves the domestic market, although there were minor exports totalling \$140,000 of alcoholic beverages (SITC 112) in 1995, against imports of \$2.2 million; trade in non-alcoholic beverages (SITC 111) was minimal.<sup>62</sup> The subsector's substitution of imports of malted barley in favour of domestic

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<sup>60</sup> Beer and stout are included under ISIC 3133. See UNIDO, *Industry and Development Global Report 1989-90*, pp. 312-8 on the world brewing industry. Our account of the international aspects of the brewing industry draws on this source.

<sup>61</sup> However, much of ISIC 3134 is not agro-related.

<sup>62</sup> FOS, *Nigeria Trade Summary*, December 1995.

sorghum malt is one of Nigeria's best known examples of saving foreign exchange. There may be longer-term prospects of supplying beverages, particularly beer, to surrounding countries. At present, the brewing industry has high costs due to under utilisation of capacity. Some less developed countries have succeeded in exporting their beers to OECD countries, where they fit into niche markets for specialised brands. They include China, India and Singapore. The Phillippines has developed beer as a major export.

### **Market prospects**

The domestic market, on which the industry currently depends, has been badly hit by loss of consumer purchasing power. Nigeria in the late 1980s was Africa's second largest producer of beer after South Africa.<sup>63</sup> Domestic beer consumption has halved over the period since the import ban on barley malt. World market demand, according to UNIDO's study of the world brewing industry, has probably reached a limit,<sup>64</sup> at least in OECD countries, though in developing countries there are possibilities for expansion. Although there is a potential market in neighbouring countries, there is already substantial productive capacity in brewing in Ghana, Cameroon and Cote d'Ivoire. Benin, Senegal and Niger also have domestic brewing industries.

### **Other aspects of the external environment**

Competition from South Africa, Africa's largest producer of beer, is likely to intensify in potential export markets as South African products become more acceptable following the end of apartheid.

### **Market structure and its influence on global competitiveness**

The world brewing industry has been undergoing a process of globalisation and concentration. By the late 1980s the top twenty brewers were accounting for half of world production, and the top forty brewers accounted for two-thirds of world production. Brand competition is fierce in the international market and new producers would have difficulty in establishing themselves.

Within Nigeria, the brewing industry has seen moves towards greater vertical integration. The 1988 ban on imported barley malt forced the industry to integrate backwards into agriculture in search of local grain supplies. This has increased its

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<sup>63</sup> UNIDO, *Industry and Development Global Report 1989-90*, p. 318.

<sup>64</sup> *Industry and Development Global Report 1989-90*, p. 316.

security of supply in conditions where supplies of raw materials in the past were threatened by periodic foreign exchange shortages.

### **Determinants of price competitiveness**

Transport is an important element in the costs of export beer, since beer is heavy and bulky in relation to its value, and limits export possibilities to more distant locations. Nigeria's low capacity utilisation (around 50 per cent in brewing) raises costs and makes it more difficult to *start* exporting. Nevertheless, if exporting could be encouraged, it would help to circumvent the subsector's problems caused by a lack of domestic demand.

### **Determinants of non-price competitiveness**

Brand names are important in the brewing industry, and Nigerian brands have yet to be established in the international market.

### **Constraints on the subsector's expansion**

The main constraints on the expansion of production of beer, stout and malt drinks include difficulties in obtaining the foreign exchange to meet the continued dependence on foreign inputs, and the lack of consumer demand due to low purchasing power.

Since sorghum is now a major input, the constraints on sorghum (and to some extent maize) growing also act to constrain the production of alcoholic beverages. These include problems of lack of disease resistance, inadequate drying, storage and preservation facilities, inadequate irrigation, and lack of adequate local processing.

### **Firm-level issues affecting global competitiveness**

*Managerial capabilities, capital stock and technical competence:* In both alcoholic and non-alcoholic cereal-based beverages, processing technology in the formal sector is modern, continuous and of large-scale capacity. Process and quality control are standardised and objective. Products are packaged in coloured bottles. Canning technology in Nigeria has not yet been adapted for the packaging of beverages. Equipment remains mostly imported. In the process of adapting to the ban on imported barley malt, technology for processing sorghum malting and for brewing beer based entirely on local grains was developed and adopted. In the informal sector, process technology is traditional and essentially manual except for

milling of the grains, which has become mechanised in both the urban and at least some of the rural informal sector. In most cases the beverages are served from containers such as earthenware pots, which is a constraint on regional or overseas marketing. Other shortcomings include a low level of hygiene, low output, and differences in product quality per batch because of the lack of process and quality control.

*Avenues of enhancing firm-level competitiveness:* Improved packaging, particularly canning, would enhance competitiveness.

### **Protection against imports**

Beer and stout imports are banned, and there has been a ban on imports of malted barley since 1988.

### **Product-specific performance indicators**

#### *Revealed Comparative Advantage*

For alcoholic beverages (SITC 112):

- RCA1: 0.092
- RCA2: -0.880
- RCA3: -0.045

The low RCA1 figure indicates that Nigeria's world export share in this product is very small relative to its total non-oil export share. The high and negative RCA2 indicates that Nigeria mainly is an importer. This is indicated by RCA3 too, which also shows that net imports of alcoholic beverages have a lesser importance in Nigerian trade than in world trade in general.

### **2.3.1 Fisheries<sup>65</sup>**

#### **Introduction**

This subsector covers one ISIC 4-digit industry:

- ISIC 3114 Canning, preserving and processing of fish

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<sup>65</sup> This account draws on UNIDO, *Industry and Development Global Report 1993-4*, pp. 143-155 on seafood processing.

Nigeria presently produces less than a quarter of its domestic requirements of fish and the subsector has considerable scope for efficient import substitution. Some West African countries have become exporters of fish to Europe, particularly to France.

Some less developed countries, including some very poor ones, have built new seafood exporting industries, on the basis of improved production techniques.<sup>66</sup> Good examples are the shellfish industries of Bangladesh, Vietnam and Mozambique. Our sectoral survey of fisheries did not identify new developments in this area in Nigeria. However, Nigeria's trade statistics suggest that Nigeria already has made a significant start as an exporter of shellfish. The Central Bank of Nigeria's Annual Report for 1995 indicates that exports of "fish and shrimps" rose from \$14.1 million in 1994 to \$18.8 million in 1995. The FOS *Nigeria Trade Summary* (December 1995) gives export figures for shellfish alone (SITC 036) as \$21.4 million for 1995 (fish exports, SITC 034, for 1995 were negligible - less than \$2,000). The FOS statistics show that these shellfish exports were overwhelmingly of shrimps and prawns. The main destinations were the USA, the Netherlands and Portugal.

### Market prospects

In the world market, the price of fish has been increasing faster than that of other foods as demand growth has outstripped supply growth. This makes it more likely that domestic fish production can be competitive against imports. The level of protection against fish imports is low, and is only likely to rise slightly by the year 2001. Indeed, the *net* effective rate of protection on fish imports may well be negative.

Shellfish had become the Third World's largest single primary commodity export by 1991, but the FAO recorded a shortage of shrimps (the major shellfish export) in the world market in the mid-1990s.<sup>67</sup>

In the domestic market, there has been an increasing demand for fish to supplement animal protein. Fish protein is cheaper than animal protein and is of high nutritional value. Resources in Nigerian waters could support 80 per cent or more of domestic fish demand.

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<sup>66</sup> See B. Coote, *The Trade Trap. Poverty and the Global Commodity Markets*, London: Oxfam, 1992, ch.12, and World Bank, *Global Economic Prospects and the Developing Countries*, 1994, chapter 2.

<sup>67</sup> See FAO, *Commodity Review and Outlook, 1994-95*, p. 158.

## **Other aspects of the external environment**

There are declining populations of fish, and of shellfish, in the world fisheries because of overfishing, and many OECD countries have been rationalising their fishing industries. Many developing countries are expanding their industries on the basis of inland fisheries, and this is an example Nigeria could follow. By the early 1990s developing countries were accounting for some 60 per cent of world fish production, with China becoming the world's largest producer of fish. Of the total world fish catch, 30 per cent is used for fishmeal, and about 12 per cent is canned.<sup>68</sup>

## **Market structure and its influence on global competitiveness**

In western industrial countries a number of large agro-food companies, such as Unilever and Nestle, have moved into fish products. There has been some tendency towards vertical integration by some companies, not only in industrial countries such as Japan, but in developing countries such as Thailand. These companies own fishing, processing and trading activities. Nigeria is unlikely to be affected by these arrangements unless it can attract major food companies to Nigeria to service the domestic market.

## **Determinants of price competitiveness**

Access to rich fishing areas is an important determinant of price competitiveness, and these are usually in the Northern hemisphere. Fishing can be carried out as a labour-intensive artisanal activity, although some African countries, such as Senegal, have developed industrial fishing fleets. The standard and maintenance of vessels, including small craft, is also important.

## **Determinants of non-price competitiveness**

If Nigeria could move to higher value-added products it would improve its competitiveness. Fish canning is one possibility, and it is a labour intensive activity. More generally, the poor quality and high wastage of Nigeria's informal sector fish processing makes products less competitive.

## **Constraints on the subsector's expansion**

The slow rate of increase in domestic fish production is to some extent related to the inadequate implementation of government projects. The location of some fishing

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<sup>68</sup> See FAO, *Commodity Review and Outlook, 1994-95*, p. 157.



terminals, for instance, was made without regard to distance from the sea, accessibility by vessels at all seasons or the potential fish resources in the area. Government involvement in direct fish production has not been successful. The Nigerian National Fishing Company, for example, collapsed immediately after establishment. There have been very large allocations of fishing equipment, vessels and outboard motors to fishermen that did not reflect the pattern of fisheries development necessary to achieve target.

In addition, there are various specific problems affecting production. These include scarcities of marine engine parts, netting materials and gear accessories, and properly trained personnel. There is a lack of access rights to waters of neighbouring coastal states with rich fish resources, and an inadequate supply of sufficiently trained and experienced manpower at all levels. Some subsidies on fishing inputs have been removed. There are problems for the profitability of the industry arising from the dishonest practices of some crews who illegally sell part of their catches at sea.

There is a history of inadequate provision of credit to the small-scale fishing sector. The commercial and merchant banks lend only to the industrial fishing sector, while the Agriculture Credit Guarantee Scheme Fund granted only about 2 per cent of all its loans in the agricultural sector to fisheries over the period 1972-1985. Naira input prices of items such as nets, floats, outboard motors and canoes have risen considerably. There is considerable poaching by unregistered vessels in Nigerian waters.

Inadequate processing and preservation facilities, coupled with seasonal gluts and poor road access to the large population centres, have led to great losses of fish.

According to the 1995 Annual Report of the Central Bank of Nigeria, fish production increased by 10 per cent. However, the report (p. 85) noted that industrial (trawling) coastal fish/shrimp production had declined by about a half that year. This is surprising in view of the fact that the trade statistics suggest that exports of shrimps and prawns have been increasing.

### **Firm-level issues affecting global competitiveness**

*Managerial capabilities, capital stock and technical competence:* The processing methods generally in use in Nigeria are traditional. Their advantages of low capital intensity are to some extent offset by the poor quality of their products, which have a short shelf life and cannot withstand handling and transportation.

Processing of fish, crayfish, shrimps and other crustaceans is dominated by the micro-enterprises in the informal sector. More information is required on how the processing of products for Nigeria's shrimp and prawn exports is conducted.

*Avenues of enhancing firm-level competitiveness:* Rectifying some of the sectoral constraints listed above clearly would enhance competitiveness at the firm level. Another avenue would be the development of human capital. For example higher levels of education and training among fish processors, who are often women, would help to upgrade processes and improve the quality of products. Like other developing countries, Nigeria could increase its fish output if its small boat fleet had better repair and maintenance, better access to credit, and if fish losses during carriage could be reduced.

### **Protection against imports**

The import duties on fish are:

- 1995-96: 5 per cent;
- 1997-98: 5 per cent;
- 1999-2000: 10 per cent;
- 2001: 10 per cent;

Since the overvaluation of the naira caused by general tariff protection on imports will cause the *net* ERP to be less than the apparent ERP on any activity (see section 2.2), it is possible that the net ERP in fishing is negative. In any case, it is the level of ERP *relative to other activities*, not its absolute level, which determines whether resources are drawn into an activity, and the tariffs on fish are low relative to those on many other imports.

### **Product-specific performance indicators**

#### *Revealed Comparative Advantage*

#### **Fish and shellfish (SITC 034-037)**

- RCA1: 5.257
- RCA2: -0.671
- RCA3: -0.590

The positive RCA1 figure results from Nigeria's exports of shellfish, which are large in terms of Nigeria's world market share compared to its total non-oil world market share. The negative RCA2 indicates that Nigeria, nevertheless, is a large net

importer of fish. The negative value of RCA3 again indicates that Nigeria is a net importer of fish, and the absolute value indicates the relatively low value of net fish imports in Nigeria's trade in relation to the importance of fish in world trade.

## 3.2 Textiles and clothing

### Introduction

The textiles and clothing subsector covers seven ISIC 4-digit industries:

- ISIC 3211 Spinning, weaving and finishing textiles;
- ISIC 3212 Made-up textile goods, excluding wearing apparel;
- ISIC 3213 Knitting mills;
- ISIC 3214 Carpets and rugs;
- ISIC 3215 Cordage, rope and twine;
- ISIC 3219 Other textiles;
- ISIC 3220 Wearing apparel.

The discussion here mainly focuses on ISIC3211 and ISIC3220, which are of particular importance to potential exports and on which information is most readily available. The production of cotton is also discussed.

As a cotton-producing, low-wage country, Nigeria could in principle become a larger exporter of cotton-based textiles and garments. China and India are examples to follow; they both are major producers of cotton and their textile industries initially were based on a large domestic market. Twenty years ago, before the start of its economic reforms, China was in a similar position to Nigeria, in the sense that it exported textiles but not garments. Now China is the world's largest exporter of garments. However, Nigeria will need to overcome various problems in domestic cotton supply.

Nigeria is at present a small exporter of textiles, and an even smaller exporter of clothing. 1994 imports of both were about ten times the value of exports. However, these figures refer to official trade. Compared to official exports of around \$12 million in 1993,<sup>69</sup> one source estimates total 1993 official and unofficial exports at \$130 million, equivalent to 20-30 per cent of the total output of the subsector. This makes the industry as large an export earner as leather or natural rubber, the two most important non-oil exports after cocoa. Most exports are in the form of fabrics rather than garments, and are sold mostly to the surrounding countries of the

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<sup>69</sup>Figure from UNIDO *Industrial Development Reviews Information Base*.

ECOWAS region. These exports have been harmed by the 100 per cent devaluation of the CFA franc in early 1994.

### Market prospects

Apart from a slowdown in 1993, when the value of world exports of both textiles and garments fell, trade in textiles and garments has been increasing rapidly in the 1990s.<sup>70</sup> However, market prospects for new potential exporter like Nigeria on international markets depends more on the force of competition from established producers than on the overall market growth. This is because major exporters have been restrained by the quota restrictions of the Multifibre Arrangement. The implications of the phase out of the MFA are examined below.

The present apparently high level of informal exports to surrounding countries suggests the ECOWAS region holds good market prospects. In 1991, the latest year for which destination-of-exports figures are available for Nigeria, over 85 per cent of woven cotton textile fabrics and articles were sold to developing countries. However, 100 per cent of clothing exports were sent to developed market economies, mostly to the EU,<sup>71</sup> suggesting possibility that the exports were arranged by quota-hopping foreign investors.

### Other aspects of the external environment

Nigeria at present appears to depend mainly on the ECOWAS market for its (mainly unofficial) textile and clothing sales. An expansion of exports of either textiles or clothing to the international market will depend on how Nigeria is affected by the MFA phase out. As an ACP country, Nigeria is formally exempt from the MFA<sup>72</sup> and has access to the European Union's market under Lome IV. The expansion of other countries' MFA quotas will increase their competitive power, although an average tariff of 12.1 per cent remains on imports into developed countries after the Uruguay Round.<sup>73</sup>

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<sup>70</sup> See World Trade Organisation, *International Trade Trends and Statistics*, 1995.

<sup>71</sup> See UNIDO, *A Statistical Overview of Economic and Industrial Performance for Nigeria*, March 1997.

<sup>72</sup> See S. Page and M. Davenport, *World Trade Reform: Do Developing Countries Gain or Lose?*, London: Overseas Development Institute, 1994, p. 51. Page and Davenport note that ACP countries have nevertheless been subject to various voluntary restraints and surveillance.

<sup>73</sup> See S. Page and M. Davenport, 1994, p. 42.

## **Market structure and its influence on global competitiveness**

It is not necessarily a sign of failure for a country to be exporting textiles rather than garments incorporating those textiles. For vertically integrated companies, the decision whether to export textiles or to use them in garments depends on world textile prices in relation to domestic production costs and domestic prices. The export of fabrics as well as garments allows the use of a wider range of quotas. Companies could make both textiles and garments intending to export each separately. Using local fabrics in export garments would not raise export earnings if the fabrics are diverted from being directly exported, except to the extent that fabrics incorporated into export garment production raise garment value added by more than the price the fabrics themselves would fetch on the export market.

For Nigeria, the higher labour intensity of garments offers greater scope than textiles to make use of Nigeria's low wage costs (see price competitiveness subsection). However, although exports within the region could be expanded on the present unofficial basis, entry into international markets would need the activities of foreign investors. This has been the method of garment export development in a number of low income countries, such as Indonesia.

### **Determinants of price competitiveness**

Price competitiveness in the subsector, particularly in the case of garments, is to a significant extent determined by labour costs. Research by the World Bank on Africa's potential competitiveness in garment production suggests that unit labour costs in Nigeria (that is, wages deflated by task level labour productivity), expressed in terms of US dollars at the current exchange rate, were highly competitive with actual and potential competitors. Nigerian wage costs in 1996 were about half to three-quarters of those in Chinese Special Economic Zones, probably less than those of India, and no more than those in Kenya or Zimbabwe.<sup>74</sup> Our study of the textiles and garments subsector indicates that for a medium sized garment company in Nigeria, wages are 65 per cent of total costs and 32 per cent of the value of output. For a larger garment company in Nigeria, wages are 47 per cent of total costs and 35 per cent of the value of output.

### **Determinants of non-price competitiveness**

Besides the usual requirements for effective quality control and world class design for the international market, export garment production is characterised by frequent

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<sup>74</sup> See World Bank, *Nigeria: Prospects for Development*, draft, October 1996, p. 108.

style and raw material changes. Short production runs increasingly have become a feature of the world garment production industry, and in western countries this development has brought about closer cooperation between garment makers and textile manufacturers. Short runs are more a feature of upmarket garments, but in recent years have seen moves to smaller, variegated orders even in the middle ranges. These features of export production require flexibility on the part of exporting enterprises, and good communications between them and their customers and suppliers.

### **Constraints on the subsector's expansion**

#### *Supply of cotton*

There have been serious problems both in cotton supply and in the quality of the cotton, which will need to be solved if Nigeria is to expand its textile exports without increasing its import bill. In 1989 only 30 per cent of textile mills' cotton requirements could be sourced locally, and several large textile mills integrated backwards into cotton growing in an attempt to ensure a secure supply. By the early 1990s over 40 per cent was being sourced locally.<sup>75</sup> Some imports will continue to be necessary. Nigeria's cotton at present is all short staple. This cotton is not suitable for the production of high quality fabrics. It needs blending with about 25 per cent of medium and long staple cotton, which has to be obtained from nearby countries such as Chad, Benin and Cameroon.

Quality problems with cotton production include:

- poor ginnery maintenance, so many seeds are left in the cotton lint;
- poor packaging of cotton lint, which has led to fibre damage and contamination.

In the past, cotton was packaged from the harvesting stage to the textile mill in jute bags. The switch to polypropylene bags, made from locally produced PP, means PP cuts from the bags mixes with the cotton lint. This causes frequent machine stoppages in spinning, and uneven dyeing at the finishing stage. The possibility exists to solve this problem by switching to bags made from kenaf, which has similar properties to jute. Kenaf grows well in Nigeria, and its cultivation could be developed.<sup>76</sup>

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<sup>75</sup> See ADCG, *The Nigerian Textile Industry*, Lagos, June 1994, p. 38.

<sup>76</sup> Kenaf also can be used to blend with jute for carpet backing.

Nigeria is still one of the world's top twenty cotton producers, though output is less than 1 per cent of the world total. There were improved harvests of cotton in Nigeria in the mid-1990s. There was a bumper cotton harvest in 1995-96, when total output rose to some 100,000 tons compared to 65,000 in the previous season. This increase followed a rise of 12 per cent in the cultivated area and the shifting of farmers into cotton from other crops following high returns in 1994. The liberalisation of the exchange rate in 1995 increased naira costs of imported cotton and reduced informal imports from the ECOWAS region. The consequent rises in the producer price of cotton beyond the rate of inflation give strong incentives for domestic producers to increase supply.<sup>77</sup>

### *Supply of dyestuffs, auxiliaries and chemicals*

Many mills have to keep large stocks of these to remain in production, given the foreign exchange problems of obtaining them from abroad. Such chemicals deteriorate easily in Nigeria's hot, humid climate. There is an urgent need for domestic production of dyestuffs by the petrochemical industry.

### *Supply of synthetic fibres*

Development of the petrochemical industry also could provide the primary chemicals for polyester, which are ethylene glycol and terephthalic acid. At present there is only one plant for manufacturing polyester fibre in Nigeria, and it is based on imported chips. The development of petrochemical production in Nigeria would provide the basis for a modern artificial fibres industry, particularly polyester, which is an ideal blend component for upgrading lower quality cottons.

### *Supply of silk*

China has shown that silk and silk garments and articles can be developed as successful export products. Nigeria had a long tradition of wild silk sericulture, but this type of silk has virtually ceased to exist because of human penetration into the savannah vegetation areas where the silk moths thrived. Experimental work in Nigeria already indicates that mulberry silk sericulture can be developed. Technical

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<sup>77</sup> Rough calculations based on Central Bank of Nigeria figures for 1993-5 inflation rates and 1992-95 producer prices for major commodities suggest that 1992-95 cotton prices rose at double the rate of domestic inflation, whereas cocoa producer prices rose approximately 50 per cent more than inflation and natural rubber prices just kept up with inflation. However, producer prices for cotton fell in nominal terms, and even more in real terms, between 1994 and 1995.

assistance from experienced silk-producing countries could be used to assist in establishing silk production as a potential export earner.

### *Infrastructure*

The textile subsector is a very heavy consumer of water and electricity in its operations. For large firms, the cost of digging boreholes and installing electricity generators eats into profits. For small firms making garments, erratic electricity supply is a particular problem. Though most have sewing machines which will operate either on electricity or manually, the quality of the garment sewn by manual operation is inferior to that sewn using electric power. Poor telecommunications make difficult contact between producers and consumers, and between producers and suppliers. This is a significant problem in the garments industry where contact with customers needs to be frequent.

### **Firm-level issues affecting global competitiveness**

*Managerial capabilities, capital stock and technical competence:* There has been a process of concentration in the textiles industry which has left a small number of groups dominant. Some 70 per cent of spinning capacity, and 60 per cent of weaving and knitting capacity is foreign-owned,<sup>78</sup> although there is reported to have been some divestment following the political crisis of 1993. Many of these enterprises are linked to international groups, and bring with them some expatriate management and supervision. The two largest groups are Indian and ethnic Chinese.<sup>79</sup> Management probably also has been improved by the privatisation by the federal and state governments of state-owned enterprises in the subsector in the late 1980s and early 1990s. UNIDO reported in its 1988 *Industrial Development Review for Nigeria* (p.44) that modernisation of spinning capacity lagged behind technological improvements in the weaving mills. It is not clear whether this gap has yet been closed.

### **Principal firm-level constraints**

*Capacity utilisation:* The largest firms in the subsector had close to 80 per cent capacity utilisation in 1992, but the 1993 political crisis led to numerous strikes and work closures. These problems, combined with a credit squeeze, shortages of foreign exchange and falling purchasing power of domestic consumers, led to sharp falls in

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<sup>78</sup> See ADCG, *The Nigerian Textile Industry*, Lagos, June 1994, p. 18.

<sup>79</sup> The ethnic Chinese presumably are mainly from Hong Kong and Taiwan Province of China. They are less likely to be from mainland China.



capacity utilisation with consequent increases in cost.<sup>80</sup> Virtually all machine spares need to be imported, and this reduces capacity utilisation at times of foreign exchange shortage. Overall capacity utilisation in the textile sector was reported as 31 per cent in 1995.<sup>81</sup>

### Avenues of enhancing firm-level competitiveness

We identify here one particular aspect here, which is the access to imported inputs at free trade prices. This is known to be of crucial importance for efficient exporting in the subsector in other countries, particularly for exports of clothing. It is relevant in the Nigerian case because fabric imports are now subject to a 45 per cent import duty. Nigeria already has introduced several schemes to give such access. They include the development of the first export processing zone, (the Calabar EPZ), a duty drawback scheme and a manufacturing-in-bond scheme. However, these do not appear to be extensively used, nor are they working well.<sup>82</sup>

If an export-oriented garments industry is to be developed in the future to serve the international market, it will almost certainly need to be based on foreign investment. In the long run, foreign investment in export garment production has the potential to transfer technology and skills to Nigerian entrepreneurs and workers through joint venture agreements, labour movement between firms, and so on. Efficient access for exporters to imported fabrics at world prices would be a crucial incentive in attracting such investment. Although the use of cotton fabrics produced by the domestic textile industry is a desirable long-term aim, easy access for exporters to imported fabrics would free them from the constraints of domestic textile production and give access to the world quality fabrics which may be necessary to produce export quality garments. It is not unusual for countries important in the world garment trade to export large quantities of fabrics as well as garments, and to import large quantities of fabrics for use in export-oriented garment production.

However, Nigeria now has a realistic market-determined exchange rate, and its garment industry is potentially world-competitive on labour costs. It has already attracted Asian investors to its textile industry. If the investment climate is gradually improved as general economic reforms take hold, the development of export garment

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<sup>80</sup> See ADCG, *The Nigerian Textile Industry*, Lagos, June 1994, p. 37.

<sup>81</sup> See US Embassy, *Nigeria Agricultural Situation Report*, Lagos, 1996, p. 5 (macroeconomic indicators).

<sup>82</sup> According to the latest *Annual Report* of the Central Bank of Nigeria (December 1995, published April 1996), 19 companies used the Duty Drawback Scheme, compared to 8 in the preceding year. Six companies used the Manufacturing-in-Bond scheme, compared to 4 the previous year (p. 140).

production would be greatly enhanced by the wide availability and efficient, (and corruption-free) operation of import duty drawbacks and exemptions for exporters on their imported inputs. While the opportunities for (MFA) quota-hopping inward investment will be removed after 2005, Nigeria's low labour costs will remain an attraction.

Indonesian experience is instructive for Nigeria, since both countries are large oil exporters. Indonesia introduced a major economic reform programme and moved to the promotion of (non-oil) exports in the early 1980s following the collapse in world oil prices. Textiles and garments have been the largest foreign exchange earners of Indonesia's manufacturing export boom. These two industries had developed up to the 1970s on the basis of import substitution. They began to export significant amounts in the early 1980s, reaching \$1 billion for the first time in 1987. Over the five years 1988-1992, textile and garment exports rose at an annual compound rate of 33 per cent measured in constant dollars, with textiles growing marginally faster than garments. The speed of expansion in the early 1990s is understated by the gross export figures; Indonesia imports and exports textiles. From 1990 to 1992 the ratio of imports to exports of textiles fell from nearly two thirds to just over one third; so while gross exports of textiles and garments doubled, net exports almost tripled. Three key features of this success were the attraction of foreign investors from Asian "NICs", a realistic real exchange rate, and the provision of a fast and efficient system of import duty drawbacks and exemptions for garment exporters. Of course, the fourth key factor, Indonesia's initially underutilised MFA export quotas, will not be a factor for new exporting countries in the next century.

### **Protection against imports**

The long standing ban on imports of textiles was replaced in the 1997 budget by a uniform import duty of 45 per cent on textiles, fabrics and articles. At the same time, the excise duty imposed on textiles in Nigeria was removed from 1 January 1997. However, items removed from the banned import list do not qualify for the 25 per cent duty rebate accorded to other imports. Second-hand clothing remained on the list of banned products.

An estimate of effective protection in the recent past, before both the 1995 and the current tariff changes is given by the study of protection in Nigeria by the Enterprise Consulting Group. They estimated the ERP on garments as 121 per cent in 1993 (compared to a nominal rate of protection of 90 per cent).<sup>83</sup>

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<sup>83</sup> *Review of Nigeria's Tariff and Trade Policies, 1988-2001*, Lagos, 1994, p. 54.

## Product-Specific Performance Indicators

### *Revealed Comparative Advantage*

#### Textiles (official exports)

- RCA1: 0.36
- RCA2: -0.84
- RCA3: -0.47

#### Clothing (official exports)

- RCA1: 0.07
- RCA2: -0.80
- RCA3: -0.7

#### Textiles and Clothing (official and unofficial)

- RCA1: 1.775
- RCA2: not available (no unofficial import figures available)
- RCA3: not available (no unofficial import figures available)

On the basis of estimates of official and unofficial exports of textiles and clothing, the RCA1 indicator for Nigeria shows that Nigeria's market share of world textile and clothing exports is larger than Nigeria's share of total world non-oil exports. The negative RCA2 and 3 figures for textiles and clothing indicate Nigeria is a net importer of those products in terms of official trade. The negative RCA3 figures show that the share of textiles and clothing, respectively, in Nigeria's non-oil exports is smaller than the share of those products in total world trade. No RCA 2 or RCA3 figures could be estimated for unofficial trade, since no estimates of unofficial imports were available.

### 3.3 Rubber products

#### Introduction

The rubber products subsector in Nigeria covers two ISIC 4-digit industries

- ISIC 3551: Tyres and tubes
- ISIC 3559: Other rubber products

Nigerian natural rubber (*NR*) production is also discussed here. However, the potential for synthetic rubber (*SR*) as part of Nigeria's petrochemical production is not discussed in any detail, since it is not agro-related.

The market for a variety of specialised rubber products, such as rubber gloves and hygienic rubber goods, has been growing rapidly in OECD countries, though export prospects for tyres are less promising except to neighbouring countries. Nigeria has made a start in this direction. Two large multinationals, Dunlop and Michelin, produce tyres in Nigeria, and some local firms produce cycle and motorcycle tyres and tubes. There is a wide range of small firms producing non-tyre products.

Apart from natural rubber, almost all intermediate inputs into rubber products are imported. Development of the upstream minerals sector (to provide fillers for instance) and of the petrochemical industry offers the possibility for greater import substitution in the future. These industries at present are in an embryonic state, however.

NR is the subsector's major upstream activity and Nigeria's third most important non-oil export product after cocoa and leather. Nigeria is the world's seventh largest producer of NR, though its production is less than a tenth of that of the largest producers, Thailand and Indonesia. It accounts for about 2 per cent of world output and of world exports.<sup>84</sup> There is considerable potential for expanding NR exports by increases in planted area, and by improvements in yield and output quality. NR production is a highly labour intensive activity, not only in relation to manufacturing but also in relation to other tree crops such as palm oil. NR thus offers great scope for employment creation. In contrast, world tyre production is a highly capital intensive activity, and the general trend for companies wishing to be internationally competitive is towards greater automation.

## Market prospects

### *Demand for tyres and other rubber products*

According to a report by the International Trade Centre,<sup>85</sup> OECD countries' imports of rubber products from less developed countries rose by a total of 41 per cent over the period 1989 to 1992, compared to a rise in total OECD imports of rubber

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<sup>84</sup> See UNCTAD *Commodities Yearbook 1995*.

<sup>85</sup> *Rubber Products: An Overview of Major Markets and Opportunities for Developing Countries*, UNCTAD/GATT, 1995.

products of 28 per cent. Particularly rapidly growing were imports from a group of NR-producing LDCs, which increased by 65 per cent. The rubber producers in question (in order of the value of their 1992 rubber product exports to OECD) were Malaysia, Thailand, Brazil, Mexico, China, India, Sri Lanka, Indonesia and the Philippines. Two product groups dominated these countries' OECD exports: rubber gloves (SITC 848.22) were almost half of the 1992 total, and tyres and tubes were 30 per cent. Within the category of tyres and tubes, motorcycle tyres and tubes (SITC 625.4) and solid or cushion tyres (SITC 625.94) grew especially fast. Other rapidly growing items were pharmaceutical items in general (SITC 629.1) and sheath contraceptives (SITC 692.11) in particular, and vulcanised plates, sheets, rubber thread and cords (SITC 621.3). The markets for rubber gloves and contraceptives have both been expanded as a result of the fear of AIDS.

Although import demand for some categories of tyres and tubes has been increasing in the OECD countries, the prospects for Nigeria becoming an exporter of tyres to industrial countries appear less favourable than for less sophisticated items such as rubber gloves. Tyre production is most often located near to markets. Nor does the possession of cheap labour greatly attract tyre inward investment. Tyre production in industrial countries has been increasing in capital intensity with the use of automated methods.<sup>66</sup> However, there are emerging some new small-scale tyre production technologies.

Nevertheless, as noted above, a number of NR producers in Asia and elsewhere have become exporters of rubber products including tyres. Malaysia and other major NR producers point the way to what can be achieved in the export of rubber products, although they also constitute formidable rivals to potential new entrants such as Nigeria. The Malaysian rubber products industry has been aided by the export taxation imposed on NR exports, which reduces the supply of NR to domestic industrial consumers. Malaysia, which until 1990 was the world's largest producer of NR, targeted NR-based industrialisation for high priority under its Industrial Master Plan.<sup>67</sup> Nigeria may wish to examine the sources and critical factors behind the successful export performance and domestic rubber products development in Malaysia and other NR-producing rubber product exporting countries.

Nigerian official exports of rubber products at present appear to be minimal. 1995 recorded exports consisted of tubes, rubber clothing accessories and footwear worth

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<sup>66</sup> UNIDO, *Industry and Development Global Report 1991-92*, pp. 212-229.

<sup>67</sup> See *Profile: Malaysia's Primary Commodities*, Ministry of Primary Industries, Malaysia, 1990, >*Natural Rubber*= pp. 36-63.

about 0.1 per cent of total non-oil exports.<sup>88</sup> Of the large international companies, Michelin and Dunlop operate in Nigeria. Dunlop also has control of between 10-15 per cent share of various non-tyre products market. These products include shoe soles, foot mats, flooring and adhesive products. In tyres, Dunlop and Michelin between them produce around 30,000 tonnes representing more than 50 per cent of the total demand. The balance of demand is met through imports from several European and East Asian countries. Paradoxically, much the same items are also exported by producers to earn foreign exchange. Dunlop is recorded in our survey as exporting about 2.5 per cent of its tyres, 5 per cent of its floor tiles of various kinds and 80 per cent of its full range of retread materials.

In our survey, a number of the other firms sampled said they engaged in direct export of between 10 to 30 per cent of their products while some indicated that significant "indirect" export of their products takes place. "Indirect" may mean both "informal" or re-sale particularly within the ECOWAS region. The most recent destination-of-exports figures available from UN sources for Nigeria, which are for 1991, show that 74 per cent of Nigeria's exports of rubber products went to other developing countries, most likely ones in the West African region.<sup>89</sup>

### **Demand for natural rubber**

Nigerian NR is the largest single input into domestic rubber products production. For most rubber products manufacturers surveyed, NR constitutes a significant proportion of input cost. Firms indicated that between 45-50 per cent of production cost goes to raw materials, with about 20-25 per cent on rubber. NR production also offers major opportunities for increased export earnings, and for employment creation. In 1993, according to the latest UNCTAD *Commodities Yearbook* (1995) statistics, 75 per cent of Nigerian NR production was exported.

Industry experts have identified great potential for expanded output of NR in Nigeria. At present only about 250,000 hectares are planted with rubber out of a possible eight million hectares in the coastal areas which are suitable. Michelin claims to have achieved the highest output per hectare in the world (2.5 tons) on its Nigerian plantations.<sup>90</sup>

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<sup>88</sup> FOS, *Nigeria Trade Summary*, December 1995.

<sup>89</sup> From UNIDO, *A Statistical Review of Economic and Industrial Performance for Nigeria*, March 1997.

<sup>90</sup> See Alistair Campbell, *Natural Rubber: A Nigerian Challenge*, in *Report on the Second Nigerian Economic Summit*, May 1995.

As illustrated by the OECD import statistics mentioned earlier, investment opportunities exist for new exporters in a wide range of non-transport products such as:

- industrial goods, including different types of moulded and extruded products, elevator and transmission belts, hoses and tyres, industrial linings, and various bearings;
- consumer goods such as footwear, toys, sports and recreational goods;
- latex goods such as adhesives and moulded foams, condoms, gloves, and rubber threads.

This non-transport rubber market is highly segmented and heterogenous, however, so firms will have to target specific export markets.

### **Other aspects of the external environment**

The recent GATT/WTO Uruguay Round trade negotiations have improved market access for rubber products imported on an MFN basis. The pre-Uruguay weighted average percentage tariffs in industrial countries were 0.1/5.5/5.1 for raw/semi-manufactured/finished rubber products, respectively. Post Uruguay these figures have fallen to 0/3.3/3.6. Thus there has been a reduction in tariffs at each stage of production and also a reduction in the degree of tariff escalation. The reduction in escalation has the effect of reducing the effective rate of protection on semi and manufactured rubber products (that is, the protection on value-added production in the industrial countries). However, post-Uruguay, about 10 per cent of trade in rubber manufactures remains subject to some degree of quantitative restriction. A potentially adverse effect of these MFN tariff reductions is the erosion of the market access privileges into industrial countries, relative to non-LDC competitors, Nigeria receives under the GSP and, relative both to non-LDC and non-ACP competitors, under the (fourth) Lome Convention of the EU.

The market for natural rubber has been subject to the influence of the International Rubber Agreement, but the agreement has had little effect on prices.<sup>91</sup>

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<sup>91</sup>See C. Gilbert, *International commodity agreements: an obituary notice*, *World Development*, January 1996.

## **Market structure and its influence on global competitiveness**

The global tyre industry is highly oligopolistic. A process of concentration in the 1980s left international tyre production dominated by three major companies (Goodyear in the USA, Michelin in Europe and Bridgestone in Japan). These three, together with another three smaller companies (Sumitomo, who took over Dunlop's manufacturing facilities after its collapse in 1983, Pirelli and Continental) accounted for three-quarters of world tyre sales. As a result of this structure, the international location of tyre production depends principally on the sourcing decisions of the major companies. Michelin and Dunlop both are represented in Nigeria, but it seems likely that their tyre production is predominantly to serve the Nigerian large domestic market. It is difficult at this stage of Nigeria's development to see it becoming a significant exporter of tyres to the international market, though there may be scope for increasing exports within ECOWAS.

As noted above, the non-transport rubber products market is highly segmented. Much of it depends on inter-industry demand rather than final consumer demand, though there are major exceptions such as rubber gloves and contraceptives.

## **Determinants of price competitiveness**

The possession of natural rubber does not in itself give a compelling competitive advantage, especially in tyres. According to a study published by UNIDO and referring to US costs in the late 1980s, NR was 9.8 per cent of the cost of a truck tyre (SR was 3.9 per cent), and NR and SR were each 4.8 per cent of the cost of a car tyre. The same study estimated that labour constituted 28.5 per cent of total truck tyre costs and 25 per cent of car tyre costs, and that capital costs were about a third of total costs in both cases. The importance of SR, particularly car tyre production, suggests that Nigeria's comparative advantage in tyres would be improved by the efficient local production of SR by the country's petrochemical industry.

Nigeria's low labour costs are likely to give a more pronounced competitive advantage in other rubber products than in tyres. Statistics for 1985 (*sic*), published in FOS, *Annual Abstract of Statistics*, 1996, show labour costs to have been 9.7 per cent of the output value in tyre production and 35.8 per cent in other rubber products. In tyres, labour costs were only 18 per cent of value added, but 41 per cent in other rubber products. Internationally, labour costs have been kept low in major LDC producing countries, although the share in a particular country will depend on its output mix, since tyres are significantly less labour intensive than other rubber



products. Labour represented only 9.1 per cent of total rubber products (ISIC 355) output value in Malaysia, 4.8 per cent in Thailand and 4.4 per cent in Indonesia.<sup>92</sup>

In NR production, although Nigeria has lower wages than major rubber exporters such as Malaysia and Thailand, yields per hectare are also a major influence on price competitiveness. Smallholder yields in Nigeria are less than half of those in Malaysia.

### **Determinants of non-price competitiveness**

It is difficult to generalise about other rubber products, because they are a highly heterogeneous group, and marketing must be to niche markets. One clear requirement, however, is effective quality control. For example, in 1989, more stringent controls introduced by the US Food and Drug Administration led to the cancellation of orders from many Malaysian manufacturers of rubber examination gloves. In tyre production, brand naming has become of overwhelming importance as the market for original equipment (i.e., tyres for new vehicles), and generally purchasers prefer suppliers who are geographically close.<sup>93</sup> Nigeria has the advantage of the presence of two major international tyre companies, but there is little evidence that these companies wish to use Nigeria as an export base to the international market, although sales within ECOWAS have potential. In NR, the availability of reliably technically specified rubber enhances competitiveness.

### **Constraints on the subsector's expansion**

The demand potential for increased Nigerian sales of rubber products and of NR has been considered above. This subsection looks at constraints on the supply side.

### **Tyres and other rubber products**

**Infrastructure:** As in other industrial activities in Nigeria, new entrants to the subsector have to contend with basic infrastructural problems such as the cost of providing piped water, investment in electricity generating plants, and the lack of communication facilities. The usual problem of electrical power shortages and erratic supply did not, however, emerge as a dominant constraint for the large firms in our survey, but small to medium firms regarded it as a major problem. Most large firms, it would seem, have adjusted to this constraint by the provision of their own stand-by generators.

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<sup>92</sup> Figures are for various years in the early 1990s from UNIDO, *Industrial Statistics Handbook*, 1996.

<sup>93</sup> UNIDO, *Industry and Development. Global Report, 1991-92*.

**Materials and parts:** Rubber products and tyre/tube manufacture remain strongly dependent on external sources, apart from the local sourcing of natural rubber and, to a limited extent, carbon black. While the potential for backward integration to the petrochemical and domestic raw materials, particularly industrial minerals, sectors is considerable, it is yet to be fully realised. More than half of chemical inputs into tyre manufacture have no local substitutes and continued to be imported. The same is true for other rubber products. In addition, spare parts need to be sourced from abroad, and the naira devaluations have increased their local currency cost.

## Natural rubber

In the short term there is some evidence that the supply response of Nigerian NR production has been strong. According to UNCTAD statistics, Nigerian natural rubber production has more than doubled since the start of the Structural Adjustment Programme, rising from 55,000 tonnes in 1986 to 130,000 tonnes in 1993.

However, the figures for Nigerian NR production differ considerably between sources. UNCTAD's 1993 figure is significantly less than the Central Bank of Nigeria's published statistics, which estimate Nigerian NR production at 225,000, 230,000, and 233,000 tonnes in 1993, 1994, and 1995 respectively (Central Bank of Nigeria, *Annual Report 1995*, 83).<sup>94</sup> Domestic currency farmgate prices for rubber have increased from ₦12,520 in 1992 to ₦53,707 in 1995, following depreciations of the naira, and keeping ahead of inflation. UNCTAD estimates that from 1991 to 1994 the world price of rubber rose 9.7 per cent per year in constant dollars (using as a deflator the UN index of export unit values for manufactures). Note, however, that the dollar price of NR fell by nearly 20 per cent from early 1996 to early 1997.<sup>95</sup>

There is no doubt that the industry at present suffers from severe supply constraints, which will take concerted government and private sector action to overcome. Most trees in Nigeria are probably over twenty-five years old, and of low yielding varieties. Smallholders account for over 80 per cent of Nigeria's planted rubber acreage, and their yields average 0.4 tonne per hectare compared to 0.8 to 1.2 tonnes on estates.<sup>96</sup> Malaysian experience shows what can be achieved with the use of high yielding clones and improved agronomic practices. Malaysian smallholder yields average approximately a tonne per hectare, while estates achieved about 1.4 tonnes. Average

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<sup>94</sup> In contrast, the *Nigeria Agricultural Situation Report* produced by the US Embassy in Lagos [1996] estimates that Nigerian NR production fell from 155,000 tonnes in 1991 to 90,000 tonnes in 1995. The report does not give the source of these figures, however.

<sup>95</sup> World price figures in dollars from *Far Eastern Economic Review*.

<sup>96</sup> *Nigeria Agricultural Situation Report*, US Embassy, Lagos, 1996, p. 12.

yields in Thailand were about 0.8 tonne/hectare and 0.4 tonne/hectare in Indonesia. Yields have doubled in Malaysia since the 1960s.<sup>97</sup> Also, much processing equipment in Nigeria is obsolete and inefficient. However, the precise nature, type and range of activities of smallholder rubber farmers such as age and productivity of trees are unknown. There is also said to be a shortage of skilled workers such as rubber tappers.

While it may be rational in the short term to increase output with slaughter tapping of old trees, new investment is required in new acreage and in rubber replanting and rehabilitation to increase output in the longer term. A long planning horizon is needed. Rubber has a gestation period between initial input and the first output which varies from five to twelve years depending on a number of factors such as quality of seedlings used, type of clones and maintenance of the trees and their environment. This is followed by a productive life of fifteen to thirty-five years, again varying with technical and economic conditions.

Replanting of only some 3 per cent of the rubber acreage has been achieved in Nigeria and there is therefore wide scope for major investment. Supply may respond strongly to changes in the producer price of rubber. This applies particularly to existing smallholders, and also to the possibilities of attracting new entrants into the sector.

Although smallholders are likely to constitute the bulk of rubber land in the foreseeable future, new planting by estates could be an important source of future growth in output, foreign exchange earnings and employment. At present, although much of the eight million hectares of potential rubber land is uncultivated, there are great difficulties in obtaining large plots of land (say in excess of five thousand hectares). Government needs to find means of compensating traditional landowners before land is reallocated to rubber cultivation<sup>98</sup>.

A substantial rubber replanting programme would require determined government action. The operation of the Malaysian rubber industry would be a model to investigate. Over the period 1953 to 1970 Malaysia achieved the replanting of 89 per cent of its rubber estate acreage and 69 per cent of smallholder acreage with high-yielding varieties. Grants for rubber replanting were financed by the government from the taxation of rubber exports. In addition, FELDA, the Malaysian Federal Land Development Authority, was used to develop new smallholder rubber (and oil

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<sup>97</sup> *Profile: Malaysia's Primary Commodities*, Ministry of Primary Industries, Malaysia, 1990, p.43.

<sup>98</sup> Alistair Campbell, *Natural Rubber: a Nigerian Challenge*, in *Report on the Second Nigerian Economic Summit*, May 1995.

palm) land, with central processing facilities, and the smallholders repaid the costs of the land development from their crop revenue. The Malaysians also pioneered the development of technically-specified rubber (mostly crumb rubber) through the Standard Malaysian Rubber Scheme, which raised the value added of rubber exports. The employment creating potential from an expansion of natural rubber acreage is also considerable, although this may not be of great importance in conditions of rural labour shortage. Malaysian figures provide some comparisons. In the early 1970s when Malaysian manufacturing was at a similar stage to that of Nigeria's today (that is, it was predominantly serving the domestic market and was protected from import competition), natural rubber growing generated seven times more jobs per dollar of output than domestic manufacturing, and 50 per cent more jobs than palm oil growing."

### **Firm-level issues affecting global competitiveness**

This subsection concentrates mainly on factors influencing global competitiveness in tyres and other rubber products. Little is known about firm(farm)-level issues in natural rubber growing beyond what has been discussed here under the heading of subsectoral constraints.

### **Managerial capabilities, capital stock and technical competence**

The sample of eleven firms which responded in our survey had four large firms which include the two international companies (Dunlop and Michelin) and two wholly-owned Nigerian firms. There were five medium size firms, four of which are based in the East and one in Sango Otta, Ogun State which is the only one in this group with (majority) foreign ownership. All others are fully Nigerian. The sample had two small firms, both of which are based in Ibadan. One firm was forty years old, one twenty-seven years old, and the rest are between ten to fifteen years old. Michelin and Dunlop clearly represent standards of international best practice. Dunlop has pursued a very dynamic products development strategy, modifying its products quite very significantly in the last five years. As noted earlier, Dunlop has branched into a variety of non-tyre rubber products, and Michelin has been instrumental in proving the possibility of very high natural rubber yields in Nigeria. It would appear, however, that these two major companies are primarily interested in the highly protected Nigerian domestic market. As noted below, there is a 45 per cent nominal rate of protection against imports of tyres into Nigeria, and the effective rate of protection is higher.

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<sup>80</sup> J.T. Thoburn, *Primary Commodity Exports and Economic Development*, London: Wiley, 1977, ch.6 and p.219.

## **Principal firm-level constraints**

**Capacity utilisation:** The average capacity utilisation of the eleven rubber products firms in our survey over the six year period (1990-95) ranged from 14 per cent to 75 per cent. The smallest firm (31 employees) was the one recording the worst performance (14 per cent). Excluding this firm, average capacity utilisation was about 53 per cent, which is 20 per cent more than the 1996 national average for the manufacturing sector. Nevertheless, this underutilisation of capacity does reduce the efficiency of production.

**Finance:** There are high domestic interest rates on loans for new machinery and credit for spare parts and consumables. This makes for low capitalisation, and outdated equipment.

**Tariffs:** There are said to be high tariff on certain classes of inputs.

**Consumer resistance:** There is said to be considerable consumer resistance to the purchase of high-cost local products in circumstances where many consumers' incomes have been reduced as a result of macroeconomic restriction.

## **Avenues of enhancing firm-level competitiveness**

Providing medium and smaller companies with information on techniques and markets would improve their international competitiveness. The lack of such information is a serious drawback. This is especially so for non-tyre companies, whose exports would have to aim at niche markets and achieve a high degree of quality control. Improving the supply of skilled workers would also help such firms.

## **Protection Against Imports**

### ***Tyres***

For cars,lorries, motorcycles and bicycles  
(HS codes 4011.1000, 4011.2000,4011,4000, 4011.5000)

- 1995-96: 45 per cent
- 1997-98: 45 per cent
- 1999-2001: 40 per cent

### *Other Rubber Products*

#### **Surgical and other gloves (HS 4015.1100 1900 and 9000)**

1995-2001: 25 per cent

#### **Sheath contraceptives (HS 4014.1000)**

1995-98: 20 per cent

1999-2001: 25 per cent

### *Natural Rubber*

#### **NR and technically specified NR(HS 4001. 1000 and 2000)**

- 1995-98: 15 per cent
- 1999-2001: 20 per cent

#### **Latex and IIR rubber (HS 4002.1100 and 3100)**

- 1995-98: 10 per cent
- 1999-2001: 15 per cent

There is an absolute ban on imports of retreated/used tyres, and an export ban on unprocessed rubber and rubber lumps<sup>100</sup>.

This structure of protection, with relatively low import duties on NR and (at least some) SR, and higher duties on the final outputs, implies that for rubber products, and especially for tyres, the effective rate of protection is somewhat above the nominal rate of protection indicated by the tariffs.

### **Product-Specific Performance Indicators**

#### *Revealed comparative advantage*

##### **Natural Rubber**

- RCA1: 62.877
- RCA2: 0.994
- RCA3: 8.065

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<sup>100</sup> Arthur Andersen Consulting, *1997 Budget Newsletter*, Lagos, 29 January 1997.

The large, positive RCA1 figure indicates that Nigeria's share of world exports in NR is substantially greater than its share in total world non-oil exports. The positive RCA2 figure, which is close to 1, indicates that Nigeria's NR exports are very large relative to its imports. This is also indicated by the high positive figure for RCA3 too, which also shows that rubber net exports have a greater importance for Nigeria than in world trade in general.

#### Rubber Products (ISIC 355)

- RCA1: 0.083
- RCA2: -0.975
- RCA3: -0.776

The fact that RCA1 is very low indicates Nigeria's share of world rubber products exports is much less than Nigeria's share of total world non-oil exports. The negative RCA2 figure, close to -1, indicates Nigeria is principally an importer of rubber products, as does the negative figure for RCA3. These statistics are for tyres and other rubber products combined, since this is the form in which the trade data is given in the UNIDO-supplied trade statistics for Nigeria, constructed from UN sources (see Appendix).

### 3.4 Leather and leather products

#### Introduction

The leather and leather products subsector covers three ISIC 4-digit industries:

- ISIC 3231 Tanneries and leather finishing;
- ISIC 3233 Leather products excluding wearing apparel;
- ISIC 3240 Footwear, excluding rubber or plastic;

Nigeria has the potential in the long run to become a significant exporter of leather footwear. Footwear, along with textiles and clothing, has been the classic point of entry for less developed countries into the export of manufactures. Nigeria has a supply of good quality domestic leather, and a low-wage labour force. The experience of China, the world's largest exporter of footwear<sup>101</sup>, suggests that exports of other leather products can be developed too. Brazil's development as a footwear exporter

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<sup>101</sup>There could be some dispute about the claim that China is the world's largest exporter of footwear, since it is third in the list of the most important exporters in the UN trade statistics for 1994, after Italy and Hong Kong. However, many of Hong Kong's shoe exports will be reexports from China. In terms of numbers of pairs exported, China's exports would be higher than Italy's (which specialises in high value footwear).

shows the usefulness of basing the industry on the domestic supply of hides and skins.

Nigeria is already an established exporter of semi-processed leathers, based on foreign involvement in the tanning industry. These exports deprive the local footwear and leather products industries of good quality finished leather on which exporting could be based. However, diverting these leather to the domestic footwear and leather products industry could result in the curtailment of existing exports in the short term. A start has been made on exports of shoes, but only by a handful of firms, and most production is aimed at the large domestic market.

The government has tried to encourage further processing of leather by banning the export of raw hides and skins since 1990<sup>102</sup>. Subsequently, in 1994, exports of wet blue and other semi-processed leathers were banned, but the ban on semi-processed leathers has not been effective. In addition, there was a ban on the importation of finished leathers from 1988 until 1994, when there was a partial lifting. The domestic footwear industry has been heavily protected in recent years, although there were substantial imports during the oil boom of the 1970s. There was a partial ban on the importation of footwear from 1988. Though the ban appears to have been lifted, tariffs on the import of footwear remain high. An effect of this protection is that there have been large quantities of second-hand footwear imported illegally.

### Market prospects

The world market for footwear still has strong long-term growth potential.<sup>103</sup> World shoe imports as a whole rose over the five years 1989-93 at a rate of 10.8 per cent a year in constant dollars (using the UN index of manufactured export prices of industrial countries as the deflator). World import values have risen more rapidly than import volumes.

UNIDO estimates that world demand for all types of footwear could rise to 12,000 million pairs per year by the year 2000, compared to 9,800 million in 1990. The

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<sup>102</sup> There was also a ban on raw leather exports imposed in 1978. The ban was lifted in the same year, in the face of severe domestic oversupply of hides and skins, and replaced by export licencing. The 1978 ban was introduced in an attempt to curb the exports of hides and skins, regardless of grade, which had been used as a means of obtaining foreign exchange to circumvent foreign exchange controls. The result of this expansion of exports had been a sharp fall in the price of Nigerian hides and skins on the international market, and a loss of reputation.

<sup>103</sup> Much of the information used here is from the report on the world footwear industry in UNIDO, *Industry and Development Global Report*, 1992-3, pp.411-418. The account has also been informed by consultancy work in 1994 on Indonesia's footwear exports.



growth in world footwear export sales suggests a high income elasticity of demand for footwear, though some of that growth will have resulted from continuing displacement of Western domestic production by imports. Per capita consumption of footwear appears to reach a plateau of 5-6 pairs per person per year. Although this has been reached in the higher income countries of Europe, rapidly economic growing Asian countries are below this level, and their growing middle class is likely to provide an increased demand for many years ahead. For a potential exporter such as Nigeria, a more important issue is that there have been major relocations of existing footwear production towards low wage countries. Much of this relocation has gone to Asia, which now produces over 60 per cent of world footwear output, but African countries such as Nigeria in principle could compete on labour costs. In practice, other aspects of the economic and political environment will be equally important in attracting such inward investment. According to the latest (1991) UN destination of exports figures available for Nigeria, two-thirds of Nigeria's exports of footwear were to less developed countries.<sup>104</sup>

Increases in leather consumption in excess of leather production have caused shortages. Leather production, particularly of bovine leather, has been slowed by the decline in the growth of the consumption of red meat by Western consumers. The share of less developed countries in world leather exports has been increasing, particularly in sheep and goat leather (which are important for Nigeria). Pollution problems have caused some slowdown in tanning in developed countries. There have been increases in demand for leather for upholstery and for fashion garments, relative to footwear.<sup>105</sup>

### Other aspects of the external environment

Footwear in particular has been subject to heavy protection against imports in developed market economies. UNIDO estimated that over 70 per cent of the world market in the early 1990s was protected in some way against footwear import.<sup>106</sup>

Leather, rubber, footwear and travel goods had their average tariffs imposed by developed countries reduced from 8.9 per cent to 7.3 per cent as a result of the Uruguay Round trade negotiations. Tariff escalation in leather remains a problem, however. The pre-Uruguay Round average tariff rates on hides, skins and leather

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<sup>104</sup> UNIDO, *A Statistical Review of Economic and Industrial Performance for Nigeria*, March 1997.

<sup>105</sup> For more details, see UNIDO, *Industry and Development Global Report, 1988-9*, report on leather and fur products, pp.154-163.

<sup>106</sup> *Industry and Development Global Report, 1992-3*, p.413.

were 0.1/4.6/8.7 per cent, respectively. These were reduced only slightly in post-Uruguay to 0.1/3.6/7.0.<sup>107</sup> This is still a sharp escalation, which gives significant effective protection to leather products production in importing countries. It discourages exporters in Nigeria from exporting finished leather (other than to the EU under Lome IV).

### **Market structure and its influence on global competitiveness**

Footwear production is a straightforward and relatively labour-intensive operation, and the search for lower labour costs has driven the major relocation of production from developed market economies to less developed countries during the last three decades. Early exporters were Hong Kong, Taiwan province of China and the Republic of Korea. In the last decade there have been further relocations of production as wages have risen in Hong Kong, Taiwan province of China and the Republic of Korea, and production has shifted to lower wage countries. Malaysia and Thailand were among the early beneficiaries of these trends, but the further growth of production has been in countries with still lower wages, such as China and Indonesia.

Brazil has also become an important exporter, concentrating on leather footwear in the lower and middle-price range. Like China and Indonesia, Brazil has developed its footwear exports alongside production for a large domestic market. Brazil's success in leather shoe exports has been attributed to its access to a ready source of hides, while other producers have suffered from worldwide shortages of hides resulting from a world fall in beef consumption.<sup>108</sup> Only Italy and Spain among developed market economies are significant exporters, and they specialise in high quality leather fashion footwear. The success of the Italian fashion shoe industry has been attributed in part to the close relation between tanneries and shoe producers.<sup>109</sup>

Nigeria has the low labour costs (see our later discussion of the determinants of price competitiveness) potentially to attract foreign investment, particularly as foreign investors are already present in the tanning industry. Whether this potential is realised depends as much on the general foreign investment climate of Nigeria as on the easing of constraints specific to the leather and leather products subsector.

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<sup>107</sup> See Sheila Page and Michael Davenport, *World Trade Reform: Do Developing Countries Gain or Lose?*, London: Overseas Development Institute, 1994, pp. 42, 50.

<sup>108</sup> See W.R. Cline, *The Future of World Trade in Textiles and Apparel*, Institute for International Economics, Washington DC, 1990. Cline is trying to show why the USA has lost its comparative advantage in footwear to a greater extent than in textiles.

<sup>109</sup> See report in *Jakarta Post*, 16 November 1994, on Italian technology in leather and footwear.

The Nigerian leather and leather products subsector has grown rapidly over a short span of time, especially the tanning industry. Currently there are at least thirty mechanised tanneries in existence. There is also an informal (traditional) tanning sector. Similarly, there is both mechanised and informal (cottage) footwear and leather goods production. Many of the firms in the formal parts of leather and leather products subsector, especially the tanneries, are subsidiaries of large commercial interests in Europe.

Recorded imports of finished leather are minimal over the 1960-95 period. In recent years this was presumably because of the import ban. There are no recorded imports of semi-processed leather over the 1960-95 period. However, there is said to be considerable illegal import of hides and skins across the land border from neighbouring countries. The relative importance of semi-processed leather exports is easily illustrated. Exports of semi-processed leather were ₦431.4 million in 1995, compared to imports of finished leather of ₦28.4 million. Leather footwear exports were only ₦21.7 million, against *recorded* imports of ₦7.3 million.<sup>110</sup> More details of the subsector's import and export structure are shown in Tables 2.3.4.1 and 2.3.4.2.

Exports of leather crafts, usually sold at international airports and hotels as souvenirs, date back to colonial times. Exports of travel goods, including handbags (SITC 831) amounting to ₦18.2 and leather manufactures (SITC 612) of ₦5.2 were recorded in 1995. Again, these are minimal amounts compared to exports of semi-processed leather.

### **Determinants of price competitiveness**

Price competitiveness in leather products, particularly leather footwear, is to a significant extent determined by labour costs. In developed market economies, material inputs and utilities constitute about 60 per cent of the value of output in footwear (ISIC 324), with labour about 25 percentage points. In LDCs the material and utilities inputs are similar, but the labour share falls, for example to about 10 per cent in Indonesia. Leather products (ISIC 323, which includes fur products) were slightly less labour intensive (e.g., labour was 6.3 per cent of gross output in Indonesia). Research by the World Bank on Africa's potential competitiveness in labour-intensive exports suggests that unit labour costs in Nigeria (that is wages deflated by task level labour productivity), expressed in terms of US\$ at the current

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<sup>110</sup> FOS, *Nigeria Trade Summary*, December 1995.

exchange rate, were highly competitive with actual and potential competitors.<sup>111</sup> Although the figures were derived from a study of garment production, it is reasonable to suppose they would also apply to a similarly labour-intensive activity like footwear.

**Table 2.3.4.1 Import structure of the Nigerian leather and leather products industry, 1988-1995**

Year	Raw hide & skins	Finished leather	Ind. Heavy & Saddlery leathers	Tanning machinery & spare parts	Tanning chemicals	Footwear	Total
	<u>N'000</u>	<u>N'000</u>	<u>N'000</u>	<u>N'000</u>	<u>N'000</u>	<u>N'000</u>	<u>N'000</u>
1988	220	1,695	2,310	1,203	3,984	295	9,707
1989	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1990	2,349	2,710	19,753	14,397	154,271	763	194,243
1991	5,230	1,927	-	21,670	495,801	1,004	530,878
1992	n.a.	5,006	13,454	-	423,427	3,405	447,637*
1993	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-
1994	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-
1995	9,015	28,429	50,000	11,122	123,169	7,279	229,014
* =							Provisional figure
n.a. =							Not available

Source: *Nigeria Trade Summary*, FOS, 1988 - 1995.

<sup>111</sup> Nigerian wage costs in 1996 were about half to three-quarters of those in Chinese Special Economic Zones, probably less than those of India, and no more than those in Kenya or Zimbabwe. See World Bank, *Nigeria: Prospects for Development*, draft, October 1996, p.108.

**Table 2.3.4.2** Export structure of the Nigerian leather and leather products industry, 1988 -1995

Year	Raw hide & skins	Semi-processed	Dyeing & tanning products	Footwear	Total
	<u>N'000</u>	<u>N'000</u>	<u>N'000</u>	<u>N'000</u>	<u>N'000</u>
1988	24,427	15,646	89	8	40,170
1989	n.a.	n.a.	n.a.	n.a.	-
1990	42,088	18,653	48	n.a.	60,789
1991	66,256	88,231	-	424,877	579,364
1992	124,623	52,322	-	414,026	590,971
1993	n.a.	n.a.	n.a.	n.a.	-
1994	n.a.	n.a.	n.a.	n.a.	-
1995	66,400	431,368	48	21,713	519,529

n.a. = Not available

Source: *Nigeria Trade Summary*, FOS, 1988 - 1995.

### Determinants of non-price competitiveness

Quality control and design is important for fashion-based items such as footwear and consumer leather products. In the international market, this is often monitored by Western retail buying groups dealing with foreign investors in less developed countries. The presence of affiliates of European companies in the tanning industry could be a basis for forward integration into finished leather and leather products or for the attraction of further foreign investment into those areas if the Nigerian investment climate improves.

### Constraints on the subsector's expansion

#### *Supply of hides and skins*

Domestic supplies of hides and skins are threatened by reductions in the output of beef and by the human consumption of hides. The problem is less serious with goat and sheep skins, which are more important to the export trade than bovine hides. The availability of hides and skins depends on the numbers of animals slaughtered for meat.

Our survey has shown that, on average, there has been positive growth in the 1990s of the meat output from goats and sheep. However, beef output on average has fallen. This reduction in consumption of beef products, implies a short supply of hides. Coupled with the increasing human consumption of the hide, the availability to the tanning industry is seriously threatened. *Ponmo* consumption should be eliminated through public education and an efficient abattoir marketing system. If average consumer incomes increase in the future, so will the demand for beef.

The poor quality of the available hides and skins is also a major constraint. The quality maintenance of raw hides and skins requires urgent attention. Skin diseases, poor flaying, and putrefactive damage make for considerable wastage. Solutions to these problems depend on good animal husbandry practice, good handling of hides and skins in slaughter houses, enforcement of the hides and skins laws, and a good marketing strategy that will discriminate against poor quality raw materials.

### *Supply of processing chemicals and other inputs*

Most purchased inputs for the subsector, including processing chemicals and auxiliaries are imported. This raises problems of foreign exchange availability for the subsector. There is also evidence of losses resulting from the use of adulterated imported tanning chemicals. Local production of inputs offers opportunities to save foreign exchange. Further development of the Nigerian petrochemical industry could increase the availability of processing chemicals. Of course, if import substitution were carried out inefficiently under tariff protection, the competitiveness of exporters of leather products would be harmed. However, there appear to be some possibilities for efficient local supply. Preliminary investigations have shown the availability of several promising vegetable tanning materials, pre-tanning chemicals, and post-tanning chemicals. Byproducts from the petrochemical industry are also available for the production of dyes, pigments, solvents and several other auxiliary chemicals. The development of synthetic tanning agents and other auxiliary chemicals has good prospects with the establishment of the petrochemical plant in Kaduna. Dyes and pigments can also be produced from the byproducts of the petrochemical industry. Trial production of dyes, acid dyes have already been made by NARICT. The footwear and leathers goods industries import virtually all their component parts, except leather.

### **Firm-level issues affecting global competitiveness**

*Managerial capabilities, capital stock and technical competence:* The formal sector tanneries include subsidiaries of European operations. The formal sector footwear industry includes companies such as Bata, which are capable of producing export

quality products. These companies export already to a limited extent and sometimes subcontract footwear production to informal sector enterprises. Thus the issue affecting exports is less the technical capability of the firms than the incentive structure which causes foreign-run tanneries in Nigeria to concentrate on the exports of semi-processed leather. The example of Brazil, already mentioned, shows that the domestic availability of good quality leather is a useful factor enhancing competitiveness in leather footwear production (especially since there is an international shortage). At present, foreign companies are willing to source leather in Nigeria, but are less willing to establish shoe factories. This unwillingness is unlikely to be overcome unless the Nigerian investment climate is improved in terms of political stability, enforcement of property rights and infrastructural improvements.

### **Principal firm-level constraints**

*Capacity utilisation:* Capacity utilisation is around 30 per cent in leather products firms, and around 50 per cent in the larger formal sector footwear firms. In some tanneries, capacity utilisation is very low. Low capacity utilisation raises the average cost of production.

*Infrastructure:* In common with other manufacturing industries in Nigeria, the poor quality of domestic transport, water and power supply adversely affects the competitiveness of firms in this subsector.

### **Avenues of enhancing firm-level competitiveness**

Overwhelmingly the most useful single change would be an increased availability of better quality hides.

### **Protection against imports**

Bans of imports and exports have played an important role in this subsector as part of a deletion programme:

- finished leather imports were banned 1988-94, since then there has been a partial lifting;
- footwear imports were partially banned since 1988. This ban now apparently has been lifted, but the ban on second-hand footwear imports is still in place;

- raw leather exports were banned briefly in 1978, then made subject to export licencing, and the ban was reimposed in 1990;
- wet blues and other semi-processed leather exports were banned in 1994, but the ban does not appear to have been effective. There is now a 25 per cent export duty on cattle, sheep/lamb and goat/kid exports of wet blue, chrome crust and vegetable crust semi-processed leathers.

There has not been research time available to estimate the tariff-equivalent of these quantitative restrictions, nor data to calculate effective rates of protection. Estimates are available for the textile and leather products sectors as a whole, based on the 1995 tariff rates, from the Enterprise Consulting Group study:<sup>112</sup>

Textiles and leather products nominal rate of protection: 48 per cent;  
Textiles and leather products effective rate of protection: 60.2 per cent .

At present the nominal import tariff rates are:

- Footwear: 40 per cent;
- Uppers, soles, heels of rubber or plastic: 25 per cent;
- Saddlery and harness: 55 per cent;
- Leather: *rate not available*;

Imports of chemicals are subject to a 45 per cent nominal tariff and machinery imports are subject to a 10 per cent tariff.

### Product-specific performance indicators

#### *Revealed Comparative Advantage*

Leather (SITC 611):

- RCA1 35.0
- RCA2 0.7
- RCA3 3.6

The high RCA1 index reflects the fact that Nigeria is a significant world exporter of leather. The large value of the index is a reflection of Nigeria's small share of total world non-oil exports. The fact that RCA2 is positive and near to 1 reflects Nigeria's being a large net exporter of leather. The high and positive value of RCA3 indicates the

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<sup>112</sup> *Review of Nigeria's Tariff and Trade Policies 1988-2001*, Lagos, November 1995, p.55-7.



importance of net exports of leather in Nigeria's total non-oil exports relative to leather in world non-oil exports.

**Footwear (SITC 851):**

- RCA1 0.05
- RCA2 -0.93
- RCA3 -0.17

The low RCA1 estimates are a reflection of the fact that Nigeria has a very small world market share of footwear exports. The negative RCA2 figure, close to -1, indicates Nigeria is mainly a net importer of footwear. The low, negative RCA3 figure results from the relative unimportance of footwear in Nigeria's exports and the fact that it is a net importer of footwear.

### **3.5 Fertilisers and pesticides**

#### **Introduction**

This subsector covers one ISIC 4-digit industry:

- ISIC 3512 Fertilisers and pesticides

Fertiliser has an important contribution to make to Nigeria's non-oil export drive, but not mainly as a direct export, at least in the immediate future. Indeed, a priority is the securing of domestic supply in the face of widespread illegal exports of government-subsidised fertiliser. The government has started to tackle the problem with its decision at the start of 1997 to remove fertiliser subsidies.

An increased domestic availability of fertiliser would be a vital ingredient in improving crop yields, thus saving foreign exchange on food imports and increasing the productivity of export agriculture. Nigerian fertiliser usage per hectare, though slightly higher than the African average, is still only a third of that in Latin America and a mere sixth of the Asian figure.<sup>113</sup> At present fertiliser production is insufficient to meet domestic needs, although some is officially exported to provide the producers with foreign exchange for vital imported inputs. The industry suffers from serious supply constraints.

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<sup>113</sup> Figures for 1989-93, from World Bank, *Nigeria: Prospects for Development*, draft, October 1996, p.96.

Nigeria's large reserves of natural gas could be the basis for the expansion of nitrogenous fertiliser production. Nitrogenous fertiliser trade has grown rapidly in the world market in the recent past, and there is scope for longer term export development in this product. Phosphate fertiliser production in Nigeria is based on imported raw materials, though it is possible that phosphate rock deposits may be discovered in Nigeria. The country has no known deposits of potash on which potash fertiliser production could be based. Pesticide production in Nigeria is based on imported chemicals, and pesticide use appears to be constrained by lack of demand on the part of farmers. It appears to have little export potential at present.

### Market prospects

World trade in fertilisers increased rapidly in the post-war period, rising from an annual two million tonnes in the 1950s to nearly 50 million by the end of the 1980s, by which time less developed countries were accounting for 16 per cent of world exports. Some gas-rich LDCs such as Mexico and Venezuela have been increasing their exports of nitrogenous fertilisers.<sup>114</sup> In the early to mid-1990s world import volumes stabilised around 50,000 tonnes,<sup>115</sup> though import values fell in the 1993 world recession. Fertiliser demand has stabilised in industrial countries as fertiliser use has reached saturation levels and with pressure for reduced usage because of environmental concerns such as nitrate pollution.

In 1991, the latest year for which UN direction-of-trade export statistics are available for Nigeria, official exports of fertilisers were sent almost entirely to the USA (88 per cent of sales), while the rest went to developing country destinations.<sup>116</sup> The apparently large-scale of illegal exports of fertiliser to neighbouring West African countries suggests considerable regional market potential if the fertiliser can be produced at a competitive world market price.

### Other aspects of the external environment

It would require further work to establish the structure of developed market economy protection on fertilisers, which is not readily available from secondary sources.

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<sup>114</sup> See UNIDO, *Industry and Development Global Report 1991-2*, report on fertilisers, pp. 229-255.

<sup>115</sup> See FAO *Fertiliser Yearbook 1995*.

<sup>116</sup> Trade statistics are derived from UN trade tapes, summarised in UNIDO, *A Statistical Review of Economic and Industrial Performance for Nigeria*, March 1997.

Following the Uruguay Round approximately 6 per cent of trade in manufactured fertilisers was covered by quantitative restrictions.<sup>117</sup>

### **Market structure and its influence on global competitiveness**

The world market structure of the fertiliser industry is highly oligopolistic. In nitrogenous fertiliser, where Nigeria's comparative advantage mainly lies, fertiliser production is often undertaken by petrochemical companies. State-owned enterprises also increased their role in fertiliser production. By the late 1980s SOEs were controlling over 20 per cent of total world fertiliser production capacity, though moves towards privatisation in less developed countries may be reducing this share.

The influence of domestic market structure of fertiliser production in Nigeria principally works through the government's pervasive control of prices and the distortions and rent seeking it generates. These issues are discussed below as sectoral constraints.

### **Determinants of price competitiveness**

Although there has been a growth in international trade in fertiliser intermediate products such as ammonia and phosphoric acid, the international location of world fertiliser production appears to be based to a significant extent on possession of the basic raw materials. Wage costs do not seem to be an important determinant of competitiveness. In Indonesia, an important nitrogenous fertiliser producer, wages in 1992 were only 11.4 per cent of value added and under 5 per cent of the value of gross output.<sup>118</sup> In Nigeria, 1985 (sic) statistics available in the *FOS Annual Abstract of Statistics 1996* show that for the industries ISIC 3511 and 3512 combined (that is, basic industrial chemicals and fertilisers and pesticides), wages were only 8.6 per cent of the value of gross output and only 14.7 per cent of value added.<sup>119</sup> For example, Canada is the largest world exporter of potash fertiliser and has large reserves of potash. As already mentioned, various LDCs have based nitrogenous fertiliser industries on the possession of reserves of natural gas.

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<sup>117</sup> See S. Page and M. Davenport, *World Trade Reform: Do Developing Countries Gain or Lose?*, London: Overseas Development Institute, 1994, p.50.

<sup>118</sup> UNIDO, *International Yearbook of Industrial Statistics 1996*, p.312.

<sup>119</sup> No more recent figures appear to be available for Nigeria at the ISIC 4-digit level for fertilisers. Note that 1985 antedates the formation of NAFCON.

## Determinants of non-price competitiveness

For properly technically specified fertiliser products, competitiveness mainly depends on price. However, brand names of major world companies can act as a guarantee that the product is properly technically specified.

## Constraints on the subsector's expansion

### *Price distortions*

The structure of fertiliser prices has been an overwhelmingly important constraint on the efficient operation of the subsector. A decision has been taken by government to abolish the fertiliser subsidy, but the effects of abolition have yet to be seen. What is clear are the distortions which the subsidy caused, which have led to extreme degrees of rent seeking. Fertiliser available at a subsidised price of ₦150 per bag could fetch ₦1,000 a bag on the open market or even up to ₦2,000 in the northern regions of the country. Farmers, who were supposed to be the beneficiaries of the subsidy, have been deprived of supplies. By subsidising fertiliser to well below the world price, an incentive was given to middlemen to divert supplies to the export markets of neighboring countries. Similarly, any farmers who succeeded in getting fertiliser at the subsidised rates had incentives to sell at higher prices rather than use them on the land. A second set of distortions in the pricing structure concerns the government setting of prices for individual products of the subsector. For example, the price set for urea for delivery by NAFCON to the blending plants was set low in relation to the price of NPK, providing an incentive for the supplier to put more efforts into NPK production and depriving blenders of urea.

### *Cash flow*

Fertiliser manufacture requires high working capital for raw materials, spare parts and day-to-day operations. The government is the sole customer, and in recent years fertiliser companies have had substantial sums of money held back by the government. This has affected payments to suppliers of critical spare parts and to haulage contractors.

### *Industrial relations and political problems*

Strikes have been a problem. The political situation led to several weeks of strikes by oil and gas workers. In 1994 total domestic output of fertiliser was only 298,000

tonnes, and the bulk of supply was imported. Also, strikes at the ports made it difficult to import fertiliser.

### ***Internal transport***

The subsector's difficulties in delivering fertiliser to the ultimate user, the farmer, constrain Nigeria's agricultural export prospects and increase its food imports. Fertiliser is a bulky and time sensitive product. Rail transport, which was the main method of movement of all bulk items in Nigeria in the 1950s and 1960s has virtually collapsed, despite Indian technical assistance to restore the system. Movement by barges is a method being explored but for the moment there is a total dependence on road freight. The low level of maintenance of Nigeria's elderly fleet of trucks, and the difficulty of replacing them, is a serious problem.

### **Firm-level issues affecting global competitiveness**

***Managerial capabilities, capital stock and technical competence:*** There are great differences between the capabilities of the two main fertiliser producers, the granulation plants NAFCON and FSFC. The former produces nitrogenous fertiliser and is located near the source of its main feedstock, natural gas. FSFC, producing superphosphates, has been struggling with low capacity and other problems, and its basic raw material (phosphate rock) is imported from Togo.

NAFCON was set up as a joint venture, and the joint venture partner (the Kellogg Company of Houston, USA) was responsible for the technical operation of the plant. NAFCON has had full capacity utilisation in its plants producing ammonia and urea, although it has had breakdown problems in its NPK plant. NAFCON is equipped with its own water treatment plant and plants for treatment of waste water and sewage. It has a set of wells to supply all the water needs of the complex, and a well equipped workshop for repairs and maintenance of its equipment. Exports of ammonia and urea have provided the foreign exchange necessary for imported raw materials, spare parts and technical assistance. Successful technology transfer appears to have been achieved. Local staff have acquired technical skills through formal and on-the-job training in construction engineering and chemical process management. Some 85 per cent of the engineers are Nigerian. NAFCON is the supplier of the main nitrogenous fertiliser, urea, to Nigeria's bulk blending fertiliser plants. The company's main problem has been the strain on its capacity, particularly when a ban was imposed on fertiliser imports in 1995 and 1996. In 1995 the

domestic manufacturers were able to make up some 87 per cent of the requirement,<sup>120</sup> but at the cost of considerable pressure on the plants, including the shelving of maintenance plans. The effects of this overstretching were manifested in NAFCON in 1995 in a series of problems, which require considerable maintenance work to correct.

In 1996, when local fertiliser production was meant to supply 600,000 tonnes in the face of the continuing import ban, NAFCON's key urea plant experienced a number of shutdowns, and it seemed highly unlikely that this target could be met.

FSFC, built as a turnkey project in 1976 by a Japanese contractor, has struggled with low capacity utilisation and lack of foreign exchange to buy raw materials and spares. Between 1992 and 1994 Nigeria imported 409,000 tonnes of single superphosphate fertilisers, while FSFC supplied a total of only 13,000 tonnes. FSFC's sulphuric acid plant was shutdown in 1988 and its superphosphate plant needs a complete revamping.

### Principal firm-level constraints

*Capacity utilisation:* As noted above, NAFCON has generally achieved close to full capacity, although its performance deteriorated in 1996 in the face of extreme pressure to increase output. FSFC's capacity utilisation problems have sprung in part from technical difficulties and foreign exchange shortages, but also from the fact that, unlike NAFCON, it has to rely on public utilities for water and power. It is thus faced with similar problems like numerous other Nigerian companies without captive utilities supply. In 1995 FSFC's capacity utilisation fell to a minimal 2.8 per cent, compared to 5 per cent in 1994, due in part to shortage of raw materials because of lack of working capital. Some expenditure was undertaken in 1995 towards refurbishing the superphosphate fertiliser plant.<sup>121</sup>

### Avenues of enhancing firm-level competitiveness

In the case of the supply of nitrogenous fertilisers, the main problem at the firm level is not the efficiency of production, which appears to be high, but the sheer shortage of capacity even to meet domestic requirements. Plans have been on hand since 1993 for a second stage of investment for the company, *NAFCON II*. This investment is urgently necessary. Also, a complete new urea plant set aside to tackle the export

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<sup>120</sup> The FOS *Nigeria Trade Summary* for 1995 records official imports of manufactured fertiliser (SITC 562) of nearly 55,000 tonnes (compared to 120 tonnes of exports, all of urea).

<sup>121</sup> See Central Bank of Nigeria, *Annual Report 1995*, p.105.

market would be a valuable foreign exchange earner. FSFC needs virtually complete refurbishment, and its foreign exchange requirements would be greatly eased if prospecting uncovers economic deposits of phosphate rock in Nigeria.

### Protection against imports

Quantitative restrictions have played a large part in the protection of the Nigerian fertiliser industry, with (partial) import bans in 1995 and 1996. The nominal rate of protection on fertiliser is now 10 per cent.<sup>122</sup> Since the import duty on major raw materials such as phosphoric acid and phosphate rock is also 10 per cent, it is unlikely that the effective rate of protection is significantly greater than the nominal rate for phosphate fertilisers. For nitrogenous fertilisers, if natural gas inputs are available at world prices,  $ERP > NRP$ , but more details would be necessary on the input structure of nitrogenous fertiliser production to make a calculation. The import duty on insecticides, fungicides and herbicides was set at zero in the 1997 budget.<sup>123</sup>

### Product-Specific Performance Indicators

#### *Revealed Comparative Advantage*

#### Fertiliser (SITC 27,56)

- RCA1: 5.313
- RCA2: -0.890
- RCA3: -2.472

The positive RCA1 figure indicates that Nigeria's share of world exports in fertiliser is greater than its share in total world non-oil exports. The negative RCA2 figure, which is close to -1, indicates that Nigeria's fertiliser imports are very large relative to its exports. This is also indicated by the high negative figure for RCA3, which also shows that net imports of fertiliser in Nigeria's total trade is important relative to fertilisers in world trade.

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<sup>122</sup> See Arthur Andersen, *Budget Newsletter 1997*, p.20.

<sup>123</sup> *Ibid.*

## 3.6 Agro-related metal working industries

### Introduction

This subsector covers two ISIC 4-digit industries:

- ISIC 3822 Agricultural machinery and equipment;
- ISIC 3824 Food processing machinery.

Like the fertiliser subsector, agricultural and food processing machinery has an important indirect contribution to make to Nigeria's non-oil export drive. Increased mechanisation of Nigeria's predominantly small-scale agriculture and agricultural processing would improve crop yields and reduce wastage. The productivity of export agriculture would be strengthened, and also foreign exchange would be saved on food imports.

Official statistics suggest that the agro-related metal working subsector does not export. The FOS *Nigeria Trade Summary* for 1995 records no exports at all of agricultural machinery excluding tractors (SITC 721) or of tractors (SITC 722).<sup>124</sup> However, our survey indicates that around 15 per cent of the output of the subsector is exported informally to neighbouring countries. These exports have been achieved despite many quality problems and supply constraints. Although it is unlikely that the subsector could be developed sufficiently in the immediate future to meet the standards of the international export market, especially in the face of competition from developed countries and newly industrialising countries from Asia, the regional market offers potential for growth.

### Market prospects

Nigeria is unlikely to be competing in the immediate future as an exporter in the global market for agricultural machinery, and conditions there are of little relevance. Only a small number of newly industrialising countries are major exporters of agricultural machinery. For example, in exports of agricultural machinery excluding tractors (SITC 721), only five had exports in 1994 of over \$10 million; these were Brazil, Mexico, China, Hong Kong and Singapore. This compares to the USA's \$2 billion or Germany's \$1.5 billion.<sup>125</sup> In the world market for food processing equipment exports from developed market economies predominate. Even exports

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<sup>124</sup> The imports of SITC 721 in 1995 were about \$11 million and there was a minimal amount of imports of SITC 722 (\$19,000).

<sup>125</sup> UN *International Trade Statistics Yearbook 1994*.



from newly industrialising countries such as Singapore are of relatively minor importance. However, some LDCs such as Argentina have succeeded in supplying regional markets.<sup>126</sup>

### **Other aspects of the external environment**

Exports to the ECOWAS region are virtually entirely informal partly as a result of traditional ways of doing business, and partly to avoid going through customs in Nigeria's neighbours. Avoiding customs gives Nigerian products some competitive edge therefore against official imports into ECOWAS, although the 1994 devaluation of the CFA franc will have disadvantaged Nigeria in relation to any domestic production in CFA countries.

### **Market structure and its influence on global competitiveness**

The Nigerian machinery sector generally suffers from a lack of specialisation. There is a tendency for firms, other than those based solely on assembling imported components, to be vertically integrated. The country lacks the specialised firms, such as foundries and forging shops, tool and die shops, which would characterise a more industrially advanced economy. This problem is common in machinery production in many less developed countries.

International companies have been active in the local development of agricultural machinery production in LDCs, but they have not done much to develop products adapted to the needs of the small farms found in Nigeria and many other LDCs.<sup>127</sup> The Nigerian government's attempts both to produce tractors in Nigeria and introduce domestic farmers to their use appear to have been a failure.

### **Determinants of price competitiveness**

Low price is an important determinant of demand for simple agricultural equipment in Nigeria. In the case of informal sector production, it derives from low wage costs and minimal production overheads.

In the international market for agricultural machinery, where developed market economy exporters predominate, price competitiveness is a feature of the major NIC exporters, but developed market economy exporters sell on the basis of quality and

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<sup>126</sup> See UNIDO, *Industry and Development Global Report 1992-3*, pp.377-396 on food processing machinery.

<sup>127</sup> See UNIDO, *Industry and Development Global Report 1986*, p.86 on agricultural machinery.

reliability. In the particular case of food processing equipment, according to UNIDO's study of the industry, any advantage that LDCs may have in the international market in lower labour costs is becoming less and less relevant as the industry becomes more capital intensive. LDCs would find it difficult to replicate the long term development of manufacturing capability and the design and production expertise of employees.<sup>128</sup> Nigeria's food processing equipment producers are not part of this international market, which is geared towards mass producers of food.

### **Determinants of non-price competitiveness**

In the local and regional market, low price is traded off against low reliability and poor finish. Gradual improvements in product quality combined with better adaptation of products to local needs would increase the regional market potential.

### **Constraints on the subsector's expansion**

The constraints faced by the subsector differ somewhat between different types of enterprise, namely the large-scale tractor factories, medium size manufacturers fabricating machinery, and the (mainly) artisanal/informal sector making hand tools. The following constraints appear to be common, however:

#### ***Lack of capital***

Firms in our survey argued that shortage of funds constrained the quality of products they could produce, for example for procuring special coatings to improve the finish of some fabricated equipment. Firms also lacked capital to rehabilitate existing equipment or to procure new equipment. There were complaints about high interest rates and about the banks' insistence on only accepting landed property as collateral.

#### ***Availability of spare parts and raw materials***

Many firms had difficulties in obtaining spare parts for their machinery and for prime movers such as electric motors. This is a common problem in developing countries, where procurement channels are not well developed, and it leads to the use of inappropriate materials, which lowers product quality.<sup>129</sup> In Nigeria, procurement problems may be especially serious because of the country's poor infrastructure, and

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<sup>128</sup> UNIDO, *Industry and Development Global Report 1992-3*, p.383.

<sup>129</sup> See D. Chudnovsky and M. Nagao, *Capital Goods Production in the Third World. An Economic Study of Technology Acquisition*, London: Pinter, 1983, p.44.

also because of foreign exchange problems. There were suggestions by firms in our survey that the government should encourage bulk purchase of these essential imported raw materials, and that the steel industry should produce the much needed flat sheet and other raw materials.

### *Infrastructure*

Like firms in other subsectors, the firms in our survey complained of poor electricity and water supply, high transport costs, poor telecommunications and postal services. The smaller establishments complained of the lack of industrial sites with adequate infrastructure. Electricity supply is probably the most serious of these problems.

### *Skilled labour*

Most manufacturers complained of the unavailability of skilled workers at all levels.

### *Foreign contacts*

Some firms mentioned the difficulties of attracting foreign partners and the unwillingness of overseas agricultural machinery manufacturers to establish themselves in Nigeria.

### **Firm-level issues affecting global competitiveness**

*Managerial capabilities, capital stock and technical competence:* The two government-run tractor plants have been developed by adding tractors to the existing product range of trucks. These tractors are assembly plants based on imported knock down components, and they have suffered, as noted below, from low capacity utilisation and from low demand following the failure of the government's tractor hire scheme. With a zero duty on imported tractors, their record suggests it is doubtful if they can survive import competition, let alone be prospective exporters.

There is also a range of privately-owned companies involved in the assembly and/or manufacture of equipment such as planters, cultivators, harrows, shellers, and cutlasses, but most simple implements and some post-harvest processing tools are fabricated in the informal sector. As noted above, the subsector lacks specialised firms like foundries, and the larger firms in the subsector must produce in-house many items which in more industrialised countries could be bought in from other companies. Most locally fabricated machinery is copied from imported designs. Performance and reliability is often poor. However, since such equipment is often

very low cost and designed with local farmers' needs in mind, it enjoys a certain degree of natural protection against import competition.

However, there exist some more promising companies. One such, investigated in our survey, is a private company in Lagos, producing equipment for agricultural production and post-harvest processing, as well as equipment for rural transport. Products include grinding mills (the firm's main product), food processing machines, cassava graters, mechanical presses and garri friers. The firm is vertically integrated from foundry to machine shop. Items which have been developed include:

- a motorised tricycle for rural areas. The body, chassis frame and suspension parts can be made in Nigeria, while the engine and transmission will be imported. This vehicle has a potential for West African sales which could be investigated further;
- commercial grinders for small-scale operators to grind pepper, beans and corn. These grinders are sold in considerable quantities to traders from other West African countries;
- pounded yam machine/mixer for restaurant or home use. This has good export potential for sale to the large number of West Africans resident in Europe and North America.

### **Principal firm-level constraints**

**Capacity utilisation:** The two government-owned tractor plants as well as other assemblers of agricultural equipment have suffered problems in obtaining imported semi-knocked down parts, as a result of rising costs due to the depreciation of the naira. These cost rises also reduced the demand, particularly for tractors.

**Raw materials:** For the artisanal manufacturers, metals are often used which are not meant for the fabrication of the particular product in question. The medium and large scale enterprises are highly import-dependent and appear to make little effort at investigating cost-effective local sources.

**Technology and skills:** for the artisanal manufacturers, there is a problem of low skill levels and poor product quality. However, in recent years there has been an influx into the informal sector as a result of layoffs and retirements in the formal sector. Technical school and trade centre leavers dominate the informal manufacturing sector as entrepreneurs. There is also a tradition of the use of

apprenticeships to pass on skills. For medium and large scale enterprises, there is a need for more training of staff to keep pace with changing technologies.

**Box. 2.J. KPN Industries' success story in producing duplicate automotive and non-automotive spare parts serving better than original components**

KPN Industries, established in 1985 in Trichy, South India, has emerged as a superior forge shop capable of producing varieties of automotive and non-automotive components for repair and maintenance.

The firm has the infrastructure to provide high quality forgings to serve the automobile, valve, earth-moving and general engineering industries. The firm is also committed to quality at all levels which measure up to international standards.

One of the unique features of the enterprise is that it is capable of manufacturing components which are as good as the original, including the components of brand-new imported automobiles.

The firm is willing to venture into any joint-venture initiative with Nigerians willing to establish factories for manufacturing tractor accessories and components that would eventually help maintain tractors and keep them running.

*Source:* KPN Industries, Boothakudi village, Pudukkottai district, India.

**Avenues of enhancing firm-level competitiveness**

A study conducted by UNCTAD on the development of capital goods production in Third World countries<sup>130</sup> stresses the evolutionary nature of capital goods development and the crucial role of technology acquisition at the enterprise level. Many countries started with simple copying of imported equipment, and close contact with users helps domestic manufacturers to find their own niches in the market. Some countries such as Thailand started their capital goods industries with the production of simple agricultural machinery, such as power tillers for rice fields, rice threshing machines and irrigation pumps. Thai firms, for example, simplified a Japanese-designed power tiller so that it could sell at about half the price of the imported model, thus bringing it within the reach of low income farmers. Such goods modified for the local market are likely

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<sup>130</sup> D. Chudnovsky and M. Nagao, *Capital Goods Production in the Third World. An Economic Study of Technology Acquisition*, London: Pinter, 1983, particularly ch.2 on entry into capital goods production.

to have a degree of natural protection against imports, while potentially being exportable, in Nigeria's case, to neighbouring countries with less developed industrial structures.

Forming more effective links in Nigeria between fabricators of agricultural machinery and farmers and food processors would aid the development, testing, and dissemination of new products. Growth in the agricultural sector would help to give agricultural equipment producers the stimulus to improve their products.<sup>131</sup>

### Protection against imports

It was announced that from January 1997 the import tariff on imported agricultural machinery and on tractors is zero,<sup>132 133</sup> and there is also zero duty on imported components. To the extent that some other inputs bear non-zero duties, the effective rate of protection on agricultural machinery will be negative.

### Product-specific performance indicators

#### *Revealed Comparative Advantage*

#### **Agricultural machinery (SITC 721,722)**

- RCA1: 0 (on official exports)<sup>134</sup>
- RCA2: -1 (on official exports and imports)
- RCA3: not calculated

The RCA1 figure indicates that there are no official exports of agricultural machinery, and the RCA2 figure of -1 indicates that on official figures, Nigeria is entirely an importer. As noted earlier, however, unofficial exports are important in this subsector.

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<sup>131</sup> For a case study of the effects of agricultural expansion on the development of local agricultural (and mining) equipment manufacture, see J.T. Thoburn, Exports and the Malaysian engineering industry: a case study of backward linkage, *Oxford Bulletin of Economics and Statistics*, 1973.

<sup>132</sup> See Arthur Andersen Consulting, *Budget Newsletter* 1997, p.20.

<sup>133</sup> Note, however, that the Enterprise Consulting Group's study of protection in Nigeria says that import duties on agricultural, horticultural and forestry machinery (HS 8432) were due to rise from zero in 1994 to 5-10 per cent over the period 1995-2001 (*Review of Nigeria's Tariff and Trade Policies, 1988-2001*, Lagos, 1994, p.59).

<sup>134</sup> Although we have an estimate that informal exports account for about 15 per cent of the subsector's output, we do not have a reliable output figure on the basis of which to estimate the absolute value of informal exports.

**Appendix J:**

***SUMMARY OF  
DISCUSSIONS AND  
RECOMMENDATIONS***

## *SUMMIT OBJECTIVE:*

*To create Dialogue and  
Partnership between Public and  
Private Leaders on Economic  
Issues for the Overall Benefits  
of all Nigerians.*

## *PRESENTATION OUTLINE:*

- *Assess Economic Situation*
  - *Past Achievements*
  - *Current Status*
- *Economic Outlook*
- *Major Recommendations*
- *Public/Private Partnership*
- *Private Sector Commitment.*

## *STATE OF THE ECONOMY:*

*Solid Foundation Achieved*

- (1) *Monetary Stability.*
- (2) *Fiscal Discipline*
- (3) *Social Stability.*



## *FISCAL AND MONETARY COORDINATION:*

- *Tight Money and Fiscal Discipline Working Together*
- *Results*
  - *Predictable Naira*
  - *Low Interest Rates*
  - *Lower Rate of Inflation.*

## *INFLATION = PUBLIC ENEMY #1*

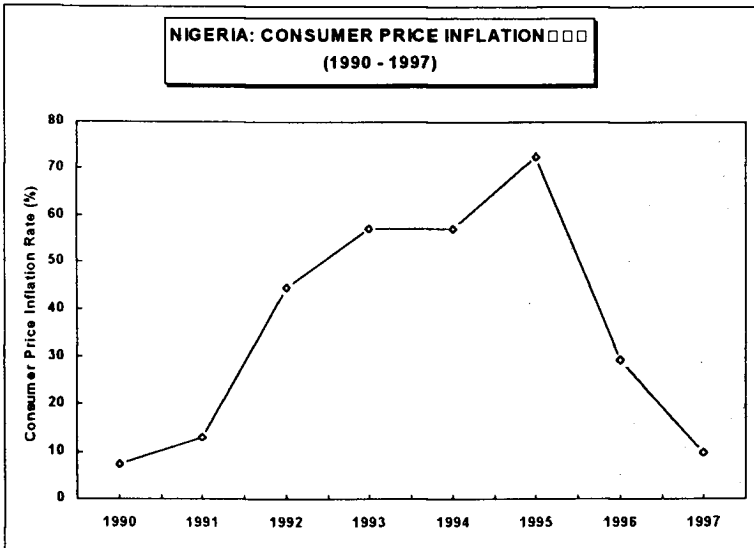
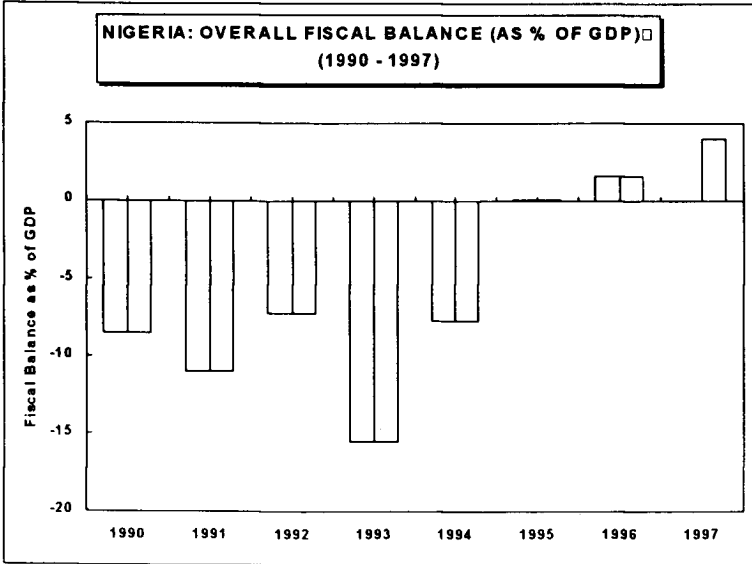
- *Taxes the Poor*
- *Destroys Savings and Investment*
- *Fosters Speculation*
- *Creates Short-Termism*
- *Misallocates Resources.*

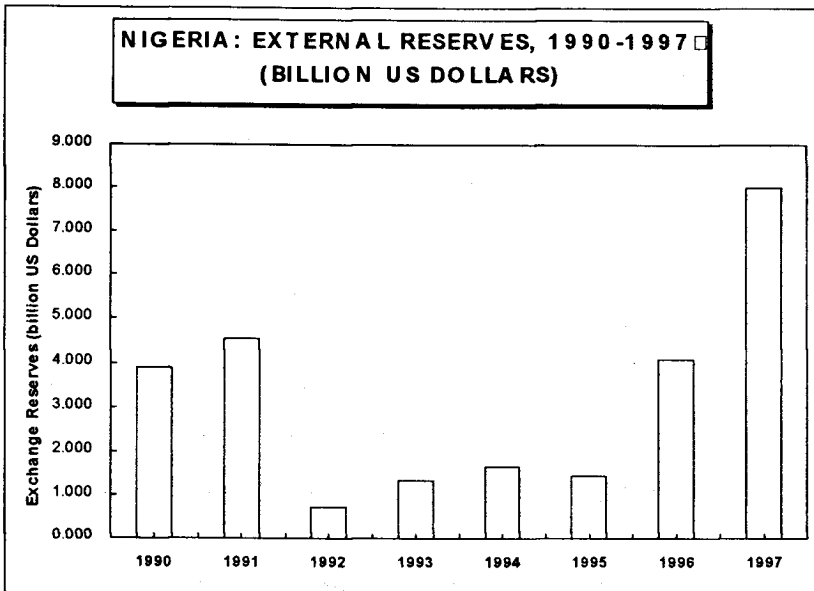
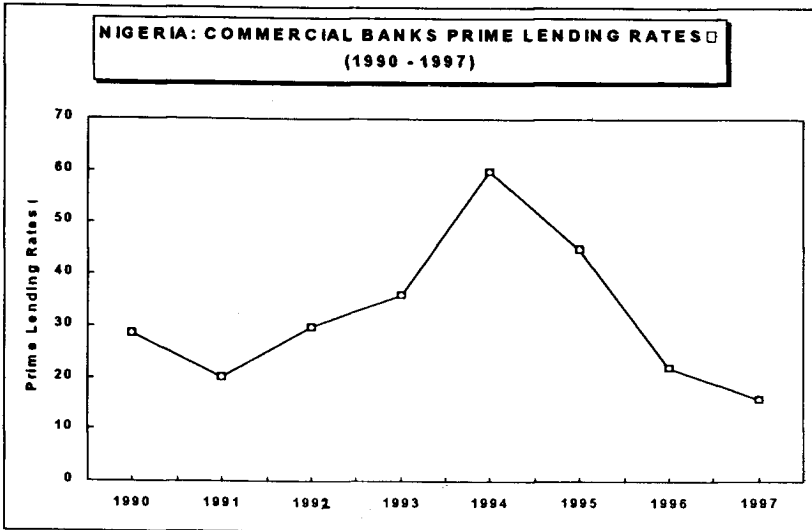
## *THE CHALLENGE FOR 1998:*

- *Pursuit of Stability has led to Recession*
- *The Challenge:*  
*How to Maintain Stability, Revive the Economy and Achieve Non-Inflationary Growth.*

## *ECONOMIC OUTLOOK:*

- *Despite Solid Macroeconomic Foundation, the Economy has seen Little Growth in 1997*
- *Standard of Living not Improving*
- *Why is the Economy so Sluggish?*





*Why Is The Economy So Sluggish?*  
**WEAK PURCHASING POWER:**

- *1997 Budget Structurally Defective from the Onset*
  - *Budget Heavily relied on Public Sector to Jumpstart the Economy*
- *Delayed Capital Spending by Government*
- *Excess Liquidity followed by too Much Tightness.*
- *Exceptionally Low Purchasing Power of Public Sector Employees*
- *High Unemployment.*

**LOSS OF MOMENTUM IN ECONOMIC REFORMS:**

- *Very Little Tax/Tariff Reform*
- *No Bold Steps to Further liberalise/ deregulate Economy*
- *Financial System Reforms stalled*
- *Laws Inhibiting Competition not abrogated.*

**GOLDEN GOOSE IN SERIOUS TROUBLE:**

- *Cut Back in Exploration/Production Activities*
  - *Consequences will manifest in 18 Months*
- *Downstream Oil and Gas facing Collapse*
  - *Significant loss of value in refineries due to lack of maintenance*
  - *Pipelines in advanced state of disrepair*

- *Product scarcity the rule rather than exception*
- *Periodic import only a temporary respite*
- *The Nigerian public suffers a double punishment (black market price and adulterated products)*
- *Inappropriate pricing is the central issue.*

### *WEAK INFRASTRUCTURE:*

- *Good News*
  - *Telecoms*
  - *Roads*
- *Almost at the Point of Breakdown*
  - *Power*
  - *Education*
- *Under-Performing/ Uncompetitive*
  - *Water*
  - *Ports*
  - *Health.*

### *HIGH COST OF DOING BUSINESS:*

- *Private Sector forced to Invest in Alternative Infrastructure*
  - *Cost Inefficiencies as High as 28%*
  - *High Price of Products*
  - *Weak Demand*
  - *Low Capacity Utilisation*
  - *Little Expansion/Reinvestment.*

### *OTHER FACTORS:*

- *Lack of Quick and Fair Dispensation of Justice*
- *Insecurity of Life Property*
- *Illegal Taxes/Multiple Levies*
- *Concerns Regarding Sanctity of Contracts.*

### *PASSIVE PRIVATE SECTOR:*

- *Short-Termism*
- *Investing Elsewhere*
- *Capital Flight*
- *Tax Evasion*
- *Economic Crimes.*

### *MACROECONOMIC GROWTH TARGETS FOR 1998:*

- *Non-Inflationary Growth*
- *Per Capita GDP up by 5+%*
- *Inflation* - *<8%*
- *Savings Ratio* - *20%*
- *Unemployment* - *Reduced Significantly*
- *Money Supply* - *Supportive of Non-Inflationary Growth.*

## *KEY RECOMMENDATIONS FOR BUDGET 1998:*

### *HUMAN CAPITAL (POPULATION, EDUCATION, HEALTH)*

- *Adopt Vision 2010 Proposals on Reforming our Education, Health and Population Dynamics*
- *Fully Integrate Proposals into 1998 Budget*
- *Allocate 20% of Budget '98 to Education*
- *Allocate 5% of Budget '98 to Health.*

### *PUBLIC SECTOR REFORM:*

- *Comprehensive Assessment/Audit of Public Sector (by March 1998)*
- *Rationalise/Restructure (By June 1998)*
- *Install Modern Information/Technology Systems (Beginning June 1998)*
- *Upgrade Compensation Structure Significantly (By April 1998)*
- *Invest Massively in Training and Development (Beginning April 1998)*
- *Earmark 5 Per cent of 1998 Budget for Implementing all the Above.*

# PRIVATE SECTOR AS THE ENGINE OF GROWTH

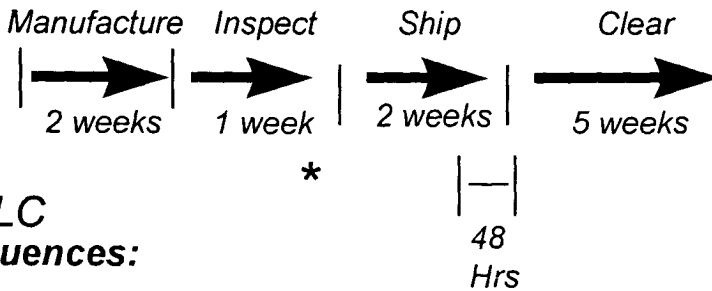
- *Reduce Cost of Doing Business*
- *Benefits Include:*
  - *Improving the Well-being of Consumers*
  - *Eliminating Bureaucracy*
  - *Reducing Corruption*
- *TAX REFORMS*
  - *Move Away from Direct to Indirect Taxation*
  - *Focus on Efficient Taxes, Reduce Tax Evasion*
  - *Immediately Halt Imposition of Arbitrary Taxes/Multiple Levies by State/Local Governments*
  - *Reduce Personal Income Taxes*
    - *Increase Initial Tax Bracket to ₦100,000*
    - *Reduce Highest Rate to 15%*
    - *Eliminate Tax Clearance Certificate*
  - *Reduce Business/Investor Tax Burdens*
    - *Eliminate Excise Taxes (Currently 5-40%)*
    - *Eliminate Capital Gains Tax and Stamp Duty*
    - *Reduce Corporate Tax Rate (20% Maximum)*
    - *Reduce Tariff on Raw Materials (10% Maximum)*
    - *Reduce Duty on Machinery/Spare Parts to Zero.*



■ **Ports Reform**

*(Go Beyond Revenue Generation)*

- *Further simplify Port Processes*



- *Eliminate Pre-Shipment Inspection (Save 1% + time)*
- *Aim for 48 Hours Clearing (Not by doing the Same Things Faster!)*
- *Release on Indemnity in Duty Rate Disputes*
- *One-Stop Customs Entry*
- *Reduce Ports Charges to compare with International Rates*
- *Need for a 24-Hour Port Operation*
  - *Recover Traffic Currently diverted to Neighbouring Countries .*
  - *Opportunity to get Transit Port for West Africa*
- *Take Out Special Levies*
  - *10% Sugar Development Levy*
  - *1% Shippers' Council Charge.*

## ■ **Cut Cost of Doing Business Benefits:**

### **WHY?**



**We currently have lower inflation, not lower cost.**

## ■ **Liberalisation/Deregulation**

- *Announce a Comprehensive Programme of Commercialisation/Privatisation (by January 1998)*
- *Establish a Body for Implementing the Exercise (by January 1998)*
- *Enact Enabling Legislation (by January 1998)*
- *Open up the following to Competition/Privatisation (by January 1998)*
  - *Downstream Petroleum Sector*
  - *Waterworks/Transport*
  - *Telecommunication/Power Generation*
  - *Fertiliser/Sugar/Cement/Airlines/Paper Mills*

- *Implement a Programme for Gradual Elimination of Subsidies and Price Controls (by January 1998)*
- *Create Regulatory Bodies to Ensure Fair and Ethical Competition supported by Anti-Trust Laws (by January 1998)*
- *Adopt a Single Exchange Rate (by January 1998)*
- *Establish Framework to make Naira Freely Convertible (by the end of 1998)*
- *Open up West African Market by Liberalising Trade Barriers - Announce Measures (in January 1998).*

#### ■ *Laws and Regulations*

- *Make NIPC a Promotional and not a Regulatory Body*
- *Remove all Contradictory Laws from Statute Books (by January 1998)*
- *Empower NDIC to Speedily resolve Banking Sector Distress (by January 1998)*
- *Replace Expatriate Quota with Work Visas and Permit Obtainable from Nigerian Missions Abroad (by March 1998)*
- *Create Special Status for Expatriate Investors: Give 4-Year Multiple Entry Visas (by March 1998)*
- *Repeal Section 8 of the Immigration Act of 1963 which requires Business Permit*

- *Amend Consumer Protection Council Decree of 1992 to protect Consumers with a Proviso to sue Service Providers and SOEs (by January 1998)*
- *Streamline Investment Laws/Codes in Line with International Best Practices (by January 1998)*
- *Abolish*
  - *Governor's Consent on Land Transactions*
  - *Alien Cards*
  - *Expatriate Quotas* } *Use Visa Controls*

## ■ ***Financial System Reforms***

- *CBN Autonomy*
- *Modernisation of CBN*
- *Capital Market*
- *Pension/Insurance*

## *PUBLIC AND PRIVATE SECTOR PARTNERSHIP*

- *Key Challenge is Implementation*
- *Who is Responsible?*
- *What Roles -*
  - *Public Sector*
  - *Private Sector*

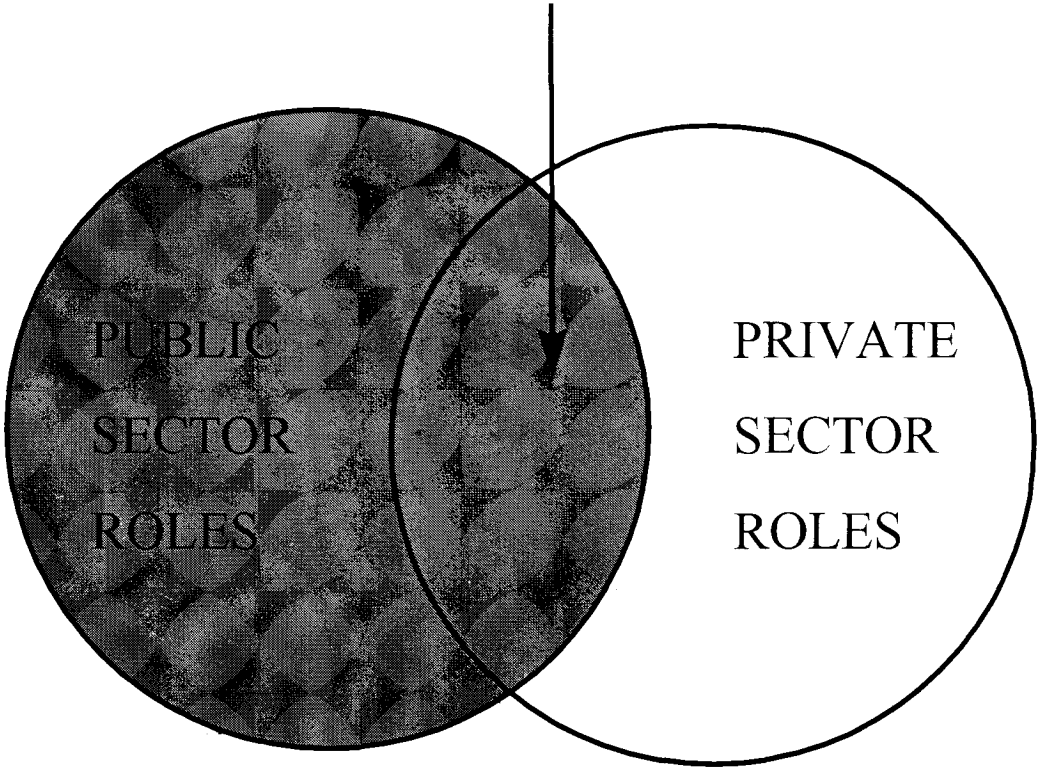
# *PARTNERSHIP IS IMPERATIVE*

■ *Cooperation and Teamwork*

■ *Roles:*

- *Public*
- *Private*
- *Joint Action*

■ ***JOINT ACTION (TEAM WORK)***



## *PRIVATE SECTOR COMMITMENT*

- (1) Invest, Expand and Operate Efficiently**
- (2) Embrace Vision 2010 and Support its Implementation**
- (3) Undertake Trade and Investment Missions to Support NIPC**
- (4) Fund Education, Infrastructure, etc.**
- (5) Improve Business Practices**
- (6) Help Government Eradicate Corruption in all Sectors of the Economy**
- (7) Become Better Corporate Citizens**
  - Law abiding**
  - Timely Payment of all Legitimate Taxes, Dues and Levies**
- (8) Assist in Fight Against Poverty, Illiteracy and other Social Maladies**
- (9) Pass Down Benefits of any Incentive to the Citizenry**
- (10) Actively Promote Image of Nigeria Abroad.**

## **Appendix K:**

**Closing Address by the Head of State, Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria, General Sani Abacha, CGON, at the Fourth Nigerian Economic Summit in Abuja on Thursday, November 20, 1997.**

### Protocols

As the saying goes, all is well that ends well. Only yesterday, I had the singular honour of declaring open, this very important economic round-table.

I am very delighted to note that you have had a most edifying interaction. The atmosphere of frankness and mutual exchanges that pervaded the presentations and general discussions is praise-worthy. I commend you for your commitment, wise counsel and great concern for our nation's economic health. Undoubtedly, the materials, resources and time spent in organising this Summit have been very well utilised.

We shall study your recommendations and what aspects of them to include in the 1998 budget. It bears repetition that one of the greatest challenges before us today is how best to manage our human and natural resources for continuous improvement of the quality of life of our citizens.

Ladies and gentlemen, let me assure you once again that this administration will continue to implement economic reforms capable of laying a solid foundation for the private sector to perform its natural role of being the main engine of economic growth and development. We have already made market-oriented and market-friendly policies the foundation stone of our economic philosophy.

Considering the directions in which the forces of globalisation and technological changes are moving the whole world, I believe that future administrations of this great country will continue to encourage private sector-led development. This is the best and surest route to sustainable growth, development and material prosperity.

There is an urgent and continuing need for us to build on Nigeria's comparative advantages. Next year is going to be the first year of implementation of the economic aspects of our Vision 2010 programme and the private sector must make it a distinctly remarkable year in terms of output in the real sectors.

We must give Vision 2010 a really good beginning. Economic performance in 1998 must show the resolve of all the major operators to start to take those quantum leaps

that will bring that level of growth we aspire to. Both the public and private sectors must begin in 1998 to lay a new and solid foundation for the attainment of the goals of the Vision 2010 programme in agriculture, agro-allied industries, manufacturing, trade and distribution, solid minerals and other economic subsectors.

The transformation of the Nigerian economy, which is one of the key objectives of the Vision 2010 programme, requires greater discipline not only in the public sector but also in the private sector to curb and remove the shortcomings of our past efforts at national development plan implementation.

Ladies and gentlemen, I note with appreciation that in the course of the deliberations at this Summit, you have been treated to an insight into how China has achieved phenomenal economic development within a short time. There are several lessons to be learnt by countries at our level of development from the way China has overcome the hurdles of meaningful economic growth and development.

Nigeria is already drawing necessary conclusion from the Chinese experience and will utilise them for our own rapid development, where they are found relevant to our needs and circumstances. The strategies which have propelled some of the Asian nations into world reckoning within the last one decade, call for creative emulation.

Once again, I congratulate all those who have participated in this year's Summit. Government appreciates your insightful ideas and suggestions to our continuing quest for accelerated development in the major sectors of our economy with a view to bringing about rapid improvements in the living conditions of our people.

I want to specifically thank the guest speakers, Mrs. Zepp-LaRouche of the Executive Intelligence Review and Professor Paul Collier of Oxford University, for their thought-provoking presentations. We have carefully noted issues raised in their presentations and will be guided by your suggestions in the pursuit of greater efficiency, growth and development.

All of us are leaving here today better informed about the direction we must follow and the need for a much stronger and purposeful teamwork between the public and the private sectors. We all know where we want to go. What remains is for us to take and implement the tough decisions required to get us there.

More importantly, we expect the private sector to mobilise effectively and take on the role expected of it under the Vision 2010 programme. As a full partner with government, we expect the private sector to increase its place of investment, create new



local and international markets for the nation's goods, learn to compete at the global level and do what it can to assist in improving the living standards of Nigerians.

I want to assure the foreign participants that we are always willing to consider suggestions aimed at making Nigeria an attractive destination for genuine foreign investment. We guarantee you the safety of your lives and investment.

Ladies and gentlemen, I wish you all journey mercies back to your respective destinations.

Thank you and may God bless you all.

## Appendix L:

**Text of Speech delivered to the Fourth Nigerian Economic Summit at Dinner on 20 November, 1997 by Ambassador George Dove-Edwin, Chairman, Nestle Foods Nigeria Plc on “Economic Diplomacy and Foreign Policy”.**

### Protocols

I am deeply sensible of, and grateful for the honour which I have been given to address you tonight. I was asked to speak on Economic Diplomacy but I have enlarged upon this, somewhat, and will speak on Economic Diplomacy and Foreign Policy.

Can I begin with some definitions. *The Oxford Encyclopedic English Dictionary*, first published in 1991, defines diplomacy as –

**the management of international relations; expertise in this; adroitness in personal relations.**

*Satow's Guide to Diplomatic Practice* (first published in 1917, with a sixth edition in 1986) gives a fuller definition as follows –

**the application of intelligence and tact to the conduct of official relations between the governments of independent states ...; or, more briefly still, the conduct of business between states by peaceful means.**

Diplomacy is of course not the same thing as foreign policy. Foreign policy is determined by a government, not by diplomats. A government would rely on any number of pressures to implement its foreign policy and Satow points out that the success of a pressure would depend on the real power behind it (and I would add here in parentheses that war is the ultimate pressure), but that normally a government would, in the words of Satow, “conduct its international intercourse by negotiation”. Another great British diplomat, Harold Nicolson, remarked that “negotiation is the art of discovering an equable exchange of interests between people who trust each other.” It is the negotiating process that is diplomacy, but to leave the definition of diplomacy here would be to gladden the hearts of those present tonight who may feel that after the odd negotiation here and there, the rest of a diplomat’s time is spent on the cocktail circuit! Lord Strang, permanent secretary to the Foreign Office, London, in the mid-1950s, enlarged upon the definition, in his book, *The Foreign Office*, when he wrote–

**he (the diplomat) must be constantly preparing the ground. For this, he must maintain close contact with the authorities and personalities of the**

state in which he serves ... expounding cogently but tactfully the general and particular points of view of his own country; listening patiently and sympathetically when they expound theirs; correcting misunderstandings and wherever possible forestalling them.

## Diplomacy

From time immemorial, and for as long as one community has had need to secure some accommodation or other with another community, for so long has there been need to send emissaries to negotiate – the Greek city states, for example. The motive power was almost always economic, hence the need for trade and/or territorial expansion and empires. In *African Countries' Foreign Policy* (a joint publication in 1981 by the Institute of African Studies, Moscow, and similar bodies in Poland, the then German Democratic Republic and the then Czechoslovakia), the authors observed that in pre-colonial times, African kingdoms and states too would “tackle international issues of war and peace and regulate political and economic relations with neighbouring and other states.” They mention there also how in 1824 the Oba of Benin was among the first to recognise the independence of Brazil from Portugal, and to deposit an instrument of recognition through a special representative. The Omo N’Oba N’Edo, Uku Akpolopolo, Erediauwa, CFR, His Royal Highness the Oba of Benin, recalled a much earlier period of Bini diplomacy, when he stated at an event commemorating the Great Benin Centenary (MUSON Centre, Lagos, 14 September 1996) –

*Benin reached its zenith between 1504 and 1550, through our great ancestors Oba Esigie, who maintained diplomatic relations with the King of Portugal ... when Benin – Portugal trade was booming.*

(I always wished that when the times comes, when the Ministry of Foreign Affairs has its purpose-built and permanent office here in Abuja, it would be named after this first envoy, this professional progenitor of today’s Nigerian diplomats, who arrived Portugal in 1415 and whom the Portugese called Don Jorge, but whose Bini name is, sadly, not recorded.

Now, who is a diplomat? Who is this player, the negotiator? Again, I quote Satow–

*“Diplomats” ought, however, to be understood as including all the public servants employed in diplomatic affairs, whether serving at home in the department of foreign affairs, or abroad at embassies or other diplomatic agencies. Strictly speaking, the head of the foreign department (minister, in our case) is also a diplomatist, as regards his function of a responsible statesman conducting the relations of his country with other states. This he does by*

*discussion with their official representatives or by issuing instructions to his agents in foreign countries. Sometimes he is a diplomatist by training and profession; at others, he may be a political personage, often possessed of special knowledge fitting him for the post.*

*Elsewhere, Satow also says that a diplomatic mission "must endeavour to develop ... cooperation useful to its government in matters of commerce, finance, economic, labour, scientific research and defence. For such purposes the head of mission will be assisted either by permanent members of the diplomatic service ... or by officers belonging to the army, navy or air force, or to other ministries of the government, specially selected for appointment, as attaches to the mission.*

## **Foreign Policy**

Foreign policy, as I have already noted, is determined by a government. Its goal is to increase national income, wealth, prosperity, and the security of the people. This is done on the basis of inputs from a large variety of sources, including reports from diplomatic missions and consular posts; analysis of these reports by foreign ministry staff, and the selection and admission of some of these to policy formulation, at the discretion of the foreign minister of the day; and the contributions, of course, of other governmental agencies – the home ministries, the specialised arms of government, including intelligence-gathering agencies, and defence staff, all of whom, as need may be, may comment on field reports coming into the foreign ministry. Among the pre-eminent sources for foreign policy formulation is, or should be the group of economic departments of state, the private sector, institutions concerned with social and economic research, and those as well of course as are concerned with international affairs.

## **Economic Diplomacy**

There is a notion that Nigeria adopted, "economic diplomacy" to promote its foreign policy, for the first time, in July 1988. It would seem to me that there is an error here. In my view, the origins of "economic diplomacy" in Nigeria go back to the last phase of self-government, that is, in the run-up to Independence Day. In the first place, the nucleus of our representation in London (the Nigeria Commission, 1954) comprised trade and associated units within the trade section, and the education section which had by now taken over students' placement and the like, along with students' welfare, from the Colonial Office. The trade section was manned by experts from the Department of Marketing and Exports (an expatriate, Mr. Cox, at first, and soon after by Mr. N. A.

Martins, from the same department, who later became ambassador to Liberia, high commissioner in East Africa, and ambassador to the U. S. In the United States too, an Economic Desk was established at the Nigeria Liaison Office, Washington DC, and a Commercial Section in the Consulate in New York in 1959.

Secondly, a very large, "world economic mission" (the largest to date, I believe) was despatched in 1959 under the leadership of the late Chief Festus Okotie-Eboh, then finance minister. In his delegation were ministers (national as well as regional) and businessmen, including the late Alhaji S.O. Gbadamosi and the late Chief Ugochukwu, as I have been reminded by Allison Ayida, himself a member of that delegation. I waited on them as I was at the time a member of the Nigeria Liaison Office in Washington DC, where they spent some time with the financial institutions there. The External Affairs Branch of the Office of the Prime Minister, which was then the foreign service head office, was involved in the preparation of the mission, and one of the first twelve Nigerian diplomats, the late John Ukegbu, was secretary of the mission for part of its tour. Witness too Vice-President Alex Ekwueme's tour of China in 1983 which included businessmen such as the late Chief Adeyemi Lawson. An example from a developed economy, which hints at the university, if not the rightness of this approach, is President Bush's inclusion of chief executives of some of the largest United States corporations on one or two of his visits abroad, or the inclusion of senior business executives by the late US Secretary of Commerce Ron Brown on his tour to the former Yugoslavia last year in which he and his delegation so tragically lost their lives in an aeroplane crash over Croatia.

Thirdly, in 1962, the illustrious (but now deceased) Chief S. O. Adebo, arguably Nigeria's greatest and most renowned civil servant of all time, was appointed Commissioner-General for Economic Affairs with an office in Washington DC and, at the same time, Permanent Representative at the United Nations, New York, where he had his residence. Chief Adebo records in his memoirs (the second volume titled, *Our International Years*) how his appointment came after he had accepted a UN appointment from which he then excused himself in favour of the national one. As things turned out, after five years in the Nigerian 'doubled-post,' Chief Adebo joined the UN in a capacity different from, and higher than the first offer, in which he served for five years also.

Unfortunately, if predictably, the importance attached to the placement of high-level expert officers in our diplomatic missions and consular posts, to look after trade and investment affairs, has not been consistent. Nor has the earlier example of including businessmen in government-led economic missions. For instance, at my arrival in London in April 1986 as the head of mission, there was no expert officer from the concerned economic ministries and, as far as I knew, none nowhere else. I re-organised

the office with effect from 1 January, 1987 and carved a Trade and Investment Promotion Section from the existing Economic Section in the charge of a generalist foreign service officer. I was flattered to see that the Foreign Ministry followed suit in 1988 and appointed as the head of its Trade and Investment Promotion Department the officer, Mr. Akinsanya, whom I had previously placed on the same job in London, and who had returned to the ministry at the end of his posting abroad. Just as suddenly as the last trade officer had been pulled out, though, two new ones were sent half-way through my own tenure which ended on my birthday in July 1992.

I am pleased to pay tribute here to the effort of Major-General I. O. S. Nwachukwu who, when foreign minister in 1989, sought to relocate economic matters within the conduct of our foreign policy.

I have been speaking thus far of economic diplomacy in the narrow sense, that is, insofar as it relates to Nigeria and its important trading partners at the state-and-state, or bilateral level. I shall be saying a few words on multilateral economic diplomacy as well, but before that let me reiterate that the over-riding goal of foreign policy is to increase national income, wealth and prosperity, and to safeguard the security of the concerned citizens. The route to do so is negotiation, and economic diplomacy remains the best tool for this in today's world in which interdependence is the way of life, and in which there is no place for gunboat diplomacy. The primary function of a foreign minister today is therefore to promote his or her country to the world in the best possible light such as would encourage the rest of the world to do business with his/her country. Of course, the minister in charge of the economic ministries and departments have a crucial role here too, but their greater burden is to help run the home front so as to facilitate external promotion. The implication here is that the foreign minister, and his staff, will be kept fully informed of the activities of the economic ministries and that they will be kept abreast of the main trends, information and data which inform their departmental choice so that the diplomatic missions and consular posts may be fully briefed, for they are the first line of defence or, in positive terms, the leading edge for advancing the country's interest in foreign countries. What we have instead is a troubling and negative habit of hugging information, and of which we must be rid, because it is essentially stultifying. The absence of cooperation in public affairs is widespread: public versus private sector; ministry versus ministry; and, within ministries, department versus department. It is a human problem, perhaps more widespread than is generally perceived – maybe with the exception of Japan. Samuel Brittan, the *Financial Times* correspondent, was one of a handful of bright people brought into Whitehall in a cross-fertilisation endeavour in Prime Minister Harold Wilson's ministry in 1964. He wrote a short reflection at the end of most working days, and of this problem, he wrote in one (quoted by Peter Hennessey in his book, *Whitehall*) –

*Scarcest commodity in the Civil Service is information. Like all scarce commodities it is not freely exchanged. Quite wrong to think that someone in another department (or even in one's own) will give freely of knowledge. Therefore there is a premium on those with the knack of finding out.*

I was fortunate in my own career to have benefited from the generosity of my old colleague, Phillip Asiodu, who furnished me promptly with whatever information I asked of him, when he had seen the light and moved from the Foreign Service to the Home Civil Service. Chief Shonekan too provided me with his Chairman's statement to the UAC Annual General Meetings, for several years in a row. There were others too but neither the representatives abroad, nor the operators at home, should have to rely mainly on their own devices for information. The machinery of government should be at least near-sufficient. I shall refer again to a possible means to increase much-needed performance on this, at the external end.

### **Multilateral Diplomacy**

Outside the bilateral field, an area of significance in which Nigerian economic diplomacy was practised early on was in the negotiations aimed at a special trade agreement with the European Economic Community, a grouping of six as it then was, which then accounted for one-third of our external trade. Our renowned economist, Dr Pius Okigbo, was appointed ambassador, with residence in Brussels, in late 1963 or early 1964, and he successfully negotiated the agreement which did not come into force in the end, however, since one country, France under General de Gaulle, did not ratify it because of the rupture of diplomatic relations at our instance, which followed our protests over France's explosion of an atomic device over the Sahara desert. Here too is an example of the inter-relationship between economic diplomacy and foreign policy.

Over the succeeding years, and amidst our new prosperity of the time, we elected not to seek any benefit from the periodic agreements which African countries would establish with the Community, but we also resolved to negotiate in earnest in favour of African countries who looked up to us for leadership. New negotiations for the next agreement between the European Union and (now the ) African, Caribbean and Pacific States (Lome V) are due in ten months or less, but we have no substantive head-mission in our embassy in Brussels. I believe, Mr. Minister, that it would be helpful if senior government leaders would keep this in mind and fill the post at an early date so that we retain this leadership role, at least for the sake of the small ACP states who look up to us to look out for them. Obviously, the ambassador, if appointed, will need to take up this position very soon so as to prepare himself. I know that there are in the Foreign Ministry senior officials who would fill the post, and help conduct the

negotiations admirably, and from my little corner at the periphery of the private sector, I know too that there are men and women there who would do same with great distinction, in the Okigbo tradition. This second lesson I have learnt, the first being there is life after Official Death!!!

An area of outstanding success in our economic diplomacy has been ECOWAS, of course, whose creation in 1975 owes everything to our head of state at the time (General Gowon) and his Togolese counterpart. Happily, successive Nigerian heads of state have been instrumental in nurturing its growth through these past difficult years in the national economies of the constituent member-states. Its role in Liberia, through its Military Observer Group, has given the Community unprecedented high-profile notice, worldwide, and respect, I suspect. It is no wonder then that our current head of state has been given the recognition to serve an extended term as chairman of the Community. But tough days lie ahead, especially in implementing the twenty-three protocols which give legal form for the implementation of agreed specific programmes of harmonisation and cooperation.

### **Regional Economic Arrangements**

An increasingly important arena for economic diplomacy is the regional economic bodies similar to ECOWAS. As is known, these free trade areas already exist in North America (NAFTA, which comprises the United States, Canada and Mexico); Latin America (MERCOSUR and the ANDEAN PACT); and South-East Asia (ASEAN). There are also regional bodies in Africa besides ECOWAS and a lesson to be learnt from the direction in which the non-African groups are going, is the need to cooperate among themselves in the first instance and, secondly, with regional bodies elsewhere, even before the already-agreed African Economic Community is fully realised. The trend towards inter-regional cooperation is noticed, for example, in APEC, the Asia-Pacific Economic Forum, and in ASEM, the annual Asia-Europe Meeting. These regions, after all, control over 90 per cent of world trade and what they do must be of crucial importance to Nigeria and other African countries.

### **Economic Diplomacy in the Global Village**

The most exciting field in which Nigerian economic diplomacy must now be pressed into service is at the global level. We have of course been participants in the series of UNCTAD (United Nations Conference on Trade and Development) conferences since the first one in 1968 in New Delhi, and in the preceding negotiations before that, as well as in the Uruguay round of negotiations which was concluded two years ago in the setting up of the new World Trade Organisation (WTO) in replacement of GATT (General Agreement on Tariffs and Trade). WTO is where the rules of trade are



established and we will require all the expertise and skill that we can muster to enhance our interests within the organisation. I am told that following the first Ministerial Review Conference of WTO in December last year, the World Bank, the IMF and WTO now constitute the tripod of monetary policy and that this arrangement is intended to provide coherence in global economic policy-making, in accordance with Article III (5) of the WTO Agreement. Will there be the necessary co-ordination of effort, and cooperation, here at home to eliminate jurisdictional disputes in our endeavours within WTO?

Some countries - notably, Brazil and Canada, and many developing countries, have sought to ensure this by combining the ministries responsible for foreign affairs and international trade into a Ministry of Foreign Affairs and International Trade. External trade policy is, after all, distinct and different from domestic trade policy and is increasingly foreign policy. The ministry responsible for domestic trade can then be merged with the one for industry, as a Ministry of Trade and Industry, which we have had in the past in some of our administrations.

More immediate of all is that our delegation to the World Trade Organisation in Geneva, in which one of our brightest diplomats, Dr Chiedu Osakwe, is serving, should be enabled, both by mandate and timely guidance, to work in concert with other delegations for the completion of WTO negotiations for the proposed Multilateral Agreement on Investments.

The global market place for trade in goods, services and intellectual property, and the reduction and elimination of barriers to trade, are inescapable features of the contemporary international trading system. Countries therefore need to adjust to the developments, especially in acquiring new expertise in specialised and complex areas of management, trade policy and information technology.

## **Home Base**

Good articulation of our interests within the World Trade Organisation will not, by itself, breed the ability to perform at home. The productive capacity will need to be grown with all deliberate speed, and to do so, enabling policies which are right for us; timely and adaptable to the fast-changing world beyond, with whom we are in competition; and policies that are shorn of all contradictions, seeming or real, must always be in place. There must be a good match between the internal imperatives and the external. Without these, economic diplomacy will remain largely ineffective.

I believe that government and citizens are concerned at the manifest inefficiencies within the public service. In some instances, lethargy is palpable, and the consequences are at all events inimical to our progress. To say this is not to be lacking in sympathy, for everyone is now more clearly aware of the handicaps under which public servants work (my pension monitors the situation very well for me!!). However, there are areas in which a dramatic improvement can be made. One example: Vision 2010 members will recall that a minister told us of his disbelief that no one in his ministry could be found to operate a word processor. The remedy is training!! Surely, an investment in the large-scale procurements at discount prices of this indispensable tool in today's world, and in training staff in its use, could within six months make all the difference to the speed of work throughout the ministries, given the unique benefit of modern storage and easy retrieval of information, and its transmission by E-mail, which the computer avails us. As we know, this is how our competitors are working now; this is how business is being transacted already world-wide: using information technology to identify business opportunities and to conclude deals. It must be our aim to narrow the gap if we are to enter the millennium with a better than even chance of beginning to live out our years of long but unfulfilled promise. If private sector is already putting the advantages of this tool to work, with good effect, despite the odds of our infrastructure, I believe that the public sector too can rise to the challenges. On this, I therefore fully support the Vision 2010 Committee's International Trade Group's recommendation that export/import procedures should be computerised and that the Federal Office of Statistics also should be computerised and made a one-stop information centre run on commercial lines.

## The Commonwealth

Although South Africa withdrew its application to remain in the Commonwealth upon becoming a republic in 1961, rather than (among other things) exchange diplomatic representation with Ghana and other emerging African countries, that country's apartheid policy remained on, and dominated the Commonwealth's agenda to the end, as did the Rhodesia's Unilateral Declaration of Independence in 1965, even if to a lesser extent, up to 1979. In his broadcast to the nation on the Commonwealth Heads of Government Meeting (CHOGM) of 1964, the late prime minister, Sir Abubakar Tafawa Balewa reported –

*But by far the greatest achievement was appreciation of the danger to world peace brought about by the widening gap between the developed and developing countries. We agreed that the Commonwealth could in a modest way give lead to the rest of the world in the economic field.*

*(Quoted by Trevor Clark in his biography of Sir Abubakar, A Right Honourable Gentleman).*

By 1989, the final communique on CHOGM, Kuala Lumpur would report not only a *tour d'horizon* of the world economic situation, but also the agreed position of the Heads of Government on the following topics:

*Commodities; debt and financial flows; international financial institutions, and growth-oriented adjustment; poverty alleviation; (the establishment of) Commonwealth Equity Fund (for private institutional investment in Commonwealth developing countries); management of technological change (with a Commonwealth Consultative Group for Technology Management based on the approach of the Commonwealth Project on Strategic Management and Planning of Science and Technology and its integration in national development); women and development; environment and climate change; natural disasters (to which many Commonwealth countries are vulnerable); the LDCs; and shelter for the homeless.*

I have concerned myself here to a narration of the economic agenda items of one recent CHOGM, to show economic diplomacy at work at a conference at which we were a participant.

According to a report in *The Times* last week, La Francophonie (which seems to be modeling itself on the Commonwealth), and which concluded its seventh summit in Hanoi over the weekend, and elected former UN Secretary General, Boutros Boutros Ghali as its first Secretary General, was expected to begin to shift its focus from a language and cultural grouping (French) to one with *economic* and political links.

Constraints on time have not allowed me to speak on an economic diplomacy tool such as a joint (economic) commissions, which serves as a forum for identifying areas of operation, assessing and eliminating obstacles in them, whether in law or administrative procedures, and thus facilitating greater overall bilateral relations with other interested states. Or, say, the use of contracts in appropriate circumstances to enforce national interests. Of those, another time, another place.

It remains for me to add, Mr. Minister, ladies and gentlemen, that neither political diplomacy nor cultural diplomacy, nor any other of the facets of diplomacy, nor in particular economic diplomacy with which my talk has been concerned, can bring about the full realisation of our foreign policy objectives in an environment in which once-excellent relations with the international community, have been eroded by uncreative

tension in the public arena. I end as I began: when all is said and done, the main objective of foreign policy is “to increase national income, wealth and prosperity, and to safeguard the security of citizens.” I truly believe in the efficacy of diplomacy both when relations are on the high, so as to keep them there, and when they are in low, to work them back up again. Not unlike in your own profession, Mr. Minister, present at the birth of the company, and through thick and thin, to point to the sky for achievement, but present also, if the worst comes to the worst, at wind-up time, to give reassurance that there is life after liquidation – death!! With dialogue, we shall overcome.

I thank you for your kind attention.

## Appendix M:

### List of Group Participants

The following names were compiled from attendance sheets circulated during group meetings. It may therefore exclude Summit participants whose group attendance records did not reach the Editorial Committee.

#### Group 1: Private/Public Sector Role

Chief Olu Akinkugbe Jubilee House, Ring Road, Ibadan	James Audu Ikye SSG, Benue State
Albasu Abubakar Umar Federal Civil Service Commission Abuja	Pascal G. Dozie Diamond Bank Ltd, Lagos
Ahmadu Rufai Mohammed 14 Harvey Road, Yabà, Lagos	Mohammed Haruna Citizens Communications Ltd, Kaduna
Brig.-Gen. V. B. Williams Nigerian Army	Moses Ngbale SSG, Adamawa State
Aliyu Mohammed 1 Abba Road, Unguwar Kanawa Kaduna	Ernest Aiyedun University of Abuja
Alhaji Aminu Saleh 696 Nawarawa Azare, Emir's Palace Drive, Azare Bauchi State	Tukur B. Ingawa Office of Establishments Abuja
Akinsola Akinfemiwa Chartered Bank, Lagos	M. A. B. Akpobasah Akpobasah & Associates Lagos
S. Baba NITEL	J. A. Akinbola Federal Civil Service Commission
E. B. Adashu SSG, Taraba State	F. R. Fashola Industrial and General Insurance Co. Ltd

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**Group 2: Economic Role in Africa**

Henry C. Okolo  
Aluminium Technologies Ltd  
Lagos

Maj.-Gen. Ike Nwachukwu (rtd)  
Santon Nig. Ltd, Lagos

Bunmi Oni  
Cadbury Plc, Lagos

Mrs. Susan R. Janfa  
SSG, Plateau State

Elisabeth Ochepe  
Uganda High Commission  
Lagos

Mohammed Shehu Birma  
Keptin Telecomputing Ltd, Lagos

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**Group 3: International Trade**

Brig.-Gen. S. O. Ango

Umaru Audi

Rear-Admiral J. Ayinla

Amb. M. B. G. Dogonyaro

Mr. Tukur Mani

S. A. Musa

Tunde Sangokunle

SSG, Akwa Ibom State

SSG, Rivers State

Aderemi Adelupo

Duncan Briggs

Henry Shu  
NICAPACO, Lagos

Adams Oshiomole  
Textile Workers, Kaduna

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**Group 4: Fiscal Systems/Reforms**

Faysal El-Khalil  
Seven-Up Bottling Co. Plc  
Lagos

Dr. Edet A. Ekerendu  
Federal Ministry of Finance  
Abuja

CP A. A. Oyakhire  
The Nigeria Police Force

Greg Nzekwu  
World Bank Resident Mission  
Abuja

Rick Brown  
Chevron Nigeria Ltd

Yusuf Abdurrahim  
NICON Insurance Corporation

Olalekan Saliu  
Flour Mills of Nigeria Plc

Tunde Savage  
Guinness Nigeria Plc

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**Group 5: Monetary Systems/ Reforms**

Paul Ogwuma  
Central Bank of Nigeria

Tony Onwu  
FSB International Bank

Aig Aig-Imoukuede  
Guaranty Trust Bank

Kalu Idika Kalu  
Clim Bal Ltd

S. O. Adebisi  
NEXIM Bank, Abuja

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### Sponsorships

Contribution from many companies made possible the successful organisation of the Summit.

Special credit is to be given to Seven-Up and Shell. For the fourth time, Seven-Up offered the high quality bags that have become a landmark of the Summit. Shell answered our call, as always, and took care of everything concerning the trip and the presentation of Professor Paul Collier. Mobil and Chevron sponsored a dinner, with their usual generosity.

Other companies contributed in cash. They are:

	N
Esso Exploration & Production	364,000
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In addition, many other organisations contributed in kind, provided facilities, seconded staff, lent equipment, or offered preferential rates for their services. These organisations include:

Office of the Secretary to the Government of the Federation  
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We express our gratitude to all of them for their support. Their silent contributions created the conducive atmosphere required for the success of the Summit.

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*Report on the Fourth Nigerian Economic Summit* with the central theme, "Implementation of Vision 2010: the 1998 Budget Issues", offers a hopeful prognosis of the Nigerian economy.

By focusing on salient aspects of the recommendations of the Vision 2010 Committee and ways of implementing them, the Fourth Summit sets an agenda for translating the vision into a mission.

The report provides objective guidelines which are germane to jump-start the economy.

