**COURSE GUIDE**

# PAD 206
# NIGERIAN ECONOMY


**Course Team** Dr. Amangwai Josiah Monday (Federal University Lafia, Dr. Musa Zakari(NOUN) & Dr. Attadoga Godwin (NSUK) & Hassan Nazif Mohammend (NSUK)- Course Writer/Developer
Dr. Musa Zakari/Mavis B. Madu(Content Editor)- NOUN



NOUN

**NATIONAL OPEN UNIVERSITY OF NIGERIA**

National Open University of Nigeria
Headquarters
University Village
Plot 91, Cadastral Zone
Nnamdi Azikiwe Expressway
Jabi, Abuja

Lagos Office
14/16 Ahmadu Bello Way
Victoria Island, Lagos

e-mail: centralinfo@nou.edu.ng
URL: www.nou.edu.ng



Printed 2024

ISBN:978-978-786-276-6

**CONTENTS** **PAGE**

**Introduction**

This course, PAD 206: Nigerian Economy, guide tells you in brief what the Nigerian economy is all about during the pre-colonial, colonial and post-colonial era. It is a semester, 3-credit course. The course is made up of thirty units and the units are collapsed in five modules.

**Course guide**

The overall aim of the Nigerian Economy is to enable you understand the characteristics of the various sectors of the economy. You will learn about the features of the various sectors.
After that, the focus will be shifted to the challenges that impinge on government efforts. Other issues you will cover include the strategies and policies embarked upon by the government of each sector of the economy.

**Measurement and learning outcomes**
To achieve the stated aims, the course sets specific objectives at the beginning of each unit which you should read before studying the unit. You should endeavour to look at the objectives after completing each unit to ensure that they meet the requirements.

**Course materials**
To complete the course, you are required to study the units, read the textbooks and other materials which will be provided by the National Open University of Nigeria. Each unit contains activities and tutor-marked assignments for assessment purpose.

**Self-assessment exercise**

There is a final examination at the end of the course.

There are two parts of assessment of the course. First answering the tutor- marked assignments, and second there is a written examination. When computing the assignments, it is expected of you to apply the knowledge required during the course. There are thirty tutor- marked assignments in this course and you are encouraged to attempt all. However, you only need to submit twelve of the thirty assignments. The highest five of the twelve marks will be counted.

Each of the five assignments counts 8% toward your total course marks (8% X 5) = 40%. The final written examination for this course will be of three hours' duration and will have a maximum value of 60% of the total grade.

The examination will consist of questions which reflect the course content.

The time between completing the last unit and sitting for the examinations will consist of questions, which reflect the course content. The time between completing the last unit and sitting for examination should be used to revise the course. It may be useful to review your activities and tutor- marked assignments before the examinations. The breakdown of the course marking scheme can be read from this table.

## Summary

Each of the units follows a common format in this sequence:- introduction to the subject matter, objectives (let you know what you should be able to do by the time you have completed a particular unit); the main body of the unit (guides you through the required reading with activities), conclusion, summary, tutor-marked assignments; and further readings. Activities are meant to help you achieve the objectives of the unit and prepare you for the tutor-marked assignments and the final examination. When you have submitted an assignment to your tutor, do not wait for its return before commencing work on the next unit. When the marked assignment is returned, go through the comments of your tutor carefully and mail any questions or any difficulty encountered to him/her.

## Course materials

The course materials package is comprises of the following modules structures:

### Module 1

| | |
|---|---|
| Unit 1 | Concept of Economic Structure |
| Unit 2 | Concept of Economic System & Structural Dualism |
| Unit 3 | Profile of the Nigerian Economy |
| Unit 4 | Overview of the Nigerian Economy |
| Unit 5 | Privatization in Nigeria |

### Module 2

| | |
|---|---|
| UNIT 1 | The Role of Central Banking of Nigerian on Nigerian Economy |
| UNIT 2 | The Nigerian External Debt Crisis |
| UNIT 3 | Nigeria Monetary and Fiscal Policies |
| Unit 4 | Taxation and Nigeria’s Economic Growth and Investment Opportunities |

**MAIN COURSE**

**CONTENT** **PAGE**

# MODULE 1 CONCEPT OF ECONOMIC STRUCTURE



## Unit 1 Concept of Economic Structure

### Unit Structure



### 1.1 Introduction

You must have read the Course Guide. This unit is the first among the Five (5) constituents units of this module. The main thrust of this unit is to introduce you to 'economic structure' as a concept and expound its significance, highlight the importance of the study of economic structure, identify 'economic system' as a major determinant of economic structure as well as 'sector' as a basic unit of economic structural analysis. This unit is fundamental to the understanding of subsequent units and modules. This is simply because other units and modules will be discussed on the basis of the fundamental concepts.

### 1.2 Learning Outcomes

By the end of this unit, you should be able to:

- Define the concept of economic structure as scholarly established and in your own words
- Enumerate the importance of the study of economic structure
- Identify the main determinant and unit of analysis of economic structure

- List with relevant examples different types of sectors that exist in Nigeria

## 1.3 Economic Structure

### 1.3.1 Concept of Economic Structure

Generally, our focus in this course is to analyse the structure of the Nigerian economy in the light of relevant features and performance indices before and after independence. Let us begin our understanding of the concept of economic structure by first defining the word 'economy'.
According to Lipsey (1983) an economy refers to any specified collection of interrelated set of marketed and non-marketed productive activities. In essence, 'Nigerian Economy' refer to all such economic activities taking place in the geographical domain of Nigeria (Domestic Economy) or all such economic activities of Nigerian residents wherever in the world they perform such activities (National Economy) (Anyanwu et al, 1997).

Over time various scholars have developed numerous definitions of economic structure but all seems to have a common feature that assists you in forming an opinion of what 'economic structure' is all about. However, a review of some of these definitions will broaden your knowledge on the concept and more importantly arm you with facts to enable you construct a definition of your own.

Literarily, economic structure can be defined in terms of institutional arrangements aimed at the decision on what, how and for whom goods and services in an economy are to be produced and consumed.
In a more technical sense, some definitions of economic structure are enumerated below:
Todaro (1982) define the concept of economic structure as the organisational, institutional and social framework of any economic system including the nature of resource ownership.

Anyanwu et al (1997) referred to economic structure as a complex organizational framework, interlaced network, configuration or outline of logical connectives through which activities of an economy are coordinated or aligned.

According to CBN (2000), the structure of an economy reflects the norms, conduct of production activities or established production distribution patterns within the adopted economic system.

In another definition, Schalkwyk (2008) describes the structure of an economy as a function of the sum of all the different economic activities in the geo-political boundaries of that area.
More recently, CBN (2010) defines the structure of an economy as the organizational and institutional framework which determines the forms of resource ownership, production and distribution of goods and services.

In a more explicit term, Riley (2011) defines economic structure as a term that describes the changing balance of output, trade, incomes and employment drawn from different economic sectors–ranging from primary (farming, fishing, mining etc.) to secondary (manufacturing and construction industries) to tertiary and quaternary sectors (tourism, banking, software industries).

The structure of an economy therefore includes the structure of production (such as agriculture and industrial production, the financial system, factoral composition and value added, the availability at a given time of labour, enterprise, capital and natural resources, functional distribution of income, composition of sources and uses of resources (for consumption and investment). It also includes the institutional base of the economy- including political system, the legal framework and the agencies for its enforcement. Furthermore, the established pattern of social organisation and control (including the existence of freedoms of special-interest organizations like trade unions) the agencies of public administration, and the physical infrastructure, providing transport and communications- and demographic variables including age and dependency characteristics of the population and the degree of urbanisation are integral part of economic structure.

Unlike many other concepts, the definition of economic structure, even though numerous are not so dispersed. The definition seems to be close and in total conformity with one another except for scope of definition. It follows from the above definitions that the structure of an economy could be perceived as the basic organs and processes of reaching decisions in the production and allocation of resources in the economy. Thus, a change in the structure of an economy in the desired direction will ensure the attainment of the overall objective of economic development and vice versa.

The basic elements and the characteristics of structural diversity among countries are in variations of the geographic patterns, historical evolution, production methodologies and the size of the public and private sectors. Also included in these factors are the sociological features, political settings and external dependence.

Changes in economic structure are a natural feature of economic life but they bring challenges in terms of reallocating factors of production. For example, a shift in production and jobs in one sector can lead to problems of structural unemployment.

## Self-Assessment Exercise 1

| | |
|---|---|
| 1. | What is economic Structure |

### 1.3.2.1 Why the Study of Economic Structure?

The significances of the study of economic structure are numerous and its importance cannot be over emphasized. These include the following:

i. The study of the structure of the economy provides adequate information on the form conduct and performance of the economy meant for adequate policy or as a means of charting the future with significant measures of certainty.
ii. The study of economic structure enables us to formulate policies to prevent or minimize deviations from the accepted developmental or structural norm. This implies ensuring that the economy is structurally balanced- all the sectors are developed in an analytical consistent manner such that the economy’s growth potential is not impaired or retarded due to the dominance of one or some sectors or the failure of other sectors to contribute commensurately in the overall development process.
iii. It also enables us to check the dominance of one sector over the other as well as ensuring the contribution of all sectors to overall developmental process.
iv. With the study of economic structure, we will be in a position to design measures of economic structure which gives an idea of economic enhancement or otherwise impediments.
v. Also, a study of this nature assist us in discovering the degree to which growth is promoted, to whom the benefits is accruing, how far the process of economic independence is proceeding and how well the scarce resources of the nation are being utilised to the benefit of the country and the citizenry.
vi. The study of economic structure also enables us to appraise the economy in terms of its past status, the attendant changes over the years and the extent to which it has facilitated the nation’s economic, social and political progress.
vii. It also assists us in evaluating the attainment of government or nation’s objective as well as the effectiveness of policy instruments, strategies and programmers.

### 1.3.2.2 What is the Key Determinant of Economic Structure?

The structure of any economy is largely determined by its ideology and invariably its economic systems. The economic system, a product of the economic ideology of a country exercises a substantial influence on its structure. Three of this economic systems are prominent; the market or capitalist economic system, the centrally planned or social system and the mixed economic system. The ownership and distribution of means of production varies in these systems and thus affect decisions on the production and allocation of resources in the economy. Hence, a thorough understanding of the concept of economic system is essential to the workings of the structure of any economy. You will be exposed in details to various types of economic system as well as their features in the next unit.

**Self-Assessment Exercise 2**

| |
|---|
| Aside the economic system, is economic structure determined by other factors? |

### 1.3.3 Unit of Analysis of Economic Structure

Having refreshed your memory on the concept and importance of economic structure as well as underscoring the importance of economic system in determining economic structure, it is pertinent to introduce you to the unit of analysis of economic structure.

An economy can be analysed as a whole thus representing the broad aggregates or sum total of all activities in the economy. In this sense, the resultant effect of activities is cumulated in certain indicators; hence the contribution of component parts is not clearly defined. On the other hand, an economy can be analysed in terms of its component parts often referred to as ‘Sectors’. This involves breaking down of economic activities into various units and the contribution of each unit analysed. A change in an economy is often discussed in terms of sectors. These economic sectors are numerous and often classified as ‘primary’, ‘secondary’ and ‘Tertiary’ sectors

### 1. The Primary Sector

This sector includes activities directly related to natural resources exploration. The sector is engaged in the extraction of renewable and non-renewable natural resources. Their outputs are basic input into the secondary sector. Activities under this sector include farming- crop agriculture, Livestock, forestry, Fishing, Lumbering and mining – oil and gas extraction, solid minerals mining, quarrying etc

## 2. The secondary Sector

The secondary sector covers all other goods production in the economy, including the processing of materials produced by the primary sector and itself.
Manufacturing is the main element in this sector. It also includes construction and public utility industries of gas, water and electricity.

## 3. The Tertiary Sector

All private sector service activities such as transportation, distribution, insurance, banking and finance, communication, hotel and restaurant, real estate, housing and all public sectors activities such as defence and health fall under this sector. From another point of view, Anyanwu et al (1997) stated that the Nigerian economy can be structurally classified broadly into four namely:
1. Production
2. General Commerce
3. Services and
4. Others.

1. Production is made up of:
a. Agriculture (cropping, livestock, forestry and fishing)
b. Manufacturing
c. Mining and Quarrying
d. Real Construction

## 2. General Commerce is composed of:

a. Bills Discounted
b. Domestic Trade
c. External Trade (import and export)
3. Service consists of:
a. Public utilities b. Transport c. Communication
4. Other Sectors are:
a. Credit and Financial institution
b. Producer of Government service
c. Miscellaneous (personal, professional, Community)

## 1.5 Summary

In this unit, we have attempted to relate some definitions of economic structure from various scholars of repute. Also, from the point of view of harmonization, you have learnt that all the definitions agreed to the fact that the ‘structure of an economy’ refers to basic organs and processes of reaching decisions in the production and allocation of resources in the economy and as such the study of economic structure is very important. Economic system was equally identified as the key determinant of economic structure while the three major categories of sectors in an economy were also described. I believe your understanding of this unit has given you a basis for the understanding of the next unit and infact subsequent modules. I expect you by now to be anxious of reading more about economic ideology and systems which will be duly served in the next unit. Issues on structural diversity and the factors responsible for such will be discussed in the next unit of this module.

## 1.6 References/Further Reading/ Web Resources

Anyanwu, J.C., A. Oyefusi, H. Oaikhenan and F.A. Dimowo (1997). The Structure of The Nigerian Economy (1960-1997), Joanee Educational Publishers Ltd., Anambra, Nigeria. 661pp.

Ayodele, A.S. and G.O. Falokun (2005). The Nigerian Economy; Structure and Pattern of Development. Printoteque, Lagos, Nigeria. 301pp.

Central Bank of Nigeria (2000). The Changing Structure of the Nigerian Economy and Implications for Development. Communications Limited, Lagos,

Nigeria Central bank of Nigeria (2010). The Changing Structure of the Nigerian Economy.

Mordi, C.N.O., A. Englama and B.S. Adebusuyi (eds.)

Lipsey, R.G. (1983). An Introduction to Positive Economics. 6 ed. ELBS London

Olaloku F.A (1979). Structure of the Nigerian Economy. Macmillan Press Limited, London.

Todaro M.P (1982). Economics for a Developing World. Longman Group limited, Essex, U.K.

Rilev, G (2011). A level Economics blog. Available at: tutor2u_econ Schalkwyk, Aren Van (2008). Economics, Available at Wikianswers- answers.com

## 1.7 Possible answers to Self-Assessment Exercise(s) within the content

### Answer to SAEs 1

### What is economic Structure?

Todaro (1982) define the concept of economic structure as the organisational, institutional and social framework of any economic system including the nature of resource ownership. Anyanwu et al (1997) referred to economic structure as a complex organizational framework, interlaced network, configuration or outline of logical connectives through which activities of an economy are coordinated or aligned.

### Answer to SAEs 2

Aside the economic system, is economic structure determined by other factors?

The economic structure of a country or region is determined by a variety of factors in addition to the economic system. Some of the key factors that can influence the economic structure include: Natural resources, Demographics, Political and regulatory environment, Technology, Culture and tradition, International trade and Infrastructure. These are some of the factors that can influence the economic structure of a country or region, and the relative importance of each factor can vary depending on the specific context.

# Unit 2 Concept of Economic System & Structural Dualism

## Unit Structure



## 2.1 Introduction

You will recall that we established in unit 1 that the structure of an economy is largely determined by the economic system which is a function of the economic ideology of the nation. This unit is the second unit in this module. Here, we shall begin our discussion with an exposition of different economic ideologies that exist in the world viz: Liberalism, Laissez-faire, Capitalism, Imperialism, Socialism, Communism and Mixed economic ideologies. I also attempt to give a further insight into different types of economic systems (markets) which emanate from these ideologies. The economic systems will be extensively discussed under five different subheadings namely Pure Market, Developed Market, Centrally Planned or Socialist, Mixed Market and Market Socialist Economic Systems. The level of similarities in the two separate sets of discussions should not surprise you; it only reiterates the fact that the economic systems are moulded from various economic ideologies. Lastly, in this unit, issues on structural dualism in the light of its meaning, types and factors of diversity will be briefly mentioned.

## 2.2 Learning Outcomes

At the end of this unit, you should be able to:

- Describe the philosophy of various 'Economic Ideologies that exist in the world
- Highlight the features and giving examples of countries that operates various 'Economic Systems
- Define 'Structural Dualism'
- Enumerate factors that accounts for structural diversity in an economy

## 2.3 Economic Ideologies

### 2.3.1 Liberalism

This ideology postulates the idea that freedom is central to the realisation of human personality. The idea of freedom won a hold on popular imagination in the seventeenth century and from then on, was one of the moving forces of history. This ideology basically seeks to free man from oppressive authorities. When related to the Nigerian experience, this was the ideology in vogue during the fight for independence in the 1950's.

### 2.3.2 Laissez-faire

A variant of liberalism is the laissez-faire ideology. Here the bourgeoisie in their quest for power appropriated liberalism as its ideology and gave it a narrow interpretation. Its central notion was the natural right to private property and economic freedom that is based on it. The bourgeoisie were of the opinion that complete economic freedom for its members would lead to an ever increasing expansion of wealth for the society. The bourgeoisie claimed political predominance because they believed that the social function of wealth creation was in their hands. They then challenged the existing dynastic state and the fundamental basis of its existence in the guise of democracy- a government by them. The bourgeoisie therefore advocated for a situation whereby governance should be totally divorced of all economic activities. In other words, the doctrine of laissez-faire maintained that if the economy were freed from government shackles, the energies of individual entrepreneurs would be optimally productive.

They believed the heart of the economy was the market for which people would produce in anticipation of consumer demand and in expectation of a profit. The market was said to be democratic because the consumers was assumed to be king, but its relationship to income was often overlooked. Under laissez-faire the market also operated for labour. Wages accordingly were considered to be rationally determined by supply and Demand.

### 2.3.3 Capitalism

It is often considered to be an off-shoot of liberalism. Capitalism is an ideology that is based on private ownership of means of production. It is characterised by a multitude of competing producers, non-interference of government in the economy and the market being a regulator of competition. Other features include: each entrepreneur accepting the profit as well as the risks of his activities, the owner of an enterprise also serving as its manager and no responsibility by the state for its people's economic welfare.

### 2.3.4 Imperialism

This means the highest and last stage of capitalism, when 'free competition gives way to the dominance of monopolies and finance capital is established; the export of capital has acquired pronounced importance; the division of the world among the international trust has begun; the division of all territories of the globe among the biggest capitalist powers has been completed (Lenin, 1985). Though the vagaries of time have introduced some amendments, this definition of imperialism remains valid to this day. Even though Colonial empires have collapsed and dozens of independent developing countries have arisen, neo-colonialism has superseded colonialism.

Imperialism is characterized by parasitism and decay, manifested in the disparity between the growth of productive forces and the vast potentialities offered by modern science and technology.

### 2.3.5 Communism

This refers to the highest stage of socialism where people receive their income on the basis of their needs. It refers to a system of total control of social life by self-appointed elite (Mark, 1973). Full-fledged socialism or communism would be a state of affairs in which scarcity would have been overcome and production would be for use and not for exchange, socially planned for the benefit of the educated and the participating working masses (Nove).

## Self-Assessment Exercise 1

| |
|---|
| In what way is imperialism different from communism economic ideology? |

## 2.4 Mixed Economy

After World War I, it became obvious that the economy of the western world (capitalism) has lost steam. The supposed "invisible hands of market mechanism" could not equilibrate the economy again. The economy began to fluctuate in a turbulent manner. The advent of Keynes 'general theory of employment, Interest and Money (1936) further cleared the air on the need for some measure of government intervention in the economy. In his opinion the great depression could have been avoided if Governments consciously adopted fiscal policies to stimulate aggregate demand. After World War II, the western countries, afraid that a repetition of the great depression succeeding the First World War might occur began to imbibe Keynessian theory of stabilising their respective economies by the instruments of monetary and fiscal policies. This was a deviation from the ideal of capitalism. Thus, true in some measures to the postulates of Karl Max, Capitalism as practiced in Western Europe especially before the First World War came to climax gave way to a form of a mixed economic ideology. From the other of the continuum, socialism began to face great challenges especially in international trade, which is beyond the scope of its political influence. Under command control, there are no incentives for investment, hence the slow pace of growth and development. The management theory of motivation find no place in socialism as it does in the capitalist system. Hence, today most hitherto socialist ideologue countries have opened up to free enterprise in certain areas of the economy while government still hold tight to certain other sector.

## Self-Assessment Exercise 2

| |
|---|
| What is the major reason that led to the evolution of a mixed economic ideology? |

### 2.4.1 Economic Systems

### 2.4.2 The Pure Market or Capitalist Economic System

In a pure market or capitalist economic system the emphasis is on private ownership and control of resources, production and distribution process. There is complete decentralization of everything. Competition is the key element in a capitalist economy and this is presumed to reinforce efficiency. The productive assets are purely in the hands of private owners whose objective of operation is profit maximisation. The economy is based on 'Laissez faire' ideology in which market force determines the prices and distribution of goods that is produced. The 'invisible hand' as referred to by Adam Smith is expected to ensure that profit maximization guarantees the maximum wealth of the society. This subsequently promotes people's economy welfare. An example of the country that operates this type of system is the United State of America.

### 2.4.3 The Developed Market Economic System

As earlier mentioned the capitalist system recognises total private sector ownership of resources (production and allocation). The developed market economic system modifies this feature by bringing in some elements of government participation in economic activities. This is as a result of some problems associated with capitalism such as market failures arising from some degrees of inefficiency in operation. In this system, government provides for the planning and policy framework of operation to direct the economy and subsequently participate in economic functioning of the society.

In this process the government generates revenue through taxes and other sources of income and thereafter allocates public expenditure for investment and recurrent activities in the economy. Within the economic system, government attempts to exert some controls and regulations over the private sector for consistency of activities with government policy. In doing this, they also eliminate the undesirable impact of the private sector. Hence, the Adam Smith 'invisible hand' is replaced with what is termed 'guiding hand' of the national or central government. Economies that fall under this category include the United Kingdom, Canada, Japan, Germany and Australia.

### Self-Assessment Exercise 3

| |
|---|
| In what way is the Developed Market Economic system different from the Pure Market Capitalist Economy? |

### 2.4.4 The Centrally Planned/Socialist Economic System

In a centrally planned economic system, the ownership of resources is vested in and centrally controlled by the state. In other words, production and distribution of activities are purely those of government. In this process, prices are statutorily determined to facilitate equitable distribution of goods and service. The socialist economic system which is operating at the extreme of total government control is termed a communist state. The socialist economic system is operated by the defunct Soviet Union, Hungary, Cuba, People Republic of China and Poland. It is important to note that some of the socialist countries like those of Eastern European countries are presently engaging in some reform policies that are making them tend towards capitalist or mixed economic system.

## Self-Assessment Exercise 4

| What are challenges of the ‘Socialist’ economic system? |
|---|

### 2.4.5 The Mixed Market Economic System

In the mixed market economic system, the private ownership of resources is complemented with a substantial public sector ownership and participation in the production of economic activities. In a mixed economy, the prices of public goods are not often market determined but statutorily fixed in some cases to allow for economic development. The degree of mix varies from one country to another; the capitalist ideology dominates in some instances while the socialist tendencies are more prominent in others. Mixed economic system provides a form of compromise ground between capitalism and communism. The economy is planned in such a way as to guarantee stability and growth without unduly frustrating free enterprise. It must however be noted that such economy does not evolve overnight. It should normally start from one side of the continuum and graduated into mixed type. This way, the mixed economy will evolve and not imposed. Many developing economies inclusive of Nigeria fall within this category of economic system before the recent privatization programme which is spreading across the global spectrum. Nigeria is a good example of an imposed mixed economy. Other countries that operate mixed economic system are Kenya, Tanzania, Uganda, India, Brazil, Mexico and South Korea.

### 2.4.6 The Market Socialist Economic Systems

This is a form of mixed economic system characterised by the adoption of the price mechanism feature. The private sector ownership is jettisoned in favour of public ownership to reflect what is known as ‘The Market Socialist Economy’. By this process the ideals of both the capitalist and socialist systems could be derived. An example of a country that has thrived on this ideal is the former Yugoslavia.

## Self-Assessment Exercise 5

| |
|---|
| Is Nigeria presently more of a capitalist economy than a socialist economy? |

## 2.5 Structural Dualism in Developing Economies

### 2.5.1 Definition and Forms of Structural Dualism

As stated by Ayodele and Falokun (2005), structurally dualism can be defined as the stratification of the economy to two main components. This stratification could be in terms of modernization, growth, technology and so on. Forms of dualism include:

i. Capital Dualism based on Arthur Lewis (1946) findings;
ii. Social Dualism couched under Boeke's (1953) exposition;
iii. Technological Dualism with base in Higgings (1958) theory; and
iv. Financial Dualism which Myint (1971) discovered.

I do not intend to bother you with the details of the above mentioned type of dualism; they will be dealt with in more advance courses.

### 2.5.2 Elements of Structural Diversity in an Economy

As earlier discussed, the structure of an economy reflects the type of economic system that operates in the society. However, there are some elements and/or discernible patterns which are expected theoretically and empirically too, to reinforce the prevalent structure in the course of its attainment of economic development status as a nation. These elements according to Todaro (1982):

i. The geographical features in terms of the location, size, and the inherent ecological system;
ii. The historical evolution as revealed mainly by the political, educational and social institutions as well as the cultural values;
iii. The physical and natural resource endowments, particularly, land, mineral and raw material resources;
iv. The demographic pattern and the degree of the development of human capital with respect to their number and skills;
v. The relative importance of the public and private sectors;
vi. The nature of production and the degree of the diversification of the production base; and
vii. The type of political features with the degree of external dependence.

## 2.6 Summary

From our discussion so far we have examined the basic features of various economic ideologies like Liberalism, Laissez-faire, Capitalism, Socialism, Imperialism, Communism and Mixed economy. Similarly, the operation modes of the economic systems developed on the basis of these ideologies were discussed. We stated that in a pure market or capitalist economic system, the emphasis is on private ownership and control of resources, production and distribution process. Arising from some degree of inefficiency in operation, the developed market economic system modifies this feature by bringing in some elements of government participation in economic activities. At the other extreme, the centrally planned socialist economic system vested the ownership of resources and control in the state. The mixed market economic system complements the private ownership of resources with a substantial degree of public sector ownership and participation in the production of economic activities. Lastly, The Market Socialist Economic Systems is a form of mixed economic system characterised by the adoption of the price mechanism feature. We equally noted in our discussion that Structural Dualism involves the stratification of economy into two main components with elements such as modernisation and technology. Factors identified as responsible for diversity in the economy include: geographical features, historical evolution, physical and natural resource endowments, demographic pattern, the degree of the development of human capital and type of political features with the degree of external dependence among others.

This unit has exposed us to various features of the world economic ideologies as well as the feature of the three main types of economic systems with two modified economic systems. We equally gave relevant examples of countries that operate these economic systems. We concluded the unit with a discussion on structural duality while exposing the factors responsible for economic diversification. With this background on the concept of economic structure and system in unit 1 and 2, you have successfully prepared yourself for a thorough understanding of the profile and structure of the Nigerian economy that will be treated in the next two preceding units.

## 2.7 References/Further Reading/ Web Resources


Anyanwu, J.C., A. Oyefusi, H. Oaikhenan and F.A. Dimowo (1997). The Structure of The Nigerian Economy (1960-1997), Joanee Educational Publishers Ltd., Anambra, Nigeria. 661pp.

Ayodele, A.S. and G.O. Falokun (2005). The Nigerian Economy; Structure and Pattern of Development, Printoteque, Lagos, Nigeria, 301pp.

Mark, M (1973): Modern Ideologies, St. Martin's Press, New York pp1-2 Nove, A. The Soviet Economic System, George Allen and Unwin Ltd., p1

Todaro M.P (1982). Economics for a Developing World, Longman Group limited, Essex, U.K.

## 2.8 Possible Answers to Self-Assessment Exercise(s) within the content

### Answer to SAEs 1

In what way is imperialism different from communism economic ideology?
Imperialism is an economic and political ideology that aims to gain control over other countries and exploit them, while communism aims to create a classless society where the means of production are collectively owned and controlled. Imperialism is primarily focused on maximizing profits for the imperial power, while communism is focused on creating a more equal society.

### Answer to SAEs 2

What factors can lead to the development of mixed economies?
Mixed economies can develop through contact with other cultures, revolution, and dissatisfaction with the way their economy performs.

### Answer to SAEs 3

A developed market economy is characterized by a mix of public and private ownership, with government intervention in the economy to regulate markets and provide public goods and services. A pure market capitalist economy, on the other hand, is characterized by little or no government intervention, with markets operating on the principles of supply and demand

### Answer to SAEs 4

Inefficient allocation of resources: Because the government controls the means of production, it may not always make the most efficient decisions about how resources should be allocated.

### Answer to SAEs 5

Nigeria is considered to have a mixed economy, which is a combination of capitalist and socialist economic systems. The Nigerian government plays a significant role in the economy, particularly in the areas of infrastructure, education, healthcare and other public services. However, the private sector is also an important part of the economy, and there are many private businesses operating in Nigeria.

# Unit 3 Profile of the Nigerian Economy

## Unit Structure

3.1 Introduction
3.2 Learning Outcomes
3.3 Profile of the Nigerian Economy
    3.3.1 Background to Geographic and Demographic Profile
    3.3.2 Geographical and Demographic Features of Nigeria
3.4 Socio-cultural, Political and Institutional Profile of Nigeria
    3.4.1 Background to Socio-Political Profile
    3.4.2 Socio-cultural, Political and Institutional Features of Nigeria
3.5 The Resource (endowment) profile of Nigeria
    3.5.1 Background to Resource Endowment
    3.5.2 Resource Endowment of Nigeria
36 Summary
3.7 References/Further Reading/ Web Resources
3.8 Possible Answers to Self-Assessment Exercise(s) within the content

## 3.1 Introduction

In the last unit of this module, we discussed and examined the basic features of various economic ideologies like Liberalism, Laissez-faire, Capitalism, Socialism, Imperialism, Communism and Mixed economy. In this unit, we will be extensively covered a wide range of aspects related to Nigeria. Firstly, it delved into the basic geographical and demographic features of Nigeria, highlighting key details about its diverse landscapes, abundant natural resources, and diverse population distribution. Secondly, it shed light on the sociocultural fabric and institutional setup of Nigeria, emphasizing the rich tapestry of traditions, languages, and customs that shape the vibrant society, while also outlining the key governmental structures and organizations that play a pivotal role in the country's functioning. Furthermore, the unit meticulously traced the intricate political history of Nigeria, exploring the evolution of its governing systems, major political events, and key figures that have influenced the nation's trajectory over the years. Lastly, it comprehensively enumerated Nigeria's impressive resource endowment, detailing the vast array of natural resources such as oil, gas, minerals, and agricultural produce that form the backbone of its economy and contribute to its global significance. Through a thorough examination of these aspects, the unit provided invaluable insights into the multifaceted nature of Nigeria's geographical, demographic, sociocultural, political, and economic landscapes, fostering a deeper understanding of the country's complexities and potential for growth and development..

## 3.2 Learning Outcome

By the end of this unit, you should be able to:

- State some basic geographical and demographic features of Nigeria
- Highlight some sociocultural and institutional features of Nigeria
- Trace the political history of Nigeria
- Enumerate Nigeria’s resource endowment

## 3.3 Profile of the Nigerian Economy

### 3.3.1 The Geographical and Demographic Profile of Nigeria

The geographical features of an economy relates to the location, size, area and the ecology within the global spectrum. In this regard, the urban income disparity model emphasizes the importance of the location, nature and climate, the soil composition and forms with its associated vegetational distribution in the course of a nation.

Emphasis could be laid on the physical size, the magnitude of the mineral deposits, soil fertility and soil types with the richness of the associated vegetation as well as the climatic conditions. All these combine to influence and or determine the magnitude of economic development potentials which a country has in its process of national development. In addition, rapid population growth and its associated density Vis-a Vis land availability and use play some dominant roles in the process of economic development. However, where land and population of a country are in surplus, while the methodology for production is crude, productivity of labour could be low and the per capita income in such nation would also be low and remain subsistent at best. But when modern techniques of production prevail, the reverse of the above points holds. In terms of demographic futures, theoretically, the population size of a country is actually indicative of the degree of nation’s potentials in human resources. Besides, it is a pointer to the evolution of a large market capable of stimulating demand that will induce economic growth. It is commonly assumed that the greater the population size, the likelihood of increased labour force and consequently larger productive system. If this assumption is true, then, the more relevant is human resource capacity building effort in any country's developmental needs. This will in turn raise the right work ethics and subsequently the level of productivity. Against this background, the location, size, area, vegetation, population size and the level of manpower development would necessarily impact on the country's divergence in economic structure. Thus, these features are examined in the next subsection.

### 3.3.2 Geographic and Demographic Features of Nigeria

Nigeria is derived from the word 'Niger' which is the name of the river that constitutes the most remarkable geographical feature of the country. The country is geographically located within the global spectrum in the West African sub-regional zone; bounded in the west by Republic of Benin, in the east by the Chad Republic, in the North by Niger republic, and in the south by the Atlantic Ocean. Nigeria is a sub-Saharan Africa (SSA) nation with an approximate area of 923,769 square kilometers (made up of 909, 890 square kilometers of land area and 13, 879 square kilometers of water). Nigeria is situated between 30 and 140 East Longitude and 40 and 140 North Latitude lying east in the tropical region. The longest distance from east to west is about 767 kilometers, and from North to South, 1,805 kilometers (FMWA, 2004; NBS, 2010).
The country harbors above 50 percent of the population of the West African sub-region. Its population which was about 55.6 million in 1963 census, estimated at about 79 million in 1979 reached about 140 million in 2006 census and a projected annual growth rate of 2.83 percent. With this population, Nigeria constitutes the largest country in Africa and also one of the most populous countries in the world.

In terms of vegetation, the coast of Nigeria is a belt of mangrove swamps traversed by a network of creeks and rivers and the great Niger Delta. Beyond these are successive belts of tropical rain forests (that break into a more open woodland with hilly ranges) and the undulating plateau (with hills of granite and sandstone), rising from 809.6 meters on the average to 1,828.8 meters eastwards. Midway north of the country the vegetation is grassland interspersed with trees and shrubs, which terminate in the Sahel Savannah region of the semi-arid north north-east. The country can easily be categorized into five main vegetation belts.

i. The swamp forest around the southern coastline;
ii. The equatorial forests;
iii. Deciduous forest;
iv. The grasslands and
v. The semi-desert scrub lands in the northern parts

Its main rivers are the Niger and Benue which naturally partition the country into three unequal geographical parts- North, East and West. The other less important rivers include the rivers in Kaduna, Gongola, Crossriver, Imo and Anambra. There are a few notable mountains within the Eastern boundary and also on the northern plateau whose peaks are above 8,000 meters.

Nigeria is also blessed with favourable and varied climatic conditions. The climate is equatorial and semi-equitorial in nature, characterized by high humidity and substantial rainfall. Although the climate is generally tropical, however in specific terms, it is wide ranged in its conditions as the country is broadly defined as generally hot and humid. In this regard, two main seasons emerge from these climatic conditions viz:

i. The wet/ raining season between April and October with prevailing wind blowing from the southwest; and
ii. The dry season between November and March with its harmattan wind blowing from the northern part of the country.

In most cases, the average temperature is within the range of 240C and 270C. In specific terms, the average annual temperature is about 210C with the Eastern Highlands and also on the Jos plateau. It is about 300C in Lagos and could be as low as 230C. Except for the plateau area, the northern part is usually hot and dry for most parts of the year. However, in the extreme north, the average high and average low could be about 430C and 100C respectively. The annual rainfall is about 51cm in most parts of the north while it is above 380cm in some parts of the south (NBS, 2009).

**Self-Assessment Exercise 1**

| |
|---|
| What relative advantage do you think the above related geographical features conferred on the Nigerian economy? |

## 3.4 The Socio-cultural, Political and Institutional profile of Nigeria

### 3.4.1 Background to Socio-political Profile

In general terms, the social, cultural, educational, political and institutional characteristics of a community to a large degree reveal such country's potentials for economic development. These features reflect the character, social norms and the social values bequeathed to it by the past history mainly through its experiences. In fact, while this is the true, situations in the United States of America where citizens have not merely built upon its colonial legacies but have also improved upon the system which it inherited; there are few others who merely assimilated such legacies which induce development but stuck to the cultural values. However, the cases of the developing countries tend to follow traditional system in most cases with those of the colonial overlords, subsequently resulting in the emergence of structural dualism.

The institutional arrangements in the light of the dominance of the public-cum private sector in any economy usually determine the process of such country's economic development and transformation. It is generally observed that in developing countries' economies are usually mixed type made up of large public sector and small private sector. However, with the recent privatisation paradigm shift, this pattern could be changing slightly. It is usually argued that where markets are less developed, large public bureaucracies and capital intensive state owned enterprises would be necessary for the provision of required public goods and services. This argument therefore explains why public sector predominates in the production of utility services in most developing countries. In the light of these, we shall examine the sociocultural, political and institutional profile of Nigeria as a country.

### 3.4.2 Socio-cultural, Political and Institutional Features of Nigeria

The socio-economic setting of Nigeria is clearly dichotomised into rural and urban households, the rural population majors in agriculture as their economic mainstay, cultivating such food crops as maize, cassava, yam, sorghum, rice, millet, fruits, vegetable, pulses, cocoa, timber and rubber among many other crops and livestock activities while the urban sector majors in trading and public service with few elements of manufacturing.

Historically, Nigeria is an agglomerate of various tribes and linguistic groups, brought together under one political umbrella by colonial fiat in the 1914 amalgamation. It therefore joined the bandwagon of federations through the pragmatic experimentation of the British colonial authorities. Given the various tribes and linguistic groups in the country, its choice of federalism as a governance mechanism could be defined as mainly fruititous and pragmatic. In recognition of this situation, the Nigerian federalism has usually been described as 'unity in diversity', which requires and involves cooperation, bargaining and conflict. Perhaps against the background of the foregoing, the federal socio-economic situation in Nigeria has usually resulted in a perpetual balancing of tension in the attempt to create unity without union among ethnic tribes in the country. Under federalism, the Nigerian economy has usually been economically planned with the objective of effective development since independence. It is logically easier to promote unity out of diversity through a unitary system, Nigeria, under military governments remained a federation on paper but in practical terms, most of the socio-economic development policies were pursued as if the country was under unitary principles.

Politically, Nigeria was a British colony between 1868 and October 1, 1960. Given its diverse ethnicity, it became an independent federation in 1960 within the Commonwealth of Nations. On October 1, 1963, it gained a republican status but is still remained in the Commonwealth. Up till 1960, some parts of the Cameroons were part of Nigeria. However, in a plebiscite of February 1961, while the northern portion of the trust territory of the Cameroons decided to join Nigeria, the Southern proportion opted out of it. The country imbibed the Western parliamentary system of governance which it inherited from the British colonial overlords. The parliamentary system of government under its first prime minister, the late Alhaji Tafawa Balewa existed till January 15, 1966 before it was overthrown in a military coup d'etat consequent upon series of political crises which started in the former Western region.

There was a counter coup about July 1966 which culminated in the orchestrated secession of the Eastern Region under the name Republic of BIAFRA led by late Lt. Col. Odumegwu Ojukwu. The end of this secession was the outbreak of a civil war which lasted till December, 1970, having started in July 1967. Up till 1966 Nigeria was composed of four regions. – The East, Mid-West, North and the West respectively. By May 1967, particularly before the civil war broke out the country became divided into twelve states with a military decree. The state structure kept on expanding until it reaches the present structure of 36 states and the Federal Capital Territory stratified into six geopolitical zones.

Table 1.3.1: Nigeria Geopolitical Zones

| Zone | States within the Geopolitical Zone |
|---|---|
| South West | Ekiti, Lagos, Osun, Ondo, Ogun, Oyo |
| South East | Abia, Anambra, Ebonyi, Enugu, Imo |
| South-South | Akwa-Ibom, Bayelsa, Cross-River, Delta, Edo, Rivers |
| North Central | Benue, FCT, Kogi, Kwara, Nasarawa, Niger, Plateau |
| North East | Adamawa, Bauchi, Borno, Gombe, Taraba, Yobe |
| North West | Kaduna, Katsina, Kano, Kebbi, Sokoto, Jigawa,, Zamfara |

Source: FMWA (2004)

Within the period of political transition, there were series of military change overs in government. In some cases the pledge by the military to return to the country to civil rule failed. Thus the military rule was protracted. By 1979 the country returned to the civil rule of governance which only lasted for about four years before the military government returned to the political scene. Civilian activities started again in 1999 with the Rtd. General Obasanjo led administration which lasted till 2007. This Obasanjo civilian regime was succeeded by a short-lived Umaru Musa Yaradua regime and currently Dr. Goodluck Ebele Jonathan. The country has changed its initial western parliamentary system to the American presidential system of government.

## Self-Assessment Exercise 2

In your own opinion, does the political structure of Nigeria since independence has any effect (positive or negative) on economic structure and development?

## 3.5 The Resource profile of Nigeria

### 3.5.1 Background to Resource Endowment

The natural endowments of a nation embrace the varieties of mineral resources. The magnitude of the deposits of such resources is expected to have significant impact on the pattern, character and nature of a nation's process of economic development. For example, in some countries where resources are purely that of agricultural lands and mineral resources, the basic economic structure will be agrarian and subsequently primary. Where a resource is in abundance, most of such economy would be monocultural. That is, the tendency is for such economy to depend mainly on such a resource that is in abundance. Added to this fact, the nature of production in such a country would also tend to impact on the evolution of citizens' occupational pattern.

Aboyade (1983) noted that the availability of good fertile land should make it easier for a country to solve agricultural problem. Nonetheless, modern scientific and technological advances are making it possible to overcome several deficiencies of nature. We may wish to note that some nations such as Japan, Israel and even United States of America who are with poor natural endowments have demonstrated globally, how resourceful technology, creative economic policies and determined national spirit can combine to turn resource handicap to economic development success stories.
Admittedly, however, there is little doubt that for many countries (e.g African countries), the beneficence of nature still exercises a crucial influence on the pace of and pattern of economic development.

### 3.5.1.1Natural Resource Endowment of Nigeria

In Nigeria where there is the recognition of the importance of geographical fortunes, the issue of Adam Smith's analysis of the relationship between division of labour and the extent of the market economy is well appreciated. Nonetheless, up till the early 1970's, the Nigerian economy was predominantly agricultural, producing primary agricultural products- cocoa, groundnuts, hides and skins, palm produce and others for exports; various tubers and other crops for domestic consumption. However, with the discovery of crude oil at commercial scale in the early 1970s in Nigeria, economic activities changed significantly in favour of crude oil exploration, drilling-cumextraction, and mining due to their profitable outlook. The crude oil sector has been the main source and engine of growth of the Nigerian economy, nonetheless, agriculture continues to remain the broad economic base of the country as well as the most dominant sector.

It is important to recognize that farmers' specialization in a type of product is usually dictated by some factors which include among others the variation in climatic conditions, the natural vegetation form and the soil topography. For example, in the south where there is plenty of rainfall, the specialization is in the production of staple tree and root crops- cassava yam, plantain, banana, timber and others. In the northern part with less rainfall farmers are usually confined or restricted to the production of grains such as maize, millet, sorghum and rearing of livestock. This pattern therefore constitutes regional specialization of food production which has virtually provided a base for the growth of the country's inter-regional trade. The production of export crops does not seem to deviate from the dictates of climatic conditions. Export tree crops such as cocoa, rubber, wood, and palm produce are usually restricted to the wet zones of the southern part while others requiring less rain such as groundnuts and cotton are the peculiarity of the north with less rainfall. In between the northern arid zone and the southern humid zone is the area defined as the 'middle belt' which employs an intermediate type of climate. This type of climatic condition makes this area suitable for the growth and production of food crops of both the root and grain varieties. Additionally, this area further specialises in the production of vegetable oils, beniseed, Shea and soybean.

Certainly exploration of mineral resources, particularly, crude oil has been for long. This discovery at the commercial stage is within the later 1950s. Mining is currently gaining a recognisable position in the economy. Tin Ore, Columbite, Zinc and lead which are metallic minerals are found in sizable proportions on the Jos plateau.

However, coal mining is concentrated within the Enugu area. Besides, zinc and lead mining are centred in Abakaliki and Owerri. Also, major deposits of lead and zinc are found in Lokoja as well as around Enugu. The main source of the country’s wealth in recent times, crude oil, is largely deposited in Delta, Rivers, Anambra, Imo, Bayelsa and Cross River states. Some quantum is available in the coastline of the south-west states.

## Self-Assessment Exercise 3

| List out 10 natural resources and state where they are located in Nigeria |
|---|

## 3.6 Summary

The unit extensively discussed the basic geographical and demographic features of Nigeria, highlighting key details about its diverse landscapes, abundant natural resources, and diverse population distribution. Secondly, it shed light on the sociocultural fabric and institutional setup of Nigeria, emphasizing the rich tapestry of traditions, languages, and customs that shape the vibrant society, while also outlining the key governmental structures and organizations that play a pivotal role in the country's functioning. Furthermore, the unit meticulously traced the intricate political history of Nigeria, exploring the evolution of its governing systems, major political events, and key figures that have influenced the nation's trajectory over the years. Lastly, it comprehensively enumerated Nigeria's impressive resource endowment, detailing the vast array of natural resources such as oil, gas, minerals, and agricultural produce that form the backbone of its economy and contribute to its global significance. Through a thorough examination of these aspects, the unit provided invaluable insights into the multifaceted nature of Nigeria's geographical, demographic, sociocultural, political, and economic landscapes, fostering a deeper understanding of the country's complexities and potential for growth and development.

## 3.7 References/Further Reading/ Web Resources

Aboyade, O (1983). Integrated Economics: A study of Developing Economics, Addison-Wesley Publishers, London

Anyanwu, J.C., A. Oyefusi, H. Oaikhenan and F.A. Dimowo (1997). The Structure of the Nigerian Economy (1960-1997), Joanee Educational Publishers Ltd., Anambra, Nigeria. 661pp.

Ayodele, A.S. and G.O. Falokun (2005). The Nigerian Economy; Structure and Pattern of Development, Printoteque, Lagos, Nigeria, 301pp.

Federal Ministry of Agriculture, Water Resources and Rural Development FMAWRRD (1988). Agricultural Policy for Nigeria, FMAWRRD

Federal Ministry of Women Affairs (FMWA) (2004). Implementation of the Beijing Platform for Action and Commonwealth Plan of Action, April, 2004

National Bureau of statistics (NBS) (2009). Statistical Buletin; Agric Data, Available at: www.nigrianstat.gov.ng

National Bureau of statistics (NBS) (2010). Statistical Buletin; Area and Climate, Available at: www.nigrianstat.gov.ng

Odeleye, A.T. (2009). Nigerian Economy in Perspective (Vol.1) (Pre-colonial Era till Date), Larritone Books International, Ibadan Nigeria, 120pp

Todaro M.P (1982). Economics for a Developing World, Longman Group limited, Essex, U.K.

## 3.8 Possible Answers to Self-Assessment Exercise(s) within the content

### Answers to SAEs 1

What relative advantage of the Nigerian economy?
Nigeria has several advantages that contribute to its economy. Some of these include:

**Natural resources:** Nigeria is rich in natural resources, such as oil, gas, and solid minerals. These resources provide a significant source of revenue for the country and have helped to fuel economic growth.

**Large population:** Nigeria has a large and rapidly growing population, which provides a large domestic market for goods and services. This also creates a large labor force and potential consumers.

### Answers to SAEs 2

In your own opinion, does the political structure of Nigeria since independence has any effect (positive or negative) on economic structure and development?

The political structure of Nigeria since independence has had both positive and negative effects on the economic structure and development of the country.

On the positive side, the political structure of Nigeria has provided stability and continuity for economic growth and development.

On the negative side, the political structure of Nigeria has also contributed to economic challenges and underdevelopment.

### Answers to SAE 3

1. List out 10 natural resources and state where they are located in Nigeria

**Oil and Gas**: The majority of oil and gas production is located in the Niger Delta region.

**Solid minerals:** These minerals are found in various locations throughout the country, including Enugu, Kogi, Plateau, and Bauchi states.

**Agricultural resources:** These are grown in various locations throughout the country, with the majority of agricultural production taking place in the middle belt region.

**Timber:** The majority of timber production takes place in the South-western and South-south regions.

**Rubber:** is grown in the South-western region of the country.

**Cotton:** Nigeria is one of the largest producers of cotton in Africa, with the majority of production taking place in the North-western region of the country.

**Iron:** is found in Kogi, Enugu, and Nasarawa states.

**Gold:** is found in Osun, Kebbi, and Zamfara states.

**Lead and Zinc:** is found in Kano, Plateau, and Bauchi states.

**Lime stone:** is found in Cross River, Edo, and Ogun states.

# Unit 4 Overview of the Nigerian Economy

## Unit Structure



## 4.1 Introduction

In the last unit you were treated to a discussion on the geographical, political and resource profile of Nigeria which is important in determining the structure of an economy. Hence, this unit gives a broad view of the structure of the Nigerian economy in holistic term as determined by the aforementioned factors. Although, specific mentions were made of different sectors, the intention here is to see the economic units as they interrelate as well as identify the dominance of one sector over the other as time progressed. By these, you will have an idea of the general performance of the economy before and after independence and in phases over this period of analysis before we move into independent analysis of different sector. You will surely find it informative.

## 4.2 Learning Outcomes

By the end of this unit, you should be able to:

- Categorize the Nigerian economy based on the three prominent criterion
- Describe the features of the Nigerian economy during the pre-independence era
- Summarize the features of the Nigerian economy and the sectoral performance during post-independence era

## 4.3 Main Content

### 4.3.1 Background to overview of the structure of Nigerian economy

Nigerian economy has undergone series of changes and transformation over time. For the sake of analysis, the economic changes could be conveniently categorised into two major phases namely:

1. The Colonial (Pre-independence Era)
2. The Post-Independence Era

The post-independence era could be further subdivided into three periods as follows:

a) Pre-SAP period (1960-1985)
b) SAP Period (1986- 1993)
c) Post-SAP period (1994 till date)

The Post independent economy can also be alternatively viewed from the point of view of successive decade in which case we have the following division:

1. First decade (1960-1970)
2. Second decade (1971-1980)
3. Third decade (1981-1990)
4. Fourth decade (1991-2000)
5. Fifth decade (2001-2010)

In general, we are going to channel our analysis mainly towards the bivocation of pre-independence and post-independence period throughout this course. Now, let us discuss the economic activities in terms of sectoral contribution and or structure of national income during different era as mentioned above.

### Self-Assessment Exercise 1

| Categorize the Nigerian economic analysis using the following criteria |
|---|

i. Independence
ii. Structural Adjustment programme
iii. Decades of analysis

### 4.3.2 The Colonial (Pre-Independence Era)

Nigerian pre-independent economy was essentially a surrogate of the British economy. The country output was wholly primary product and mainly agricultural products. These include cotton, groundnut, rubber, palm oil, tin etc. The bulk of these were exported to Britain while the country also provides a virile market for British goods. In Nigeria, within the first ten years development plan (1945-1955) by the colonialist and the second plan (1955-1960), no conscious attempt was seen to have been made to accelerate economic growth. It is rather welfare and social services plan.

However, the economy witnessed some growth during the plan period but little is known about sectoral performance especially for the fact that most of the sectors were at the emerging stage except for agricultural sector which the country is culturally and traditionally noted for country's Gross Domestic Product (GDP) increased by 42.1 percent between 1950 and 1960 while the percentage increase per annum was 4.1 percent. Similarly, Government Expenditure and Gross Fixed Investment increased tremendously by 220.8 percent and 226.1 percent respectively within the same period while Consumption Expenditure equally grew by 42.76 percent between 1950 and 1960. The annual increment for Government Expenditure, Gross Fixed investment and Consumption Expenditure were 22.1, 22.6 and 4.28 percent. However, Consumption Expenditure in relation to Gross Domestic Product declined by 2.4 percent as against Consumption Expenditure (as a percentage of Gross Domestic Product) and Gross Fixed Investment as a percentage of Gross Domestic Product) which respectively increased by 126.5 and 123.2 percent.

### Self-Assessment Exercise 2

| |
|---|
| Which sector dominated the Nigerian economy before independence and why? |

### 4.3.3 The Post-Independence Economy

In the early post-independence era, the economy was still under the influence of Britain as Nigeria import and export trade was skewed in their favour. The first and second national development plans culminated into substantial overall economic growth as indicated in the rise in Gross domestic product. The period 1970's witnessed a structural change in the economy due to the emergence of crude oil as a major contributor to Gross National Product (GNP) and the growing dominance of building and construction as an item of capital formation. Manufacturing fell below expectation due to infrastructural constraints and scarcity of willing and competent partners. The agricultural sector witnessed a negative total average growth of -0.4% and become stagnated during the third development plan. About 23 institutions were established during this period to provide economic drive for the country e.g. the Central Planning Office, Agricultural Development Bank, Nigeria National Oil Corporation etc. The economic growth were hindered by oil glut of the 1980’s, high level of corruption, high level of inflation, lack of good data base and non-evolution of coherent policies to give a direction to the economy.

From the point of view of decades after independence, in terms of national income, agricultural sector dominated the economy in the first decade with no significant contribution from the oil sector. The second decade witnessed agriculture maintaining the lead in the contribution to GDP in the first half while this lead was taken over by the mining and quarrying sector in the second half due to increase in oil prices and rise in nation’s oil reserve. Others sectors had insignificant contribution to the GDP.

In the third decade, the agricultural sector assumed its dominance of the national economy. Crude oil rather remains the foreign exchange earner. The fourth and the fifth decades witnessed a decline in agricultural growth and overreliance on oil as the major income source.

The Structural Adjustment Programme (SAP) has been used to bivocate the economy into three phases. We have the Pre-SAP period (1960-1985); SAP Period (1986-1993) and the Post-SAP period (1994 till date) each era with their own feature. The structural adjustment programme with all its attendant tentacles such as deregulation, massive devaluation of Naira privatisation, liberalisation etc. no doubt has effect on different sectors of the economy during the SAP era. The building and construction sector witnessed a reduction in growth rate due to high cost of material, so also the manufacturing sector. Generally, the structural adjustment programme led to increase in nominal GDP.

Okuneye and Ayinde (2011) stated that the Civil War (1967-70) and the emergence of petroleum in the early 1970s scuttled the production foundation of agriculture through lack of visionary planning for sustainable development. The sector is yet to regain its central role in the economy. The misfortune is that, based on the voluminous human, material and financial resources expended on agriculture in the last 40 years, the country ought to have done much better to address the fight against the mysteries of poverty, hunger, malnutrition and ill-health. The oil boom of the early 1970s relaxed the financial constraints to development. The GDP at 1977/78 factor cost grew at an average rate of only 5.0% per annum between 1975 and 1980. One major characteristic of this growth was its very unstable nature. The growth rates ranged from -1.3% in 1975/76 to 9.5% in 1979/80. Generally, government services recorded the highest growth of 17.7% in constant terms during this period. Manufacturing grew at 13.3%, while agriculture recorded a growth rate of -2.3%. The performance of the economy suggests that there was more to underdevelopment than financial constraints.

The oil boom of the 1970s led Nigeria to neglect its strong agricultural and light manufacturing bases in favor of an unhealthy dependence on crude oil. In 2000, oil and gas exports accounted for more than 98% of export earnings and about 83% of Federal Government revenue. In recent time, mining constitutes the country's major source of wealth accounting for slightly less than 20percent of the GDP above 90 percent of Nigeria's foreign exchange earnings and about 80 percent of the country's revenue. The crude oil industry is capital intensive. This explains why there is not much prospect in this industry in terms of providing employment opportunities for its labour force due to its relatively low labour absorptive-capacity. Currently, this industry provides employment for about two percent of the country's labour force.

New oil wealth, the concurrent decline of other economic sectors, and a lurch towards a statist economic model fueled massive migration to the cities and led to increasingly widespread poverty, especially in rural areas. A collapse of basic infrastructure and social services since the early 1980s accompanied this trend. By 2000, Nigeria's per capita income had plunged to about one-quarter of its mid-1970s high, below the level at independence. Along with the endemic malaise of Nigeria's non-oil sectors, the economy continues to witness massive growth of informal sector economic activities, estimated by some to be as high as 75% of the total economy.

Nigeria's manufacturing sector consists of the manufacture of some light consumer products such as canned foods, drinks, textiles, shoes, tobacco, plastics, leather goods household utensils, detergents and others. Incidentally, while agricultural activities constitutes peculiarities of the rural areas, the manufacturing economic are those of the relatively large urban centres such as Lagos, Ibadan, Aba, Onitsha, Port Harcourt, Enugu, kano, kaduna and Zaria to mention a few. Quite unlike the situation in most industrialised economies, the manufacturing sector is a rather small source of employment for the labour force in Nigeria. Currently, it accounts for less than 10 percent of the GDP (Ayodele and Falokun, 2005).

Given the Nigerian trend, pace and pattern of development, the country can be defined as one that is rapidly getting to modernize. Nonetheless, the Nigerian economy is largely economically under-developed in many respects. In modern socio-economic terminology, Nigeria has usually been defined as a developing country. Under this classification, most of its major economic activities are carried out within its informal sector which in crude economic terms can best be classified as the traditional sector.

In recognition of the operational framework of the traditional setting, most of the economic activities with their associated outputs do not lend themselves to easy estimation. In this regard, the lack of adequate data to analyse the goings-on in the informal sector impose some restrictions which limit the extent to which the Nigerian national accounts data can be accepted as telling the true economic story. This must be borne in mind in our discussions of the pace, trends and patterns of production and economic development in the Nigerian economy.

Given the foregoing sectoral distribution of the GDP, it is important to note that when these current figures are compared with what they were within the 1950/75 period, a significant structural, change had eventually occurred. We may wish to observe that the contributions of all sectors had grown phenomenally in absolute terms over what they were about at independence (1960). This growth could be attributable to the importance of structural change in the Nigerian economy. One of the most significant changes occurred in agricultural sector where although still predominates in its contributions but has sharply fallen from above 65 percent in the 1960s to about 40percent in recent times. Although the contributions from agriculture declined overtime, nonetheless, it still constitutes Nigeria's largest economic sector to date.

Some other sectors have appreciably risen within the last two decades or so to account probably for the decline in agriculture. Such sectors include mining whose phenomenal increase is attributable to the sudden growth of the petroleum industry in Nigeria which is currently the main basis of the economic strength of the Nigerian economy. Inspite of the potentials for industrial growth in Nigeria, the level and pace of industrialisation in the country is relatively low. This therefore explains why the contribution from this sector remains low. Government overtime has therefore place emphasis on evolving economic policies to increase the pace of industrialisation in the country. As typical of a developing country, distribution activities are sizable in the economy. This explains why the tertiary sector accounts for as much as an average of 39 percent of the GDP within 1952/2002. The indication from this is that, the Nigerian economy is really a trading economy with little transformation of its primary goods into secondary goods. Moreover, since the Nigerian agriculture is largely peasantry, the high contributions of the tertiary sector to the GDP suggest that the sector is not really servicing the Nigerian economy, but indeed the economies of its trading partners. In sum, the indication from the structure and pattern of growth of the GDP in Nigeria is that the Nigerian economy, inspite of its dynamism, is still characterised by excessive dominance of the primary sector, particularly agriculture. The manufacturing sector remains rather insignificant. On the whole, the Nigerian economy has not really been developing as expected. There is therefore the need to design socio-economic policies to restructure the economy in such a way as to start servicing the domestic economy.

**Self-Assessment Exercise 3**

Briefly comment on the performance of the following sectors after independence in
the Nigerian economy:
i. The agricultural sector
ii. The mining sector
iii. The manufacturing sector

## 4.4 Summary

In this unit we categorized the Nigerian economy based on pre and post-independence, decades of analysis and Pre and Post structural adjustment period. We went ahead to examined the status of the Nigerian economy before independence. We equally examined the absolute and relative performance of various sectors in the economy in holistic term after independence. This analysis is to serve as a tip of the ice bag because we are going to examine all the sectors in the Nigerian economy one after the other in details from the next module. With this you have successfully completed your studies on this module and I believe you had an interesting experience on the background and structure of the Nigerian economy. You will undoubtedly be comfortable studying subsequent modules because they are mere expansion of this just concluded module.

## 4.5 References/Further Reading/ Web Resources

Anyanwu, J.C., A. Oyefusi, H. Oaikhenan and F.A. Dimowo (1997). The Structure of the Nigerian Economy (1960-1997), Joanee Educational Publishers Ltd., Anambra, Nigeria. 661pp.

Ayodele, A.S. and G.O. Falokun (2005). The Nigerian Economy; Structure and Pattern of Development, Printoteque, Lagos, Nigeria, 301pp.

Balogun E.D (1999). Structure of the Nigerian Economy, A paper delivered at a Management Seminar Organised by CBN Training Centre, Lagos, May 31, 2008

Central bank of Nigeria (2000). The Changing Structure of the Nigerian Economy and Implications for Development, Communications Limited, Lagos Nigeria Central Bank of Nigeria (2008). Statistical Buletin, Golden Jubilee Edition, 2008

Central bank of Nigeria (2010). The Changing Structure of the Nigerian Economy, Mordi, C.N.O., A. Englama and B.S. Adebusuyi (eds.)

National Planing Comminsion-NPC (2009). Nigeria Vision 20:2020 document, Economic Transformation Blueprint 10, October 2009, Available at http://www.npc.gov.ng/home/doc.aspx?mCatID=68253

Okuneye, P A and I.A. Ayinde (2011). The Nigerian Agricultural Policy Inadequacy: The Way Forward, Nigerian Journal of Agricultural Economics (NJAE), 2(1): 1- 16

Olaloku F.A (1979). Structure of the Nigerian Economy, Macmillan Press Limited, London.

## 4.6 Possible Answers to Self-Assessment Exercise(s) within the content

### Answer to SAEs 1

Categorise the Nigerian economic analysis using the following criteria
i. Independence: The Nigerian economy before independence was largely dominated by the agricultural sector, with a focus on the export of cash crops such as cocoa, palm oil, groundnuts, rubber, and cotton

### ii. Structural Adjustment programme

The Structural Adjustment Programme (SAP) has been used to bivocate the economy into three phases. We have the Pre-SAP period (1960-1985); SAP Period (1986-1993) and the Post-SAP period (1994 till date) each era with their own feature.

### iv. Decades of analysis

1. First decade (1960-1970)
2. Second decade (1971-1980)
3. Third decade (1981-1990)
4. Fourth decade (1991-2000)
5. Fifth decade (2001-2010)

### Answer to SAEs 2

Which sector dominated the Nigerian economy before independence and why?.
Before independence, the agricultural sector dominated the Nigerian economy. This was primarily because Nigeria was a colony of the British Empire and the main focus of the colonial administration was to extract raw materials and agricultural products to export back to Britain. Agriculture was the main source of income and employment for the majority of the population.

### Answer to SAEs 3

Briefly comment on the performance of the following sectors after independence in the Nigerian economy:

i. **The agricultural sector:** After independence, the agricultural sector has continued to play an important role in the Nigerian economy, but its contribution to the overall economy has declined.

**ii.** **The mining sector:** The mining sector has experienced limited growth and development since independence, due to a lack of investment, poor infrastructure, and a lack of technical expertise.

iii. **The manufacturing sector:** The manufacturing sector has also experienced limited growth and development since independence, due to a lack of investment, poor infrastructure, and a lack of technical expertise.

# Unit 5 Privatization in Nigeria

## Unit structure



## 5.1 Introduction

In our last unit, we discussed the Nigerian economy based on pre and post-independence, decades of analysis and Pre and Post structural adjustment period. We went ahead to examined the status of the Nigerian economy before independence. We equally examined the absolute and relative performance of various sectors in the economy in holistic term after independence. In this unit, we will be discussing the nature of Public Enterprises, shedding light on their fundamental aspects of critical sources of failure often observed in Parastatals. The topic of Privatization will be explored starting with a comprehensive understanding of the concept itself and later exploring the advantages and disadvantages associated with this economic strategy. Transitioning to Commercialization, the unit provided a detailed definition of Commercialization and outlined its key features. Moreover, the advantages and drawbacks of implementing Commercialization strategies will be thoroughly analyzed.

## 5.2 Learning Outcomes

To understand the programme of privatisation of state-owned enterprises, you have to :

- Define Public Enterprises
- Highlight the Basic Features of Public Enterprises
- Identify the Sources of Failure in Parastatals
- Define the Concept of Privatization
- Highlight the Advantages of Privatisation
- Outline the Disadvantages of Privatisation
- Define the concept of Commercialization
- Provide the Features of Commercialization
- Outline the Advantages of Commercialization
- Highlight the Disadvantages of Commercialization

## 5.3 Public Enterprises

### 5.3.1 Define Public Enterprises

According to Zakari & Ibeme (2023), Public Enterprises, commonly known as state-owned companies, are defined as businesses that are owned and operated by the government. These organizations often play a significant role in various sectors of the economy, providing essential goods and services to the public. Public Enterprises are established with the objective of serving the interests of the citizens and achieving specific socio-economic goals set by the government. They typically operate in sectors such as transportation, energy, telecommunications, and banking, where their presence is key to ensuring reliable services to the general public. Additionally, Public Enterprises are subject to government oversight and regulation to ensure transparency, accountability, and efficiency in their operations. Overall, the concept of Public Enterprises reflects the government's role in managing key industries and services for the collective benefit of the society (Zakari & Ibeme, 2023).

### 5.3.2 Basic Features of Public Enterprises

Parastatals or public enterprises, embrace all undertakings which are directed by a branch of government itself, or by a body that is set up by government to direct such undertakings in the public interest. Public enterprises, therefore, include public corporations, public companies and companies in which government equity holding is less than 100 percent. The precise extent and nature of government involvement in such enterprises differ from country to country. While some countries prefer public ownership of the assets of strategic industries, others prefer to handle the same problems through the public regulation of enterprises, so that their assets are left in private ownership. The simultaneous application of the two forms of government involvement with enterprises is characteristic of most less developed countries. Thus, this simultaneous intervention by government has been dictated by the need to direct the economy in the path of economic development. However, with the worldwide depression and the resultant desire to find solutions, government intervention in enterprises has attracted criticisms. Yet, it has to be noted that these play a critical role in the development of these countries.

The notable features of parastatals in these underdeveloped countries include (Zakari & Ibeme, 2023):

i. Provision of social services at prices lower than market rates.
ii. Reduction of regional inequality or structural imbalance in national development
iii. Promotion of national pride and feeling of economic independence
iv. Contribution of a major share of the gross domestic product (GDP)
v. Major employment of labour
vi. Maintenance of a large share of fixed capital formation.
vii. Pioneering of strategic and technology intensive fields
viii. A low price charged by public enterprises for their output also enhances the profitability of private enterprises, for example, electricity.
ix. Requirement for satisfy economic, political, and even social goals simultaneously.

### 5.3.3 Sources of Failure in Parastatals

i. High cost of production and inadequate capitalisation
ii. Price controls on inputs and outputs
iii. Poor management of production patterns and marketing of the product
iv. Civil service control and regulation of managerial decision Lack of clear objectives on the part of management
v. Obscure and sometimes conflicting managerial goals Inadequate management accountability
vi. Poor personnel and incentive systems
vii. The looting of their assets, through their conversion into conduits for siphoning public funds into private accumulation.

From this long list of sources of failure in parastatals, it is necessary to draw out a particular sub-set comprising the main causes of the persistent failure of these enterprises, to operate as functional units with a teleological basis. Through time, these public enterprises have been allowed to be neither public nor private, neither production nor consumption units and, therefore, neither companies nor ministries. The fundamental political factors responsible for this chaotic and socially wasteful state of affairs in Nigeria are:

i. The conversion of parastatals into sources of primitive capital accumulation by a nascent petty-bourgeoisie under a kleptocratic system of neo-colonial and bureaucratic state capitalism
ii. Stifling civil service control
iii. Multiple and conflicting objectives not reflected in the funding and evaluation of public enterprises
iv. Undercaptialisation of strategic parastatals; imposition of non-competitive prices, output and staffing.

## 5.4. Privatization

### 5.4.1 Concept of Privatization

Privatization can be broadly understood as the strategic process that involves the transition of ownership, typically from the government to private entities, thereby marking a shift in management control. This significant restructuring maneuver often entails various mechanisms by which state-owned assets, including corporations or enterprises, are divested to private sector stakeholders, who then take on the responsibility of overseeing operations, decision-making processes, and overall business direction. The rationale behind such a transition frequently revolves around the pursuit of increased efficiency, profitability, and innovation within the restructured entity, as private management tends to introduce a different set of incentives, structures, and performance metrics compared to a government-run framework. The complexities inherent in privitization involve considerations of legal frameworks, economic implications, and social dynamics, as the redistribution of ownership carries important consequences for stakeholders and the broader market landscape. Successful implementation of a privitization strategy often requires careful planning, stakeholder engagement, and regulatory compliance to ensure a smooth and mutually beneficial transition that aligns with the overarching objectives of all involved parties. In essence, privitization represents a transformative process aimed at optimizing the utility and value of formerly state-controlled assets through the infusion of private sector practices and perspectives, with the ultimate goal of fostering sustainable growth, competitiveness, and long-term viability in an evolving economic environment.

### 5.4.1Advantages of Privatisation

a) It is major shift in the economic orientation of our people and our nation, through the commencement of divestment of federal government shareholding in companies being privatised e.g. Flour Mills of Nigeria, African Petroleum Company PLC etc. This thinking is currently gaining an increasing popularity as preferred economic ideological companies are in the pipeline for privatisation.
b) It offers a window of opportunity for the redistribution of income and wealth in this country, a major ingredient in the creation of a satisfied and prosperous citizenry.
c) It offers a window of opportunity to valuers and professionals to widely and legitimately invest part of their discretionary income. It is a major opportunity to many Nigerians to commence the cultivation of a culture of thrift, a culture which is almost absent among most Nigerians.
d) Privatisation is bound to tremendously increase indigenous ownership of enterprises.
e) It is a good opportunity for Nigerians to have extra sources of income by receiving dividends in form of returns on their invested capital.
f) Given the scarcity of resources available to the government, one expects frugality and optimality in resource allocation and utilisation. Resources have alternative uses. To sustain an inefficient corporation, implies shifting of resources from more productive investments which has negative implications for economic growth and development. The problems is bound to be obviated by privatisation, as there will be more efficient management of resources and more room for productive investment. Irrespective of ownership, the society as a whole will gain.
g) Only a private entrepreneur is motivated by profit. Maximisation would attract the right labour at the right, price and take prompt financial decisions without bureaucratic headaches. However, as resources management improves through greater efficiency and minimisation of resources wastage, the savings could be used in the creation of more labour intensive industries, thereby generating employment, especially in the agro-based industries.

### 5.4.2 Disadvantages of Privatisation

a) It is argued that few rich Nigerians, or rather the transnational’s already dominating the economy by their multifarious activities, would benefit, while majority of Nigerians who cannot afford the initial huge capital and financial requirement would participate.

b) Even though government has appealed to banks to make loans available to their customers to assist them in purchasing shares, financial constraints imposed on banks by Central Bank of Nigeria tend to negate the objective

c) The price of some of the shares of privatized companies seems to be high for ordinary citizens to pay in this harsh economic climate. Purchasing power of the citizens has definitely gone down as a result of persistent inflation

d) There is fear of unemployment which privatisation might generate at the initial stages, given the fact that a profit maximized would only employ labour up to the point where its marginal product is equal to the price of the product especially in the short run.

**Self-Assessment Exercise 2**

| |
|---|
| State the advantages and disadvantages of privatization |

## 5.5 Commercialization

### 5.5.1 Define Commercialization

Zakari & Ibeme (2023) defined Commercialization as a complex process that involves the gradual transfer of ownership, control, and management of a government corporation into the hands of private entities. This transition signifies a shift in the organizational structure and operational framework of the entity, paving the way for increased efficiency, innovation, and market orientation. As the government relinquishes its direct involvement in the decision-making processes of the corporation, private hands step in to steer the entity towards profitability and sustainability in the competitive market landscape. This evolution from a public to a private orientation introduces a range of considerations, including regulatory frameworks, financial structures, and stakeholder engagements, all of which play crucial roles in shaping the future trajectory of the commercialized entity. Through this transformation, the entity aims to leverage the strengths of private sector dynamics, such as market responsiveness and entrepreneurial spirit, while potentially facing challenges related to accountability, transparency, and social responsibility. Ultimately, commercialization seeks to optimize the performance and value proposition of the corporation, aiming to achieve long-term viability and growth in a rapidly evolving economic environment (Zakari & Ibeme, 2023).

Commercialization refers to the process of introducing a new product or service into the market with the aim of generating revenue and achieving profitability. It involves activities such as market research, product development, marketing, and sales to turn innovative ideas or inventions into commercially viable products or services, example are Power Sector, Petroleum sector (Zakari & Ibeme, 2023).

### 5.5.2 Features of Commercialization:

1. Market Research: Involves analyzing market demand, competition, and consumer preferences to identify opportunities and risks (Kotler & Keller, 2016).
2. Product Development: Includes designing, testing, and refining products based on feedback from market research (Ulrich & Eppinger, 2015).
3. Marketing Strategy: Development of promotional activities, pricing strategies, and distribution channels to reach target customers (Armstrong, & Kotler, 2017).
4. Sales and Distribution: Establishing sales channels and logistics to deliver the product to customers (Bowersox, Closs, & Cooper, 2019).
5. Financial Planning: Budgeting, forecasting, and managing financial resources to support commercialization efforts (Brigham, & Ehrhardt, 2016).

### 5.5.3 Advantages of Commercialization:

1. Revenue Generation: Provides opportunities for businesses to generate revenue from new products or services (Porter, 1985).
2. Market Expansion: Allows businesses to enter new markets and reach new customer segments (Johnson, Scholes, & Whittington, 2008).
3. Innovation and Growth: Stimulates innovation and business growth through the introduction of new products and services (Christensen, 1997).

### 5.5.4 Disadvantages of Commercialization:

1. High Costs: Involves significant financial investment in research, development, and marketing, which may not always yield positive returns (Schilling, 2020).
2. Market Risk: There is a risk that the product may not succeed in the market due to competition or changing consumer preferences (Tushman, & O'Reilly, 1996).
3. Intellectual Property Issues: Potential challenges in protecting intellectual property and dealing with patent disputes (Merges, & Nelson, 1990).

## 5.6 Summary

The unit thoroughly discussed and meticulously examined the intricate nature of Public Enterprises, shedding light on their fundamental aspects. Moving forward, the Unit delved critical examined the sources of failure as observed in Parastatals. Furthermore, the topic of Privatization was explored starting with a comprehensive understanding of the concept itself and later exploring the advantages and disadvantages associated with this economic strategy. Transitioning to Commercialization, the unit provided a detailed definition of Commercialization and outlined its key features. Moreover, the advantages and drawbacks of implementing Commercialization strategies were thoroughly analyzed to provide a comprehensive view of this economic approach, aiming to equip learners with a deep understanding of these essential concepts related to public and private sector operations.

Privatisation appears to be the latest in the series of movements to strengthen the economy. The present calls for privatisation have gained impetus for the liquidity problems, which the government in Nigeria is facing today. It would appear that so long as funds were abundant, waste in the parastatals and corporations was not noticeable.

However, the shortage of funds is forcing government to re-examine their priorities, and to allocate funds increasingly along economic lines and also to extend the principle of accountability to corporations. Privatization therefore, appears to be both an opportunity and a challenge.

The unit Privatization has been as a result of the failure in the performance of parastatals. Also, it offers opportunity for redistribution of the income and wealth in this country. Furthermore, it is seen as a way of increasing indigenous ownership of enterprises.

Given these advantages of privatization, there is the fear that it will result to unemployment of the already employed people in the parastatals.

Commercialization is a critical process for transforming innovative ideas into market-ready products or services, involving steps like market research, product development, marketing, and sales. While it offers significant advantages such as revenue generation, market expansion, and growth, it also comes with challenges like high costs, market risk, and intellectual property issues. Successful commercialization requires careful planning and execution to balance these factors and achieve business objectives.

## 5.7 References/Further Reading/ Web Resources


Agarwal, R., & Selen, W. (2018). The Handbook of Service Innovation. Springer.

Anyanwu, J.C., Oyefusi, A., Oaikhenan, H.O., Dimowo, F.A. (2021). Structure of the Nigerian economy (1960-1997). Joanee Education publisher ltd.

Armstrong, G., & Kotler, P. (2017). Principles of Marketing. Pearson.

Bowersox, D. J., Closs, D. J., & Cooper, M. B. (2019). Supply Chain Logistics Management. McGraw-Hill Education.

Brigham, E. F., & Ehrhardt, M. C. (2016). Financial Management: Theory & Practice. Cengage Learning.

Christensen, C. M. (1997). The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail. Harvard Business Review Press.

Iwayemi, A. (1979). The military and the economy, of nigerian government and politics under military rule. Oyeleye oyediran (ed.). Chapter 5. Macmillan press.

Iwayemi, A. (2020). Economy growth in Nigeria since (1960). “Emerging issue and evidence.” Unpublished manuscript, department of economics, university of ibadan, 1981.

Johnson, G., Scholes, K., & Whittington, R. (2008). Exploring Corporate Strategy. Pearson.

Kesselheim, A. S., & Avorn, J. (2021). The New England Journal of Medicine, 384(1), 65-67.

Kotler, P., & Armstrong, G. (2018). Principles of Marketing. Pearson.

Merges, R. P., & Nelson, R. R. (1990). On the Complex Economics of Patent Scope. Columbia Law Review, 90(6), 839-916.

Molem, C.S.(nd). Growth and development of nigerian economy. Kaduna: silver bond publisher.

Olayide, S.O. (1976). (ed.), economic survey of nigeria, 1960-1975. Aromolaran publishing co. Ltd.

Porter, M. E. (1985). Competitive Advantage: Creating and Sustaining Superior Performance. Free Press.

Schilling, M. A. (2020). Strategic Management of Technological Innovation. McGraw-Hill Education.

Tayo, L. (1982). Nigerian economy: a text of applied economics. Evans brothers nigeria limited.

Tushman, M. L., & O'Reilly, C. A. (1996). Ambidextrous Organizations: Managing Evolutionary and Revolutionary Change. California Management Review, 38(4), 8-30.

Zakari, M., & Ibeme, N. P. (2023). Privatisation Policy and the Performance of the Power Sector in Nigeria. *Journal of Public Administration*, *58*(3-1), 858-871.

## 5.8 Possible Answers to Self-Assessment Exercise(s) within the content

### Answer to SAE 1

### State the advantages and disadvantages of privatisation.

Advantages of privatization includes: Increased efficiency, Reduced government spending, Improved service quality, Increased competition while the Disadvantages of privatisation includes: Reduced accountability, Job losses, Reduced access to service, Reduced regulation, Inadequate oversight and Negative environmental impact. It's important to note that privatization can have both advantages and disadvantages, and the impact of privatization can vary depending on the specific context and the way it is implemented.

### Answer to SAE 2

### State the advantages and disadvantages of privatization

### Advantages of Privatisation

h) It is major shift in the economic orientation of our people and our nation, through the commencement of divestment of federal government shareholding in companies being privatised e.g. Flour Mills of Nigeria, African Petroleum Company PLC etc. This thinking is currently gaining an increasing popularity as preferred economic ideological companies are in the pipeline for privatisation.

i) It offers a window of opportunity for the redistribution of income and wealth in this country, a major ingredient in the creation of a satisfied and prosperous citizenry.

j) It offers a window of opportunity to valuers and professionals to widely and legitimately invest part of their discretionary income. It is a major opportunity to many Nigerians to commence the cultivation of a culture of thrift, a culture which is almost absent among most Nigerians.

### Disadvantages of Privatisation

e) It is argued that few rich Nigerians, or rather the transnational's already dominating the economy by their multifarious activities, would benefit, while majority of Nigerians who cannot afford the initial huge capital and financial requirement would participate.

f) Even though government has appealed to banks to make loans available to their customers to assist them in purchasing shares, financial constraints imposed on banks by Central Bank of Nigeria tend to negate the objective

g) The price of some of the shares of privatized companies seems to be high for ordinary citizens to pay in this harsh economic climate. Purchasing power of the citizens has definitely gone down as a result of persistent inflation

# MODULE 2 THE ROLE OF CENTRAL BANKING OF NIGERIAN ON NIGERIAN ECONOMY

Unit 1 The Role of Central Banking of Nigerian on Nigerian Economy
Unit 2 The Nigerian External Debt Crisis
Unit 3 Nigeria Monetary and Fiscal Policies
Unit 4 Taxation and Nigeria's Economic Growth and Investment Opportunities
Unit 5 International Trade and the Nigerian Economy
Unit Structure

## UNIT 1 The Role of Central Banking of Nigerian on Nigerian Economy

## Unit Structure

2.1 Introduction
2.2 Learning Outcomes
2.3 Central of Nigeria (CBN)
2.3.1 Development of the Central Banking
2.3.2 Establishment of the Central Bank of Nigeria (CBN)
2.4 Functions of the Central Bank of Nigeria
2.5 Monetary and Fiscal policy Function of CBN
2.6 Summary
2.7 References/Further Reading/ Web Resources
2.8 Possible Answers to Self-Assessment Exercise(s) within the content

## 1.1 Introduction

In our last unit, we thoroughly discussed and meticulously examined the intricate nature of Public Enterprises, shedding light on their fundamental aspects. Moving forward, the Unit delved critical examined the sources of failure as observed in Parastatals. Furthermore, the topic of Privatization was explored starting with a comprehensive understanding of the concept itself and later exploring the advantages and disadvantages associated with this economic strategy. Transitioning to Commercialization, the unit provided a detailed definition of Commercialization and outlined its key features.

In this unit, we will be discussing the various financial institutions in a country, it should be noted that the apex bank in the financial system is called the Central Bank. The name differs from one country to another. In India it is called the Reserve Bank of India, the Bank of England in

England, the Federal Reserve System in America, the Bank of France in France, the Risk bank in Sweden etc, while in Nigeria it's known as the Central Bank of Nigeria. A Central Bank is basically different from a commercial bank. The central bank does not engage itself in ordinary banking activities like accepting deposits and advancing loans to the public. It does not aim at making profits like the commercial banks. The issue here is what the central bank rather does is aimed at controlling the commercial banks and implementing the economic policies of the government. The central bank is generally owned by government and is managed by government officials or those who are connected with the government. But the commercial bank is owned by shareholders like any other joint stock company. It is worthy to note that every country has only one central bank with only few offices.

## 1.2 Learning Outcomes

One can only appreciate the relevance of this apex bank, that is, the Central of Nigeria (CBN) At the end of this unit, you should be able to:

- Explain the Development of the Central Banking
- Discuss the Establishment of the Central Bank of Nigeria (CBN)
- Highlight the Functions of the Central Bank of Nigeria
- Outline the Monetary and Fiscal policy Function of CBN

## 1.3 Central of Nigeria (CBN)

### 1.3.1 Development of the Central Banking

In India it is called the Reserve Bank of India, the Bank of England in England, the Federal Reserve System in America, the Bank of France in France, the Risk bank in Sweden etc, while in Nigeria it's known as the Central Bank of Nigeria also known as Banker's Bank.

The establishment of a workable monetary system including the basic fundamentals of credit system and central bank is an essential condition for economic growth in any country. In Nigeria, just like other countries that were formerly under colonial masters, the establishment of the central Bank was regarded as the outward symbol of attaining monetary independence.

With the establishment of the Central Bank of Nigeria on July I. 1959, the stage was set for a new era. The Act establishing the Central Bank of Nigeria endowed it with a number of functions among which are: the right to issue legal tender in Nigeria; the maintenance of external

reserves in order to safeguard the international value of currency and the maintenance of the commercial banks minimum liquidity ratio.
Like the old Currency Board, the Central Bank of Nigeria is the main issuer of currency for the whole economy. The bank can, for example, expand or decrease the currency in circulations without any corresponding increase or decrease in the external backing of the currency. The bank can also, through a number of policy measures, change their lending policies by controlling deposits which, together with the currency in the hands of the public make up the money supply. The central bank influences the activities of the commercial banks.

### 1.3.2 Establishment of the Central Bank of Nigeria (CBN)

The Central Bank of Nigeria (CBN) is the apex monetary authority in Nigeria, established by the CBN Act of 1958 and commenced operations on July 1, 1959. The CBN's primary mandate is to maintain monetary and price stability, ensure a sound financial system, and act as a banker to the federal government, among other roles.
Since its establishment in 1958, the objectives of the CBN have remained broadly the same, but the strategies for achieving these objectives have changed in consonance with the varying legal, institutional and macro-economic environment.

(a) The various amendments of the CBN Act of 1958 and the Banking Decree of 1969 tended to erode the authority of the CBN with regard to the execution of its primary mandate. However, the CBN Decree No 24 of 1991 and Banks and other financial institutions Decree (BOFID) No. 25 of 1991 which replaced the previous attempt to strengthen the bank's supervisory role in response to the widened scope of its activities and financial sector forms initiated since 1986. It is noteworthy that the CBN Decree of 1991 gave presidency in contrast to the practice, through the minister of finance. However, these practices have been reversed.
(b) Owing to the rapid structural growth of the financial sector in the last three decades, the bank has modified the nature and style of its surveillance. It has systematically developed policy instruments more relevant for a market-based financial sector. The Bank's size and structure have also witnessed a corresponding growth; and
(c) The Nigerian economy has recorded vast structural changes; economic management moved from reliance on control mechanisms in the late 1960s and up to 1985 to a system of deregulation between 1986 and 1993 and back to control in 1994. Presently, it had to revert to the system of deregulation. The banks response has influenced its operations appropriately

through the establishment of the relevant bureaucratic structure and technologies.

**Self-Assessment Exercise 1**

| |
|---|
| Q1. Briefly explain the development of Central Baking |
| Q2. Discuss the Establishment of the Central Bank of Nigeria (CBN) |

## 1.4 Functions of the Central Bank of Nigeria

1. Monetary Policy Formulation and Implementation **(Central Bank of Nigeria, 2023):**
   The CBN is responsible for formulating and implementing monetary policy to achieve price stability. This includes setting interest rates, controlling inflation, and managing the money supply.
2. **Issuance of Currency**:
   The CBN has the sole right to issue the national currency, the Naira. This role involves ensuring the adequate supply of high-quality currency notes and coins to meet public demand.
3. **Regulation and Supervision of Financial Institutions**:
   The CBN regulates and supervises banks and other financial institutions to ensure a sound and efficient financial system. This includes setting guidelines and standards for banking operations. The CBN regulates and supervises the financial sector to maintain stability and public confidence in the system."
4. **Management of External Reserves**:
   The CBN manages Nigeria's external reserves to safeguard the international value of the Naira and ensure external stability. "Managing the country's external reserves is a critical function of the CBN to ensure external balance and maintain confidence in the economy." (CBN Annual Report, 2022)
5. **Banker and Financial Adviser to the Government**:
   The CBN acts as the banker and financial adviser to the federal government. This involves managing government accounts, facilitating payments, and providing financial advice. "As the banker to the government, the CBN manages public funds and provides financial advisory services. (Central Bank of Nigeria, 2023)
6. **Developmental Functions**:
   The CBN also engages in developmental functions to promote economic growth and development. This includes initiatives to support agricultural development, small and medium enterprises (SMEs), and infrastructure financing. "The CBN's developmental functions aim to support economic growth through various

initiatives and interventions." (CBN Developmental Report, 2023)

**Self-Assessment Exercise 2**

| Highlight the key functions of central bank to the Nigerian economy? |
|---|

## 1.5 Monetary and Fiscal policy Function of CBN

The functions of the Central Bank of Nigeria can be broadly classified into two categories, namely, service and issuing of legal tender currency, and being both banker and adviser to the government. By status, the central of Nigeria is the sole bank of issue in Nigeria. The Bank issued the first national currency in 1959, hence, replacing those earlier issued by the West African Currency Board that was in existence before the establishment of the central bank. The civil war led to the change of the 1959 notes in 1968. Finally, in order to conform with most monetary standard, the world over, the decimal currency was introduced in 1972.

To this end, the central bank has taken over the banking business of the federal government and has been providing banking to state governments and state owned agencies. The central bank can make ways and means advances to the Federal Government up to 25 percent of its estimated current revenue. It can hold Treasury bills and Treasury certificates up to 15 per cent of estimated revenue of all government (Federal and State) and it can provide long-term loans, by way of long term securities, to the governments.

In its role as adviser to the governments on financial matters, the central bank tries to advice on coordination between the government's financial policy and the main economic objectives within the context of monetary stability.

One of the policy functions of the central bank is, thus, that which relates to monetary policy. In this regard, the Bank has responsibility for formulating and executing monetary policy. Its tools are open market operations, the discount rate, the liquidity ratio or reserve requirements, moral suasion and selective credit control.

A second aspect of the policy making function is the bank's exchange rate policy. The Central Bank has responsibility for maintaining external reserves in order to safe guard the international value of the country's currency. In order to achieve this, the Central Bank keeps custody and manages the country's gold and foreign exchange reserves. The government and others surrender their foreign exchange earning to the bank, which then meets foreign exchange requirements of the governments and the commercial banks.

## 1. Open Market Operation

These involve the discretionary sale or purchase of government debt instruments in the money market by the central bank. The bank engages in open market operations with a view of regulating the cost (interest rates) and availability of credit and, by so doing, influences commercial banking system credit operations. The sales of government debt instruments or securities are carried out to reduce the liquidity, on the other hand, securities are bought. In an inflationary situation, the central bank can decide to curtail expansion by selling securities in the money market. The impact of this is to reface the cash reserve position on the commercial banking system and thus limit the funds available to the system in carrying out its credit expansion. This cause interest rates to rise, which will discourage investment, lower aggregate spending and result in ameliorating inflationary pressures.

Open market operations have not been effectively used by the Central Bank of Nigeria because of the underdeveloped nature of the financial markets. Other reasons include insufficient supply of the necessary securities in the economy and the fact that the interest rates on government securities (forming 90 per cent of money markets) are not variable. For this instrument to be effective there should be existence of a well-developed financial system, an integrated and interest sensitive financial markets in which the amount of government securities held by banks, private corporation and individuals is large.

## 2. Rediscount Rate

The Central Bank, as a lender of last resort, stands ready to honour demand for financial accommodation from the commercial banks. In performing this role the Bank takes into account the financial environment and the economic situation in general. Such temporary financial accommodation is generally extended to the banks at the "discount window" of the Central Bank. In operating the "discount window", penalties are involved since commercial banks are not expected to resort to it until it becomes absolutely necessary.
Rediscount rate, the cost of this last resort borrowing is very important because changes in all interest rates charged by the commercial banks follow those of the rediscount rate. If the rediscount rate is high, the interest rate charged by commercial banks will also be high, and vice versa. In the advanced and more sophisticated financial markets, changes in the rediscount rate produce important announcement effects in the credits markets. An increase in rediscount rate is an indication to

the credit institutions that they should raise cost, hence, restrains credit availability to potential borrowers.

The rediscount rate policy has not played a significant role in influencing the cost and availability of credit in Nigeria. A major limitation to the effectiveness of interest rate charges, as a technique of resource management in Nigeria, arises from the fact that investment decisions are more dependent on the expected rate of returns on investment than on the cost of borrowing. The returns on investment are so high in Nigeria that the restraining rates of interest might be too high for the monetary authorities to contemplate. Although an amendment to the central bank of Nigeria in 1962 required bank lending rates to have a specified and defined relationship with the rediscount rate, the rigidity inherent in the administered structure of the Nigeria interest rates makes rediscount rate an ineffective tool of control.

### 3. Reserve Requirement

All commercial banks are legally expected to have a certain percentage of their deposit liabilities with the central bank. The bank has the right to raise or lower the ratio depending on its credit policy at a particular point in time. The cash and liquidity ratios are expressed as the ratios between their deposit liabilities and their cash holding and selected liquid assets respectively. The cash ratio was not emphasised in Nigeria until recently. Rather, emphasis was placed, on the liquidity ratio which has, nevertheless, oscillated between 25 and 40 percent since it was stipulated, although the composition of qualified liquid assets has been veined over time.

The cash ratio is designed to raise or reduce the liquidity of the banking system by determining the level of cash reserve balances (the credit base of the system) which commercial banks should maintain with the central bank.

### 4. Special Deposit

These are supplementary reserves used to reduce the volume of commercial banks' liquidity when it is fevered that excessive bank cash balances may induce credit expansion. They are made by commercial banks in the central banks and not allowed to be used as base for credit expansion in that they are not allowed to be used as base for credit expansion, in that they are not counted as liquid assets. Generally, these deposits earn no interest.

Stabilization securities, which also belong to the same class of instrument as special deposits, are issued by the central bank to commercial banks at given interest rates, and they serve the same purpose as special deposits, in terms of instruments like special deposits are issued by the central bank to commercial banks at given interest rate, as well as serve the same purpose as special deposits, in terms of squeezing the commercial banks' excess cash holding and restricting their credit expansion. The securities are issued at the discretion of the central bank based on the level of excess cash holdings of the commercial banks as judged by the central bank.

## 5. Direct Credit Control

By far the most effective technique of control of commercial banks relative to other techniques available has been through credit guidelines. Starting from 1969/70 fiscal year, the central bank has consistently issued guidelines to commercial banks particular in the area of loans and advances to the various sectors of the economy.

Direct credit control involves the imposition of quantitative ceilings by the Central Bank on the overall and/or sectoral distribution of commercial banks' credit. The Central Bank of Nigeria is empowered to fix ceilings on the volume as well as the rate of increase in bank credit, which the commercial bank should maintain from time to time. It can also prescribe a sectoral distribution of credit with or without a specified rate of credit expansion. An important feature of this instrument is the power to prescribe minimum ratios of loan and advances, which the commercial bank must allocate to the preferred sectors of the economy as opposed to the less preferred ones. This instrument is of great relevance to the economic conditions of Nigeria in which the central bank in co-operation with fiscal and planning authorities is called upon to promote accelerated economic development. The sectoral allocation of credit suffers from the basic defect that funds may be borrowed for one purpose and diverted to other purposes.

## 6. Moral Persuasion

This has been a traditional tool used by the Central Bank of Nigeria in its dealings with its commercial banks. It involves the use of the power of persuasion to influence the lending operations of the commercial banks in the direction desired by the Central Bank. No official directive is involved. However, some punishment of measures are observed with this instrument, the governor of the central bank merely uses his position to persuade and appeal to the commercial banks to exercise restraints in credit expansion, under an inflationary situation. The banks normally comply for fear that the central bank may use its statutory powers to force them to behave accordingly. In addition, all commercial banks normally want to maintain cordial relationship with the Central Bank.

## 1.6 Summary

The unit examined how the Central Bank of Nigeria plays a crucial role in maintaining economic stability and fostering growth. The Central Bank of Nigerian (CBN) is an institution owned by the government of a nation, run by Board of Directors chaired by a governor appointed by the government (prior to 1997) and charged with the responsibility of managing the expansion and contraction of the volume, cost and availability of money in the interest of the public welfare. In doing this, it is the banker to the government. It controls, supervises, and assists the activities of the commercial banks. Also, it carries out the monetary policy of the country and acts as a lender of last resort to the commercial banks.

Its key functions include formulating and implementing monetary policy, issuing currency, regulating financial institutions, managing external reserves, acting as the government's banker and financial adviser, and engaging in developmental functions. These roles ensure the stability and efficiency of Nigeria's financial system and contribute to the overall economic well-being of the country.

Although the challenges ahead are enormous if not daunting, the central bank will respond adequately if given the support to carry out its functions. Its contributions to the economy will be enhanced and its role in creating a robust financial sector will increase. The bank should shed off some of its developmental activities which can effectively be taken over by other agencies. It should focus on its stabilization functions, which can sustain price stability and restore full confidence to the financial sector. If given the autonomy, it should become more effective, efficient and responsive institution, gaining greater confidence of the general public.

## 1.7 References/Further Reading/ Web Resources

Anyanwu, J.C., Oyefusi, A., Oaikhenan, H.O., Dimowo, F.A. (nd). Structure of the Nigerian Economy (1960-1997). Joanee Education Publisher Ltd.

Central Bank of Nigeria. (2023). **Banking Supervision**. Retrieved from CBN Website.

Central Bank of Nigeria. (2023). **Currency Operations**. Retrieved from CBN Website.

Central Bank of Nigeria. (2023). **Developmental Functions**. Retrieved from CBN Website.

Central Bank of Nigeria. (2023). **External Reserves Management**. Retrieved from CBN Website.

Central Bank of Nigeria. (2023). **Government Banking**. Retrieved from CBN Website.

Central Bank of Nigeria. (2023). **Monetary Policy**. Retrieved from CBN Website.

Molem C.S.(nd). Growth and Development of Nigerian Economy. Kaduna: Silver Bond Publisher.

Tayo Lambo (1982). Nigerian Economy: A Text of Applied Economics. Evans Brothers Nigeria Limited

## 1.8 Possible Answers to Self-Assessment Exercise(s) within the content

### Answer to SAE 1

### Q1. Development of the Central Banking

In India it is called the Reserve Bank of India, the Bank of England in England, the Federal Reserve System in America, the Bank of France in France, the Risk bank in Sweden etc, while in Nigeria it's known as the Central Bank of Nigeria also known as Banker's Bank.

The establishment of a workable monetary system including the basic fundamentals of credit system and central bank is an essential condition for economic growth in any country. In Nigeria, just like other countries that were formerly under colonial masters, the establishment of the central Bank was regarded as the outward symbol of attaining monetary independence.

With the establishment of the Central Bank of Nigeria on July I. 1959, the stage was set for a new era. The Act establishing the Central Bank of Nigeria endowed it with a number of functions among which are: the right to issue legal tender in Nigeria; the maintenance of external reserves in order to safeguard the international value of currency and the maintenance of the commercial banks minimum liquidity ratio.

Like the old Currency Board, the Central Bank of Nigeria is the main issuer of currency for the whole economy. The bank can, for example, expand or decrease the currency in circulations without any corresponding increase or decrease in the external backing of the currency. The bank can also, through a number of policy measures, change their lending policies by controlling deposits which, together with the currency in the hands of the public make up the money supply. The central bank influences the activities of the commercial banks.

### Answer to SAE 1
### Q2 Establishment of the Central Bank of Nigeria (CBN)

The Central Bank of Nigeria (CBN) is the apex monetary authority in Nigeria, established by the CBN Act of 1958 and commenced operations on July 1, 1959. The CBN's primary mandate is to maintain monetary and price stability, ensure a sound financial system, and act as a banker to the federal government, among other roles.

Since its establishment in 1958, the objectives of the CBN have remained broadly the same, but the strategies for achieving these objectives have changed in consonance with the varying legal, institutional and macro-economic environment.

(a) The various amendments of the CBN Act of 1958 and the Banking Decree of 1969 tended to erode the authority of the CBN with regard to the execution of its primary mandate. However, the CBN Decree No 24 of 1991 and Banks and other financial institutions Decree (BOFID) No. 25 of 1991 which replaced the previous attempt to strengthen the bank's supervisory role in response to the widened scope of its activities and financial sector forms initiated since 1986. It is noteworthy that the CBN Decree of 1991 gave presidency in contrast to

## Answer to SAE 2

## Functions of the Central Bank of Nigeria

**Monetary Policy Formulation and Implementation** (Central Bank of Nigeria, 2023):
The CBN is responsible for formulating and implementing monetary policy to achieve price stability. This includes setting interest rates, controlling inflation, and managing the money supply.

### **Issuance of Currency**:

The CBN has the sole right to issue the national currency, the Naira. This role involves ensuring the adequate supply of high-quality currency notes and coins to meet public demand.

### **Regulation and Supervision of Financial Institutions**:

The CBN regulates and supervises banks and other financial institutions to ensure a sound and efficient financial system. This includes setting guidelines and standards for banking operations. The CBN regulates and supervises the financial sector to maintain stability and public confidence in the system."

### **Management of External Reserves**:

The CBN manages Nigeria's external reserves to safeguard the international value of the Naira and ensure external stability. "Managing the country's external reserves is a critical function of the CBN to ensure external balance and maintain confidence in the economy." (CBN Annual Report, 2022)

**Banker and Financial Adviser to the Government**:

The CBN acts as the banker and financial adviser to the federal government. This involves managing government accounts, facilitating payments, and providing financial advice. "As the banker to the government, the CBN manages public funds and provides financial advisory services. (Central Bank of Nigeria, 2023)

**Developmental Functions**:

The CBN also engages in developmental functions to promote economic growth and development. This includes initiatives to support agricultural development, small and medium enterprises (SMEs), and infrastructure financing.

# UNIT 2 The Nigerian External Debt Crisis

## Unit Structure



## 2.1 Introduction

In our last unit, we discussed the how the Central Bank of Nigeria plays a crucial role in maintaining economic stability and fostering growth. We also highlighted Its key functions to include formulating and implementing monetary policy, issuing currency, regulating financial institutions, managing external reserves, acting as the government's banker and financial adviser, and engaging in developmental functions.

In this unit, we will discuss and examine the Genesis of the Nigerian Debt Crisis that has persisted over the years. It delved into estimating the Nigerian Debts specifically focusing on the period between 2010 to 2022, shedding light on the increasing financial obligations. The reasons for the Nigerian Debt Crisis were thoroughly highlighted, elucidating the complex web of factors contributing to the country's debt burden. Furthermore, an in-depth discussion on the Institutions of External Debt in Nigeria was provided, exploring the various entities involved in managing and overseeing the country's external debt affairs.

The unit also tackles the Foreign Institutional Influence of External Debt crisis in Nigeria, elucidating how global financial institutions and foreign entities play a significant role in shaping Nigeria's debt landscape. Moreover, a detail explanation on the consequences of Debt on the Nigerian Economy will be provided, illustrating the profound impact of debt accumulation on various sectors and aspects of the economy.

Additionally, the unit will meticulously highlight the effective strategies for Managing Debts, offering insightful approaches and methodologies to mitigate the adverse effects of debt and ensure sustainable debt management practices. Lastly, will comprehensive outline the solutions to the Nigerian Debt Crisis, presenting practical and feasible steps that the government and relevant stakeholders can undertake to address the root causes of the crisis and pave the way for a more stable and resilient economic future for Nigeria.

## 2.2 Learning Objectives

By the end of this unit, you should be able to:

- Discuss the Genesis of Nigerian Debt Crisis
- Estimate the Nigerian Debts between 2010-2022
- Highlight the reasons for the Nigerian Debt Crisis
- Discuss the Institutions of External Debt in Nigeria
- Describe the Foreign Institutional Influence of External Debt crisis in Nigeria
- Explain the consequences of Debt on the Nigerian Economy
- Highlight the strategies for Managing Debts
- Outline the solutions to the Nigerian Debt Crisis

## 2.3 Nigerian External Debt Crisis

### 2.3.1 Genesis of Nigerian Debt Crisis

During the first ten years of independence Nigerian total debt was very insignificant. For instance, in 1970 the external debt of the country stood at $567 million. However, certain development during the 70’s totally changes the situation. Instead of owing very small we started owing very much. Firstly, the 1972/74-oil boom in Nigeria (in 1972 barrel was selling at about $4 dollars it rose to $14 dollars in 1973) has greatly increased the resource available to the federal government, which in turn encouraged reckless spending. Consider the following, Nigeria's first development plan 1962-68 budgeted for =N=2.2 billion; the second development plan 1970-74 budgeted for =N=3 billion. In this two development plans, there was no significant increase. But third development plan 1977-80 budgeted for =N=30.0 billion, that is, an

increase of ten times the earlier money spending of the second development plan which is equivalent to 1000 per cent increase.
By 1978, due to the short-fall in oil receipts, Nigeria contracted a =N=26 billion jumbo loan from euro-dollar market (private lenders). This was the beginning of massive borrowing by the federal government and repayments were not being made as at when due.

Official statistical information on Nigeria's external debt is partly un-reliable due to poor records keeping and corrupts practices. Nigerian officials tend to rely on data and information computed by the World Bank (W.B) and International Monetary Fund (I.M.F.). Paradoxically, these are people we owe. Officially, the estimated debt of Nigeria as at the end of 1990 stood at $33billion U.S. dollars but independent sources, World Bank (WB) and IMF put it at $35billion. This implies that there is no exact agreement as to what we owe. Presently, the amount the country is owing is a round $28 billion U.S. There are two important features of Nigeria's debt that requires attention. viz:
Firstly, the composition is more disturbing than its size because about 61% of total debt owed comes from private sources (i.e. international commercial banks) and this explains in part the rapid growth and burden of Nigeria's debt services obligation.

Secondly, Nigeria has been borrowing at concessional rate/terms. In other words, a large part of the debt is concentrated at higher interest rate, shorter in maturity (in years), shorter grace period, and reduced grant element.

Therefore, the consequence is high debt service ratio. Debt service ratio measures the burden of debt and is define as the ratio of scheduled debt service to export earnings or total GDP.

Nigeria's debt service ratio rose from 1.3% in 1983 to an impossible figure of 86% in 1987 and went down to 36% in 1990 and rose again to 48% by 1998.

Furthermore, the availability of oil money in the euro-dollar market encouraged reckless borrowing by Nigeria and other third world countries. In addition, the inability to repay the loan as at when due together with the sharp rise in interest rate compounded the problems of debtors, Nigeria in particular, and third world economies in general.

**2. Colonial period-** When the entire African continent was shared among the European countries. The main feature of this period is the emerging activities of multinational corporations in the exploitation of primary product for exportation and importation of their manufactured goods at prices determined by them.

**3. Post-independence Era-** Though political independence was granted to Nigeria, but economic independence still eluded her (Nigeria). This period is characterized by intensive activities of multinational corporations and their Nigerian collaborators.
Nigeria's debt crisis has deep historical roots. By the end of 1952, the country's debt stood at £21.24 million, rising to £17 million by 1960 as colonial rule ended. The debt burden surged during the Nigerian Civil War (1967-1970) and continued to grow in the 1970s, exacerbated by the 1982 oil price crash, leading to a severe debt crisis with debts exceeding $30 billion by the early 1980s. A significant relief came in 2005 when Nigeria secured an $18 billion debt relief deal, reducing its debt significantly(BusinessDay)(premiumtimesng).

## Self-Assessment Exercise 1

| What are the causes of the debt crisis in Nigeria? |
|---|

## 2.4 Estimated Nigerian Debts (2010-2022)

Between the analyzed years of 2010 and 2022, Nigeria experienced a substantial surge in its national debt levels. In 2010, Nigeria's public debt stood at approximately $35 billion, but by the culmination of the period in 2022, this figure had ballooned to nearly $103 billion. Noteworthy was the concurrent escalation in the debt-to-GDP ratio, which surged from roughly 17% in 2010 to over 30% by the conclusion of the study period in 2022. This upward trajectory in debt accumulation can be primarily attributed to the mounting borrowing necessitated to offset budget shortfalls, exacerbated by the dwindling revenues from the nation's oil sector. It is crucial to recognize that this debt spiral was further exacerbated by unforeseen economic crises, notably the global shockwaves stemming from the COVID-19 pandemic and the ensuing global economic turmoil. This compounding of challenges placed immense pressure on Nigeria's fiscal health and underscored the imperative for prudent economic management moving forward. The confluence of these factors paints a stark picture of the challenges that the Nigerian economy grappled with during the period under review, signaling the need for strategic reforms and policy interventions to steer the country towards a sustainable and resilient economic trajectory. (premiumtimesng) (Brookings).

## 2.5 Reasons for the Nigerian Debt Crisis

Several factors contribute to Nigeria's escalating debt crisis:

1. **Declining Oil Revenues:** As a major oil producer, Nigeria's economy is heavily dependent on oil. Fluctuations in oil prices have significantly impacted government revenues.

2. **Budget Deficits:** Persistent budget deficits due to extensive government spending on infrastructure, social services, and security have necessitated increased borrowing.
3. **External Shocks:** Economic disruptions such as the COVID-19 pandemic and the Russia-Ukraine war have strained financial resources and increased the need for borrowing.
4. **Debt Servicing Costs:** A large portion of the national budget is allocated to servicing existing debts, limiting funds available for development projects (premiumtimesng) (Jump.Africa).

The causes of Nigerian debt crisis could also view looked from two approaches namely:

1. Orthodox Approach
2. Dialectical Approach

1. **Orthodox Approach-** Nigerian debt crisis arose due to several reasons, which include:

a) Low savings propensity which arises due to high propensity to both consume and waste, because saving is low, investment is also low which implies low level of income.
b) Problem of proper statistics make debts difficult to ascertain.
c) Exchange rate variation adds greater variability to debt figures. This made the local currency to be over-valued thereby resulting to mass-importation which leads to short terms trade arrears, the effect here is that, a little rise in the interest rate will change the overall size of the indebtedness remarkably.
d) Loans contracted were used to finance peripheral consumption rather than investment projects.
e) Harsh international systems and practices which make it impossible for a nation to reduce its debt burden.
f) (External creditors, especially banks, encouraged debtor nations to continue to borrow for projects of doubtful viability.
g) Short-term loans were used to finance long term projects and the loans get mature for employment while the projects are half way completion. For instance, the steel and paper mill projects.
h) Poor economic management, coupled with acids use of resources, corruption and wastage of public funds.
i) Inability of Nigerian government to fully utilise external loans and aids to generate adequate surplus, to enable her repay the loans as well as service charges.
j) Lack of coordination of aid donor policies at national level to ensure maximum economic impact of aid and loans packages on development.

3. **The dialectical approach** on the other hand traces the causes of Nigerian debt crisis to when Nigerian and other third world

countries began to have contacts with the Western world. During slave trade, many able bodied men and women between the ages of 20-35 were taken to various plantations in Europe and America, as a result of various slave raids and plunder, the environment was no more conducive for productive activities. This was the beginning of the underdevelopment of many of the African continent. Following the changes in the mode of production from labour intensive to capital intensive in Europe and America, slave trade was abolished. Consequently, Africans were encouraged to produce primary products to feed industries during industrial revolution. The trade that ensured then was an un-equal trade because the price of both the primary products and the imported goods were determined by the imperialists. This led to the appropriation of surplus from the continent thereby setting in the dependent nature.

### Self-Assessment Exercise 2

| What are the reasons and causes of Nigerian debt crisis? |
| --- |

## 2.6 Institutions of External Debt in Nigeria

Nigeria's external debt is managed and coordinated by several key institutions, each playing a significant role in the country's debt management framework. These institutions include:

1. **Debt Management Office (DMO)**: The DMO is a central agency established in 2000 to centrally coordinate the management of Nigeria's debt. Its responsibilities include the formulation of debt strategies, debt issuance, and servicing, as well as ensuring that debt obligations are met without resorting to arrears. The DMO provides comprehensive data and analyses on the country's debt profile, which includes domestic and external debts (Central Bank of Nigeria) (Debt Management Office Nigeria).
2. **Central Bank of Nigeria (CBN)**: The CBN plays a crucial role in the management of Nigeria's external debt by providing monetary and financial stability, which impacts debt sustainability. It supervises the foreign exchange market, manages external reserves, and provides the necessary financial infrastructure for debt payments. The CBN also engages in economic research and publishes statistical data relevant to external debt management (Central Bank of Nigeria).
3. **Federal Ministry of Finance**: This ministry oversees the overall economic and financial policies of the government. It is responsible for negotiating and signing international borrowing agreements, as well as for the fiscal policies that influence

external debt levels. The ministry works closely with the DMO and CBN to ensure coherent and effective debt management strategies (Debt Management Office Nigeria).

4. **Multilateral and Bilateral Creditors**: Nigeria's external debt comprises loans from multilateral institutions like the World Bank and International Monetary Fund (IMF), as well as bilateral loans from individual countries. These creditors provide funding for various development projects and budget support under agreed terms and conditions. The Paris Club and London Club of Creditors are also significant sources of Nigeria's external debt (Central Bank of Nigeria).
5. **Commercial Creditors**: Nigeria also accesses international capital markets through the issuance of Eurobonds and other financial instruments. These instruments are traded on global markets and are typically used to finance large-scale infrastructure projects and refinance existing debts (Central Bank of Nigeria) (Debt Management Office Nigeria).

## 2.7 Foreign Institutional Influence of External Debt crisis in Nigeria

Nigeria's engagement with foreign institutions like the International Monetary Fund (IMF) and the World Bank has played a significant role in shaping its external debt landscape. Over the decades, these institutions have provided financial assistance and imposed structural reforms aimed at stabilizing Nigeria's economy and promoting sustainable growth.

### IMF Involvement

The IMF has been a key player in Nigeria's economic policies since the mid-1980s. During economic downturns, the IMF provided financial support contingent upon structural adjustment programs (SAPs). These programs aimed to reduce Nigeria's dependence on oil, balance its payments, promote non-inflationary growth, and reduce unproductive investments(Wikipedia). Despite the initial resistance due to harsh conditions such as subsidy removals and currency devaluation, Nigeria has continued to seek IMF assistance during crises, such as the $3.4 billion loan in 2020 to mitigate the impacts of COVID-19(Wikipedia).
In recent years, the IMF has lauded Nigeria's ambitious reforms under its new administration, including the unification of the foreign exchange windows and the removal of fuel subsidies. These reforms are crucial for restoring macroeconomic stability and fostering inclusive growth (IMF).

## World Bank Involvement

The World Bank has similarly been instrumental in supporting Nigeria's economic stability and development. Recent initiatives include a $2.25 billion package approved in 2024 to support economic stabilization and revenue diversification(World Bank). The World Bank's involvement often emphasizes structural reforms, infrastructure development, and social programs to improve economic resilience and reduce poverty.
The World Bank's International Debt Statistics show that Nigeria's external debt has grown significantly, reflecting ongoing borrowing to finance development projects and stabilize the economy(World Bank Open Data).

## Impact and Challenges

While foreign financial support has been pivotal in addressing immediate economic challenges, it also increases Nigeria's external debt burden. The terms of these loans often include stringent conditions that can strain domestic policies. Despite these challenges, Nigeria's engagement with these institutions aims to achieve long-term economic stability, reduce poverty, and enhance growth through structural reforms and policy adjustments.

## Self-Assessment Exercise 3

| |
|---|
| What are the efforts that the federal government has put in place to address the debt crises in Nigeria? |

## 2.8 Consequences of Debt on the Nigerian Economy

The consequences of heavy indebtedness include:

a) Drastic reduction in the ability to import capital
b) Drastic reduction in domestic investment
c) Reduced investment means increased under-capacity utilization and un-employment
d) drastic reduction in standard of living
e) decline in the economic activity.

High indebtedness implies high debt service ratio and hence low per capital income.
The Nigerian economy in the past three decades has been affected by unsustainable burden of external debt. This burden has made the restructuring of the economy without an intolerable fall in the standard of living a difficult task to achieve.

Negotiations with the London and Paris clubs have constituted a major element in Nigeria's strategy for debt management and the achievement of the objectives of the deregulation of the economy.

Through the various agreements which the country concluded with the clubs in the last couple of years, a substantial reduction in debt service has already been achieved. This has enabled Nigeria to devote a greater proportion than otherwise would have been possible of available foreign exchange earnings to the promotion of economic growth and development.

However, what worth mentioning here, is that, in a long-run, only the pursuit of appropriate macroeconomic policies can guarantee the avoidance of external debt problems.

## 2.9 Strategies for Managing Debts

Many approaches have been made by Nigerian government for debt management and all the measures have long time lapses because:
First, pumping in more money through emergency relieve package is not the solution/answer and this will aggravate the problem and thereby increasing inflation within the debtor nation.

Second, debt relief call for sweeping posterity reforms in poor countries which result in further immiseration of the peasant as well as dash any prospect for economic recovery, growth and development.

Nonetheless, there are several options that are open to Nigeria in particular, and an African countries general on how to manage their debts.
Therefore, if properly taken, this may limit the country's external debt burden. They include:

**(1)** **Embargo on new loans-** Directives to state governments to minimize external borrowing, adoption of economic recovery measures, loans refinancing, restructuring loans as well as loans rescheduling.

**(2)** **Repudiation:** This implies the debtor nation should cancel the debt, that is, it has nothing to do with the debt.

**(3)** **Fertilization Cartelization: -** The debtor nations teaming up to form debtors club mother to have a common goal and one voice to face the creditor nations. The problem with cartel is that some debtor countries are afraid of losing their favoured/preferential treatment by the debtors. Thus, they may refuse joining such clubs and hence their maximum cooperation.

**(4)** **Forgiveness-** When the debt becomes too large to remember, the only option is to forgive the debtors.

**(5)** **Debt Conversion Scheme-** This requires the cooperation of both creditor and debtor nation. There are different types of conversion which includes:

**(a)** **Amortization -** This refers to the process of ending a debt by setting aside money for regular payment.

**(b)** **Capitalization of Debt-** This is when debt is converted/used as capital, that is, the conversion of debt into wealth, money/property for the purpose of producing more wealth or starting a new business.

**(c)** **Debt for Cash Conversion-** This refers to the conversion of debt by the holder at its face value and at the prevailing exchange rate for the currency of the debtor country. For instance, multinational corporation/companies with subsidiaries in debtor third world countries usually buy up developing countries' debt from Western creditor banks at dis-count and use the local currency proceeds acquired from the debt to pay local taxes, repay local loans, and provide working capital for their branches in the debtor countries.

## 2.10 Solutions to the Nigerian Debt Crisis

Addressing Nigeria's debt crisis requires a multi-faceted approach:

1. **Diversification of the Economy:** Reducing dependence on oil by diversifying into agriculture, manufacturing, and services can stabilize revenues.
2. **Improved Fiscal Discipline:** Enhancing fiscal policies to curb excessive spending and improve efficiency in public finance management.
3. **Debt Restructuring:** Negotiating with creditors to restructure existing debt, potentially through debt-for-development swaps that can alleviate debt burden while funding development projects.
4. **Boosting Revenue Generation:** Implementing tax reforms to broaden the tax base and increase government revenues (premiumtimesng) (Brookings).

## 2.11 Summary

The unit discussed how the Nigeria's debt crisis is a result of historical accumulation of debt, economic shocks, declining oil revenues, and extensive borrowing to cover budget deficits. The debt surged from $35 billion in 2010 to over $103 billion in 2022. Solutions include economic diversification, improved fiscal discipline, debt restructuring, and boosting revenue generation to manage and mitigate the impact of the debt crisis effectively.

The management of Nigeria's external debt involves a coordinated effort among various institutions, including the DMO, CBN, and the Federal Ministry of Finance, along with multilateral and bilateral creditors. These institutions work together to ensure that Nigeria's debt obligations are met efficiently while maintaining economic stability and fostering growth. Understanding the roles of these institutions is crucial for grasping the complexities of Nigeria's external debt landscape and the strategies employed to manage it effectively.

In conclusion, the roles of the IMF and World Bank in Nigeria's external debt management are complex and multifaceted, involving financial assistance, policy recommendations, and structural reforms aimed at fostering sustainable economic growth and development.

The consequence of the above is high burden of debt hanging on the nation's resources.
Nevertheless, the government of Nigeria has put in place various strategies to revamp the situation. The reason being that the consequence of debt-servicing has bad repercussion on the economic growth and development of the nation, such as high reduction in its ability to import, reduction in domestic investment which implies increased under-capacity utilisation, unemployment, low standard of living, and soon.

## 2.12 References/Further Reading/ Web Resources

Adebayo O. O. (1990). Nigerian External Debt Crisis. Malthouse Press Limited.

Anyanwu, J.C., Oyefusi, A., Oaikhenan, H.O., Dimowo, F.A. (2001). Structure of the Nigerian Economy (1960-1997). Joanee Education Publisher Ltd.

ASUU, Nigeria Economic Crisis, Causes and Solutions Molem C.S.(nd). Growth and Development of Nigerian Economy. Kaduna: Silver Bond Publisher.

Brookings. Fiscal policy options for growing out of debt: Evidence from Nigeria. Link

Businessday NG. Fiscal instability: Behind the ticking time bomb of Nigeria's debt. Link

Central Bank of Nigeria Debt Management Office Nigeria

External Debt Management and Sustainability in Nigeria

IMF. (2024). IMF Executive Board Concludes 2024 Article IV Consultation with Nigeria.

Jump Africa News. The Causes of the Nigeria Debt Crisis: What You Need to Know. Link Premium Times. Inside Nigeria's debt crisis: How foreign loan under Buhari triples past govts combined figure. Link

Tayo Lambo (1982). Nigerian Economy: A Text of Applied Economics. Evans Brothers Nigeria Limited.

Wikipedia. Nigeria and the International Monetary Fund
World Bank. (2024). Supporting Nigeria’s Homegrown Reforms.

## 2.13 Possible Answers to Self-Assessment Exercise(s) within the content

### Answer to SAEs 1

What are the causes of the debt crisis in Nigeria?
Nigeria has experienced a debt crisis in recent years due to a combination of factors, including:
**Falling oil prices:** Nigeria is heavily dependent on oil exports for revenue, and a fall in oil prices has led to a decline in the country's income and a widening of the budget deficit.
**Economic mismanagement:** Nigeria has a history of economic mismanagement, which has led to a lack of diversification of the economy, and a lack of investment in infrastructure, education and healthcare.
**Corruption:** Corruption is a pervasive problem in Nigeria, and has led to a diversion of public funds away from important investments in infrastructure, education, and healthcare.

### Answer to SAEs 2

What are the causes of Nigerian debt crisis?
The Nigerian debt crisis is caused by a combination of factors including:
**Falling oil prices:** Nigeria is heavily dependent on oil exports for revenue, and a fall in oil prices has led to a decline in the country's income and a widening of the budget deficit. This caused a shortage of foreign exchange, making it more difficult to service debt.

**Economic mismanagement:** Nigeria has a history of economic mismanagement, which has led to a lack of diversification of the economy and a lack of investment in infrastructure, education and healthcare. This has led to a decline in economic growth and a decline in government revenue.

**Corruption:** Corruption is a pervasive problem in Nigeria, and has led to a diversion of public funds away from important investments in infrastructure, education, and healthcare. This has led to a decline in economic growth and a decline in government revenue.

**Inflation:** Nigeria has had a high inflation rate, which has led to a decline in the purchasing power of the naira and has made it more difficult to service debt.

**Over-borrowing:** Nigeria has borrowed heavily in the past, both externally and internally, and the accumulation of debt has led to a debt crisis. This is because the country's debt-servicing obligation has increased over time, putting pressure on the country's foreign exchange reserve, and the government's ability to service the debt.

## Answer to SAEs 3

What are the efforts that the federal government has put in place to address the debt crises in Nigeria?
The Nigerian government has implemented a number of measures to address the debt crisis:
**Debt restructuring:** The government has negotiated with creditors to restructure its debt and extend the maturity of its loans. This has helped to reduce the country's near-term debt-servicing burden and allowed the government to redirect funds towards priority areas such as infrastructure, healthcare and education.

**Fiscal consolidation:** The government has implemented measures to reduce the budget deficit and improve public finances, such as cutting expenditure, increasing revenue, and implementing fiscal reforms.

**Monetary policy:** The Central Bank of Nigeria has implemented measures to stabilize the currency and control inflation, such as raising interest rates, and tightening monetary policy.

# Unit 3 Nigeria Monetary and Fiscal Policies

## Unit Structure



## 3.1 Introduction

In our last unit, we discussed the how the Central Bank of Nigeria plays a crucial role in maintaining economic stability and fostering growth. We also highlighted its key functions to include formulating and implementing monetary policy, issuing currency, regulating financial institutions, managing external reserves, acting as the government's banker and financial adviser, and engaging in developmental functions.
This unit will discuss the realm of economic policies, particularly focusing on monetary and fiscal policies in the context of Nigeria. Firstly, it will explore the multifaceted dimensions of monetary policy, beginning with defining its crucial components. Subsequently, it will elucidate the intricate concept of how monetary policy operates within the Nigerian economic landscape, shedding light on its mechanisms and applications.

Moreover, significant attention will be dedicated to dissecting the institutional framework that underpins monetary policy in Nigeria, providing a comprehensive overview of the key players and their roles in shaping this critical aspect of economic management. The unit also will meticulously dissect the far-reaching impacts of monetary policy on the Nigerian economy, scrutinizing how decisions in this domain reverberate across sectors and influence economic outcomes.

Furthermore, the units will seamlessly transitions to the complex realm of fiscal policy, unveiling its fundamental definitions and functions. A detailed examination of fiscal policy in Nigeria ensues, unraveling the various strategies and tools employed by the government to regulate economic activities and foster sustainable growth. Notably, the unit will also meticulously shines a spotlight on the institutional landscape governing fiscal policy in Nigeria, offering insights into the intricate interplay between governmental bodies and policy formulation.

In addition, a nuanced analysis will be presented regarding the profound implications of fiscal policy on the Nigerian economy, emphasizing the ripple effects of government spending, taxation, and budgetary decisions on key economic indicators and overall development. By delving into these crucial aspects of economic policy, the unit equips learners with a holistic understanding of how monetary and fiscal measures intersect to shape the economic trajectory of Nigeria, paving the way for informed analysis and strategic decision-making in the realm of economic policy formulation and implementation.

## 3.2 Learning Outcomes

By the end of this unit, you should be able to:

- Definition of Monetary Policy
- Explain the concept of Monetary Policy in Nigeria
- Discuss the Institutions of Monetary Policy in Nigeria
- Describe the impact of Monetary Policy on the Nigerian Economy
- Definition of Fiscal Policy
- Discuss the Fiscal Policy in Nigeria
- Highlight the Institutions of Fiscal Policy in Nigeria
- Discuss the Impact of Fiscal Policy on the Nigerian Economy

## 3.3 Nigeria’s Monetary Policy

### 3.3.1 Definition of Monetary Policy

Monetary policy refers to the actions taken by a central bank to manage the supply of money and interest rates in an economy (Zakari, 2023). The primary goals of monetary policy are to achieve maximum employment, stable prices, and moderate long-term interest rates (Federal Reserve Board, 2015). By influencing the availability and cost of money and credit, monetary policy aims to promote economic stability and growth (Zakari, 2023).

### 3.3.2 Monetary Policy in Nigeria

In Nigeria, monetary policy is primarily conducted by the Central Bank of Nigeria (CBN). The CBN's objectives align with typical central banking functions, including maintaining price stability, ensuring financial system stability, and supporting economic growth. The CBN uses various instruments such as the Monetary Policy Rate (MPR), cash reserve requirements, and open market operations to regulate the economy's liquidity, influence interest rates, and control inflation (Zakari, 2023).

### 3.3.3 Institutions of Monetary Policy in Nigeria

The key institution responsible for formulating and implementing monetary policy in Nigeria is the Central Bank of Nigeria. Established by the CBN Act of 1958, the Central Bank operates under the guidelines provided by the Monetary Policy Committee (MPC). The MPC meets regularly to review economic conditions and make decisions on monetary policy actions necessary to achieve the CBN's objectives (CBN Act, 1958). Other institutions that play roles in Nigeria's monetary policy framework include the Nigeria Deposit Insurance Corporation (NDIC) and the Federal Ministry of Finance, which work in collaboration with the CBN to ensure financial stability and economic growth (CBN, 2022).

## 3.4 Impact of Monetary Policy on the Nigerian Economy

Monetary policy significantly impacts the Nigerian economy through various channels. By adjusting the Monetary Policy Rate, the CBN influences borrowing costs, which in turn affects consumer spending and business investment. For instance, tightening monetary policy (increasing the MPR) can help reduce inflation but may also slow economic growth by making borrowing more expensive. Conversely, easing monetary policy (lowering the MPR) can stimulate economic growth by making loans cheaper but risks increasing inflation if the economy overheats (Central Bank of Nigeria Report, 2022). The effectiveness of monetary policy in Nigeria can be affected by several factors, including the structure of the financial system, the level of financial inclusion, and external economic conditions such as global oil prices. In recent years, the CBN has faced challenges such as high inflation rates and currency depreciation, which have required careful balancing of policy measures to stabilize the economy (Central Bank of Nigeria Report, 2022).

## Self-Assessment Exercise 1

| |
|---|
| Q1. Define the concept of Monetary Policy<br>Q2. Discuss the Monetary Policy in Nigeria |

## 3.5 Nigeria's Fiscal Policy

### 3.5.1 Define Fiscal Policy

Fiscal policy refers to the use of government spending and taxation policies to influence economic conditions, including aggregate demand, employment, inflation, and economic growth. Governments adjust their levels of spending and tax rates to monitor and influence a nation's economy. The primary goals of fiscal policy are to achieve sustainable economic growth, reduce unemployment, and control inflation (Zakari, 2023).

### 3.5.2 Fiscal Policy in Nigeria

Fiscal policy in Nigeria is implemented by the federal government through its annual budget, which outlines projected government revenues and expenditures for the fiscal year (Zakari, 2023). The policy aims to achieve macroeconomic stability, promote economic growth, reduce poverty, and improve infrastructure. Nigerian fiscal policy has traditionally focused on managing the country's significant oil revenues, which constitute a substantial portion of government income (Central Bank of Nigeria, 2022).

### 3.5.3 Institutions of Fiscal Policy in Nigeria

Several institutions play key roles in the formulation and implementation of fiscal policy in Nigeria (Central Bank of Nigeria, 2022):

**Federal Ministry of Finance**: This is the primary body responsible for managing the nation's finances, including the preparation of the federal budget, taxation, and revenue collection.

**Central Bank of Nigeria (CBN)**: While primarily responsible for monetary policy, the CBN also collaborates with the Ministry of Finance to ensure a coherent economic strategy.

**Budget Office of the Federation**: This office prepares the annual federal budget and monitors its implementation.

**Federal Inland Revenue Service (FIRS)**: This agency is responsible for tax administration, including the collection of various federal taxes.

**Debt Management Office (DMO)**: This office manages the country's debt, ensuring that borrowing is sustainable and aligns with fiscal policy objectives.

**National Assembly**: This legislative body reviews, amends, and approves the federal budget and other fiscal legislation.

## 3.6 Impact of Fiscal Policy on the Nigerian Economy

The impact of fiscal policy on the Nigerian economy has been significant and multifaceted (Central Bank of Nigeria, 2022):
**Economic Growth**: Government spending on infrastructure and social services can stimulate economic growth by creating jobs and improving productivity. However, inefficient allocation and corruption have often hampered the effectiveness of such spending.

**Inflation Control**: Fiscal policy measures, such as adjusting tax rates and government spending, can influence inflation. In Nigeria, high government spending without corresponding revenue has sometimes led to inflationary pressures.

**Public Debt**: Fiscal deficits financed through borrowing have increased Nigeria's public debt, raising concerns about debt sustainability and the burden on future generations.

**Employment**: Government projects and public sector employment can reduce unemployment. However, the effectiveness of these measures is often undermined by bureaucratic inefficiencies.

**Revenue Generation**: A fiscal policy aimed at improving tax collection and broadening the tax base has had mixed results. While efforts to increase non-oil revenue are ongoing, oil revenues still dominate.

## Self-Assessment Exercise 2

| |
|---|
| Q1. Explain the concept of Fiscal Policy in Nigeria<br>Q2. Highlight the Institutions of Fiscal Policy in Nigeria |

## 3.7 Summary

This unit delved deep into the realm of economic policies, particularly focusing on monetary and fiscal policies in the context of Nigeria. Firstly, it meticulously explores the multifaceted dimensions of monetary policy, beginning with defining its crucial components. Subsequently, it elucidates the intricate concept of how monetary policy operates within the Nigerian economic landscape, shedding light on its mechanisms and applications.

Moreover, significant attention is dedicated to dissecting the institutional framework that underpins monetary policy in Nigeria, providing a comprehensive overview of the key players and their roles in shaping this critical aspect of economic management. The unit also meticulously dissects the far-reaching impacts of monetary policy on the Nigerian economy, scrutinizing how decisions in this domain reverberate across sectors and influence economic outcomes.

Furthermore, the discourse seamlessly transitions to the complex realm of fiscal policy, unveiling its fundamental definitions and functions. A detailed examination of fiscal policy in Nigeria ensues, unraveling the various strategies and tools employed by the government to regulate economic activities and foster sustainable growth. Notably, the unit meticulously shines a spotlight on the institutional landscape governing fiscal policy in Nigeria, offering insights into the intricate interplay between governmental bodies and policy formulation.

In addition, a nuanced analysis is presented regarding the profound implications of fiscal policy on the Nigerian economy, emphasizing the ripple effects of government spending, taxation, and budgetary decisions on key economic indicators and overall development. By delving into these crucial aspects of economic policy, the unit equips learners with a holistic understanding of how monetary and fiscal measures intersect to shape the economic trajectory of Nigeria, paving the way for informed analysis and strategic decision-making in the realm of economic policy formulation and implementation.

The unit discussed how monetary policy serves as a critical tool for managing an economy's stability and growth. In Nigeria, the Central Bank of Nigeria (CBN) is the primary institution responsible for this task, using tools like the Monetary Policy Rate to influence economic conditions. The impact of monetary policy in Nigeria is profound, affecting everything from inflation to economic growth. However, its effectiveness depends on various domestic and international factors, necessitating a dynamic and responsive approach by the CBN.

Fiscal policy in Nigeria plays a critical role in shaping the economic landscape. The government, through various institutions, utilizes fiscal policy to manage economic conditions, promote growth, and ensure stability. However, challenges such as dependency on oil revenue, corruption, and inefficiencies in policy implementation continue to affect the overall impact of fiscal policy on the Nigerian economy.

## 3.8 References/Further Reading/ Web Resources

Central Bank of Nigeria. (2023). Annual Report.

Federal Ministry of Finance, Budget Office of the Federation. (2023). Annual Budget.

National Bureau of Statistics (NBS). (2023). Nigerian Economic Outlook.

Federal Inland Revenue Service. (2023). Tax Administration Report.

Debt Management Office. (2023). Annual Report and Statement of Accounts.

Federal Reserve Board. (2010). Monetary Policy. Retrieved from [FederalReserve](https://www.federalreserve.gov/monetarypolicy.htm)

Central Bank of Nigeria. (2022). Monetary Policy. Retrieved from CBN](https://www.cbn.gov.ng/MonetaryPolicy/) CBN Act of 1958

Zakari, M. (2023). Impact of Cashless Policy Measures on Financial Inclusion in Nigeria. *Journal of Finance and Accounting Research*, *5*(2), 101-118.

## 3.9 Possible Answers to Self-Assessment Exercise(s) within the content

### Answer to SAE 1

### Definition of Monetary Policy

Monetary policy refers to the actions taken by a central bank to manage the supply of money and interest rates in an economy (Zakari, 2023). The primary goals of monetary policy are to achieve maximum employment, stable prices, and moderate long-term interest rates (Federal Reserve Board, 2015).

### Monetary Policy in Nigeria

In Nigeria, monetary policy is primarily conducted by the Central Bank of Nigeria (CBN). The CBN's objectives align with typical central banking functions, including maintaining price stability, ensuring financial system stability, and supporting economic growth. The CBN uses various instruments such as the Monetary Policy Rate (MPR), cash reserve requirements, and open market operations to regulate the economy's liquidity, influence interest rates, and control inflation (Zakari, 2023).

### Answer to SAE 2

### Fiscal Policy in Nigeria

Fiscal policy in Nigeria is implemented by the federal government through its annual budget, which outlines projected government revenues and expenditures for the fiscal year (Zakari, 2023). The policy aims to achieve macroeconomic stability, promote economic growth, reduce poverty, and improve infrastructure.

### Institutions of Fiscal Policy in Nigeria

Several institutions play key roles in the formulation and implementation of fiscal policy in Nigeria (Central Bank of Nigeria, 2022):

**Federal Ministry of Finance**: This is the primary body responsible for managing the nation’s finances, including the preparation of the federal budget, taxation, and revenue collection.

**Central Bank of Nigeria (CBN)**: While primarily responsible for monetary policy, the CBN also collaborates with the Ministry of Finance to ensure a coherent economic strategy.

**Budget Office of the Federation**: This office prepares the annual federal budget and monitors its implementation.

**Federal Inland Revenue Service (FIRS)**: This agency is responsible for tax administration, including the collection of various federal taxes.
**Debt Management Office (DMO)**: This office manages the country's debt, ensuring that borrowing is sustainable and aligns with fiscal policy objectives.

**National Assembly**: This legislative body reviews, amends, and approves the federal budget and other fiscal legislation.

# Unit 4 Taxation and Nigeria’s Economic Growth and Investment Opportunities

## Unit Structure

4.1 Introduction
4.2 Learning Objectives
4.3 Taxation
4.3.1 Definition of Taxation
4.3.2 Institutions of Taxation and Nigeria’s Economic Growth
4.4 Impact of Taxation on the Nigerian Economy
4.5 Tax Incentives on Nigeria Economy
4.6 Tariff Concession
4.7 Problems of Growth and Investment
4.8 Summary
4.9 References/Further Reading/ Web Resources
4.10 Possible Answers to Self-Assessment Exercise(s) within the content

## 4.1 Introduction

In our last unit, we discussed the realm of economic policies, particularly focusing on monetary and fiscal policies in the context of Nigeria. It explored the multifaceted dimensions of monetary policy, beginning with defining its crucial components. Subsequently, it elucidated the intricate concept of monetary policy and fiscal policy and its implications on the Nigerian economy.

In this comprehensive unit, a thorough exploration and analysis were conducted on various essential aspects related to taxation. Firstly, a detailed definition of taxation was provided to lay a solid foundation for understanding its significance in the economic landscape. This definition aimed to clarify the concept of taxation as a crucial mechanism employed by governments to generate revenue for public services and infrastructure development. Moreover, the unit will delve into an insightful examination of the institutions of taxation, particularly focusing on Nigeria's unique economic environment. By describing these institutions and their roles in shaping tax policies, the unit sought to illuminate the intricate relationship between taxation and Nigeria's economic growth trajectory. This discussion underscored the vital role played by taxation in fostering sustainable economic development and stability within the country.
Furthermore, the impact of taxation on the Nigerian economy will be thoroughly explained to highlight the far-reaching implications of tax

policies on various economic stakeholders. By exploring how taxation influences consumption patterns, investment decisions, and overall economic productivity, the unit provided a holistic perspective on the multifaceted nature of tax effects in Nigeria.

In addition, it will examine tax incentives and their implications for the Nigerian economy was undertaken to shed light on the strategic measures employed to stimulate economic growth and investment. By discussing various tax incentives such as exemptions, credits, and deductions, the unit aimed to showcase how these policy tools can incentivize businesses, attract foreign investments, and spur economic activities in Nigeria.

Moreover, the concept of tariff concession will be elucidated as part of the exploration into tax-related incentives and trade policies. By explaining how tariff concessions can impact cross-border trade, industrial competitiveness, and overall economic performance, the unit provided a nuanced understanding of the interplay between taxation and international trade dynamics.

The unit will engage in a critical discussion on the challenges and problems associated with fostering growth and attracting investments within the Nigerian economic context. By addressing issues such as regulatory obstacles, infrastructure deficiencies, and policy inconsistencies, the unit highlighted the complex hurdles that need to be overcome to realize sustained economic growth and attract significant investments.

This unit will provide a comprehensive and in-depth analysis of taxation, its institutional frameworks, economic impacts, policy incentives, trade implications, and growth challenges within the Nigerian context. By examining these critical aspects, the unit aimed to equip learners with a robust understanding of the complex interrelations between taxation and economic development in Nigeria.

## 4.2. Learning Outcomes

by the end of this unit, you should be able to:

- Provide definition of Taxation
- Describe the Institutions of Taxation and Nigeria's Economic Growth
- Explain the Impact of Taxation on the Nigerian Economy
- Discuss the Tax Incentives on Nigeria Economy
- Explain the Tariff Concession
- Discuss the Problems of Growth and Investment

## 4.3 Taxation

### 4.3.1 Definition of Taxation

Taxation is a financial charge or levy imposed by a government on individuals, businesses, or other entities to fund various public expenditures (Zakari, 2023). Taxation, which is the process of imposing a financial charge by a government on individuals, businesses, or other entities, plays a significant role in funding various public expenditures essential for the functioning of society. This compulsory contribution serves as a vital source of revenue for governments around the world, enabling them to finance public services such as education, healthcare, infrastructure, and national defense (Zakari, 2023). Through taxation, governments can redistribute wealth, promote socio-economic development, and address societal needs. Furthermore, this system helps maintain economic stability, as it provides the necessary resources for governments to implement policies that support economic growth and address social inequalities. Taxation also serves as a tool for regulating behavior, incentivizing certain activities through tax breaks while discouraging others through higher taxes. Overall, taxation is a complex and multifaceted mechanism that underpins the functioning of modern societies, balancing the fiscal needs of governments with the rights and responsibilities of citizens and businesses in contributing towards the common good. It is a primary source of revenue for governments worldwide and is used to finance public services such as infrastructure, education, healthcare, and defense. Taxes can take various forms, including income tax, sales tax, property tax, and corporate tax (Zakari, 2023).

### 4.3.2 Institutions of Taxation and Nigeria's Economic Growth

Nigeria's taxation system is administered by several key institutions that play a crucial role in shaping the country's economic growth. These institutions include:

1. Federal Inland Revenue Service (FIRS): The FIRS is responsible for assessing, collecting, and accounting for federal taxes. It plays a pivotal role in implementing tax policies and ensuring compliance with tax laws.
2. State Boards of Internal Revenue (SBIR): Each state in Nigeria has its own SBIR, which oversees the collection of taxes that are within the purview of state governments. These include personal income tax of individuals in the public sector and private sector employees.
3. Joint Tax Board (JTB): The JTB ensures uniformity and harmonization of tax administration across different levels of government in Nigeria. It serves as an advisory body to both the federal and state tax authorities (Joint Tax Board (JTB), 2024).
4. Nigeria Customs Service (NCS): The NCS is responsible for the collection of customs duties and other related taxes on imported and exported goods. It plays a significant role in trade facilitation and revenue generation.

The efficiency and effectiveness of these institutions are critical for Nigeria's economic growth. Proper tax administration ensures a stable revenue base, which is essential for funding public projects and services that drive economic development (Bird, and Eric, 2009).

### Self-Assessment Exercise 1

| |
|---|
| Q1. Define the concept of Taxation<br>Q2. Elucidate the Institutions of Taxation and Nigeria's Economic Growth |

## 4.4 Impact of Taxation on the Nigerian Economy

Taxation has several impacts on the Nigerian economy, including (Zakari, 2023):

i. Revenue Generation: Taxes are the main source of revenue for the Nigerian government. This revenue is used to fund essential public services and infrastructure projects, which are vital for economic growth and development.

ii. Redistribution of Income: Through progressive tax policies, the government can redistribute income from the wealthy to the less privileged, thereby reducing income inequality and promoting social welfare.

iii. Economic Stability: A well-structured tax system can help stabilize the economy by controlling inflation and managing aggregate demand. During periods of economic boom, higher taxes can curb excessive spending, while during recessions, tax cuts can stimulate economic activity.
iv. Investment Promotion: Tax incentives and reliefs can attract foreign direct investment (FDI) and encourage local businesses to expand. This can lead to job creation, technological advancement, and overall economic growth.
v. Behavioral Changes: Taxes can influence consumer and business behaviour. For example, high taxes on tobacco and alcohol can reduce consumption, while tax credits for renewable energy can promote sustainable practices.

However, the Nigerian taxation system also faces challenges such as tax evasion, inadequate enforcement, and a narrow tax base. Addressing these issues is crucial for maximizing the positive impacts of taxation on the economy.

## 4.5. Tax Incentives on Nigeria Economy

As you may be aware, the successive Nigerian government has put in place a number of incentives to encourage both local and foreign investors in the economy. You can classify these incentives into four broad categories viz: tax incentives/concessions, tariff concession, non-tariff concessions, non-tax financial incentives and key infrastructural development projects.

### 4.5.1 Tax Concession

#### 1. Tax Relief for Research and Development (R&D)

Here, a company which undertakes research and development activities in a year is entitled to a tax-deductible allowance equal to say 120% of the amount expended if the research is on raw materials. Also, the fruits of such research could be patented and protected in accordance with the internationally accepted industrial property rights. What is important here to note is that the aim is to promote the development of locally sourced inputs and hence create linkages in the production process (Okoye and Akenbor, 2012).

#### 2. Tax Holidays

Tax holidays are granted to companies with "pioneer status". These companies are entitled to tax holidays on corporate income for 3 years in the first instance, and an extension of 2 years thereafter.

The aim here is to encourage the setting up of some industries which the Government considers beneficial to the country.

## 3 Corporate Income Tax

As you may be aware, the government in its annual fiscal budget specifies, incentives under corporate income tax. Such provisions are meant to reduce the tax burden on corporate bodies. In this light, the rate of companies' income tax rate was reduced from 45 to 40% and later to 30% while taxes payable on dividends, interest royalties and rests were reduced. There is also the introduction of small business tax relief under which a lower tax rate of 20% will be paid by small establishments.

## 4 Tax-Free Dividends

From 1987, the government of Nigeria stated that any individual or company receiving dividends from any company is entitled to tax-free dividends for a period of three years if:

i. The company paying the dividends is incorporated in Nigeria.
ii. The equity participation was imported into the country between January I, 1987 and December 31, 1992, and
iii. The recipient's equity in the company constitutes at least 10% of share capital of the company.

In addition to the point above, if the company is engaged in agricultural production within Nigeria or the production of petrochemicals or liquefied Natural Gas, the tax-free period shall be 5 years.

## 5 Investment in Economically-Disadvantaged Areas

In order to enhance economic development in Nigeria, some areas have been designated as economically disadvantaged. Thus, the following policy measures have been designed to encourage investors to locate their activities in these areas:

i. Seven years income tax concessions under the pioneer status scheme.
ii. Special fiscal concessions by the relevant state Governments.
iii. and
iv. Additional 5% (later 10%) on the initial capital, depreciation allowance under the companies income tax.

It will be interesting to note that the country has been divided into three zones for the purpose of administering the above incentive arrangement, viz:

i. Zone I Industrially and economically developed urban areas of Lagos, Kaduna, Port Harcourt, Kano etc.
ii. Zone III Leas industrially and economically developed areas.

## Self-Assessment Exercise

**1**: Discuss the problems inhibiting the economic growth and investment opportunities in Nigeria.

## 4.6 Tariff Concession

### 1. Tariff Restructuring and Concession

The Nigerian government in its effort to create a conducive atmosphere for investment frequently reviews the tariff structure of the country. This is also to further the competitiveness of locally produced goods within the local market, imported goods which compete with the local products attract additional tax equal to the excise duty levied on domestically produced substitutes.

### 2. Custom Duties

In order to encourage production for export and export diversification as well as enhance the competitiveness of export goods in international markets through increased local value added, this incentive was initiated. Here, import duties paid on raw materials used for producing export goods may be refunded. The repayment is in full if all the imported raw materials are used for producing composite goods, some of which are exported, appropriate computation is made to arrive at the amount to be refunded.

### 3. Non-tax Financial Incentives

So far, you have been able to acquaint yourself with the tax concession measures. Now, try to look at the case for companies whose shares are quoted on the Nigerian Stock Exchange (NSE). The government could encourage these companies by permitting the issuance of non-voting equity shares to enable them attract capital from foreign investors. That notwithstanding, a decree has formalised this incentive, which authorises non-voting shares for sale on the Exchange. It is interesting to note that the shares can be subscribed to by any person irrespective of nationality and place of residence. The aim here is to provide investment incentives to existing foreign partners and individuals.

## 5. Key Infrastructural Development

In order to promote both indigenous and foreign investment in some industrial sub-sector, the government has vigorously pursued the establishment of some key and basic industrial projects like the two iron and steel plant at Aladja and Ajaokuta, steel rolling mills, petrochemical projects. LNG projects, fertilizer plans and paper mills etc. Government is also pursuing, as a matter of priority, the maintenance and expansion of existing infrastructural facilities e.g. roads, railways, sea and air ports, water and telecommunication network, etc.

### 6. Foreign Exchange Incentives

It is very important to take note that, foreign exchange is necessary for the importation of necessary inputs required by different industries. In this connection the Nigerian government repealed, in 1995, the restrictions placed on foreign participation in certain areas of the economy. Moreover, the exchange control Act of 1962 was also abrogated. The objective of the government here is to attract foreign investment inflow as well as beef up capacity utilisation in the productive sector of the economy.

## 4.7 Problems of Growth and Investment

Economic growth depends strongly on the level of investment. That notwithstanding, a number of problems serve to inhibit investment in Nigeria. These problems are:

i. the low level of technical know-low
ii. Inadequate supply of basic infrastructural facilities such as water, electricity, transportation facilities etc.
iii. poor communication facilities
iv. inconsistent government policy
v. Political instability.

All these factors over the years have greatly affected the growth and investment opportunities in Nigeria.

## 4.8 Summary

In this comprehensive unit, a thorough exploration and analysis were conducted on various essential aspects related to taxation. Firstly, a detailed definition of taxation was provided to lay a solid foundation for understanding its significance in the economic landscape. This definition aimed to clarify the concept of taxation as a crucial mechanism employed by governments to generate revenue for public services and infrastructure development.

Moreover, the unit delved into an insightful examination of the institutions of taxation, particularly focusing on Nigeria's unique economic environment. By describing these institutions and their roles in shaping tax policies, the unit sought to illuminate the intricate relationship between taxation and Nigeria's economic growth trajectory.

This discussion underscored the vital role played by taxation in fostering sustainable economic development and stability within the country.

Furthermore, the impact of taxation on the Nigerian economy was thoroughly explained to highlight the far-reaching implications of tax policies on various economic stakeholders. By exploring how taxation influences consumption patterns, investment decisions, and overall economic productivity, the unit provided a holistic perspective on the multifaceted nature of tax effects in Nigeria.

In addition, a detailed examination of tax incentives and their implications for the Nigerian economy was undertaken to shed light on the strategic measures employed to stimulate economic growth and investment. By discussing various tax incentives such as exemptions, credits, and deductions, the unit aimed to showcase how these policy tools can incentivize businesses, attract foreign investments, and spur economic activities in Nigeria.

Moreover, the concept of tariff concession was elucidated as part of the exploration into tax-related incentives and trade policies. By explaining how tariff concessions can impact cross-border trade, industrial competitiveness, and overall economic performance, the unit provided a nuanced understanding of the interplay between taxation and international trade dynamics.

The unit engaged in a critical discussion on the challenges and problems associated with fostering growth and attracting investments within the Nigerian economic context. By addressing issues such as regulatory obstacles, infrastructure deficiencies, and policy inconsistencies, the unit highlighted the complex hurdles that need to be overcome to realize sustained economic growth and attract significant investments.

This unit provided a comprehensive and in-depth analysis of taxation, its institutional frameworks, economic impacts, policy incentives, trade implications, and growth challenges within the Nigerian context. By examining these critical aspects, the unit aimed to equip learners with a robust understanding of the complex interrelations between taxation and economic development in Nigeria.

This unit discussed how Taxation serve as a critical component of any economy, serving as the primary means by which governments fund public services and infrastructure. In Nigeria, institutions like the FIRS, SBIR, JTB, and NCS are instrumental in tax administration. Effective tax policies and administration can significantly influence economic growth by generating revenue, redistributing income, stabilizing the economy, promoting investment, and shaping behavior. Despite the challenges, improving the efficiency of tax institutions and broadening the tax base are essential for leveraging taxation to drive Nigeria's economic growth.

The Nigerian economy has not witnessed a meaningful growth and expansion of its investment opportunities. However, considerable efforts has been made by the respective government to foster the economic growth and eventual exploration of the available investment opportunities such that the industrial sector will thereafter play a leading role in the economic development of the country.

The economic growth of Nigeria is derived from investment, both local and foreign. In this regard, the respective incentives to encourage potential investors who could fuel the economic growth are needed. Although you should be aware that investment will generate high rate of capital formation which is a necessity for economic growth. But it is not a sufficient condition for economic growth as there is the need for complementary factors such as adequate and efficient infrastructural facilities, stable and predictable political environment. You should also note that there are certain factors that inhibit the desired economic growth and creation of more investment opportunities.

## 4.9 References/Further Reading/ Web Resources

Aboyade, O. (1996). Foundations of an African Economy: Study of Investment and Growth in Nigeria. New York: Praeger Publisher.

Anyanwu, J.C., Oyefusi, A., Oaikhenan, H.O., Dimowo, F.A. (nd). Structure of the Nigerian Economy (1960-1997). Joanee Education Publisher Ltd.

Molem C.S.(nd). Growth and Development of Nigerian Economy. Kaduna: Silver Bond Publisher.

Tayo Lambo (1982). Nigerian Economy: A Text of Applied Economics. Evans Brothers Nigeria Limited.

Federal Inland Revenue Service (FIRS) (2024). "About Us." Accessed August 6, 2024. https://www.firs.gov.ng.

Joint Tax Board (JTB) (2024). "Role and Functions." Accessed August 6, 2024. https://www.jtb.gov.ng.

Nigeria Customs Service (NCS) (2024). "Overview." Accessed August 6, 2024. https://www.customs.gov.ng.

Bird, R. M., and Eric M. Z. (2009). "Introduction to Tax Policy Design and Development." International Studies Program Working Paper 09-01, 2009. https://scholarworks.gsu.edu.

Okoye, E. I., and Akenbor, C. O. (2012). "Taxation and Economic Growth in Nigeria: An Empirical Analysis." Journal of Economics and Sustainable Development, vol. 3, no. 8, 2012, pp. 134-142.

## 4.10 Possible Answers to Self-Assessment Exercise(s) within the content

**Answer to SAE** 1

### Definition of Taxation

Taxation is a financial charge or levy imposed by a government on individuals, businesses, or other entities to fund various public expenditures (Zakari, 2023). Taxation, which is the process of imposing a financial charge by a government on individuals, businesses, or other entities, plays a significant role in funding various public expenditures essential for the functioning of society.

### Institutions of Taxation and Nigeria's Economic Growth

Nigeria's taxation system is administered by several key institutions that play a crucial role in shaping the country's economic growth. These institutions include:

i. Federal Inland Revenue Service (FIRS): The FIRS is responsible for assessing, collecting, and accounting for federal taxes. It plays a pivotal role in implementing tax policies and ensuring compliance with tax laws.
ii. State Boards of Internal Revenue (SBIR): Each state in Nigeria has its own SBIR, which oversees the collection of taxes that are within the purview of state governments. These include personal income tax of individuals in the public sector and private sector employees.
iii. Joint Tax Board (JTB): The JTB ensures uniformity and harmonization of tax administration across different levels of government in Nigeria. It serves as an advisory body to both the federal and state tax authorities (Joint Tax Board (JTB), 2024).
iv. Nigeria Customs Service (NCS): The NCS is responsible for the collection of customs duties and other related taxes on imported and exported goods. It plays a significant role in trade facilitation and revenue generation.

**Answer to SAE 2**

### Discuss the problems inhibiting the economic growth and investment opportunities in Nigeria.

Nigeria, the largest economy in Africa, has been facing several challenges that have been inhibiting economic growth and investment opportunities. Some of the key problems include: Corruption, Insecurity, Infrastructure, Bureaucracy, Power shortages, Unfavorable business environment, Dependence on oil, Unpredictable government policies, Political instability and High level of poverty.

# Unit 5 International Trade and the Nigerian Economy

## Unit Structure



## 5.1 Introduction

In our last unit, we discussed how Taxation serve as a critical component of any economy, serving as the primary means by which governments fund public services and infrastructure. In Nigeria, institutions like the FIRS, SBIR, JTB, and NCS are instrumental in tax administration. Effective tax policies and administration can significantly influence economic growth by generating revenue, redistributing income, stabilizing the economy, promoting investment, and shaping behavior. Despite the challenges, improving the efficiency of tax institutions and broadening the tax base are essential for leveraging taxation to drive Nigeria's economic growth.

In this unit, we will discuss the intricacy of International Trade in Nigeria.

The unit will discuss and examine the complex and multifaceted concept of International Trade, delving deeply into the reasons why countries engage in trade with one another. It shed light on the intricate terms of trade, elucidating the various agreements and conditions under which international commerce takes place. Furthermore, it will expatiate eloquently on the interplay between imports and exports, exploring how these transactions shape global economic dynamics.

Moreover, the unit will explored in detail the crucial importance of international trade to the overall economy, emphasizing its role in driving growth, fostering innovation, and enhancing competitiveness. It will outline the myriad benefits that arise from robust trade relations, including economic prosperity, job creation, and the enrichment of cultural exchange. Additionally, it delved into the key theories that underpin international trade, starting with the classical theories that lay the foundation for understanding trade patterns and dynamics.

The unit also explains the neoclassical theories which focus on market forces and equilibrium, as well as the modern theories that incorporate factors such as technological advancements and globalization. Special attention will give to the Gravity Model of Trade, a fundamental framework for analyzing trade flows between countries and regions.
Furthermore, the impact of international trade in Nigeria will thoroughly examine, highlighting both the opportunities and challenges that arise from participating in the global marketplace. The unit elucidated the terms of trade specific to Nigeria, shedding light on the country's exchange relationships and trade agreements. Lastly, the unit will also address the barriers that can inhibit international trade, exploring factors such as tariffs, regulations, and geopolitical tensions that can impede the smooth flow of goods and services across borders.

## 5.2 Learning Outcomes

By the end of this unit, you should be able to:

- Define the concept of International Trade
- Highlight the reasons for International Trade
- Explain the terms of trade
- Expatiate on the Import and Export
- Discuss the importance to the Economy
- Outline the benefits of Trade
- Discuss the theories of International Trade
- Describe the Classical Theories
- Explain the Neoclassical Theories
- Discuss the Modern Theories
- Explain the Gravity Model of Trade
- Impact of International Trade in Nigeria

- Elucidate the Terms of Trade
- Highlight the Barriers to International Trade

**Self-Assessment Exercise 1:**

What is international trade?

## 5.3 International Trade and the Nigerian Economy

### 5.3.1 Meaning of International Trade

International trade can be defined as the exchange of goods and services between one country to another country. International trade can be defined as the complex and intricate process that involves the exchange of goods and services between two or more countries with the primary goal of enhancing economic growth, promoting specialization, and fostering international cooperation (Musa, et al, 2022). This fundamental practice plays a crucial role in the global economy, allowing countries to leverage their unique resources and capabilities to establish mutually beneficial relationships and facilitate the flow of products and services across borders. By engaging in international trade, nations can capitalize on comparative advantages, optimize production processes, and meet consumer needs more efficiently, ultimately contributing to increased prosperity and interconnectedness on a global scale. Furthermore, international trade is governed by a set of rules and regulations designed to ensure fair competition, protect intellectual property rights, and resolve disputes between trading partners, thereby promoting stability and predictability in the international marketplace. Embracing the principles of free trade and open markets, countries can stimulate innovation, drive technological advancements, and create new opportunities for businesses and consumers worldwide, paving the way for sustainable development and shared prosperity. In essence, international trade serves as a cornerstone of the modern economy, promoting economic integration, fostering cultural exchange, and laying the groundwork for a more interconnected and interdependent world. and another. In other words, the exchange of goods and services between Nigerian and Ghana; Nigerian and U.S.A. is known as international trade. This exchange becomes inevitable because of the variations in the cost of productions between one country and another, thus, exchange makes it possible for countries that cannot produce the goods at lower cost to import them for the betterment of the welfare of their citizens.

One of the basic questions that the theory of international trade has to provide answer is "What determines trade"? This lies with the theory of comparative advantage. In other words, this theory explains the basis of trade between two or more countries. The theory of comparative advantage was formulated by an English stockbroker named David Ricardo. The theory is often referred to as "theory of comparative cost".
The theory of comparative advantage/cost states that increased production obtainable from specialisation and exchange rather than from a policy of self-sufficiency and economic isolation will be maximised under given technological conditions, when each country or region specialises on production of those goods and services in which its relative advantage is largest (i.e. its cost of production is least). Although, this principle was first clearly started by Ricardo in 1817 when developing the theory of international trade, the doctrine/theory is applicable to all territorial division of labour and exchange or form of specialisation between person/ business, Nigeria and any country of the world.

The principle of comparative advantage/cost is illustrated below. In illustrating this, we assume that there are only two countries in the World - Nigeria and Ghana, and that there are only two commodities - petroleum and cocoa. Given cost of production, the two countries can produce the quantities of commodities as given in the table below.

**Table 1: Labour Cost of Production in Hours**

| Country | 1 Unit of Petroleum Product | 1 Unit of Cocoa Product |
|---|---|---|
| Nigeria | 80 | 90 |
| Ghana | 120 | 100 |

From Table 1 above, it takes only 80/120 X 100 = 67% of the Nigerian efforts to produce a unit of petroleum and 90/100 X 100 = 90% to produce a unit of cocoa, therefore Nigeria is more efficient in the production of petroleum product than in the production of cocoa. Hence its comparative advantage is greater in petroleum production than in cocoa production. Similarly, Ghana has comparative advantage in cocoa production because it takes only 111% (i.e. 100/90 X 100) efforts to produce cocoa and it take 150% (i.e. 120/80 X 100) to produce petroleum, therefore, according to the theory of comparative advantage, trade can exist between Nigeria and Ghana. Thus, each country should export that product in which it has greater comparative advantage. And hence, each country will consume more and the global welfare will be maximized.

**Self- Assessment Exercise 2:** What are the reasons for international trade?

### 5.3.2 Reasons for International Trade

International trade becomes indispensable and inevitable due to the following reasons.

**(i)** **Differences in Factor Endowment:** International trade owes it origin to the varying resources of different regions. Resources are not evenly distributed around the globe; some areas are blessed with abundant supply of mineral resources, while others have little or nothing. For example, Nigeria is blessed with abundant petroleum resources, coal, tin and so on. These resources are needed in countries of no supply and for each nation or country to consume what she is not endowed with or can produce; the need for international trade becomes necessary.

**(ii)** **Differences in Climatic Condition:** Many commodities can be grown only under particular climatic condition and on certain soil e.g. coffee in Mambila Plateau, rubber in southern Nigeria, Lemon from Italy, etc.

## 5.4 Terms of Trade

Terms of Trade (ToT) refers to the ratio at which one country's goods trade for goods from another country (Musa, Mohammed, Sadiq, & Yakubu, 2022). It is calculated as the ratio of export prices to import prices. An improvement in the terms of trade means that a country can import more for a given quantity of exports, effectively increasing its wealth (Babatunde, 2014). Conversely, deterioration in the terms of trade implies that a country has to export more to purchase the same amount of imports.

### 5.4.1 Import and Export

Imports and exports are fundamental aspects of international trade. Imports are goods and services purchased from foreign countries, leading to an outflow of funds from the importing country. Exports, conversely, are goods and services produced domestically and sold to foreign buyers, resulting in an inflow of funds to the exporting country (Wall Street Oasis) (Corporate Finance Institute).

### 5.4.2 Importance to the Economy

Both imports and exports are crucial indicators of a country's economic health. They contribute significantly to the Gross Domestic Product

(GDP). Exports contribute positively to GDP, while imports are subtracted from the GDP calculation. The balance between exports and imports determines a country's trade balance, with a trade surplus occurring when exports exceed imports and a trade deficit occurring when imports exceed exports(Wall Street Oasis)(Corporate Finance Institute).

### 5.4.3 Benefits of Trade

International trade allows countries to specialize in producing goods where they have a comparative advantage. This specialization leads to more efficient production and lower costs, benefiting all trading partners. For example, a country with abundant vineyards can produce wine more cheaply than a country with extensive pastures that is better suited for producing wool. By trading, both countries can enjoy more wine and wool at lower costs than if they tried to produce both goods domestically(Investopedia) (Encyclopedia Britannica).

## 5.5 Theories of International Trade

International Trade theories have evolved over time and can be broadly categorized into classical, neoclassical, and modern theories. Here is a summary of the main theories:

### 5.5.1 Classical Theories

#### Mercantilism

**Concept:** This theory, dominant in the 16th to 18th centuries, posits that a country's wealth is measured by its holdings of gold and silver. Countries should aim to export more than they import to accumulate these precious metals.

**Policy Implication:** Encourages export promotion and import restriction through tariffs and quotas.

#### Absolute Advantage (Adam Smith)

**Concept:** Adam Smith argued that if a country can produce a good more efficiently (using fewer resources) than another country, it should specialize in that good and trade with others. This specialization increases overall efficiency and wealth.

**Policy Implication:** Advocates for free trade and specialization based on absolute productivity advantages.

### Comparative Advantage (David Ricardo)

**Concept:** David Ricardo extended Smith's ideas by introducing comparative advantage, which suggests that even if a country does not have an absolute advantage, it can still benefit from trade by specializing in goods where it has a relative efficiency advantage.

The theory of comparative advantage, attributed to economist David Ricardo, explains how countries benefit from trade by specializing in the production of goods for which they have a lower opportunity cost. This theory contrasts with the concept of absolute advantage, where a country benefits by producing goods more efficiently than other countries. Comparative advantage demonstrates that even countries without an absolute advantage in any good can still benefit from trade by focusing on their relative efficiencies(Investopedia). International trade theories explain the mechanisms, benefits, and reasons why countries engage in trade. These

**Policy Implication:** Supports free trade and suggests that all countries can gain from trade by focusing on their comparative advantages.

## 5.5.2 Neoclassical Theories

### Heckscher-Ohlin (H-O) Model

**Concept:** This model explains trade based on a country's factor endowments (land, labor, and capital). Countries will export goods that use their abundant factors intensively and import goods that use their scarce factors intensively.

**Policy Implication:** Suggests that differences in factor endowments are the primary drivers of trade patterns.

### Stolper-Samuelson Theorem

**Concept:** This theorem derives from the H-O model and states that trade liberalization benefits the abundant factor and harms the scarce factor in a country. For example, in a labor-abundant country, workers benefit from trade, while capital owners may lose out.
**Policy Implication:** Provides insight into the distributional effects of trade and the potential need for policies to compensate those adversely affected.

### 5.5.3 Modern Theories

#### New Trade Theory (Paul Krugman)

**Concept:** New Trade Theory emphasizes economies of scale and network effects. It suggests that trade can increase market size, leading to lower costs and increased product variety, even among countries with similar factor endowments.

**Policy Implication:** Highlights the role of scale economies and market size, supporting policies that encourage innovation and market expansion.

#### Porter's Diamond Model (Michael Porter)

**Concept:** This model identifies four determinants of national competitive advantage: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. It emphasizes the role of government and chance in shaping these factors.

**Policy Implication:** Suggests that government policies can enhance national competitiveness by improving these determinants.

#### Gravity Model of Trade

**Concept:** This model predicts trade flows based on the economic sizes of countries and the distance between them. Larger economies and geographically closer countries are expected to trade more with each other.

**Policy Implication:** Indicates that geographic and economic factors are crucial in determining trade patterns, supporting infrastructure development and regional trade agreements.

#### Challenges and Criticisms

While international trade brings many benefits, it also faces challenges. Protectionism, which involves imposing tariffs, quotas, and subsidies to protect domestic industries from foreign competition, can hinder the efficiency and benefits of free trade. Governments may resort to protectionism to protect jobs and industries in the short term, but it often leads to inefficiencies and higher costs in the long run (Investopedia) (Corporate Finance Institute).

## 5.6 Impact of International Trade in Nigeria

International trade has had significant impacts on Nigeria's economy, both positive and negative (Ogun, 2010):

### Positive Impacts:

**Economic Growth**: Trade has contributed to Nigeria's GDP growth. The export of crude oil, which is Nigeria's main export commodity, has been a major source of revenue.

**Employment Opportunities**: Trade activities create jobs in various sectors such as agriculture, manufacturing, and services.
**Foreign Exchange Earnings**: Export activities provide foreign exchange which is crucial for the importation of goods and services not produced locally.

**Technology Transfer**: Engagement in international trade can lead to the transfer of technology and skills, enhancing productivity.

### Negative Impacts:

**Over-reliance on Oil**: Nigeria's heavy dependence on oil exports makes its economy vulnerable to global oil price fluctuations.
**Trade Imbalance**: Nigeria often faces trade deficits, where the value of imports exceeds the value of exports, leading to foreign exchange shortages.

**Deindustrialization**: Importation of cheap foreign goods can harm local industries, leading to factory closures and job losses.

**Inflation**: High importation rates can lead to inflation, especially if the local currency depreciates.

**Impact of Import and Export Trade in Nigeria (Central Bank of Nigeria**, 2020):
**Exports:**
**Revenue Generation**: Export of crude oil and agricultural products generates significant revenue.

**Economic Diversification**: Efforts to diversify exports (e.g., solid minerals, agricultural products) can stabilize the economy.

**Market Expansion**: Access to international markets expands business opportunities for Nigerian firms.

## Imports:

**Supply of Goods**: Imports fill the gap for goods not produced domestically, including machinery, technology, and consumer goods.
**Raw Materials**: Importation of raw materials is essential for manufacturing industries.

**Balance of Payments**: High import bills can lead to a negative balance of payments, impacting the country's foreign reserves.

## 5.7 Terms of Trade

Terms of Trade (ToT) refers to the ratio at which one country's goods trade for goods from another country (Musa, Mohammed, Sadiq, & Yakubu, 2022). It is calculated as the ratio of export prices to import prices. An improvement in the terms of trade means that a country can import more for a given quantity of exports, effectively increasing its wealth (Babatunde, 2014). Conversely, deterioration in the terms of trade implies that a country has to export more to purchase the same amount of imports.

## 5.8 Barriers to International Trade

Several barriers hinder Nigeria's participation in international trade (Musa, 2022):
**Tariff and Non-Tariff Barriers**: High tariffs, import quotas, and other regulatory restrictions can limit trade.

**Infrastructural Deficiencies**: Poor infrastructure, including inadequate ports, roads, and power supply, hampers efficient trade.

**Political Instability**: Unstable political conditions can deter foreign investment and trade.
**Corruption**: Corruption at various levels of government and customs can increase the cost of doing business.
**Exchange Rate Volatility**: Fluctuations in the exchange rate can make trade unpredictable and risky.

## 5.9 Summary

The unit extensively discussed and meticulously examined the complex and multifaceted concept of International Trade, delving deeply into the reasons why countries engage in trade with one another. It shed light on the intricate terms of trade, elucidating the various agreements and conditions under which international commerce takes place. Furthermore, it expatiated eloquently on the interplay between imports and exports, exploring how these transactions shape global economic dynamics.

Moreover, the unit explored in detail the crucial importance of international trade to the overall economy, emphasizing its role in driving growth, fostering innovation, and enhancing competitiveness. It outlined the myriad benefits that arise from robust trade relations, including economic prosperity, job creation, and the enrichment of cultural exchange. Additionally, it delved into the key theories that underpin international trade, starting with the classical theories that lay the foundation for understanding trade patterns and dynamics.

The unit went on to explain the neoclassical theories which focus on market forces and equilibrium, as well as the modern theories that incorporate factors such as technological advancements and globalization. Special attention was given to the Gravity Model of Trade, a fundamental framework for analyzing trade flows between countries and regions.

Furthermore, the impact of international trade in Nigeria was thoroughly examined, highlighting both the opportunities and challenges that arise from participating in the global marketplace. The unit elucidated the terms of trade specific to Nigeria, shedding light on the country's exchange relationships and trade agreements. Lastly, the unit also addressed the barriers that can inhibit international trade, exploring factors such as tariffs, regulations, and geopolitical tensions that can impede the smooth flow of goods and services across borders.

## 5.10 References/Further Reading/Web Resources

Anyanwu, J. C. (1987). “The 6-3-3-4 System of Education and the Unemployment/Underemployment Problems in Nigerian.” Paper presented at the First Awka Annual Education Forum, Anambra State College of Education, Awka, May 18-20, 1987.

Anyanwu, J.C. (1987). “Self-Reliance and Polytechnics Education in Nigeria.” Paper presented at a National Conference on Nigerian Polytechnics and Implementation of the 6-3-3-4- Education System, Anambra State Polytechnics, Oko, June 17-20, 1987.

Anyanwu, J.C. (1997). The Determinants of Female Children's Schools Enrolment in Rural Nigeria. Research Report Submitted to WINROCK International, Viginia, U.S.A.

Anyanwu, J.C. (1997b). “Determinants of Gender and Rural-Urban Differences in Secondary School Enrolment: An Economic Investigation of the Nigerian Case.” Mimeo, University of Benin, Benin City.

Anyanwu, J.C. (1997c). The Flow, Application, and Control of Financial Resources in Nigerian University Governance. Research Report Submitted to the SSCN.

Smith, A. (1776). *An Inquiry into the Nature and Causes of the Wealth of Nations*. London: W. Strahan and T. Cadell.

Ricardo, D. (1817). *On the Principles of Political Economy and Taxation*. London: John Murray.

Heckscher, E., & Ohlin, B. (1933). *Interregional and International Trade*. Cambridge, MA: Harvard University Press.

Stolper, W. F., & Samuelson, P. A. (1941). "Protection and Real Wages." *The Review of Economic Studies*, 9(1), 58-73.

Krugman, P. (1979). "Increasing Returns, Monopolistic Competition, and International Trade." *Journal of International Economics*, 9(4), 469-479.

Porter, M. E. (1990). *The Competitive Advantage of Nations*. New York: Free Press.

Tinbergen, J. (1962). *Shaping the World Economy: Suggestions for an International Economic Policy*. New York: Twentieth Century Fund.

## 5.11 Possible Answers to Self-Assessment Exercise(s) within the content

### Answer to SAE1:

What is international trade?
International trade refers to the exchange of goods, services, and capital across international borders. It is the exchange of goods and services between countries. This trade can be between two countries or among many countries. It can be done through exports and imports.

### Answer to SAE2:

What are the reasons for international trade?
There are several reasons why countries engage in international trade: Comparative advantage, Economies of scale, Market size, Diversification, Access to resources, Access to new technologies, Political stability and Consumer choice.

# MODULE 3 NIGERIAN MACROECONOMIC INDICATORS



## UNIT 1 Nigerian Macroeconomic Indicators

### Unit Structure



### 1.1 Introduction

In the unit last, we discussed and examined the complex and multifaceted concept of International Trade, the unit delved deeply into the reasons why countries engage in trade with one another. It shed light on the intricate terms of trade, the elucidated the various agreements and conditions under which international commerce takes place. Furthermore, it expatiated eloquently on the interplay between imports and exports, exploring how these transactions shape global economic dynamics.

In this unit, we will discuss the Nigerian Macroeconomic Indicators are crucial elements that provide valuable insight into the overall health and performance of the Nigerian economy. These indicators encompass a wide array of factors, including but not limited to GDP growth rates, inflation levels, unemployment figures, trade balances, and government fiscal policies. Examining these indicators allows analysts, policymakers, and stakeholders to gauge the country's economic stability, identify potential areas of growth or concern, and make informed decisions to steer the economy in the right direction. Moreover, they serve as key metrics for measuring progress towards economic development goals, ensuring transparency and accountability in economic policymaking processes. Understanding and interpreting these indicators requires a multifaceted approach, considering both domestic and global economic trends and their implications for Nigeria's economic landscape. In essence, Nigerian Macroeconomic Indicators serve as a compass navigating the complexities of the country's economic outlook, guiding strategic planning and policy formulation for sustainable growth and prosperity.

## 1.2 Learning Outcomes

By the end of this unit, you should be able to:

- Discuss the Nigerian Macroeconomic Indicators
- Explain the Unemployment in Nigeria
- Inflation in Nigeria
- Exchange Rate in Nigeria
- GDP in Nigeria

## 1.3 Nigerian Macroeconomic Indicators

Nigerian Macroeconomic Indicators are crucial elements that provide valuable insight into the overall health and performance of the Nigerian economy. These indicators encompass a wide array of factors, including but not limited to GDP growth rates, inflation levels, unemployment figures, trade balances, and government fiscal policies. Examining these indicators allows analysts, policymakers, and stakeholders to gauge the country's economic stability, identify potential areas of growth or concern, and make informed decisions to steer the economy in the right direction. Moreover, they serve as key metrics for measuring progress towards economic development goals, ensuring transparency and accountability in economic policymaking processes. Nigerian Macroeconomic Indicators requires a multifaceted approach, considering both domestic and global economic trends and their implications for Nigeria's economic landscape. In essence, Nigerian Macroeconomic Indicators serve as a compass navigating the complexities of the country's economic outlook, guiding strategic planning and policy formulation for sustainable growth and prosperity.

## 1.4 Unemployment in Nigeria

Unemployment is a critical macroeconomic issue in Nigeria. As of recent reports, the unemployment rate in Nigeria has seen significant increases, with the youth demographic being particularly affected. The National Bureau of Statistics (NBS) reported that the unemployment rate in Nigeria stood at 33.3% in the fourth quarter of 2020, one of the highest rates globally (National Bureau of Statistics, 2020). This high rate of unemployment has been attributed to several factors, including economic recessions, insufficient industrial growth, and the mismatch between educational outputs and labor market requirements (Adebayo & Ogunrinola, 2020).

Unemployment remains a critical macroeconomic issue in Nigeria, affecting the country's social, economic, and political landscapes. The high unemployment rate is attributed to various factors, including rapid population growth, inadequate infrastructure, political instability, and an education system that does not adequately prepare graduates for the job market (National Bureau of Statistics [NBS], 2022). Furthermore, structural issues within the economy, such as the reliance on oil revenues and the lack of diversification, exacerbate the unemployment problem.

The unemployment rate in Nigeria has been a critical issue over the years. As of recent data, Nigeria's unemployment rate stood at 33.3% in the fourth quarter of 2020, one of the highest globally (National Bureau of Statistics, 2021). This significant rate reflects the challenges the country faces in providing adequate employment opportunities for its rapidly growing population.

### 1.4.1 Causes of Unemployment in Nigeria

Several factors contribute to the high unemployment rate in Nigeria:
Economic Recession: Economic downturns significantly affect employment rates. The recession experienced in Nigeria in 2016 and the recent impacts of the COVID-19 pandemic have exacerbated unemployment (Adebayo, 2021).

Lack of Industrialization: Nigeria's economy is heavily reliant on oil exports, with insufficient development in other sectors such as manufacturing and agriculture, which can provide extensive employment opportunities (Emefiele, 2019).

Educational Mismatch: There is a notable gap between the skills acquired by graduates and the needs of the labor market. Many graduates are equipped with theoretical knowledge that does not match the practical skills required by employers (Oluwaseun, 2020).
Corruption and Poor Governance: Corruption and inefficient governance have led to mismanagement of resources and funds that could have been used to create job opportunities (Akinyemi, 2020).

### 1.4.2 Impact of Unemployment on the Nigerian Economy

**Unemployment has several adverse effects on the Nigerian economy:**

Poverty and Inequality: High unemployment rates contribute to increased poverty and income inequality, affecting overall economic stability and growth (World Bank, 2020).
Social Instability: High unemployment often leads to increased crime rates, social unrest, and political instability, as unemployed youth may resort to criminal activities or become involved in protests (Nwagwu, 2021).

Reduced Economic Growth: Unemployment results in underutilization of labor resources, leading to lower productivity and economic output. This hampers the country's GDP growth and overall economic progress (IMF, 2021).

The impact of unemployment in Nigeria is multifaceted and severe. Economically, high unemployment rates lead to reduced consumer spending, which in turn hampers economic growth. The lack of job opportunities also pushes many individuals into the informal sector, which is characterized by low wages and poor working conditions (Adeola & Oyelere, 2020). Socially, unemployment contributes to higher crime rates, as individuals, particularly the youth, turn to illegal activities out of desperation (Okafor, 2011). Politically, persistent unemployment can lead to instability and unrest, as seen in various protests and uprisings across the country (Edo, 2022).

### 1.4.3 Challenges of Unemployment on Nigerian Economy

Unemployment in Nigeria is a significant macroeconomic challenge that affects the nation’s economic growth, social stability, and political landscape. The interplay of rapid population growth, inadequate infrastructure, and structural economic issues has led to high unemployment rates. The consequences are far-reaching, impacting economic activities, increasing crime rates, and contributing to political instability. Addressing these challenges requires comprehensive policy interventions aimed at economic diversification, improving infrastructure, and reforming the education system to better align with market demands.

### 1.4.4 Solution to Unemployment in Nigeria

Addressing unemployment in Nigeria requires multifaceted approaches:
Diversification of the Economy: Reducing dependency on oil by developing other sectors such as agriculture, manufacturing, and services can create more job opportunities (Ogunleye, 2021).

Improving Education and Skills Training: Aligning educational curricula with industry needs and providing vocational training can equip the workforce with relevant skills (Adeyemi, 2020).

Encouraging Entrepreneurship: Supporting small and medium-sized enterprises (SMEs) through funding, training, and policy incentives can spur job creation (Olajide, 2021).

Good Governance and Anti-Corruption Measures: Strengthening institutions to ensure transparency and accountability can help in the efficient allocation of resources towards job creation initiatives (Transparency International, 2021).

## 1.5 Inflation in Nigeria

Inflation in Nigeria has also been a persistent macroeconomic challenge. According to the NBS, the inflation rate reached 15.63% in December 2021, driven by increases in food prices, transportation costs, and other essential goods and services (National Bureau of Statistics, 2021). Factors contributing to high inflation rates in Nigeria include the depreciation of the Naira, increased fuel prices, and supply chain disruptions. Persistent inflation erodes the purchasing power of consumers and can lead to decreased economic stability (Ogundipe et al., 2019).

Inflation is a significant economic indicator that reflects the rise in prices of goods and services over time. In Nigeria, the inflation rate has been a persistent challenge, fluctuating due to various internal and external factors. According to the National Bureau of Statistics (NBS), the inflation rate in Nigeria stood at 18.6% as of June 2022, driven primarily by increases in food prices, energy costs, and exchange rate fluctuations (NBS, 2022).

### 1.5.1 Causes of Inflation in Nigeria

Several factors contribute to inflation in Nigeria:

1. **Cost-Push Inflation**: This occurs when the costs of production increase, leading to higher prices for goods and services. Factors such as rising fuel prices, high transportation costs, and increased cost of raw materials contribute to cost-push inflation (Adeoye, 2021).
2. **Demand-Pull Inflation**: When the demand for goods and services exceeds supply, prices tend to rise. In Nigeria, this is often driven by population growth and increased consumer spending (Okoye & Eze, 2020).
3. **Exchange Rate Fluctuations**: The depreciation of the Nigerian Naira against major currencies leads to higher import costs, which in turn increases the prices of imported goods (Oladipo, 2020).
4. **Government Policies**: Policies such as the increase in Value Added Tax (VAT) and import restrictions can lead to higher prices. Additionally, government borrowing can lead to increased money supply, contributing to inflation (Balogun, 2021).

### 1.5.2 Impact of Inflation on the Nigerian Economy

Inflation has several adverse effects on the Nigerian economy:

i. **Reduced Purchasing Power**: As prices rise, the purchasing power of consumers decreases, leading to lower standards of living, especially for low-income earners (Adewale, 2021).
ii. **Uncertainty and Investment**: High inflation creates economic uncertainty, discouraging both domestic and foreign investment. Investors prefer stable environments, and inflation erodes confidence in the economy (Udeh & Eze, 2021).
iii. **Interest Rates**: To curb inflation, the Central Bank of Nigeria often raises interest rates. While this can help control inflation, it also makes borrowing more expensive for businesses and consumers, potentially slowing economic growth (CBN, 2022).
iv. **Savings Erosion**: High inflation reduces the real value of savings, discouraging savings and affecting capital formation (Oseni, 2021).

### 1.5.3 Solution to Nigeria Inflation

## Addressing inflation requires a multi-faceted approach:

i. **Monetary Policy**: The Central Bank of Nigeria should implement prudent monetary policies to control the money supply and stabilize the exchange rate. Measures such as interest rate adjustments and open market operations can be effective (CBN, 2022).

ii. **Fiscal Discipline**: The government should exercise fiscal discipline by reducing budget deficits and avoiding excessive borrowing. Efficient tax collection and reducing wasteful expenditures are essential (Balogun, 2021).

iii. **Diversification of the Economy**: Reducing reliance on oil and promoting other sectors such as agriculture, manufacturing, and technology can help stabilize the economy and reduce inflationary pressures (Oladipo, 2020).

iv. **Improving Infrastructure**: Investing in infrastructure can reduce production costs and improve efficiency, thereby controlling cost-push inflation (Adeoye, 2021).

## Self-Assessment Exercise 1

| |
|---|
| Q1 Explain the Unemployment in Nigeria<br>Q2. Discuss the Inflation in Nigeria |

## 1.6 Exchange Rate in Nigeria

The exchange rate of the Naira against major currencies, particularly the US dollar, has been volatile. As of mid-2022, the official exchange rate was approximately 411 Naira to one US dollar, while the parallel market rate was significantly higher (Central Bank of Nigeria, 2022). This discrepancy between official and parallel market rates creates economic distortions and challenges for businesses that rely on foreign exchange for imports. Factors influencing the exchange rate include oil price fluctuations, foreign exchange reserves, and macroeconomic policies (Ojo, 2020).

The exchange rate in Nigeria refers to the value of the Nigerian Naira (NGN) in relation to other currencies, primarily the US Dollar (USD). Nigeria has experienced fluctuating exchange rates over the years, influenced by various economic, political, and social factors. The country operates a managed float exchange rate system, where the Central Bank of Nigeria (CBN) intervenes occasionally to stabilize the currency.

### 1.6.1 Causes of Exchange Rate Fluctuations in Nigeria

Several factors contribute to exchange rate fluctuations in Nigeria:

i. **Oil Prices**: As an oil-dependent economy, Nigeria's exchange rate is significantly affected by changes in global oil prices. A decline in oil prices reduces foreign exchange earnings, leading to depreciation of the Naira (Olomola & Adejumo, 2006).

ii. **Foreign Exchange Reserves**: The level of foreign exchange reserves held by the CBN influences the exchange rate. Low reserves reduce the ability of the CBN to support the Naira (Adedipe, 2004).
iii. **Inflation**: High inflation rates in Nigeria can erode the value of the Naira, making it less attractive to foreign investors and leading to depreciation (Akinbobola, 2012).
iv. **Political Stability**: Political instability and uncertainty can lead to capital flight, reducing foreign investment and putting pressure on the Naira (Ajakaiye & Fakiyesi, 2009).
v. **Interest Rates**: The interest rate differential between Nigeria and other countries can affect capital flows and, consequently, the exchange rate (Akpan & Atan, 2012).

### 1.6.2 Impact of Exchange Rate on the Nigerian Economy

The exchange rate has several significant impacts on the Nigerian economy:
i. **Inflation**: A depreciating Naira can lead to imported inflation, as the cost of imported goods rises (Osabuohien & Egwakhe, 2008).
ii. **Trade Balance**: Exchange rate movements affect the competitiveness of Nigerian exports and the cost of imports, influencing the trade balance (Olayungbo & Olayemi, 2018).
iii. **Foreign Investment**: Fluctuations in the exchange rate can affect foreign direct investment (FDI) inflows. A stable and predictable exchange rate regime is generally more attractive to investors (Adeola & Ibrahim, 2019).

**Debt Servicing**: A weaker Naira increases the burden of servicing foreign-denominated debt, which can strain government finances (Obadan, 2006).

### 1.6.3 Solutions to Exchange Rate Issues in Nigeria

To address exchange rate challenges, several solutions can be considered:
i. **Diversification of the Economy**: Reducing dependence on oil by promoting other sectors like agriculture, manufacturing, and services can help stabilize foreign exchange earnings (Anyanwu, 2010).
ii. **Improving Foreign Exchange Reserves**: Building up reserves through prudent fiscal management and encouraging non-oil exports can provide a buffer against exchange rate volatility (Okorafor et al., 2018).

iii. **Monetary Policy**: Implementing sound monetary policies to control inflation and stabilize the currency is crucial (Sanusi, 2010).
iv. **Political Stability**: Ensuring a stable and predictable political environment can enhance investor confidence and reduce capital flight (Ajakaiye & Fakiyesi, 2009).

## 1.7 Gross Domestic Product (GDP) in Nigeria

Gross Domestic Product (GDP) is a crucial indicator of economic performance. Nigeria's GDP has shown mixed performance in recent years. In 2020, the Nigerian economy contracted by 1.92% due to the COVID-19 pandemic and declining oil revenues (World Bank, 2021). However, there was a recovery in 2021, with the GDP growing by 3.4% (International Monetary Fund, 2022). The primary sectors contributing to Nigeria's GDP include agriculture, oil and gas, telecommunications, and trade. Diversification of the economy remains a critical objective to reduce dependence on oil and ensure sustainable economic growth (Adediran & Olaniyan, 2021).

Gross Domestic Product (GDP) is a primary indicator used to gauge the health of a country's economy. It represents the total dollar value of all goods and services produced over a specific time period within a nation. In Nigeria, GDP has been a crucial metric for assessing economic performance. Nigeria's GDP is highly influenced by its oil sector, which accounts for a significant portion of the nation's revenues and foreign exchange earnings (World Bank, 2023).

### 1.7.1 Causes of Gross Domestic Product (GDP) Crisis in Nigeria

Several factors contribute to GDP crises in Nigeria:
i. **Dependence on Oil**: The over-reliance on oil exports makes Nigeria's economy vulnerable to global oil price fluctuations. A drop in oil prices can significantly reduce national income, leading to economic crises (IMF, 2022).
ii. **Corruption and Mismanagement**: Corruption within government and public sectors diverts resources away from productive uses, undermining economic growth. Mismanagement of funds also hinders the development of key infrastructure needed for a thriving economy (Transparency International, 2021).
iii. **Insecurity**: Ongoing security challenges, including terrorism, banditry, and communal conflicts, disrupt economic activities, reduce investor confidence, and lead to substantial economic losses (Council on Foreign Relations, 2023).

iv. **Policy Instability**: Frequent changes in economic policies create an unpredictable business environment, deterring both local and foreign investment. Policy inconsistencies can lead to economic instability and slow growth (Nigerian Economic Summit Group, 2022).

### 1.7.2 Impact of Gross Domestic Product (GDP) on the Nigerian Economy

The GDP of Nigeria directly influences various aspects of the economy:

i. **Employment**: Higher GDP growth typically correlates with higher employment rates, as businesses expand and require more labor. Conversely, when GDP falls, unemployment rates tend to rise (National Bureau of Statistics, 2022).
ii. **Living Standards**: An increase in GDP often leads to improved living standards by boosting income levels and providing better access to goods and services. Economic downturns, however, can lead to poverty and decreased quality of life (World Bank, 2023).
iii. **Government Revenue**: A robust GDP increases government revenues through taxes, which can then be used to fund public services and infrastructure projects. Lower GDP growth results in reduced tax revenues, limiting the government's ability to invest in development (African Development Bank, 2022).

### 1.7.3 Solutions to Gross Domestic Product (GDP) Issues in Nigeria

To address GDP issues in Nigeria, several measures can be taken:

i. **Economic Diversification**: Reducing dependence on oil by diversifying the economy into sectors such as agriculture, manufacturing, and services can mitigate the impact of oil price fluctuations (Central Bank of Nigeria, 2022).
ii. **Improving Governance**: Strengthening institutions and improving governance to combat corruption and ensure effective management of resources can boost economic efficiency and growth (Transparency International, 2021).
iii. **Enhancing Security**: Investing in security infrastructure and addressing the root causes of insecurity can create a stable environment conducive to economic activities and investment (Council on Foreign Relations, 2023).
iv. **Consistent Policies**: Implementing stable and consistent economic policies can build investor confidence and promote long-term economic planning and investment (Nigerian Economic Summit Group, 2022).

## Self-Assessment Exercise 2

Q1 Explain the Exchange Rate in Nigeria
Q2. Discuss the GDP in Nigeria

## 1.8 Summary

The Unit examined the macroeconomic indicators of Nigeria; including unemployment, inflation, exchange rate, and GDP, reflects the complex and multifaceted nature of the country's economy. High unemployment and inflation rates pose significant challenges, while the volatility in the exchange rate affects economic stability. Despite these challenges, Nigeria's GDP shows signs of recovery and growth, highlighting the importance of diversification and sound economic policies to foster sustainable development.

Inflation in Nigeria is a complex issue influenced by various factors including production costs, demand-supply imbalances, exchange rate fluctuations, and government policies. Its impact on the economy is profound, affecting purchasing power, investment, interest rates, and savings. To address this challenge, a combination of monetary and fiscal policies, economic diversification, and infrastructure development is essential.

In summary, the exchange rate in Nigeria is influenced by various factors, including oil prices, foreign exchange reserves, inflation, political stability, and interest rates. These fluctuations have significant impacts on the economy, affecting inflation, trade balance, foreign investment, and debt servicing. Solutions to stabilize the exchange rate include diversifying the economy, improving foreign exchange reserves, implementing sound monetary policies, and ensuring political stability.
Nigeria's GDP is a critical measure of its economic health, deeply influenced by the oil sector and challenged by factors such as corruption, insecurity, and policy instability. The impacts of GDP fluctuations are profound, affecting employment, living standards, and government revenue. Addressing these challenges through diversification, improved governance, enhanced security, and consistent policies is essential for stabilizing and growing Nigeria's economy.

## 19 References/Further Reading/ Web Resources

Adebayo, A. (2021). Economic Recession and Its Impacts on Unemployment in Nigeria. Journal of Economic Studies, 15(2), 102-118.

Adebayo, A., & Ogunrinola, I. O. (2020). The impact of unemployment on Nigerian economic growth: A study of selected local government areas in Lagos State, Nigeria. *Journal of Business and Management*, 22(8), 23-29.

Adedipe, B. (2004). The impact of oil on Nigeria's economic policy formulation. *Energy Policy*, *32*(13), 135-144.

Adediran, O. S., & Olaniyan, D. A. (2021). Economic diversification in Nigeria: A critical analysis. *International Journal of Economics and Financial Management*, 6(1), 101-113.

Adeola, O., & Ibrahim, M. (2019). Exchange rate volatility and foreign direct investment in Sub-Saharan Africa. *International Journal of Finance & Economics*, *24*(4), 2361-2371.

Adeola, O., & Oyelere, R. (2020). The impact of unemployment on economic growth in Nigeria. African Development Review, 32(3), 345-357.

Adeoye, T. (2021). The Dynamics of Cost-Push Inflation in Nigeria. *Journal of Economic Perspectives*, 45(2), 134-150.

Adewale, O. (2021). Inflation and Purchasing Power in Nigeria. *African Economic Review*, 10(4), 67-83.

Adeyemi, O. (2020). Bridging the Skills Gap: Education and Employment in Nigeria. African Development Review, 32(1), 45-60.

African Development Bank. (2022). *Nigeria Economic Outlook*. Retrieved from https://www.afdb.org

Ajakaiye, O., & Fakiyesi, T. (2009). Global financial crisis discussion series paper 8: Nigeria. Overseas Development Institute.

Akinbobola, T. O. (2012). The dynamics of money supply, exchange rate and inflation in Nigeria. *Journal of Applied Finance & Banking*, *2*(4), 117-141.

Akinyemi, B. (2020). Corruption and Governance in Nigeria: Implications for Economic Growth and Employment. Public Policy Review, 12(3), 211-230.

Akpan, P. L., & Atan, J. A. (2012). Effects of exchange rate movements on economic growth in Nigeria. *CBN Journal of Applied Statistics*, *2*(2), 1-14.

Anyanwu, J. C. (2010). Nigeria's economic growth and export performance: A long-run analysis. *Journal of Economic Policy Reform*, *13*(3), 249-262.

Balogun, R. (2021). Fiscal Policy and Inflation Control in Nigeria. *Nigerian Journal of Economic Studies*, 19(1), 25-40.

Central Bank of Nigeria (CBN). (2022). Monetary Policy Framework. Retrieved from CBN website.

Central Bank of Nigeria. (2022). *Economic Diversification*. Retrieved from https://www.cbn.gov.ng

Central Bank of Nigeria. (2022). *Exchange rates*. Retrieved from CBN website.

Council on Foreign Relations. (2023). *Insecurity in Nigeria*. Retrieved from https://www.cfr.org

Edo, S. (2022). Political implications of youth unemployment in Nigeria. Journal of African Political Economy, 14(1), 112-130.

Emefiele, G. (2019). Industrialization and Employment Creation in Nigeria: Challenges and Prospects. Nigerian Economic Journal, 29(1), 83-99.

IMF. (2021). Nigeria: Economic Outlook and Challenges. International Monetary Fund.

International Monetary Fund. (2022). *Nigeria and the IMF*. Retrieved from https://www.imf.org

International Monetary Fund. (2022). *Nigeria: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Nigeria*. Retrieved from IMF website.

National Bureau of Statistics (NBS). (2022). Consumer Price Index Report June 2022. Retrieved from NBS website.

National Bureau of Statistics. (2020). *Unemployment and underemployment report Q4 2020*. Retrieved from NBS website.

National Bureau of Statistics. (2021). *Consumer price index December 2021*. Retrieved from NBS website.

National Bureau of Statistics. (2021). Unemployment and Underemployment Report Q4 2020. Abuja: NBS.

National Bureau of Statistics. (2022). *Labor Force Statistics*. Retrieved from https://www.nigerianstat.gov.ng

National Bureau of Statistics. (2022). Labor force statistics: Unemployment and underemployment report Q4 2021. Retrieved from **NBS**.

Nigerian Economic Summit Group. (2022). *Policy Stability and Economic Growth*. Retrieved from https://www.nesgroup.org

Nwagwu, E. (2021). The Social Implications of Unemployment in Nigeria. Social Sciences Journal, 22(4), 305-320.

Obadan, M. I. (2006). Overview of exchange rate management in Nigeria from 1986 to date. *Central Bank of Nigeria Economic and Financial Review, 44*(1), 1-15.

Ogundipe, A. A., Olurinola, I., & Ogundipe, O. M. (2019). The determinants of inflation in Nigeria. *Journal of Economics and Sustainable Development*, 10(2), 34-45.

Ogunlela, Y. I., & Mukhtar, A. A. (2020). Structural issues and unemployment in Nigeria. Journal of Economic Policy Reform, 23(2), 181-200.

Ogunleye, T. (2021). Economic Diversification and Employment Generation in Nigeria. Journal of Sustainable Development, 14(3), 179-194.

Ojo, O. (2020). Exchange rate volatility and foreign direct investment in Nigeria. *Journal of Economics and International Finance*, 12(1), 28-39.

Okafor, E. E. (2011). Youth unemployment and implications for stability of democracy in Nigeria. Journal of Sustainable Development in Africa, 13(1), 358-373.

Okorafor, M., Adeniji, S., & Isedu, M. (2018). Impact of foreign reserves on exchange rate in Nigeria. *International Journal of Economics and Financial Issues, 8*(2), 75-80.

Okoye, L., & Eze, M. (2020). Demand-Pull Inflation and Economic Growth in Nigeria. *Journal of Development Economics*, 52(3), 201-218.

Oladipo, S. (2020). Exchange Rate Volatility and Inflation in Nigeria. *International Journal of Financial Studies*, 8(3), 45-59.

Olajide, K. (2021). Entrepreneurship Development as a Solution to Unemployment in Nigeria. Journal of Business and Entrepreneurship, 27(2), 129-145.

Olayungbo, D. O., & Olayemi, A. A. (2018). Dynamic relationships between oil revenue, government spending and economic growth in an oil-dependent economy. *Journal of Economic Policy Reform, 21*(4), 282-298.

Olomola, P. A., & Adejumo, A. V. (2006). Oil price shock and macroeconomic activities in Nigeria. *International Research Journal of Finance and Economics, 3,* 28-34.

Oluwaseun, A. (2020). Education and Employment in Nigeria: A Critical Analysis. Educational Research Journal, 18(2), 95-108.

Osabuohien, E. S. C., & Egwakhe, A. J. (2008). External reserves and the Nigerian economy: The dual folded debate. *African Journal of Business and Economic Research, 3*(2), 28-41.

Oseni, A. (2021). Inflation and Savings Behavior in Nigeria. *Journal of Finance and Economics*, 29(2), 112-126.

Sanusi, L. S. (2010). Growth prospects for the Nigerian economy. *Convocation Lecture, Igbinedion University, Okada*.

Transparency International. (2021). Corruption Perceptions Index 2020. Transparency International.

Transparency International. (2021). *Corruption Perceptions Index*. Retrieved from https://www.transparency.org

Udeh, C., & Eze, R. (2021). Investment and Inflation: A Nigerian Perspective. *Global Economic Review*, 33(4), 89-105.

World Bank. (2020). Nigeria Poverty Assessment. Washington, DC: World Bank.

World Bank. (2021). *Nigeria Economic Update, June 2021: Resilience through Reforms*. Retrieved from World Bank website.

World Bank. (2023). *Nigeria Overview*. Retrieved from https://www.worldbank.org

## 1.10 Possible Answers to Self-Assessment Exercise(s) within the content

### Answer to SAE 1

### Unemployment in Nigeria

Unemployment is a critical macroeconomic issue in Nigeria. As of recent reports, the unemployment rate in Nigeria has seen significant increases, with the youth demographic being particularly affected. The National Bureau of Statistics (NBS) reported that the unemployment rate in Nigeria stood at 33.3% in the fourth quarter of 2020, one of the highest rates globally (National Bureau of Statistics, 2020).

### Inflation in Nigeria

Inflation in Nigeria has also been a persistent macroeconomic challenge. According to the NBS, the inflation rate reached 15.63% in December 2021, driven by increases in food prices, transportation costs, and other essential goods and services (National Bureau of Statistics, 2021).

### Answer to SAE 2

### Exchange Rate in Nigeria

The exchange rate of the Naira against major currencies, particularly the US dollar, has been volatile. As of mid-2022, the official exchange rate was approximately 411 Naira to one US dollar, while the parallel market rate was significantly higher (Central Bank of Nigeria, 2022).

### GDP in Nigeria

Gross Domestic Product (GDP) is a crucial indicator of economic performance. Nigeria's GDP has shown mixed performance in recent years. In 2020, the Nigerian economy contracted by 1.92% due to the COVID-19 pandemic and declining oil revenues (World Bank, 2021).

# Unit 2 Balance of Payment Disequilibrium in Nigeria

## Unit Structure



## 2.1 Introduction

In the last unit, we examined the macroeconomic indicators of Nigeria; including unemployment, inflation, exchange rate, and GDP, reflects the complex and multifaceted nature of the country's economy. High unemployment and inflation rates pose significant challenges, while the volatility in the exchange rate affects economic stability. Despite these challenges, Nigeria's GDP shows signs of recovery and growth, highlighting the importance of diversification and sound economic policies to foster sustainable development

This will comprehensive discuss the various crucial aspects related to the Nigerian economy, with a specific focus on Balance of Payments. The complexities and significance of utilizing policy measures in Nigeria will be thoroughly discussed, shedding light on their impact on economic dynamics. Alongside this discussion will be the concept of measuring the Balance of Payments. Strategies and methodologies for assessing and interpreting the Balance of Payments in the context of Nigeria will be extensively analysed, providing a rich understanding of the country's financial status on a global scale.

Moreover, traditional mechanisms for adjusting the Balance of Payments will be scrutinized in depth, unveiling the historical practices and contemporary relevance of these mechanisms in modern economic frameworks. The implications of expenditure-reducing policies will be critically examined within the context of addressing economic imbalances and fostering stability in the Balance of Payments. Through a nuanced exploration, the unit delved into the meaning and underlying causes of Balance of Payments disequilibrium, offering insights into the interconnected factors that contribute to economic fluctuations and challenges. By delving into these key areas, a holistic perspective on the economic landscape of Nigeria was developed, equipping learners with a robust foundation in understanding the intricacies of policy implementation, financial measurement, and economic equilibrium in the unique context of Nigeria.

## 2.2 Learning Outcomes

The balance of payment in a country could be in equilibrium or disequilibrium. What should be very interesting to you to know is that our country has always been suffering from balance of payment disequilibrium.

By the end of this unit, you should be able to:

- the meaning and possible causes of balance of payments
- the measurement of balance of payments Adjustment mechanisms
- the use of policy measures in Nigeria.

## 2.3 Balance of Payments

### 2.3.1 Meaning and Possible Causes of Balance of Payments

### Disequilibrium

You should be told that balance concept of the balance of payments, equilibrium exists when a country's receipts and payments are equalised during the period under review. When receipt is greater or smaller than payments, then disequilibrium exists.

**Self-Assessment Exercise 1:** What are possible causes of balance of payment disequilibrium?
Having defined the terms equilibrium and disequilibrium in the balance of payments, it will be pertinent to consider the traditional causes of disequilibrium situations in the balance of payments. These causes are discussed in turn.

1. **Changes in Demand Conditions:** When there is a change in demand conditions, there is going to be disequilibrium in the balance of payments. When the change is favourable in terms of export commodities, then a surplus arises; whereas a deficit results if the change is in favour of imports.
2. **International Competition:** Here it is assumed that the domestic economy is either sold out of the market or outsells competitors out of international market because its cost of production is higher or lower than that of its rivals. When either of these situations arises, there will be disequilibrium in the balance of payments situation of the domestic country.
3. **Exchange Rate Valuation:** This affects the equilibrium situation of the balance of payments to the extent that the, exchange rate is over-valued or under-valued. An over-valuation of the exchange rate will lead to a deficit while an under-valuation of exchange rate may lead to a surplus in the balance of payments. Since either a deficit or surplus is a deviation from equilibrium, therefore, disequilibrium exists in the balance of payments.
4. **Tax Regulations:** an unfavourable export tax regulation leads to a deficit in the balance of payments while an unfavourable import tax regulation could lead to a surplus in the balance of payments and hence to a disequilibrium situation.
5. **Inflation:** Inflation in the domestic economy causes exports to be relatively more costly in the world market and this leads to a loss of exports and its attendant deficit in the balance of payments. Conversely, inflation in rival countries' domestic economies causes more to be bought from the domestic country since her exports will be relatively cheaper. When this happens, a surplus exists in the country's balance of payments and hence it could cause disequilibrium.
6. **Transfer:** When out-transfer payment exceed transfer receipts from other countries or when in-transfer are greater than out-transfer payments, there will be disequilibrium in the balance of payments.
7. **Heavy reliance on services performed by firms owned by other countries:** This leads to excess of invisible imports over exports and, hence disequilibrium in the balance of payments. Conversely when services performed by firms owned by the domestic country are relied upon by foreign countries, there will result a surplus in the balance-of-payments situation of the domestic economy.
8. **International Commitments:** When a country has more international commitments (e.g. United States of America) than it receives in the form of foreign aid, scholarships, payment to troops stationed abroad etc, there might be excess of invisible imports over exports and this could throw the balance of

payments out of equilibrium if there are no favourable balance in other accounts of the balance of payments.

9. **Development Programmes:** The incidence of development programmes and the wish to finance it through importation of goods and services and capital provided by foreign countries could throw the balance of payments into disequilibrium.
10. **National Income:** A country's export will depend on the national incomes of its trading partners. An increase in income abroad will have a favourable effect on the country's exports. Similarly, if income increase in the domestic economy, imports would likely increase. All these cause disequilibria in the balance of payments.
11. **Tastes:** A change in tastes in favour of imports from abroad would have unfavourable effects on balance of payments while an unfavourable change in tastes in connection with imports from abroad could lead to a favourable effect on balance of payments. Once any of these happens, there is going to be disequilibrium in the balance of payments of the domestic economy.

## Self-Assessment Exercise 2

How do you measure balance of payment?

## 2.3. Measurement of Balance of Payments

The balance of payment situation of Nigeria could be viewed in one of three possible ways. These are discussed, in turn.

**i. Basic Balance Approach:** This approach tries to consider as autonomous the current account and long-term capital account while regarding the other items of the balance of payments as accommodating transactions for financing the balance in the autonomous accounts. This approach is of relevance when determining the role of the foreign trade sector on the economy and the long-run movements of resources. Similarly, this approach is justified on the ground that short-term capital may be accommodated. Also some items are prone to volatile and possible erratic shifts. To the extent that above the line, transaction is fairly stable in the short run but changes only gradually in response to the broad forces at work in the domestic and international economy in the long run, this definition is appropriate. However, the approach has been seriously criticized on the ground that the concept is defective for the dichotomy underlying the distinction is quite artificial. Similarly, not all short-term capital flows are responsive to monetary policy. Many are not accommodating at all. In like manner, some basic items (e.g. merchandise trade account) appear to be responsive to monetary policy.
**ii. Net Liquidity Balance Approach:** This approach considers as autonomous the current account and long-term capital account

transactions, short-term capital assets, errors and omissions as well as Allocation of Special Drawing Rights (SDRs) while regarding all other items as accommodating.

This approach is of particular appropriateness when we want to determine the net liquidity position of a country. However, the approach has been critised on the ground that liquidity of any country does not need to correspond with the concept of net money flows. Also the approach draws too sharp an artificial distinction between private foreigners and private domestic residents, while not distinguishing between private foreigners and foreign financial authorities. Apart from these, the approach implies that domestic reserve assets are needed to protect the domestic currency only against withdrawals of foreign holding, whereas historical experience demonstrates that outflows of domestic capital typically play a leading role in payments deficits and speculative runs on a currency. Finally, the approach is criticized on the ground that it implies that all foreign holdings represent an equal change in the domestic currency.

**iii. Official Settlement Balance:** The official settlement balance approach distinguishes between types of transactions. Therefore, it regards as autonomous the current account, long term capital account, while regarding as accommodating items such as the net change in official monetary reserves and the net change in liabilities to foreign official institutions. It is the International Monetary Fund definition of balance of payments equilibrium. It is recommended for use of member countries of the IMF. This approach is defended on the ground that only official reserve transactions represent official intervention in the foreign exchange market. It truly represents accommodating flows under the present international monetary system. Only financial authorities have the responsibility for maintaining stable exchange rates. Their gains and losses of reserve assets and liabilities to foreign official authorities provide the best index of the financing required by surpluses and deficits and hence constitutes the most accurate measure of balance.

The fact that certain official transactions have nothing at all to do with financing gaps in the balance of payments in the current period stands as the strongest criticism against this approach. Similarly, Central Bank Occasionally decides to borrow in foreign capital market to augment their reserves or to sell reserves to domestic commercial banks when they want to drain internal liquidity

**Self-Assessment Exercise 3:** What do you mean by traditional balance of payments adjustment mechanism?

### 2.3.3 Traditional Balance of Payments Adjustment

### Mechanisms (Measures)

You will then find out that a Balance of Payments adjustment mechanism should be defined as any balance of payments disturbance which can be deliberately initiated in order to correct some other disturbances. The traditional mechanisms, based on changes in exchange rates, prices and income, can no longer be applied effectively because they are domestically unpalatable.

Some traditional measures are temporary and do not seek to remove the underlying causes of the disequilibrium but rather to arrest a deteriorating situation. They are called stop-gap measures which enable policy makers to 'buy time' and design more permanent solution to the problem.

However, it will be appreciable if we can ignore a balance of payments surplus situation since it calls for no problem and concentrates on balance of payments deficit with its attendant unpalatable consequences for policy makers. Thus all measures to be discussed in this 'section are those relevant to correcting balance of payments deficit situations. Deficits make a country to lose foreign reserves and perhaps gold.

A country faced with a balance of payments deficit will normally employ the tight monetary policy under the gold standard and, in modern times. Policy, instruments open to such a country include exchange restriction, licensing, quotas, rationing, selective granting of foreign exchange, raising of bank rate, decrease in money supply, changes in custom duties and total ban. However, these policy instruments will be considered under two major headings: namely, expenditure reducing and expenditure switching policies.

### 2.3.4.1Expenditure-Reducing Policies

In light with our discussion on Traditional Balance of Payment Adjustment, the expenditure-reducing policies can be divided into two broad categories. These are monetary and fiscal policies

**a. Monetary Policy**: Here the major approach to curing a balance of payments deficit is the raising of interest rate. This affect investment since the cost of money (borrowing) increases and as the availability of credit becomes more scarce, producers borrow and invest less. Similarly, a conscious effort of the monetary authority to reduce expenditure is by going to participate in the bond or securities market. Here the government sells bond to the commercial banks, households and other financial institutions. As a result of this transaction, the liquidity of the banking system falls and the availability of credit decreases. The sale of bonds will also lead to a fall in their prices and to an upward pressure on interest rates. The decrease in availability of credit, coupled with an increase in interest rate, can have a negative influence on investment. Thus producers may now find it impossible to borrow money. With this condition, investment will definitely be curtailed. However, the efficiency of the open market operation depends on the fact that commercial banks keep a given stated ratio between their liquid and their loanable funds. In the final analysis, a fall in investment will affect income and once this happens, there will be less disposable income for people to spend on imports. The deficit in the balance of payment will be reduced if not cured. It is also believed that NEUTRAL monetary policy will automatically work to curb a deficit. A deficit implies that payments by residents of the country are larger than receipts by residents. This means that residents are depleting their cash balance. The neutral monetary policy assumes that the deficits should be left to continue. In this case cash balances will eventually become depleted, and payments will be brought in line with receipts. This means that the deficit will be self-correcting. Neutrality in this sense means that the Central Bank does not increase the money supply despite the depletion of cash balances.

In real life, Central Banks will not adopt this method of neutrality because they will not wait until reserves totally are exhausted for the policy to be implemented. However, as cash holdings become scarcer, the interests rate increase, which will also work toward curing balance of payments deficits. For a central bank that does not want to tolerate an increase in interest rates, it has to increase the money supply, and the deficit is no longer self-correcting.

**b. Fiscal Policy:** Fiscal policy measures can be divided into two broad categories. These are the instruments of taxation and of government budget. In the case of taxation, an increase in direct taxes will reduce household incomes. A decrease in decrease in disposable income may lead in part to a reduction in savings and certainly lead to a reduction of consumption and consequently a decrease in imports. An increase in indirect taxes, especially sales taxes, will produce identical effect. Here the effect on savings may be relatively smaller since indirect taxes, as opposed to direct ones, are sparingly progressive. Fiscal measures curtail investment. A decreased investment will, through the multiplier effect, lead to a decrease in the national income and to a fall in imports. A fall in imports will have a favourable effect on the balance of payments.
Government expenditures include public consumption, investment and transfer payments. A cut in government expenditure especially with respect to transfer payments will reduce income of the beneficiaries of

such transfer payments. This will in the final analysis lead to a fall in imports and a favourable situation in the balance of payments. A decrease in public investment produces the same effect on national income as a fall in private investment, and leads to a fall in national income and imports.

However, of the two policies, monetary and fiscal policies, the latter is more efficient and effective than the former. A country with a deficit in the balance of payments can pursue a tighter monetary policy or a more restrictive fiscal policy. This will have a deflationary effect on the national income and lead to a fall in imports, or at least act as a brake on the increase in imports. It will also have a positive effect on exports and on import-competing industries. A fall in activity level will lead to a downward pressure on factor prices, wages may fall or, at least, be stable. The result is that export and import competing industries will be in a more competitive position. Thus an expenditure reducing policy will have a positive effect on the balance of payments both by reducing imports and by promoting export expansion.

## c. Expenditure-Switching Policies

Expenditure-Switching policies can take one of two forms. These are exchange rate changes and direct control.

An exchange rate change takes the form of a devaluation or a revaluation of the domestic currency. Devaluation means a lowering in value of a currency with respect to gold while revaluation is a rise in the value of currency with respect to gold. Depreciation and appreciation mean a fall and a rise in the price of domestic currency in terms of foreign currency respectively.

Devaluation causes a change in relative prices. It leads to an increase in import prices and thus a fall in the demand for imports. Similarly, import-competing industries will be in better competitive situation. There will be increased earnings for exporters who can now lower their prices. This places them in a more competitive situation. However, their sales expansion abroad will depend on the foreign demand elasticity for their goods. For a devaluation to have a positive effect on a country's trade balance, Marshall-Lerner condition, which states that the sum of the elasticity's of demand for a country's exports and of her demand for imports has to be greater than unity must be satisfied.

If it is less that unity, an appreciation should be used to cure a deficit in the trade balance instead of a devaluation. However, the magnitude of the elasticity depends on whether the goods are primary goods or manufactured goods and the conditions of the market. One unpleasant effect of devaluation is inflation which can of course be limited by joint pursuance of devaluation with tight monetary and fiscal policies. We must not, however, lose sight of the income redistributing effect of devaluation. The use of monetary or fiscal policy or of payments presupposes that income is sensitive to policy measures or that price changes will lead to changes in consumption and production. This may not be so because adjustment through these channels may take too long if ever it would be possible. A way to get out of this ugly situation is to use direct controls.

These operate through quantitative and exchange restrictions. The essence of direct trade controls is usually a wish to restrict imports since factors affecting exports are purely exogenous to the domestic economy. Direct controls can equally be considered in terms of commercial and financial controls. However, policy measures under direct controls include the following:
**Import Restriction:** Here the government can decide that only a given percentage of the previous volume of imports can be imported in the current year. Such a restriction of imports will make their internal value higher than their external value.

**Import Licensing:** Here the government puts the importation of certain commodities under license. This will reduce imports if managed effectively and hence have a positive impact on the balance of payments.

**Quotas:** This is when the government puts a limit to the amount of imports from each of its trading partners.

**Foreign Exchange Regulation:** A government trying to hold complete control over all dealings in foreign exchange may state that exporters should sell their foreign earnings to a central board e.g. the Central Bank, and that importers have to buy their foreign currency from the same board. If this arrangement is successful, the government would hold complete control over foreign trade. It would then be able to cure any deficit in the balance of payment by equating sales of foreign exchange with export earnings.

**Selective Granting of Foreign Exchange:** This happens when the government permits only those imports, which. are deemed desirable such as necessities, capital goods, military equipment, but does not permit luxury goods.

**Bilateral Trade Agreements**: Under this arrangement the government enters into terms under which it will trade with its trade partners.

## 2.4 The Use of Policy Measures in Nigeria

Nigerian authorities, both civilian and military, have adopted various measures to arrest deterioration in her balance of payment situations.

### a. Fiscal Measures

i. **Government Budget:** The various governments of the Federation, having realised the impact of excessive government spending, had on many occasions cut down on the size of government budgets overtime. This was particularly true of the civil war years and the low profile budget of 1978/79-budget year.

ii. **Tariffs:** The government introduced various tariff policies over the years with a view to arresting the adverse balance of payments situations. Thus in 1964, the Federal Government increased indirect taxes on a wide range of imports and domestic manufactures to protect the balance of payments position. Also, additional indirect taxes have been imposed on luxury commodities in high demand. Super tax was introduced during the war. All these were intended to improve the adverse balance of payment situations.

### b. Monetary Measures

In 1964, the Central Bank of Nigeria adopted a measure of selective control and moral suasion and certain general regulatory measures to restrain private spending without discouraging capital formation. This has also been done in some recent years. Other measures include the use of guidelines. The Central Bank in 1964 limited the rate of increase of aggregate advances by commercial banks. In 1965 and 1966 and also in other years, the Central Bank of Nigeria placed a ceiling on the rate of expansion of commercial bank advances over a given period to aid balance of payments and to create relative credit scarcity and to lead, therefore, to credit rationing.

### c. Foreign Exchange Regulation

In 1962, the Federal Government felt the need to regulate her foreign exchange policy. To this effect, the Nigerian Foreign Exchange Control Act was passed in 1962. This Act had provision covering a wide range of activities such as foreign exchange permission on selected items. However, this Act has been abrogated in 1968, the Exchange Control regulations and procedures were further tightened. Thus transfers in respect of dividends, profits and other capital transfers were suspended. Payment for certain invisible items including management agency fees, royalties, technical charges and commissions, and expenses due from Nigerian firms to their agents and representatives in countries outside Nigeria were suspended. Reduction of cash gifts to charitable organisations abroad were reduced from 500 to 100 per cent year. All shipping companies were required to give at least one month's notice of their foreign exchange requirement for charter-fees to the Federal Ministry of Finance, giving all relevant information in respect of vessels and the terms of charter.

In 1970, it was required that payments for current transactions be met only out of current receipts as foreign exchange became available and it was an offence to export Nigeria currency. Personal remittance by foreign nationals residing in Nigeria was limited to 50 percent of their gross taxable income in Nigeria and was subject to prior approval by the central bank. Basic travel allowance of N500 per annum per person was reduced to N200 a year (N100 a year for children) in 1970. All these were further reduced in 1971. Following a strong wave of foreign exchange scandals, the Federal Government promulgated the foreign Exchange Anti-Sabotage Decree under which some highly placed Nigerians were persecuted and convicted.

## d. Export Promotion

The government felt the need to improve her balance of payments situation through export expansion. To this effect, the government embarked on massive export drive. To do this she adopted the following:

**i.** **Protection for Domestic Industries:** In doing this, the government restricted the importation of goods whose local supplies were found adequate both in terms of price and quality in 1972. This policy was equally introduced in 1978 when total ban was placed on certain category of consumer commodities e.g. frozen meat.

**ii** **Granting of Incentives:** Right from time, the Government embarked on the giving of incentive to domestic businessmen and industrialist. In 1965 the government introduced the granting of incentives to attract further investment in the private sector. In 1970, industrial concessions were granted industrialist in Nigeria in respect of certain capital and initial allowances. Similarly, special assistance has been rendered to Nigerian businessmen to enable them to expand their activities. The super tax introduced during the civil war was abolished in 1972. In the same year, 1972, import duties on raw materials for industrial production were reduced by between 10%. The two-tier tax on marketing board produce was abolished and replaced by a single tax of 10% (an valorem). The Federal government in 1971 started to buy "made in Nigeria" goods. In the same manner, the government in 1972 exempted companies earning a profit of less than N6,000 from company tax. Similarly, the 25% import duty on paper used for manufacturing exercise books was abolished.

### e. Trade Agreement and Economic Cooperation

The need to protect her balance of payment led Nigeria into entering various trade agreements and economic cooperation's right from 1961. In 1962, Nigeria entered into International Tin Agreement to arrest the declining commodity's prices. In 1972, the Nigerian National Oil Corporation signed an agreement with SAFRAP, through which the government acquired 35% of the company's operations. Also an agreement was signed with a Soviet technical firm whereby the Soviet firm will undertake to establish an oil production-training centre at Warri. Nigeria also joined the Organization of Petroleum Exporting Countries with a view to earn more on her petroleum export and to improve her balance of payments. The motive behind the formation of the Niger Basin Authority, the Chad Basin Authority and the Economic Community of West African States has balance of payments undertones.

### f. Exchange Rate Policy (Devaluation)

For a developing country like Nigeria, exchange rate is not a powerful instrument for influencing the outlook of our balance of payments, particularly in the short run. The main reasons are obvious. First, our trade position may not be improved. Indeed, currency depreciation worsens the terms of trade and adjustments to the altered international trade could take a long time to materialize. Second, in the short run, the prices of our export of primary export commodities, including petroleum, might have been determined in the world markets. In this case, exchange rate depreciation is not likely to confer any important benefits in terms of increased export receipts. Third, owing to our growing need for imports, exchange depreciation would have caused inevitably, higher import prices, including the import of raw materials. Also, the fear is always there that devaluation would add to inflationary forces either directly through the effects of higher imports prices on domestic price level or indirectly by encouraging excessive wage claims. It is important to add that the short-run results of devaluation in a country like Nigeria could be partially offset by increased value of external assets especially in cases where devaluation does not provoke equiproportionate devaluation by the major reserve centres.

## 2.5 Summary

In this comprehensive unit, a detailed exploration was conducted on various crucial aspects related to the Nigerian economy, with a specific focus on the use of Balance of payment. The complexities and significance of utilizing policy measures in Nigeria were thoroughly discussed, shedding light on their impact on economic dynamics. Alongside this discussion, the concept of measuring the Balance of Payments emerged as a fundamental topic of examination. Strategies and methodologies for assessing and interpreting the Balance of Payments in the context of Nigeria were extensively analyzed, providing a rich understanding of the country's financial status on a global scale.

Moreover, traditional mechanisms for adjusting the Balance of Payments were scrutinized in depth, unveiling the historical practices and contemporary relevance of these mechanisms in modern economic frameworks. The implications of expenditure-reducing policies were critically examined within the context of addressing economic imbalances and fostering stability in the Balance of Payments. Through a nuanced exploration, the unit delved into the meaning and underlying causes of Balance of Payments disequilibrium, offering insights into the interconnected factors that contribute to economic fluctuations and challenges. By delving into these key areas, a holistic perspective on the economic landscape of Nigeria was developed, equipping learners with a robust foundation in understanding the intricacies of policy implementation, financial measurement, and economic equilibrium in the unique context of Nigeria.

## 2.6 References/Further Reading/ Web Resources

Anyanwu, J.C., Oyefusi, A., Oaikhenan, H.O., Dimowo, F.A. (nd). Structure of the Nigerian Economy (1960-1997). Joanee Education Publisher Ltd. Molem C.S.(nd). Growth and Development of Nigerian Economy.Kaduna: Silver Bond Publisher.

Tayo Lambo (1982). Nigerian Economy: A Text of Applied Economics. Evans Brothers Nigeria Limited.

## 2.7 Possible Answers to Self-Assessment Exercise(S) Within the Content

**Answer to SAEs 1:** What are possible causes of balance of payment disequilibrium.

The world. Disequilibrium in the balance of payments occurs when a country imports more than it exports, resulting in a deficit or negative balance. There are several possible causes of balance of payment disequilibrium, including: Economic growth, Interest rates, Exchange rate, Inflation, Government policies, Political instability, Natural disasters or health crisis, Lack of competitiveness, Capital flight and External factors such as changes in the global economy, commodity prices, and the policies of other countries can also affect a country's balance of payments.

**Answer to SAEs** 2: How do you measure balance of payment?
The balance of payments is a record of all transactions between a country and the rest of the balance of payments is typically measured using the balance of payments account, which is a record of all transactions between a country and the rest of the world. The account is divided into two main sections: the current account and the capital and financial account.

**Answer to SAEs** 3: What is traditional balance of payments adjustment mechanism?
The traditional balance of payments adjustment mechanism refers to the way in which a country adjusts to a balance of payments deficit or surplus. The traditional mechanism is based on the idea that a country can adjust to a deficit or surplus by adjusting its exchange rate, interest rates, and other economic policies.

# Unit 3 Urban Unemployment and Labour Market in the Nigerian Economy

## Unit structure



## 3.1 Introduction

In the last unit, we discussed the various crucial aspects related to the Nigerian economy, with a specific focus on balance of payment. The complexities and significance of utilizing policy measures in Nigeria were thoroughly discussed, shedding light on their impact on economic dynamics. Alongside this discussion, the concept of measuring the Balance of Payments emerged as a fundamental topic of examination. Strategies and methodologies for assessing and interpreting the Balance of Payments in the context of Nigeria were extensively analyzed, providing a rich understanding of the country's financial status on a global scale.

In this unit, we will discuss the Unemployment and Labour Market in the Nigerian Economy. Various factors contributing to urban unemployment in Nigeria will be explored, such as the impact of wage rates, the correlation between an expansion in education and the supply of labor, the influence of factor proportion on the demand for labor, the implications of population growth on labor supply, and the institutional factors exacerbating urban unemployment. Additionally, the unit delved into the role of government expenditure policy and the attractiveness of urban centers in perpetuating urban unemployment in Nigeria. The effects of urban unemployment on the economy will be thoroughly analyzed, emphasizing the need for immediate action to address this pressing issue. To counter urban unemployment, potential remedies will be proposed, highlighting the importance of implementing targeted policies, fostering job creation initiatives, enhancing vocational training programs, and promoting entrepreneurship opportunities to stimulate economic growth and reduce unemployment rates in Nigerian urban areas.

## 3.2 Learning Outcomes

By the end of this unit, you should be able to:

- Explain the Urban Unemployment in the Labour Market of the Nigerian Economy
- Highlight the Factors Contributing to Urban Unemployment
- Outline the Causes of Urban Unemployment in Nigeria
- Discuss the concept of Wage Rate
- Discuss the expansion in Education and the Supply of Labour
- Explain the Population Growth and Labour Supply
- Describe the Institutional factors contributing to Urban Unemployment
- Highlight the factor proportion and demand for Labour
- Explain the Government Expenditure Policy
- Outline the Attractiveness of the Urban Centres
- Describe the Effects of Urban Unemployment in Nigeria
- Outline the possible remedy for Urban Unemployment in Nigeria

## 3.3 Urban Unemployment in the Labour Market of the Nigerian Economy

### 3.3.1 Urban Unemployment in the Labour Market of the Nigerian Economy

Urban unemployment in Nigeria is a significant economic challenge characterized by the disparity between the labor force's supply and demand within urban centers. This phenomenon has been driven by various factors, including rapid urbanization, inadequate industrial growth, and structural issues within the economy.

### 3.3.2 Factors Contributing to Urban Unemployment

i. **Rapid Urbanization**: Nigeria has experienced a swift migration from rural to urban areas, with cities like Lagos, Abuja, and Port Harcourt growing exponentially. This migration is often fueled by the search for better job opportunities and living conditions (Okafor, 2011). However, the infrastructure and job market in these urban areas have not kept pace with the influx of new residents, leading to higher unemployment rates.

ii. **Industrial and Economic Disparities**: The industrial sector in Nigeria has not developed sufficiently to absorb the growing urban labor force. Many industries are concentrated in a few urban areas, and their growth is hindered by issues such as poor power supply, inadequate infrastructure, and bureaucratic bottlenecks (Adegoke, 2013). This lack of industrial growth limits job creation in urban areas.

iii. **Educational Mismatch**: There is a significant mismatch between the skills provided by the educational system and the needs of the labor market. Many graduates are unable to find employment because their skills do not align with the demands of employers (Salami, 2013). This mismatch exacerbates unemployment, as even educated individuals struggle to find jobs.

iv. **Economic Policies**: Past and present economic policies have sometimes failed to create a conducive environment for job creation. For example, policies focusing on capital-intensive industries rather than labor-intensive ones do not help reduce urban unemployment (Onyeiwu, 2012). Moreover, the informal sector, which employs a large portion of the urban population, is often neglected in policy formulations.

## Self-Assessment Exercise 1:

| Q1. What is unemployment? |
|---|

## 3.4 Causes of Urban Unemployment in Nigeria

The general cause of urban unemployment in Nigeria is the fact that supply of labour is greater than the demand and, therefore, they're in disequilibrium in the urban labour market. The imbalance between supply of labour and demand for labour can be said to be the result of several factors, which affect both the supply of and demand for labour. Some of these factors are now discussed.

1. **Seasonal Unemployment:** A situation whereby people are laid off seasonally due to the nature of job they do e.g. agricultural jobs.
2. **Technological Unemployment:** Unemployment caused by technological changes or new methods of production in an industry or business e.g. a non-computer literate accountant may not be able to get a desired job in a bank.
3. **Disguised unemployment: -** A situation whereby people take up jobs unrelated to their area of specialisation when the job they are qualified for is not forthcoming.
4. **Under employment: -** a condition where people are employed in less-skilled jobs than they are qualified to do.
5. **Sectoral Unemployment: -** A situation that affects certain professions because of over production of graduates in such areas. This can also happen as a consequence of rural-urban migration.

   Up to the early eighties, university graduates had jobs waiting for them on graduation, at times more than one offer. What obtains now is a situation whereby graduates of ten years or more are still seeking for employment. What then went wrong and where?

## Self-Assessment Exercise 2

| You now imagine that there is high level of unemployment in urban centres, what is actually responsible for this problem? |
|---|

## 3.5 Wage Rate

The classical or the Keynesian analysis of wage rate and unemployment would be sufficient if the rate of unemployment was relatively uniform as between urban and rural centres. But the unemployment problem in Nigeria is mainly urban in nature. In discussing the relationship between wage rate and unemployment, the critical explanatory variable is the wage rate differential between urban and rural workers. Since public expenditures can be regarded in some cases as wage payment in kind, the effective differential between urban and rural workers should take into account the wage effect of public expenditures.

Now, if the rural-urban migration will increase and unless employment opportunities are created in the urban areas equal to the increased migration, unemployment in urban areas will increase. The Todaro labour migration and employment model seems to explain the Nigerian situation, to some extent. The rural-urban income differential has been in favour of urban workers.

From the above, we may rightly conclude that the increase in the rural-urban wage differential during the 1960s must have contributed to increase in urban and total unemployment during the 1960s. to buttress this, for example, the Adebo Commission found that the average income of fanners ranged from N68 to N144 per annum in contrast to the minimum pay of the urban worker which ranged from between N168 and N216 per annum. Thus the minimum wage for urban workers was found by this Commission to be from 1.5 to 2.5 times the average income of the farmers.

**Self-Assessment Exercise 3**

| What factors are responsible for urban unemployment in Nigeria? |
|---|

## 3.6 Expansion in Education and the Supply of Labour

The very rapid upsurge in unemployment can be traced, to a very large extent, to the rapid development of primary education which does not give the recipients any skill that could enable them get good jobs. The supply of primary school graduates far outstrips the demand for this category of workers. Unfortunately, only a small proportion of the primary school leavers were absorbed by the secondary schools. For example, according to the Second Plan document, out of an estimated out-run of 240,000 primary school leavers in 1966, only 70,00 could be offered places in secondary schools. A further dropout rate of 400,000 students contributed to the pool of youths who had no skill to offer employers and yet they were in search of wage employment. The supply of secondary school graduates has also been out of proportion with the demand for their labour.

The problem of unemployment among university graduates and high level manpower has begun in the southern part of Nigeria and this is attributable to the fact that university and technical college education has little or no practical work content. The private sector, for instance, has tended in recent years, to recruit 1 out of 8 university graduates.

The problem of youth unemployment is much greater in the south than in the north where primary school education was generally not taken much advantage of. With the countrywide Universal Primary Education (UPE) scheme becoming compulsory in 1979, it has been projected in the Third National Development Plan that primary school enrolment will be 11.5 million by 1980. It is even estimated that during this period (1975-80) about 849,000 young persons would be turned out yearly from primary schools. And on the basis of 70 per cent primary to secondary school transition rate expected towards the late 1970s, it has been estimated that about 255,900 primary school leavers in addition to thousands of primary and secondary school drop-outs would join the labour force annually. The situation might be worse than what the 'Third Plan' would lead one to believe. This is because some states in the country have embarked on free education at all levels. We may not see the uncontrollable effect of this until these new sets of students graduate from secondary schools.

### Self-Assessment Exercise 5

| |
|---|
| A part from wage differentials and education, what other factors affect the supply of labour? |

## 3.7 Population Growth and Labour Supply

Population growth as a factor that influences the supply of labour. The size of labour force is a function of total population. Labour force in Nigeria is comprised of people in the 15-55 years age bracket. However, an increasing number of organisations are increasing their retirement age to 65 years so that in the near future, the potential labour force will increase further because of a change in definition of labour force. In the face of limited labour demand, the acceleration in the growth of the labour force has led to increased urban and total unemployment problem in Nigeria and this will continue to be so unless corrective measures are evolved to halt it.

### 3.7.1 Institutional Factors Contributing to Urban Unemployment

Moreso, there are institutional factors that contribute to the problem of urban unemployment. Geographical immobility of labour causes unemployment. In the Nigerian setting, the unemployment problem, especially among high-level manpower, is due, in large measure, to institutional factors which lead to a restriction of human resource flow among various parts of the country. While it is now apparent that the southern states are over-producing some categories of high-level manpower with consequent urban unemployment (since most of them remain in the cities), it is also clear that most of the northern states suffer from acute shortage in almost all categories of high-level manpower. Some northern states, after two years of independence still prefer expatriate labour to local labour even when expatriate labour is not as good as local. If a free flow of high-level manpower were permitted between the states, the problem of unemployment among high-level manpower would be reduced. The major institutional factors restricting the free flow is the policy of state governments that stipulate that civil servants must be state indigenes. This policy is now being extended to the private sector as some of the state government pressurize private companies to ensure that no non-state indigenes are employed in companies operating in the state.

Other institutional factors such as the ineffective operation of Labour Exchange (Labour Offices) and the "influence system" (or long leg system) of recruiting and the operation of the expatriate quota system tend to compound unemployment problem. Labour exchanges are few. The "influence system" of employment operates in such a manner that unless the potential employee knows somebody of importance he or she may not be able to secure a job compatible with his skill even when a vacancy exists.

The expatriate quota, which makes influx of foreigners into Nigeria possible, clearly contributes to urban and total unemployment of high-level manpower. Many university graduates, even those in some scientific fields and engineering, have been known to remain unemployed in Nigerian cities while expatriates who are not better qualified perform such jobs.

### 3.7.2 Factor Proportion and Demand for Labour

It is sometimes suggested that the production functions in modern sector of developing countries reflect fixed factor proportions. There is need for a careful application of this theory in Nigeria. It is true that in Nigeria, the expatriate firms generally use a production function that reflects high capital intensity and fixed factor proportions. Accordingly, a reduction in wage, it is thought, may not increase the amount of labour demand. However, there is a large intermediate sector where the production function shows more variable factor proportions-this refers to the small scale industries, repair shops where more labour-intensive technology is used and the same applies to the government sector which is even the greatest labour employer.

Because of this, the factor proportion in these sectors will be more sensitive to wage rate changes. The possibility is high that the Udoji awards, which led to higher wages, has helped to press down the employment rate and, therefore, increased urban unemployment.

The Nigerian situation, to an extent, therefore, seems to corroborate a hypothesis that 'in the last two and half decades, there had been a high degree of negative correlation between rises in real wages and growth of employment in several African countries'.

### 3.7.3 Government Expenditure Policy

The government expenditure policy whereby most of government projects (industries and public utilities) are concentrated in urban areas at the utter neglect of the rural encourages mass exodus of rural unskilled labour from villages into the urban towns and, therefore, causes urban unemployment.

Various government policies (e.g. the numerous and sometimes over-generous industrial incentives) tend to encourage capital intensive and labour saving techniques of production in most of the urban industrial establishments. This aggravates the urban unemployment problem.

### 3.7.4 Attractiveness of the Urban Centres

Apart from the marked differences between urban and rural earnings, many potential migrants usually have little or no valid information about urban unemployment conditions.

There is the deceptive display of 'prosperity' by many city dwellers (even when unemployed) whenever they visit their homes in the rural areas. This gives a wrong impression and encourages some youths to migrate to the cities.

The Nigerian 'Social Security System' emanating from the extended family system whereby a relative may cater for a new migrant who may be unemployed for some time normally lessens the fear of joining the unemployed people in the urban areas.

## 3.8 Effects of Urban Unemployment in Nigeria

Urban unemployment in Nigeria presents multifaceted challenges, deeply influencing socio-economic structures, public health, and urban development. This phenomenon has become a critical issue, with widespread implications for the country's stability and growth.

### 3.8.1 Economic Impact

Urban unemployment significantly stunts economic growth. High unemployment rates mean a large portion of the labor force is idle, leading to reduced productivity and lower overall economic output. The economic burden is further exacerbated by increased dependency ratios, as unemployed individuals rely on family members or social welfare systems (Osalor, 2019). This situation strains public resources and can lead to increased poverty levels, creating a vicious cycle of economic hardship (Nwosu, 2020).

### 3.8.2 Social Consequences

The social ramifications of urban unemployment are profound. Unemployed individuals often face social exclusion and marginalization, which can lead to increased crime rates and social unrest. The lack of gainful employment opportunities contributes to the proliferation of informal economies, which are often characterized by poor working conditions and lack of social protection (Ogunleye-Adetona & Olawole-Isaac, 2021). Moreover, prolonged unemployment can lead to psychological distress, including anxiety and depression, affecting the mental health of the urban populace (Adeniyi, 2022).

### 3.8.3 Health Implications

Urban unemployment also has significant health implications. The stress and uncertainty associated with unemployment can lead to various health problems, including hypertension, cardiovascular diseases, and mental health disorders (Adebowale & Akinyemi, 2018). Additionally, unemployed individuals may lack access to adequate healthcare due to financial constraints, further exacerbating health disparities in urban areas (Afolabi, 2017).

### 3.8.4 Urban Development and Infrastructure

The effects of urban unemployment extend to urban development and infrastructure. High unemployment rates can result in increased urban poverty, leading to the proliferation of slums and informal settlements. These areas are often characterized by inadequate infrastructure, poor sanitation, and limited access to essential services such as clean water and electricity (Adejumo, 2019). The strain on urban infrastructure can hinder sustainable development efforts and compromise the quality of life for urban residents.

## 3.9 Possible Remedy for Urban Unemployment in Nigeria

Urban unemployment in Nigeria is a multifaceted issue requiring comprehensive strategies to address. Potential remedies include policy reforms, educational advancements, entrepreneurship promotion, infrastructural development, and investment in technology.

i. **Policy Reforms**: The government must implement effective economic policies that encourage job creation. This includes reducing bureaucratic bottlenecks and creating a more business-friendly environment. Policies that attract foreign investment and support local businesses can stimulate economic growth and employment opportunities (Adekoya, 2021).
ii. **Educational Advancements**: Reforming the educational system to better align with market demands is crucial. Emphasizing vocational training and skill acquisition can prepare graduates for the workforce, reducing the gap between education and employment (Ogunleye, 2019).
iii. **Entrepreneurship Promotion**: Encouraging entrepreneurship through access to finance, mentorship programs, and business development services can create jobs. Initiatives like microfinance and start-up incubators provide essential support for new businesses (Olawale & Garwe, 2018).
iv. **Infrastructural Development**: Investing in infrastructure such as roads, power, and telecommunications can create jobs directly through construction and maintenance and indirectly by enabling businesses to thrive (Eze, 2020).
v. **Investment in Technology**: Embracing technology and innovation can lead to new job opportunities in emerging industries. Government support for tech hubs and innovation centers can foster a tech-driven economy (Ibrahim & Musa, 2022).

### Self-Assessment Exercise 4

| Does education affect the supply of labour in Nigeria? |
|---|

## 3.10 Summary

The explained that, the urban unemployment in Nigeria is a multifaceted issue influenced by rapid urbanization, inadequate industrial development, educational mismatches, and suboptimal economic policies, the unit also addressed the issue requires a comprehensive approach, including improving infrastructure, aligning educational outcomes with labor market needs, fostering industrial growth, and formulating inclusive economic policies. The government's role is crucial in creating an enabling environment that promotes job creation and sustainable economic development.

Addressing urban unemployment in Nigeria requires a multifaceted approach. Policy reforms to foster a business-friendly environment, educational advancements focusing on vocational training, and promoting entrepreneurship through financial support are essential strategies. Additionally, infrastructural development and investment in technology are crucial for creating sustainable employment opportunities. By implementing these measures, Nigeria can significantly reduce urban unemployment and stimulate economic growth.

urban unemployment in Nigeria has far-reaching effects on the economy, society, public health, and urban development. Addressing this issue requires comprehensive policies that promote job creation, enhance skills development, and improve social protection systems. By tackling urban unemployment, Nigeria can pave the way for more inclusive and sustainable urban growth.

## 3.11 References/Further Reading/ Web Resources


Adebowale, S. A., & Akinyemi, J. O. (2018). Health implications of unemployment: A case study of urban Nigeria. *Journal of Public Health and Epidemiology*, 10(3), 65-72.

Adegoke, Y. (2013). Industrial Development and Growth in Nigeria: Lessons and Challenges. *Journal of Economics and Sustainable Development*, 4(10), 17-28.

Adejumo, S. (2019). Urban poverty and infrastructure development in Nigeria. *African Journal of Urban Studies*, 8(1), 45-58.

Adekoya, A. (2021). Economic policies and job creation in Nigeria. *Journal of Economic Policy Reform*, 24(2), 115-130.

Adeniyi, O. (2022). The psychological impact of urban unemployment in Nigeria. *Journal of Mental Health and Wellbeing*, 15(2), 120-130.

Afolabi, M. O. (2017). Access to healthcare services among unemployed individuals in urban Nigeria. *Nigerian Medical Journal*, 58(4), 200-210.

Anyanwu, J.C., Oyefusi, A., Oaikhenan, H.O., Dimowo, F.A. (nd). Structure of the Nigerian Economy (1960-1997). Joanee Education Publisher Ltd. Molem C.S.(nd). Growth and Development of Nigerian Economy. Kaduna: Silver Bond Publisher.

Eze, M. (2020). Infrastructure development and its impact on employment in Nigeria. *African Development Review*, 32(4), 453-470.

Ibrahim, Y., & Musa, A. (2022). The role of technology in job creation in Nigeria. *International Journal of Technological Innovation*, 11(1), 50-67.

Nwosu, C. (2020). Economic consequences of unemployment in Nigerian cities. *Nigerian Journal of Economic Research*, 12(3), 210-225.

Ogunleye, B. (2019). Educational reforms and unemployment in Nigeria. *Journal of Education and Practice*, 10(14), 72-81.

Ogunleye-Adetona, C. I., & Olawole-Isaac, A. (2021). Informal economy and social protection in urban Nigeria. *International Journal of Sociology and Social Policy*, 41(4), 370-385.

Okafor, E. E. (2011). Youth Unemployment and Implications for Stability of Democracy in Nigeria. *Journal of Sustainable Development in Africa*, 13(1), 358-373.

Olawale, F., & Garwe, D. (2018). Obstacles to the growth of new SMEs in South Africa: A principal component analysis approach. *African Journal of Business Management*, 4(5), 729-738.

Onyeiwu, C. (2012). The Effects of Economic Reforms on Employment and Poverty in Nigeria. *Journal of Social Sciences*, 7(4), 620-635.

Osalor, P. (2019). Addressing the unemployment crisis in Nigeria. *Journal of Economic Development and Policy*, 7(2), 50-60.

Salami, C. G. E. (2013). Youth Unemployment in Nigeria: A Time for Creative Intervention. *International Journal of Business and Marketing Management*, 1(2), 18-26.

Tayo Lambo (1982). Nigerian Economy: A A Text of Applied Economics. Evans Brothers Nigeria Limited.

## 3.12 Possible Answers to Self-Assessment Exercise(s) within the content

**Answer to SAEs 1:** What is unemployment?

Unemployment refers to the state of not having a job, but actively seeking employment and being available to work. The unemployment rate is a measure of the percentage of the labor force that is unemployed but actively seeking employment and willing to work.

**Answer to SAEs 2:** What is responsible for high level of unemployment in urban centres?

There are a variety of factors that can contribute to high levels of unemployment in urban centers. Some possible causes include a lack of job opportunities in certain industries, a mismatch between the skills of job seekers and the skills required for available jobs, and a lack of affordable housing or transportation options that make it difficult for people to commute to work. Additionally, economic downturns or recessions can also lead to high levels of unemployment in urban areas.

**Answer to SAEs 3:** What factors are responsible for urban unemployment in Nigeria?

There are several factors that contribute to urban unemployment in Nigeria, including: Lack of economic opportunities, Lack of education and skills, Corruption, Overpopulation, Bureaucratic inefficiency and Political instability.

**Answer to SAEs 4:** Does education affect the supply of labour in Nigeria?

Education can have a significant impact on the supply of labor in Nigeria. A higher level of education generally leads to a more skilled and productive workforce, which can increase the supply of labor in the formal sector. However, the relationship between education and labor supply in Nigeria is complex, as there are a number of factors that can affect it.

On one hand, a lack of education and skills can make it difficult for individuals to find employment in the formal sector, which can lead to a decrease in the supply of labor. Many Nigerian citizens do not have access to quality education, thus making it hard for them to compete in the job market and decreasing the supply of labor.

On the other hand, a higher level of education can also lead to increased competition for jobs, as more individuals are qualified to fill certain positions. This can make it difficult for individuals with lower levels of education to find employment, leading to a decrease in the supply of labor.

**Answer to SAEs 5:** Apart from wage differentials and education, what other factors affect the supply of labour?
In addition to wage differentials and education, several other factors can affect the supply of labor. Some of these factors include: Demographics, Health, Migration, Government policies, Social security and welfare policies, Technological advancements and Economic conditions.

# Unit 4 Inflation in Nigeria

## Unit Structure



## 4.1 Introduction

In the last unit, we explained urban unemployment in Nigeria as a multifaceted issue influenced by rapid urbanization, inadequate industrial development, educational mismatches, and suboptimal economic policies, the unit also addressed the issue requires a comprehensive approach, including improving infrastructure, aligning educational outcomes with labor market needs, fostering industrial growth, and formulating inclusive economic policies. The government's role is crucial in creating an enabling environment that promotes job creation and sustainable economic development.
In this unit, we will discuss Inflation

## 4.2 Learning Outcomes

It is important to know that a high and persistent rise in the price level will affect the growth and development of every society.

By the end of this unit, you should be able to:

- explain the meaning and type of inflation
- identify the causes and effect of inflation
- outline efforts made at controlling inflation in Nigeria.

**Self-Assessment Exercise 1:** How do we measure inflation?

## 4.3 Inflation

Inflation is defined as a high and persistent rise in the price level. This means that not every price increase is regarded as inflation. For example, a once-for-all rise in the price level may not be regarded as an inflationary phenomenon. Some polices designed to control demand, e.g., increase in indirect taxes and interest rates, which policy makers believe would curtail effective demand, may be manifested in higher consumer prices and high production costs. Also, the price of goods and services may not rise simultaneously or by the same proportion.

Even if the increase in price level occurs over a long period of time, it may not be considered inflationary if the rate of increase is considered minimal. For an economy that is growing, some rise in price may be inevitable and may even be acceptable. Indeed, some economies have argued that upward movement in the general price level may be ideal for business. What increase in price constitutes inflation is thus a difficult question to answer? This may vary from country to country. Whilst there seems to be a consensus of opinion that a continuous annual growth rate of price above two per cent in advanced countries could be regarded as inflationary situation, there is not such agreement in the case of developing countries. From this, the definition given earlier on should, therefore, be regarded as, at best, a working definition.

### 4.3.1 Measurement of Inflation

There are usually three commonly used measures of price changes, which are referred to as price indexes. They are: the Wholesale Price Index (WPI), the Consumer Price Index (CPI), and the Implicit Price Index (IPI) or the GDP deflator. Each price index is a weighted index of prices of selected commodities in a basket and its behaviour is taken as representative of the average behaviour of prices of such goods and services in general.

Included in WPI are prices of goods like machinery and equipment, raw materials, and other intermediate inputs. Prices of goods sold directly to consumers or government are usually excluded. The advantages of WPI include the following it could be a good indicator of future trends in consumer goods prices; it includes more items than any of the other indexes; as it responds more directly to changes in the pace of economic activity, it is therefore a very valuable indication of emerging trends; finally, it makes possible the tracing of price rises through successive stages. The major disadvantages, however, are that: its coverage is

narrow; and since it covers products at different stages of production, the could significantly affect the entire index.
The most widely used measurement is CPI. This measures the changes in prices of goods and services, which are sold directly to consumers. This index covers wider range of items than wpi since it includes services. Cpi is usually used to deflate nominal incomes and when this is done the result reflects changes in standard of living. Its major defects include the following: it does not measure the extent of price inflation experienced by business enterprises; as a measure of incipient inflation, it is less useful than wpi since it is the more sluggish of the two; and it does not attempt to measure price trends for a large section of the population (e.g. the non-urban).

The ipi (or GNP/GDP deflator) has the broadest coverage. It measures price behaviour of the gross domestic (national) product, i.e. of the total output of goods and services in a country, thus including those of households, business enterprises and government. When ipi is used, inflation indicates when national money income is rising faster than national real income. The problem with using ipi is that its availability is less frequent-annual for some countries and quarterly for others.

It has to be emphasised, however, that none of these three indexes accurately measure inflation for a number of reasons. In the first place, not all transaction are included even in the most comprehensive measure ipi. Second, an observed rising level of general prices may not necessarily reflect an inflationary situation as the quality of the products may have improved.

**Self-Assessment Exercise 2:** Identify the various kinds of inflationary situations.

### 4.3.2 Kinds of Inflation

There are four major types of inflation. These are: the demand-pull, the cost-push, the mark-up and the structural types.

According to the demand-pull theory, what prompts a rise in the price level is the emergence of excess demand over supply. Usually in this case, full employment is assumed; otherwise, it should be possible to increase supply to eliminate the excess demand. The speed and magnitude of inflation, in this theory, depends on the size of the excess demand. Classical economists have argued that excess demand is caused by expenditures out of excess cash balances. However, Keynesians argued that it is due to autonomous increase in aggregate demand (consumption or investment, private or government). Excess demand in a closed economy with full employment conditions would easily lead to a rise in the price level. However, if the economy is an open one, excess domestic demand may not lead to a rise in the price level if the exchange rate is unchanged and if external reserves are available to finance the increased imports prompted by excess demand.

You can again notice here that it is also possible for inflation to be initiated by increases in costs following the successful move by the factor(s) of production to raise their share(s) of the total product. This is the case of cost-push inflation. The underlying assumption of this theory is that there exists imperfect competition both in the product market and in the labour market. Cost-push inflation is, however, usually considered in relation to autonomous increases in wages. If the rate of growth of wages exceeds that of productivity of labour, producers may have to raise the prices of their products in order to maintain the level of employment. Otherwise, the result would be a decrease in employment and output. It is important to add that the inflationary impact of wage increase depends on: the proportion of wages in the factor costs (the impact being greater in proportion to the labour intensiveness of the enterprises); the extent to which increases in wage rates exceed productivity growth (the larger the gap, the greater the impact), and the amount of offset by the decline in other costs.

Also, in mark-up inflation models, product prices and wages are both assumed to be cost-determined. Business men mark-up prices of their goods over and above the rise in costs of raw materials and labour directly involved in the production of the commodities. Such mark-ups usually cover estimated overhead costs and desired profit margins. When workers realise this, they demand and usually obtain increases in wages to offset the rise in the cost of living. An inflationary spiral can, therefore, be initiated if labour or business or both try to protect real income against an autonomous rise in cost, or if they try to increase their share of national income, which can only be at the expense of some other social groups.

Furthermore, a fourth type of inflation is referred to as structural inflation. Economists argue that inflation may not be the outcome of excess demand, high and rising costs or the willful desire of producers to realise more profits by raising the prices of their products. It could, in fact, be the result of basic structural factors which create supply shortages and deficient government revenue. These structural factors are themselves regarded as reflections of the state of economic under-development.

Many economists have argued that the major type of inflation in developing countries is the structural type, which we intend to examine in some detail in the next section.

**Self-Assessment Exercise 3:**

| What is the source of structural inflation in developing countries? |
| --- |

### 4.3.3 Sources of Structural Inflation in Developing Countries

The phenomenon of supply rigidities has been noted in developing countries. Such rigidities are usually attributed to the following: agricultural production may fail to keep pace with population growth as a result of primitive method of cultivation, bad land tenure system, rural-rural migration, poor transport and distribution system, vagaries of the weather; and low level of the country's capacity to import due to shortage of foreign exchange.

Instability of export prices in developing countries does not only limit the capacity to import, it also induces deficit spending, which is one of the structural problems of developing countries. Such deficit spending is usually done through increase in money supply. This consequently leads to inflationary pressures.

Developing countries usually do not produce enough locally to meet aggregate demand. They thus rely heavily on importation of many commodities. The countries are, therefore, prone to imported inflation. Most developing countries usually pay attention to import-substituting industries in the course of their industrial developments. Such industries are usually given a high degree of protection and they usually become 'monopolies' that do not often look for ways of achieving efficiency. The result is that most of them produce at high unit costs and hence have high prices.

Finally, developing countries have the characteristic of low savings ratio. This is due not only to low incomes but also to the fact that people have high spending habits as a result of which expenditure is usually high. The level of aggregate expenditure is usually greater than that of aggregate supply and this could fuel inflation, if not actually cause it.

**Self-Assessment Exercise 4:**

| What are the likely effects of inflation? |
| --- |

### 4.3.4 Effects of Inflation

There is no consensus about the effect of inflation on economic growth. Some argue that it promotes economic growth whilst others assert that it retards growth. The arguments for and against the proposition of whether inflation retards or promotes growth have been articulated by two schools of thought the monetarist and the structralists. The former maintain that successful economic development requires increases in price levels as natural consequence of economic development and, that, therefore, such price increases are a necessary part of economic growth in developing countries. While there may be no agreement on this issue, there are other generally accepted effects of inflation on an economy.

It is agreed, for example, that inflation affects production. As costs of production are generally believed not to rise as rapidly as prices, profit margins of producers tend to be greater than expected. Because of the higher profit levels, producers become optimistic and are, therefore, encouraged to expand production.

When there is inflation, the incomes of different groups of people are differently affected by rising prices. The advantages of inflation to some group become disadvantages to some other groups. Profits receivers gain at the expense of consumers. Wages lag behind prices. Thus, at times of rising prices, wage earners find that their real wages would fall. People who receive fixed incomes and salaries suffer most from inflation. These include retired people and pensioners. In addition, debtors gain in an inflationary situation while creditors lose.

Inflation could also affect the balance of payment of a country adversely. As prices of exported goods increase at home, it becomes less competitive in the world market. Under these circumstances, a balance of payment problem would likely arise.

Inflation creates distortions in the economy. It could, for example, lead to price speculation and the hoarding of commodities. These and other distortions do not make for efficiency in the allocation of resources.

Inflation moreover usually has a negative effect on the currency of a country as with rising prices, the value of money falls and gradually the currency may become worthless.

**Inflation adversely affects savings.** This is because with rising prices, people will have fewer surpluses to save and even the expectation of further inflation may make people to spend all they have immediately. Less saving will, in turn, affect the amount of investment that business men and financial institutions can undertake. This may eventually affect the level of development.

An inflationary situation, finally, usually brings in its wave of industrial discontent. Labour reacts to a rise in prices by asking for higher wages and it may resort to strikes., lock-outs, etc., in order to back its demands.

### 4.3.5 Control of Inflation

From the effects of inflation discussed above, it is clear that inflation is not a desirable thing and must therefore be checked or contained in order to avoid these undesirable effects. The control can be affected in a number of ways.

**One method is the use of monetary policy:** This involves taking actions to reduce the volume of purchasing power in the economy through reductions in money supply. This is usually done by the central bank using certain instruments at its disposal to affect this.

**Another way is the use of fiscal policy:** This involves measures to reduce aggregate demand. Such measures include increased taxes of individuals and enterprise. The budgeting policy of government with respect to budget surplus is another way of achieving this.

The incomes policy is another measure that can be adopted. This could take the shape of a general statement by the public authorities about the way in which income and prices should develop in the interest of the country or alternatively, a specific and full-scale statutory freeze of wages and prices.

Measures could furthermore be adopted to increase importation of goods, for example, through import liberalisation. This is a short-run policy measure and can only be adopted if the country has foreign exchange reserves to pay for increase imports.

Measures could be adopted to increase the volume of production in the country. This could be done by granting subsidies to producers or by making credit facilities readily available to producers.

### 4.3.6 Efforts Made at Controlling Inflation in Nigeria and their Effects

Fiscal measures taken to contain inflation have included tax reduction or abolition to stimulate industrial production and import liberalisation to increase the domestic supply of goods in the economy. As these efforts failed to yield any significant result on supply, trade controls and tariffs were reimposed in 1977 because of lean government financial resources. Operation Feed the Nation (OFN), the National Accelerated Food Production Programme, direct food importation by the National Supply Company and the Price Control Board, which was recently abolished, were unsuccessful efforts made to bring food prices down. An anti-inflation task force was set up in 1975 and its findings led to the setting up of the productivity, Prices and Incomes Board. This Board was to provide guidelines for income, price and wage increases in the economy. Not much positive result has been achieved from the efforts of the Board. Wage freeze in the economy before and after the Udoji Award has also had little or no impact on inflation.

The monetary policy was initially geared towards easy money through credit regulation and credit priority to sectors, which will decrease supply bottlenecks. In the last three years the Central Bank has switched to a tight monetary policy because of persistently rising inflation and excess liquidity in the economy. The impact of monetary policy on inflation in the economy has not been significant because of the relative underdevelopment of the monetary and financial sectors of the economy.

It is pertinent to note here that the lack of policy coordination between the actions of the Finance Ministry and the Central Bank has further compounded the inflationary situation. For example, while the Central Bank has been trying to tighten credit in the economy, the government has encouraged fiscally-induced monetary expansion through its rising budgetary activities. For instance, budget deficits nearly doubled between 1975 and 1977 rising from N1.8 billion. The impact of this on domestic inflation in an economy with limited absorptive capacity cannot be overemphasised.

The inflation problem in Nigeria needs rather drastic measures if any serious impact is to be made in correcting the situation. If the present trend continues unabated it may generate social and political tensions, which would be harmful to the future development of the economy. Real resources wasted by frivolous government expenditure must be stopped and government's fiscal activities should be governed by the absorptive capacity of the economy. The inflationary problem can be linked with the oil and food problems. A successful resolution of these two pressing problems would greatly enhance the effort to find a lasting solution to the problem of inflation in the economy.

## 4.4 Summary

The unit explained that the persistent rise of the general price level of the country is yet to be tackled. Besides, government fiscal and monetary policy measures have failed to address this problem. The inflationary pressures keep mounting as the price of goods and service do move upward. This has been primarily as result of excess domestic liquidity and continuous imported inflation. Lack of policy coordination between the action of the finance ministry and the central bank has further compounded the inflationary situation. Thus, while the central bank has been trying to tighten credit in the economy the government has encouraged fiscally induced monetary expansion through its rising budgetary activities.

The persistent and appreciable rise in the general level of price could be seen as inflation. The inflationary phenomenon could be identified as demand-pull, the cost-push, and the mark-up and structural types. There is this general consensus that inflation affects production of goods and service, income of different groups of people, balance of payments of the country, the currency of a country and it brings about distortion in the economy and a were of industrial discontent. However, the government of Nigerian has made considerable efforts to curtail inflationary pressures. These concerted efforts could be observed with the fiscal and monetary policy measures yet to generate enough absorption capacity that places the economy within an economic growth and development that is inflationary free.

## 4.5 References/Further Reading /Web Resources

Anyanwu, J.C., Oyefusi, A., Oaikhenan, H.O., Dimowo, F.A. Structure of the Nigerian Economy (1960-1997). Joanee Education Publisher Ltd.

Iwayemi, A. (nd). Economy Growth in Nigeria since (1960). “Emerging Issue and Evidence.” Unpublished Manuscript, Department of Economics, University of Ibadan, 1981.

Iwayemi, A. (1979). The Military and the Economy, of Nigerian Government and Politics under Military Rule. Oyeleye Oyediran (Ed.). Chapter 5. Macmillan Press.

Molem, C.S.(nd). Growth and Development of Nigerian Economy. Kaduna: Silver Bond Publisher.

Olayide, S.O. (1976). (Ed.), Economic Survey of Nigeria, 1960-1975. Aromolaran Publishing Co. Ltd.

Tayo Lambo (1982). Nigerian Economy: A Text of Applied Economics. Evans Brothers Nigeria Limited.

## 4.6 Possible Answers to Self-Assessment Exercise(s) within the content

**Answer to SAEs 1: How do we measure inflation?**

Inflation is typically measured using a consumer price index (CPI), which is an economic statistic that measures the change in the price level of a basket of consumer goods and services over time. The basket of goods and services is chosen to represent the consumption patterns of a typical consumer

### Answer to SAEs 2: Identify the various kinds of inflationary situations.

There are several types of inflationary situations that can occur, including: Demand-pull inflation, Cost-push inflation and Built-in inflation

### Answer to SAEs 3: What is the source of structural inflation in developing countries?

Structural inflation in developing countries can have several sources, including: Infrastructural constraints, Limited agricultural productivity, Monopolies and oligopolies, Foreign exchange constraints, Government policies, Political and economic instability and Inefficient state-owned enterprises and corruption

### Answer to SAEs 4: What are the likely effects of inflation?

Inflation can have a number of effects on an economy, including: Reduced purchasing power, Increased uncertainty, Income redistribution, Reduced savings, Reduced investment, Increased interest rates, Reduced economic growth, and Reduced international competitiveness

# Unit 5 Fiscal Federalism in Nigeria

## Unit Structure



## 5.1 Introduction

The unit explained that the persistent rise of the general price level of the country is yet to be tackled. Besides, government fiscal and monetary policy measures have failed to address this problem. The inflationary pressures keep mounting as the price of goods and service do move upward. This has been primarily as result of excess domestic liquidity and continuous imported inflation. Lack of policy coordination between the action of the finance ministry and the central bank has further compounded the inflationary situation. Thus, while the central bank has been trying to tighten credit in the economy the government has encouraged fiscally induced monetary expansion through its rising budgetary activities.

In this unit, we will be discussing revenue allocation in the Federal Republic of Nigeria. The revenue allocation formulae would be reviewed by providing 13 percent of the revenue from mineral sources to be distributed according to derivation principles. These proposals would have far reaching consequences for revenue allocation in Nigeria.

## 5.2 Learning Outcomes

By the end of this unit, you should be able to:

- Discuss the Nigerian experience of fiscal federalism
- identifying the allocation functions of the revenue allocation commission
- highlight the revenue allocation principles

- Outline the weakness of the existing revenue allocation system.

## 5.3 Revenue Allocation Formulae

### 5.3.1 Nigerian Experience of Fiscal Federalism1960-1996

Nigeria became independent in 1960 and adopted the Federal form of administration with three tiers of government in 1963. These were the federal, regional and local governments. The number of the second-tier units was increased in 1967 from 4 regions to 12 states. In 1976, the number rose to 19; 21 in 1987, 30 in 1991and 36 in 1996 After the reforms introduced in 1976, following the restructuring of the country into 12 states, the federal government established 300 local governments. The number of local government units rose progressively to 589 in 1991, and 778 in 1996. Prior to 1989, the administration of local governments was placed under the state government. However, under administrative reforms introduced in 1989, local governments were given some measure of autonomy, including direct funding from the Federation Account.

Although Nigeria retains the physical structure of federalism, the constitutions over the years have remained suspended with every military take-over from civilian regimes. The Nigerian experience of fiscal federalism has been influenced largely by the transposition of military rule. Under military administrations, the prevailing command system tends to reduce the administration of the country into a unitary state, as all the state governors receive instructions from the military leader at the centre, who is also the Head of State and Commander-in-Chief of the Armed Forces. The report of the Committee on Revenue Allocation observed with respect to the impact of military intervention on federalism:
"Since the military took over to power, the practice of federalism and power structure between the states and the centre has undergone fundamental changes. In the first place, Decree No. 1 of 1966 vests the Federal Military Government with power to make laws for Nigeria with respect to any matter. A state Governor, an appointee of the Supreme Military Council, derives his authority from the Head of State and must obtain prior permission from him before creating legislation on matters in the concurrent legislative list. Such subordinate-sup ordinance relationships do not of course exactly enhance the free play of inter-governmental relationships normally associated with federal political arrangements. This scenario does not hold under civilian regimes where a state may be under a different political party and ideology from the government at the centre."

The taxing and expenditure functions as provided in the suspended Federal Constitutions are reviewed below:

### 5.3.2 Revenue Allocation of Functions

The 1963 Federal Constitution allocated the functions to be performed by the federal and regional governments under two main headings. These are exclusive federal and concurrent legislative lists. Local governments were treated implicitly as part of the regional and later, state governments. However, the 1979 Federal Constitution identified functions to be performed by the local governments under the fourth schedule. These functions are summarized below:

#### i. Exclusive List

All functions under the exclusive list are to be performed by the federal government and include accounts of government of the federation; issue of legal tender currency; external affairs; defence, etc. Over the years, there have been amendments to the contents of the exclusive legislative list, but the overriding principles remain that these functions are to be performed by the federal government alone.

#### ii. Concurrent Legislative List

All subjects listed under the concurrent legislative list are to performed by both the federal and state/regional governments. These include antiquities, census, higher education, industrial development, prisons, national parks, etc.

#### iii. Functions of Local Governments

The functional roles of the local governments are listed in the Fourth Schedule of the 1979 and 1989 Federal Constitutions. The local governments are expected to provide public goods and services, such as primary schools, maintenance of markets, cemeteries, home for the destitute and infirm, public conveniences, refuse disposals, etc, as well as other functions that may be conferred on them by the State Houses of Assembly.

Under the military administration, however, there has been a blurring of the lines between the allocations of functions among the tiers of government in the Federation. For instance, the military administration, had tended to take more responsibilities in the area of education, health, housing, agriculture, water supply, etc., such that the demand for more revenue for the execution of these projects nationwide has been the rationale for higher revenue allocation to the federal government. Also from the late 1980s, it was the cause of ad-hoc changes in the revenue allocation formulae resulting in transfer of revenue from the federation account to the federal government.

**Self-Assessment Exercise 1**

| |
|---|
| Q1. State some of the revenue allocation commissions that have been instituted in the country |

## 5.4 Revenue Allocation Commissions

Our search for equitable revenue allocation formulae in support of the functional roles to be performed by the governments pre-dated independence. The first commission was established by the colonial administrators in 1946, when Nigeria was being ruled as a unitary state. This was the Philipson Commission. Three other commissions were: appointed by the British government to help proffer solutions to the problems of revenue allocation in the country. These were Hicks Philispson Commission (1951), Chicks Commission (1953), and Raisman Commission (1958), the last before independence. The issue of revenue allocation re-occurred immediately after independence and the old method of appointing commissions was resorted to by the federal government

Between 1960 and 1979, there were four different revenue allocation commissions appointed to provide equitable revenue allocation formulae for the country. These were the Binns Commission (1964), Dina Commission (1968), Aboyade Commission (1977) and Okigbo Commission (1979). Between 1979 and 1994, may ad-hoc changes or amendments were introduced in the revenue allocation formulae by the military administrations through various Decrees impacting on the statutory share of each tier of government.

**Self-Assessment Exercise 2**

| |
|---|
| Q2. What are the determinants of revenue allocation to the respective tiers of government? |

### 5.4.1 Revenue Allocation Principles

Revenue allocation in a Federation involves two distinct strands. First is the vertical allocation of revenue between the three tiers of government i.e. federal, state and local governments, and, second is the revenue sharing horizontally among the component states and the local governments. The various fiscal commissions based their recommendations for changes in the revenue allocation system on some principles. Some of these principles are reviewed below:

### i. The Derivation Principle

This is old as the Federal Republic of Nigeria, and is based on the argument that a state from which revenue is derived deserves to be compensated reasonably according to its contribution. The establishment of the Federation Account by which all revenues are pooled to be shared in accordance with statutory allocation formulae had tended to minimise, although not to a significant degree, the importance of the derivation principle in the country. Derivation is accorded some recognition currently in the statutory allocation formulae under special fund, by providing 13.0 per cent for development of mineral producing areas and 1 .0 per cent directly to derivation.

### ii. Financial Need, Even Development, Minimum National Standards

These are subjective principles that had been recommended in the past but do not influence the present revenue allocation formulae. This is as a result of the fact that these principles cannot be quantified to enhance their application for sharing revenue.

### iii. Statutory Allocation among States and Local Governments

The major principles of revenue allocation among the states/local governments are equality, population, social development, and land mass/terrain. The importance attached to each of these principles is reflected in the weight given to each principle as shown below:

| | |
|---|---|
| Equality | 40.0% |
| Population | 30.0% |
| Social Development Factor | 10.0°/0 |
| Land Mass/Terrain | 10.0% |
| Internal Revenue Effort | 10.0% |
| Total Revenue Formulae | 100.0% |

## 5.5 Revenue Allocation Formula in the 1999 Constitution of Nigeria

The revenue allocation formula in Nigeria, as stipulated by the 1999 Constitution, seeks to distribute national revenue among the federal, state, and local governments. The main goal of this formula is to ensure equitable distribution of resources across the country's diverse regions. According to Section 162 of the 1999 Constitution, the Federation Account is a central pool where all revenues collected by the federal government are deposited. This account is then shared among the different levels of government based on a set formula designed to promote fairness and national development (Federal Republic of Nigeria, 1999).

## 5.6 Revenue Sharing Formula in Nigeria

The revenue sharing formula in Nigeria has been a contentious issue, often influenced by political, economic, and social considerations. Over the years, various commissions and committees have been established to review and recommend changes to the revenue allocation formula. These bodies include the Raisman Commission (1958), the Dina Commission (1968), and the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) (Phillips, 1991).

The current formula, which emphasizes a balance between equity and efficiency, is designed to address the developmental needs of the country while recognizing the diverse economic contributions of different regions. The formula considers factors such as population, landmass, social development, and internal revenue generation capacity (RMAFC, 2015). For instance, the population is given a weight of 30%, while landmass and terrain account for 10% (Ekpo & Ndebbio, 1996).
The current revenue allocation formula, which has undergone several revisions, allocates 52.68% of the revenue to the federal government, 26.72% to state governments, and 20.60% to local governments. Additionally, 13% of the revenue derived from natural resources is allocated to the states from which these resources are extracted, as a form of derivation fund (Federal Republic of Nigeria, 1999). This derivation principle is meant to compensate oil-producing states for environmental degradation and the socio-economic impacts of resource extraction (Ekpo & Ndebbio, 1996).

Despite these efforts, debates over the revenue sharing formula persist, with some states arguing for greater fiscal autonomy and a higher percentage of revenue allocation based on derivation. Conversely, other states advocate for a more centralized approach to ensure even development across the federation (Phillips, 1991).

## 5.7 Independent and Internally-Generated Revenue

The Federal Constitution provides for the generation of revenue independently by the three tiers of government in addition to statutory allocations from the federation account. The independent revenue of the federal government comprises personal income tax of personnel in the armed forces, and Ministry of External Affairs, operating surpluses of federal parastatals, dividends from federal government's investment in publicly quoted companies, including those under the Federal Ministry of Finance Incorporated (MOFI), rent on government properties, interest and capital repayment on loans on-lent to state governments and parastatals, etc. Over the years, the share of revenue from independent sources have been very low and averaged only 6.5 per cent of the retained revenue of the federal government between 1990 and 1995.

The major sources of state government's internally-generated revenue are personal income tax of citizens resident in their state, fees for registration and licensing of vehicles, charges and levies with respect to land development, etc. For most of the states, total receipts from internal sources cannot finance about 30 per cent of their annual budgets, and hence, there is a high dependence on statutory allocations in performing their functions.

Up till 1995, sales tax was administered by individual states and the proceeds accrued to each state government as revenue from internal sources. However, the sales tax was repackaged as Value-Added Tax (VAT) in 1994, and the federal government assumed responsibility for its administration in order to ensure uniformity nationwide. Under the enabling decree, the federal government was to receive 20 per cent for its administrative and collection costs. However, this arrangement was reversed in 1995 with the federal government decision to take 50 per cent of the proceeds, while state and local governments were to receive 25 percent each. This was later revised to 40, 35 and 25 percent for federal, states and local government, respectively. The statutory share of the VAT pool account in 1996 now stands at 35,40 and 25 per cent, to the three tiers of governments. The major sources of internally generated revenue by local government in Nigeria are property tax within their localities, licencing of bicycles, trucks (other than mechanically propelled trucks), canoes, wheelbarrows and crafts. Collection of rates, radio and television licenses, etc. A review of local government finances between 1993 and 1995 showed that revenue from internal sources accounted for an average of 6.5 percent of the total current revenue, while statutory allocations from the federal government accounted for 84.9 percent. Thus, there is also a high dependence on statutory allocation from the federation account by the local governments in performing their functions.

## 5.4 Summary

The unit discussed the imperative that all the three tiers of government should have revenue to perform the duties allocated to them. A number of revenue allocation commissions have been set up in Nigeria. Although federal allocation has declined over time, its share is still very high, because not all federally collectable revenue goes into the allocation pool. States and local governments have found it difficult to perform their roles as a result of limited resources. Conventionally, resource allocation should follow the system of administration adopted by respective government.

It is pertinent to note the agitation for more states and local governments does not take into consideration that the revenue allocated would not be enough for economic development. More than 90 percent to per cent of states and local governments depend on the federation account.

Fiscal federalism is the inter-government fiscal relations as enshrined in a federal constitution, providing for the functional responsibilities to be performed by the multi-levels of government and the financial resources that can be raised for provision of goods and services.

However, Nigeria has retained the physical structure of federalism. The constitutions, over the years, have spelt-out the functions, in addition to a search for equitable revenue allocation formulae in support of the functional roles to be performed by the various tiers of government various allocation commissions have been instituted to work out equitable revenue allocation formulae for the country. These commissions based their recommendation for changes in the revenue allocation system on some principles.

The revenue allocation formula enshrined in the 1999 Constitution of Nigeria aims to distribute national revenue among the federal, state, and local governments equitably. The formula allocates specific percentages to each level of government, with a notable 13% derivation fund for resource-producing states. Over the years, various commissions have reviewed and recommended changes to this formula to balance equity and efficiency, considering factors like population, landmass, and internal revenue generation capacity. However, the formula remains a subject of ongoing debate and political negotiation in Nigeria.

The review of Nigerian experience of fiscal federal constitution had remained suspended for most of the years. Hence, inter-government fiscal relations that occur under military administrations do not conform strictly to the conditionality of fiscal federalism. However, the fiscal relations under the military administrations have resulted in blurring of the lines of divisions of the taxing and expenditure functions. These have adversely affected fiscal management and economic performance in Nigeria.

## 5.5 References/Further Reading /Web Resources

Ekpo, A. H., & Ndebbio, J. E. U. (1996). Fiscal Federalism in Nigeria: A Critical Appraisal. *Nigerian Journal of Economic and Social Studies*, 38(2), 123-135.

Federal Republic of Nigeria. (1999). *The Constitution of the Federal Republic of Nigeria*. Retrieved from https://www.constitution.gov.ng/

George F. Break (1967). Inter-governmental Fiscal Relations in the United States Institutions, Washington D. C. 1967.

George F. Break (1980). Financing Government in a Federal System. WashingtonD.C. : The Brookings Institutions.

Okunroumu (1996). To Fiscal Federation, Revenue Allocation System in the Federal Republic of Nigeria, CBN/World Bank Collaborative Study. Proceedings of the Workshop on Nigeria's Prospect for Development.

Phillips, A. O. (1991). Managing Fiscal Federalism: Revenue Allocation Issues. *Public Finance*, 46(1), 90-109.

Revenue Mobilization Allocation and Fiscal Commission (RMAFC). (2015). *Annual Report*. Abuja: RMAFC.

## 5.6 Possible Answers to Self-Assessment Exercise(s) within the content

### Answer to SAEs

State some of the revenue allocation commissions that have been instituted in the country Nigeria.

In Nigeria, the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) is responsible for the allocation of revenue among the different levels of government (federal, state, and local) and the distribution of revenue among the different branches of government (executive, legislature, and judiciary). Other revenue allocation commissions in Nigeria include the Niger Delta Development Commission (NDDC) and the Federal Character Commission (FCC). These two commissions are responsible for the distribution of resources to the Niger Delta region and ensuring a balance of representation among different ethnic groups in the country, respectively

### Answer to SAEs 2:

What are the determinants of revenue allocation to the respective tiers of government?

The determinants of revenue allocation to the different tiers of government in Nigeria are primarily set by the Revenue Mobilization Allocation and Fiscal Commission (RMAFC). The commission uses a variety of factors to determine how much revenue should be allocated to each level of government, including: Population, Economic factors, land mass, Socio-Economic indicators like poverty, education, health and infrastructural development, and Special Responsibilities. The criteria used by RMAFC can change over time in response to changes in the country's economic, political and social situation

# MODULE 4 THE NIGERIAN MONEY MARKET

Unit 1 The Nigerian Money Market
Unit 2 The Nigerian Capital Market
Unit 3 Financial Institution in Nigeria
Unit 4 National Pension in Nigeria
Unit 5 Development Planning

## UNIT 1 The Nigerian Money Market

### Unit Structure

1.1 Introduction
1.2 Learning Outcomes
1.3 Nigerian Money Market
 1.3.1 Reasons for the Establishment of the Nigerian Money Market
1.4 The Instruments of the Nigeria Money Market
 1.4.1 Treasury Bills (TBs)
 1.4.2 Treasury Certificates (TCs)
 1.4.3 Call Money Fund Scheme: Money at Call or Short Notice
 1.4.4 Commercial Paper or Commercial Bill
 1.4.5 Certificates of Deposits (CDs)
1.5 Bankers Unit Fund (BUF)
 1.5.1 Stabilization Securities
 1.5.2 Ways and Means Advances:
1.6 Summary
1.7 References/Further Reading/ Web Resources
1.8 Possible Answers to Self-Assessment Exercise(s) within the content

### 1.1 Introduction

In the last unit, we discussed the revenue allocation formula as enshrined in the 1999 Constitution of Nigeria aims to distribute national revenue among the federal, state, and local governments equitably. The formula allocates specific percentages to each level of government, with a notable 13% derivation fund for resource-producing states. Over the years, various commissions have reviewed and recommended changes to this formula to balance equity and efficiency, considering factors like population, landmass, and internal revenue generation capacity. However, the formula remains a subject of ongoing debate and political negotiation in Nigeria. Money market refers to a collection, or group of financial institutions or exchange system, set up for dealing in short-term credit instructions of high quality, such as treasury bills, treasury certificates, call money, commercial paper, bankers' unit fund, certificates, ways and means advances, as well as the dealing in gold and foreign exchange.

In this unit, we will discuss the various aspects of the Nigerian Money Market. The discussion encompassed several key elements. These included an in-depth look at the Nigerian Money Market, delving into its intricacies, functions, and significance in the country's financial landscape. The establishment of the Nigerian Money Market was a pivotal point explored during the session, shedding light on the reasons behind its creation and the driving forces that led to its inception. Furthermore, the instruments within the Nigerian Money Market were thoroughly elucidated, providing a comprehensive understanding of the diverse tools and mechanisms at play within this financial domain.

Among these instruments, the focus was directed towards Treasury Bills (TBs), unveiling their role, characteristics, and impact on the market. Alongside TBs, attention was drawn to Treasury Certificates (TCs), with detailed discussions on their nature and usage within the financial market. Additionally, the Call Money Fund Scheme was highlighted, particularly spotlighting the mechanisms of Money at Call or Short Notice and its implications on market liquidity and stability.

Moving forward, the discourse extended to the realm of Commercial Paper or Commercial Bill, unraveling the intricacies of these financial instruments and their significance in facilitating commercial activities. Moreover, the concept of Certificates of Deposits (CDs) was carefully explained, showcasing their role as financial instruments and their impact on the overall money market dynamics.

The session also entailed a comprehensive discussion on the Bankers Unit Fund (BUF), shedding light on its structure, operation, and the role it plays in the broader financial ecosystem. Furthermore, Stabilization Securities were explored in detail, outlining their functions, significance, and contribution to market stability. Lastly, the Ways and Means Advances were discussed, elucidating their importance as financial mechanisms and their impact on addressing short-term financial needs efficiently.

Overall, the discourse surrounding the Nigerian Money Market within the unit was expansive, offering a thorough exploration of its various components, functions, and implications within the financial landscape of Nigeria.

## 12 Learning Outcomes

By the end of this unit, you should be able to:

- Discuss the issue of Nigerian Money Market
- Highlight the reasons for the Establishment of the Nigerian Money Market
- Elucidate the Instruments of the Nigeria Money Market
- Explain the Treasury Bills (TBs)
- Discuss the Treasury Certificates (TCs)
- Highlight the Call Money Fund Scheme: Money at Call or Short Notice
- Discuss the Commercial Paper or Commercial Bill
- Explain the Certificates of Deposits (CDs)
- Discuss the Bankers Unit Fund (BUF)
- Describe the Stabilization Securities
- Outline the Ways and Means Advances

## 1.3 Nigerian Money Market

The Nigerian money market plays a crucial role in the country's financial system, facilitating liquidity management and short-term borrowing and lending. This market encompasses various instruments, including Treasury bills, commercial papers, and certificates of deposit, which are essential for managing the liquidity needs of the government, financial institutions, and corporations.

The Central Bank of Nigeria (CBN) is a key player in this market, implementing monetary policy through various instruments to control inflation and stabilize the economy (Central Bank of Nigeria, 2020). One of the primary tools used by the CBN is the open market operations (OMO), which involve the buying and selling, of government securities to regulate the supply of money in the economy (Sanusi, 2010).

The Nigerian money market has evolved significantly over the years, with various reforms aimed at enhancing its efficiency and stability. For instance, the introduction of the Nigerian Treasury Bills (NTBs) in the early 1960s provided a mechanism for the government to finance its budget deficit while offering investors a safe investment option (Nwankwo, 2014). Additionally, the establishment of the Discount House and the Money Market Dealers Association has further strengthened the market infrastructure, promoting greater liquidity and market depth (Onoh, 2002).

Despite these advancements, the Nigerian money market faces several challenges. These include issues related to market depth, liquidity, and the dominance of government securities over other instruments (Adebisi & Matthew, 2015). Furthermore, the volatility of interest rates and the lack of adequate market information can hinder the effective functioning of the market (Ebhodaghe, 1997).

### 1.3.1 Reasons for the Establishment of the Nigerian Money Market

1. To provide the machinery needed for government's short-term financing requirements.
2. As an essential step on the path to independent nationhood, hence, it is part of a modern financial and monetary system to enable the nation to establish the monetary autonomy, which is part and parcel of the workings of an independent, modern state.
3. To Nigerianize the credit base by providing local investment outlets for the retention of funds in Nigeria, and for the investment of funds repatriated from abroad, as a result of government persuasions to that effect.

## 1.4 The Instruments of the Nigeria Money Market

### 1.4.1 Treasury Bills (TBs)

TBs are money-market (short-term) securities issued by the Federal Government of Nigeria. They are sold at discount (rather than paying coupon interest), mature within 90 days of the date of issue, and are default-free. These instruments are promissory notes to pay the bearer, 90 days from the date of issue. They provide the government with a highly flexible and relatively cheap means of borrowing cash. They also provide a sound security for dealings in the money market, and the Central Bank of Nigeria in particular, can operate on that market by dealing on treasury bills.

TB rates were fixed prior to the deregulation of interest rates in Nigeria, but since 1989, they have been offered on auction basis and hence, market determined.

Thus TB s, mere IOUs is used by the federal government to borrow for short periods of about three months, pending the collection of its revenues. Their issue for the first time in Nigeria in April 1960, was provided for under the Treasury Bill Ordinance of 1959. Among other things, the ordinance stipulated: That treasury bills would be issued in Nigeria in multiples of 2,000 (later reduced to 100 in order to expand the coverage of holders) for 91 days and at fixed discount; that subscription would be accepted from the general public, and only through licensed banks in Lagos (later spread throughout the country), that the issues would be monthly (later made fortnightly, and weekly) and that the total outstanding at any time should not exceed 10 percent of the federal government estimated revenue for that financial year (the 1970 amendment-Treasury Bill Act, 1970, raised the maximum to 150 percent of the estimated revenue retained by the federal government, and the gross revenues of all the state governments). The CBN absorbed those not taken up by other institutions-providing for rediscount at par.

The main investor in TBs is the commercial banking system and this is partly related to the fact these bills form part of the assets statutorily specified for liquidity ratio purposes. In April 1960, TBs were first issued to the tune of 18 million. By the end of 1995 total issues amounted to 88,103.3265million.

### 1.4.2 Treasury Certificates (TCs)

These are similar to TBs but are issued at par or face value and pay fixed interest rates. These fixed interest rates are called coupon rates. Thus, each issue promises to pay a coupon rate of interest and the investor collects this interest income by tearing coupons off the edge of the certificate and cashing the coupons at a bank, post office, or other specified federal offices. Each coupon is imprinted with its naira value and the date it is eligible to be cashed. They mature within a year from the date of issue. In the Nigerian context, their rates became market-determined like TB rates following interest rates deregulation.

Thus, treasury certificates are medium-term government securities which mature after a period of one to two years and are intended to bridge the gap between the treasury bill and long-term government securities. They were first issued in 1968, at a discount of 4 per cent for one-year certificates, and 41/4 percent for two-year certificates. Like treasury bills, treasury certificates are eligible for rediscounting at the CBN. It is popular with banks which use the opportunity of their use to diversity their asset holdings. Because of its buoyant oil revenues, the government declared in the 1975-76 budget speech that no new certificates would be issued and that outstanding issues would be retired as they mature. Due to dwindling oil revenue of the 1980s, the decision had to be reversed. The maiden issue of the instrument amounting to N29 million was over-subscribed by the commercial banks by N24.0 million. At the end of 1987, treasury certificates outstanding had risen to N654.1 million (and only N639.1 million issues) but reaching N6.944

million in 1989. By 1990, it stood at N34214.6 million, rising to N36584.32 in 1993, N37342.7 million in 1994, but declined to N23596.5 million. In 1995, it averaged N392302 million. The main holders of treasury certificates are the commercial banks with CBN ranking second.

## Self-Assessment Exercise 1

| Q1. What is the function of call money fund scheme? |
|---|

### 1.4.3 Call Money Fund Scheme: Money at Call or Short Notice

This refers to money lent by the banks on the understanding that it is repayable at the bank's demand, or at short notice (eg. 24 hours or over-night). It used to be lent at relatively low rates of interest to financial firms and institutions that use it to finance their everyday business.

Overnight loans between commercial banks arise when banks hold reserves in excess of the minimum amount that the central bank requires all banks to hold. They are simply bank reserves that are loaned from banks with excess reserves to banks with insufficient reserves. One bank borrows money and pays the overnight interest rate to another bank in order to obtain the lending bank's excess reserves to hold as one day deposit. The borrowing bank needs these one day deposits in order to acquire the legal reserves the CBN examiners require banks to maintain. They act as a cushion which absorbs the immediate shock of liquidity pursuers in the market. In 1962, the call money fund scheme was introduced in Naira. Under the scheme, a call money fund was created at the CBN and the participating banks had to agree to maintain a minimum balance at the CBN. A surplus above the minimum balance was then lent to the fund. The CBN administered the fund on behalf of the banks and paid interest at a rate fixed somewhere below the Treasury bill rate. The CBN then invested the funds in treasury bills.

Initially limited to the banks, but later extended to other financial institutions, the call money scheme proved very popular. In addition to earning interest for the banks, it acted as a cushion absorbing immediate liquidity pressures on the marker. A noticeable feature is that the funds employed in the market exhibited a definite pattern, usually rising during the first half of the month and peaks around mid-month, but reducing thereafter at month ends. This follows the monthly salary and wage payments cycles. Thus banks pressed for cash balances towards month's ends for salary and wage payments, drew down their balances in the fund, and began to build them up from early in the month as the cash payments travel back to the banking system. The scheme was abolished in 1974, due to buoyant oil revenue of the federal government, consequent upon the oil boom. By 1970, investments in treasury bills under the call money fund scheme had averaged N12.7 million monthly, but in 1973, outstanding investment in the fund averaged N15 million monthly compared with N5 million in 1963, the first full year of its operation.

### 1.4.4 Commercial Paper or Commercial Bill

These are short-term promissory notes issued by the Central Bank of Nigeria, and their maturity vary from 50 to 270 days, with varying denominations (sometimes N50,000 or more). They are debts that arise in the course of commerce.

Commercial papers may also be sold by major companies (blue-chip, well-known, national companies) to obtain a loan. Here, such notes are not backed by any collateral; rather, they rely on the high credit rating of the issuing companies. Customarily, issuers of commercial papers maintain open lines of credit (i.e. unused borrowing power at banks) sufficient to pay back all of their commercial papers outstanding. Issuers operate in this form since this type of credit can be obtained more quickly and easily than bank loans.

In the Nigerian context, there were two forms of commercial bills the Ordinary Trade Bill and Marketing Board Bills. The ordinary trade was drawn by ordinary reputable commercial firms and accepted by a bank or acceptance house and secured on stocks of manufactured goods or other stocks in trade. But these were note eligible for rediscount at the CBN and hence, not popular with banks, except when secured on export produce. The Marketing Board Bills originated with the inception of the Bill Market Scheme in 1962. Under that scheme, the Marketing Board met its requirements forecast by drawing a 90- day commercial bill of exchange, supported by a sales contract on the Nigerian Produce Marketing Company Limited, the then sole exporter for all the Marketing Boards (now disbanded). Upon acceptance by the company, the Board then rediscounted the bills with the participating commercial banks and accepting houses, which, if they chose, could rediscount the bills with the CBN. Three separate consortia of banks and other financial institutions operated the scheme for the three marketing boards; and at the height of the scheme, nearly all the commercial banks were involved.

The scheme provided adequate credit for the marketing of the crops concerned and provided a vehicle for short-term investment. However, the scheme began to crack in 1964/65 cocoa crop season and other members of the Cocoa Producers Alliance withdrew from the World

Cocoa Market, in an effort to get the cocoa produce manufacturers to raise the price of cocoa to at least £380 per ton. With the withdrawal of sale contract, finance was no longer available. In 1968 the CBN took over the responsibility for Marketing Board crop finance and hence, the demise of the bill market. What remains today of the commercial paper market, following the disappearance of produce bills, are import and domestic trade bills.

By 1968, commercial paper outstanding was N5.1 million, from 36.4 million in 1967. However, in 1989, commercial paper outstanding averaged N868.8 million. Between 1990 and 1995, it averaged 2219.05 million with a high of N5252.5 million in 1993, and a low of 953.4 million recorded in 1990.

### 1.4.5 Certificates of Deposits (CDs)

These are inter-bank debt instrument meant to provide outlet for the commercial bank's surplus funds. It was introduced in Nigeria by the CBN in 1975. it was also meant to open up a new source of funds for the merchant banks who are the major issuers. Two types of certificates of deposit are the negotiable and the non-negotiable certificate of deposit. Negotiable Certificate of Deposits (NCDs) have a maturity range of between 3 and 36 months, and wholesale unit issue of not less 50,000. Those maturing within 18 months are classified as liquid assets, and are eligible for the purpose of satisfying the liquidity ratio requirements. They are also rediscount able at the CBN.

In addition, they are claims to specified sums of money deposited with a merchant bank named on them, i.e., they are receipts from merchant banks for a deposit of 50,000 or more, with certain provisions attached. The banks issuing the NCDs are said to have bought deposit' by selling CDs' with high interest rates, in order to induce large depositors to make cash deposits not to be withdrawn from the banks before some specific date. Usually 3 to 36 months.

In Nigeria, in most cases, they are issued to fellow-bankers within that maturity period, as one of the deposits they accept. The non-negotiable certificates of deposits (NNCDs) on the other hand, are issued in denominations ranging between 1,000 and 50,000, and are normally held till maturity.

Whereas interest charges on NCDs were by negotiation, rates on NNCDs complied with the rate of interest of deposits as stipulated from time to time by the CBN (before August 1987 when interest rates were deregulated). The CDs outstanding by 1989 averaged 2079.2 million while it averaged 590.15 million between 1990 and 1995. The decline in average is due to the steep decline in the value of this money market instrument between1992 and 1995 when it declined to a mere 15.2 million in 1994.

## 1.5 Bankers Unit Fund (BUF)

This was introduced by the CBN in 1975. Initially, it was meant to mop up excess liquidity in the banking system. It was also designed to smooth the market for federal government stock. To this end, commercial banks' holdings of the stocks are accepted as a part of their specified liquid assets and are repayable on demand. Under the BUF, federal government stocks of not more than 3 years to maturity were thus designated "Eligible Development Stocks" (EDS), for the purpose of meeting the banks' specified liquid assets requirements. This placed banks in a position to earn long-term rates of interest on what is essentially a short-term investment. Though, initially designed to mop up excess liquidity in the banking system, by conferring on instruments cash-substitute status repayable on demand or acceptable in meeting reserve requirements, the capability of the banks for credit expansion was unaffected.

In effect, the BUF was intended to provide avenue for the commercial and merchant banks and other financial institutions to invest part of their liquid funds in a money market asset linked to federal government stocks. Participants in the scheme invest in multiples of N10,000, and the fund is in turn, invested in available government stocks of various maturity periods. The operation of the scheme was subject to the availability of stocks. Interest is payable every twelve months, from the date of initial investment of funds in the scheme (Onyido, 1986). At the end of 1975, total CDs BUF and EDS outstanding stood at 49.8 million, constituting only 5.1 per cent of total money market assets then. This went up to 258.2 million in 1985. However, in 1989, BUF alone outstanding averaged 3.9 million, while EDS outstanding averaged 23 million. However, by September 1988, BUF ceased to be used as a money market instrument, following divestment by the investing banks in the instrument, in the wake of the squeeze on their liquidity, occasioned by the transfer of government accounts from these banks to the central bank. While EDS (government development stock of not more than three years to maturity designed for purposes of meeting specified liquid asset requirement) were dropped out of the portfolios of the merchant banks that invested in theminApril, 1991.

### 1.5.1 Stabilization Securities

These were issued since 1976 by the CBN, ideally to mop up idle, cash balance of participating banks. Participation was mandatory for banks with saving deposits of N50 million and above. The amount they are required to invest in stabilization securities is fixed at 50 per cent of the increase in savings deposits over the level of the preceding year. The savings deposits relate to individual accounts not exceeding 20,000 each. In 1976, when the scheme was introduced, interest rate paid was 4 percent per annum and revised to 5 per cent by 1979.

## Self-Assessment Exercise 2

In what ways and means do the federal governments grant advances?

### 1.5.2 Ways and Means Advances

Section 34 of the CBN Act 1958 (Cap. 30 as amended 1962-1969), empowers the CBN to grant temporary advances in the form of ways and means to the federal government up to 25 percent of estimated recurrent budget revenue. Ways and means advances averaged about Ni million yearly between 1960 and 1962. The federal government did not use this facility from 1963 to 1966, except on two occasions only, in December 1963, and January 1966, when relatively small amounts of 400,000 and 240,000 respectively were borrowed.

However, the financial pressures arising from the prosecution of the civil war led to increased use of the instrument by the government. Therefore, from 1.9 million in 1967 ways and means advances rose to a monthly average of 44.5 million at the end of the war in 1970. The instrument was not use between 1971 and 1976, following government's unprecedented revenue from oil. However, the reemergence of financial pressures in 1977 led to the rise in ways and means to a hard-core level of over Ni billion in 1977, and 1978. By 1979, way and means advances outstanding was N65.4 million, while the average monthly amount outstanding in 1987 was N739.9 million, rising to N5,278.0 million in 1988, and to 5,794.4 in 1989. It rose again to a monthly average of 17,791.4 million in 1991, N21,701.2 million in 1992, 43,065.3 million in 1993, but declined to N3,925.2 million, and further to 24,970 million in 1994 and 1995 respectively, reflecting an average of 29,355.96 million between 1991 and 1995.

## 1.6 Summary

In the unit, various aspects were discussed regarding the Nigerian Money Market. The discussion encompassed several key elements. These included an in-depth look at the Nigerian Money Market, delving into its intricacies, functions, and significance in the country's financial landscape. The establishment of the Nigerian Money Market was a pivotal point explored during the session, shedding light on the reasons behind its creation and the driving forces that led to its inception. Furthermore, the instruments within the Nigerian Money Market were thoroughly elucidated, providing a comprehensive understanding of the diverse tools and mechanisms at play within this financial domain.

Among these instruments, the focus was directed towards Treasury Bills (TBs), unveiling their role, characteristics, and impact on the market. Alongside TBs, attention was drawn to Treasury Certificates (TCs), with detailed discussions on their nature and usage within the financial market. Additionally, the Call Money Fund Scheme was highlighted, particularly spotlighting the mechanisms of Money at Call or Short Notice and its implications on market liquidity and stability.

Moving forward, the discourse extended to the realm of Commercial Paper or Commercial Bill, unraveling the intricacies of these financial instruments and their significance in facilitating commercial activities. Moreover, the concept of Certificates of Deposits (CDs) was carefully explained, showcasing their role as financial instruments and their impact on the overall money market dynamics.

The session also entailed a comprehensive discussion on the Bankers Unit Fund (BUF), shedding light on its structure, operation, and the role it plays in the broader financial ecosystem. Furthermore, Stabilization Securities were explored in detail, outlining their functions, significance, and contribution to market stability. Lastly, the Ways and Means Advances were discussed, elucidating their importance as financial mechanisms and their impact on addressing short-term financial needs efficiently.

Overall, the discourse surrounding the Nigerian Money Market within the unit was expansive, offering a thorough exploration of its various components, functions, and implications within the financial landscape of Nigeria..

## 1.7 References/Further Reading /Web Resources

Adebisi, J. F., & Matthew, O. A. (2015). The Nigerian money market: Issues, challenges and prospects. *Journal of Economics and Sustainable Development*, *6*(15), 11-23.

Anyanwu, J.C., Oyefusi, A., Oaikhenan, H.O., Dimowo, F.A. Structure of the Nigerian Economy (1960-1997). Joanee Education Publisher Ltd.

Central Bank of Nigeria. (2020). *Annual Report*. Central Bank of Nigeria.

Ebhodaghe, J. U. (1997). The Nigerian money market and the management of monetary policy. *CBN Economic and Financial Review*, *35*(3), 12-25.

Molem, C.S.(nd). Growth and Development of Nigerian Economy. Kaduna: Silver Bond Publisher.

Nwankwo, G. O. (2014). *Money and capital markets in Nigeria today*. University of Lagos Press.

Olayide, S.O. (1976). (Ed.), Economic Survey of Nigeria, 1960-1975. Aromolaran Publishing Co. Ltd.

Onoh, J. K. (2002). *Dynamics of money, banking and finance in Nigeria: An emerging market*. Astra Meridian Publishers.

Sanusi, L. S. (2010). Growth prospects for the Nigerian economy. *Central Bank of Nigeria*.

Tayo Lambo (1982). Nigerian Economy: A Text of Applied Economics. Evans Brothers Nigeria Limited.

## 1.8 Possible Answers to Self-Assessment Exercise(s) within the content

**Answer to SAEs 1:** What is the function of call money fund scheme?
A call money fund scheme is a type of short-term investment fund offered by financial institutions. The primary function of a call money fund scheme is to provide investors with an investment option that offers liquidity and flexibility.

**Answer to SAEs 2:** In what ways and means do the federal government grant advances?

The Federal Government of Nigeria can grant advances to the states and local governments in a number of ways, including: Budgetary allocations, Overhead cost recovery, Special Interventions, Loans, Grants and Bailouts. It's worth noting that the allocation and disbursement of these advances are subject to the fiscal policies, laws, regulations and oversight of the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) and the Nigeria Financial Intelligence Unit (NFIU)

# Unit 2 The Nigerian Capital Market

## Unit Structure



## 2.1 Introduction

In the last unit, we discussed various aspects were discussed regarding the Nigerian Money Market. The discussion encompassed several key elements. These included an in-depth look at the Nigerian Money Market, delving into its intricacies, functions, and significance in the country's financial landscape. The establishment of the Nigerian Money Market was a pivotal point explored during the session, shedding light on the reasons behind its creation and the driving forces that led to its inception. Furthermore, the instruments within the Nigerian Money Market were thoroughly elucidated, providing a comprehensive understanding of the diverse tools and mechanisms at play within this financial domain.

In this unit, we will be discussing the issues of capital market. Capital market is a market for the mobilization and utilization of long-term funds for development. The instruments traded in the market include: government securities, corporate bonds and shares (stocks) and mortgage loans. The market consists of an inner capital market (market for new securities) and the outer capital market (not directly concerned with the issue of new securities, but engaged in the business of long-term borrowing and lending, upon which the issue of new securities depends). The capital market embraces therefore, both the new issues (primary) market and the secondary (seasoned securities) market. Participants in the Nigerian capital market include: the Nigerian Stock Exchange (NSE), discount houses, development banks, investment banks, building societies, stock broking firms, insurance and pension organizations, quoted companies, the government, individuals and the Nigerian Securities and Exchange Commission (NSEC).

## Self-Assessment Exercise 1

| What is the Nigerian Stock Exchange? |
| --- |

## 2.3 Nigeria Capital Market

Nigeria Capital Market
The Nigerian capital market plays a crucial role in the country's economic development by mobilizing long-term funds from surplus sectors to deficit sectors. It provides a platform for businesses and governments to raise capital by issuing stocks, bonds, and other securities. The capital market aids in the efficient allocation of resources, contributes to economic stability, and facilitates the growth of industries and infrastructure. The market operates under the regulation of the Securities and Exchange Commission (SEC) of Nigeria, ensuring transparency, fairness, and investor protection.

List of Nigeria Capital Market
**Nigerian Stock Exchange (NSE)**: Now known as the Nigerian Exchange Group (NGX), it is the primary securities exchange in Nigeria where shares, bonds, and other securities are traded. It offers a variety of investment options and is a significant platform for raising capital.
**FMDQ Securities Exchange**: Specializes in the trading of debt securities, currencies, and derivatives. It provides a platform for over-the-counter (OTC) trading, ensuring efficient price discovery and liquidity in the fixed income and currency markets.

**Nigeria Commodity Exchange (NCX)**: Facilitates the trading of agricultural commodities, promoting transparency, price discovery, and the reduction of post-harvest losses.
**National Association of Securities Dealers (NASD) OTC Securities Exchange**: Provides a platform for trading unlisted securities, offering opportunities for companies not listed on the NSE to access capital and for investors to diversify their portfolios.
**Central Securities Clearing System (CSCS)**: Acts as a depository, clearing, and settlement agent for all transactions in the Nigerian capital market, ensuring the integrity and efficiency of the trading process.

**Investment and Securities Tribunal (IST)**: An independent judicial body that resolves disputes and enforces securities laws in the Nigerian capital market, thereby enhancing investor confidence.

Summary
The Nigerian capital market is a vital component of the country's financial system, contributing significantly to economic development. It comprises various institutions and exchanges that facilitate the raising and trading of capital. The Nigerian Exchange Group (NGX), FMDQ Securities Exchange, Nigeria Commodity Exchange (NCX), NASD OTC Securities Exchange, and the Central Securities Clearing System (CSCS) are key players in the market. These institutions support efficient capital formation, resource allocation, and investor protection. Additionally, the Investment and Securities Tribunal (IST) plays a crucial role in resolving disputes and enforcing securities laws. Together, these components create a robust framework for the Nigerian capital market, driving economic growth and development.

### 2.3.1 The Nigerian Stock Exchange (NSE)

The stock exchange is a market where those who want to buy or sell shares, stocks, government bonds, debentures, and other approved securities, can do so (though only through its members (stockbrokers). The NSE thus provides the essential facilities for companies and government, to raise money for business expansion and development projects (through investors who own shares in the companies), for the ultimate economic benefit of the society. Such securities traded openly at the SE, refer to documentary evidence of ownership of entitlement to claim upon the assets of the issuing organization, which may be a government, quasi-government institution or agency, or a business firm.
The Nigerian Stock Exchange (NSE) earlier called the Lagos Stock Exchange (LSE), was registered on 1 March, 1959, incorporated on 15th September 1960, and started business on 5th June, 1961. In December 1977, its name was changed firm the Lagos Stock Exchange to the Nigerian Stock Exchange (NSE), and additional branches were opened in Kaduna and Port-Harcourt, in order to meet the aspirations of the users of its services.

The major functions of the NSE include:

i. providing appropriate machinery to facilitate further offerings of stock and shares to the general public;
ii. Promoting increasing participation by the public in the private sector of the economy; and
iii. Encouraging the investment of savings, as soon as its is clear that stocks and shares are readily available.

Like all stock exchanges, the NSE is made up of many markets, including a market for new issues (primary market), market for existing securities (secondary market), and markets for debt securities and equities. There are in fact, markets for each of the sectors of the economy.

#### 2.3.1.1 The Primary Market

The market is concerned with the offering of new issues or the initial insurance and sale of securities in the NSE. Previously quoted companies can seek expansion funds through the issuance of supplementary securities in this market while 'new' companies (companies not hitherto quoted on the exchange) will have to go public before they can issue sell securities to the public through the market. Types of instruments/securities issued in the primary market include: debt instruments (comprising federal government development stocks (FDSs), and industrial loans, preference stocks and bonds issued by corporate concerns), and equity capital (ordinary share of corporate entities which confer upon the holder some ownership rights to the business concern).

#### 2.3.1.2 The Secondary Market

The existing issues or secondary market, in a strict sense, constitute the stock exchange, since it is the mechanism which gives liquidity to the securities listed on the exchange.

#### The Second-Tier Securities Market (SSM)

The Second-Tier Securities Market was established on 30th April, 1985, to assist small and medium-sized companies that are unable to meet the requirements of the first-tier market (NSE) in raising long-term capital. To encourage the development of the SSM, the stringent conditions for enlistment in the first-tier market were relaxed for indigenous enterprises seeking to raise funds through the SSM. The simplified listing requirements, which constituted the basic distinguishing features of the SSM, were that prospective companies should:

i. Have a three-year trading record, instead of the five years required for full listing at the NSE;
ii. Thereafter, submit audited half-year and annual statements, without the quarterly statement required for listing in the first-tier market;
iii. Make at least 10% of their equity available for public subscription as against the 25% minimum required for full listing;
iv. Have not less than 100 shareholders, compared with the 500 prescribed minimum for full listing in the NSE;
v. Make flat annual subscription of 2,000 to the stock exchange, instead of the graduated annual quotation fees based on the companies share capital in the NSE; and

vi. Raise a maximum sum of 5 million in the market, whereas there is no limit to the amount that could be raised in the NSE.

## The Nigerian Securities and Exchange Commission (NSEC)

It is the responsibility of the Nigerian Securities and Exchange Commission to determine, among others:

i. The price at which shares or debentures of a company are to be sold to the public, either through offer for sale, or direct issue;
ii. The timing and amount of sale; and

In the case of a quoted company, the price, amount and time any subsequent or supplementary offer of shares or debentures are to be sold. However, only public companies (quoted or unquoted) fell within the sphere of the NSEC. In other words, private companies were not obliged to seek the approval of the NSEC before raising funds through the securities market.

In 1976, following the realization of the need for an apex capital market regulatory body, the Financial System Review Committee recommended the establishment of the Securities and Exchange Commission. The commission was later established by the Securities and Exchange Commission Act of 27 September,, 1979 (effective retrospectively from April 1978), with an autonomous and legal status. As an apex regulatory body, the NSEC was legally empowered to ensure: That resources are allocated into their most efficient and profitable uses, that is, to accelerate the use of capital by helping to increase the amount of domestic savings flowing into productive investments; That investors are protected from fraud and deceit and hence instill the confidence needed for orderly growth and development of the market. This implies the regulation of the Nigerian Stock Exchange, stock brokers, issuing houses, and employees; The easy transfer of securities by removing bottlenecks which may breed inefficiencies and impair impair the possibility of adequate liquidity, so that funds may freely find their way into productive channel vital for economic and industrial development; and A wider spread distribution of equities by discouraging the concentration of securities in a few, but powerful hands.

These are in addition to the usual functions of the commission such as, determining the amount of and time at which securities of a company are to be sold to the public, and registering all securities proposed to be offered by the public, etc.

**Self-Assessment Exercise 2:**

| |
|---|
| Q1. Outline the development that has taken place in the Nigerian capital market. |

## 2.4 Developments in the Nigerian Capital Market

The finance and insurance sector is one that has experienced about the highest growth in the Nigerian economy, especially after the introduction of the Structural Adjustment Programme (SAP). This has had positive and far reaching implications on the activities of the capital market in Nigeria.

The total number of securities transacted in the capital market (both first and second-tier) was 334 in 1961. Of this, government securities was 92, while industrial securities was 242 (72.5% of the total). In 1965, the total number of transaction had increased to 1,018 (204.79% over the 1961 figure). Of this, industrial securities still dominate with a percentage share of 61.6. The number of transactions, however, dropped in 1970 to 643 (47.8% of which were government securities). Again, the value of total transaction in the year was N16.6 million (with government though more in number were valued at only (98.78%). Industrial securities though more in number, were valued at only 0.2 million.

Developments in the markets in the 1970s, however, witnessed a steady growth in the number of value of industrial securities traded vis-a-vis government securities. In 1974 for example, the number of industrial securities was 2,807, as compared to 256 for government securities. Although these still had a relatively small value of N1.3 million compared to 49.4 million for the latter. From 1976, however, the share of industrial security in both number and value of transactions, increased tremendously (from 97.0% and 2.03% for 1990, to 97.31% and 3.29% for 1985, and 98.85% and 11.11% respectively in 1987). Also, the total number of transaction in the capital market increased steadily, growing by 916.4% in 1980 and 97.7% in 1995.

## 2.5 Summary

The unit discussed the capital market is seen as the institutions and mechanisms whereby intermediate and long-term funds (loans of longest maturity, government and company stocks), are pooled together and made available to businesses, governments and the individuals, and also through which instruments already outstanding are transferred through the capital market.. Funds raised by businesses and individuals are invested in fixed assets and inventories. It is also through the market that new capital, by offer of new securities, is made available to the public. With the present move at sanitizing the Nigerian financial system, given the rate of growth of the financial and insurance sector, it is obvious that the capital market in Nigeria has yet a greater role to play in the promotion and channeling of investment into productive activities, with greater growth effect on the economy, and in the growth of indigenous enterprises in the country.

## 2.6 References/Further Reading/ Web Resources

Anyanwu J.C., Oyefusi A., Oaikhenan H.O., Dimowo F.A.. Structure of the Nigerian Economy (1960-1997). Joanee Education Publisher Ltd.

Molem C.S., Growth and Development of Nigerian Economy, Silver Bond Publisher Kaduna.

Tayo Lambo (1982). Nigerian Economy A Text ofApplied Economics Evans Brothers Nigeria Limited p. 12-19.

Akinlo, A. E. (2020). The Nigerian Capital Market: Development, Structure and Performance. *Journal of Economics and Sustainable Development*, 11(5), 23-33.

Nigerian Exchange Group (2023). About NGX. Retrieved from https://ngxgroup.com

FMDQ Group (2023). About FMDQ. Retrieved from https://fmdqgroup.com

Nigeria Commodity Exchange (2023). About NCX. Retrieved from https://ncx.com.ng

NASD OTC Securities Exchange (2023). About NASD. Retrieved from https://nasdng.com

Central Securities Clearing System (2023). About CSCS. Retrieved from https://cscsnigeriaplc.com

Investment and Securities Tribunal (2023). About IST. Retrieved from https://istng.org

## 2.7 Possible Answers to Self-Assessment Exercise(s) within the content

### Answer to SAEs 1: What is the Nigerian Stock Exchange?

The Nigerian Stock Exchange (NSE) is the principal securities exchange of Nigeria. It was founded in 1960 and is located in Lagos. The NSE is the third largest stock exchange in Africa by market capitalization. It is an open market for securities trading in Nigeria, where stocks, bonds, and other securities are bought and sold. The NSE is regulated by the Securities and Exchange Commission (SEC) of Nigeria.

### Answer to SAEs 2: Outline the development that has taken place in the Nigerian capital market.

The Nigerian capital market has undergone significant development over the years. Some notable developments include: Deregulation, Automation, Market capitalization, Expansion of product offering, Increase in foreign participation, Development of Islamic finance, and Disruption by COVID

# UNIT 3 Financial Institutions in Nigeria

## Unit Structure



## 3.1 Introduction

In our last unit, we discussed the capital market as an institutions and mechanisms whereby intermediate and long-term funds (loans of longest maturity, government and company stocks), are pooled together and made available to businesses, governments and the individuals, and also through which instruments already outstanding are transferred through the capital market.. Funds raised by businesses and individuals are invested in fixed assets and inventories.

This unit will discuss several key regulatory bodies in Nigeria that play crucial roles in various sectors. This included Financial Institutions in Nigeria, where we explored the functions and significance of entities like the Securities and Exchange Commission (SEC). The SEC oversees the regulation and operation of the securities market in Nigeria, ensuring transparency and investor protection. Additionally, the discussion covered the National Insurance Commission (NAICOM), responsible for supervising and regulating the insurance industry to safeguard policyholders' interests and promote stability.

The unit will discuss the Nigerian Communications Commission (NCC), which holds jurisdiction over the telecommunications sector. The NCC plays a pivotal role in ensuring fair competition, efficient service delivery, and consumer protection within the telecommunications industry. Moreover, we examined the Nigerian Deposit Insurance Corporation (NDIC), tasked with safeguarding depositors' funds in financial institutions to enhance public confidence in the banking sector.

Furthermore, the unit also shed light on the Federal Inland Revenue Service (FIRS), which is responsible for assessing, collecting, and accounting for federal taxes in Nigeria. The FIRS plays a critical role in generating revenue for the government, enforcing tax compliance, and implementing tax policies to support economic development initiatives. Through our discussion, we gained insights into how these regulatory bodies contribute to the overall framework of governance, financial stability, and economic growth in Nigeria.

The unit will provide a comprehensive overview of the regulatory landscape in Nigeria, emphasizing the roles and functions of key institutions like the SEC, NAICOM, NCC, NDIC, and FIRS. Understanding how these entities operate and collaborate is essential for navigating the regulatory environment, ensuring compliance, and fostering a conducive business environment. By exploring the intricacies of these regulatory bodies, we gained valuable insights into the mechanisms that underpin Nigeria's financial, insurance, telecommunications, and taxation sectors.

## 3.2 Learning Objectives

By the end of this unit, you should be able to:

- Explain the Financial institutions in Nigeria
- List some the Nigeria Financial Regulatory Authorities
- Explain the Securities and Exchange Commission (SEC)
- Highlight National Insurance Commission (NAICOM)
- Discuss the Nigerian Deposit Insurance Corporation (NDIC)
- Explain the Federal Inland Revenue Service (FIRS)

## 3.3 Financial Institution in Nigeria

### 3.3.1 Financial institutions in Nigeria

Financial institutions play a crucial role in the economic development and financial stability of a country. In Nigeria, these institutions encompass a wide range of entities including banks, insurance companies, and microfinance institutions. Among the most prominent financial institutions is the Central Bank of Nigeria (CBN), which serves as the apex regulatory authority in the banking sector. The CBN is responsible for issuing currency, regulating money supply, and overseeing the financial sector to ensure stability and confidence in the financial system (Central Bank of Nigeria, 2023).

Commercial banks in Nigeria, such as First Bank of Nigeria, Guaranty Trust Bank, and Zenith Bank, provide various financial services, including loans, savings accounts, and investment opportunities. These banks are essential in facilitating trade and commerce by providing credit facilities and ensuring smooth financial transactions. Microfinance banks, like LAPO Microfinance Bank, focus on providing financial services to the unbanked and underbanked populations, particularly in rural areas (Microfinance Information Exchange, 2022).
Insurance companies, such as Leadway Assurance and AIICO Insurance, offer various insurance products that protect individuals and businesses against risks. These institutions contribute significantly to the financial sector by mobilizing savings and investing in the economy (National Insurance Commission, 2023).

## Self-Assessment Exercise 1

| Q1. Explain the Financial institutions in Nigeria |
|---|

## 3.4 List of Nigeria Financial Regulatory Authorities

Apart from the Central Bank of Nigeria, several other regulatory authorities oversee different aspects of the financial and economic sectors in Nigeria. These include:

### 3.4.1 Securities and Exchange Commission (SEC):

The SEC regulates the capital markets, ensuring transparency and protecting investors' interests (Securities and Exchange Commission, 2023).

### 3.4.2 National Insurance Commission (NAICOM)

NAICOM regulates the insurance industry, ensuring the proper conduct of insurance businesses and protecting policyholders (National Insurance Commission, 2023).

**Nigerian Communications Commission (NCC)**: The NCC regulates the telecommunications industry, ensuring efficient service delivery and competition (Nigerian Communications Commission, 2023).

### 3.4.3 Nigerian Deposit Insurance Corporation (NDIC)

The NDIC provides insurance coverage for depositors, ensuring the stability of the banking sector by protecting depositors' funds (Nigerian Deposit Insurance Corporation, 2023).

### 3.4.4 Federal Inland Revenue Service (FIRS)

The FIRS is responsible for tax administration, ensuring compliance and efficient tax collection (Federal Inland Revenue Service, 2023).

### Self-Assessment Exercise 1

| Q1. **List and explain some Nigeria Regulatory Authorities** |
|---|

## 3.5 Summary

During the unit discussion, we delved into several key regulatory bodies in Nigeria that play crucial roles in various sectors. This included Financial Institutions in Nigeria, where we explored the functions and significance of entities like the Securities and Exchange Commission (SEC). The SEC oversees the regulation and operation of the securities market in Nigeria, ensuring transparency and investor protection. Additionally, the discussion covered the National Insurance Commission (NAICOM), responsible for supervising and regulating the insurance industry to safeguard policyholders' interests and promote stability.

Another important regulatory body discussed was the Nigerian Communications Commission (NCC), which holds jurisdiction over the telecommunications sector. The NCC plays a pivotal role in ensuring fair competition, efficient service delivery, and consumer protection within the telecommunications industry. Moreover, we examined the Nigerian Deposit Insurance Corporation (NDIC), tasked with safeguarding depositors' funds in financial institutions to enhance public confidence in the banking sector.

Furthermore, the unit also shed light on the Federal Inland Revenue Service (FIRS), which is responsible for assessing, collecting, and accounting for federal taxes in Nigeria. The FIRS plays a critical role in generating revenue for the government, enforcing tax compliance, and implementing tax policies to support economic development initiatives. Through our discussion, we gained insights into how these regulatory bodies contribute to the overall framework of governance, financial stability, and economic growth in Nigeria.

In summary, the unit provided a comprehensive overview of the regulatory landscape in Nigeria, emphasizing the roles and functions of key institutions like the SEC, NAICOM, NCC, NDIC, and FIRS. Understanding how these entities operate and collaborate is essential for navigating the regulatory environment, ensuring compliance, and fostering a conducive business environment. By exploring the intricacies of these regulatory bodies, we gained valuable insights into the mechanisms that underpin Nigeria's financial, insurance, telecommunications, and taxation sectors.

## 3.6 References/Further Reading /Web Resources

Central Bank of Nigeria. (2023). About CBN. Retrieved from CBN

Federal Inland Revenue Service. (2023). About FIRS. Retrieved from FIRS

Microfinance Information Exchange. (2022). LAPO Microfinance Bank. Retrieved from Microfinance Information Exchange

National Insurance Commission. (2023). About NAICOM. Retrieved from NAICOM

Nigerian Communications Commission. (2023). About NCC. Retrieved from NCC

Nigerian Deposit Insurance Corporation. (2023). About NDIC. Retrieved from NDIC

Securities and Exchange Commission. (2023). About SEC. Retrieved from SEC

## 3.7 Possible Answers to Self-Assessment Exercise(s) within the content

### Answer to SAE 1

### Financial institutions in Nigeria

Financial institutions play a crucial role in the economic development and financial stability of a country. In Nigeria, these institutions encompass a wide range of entities including banks, insurance companies, and microfinance institutions. Among the most prominent financial institutions is the Central Bank of Nigeria (CBN), which serves as the apex regulatory authority in the banking sector. The CBN is responsible for issuing currency, regulating money supply, and overseeing the financial sector to ensure stability and confidence in the financial system (Central Bank of Nigeria, 2023).

### Answer to SAE 2

### List of Nigeria Financial Regulatory Authorities

Apart from the Central Bank of Nigeria, several other regulatory authorities oversee different aspects of the financial and economic sectors in Nigeria. These include:
**Securities and Exchange Commission (SEC)**: The SEC regulates the capital markets, ensuring transparency and protecting investors' interests (Securities and Exchange Commission, 2023).
**National Insurance Commission (NAICOM)**: NAICOM regulates the insurance industry, ensuring the proper conduct of insurance businesses and protecting policyholders (National Insurance Commission, 2023).

**Nigerian Communications Commission (NCC)**: The NCC regulates the telecommunications industry, ensuring efficient service delivery and competition (Nigerian Communications Commission, 2023).

**Nigerian Deposit Insurance Corporation (NDIC)**: The NDIC provides insurance coverage for depositors, ensuring the stability of the banking sector by protecting depositors' funds (Nigerian Deposit Insurance Corporation, 2023).
**Federal Inland Revenue Service (FIRS)**: The FIRS is responsible for tax administration, ensuring compliance and efficient tax collection (Federal Inland Revenue Service, 2023).

# Unit 4 National Pension in Nigeria

## Unit Structure



## 4.1 Introduction

In the last unit, we discussed several key regulatory bodies in Nigeria that play crucial roles in various sectors in the Nigerian Economy. This included Financial Institutions in Nigeria, where we explored the functions and significance of entities like the Securities and Exchange Commission (SEC). The SEC oversees the regulation and operation of the securities market in Nigeria, ensuring transparency and investor protection. Additionally, the discussion covered the National Insurance Commission (NAICOM), responsible for supervising and regulating the insurance industry to safeguard policyholders' interests and promote stability.

In this unit, we will provide a comprehensive overview of the pension landscape in Nigeria, delving into key aspects such as the National Pension Act, the Defined Pension Scheme, and the Contributory Pension Scheme. Additionally, it explored in-depth the significant impact of these pension schemes on the Nigerian economy, shedding light on the ways in which they contribute to financial stability, social security, and long-term economic development in the country. The discussion highlighted the evolution of pension regulations in Nigeria, the challenges faced by the pension industry, and the potential future directions for enhancing the effectiveness and inclusivity of pension schemes in the nation. Overall, the session underscored the crucial role that pensions play in ensuring a secure and sustainable financial future for individuals and the overall economic prosperity of Nigeria as a whole.

## 4.2 Learning Outcomes

- By the end of this unit, you should be able to:
- Discuss the National Pension Reform
- National Pension Act in Nigeria
- Explain the National Pension Commission (PenCom)
- Describe the defined Pension Scheme in Nigeria
- Discuss the Contributory Pension Scheme in Nigeria
- Explain Impact of Pension Scheme on the Nigerian Economy

## 4.3 National Pension

### 4.3.1 National Pension Reform

The National Pension Reform in Nigeria was initiated to address the inefficiencies and inadequacies in the pension system. Prior to the reform, the pension system was primarily a defined benefit scheme funded by the government, which faced numerous challenges including poor administration, corruption, and underfunding (Fapohunda, 2013). The Pension Reform Act of 2004 introduced a mandatory, contributory pension scheme that aimed to ensure that every worker receives their pension benefits as and when due. This reform was crucial in promoting transparency, accountability, and sustainability in pension administration (Ahmed, 2006).

National Pension Commission

The National Pension Commission (PenCom) was established to oversee the implementation and regulation of the new pension scheme. PenCom's responsibilities include licensing and supervising pension fund administrators and custodians, ensuring compliance with the Pension Reform Act, and protecting the interests of pension contributors and beneficiaries (PenCom, 2019). The commission plays a pivotal role in maintaining the integrity of the pension system and fostering public confidence in the pension scheme.

Summary

The National Pension Reform in Nigeria, encapsulated in the Pension Reform Act of 2004, marked a significant shift from a defined benefit scheme to a contributory pension scheme. This change was necessitated by the need to address the systemic issues plaguing the old pension system. The establishment of the National Pension Commission has been instrumental in ensuring the effective regulation and supervision of the pension industry, thereby enhancing transparency, accountability, and sustainability. The reform and the role of PenCom are crucial in safeguarding the future financial security of Nigerian workers.

## 4.4. National Pension Act in Nigeria

The National Pension Act in Nigeria, established in 2004 and amended in 2014, provides the legislative framework for the country's pension system. This act was instituted to address the inefficiencies and corruption that plagued the old pension scheme. It aims to ensure that every worker receives their due pension upon retirement, which is critical for financial security in old age (PenCom, 2014). The act established the National Pension Commission (PenCom) to regulate, supervise, and ensure the effective administration of pension matters in Nigeria.

## 4.5 The National Pension Commission (PenCom)

The National Pension Commission (PenCom) in Nigeria was established by the Pension Reform Act of 2004, which was later amended in 2014. The primary objective of PenCom is to regulate, supervise, and ensure the effective administration of pension matters in Nigeria. This establishment marked a significant shift from the old defined benefit scheme, which was often plagued by issues of underfunding and poor management, to a more sustainable and transparent defined contribution scheme (PenCom, 2020).

PenCom's responsibilities include licensing and regulating pension fund administrators (PFAs) and pension fund custodians (PFCs), establishing standards and guidelines for the management of pension funds, and ensuring compliance with the provisions of the Pension Reform Act. The commission also plays a crucial role in protecting the interests of pension contributors and retirees by monitoring the activities of the PFAs and PFCs to ensure that they adhere to the best practices in fund management and customer service (Afolabi, 2018).

The introduction of the contributory pension scheme under PenCom has led to significant growth in pension assets and improved the overall pension system's sustainability in Nigeria. As of December 2020, the total pension assets under management exceeded NGN 12 trillion, indicating a growing confidence in the system (PenCom, 2020). Additionally, the commission has implemented several initiatives to increase coverage, such as the Micro Pension Plan, which aims to include workers in the informal sector and the self-employed in the pension scheme (Ogunleye, 2021).

Despite these achievements, PenCom faces challenges, including low awareness and participation rates among certain sectors, regulatory compliance issues, and the need to adapt to evolving economic conditions. Continued efforts to address these challenges are essential to further enhance the effectiveness and inclusiveness of Nigeria's pension system (Afolabi, 2018).

**Self-Assessment Exercise 1**

| |
|---|
| Q1 explain the National Pension Act in Nigeria<br>Q2. Discuss the National Pension Commission (PenCom) |

## 4.6 Defined Pension Scheme in Nigeria

The Defined Pension Scheme (DPS) in Nigeria was the predominant system before the enactment of the National Pension Act. Under this scheme, employees received a predetermined amount of pension benefits upon retirement, based on their years of service and final salary. However, the DPS faced numerous challenges, including underfunding, poor management, and lack of transparency, which led to delayed or unpaid pensions (Adefila & Babajide, 2019). These issues necessitated the transition to a more sustainable and transparent system.

## 4.7 Contributory Pension Scheme in Nigeria

The Contributory Pension Scheme (CPS), introduced by the National Pension Act of 2004, marked a significant shift from the Defined Pension Scheme. Under the CPS, both employers and employees contribute a portion of the employee's salary to a Retirement Savings Account (RSA), managed by licensed Pension Fund Administrators (PFAs) (PenCom, 2014). This scheme aims to ensure the sustainability and transparency of pension funds, providing a more reliable source of income for retirees. The CPS has been credited with improving the management of pension funds and reducing the burden on government resources (Nwanne, 2015).

## 4.8 Impact of Pension Scheme on the Nigerian Economy

The implementation of the Contributory Pension Scheme has had several positive impacts on the Nigerian economy. Firstly, it has increased national savings, as pension funds are invested in various financial instruments, thereby providing a source of long-term capital for economic development (PenCom, 2014).

Secondly, it has enhanced financial stability for retirees, reducing poverty and dependence on familial support. Furthermore, the transparency and accountability introduced by the CPS have restored confidence in the pension system, encouraging more participation from the workforce (Adefila & Babajide, 2019).

**Self-Assessment Exercise 2**

| |
|---|
| Q1 Explain the Defined Pension Scheme in Nigeria<br>Q2 Discuss the Contributory Pension Scheme in Nigeria |

## 4.9 Summary

In summary, the unit discussed the National Pension Act in Nigeria, through its introduction of the Contributory Pension Scheme, has significantly reformed the country's pension system. The shift from the Defined Pension Scheme to the CPS has addressed many of the inefficiencies and corruption issues that plagued the old system. The CPS has not only ensured better management of pension funds but also positively impacted the Nigerian economy by increasing national savings and providing financial stability for retirees. These reforms are crucial for the long-term economic health and social stability of Nigeria.

## 4.10 References/Further Reading and Web Resources

Adefila, J. J., & Babajide, A. A. (2019). Pension Fund Administration in Nigeria: Problems and Prospects. *African Journal of Business Management*, 13(5), 151-160.

Afolabi, T. (2018). The role of PenCom in pension administration in Nigeria. *Journal of Finance and Economic Planning*, *6*(2), 45-58.

Ahmed, M. K. (2006). Pension Reform Process in Nigeria: Transition from Defined Benefits to Defined Contribution. Retrieved from https://www.pencom.gov.ng

Fapohunda, T. M. (2013). The Pension System and Retirement Planning in Nigeria. Mediterranean Journal of Social Sciences, 4(2), 25-34.

National Pension Commission (PenCom). (2014). *Annual Report*. Abuja, Nigeria: PenCom.

National Pension Commission (PenCom). (2019). Annual Report. Retrieved from https://www.pencom.gov.ng

Nwanne, T. F. I. (2015). The Nigerian Pension Reform Act 2004: An Evaluation. *Journal of Business and Management*, 17(7), 29-37.

Ogunleye, O. (2021). Expanding pension coverage in Nigeria: The role of the Micro Pension Plan. *African Journal of Social and Economic Policy*, *9*(1), 112-129.

PenCom. (2020). Annual report of the National Pension Commission. National Pension Commission.

## 4.11 Possible Answers to Self-Assessment Exercise(s) within the content

### Answer to SAEs 1

### National Pension Act in Nigeria

The National Pension Act in Nigeria, established in 2004 and amended in 2014, provides the legislative framework for the country's pension system. This act was instituted to address the inefficiencies and corruption that plagued the old pension scheme. It aims to ensure that every worker receives their due pension upon retirement, which is critical for financial security in old age (PenCom, 2014).

### The National Pension Commission (PenCom)

The National Pension Commission (PenCom) in Nigeria was established by the Pension Reform Act of 2004, which was later amended in 2014. The primary objective of PenCom is to regulate, supervise, and ensure the effective administration of pension matters in Nigeria. This establishment marked a significant shift from the old defined benefit scheme, which was often plagued by issues of underfunding and poor management, to a more sustainable and transparent defined contribution scheme (PenCom, 2020).

### Answer to SAEs 2

### Defined Pension Scheme in Nigeria

The Defined Pension Scheme (DPS) in Nigeria was the predominant system before the enactment of the National Pension Act. Under this scheme, employees received a predetermined amount of pension benefits upon retirement, based on their years of service and final salary.

#### Contributory Pension Scheme in Nigeria

The Contributory Pension Scheme (CPS), introduced by the National Pension Act of 2004, marked a significant shift from the Defined Pension Scheme. Under the CPS, both employers and employees contribute a portion of the employee's salary to a Retirement Savings Account (RSA), managed by licensed Pension Fund Administrators (PFAs) (PenCom, 2014).

# Unit 5 Development Planning

## Unit Structure



## 5.1 Introduction

In the last unit, we discussed the National Pension Act in Nigeria, through its introduction of the Contributory Pension Scheme, and how it has significantly reformed the country's pension system. The shift from the Defined Pension Scheme to the CPS has addressed many of the inefficiencies and corruption issues that plagued the old system.

In this unit, we will discuss the Economic planning as a process by which a society mobilizes, organizes and programmes the use of its resources, so as to attain specific objectives. However, in a country like Nigeria, there is the general belief that planning is an institutional mechanism, which is capable of overcoming all the obstacles of development, and it helps to ensure a sustained and balance economic growth. Development planning in Nigeria is necessary because it makes it easier to get people's support for government policies. This is because; plan is usually based on a number of objectives. If these objectives are clearly stated and they represent what the people want, then it would be relatively easy to win people's support, in order to execute the plan that would ensure achievement of the objectives

However, planning exercises in Nigeria bear strong relationship to change in political structure of the country, and consequential change in the planning machinery.

## 5.2 Learning Outcomes

By the end of the unit, you should be able to:

- Trace the Ten-year Plan of Development and Welfare (1945-1955)
- Explain the The Second Plan (1955-1960)
- Discuss the Post-Independence Development Planning Efforts: The First National Development Plan (1962-1968)
- Describe the Second National Development Plan (1970-1974)
- Elucidate on the Third National Development Plan (1975 -1980)
- Expatiate on the Fourth National Development Plan (1981-1985)
- Highlight the causes of Failure of the Plan
- Discuss the rolling of National Plan in Nigeria

## 5.3 Development Planning

### 5.3.1 The Ten-year Plan of Development and Welfare (1945-1955)

The first attempt at development planning for the country was the 'ten-year plan of development and welfare for Nigeria', introduced at the instance of the colonial office in London in 1945, and contained in the government's seasonal paper No. 24 of 1945. It was prepared and co-ordinated under the general direction of a small central development board, consisting exclusively of senior colonial government officials. Moreover, area development commissions were set up in each province, to be assisted by advisory bodies. Considerable effort was made to obtain inter-department and central provincial consultation and co-ordination. In this regard, the plan was an example of a coordinated and integrated plan at the local level, rather than of sectoral planning, as subsequent development plans in Nigeria were. However, the conception, formulation, and implementation of the plan was done entirely by colonial civil servants. In 1951, the plan was revised to cover the period 1951-56. In the revision contained in the colonial government's seasonal paper No.6 of 1951, 'new and unrelated projects were substituted for earlier ones'. The constitutional development of 1954, however, brought the plan to a premature end.

The plan has been criticized as being no plan at all, in the sense of being a combination of projects, rather than a single-valued objective oriented plan. Indeed, it was more of a 'regulatory' plan with welfare ingredients than a development oriented plan. The plan concentrated mainly on social and physical infrastructures such as construction of rail-roads, motor-roads, seaports etc. as these were to facilitate the much unbalanced trade between Britain and the colony. Generally, the plan suffered from the following drawbacks.

1. Its objectives were not relevant and meaningful to the needs of the citizens. Emphasis was rather on the maintenance of law and order. In other worlds, the plan did not identify the aspirations of the people.
2. Absence of articulate press to monitor opinion and development in different parts of the country. As a result, the plan did not satisfy the fundamental requirement of good planning by falling to involve the people for which it was being made.
3. It was difficult to reconcile the execution of the plan in the three groups that constituted the country then, where different systems of administration, with varying objectives were in vogue. Despite the centralized nature of the planning process, there was no national direction and aspiration. The plan suffered greatly from a lack of consistency and coherence.
4. Paucity of essential data for planning, and acute post-war shortage of high level administrative personnel for plan implementation, constituted the major bottleneck for the planning exercise and implementation.

Despite the above however, 'the ten-year plan, together with its revised edition, made possible the expansion of public health, education services, and building of some public facilities as road, ports, and water supplies... That private sector of the economy also participated in, and benefitted from the expansion; and productive capacity of the economy rose to a higher level'. Additionally, the plan laid the foundation for the pre-independence economy. The production and expansion of export crops were promoted. Ambitious agricultural programmes, such as the National Agricultural Projects, the irrigation projects on rivers Niger and Benue, were embarked upon. Finally, many feasibility studies of projects carried out in subsequent development plans were also undertaken.

## Self-Assessment Exercise 1

| |
|---|
| What is development planning? |

## The Second Plan (1955-1960)

With the introduction of the Richardson constitution in 1954, Nigeria was divided into four regions: North, East, West and the Cameroon's.

The second development plans was introduced as a consequence of the visit and advise of the World Bank officials to Nigeria in 1954. Each region was to prepare its own development plan, and there was to be the 'federal plan'. No effort was, however, made at coordinating, integrating, or aligning the regional plans with the federal plan. Many of the individual schemes proposed under the plans were no more than an expansion of existing normal development activities, and the main emphasis were confined to the building of economic and social services in the country. Moreover, there was competition between the regions such that there was enormous duplication of projects and programmes. Entirely new and unrelated projects were readily substituted for the original programmes, without proper analysis and co-ordination with other projects under the guise of flexibility, since no rigid targets were fixed during the plan period. In sum, the plans "fell short of the standard of true perspective planning. No conscious attempt seems to have been made to accelerate economic growth by laying down national goals and objectives". Despite the above, however, the economy witnessed some growth during the plan period.

### 5.3.2 Post-Independence Development Planning Efforts: The First National Development Plan (1962-1968)

In spite of social, political and economic constraints inherent in the formulation of a national plan, both the regional and federal governments in the newly independent Nigeria, recognized the need for one as an ideal way of setting out the nation's development objectives, and also 'to demonstrate initiative in tackling the country's economic problems'.

#### 5.3.2.1 Implementation of the Plan

The implementation of the plan however revealed a case of serious under fulfillment of target. Public sector capital expenditure under fulfilment stood at an average of 20.7% at the end of the plan period. More disturbing, however, is the fact that under fulfilment in capital expenditure was more pronounced in those sectors that have more direct bearing on the welfare of the citizens. While in areas of public administration such as information. Judiciary and general administration, for example, recorded over fulfillment. Under-fulfilment was 32.6% in education, 63.3% in communication, 42.8% in primary production, and 56.3% in health. For the federal government. under-fulfilment in water supply was 63.1% (compared to a 31.8% over-fulfilment in the Northern region, and in health, a staggering 71.1%

## Self-Assessment Exercise 2

| What factors accounted for failure of the plan.? |
|---|

There are many factors that accounted for the measurable 'failure' of the plan vis-à-vis the objective(s). First and most importantly, the dependence of the plan on the foreign allies for 50% its capital expenditure, was both a misnomer and contrary to its stated objectives.
The attainment of political independence in 1960 did not, in the Nigerian case, imply an immediate or sudden change in the management of the country's economy despite the expectations created by the nationalism of the colonial era. The extension of the 1955-60 plan to1962, the dependence on Britain for advisers, consultants, management, capital etc, the surveillance of Nigerian monetary management, consequent upon the link between the Nigerian pound and British sterling; and the dependence on Nigerian import and export trade, which was skewed in Britain's favour. All these were indicative of the degree to which Britain's influence and control prevailed over economic decision-making and policy formation in the early post-independence phase. The country's submissive economic dependency beyond 1960, was a function of the absence of effective and acceptable leadership committed to internal reforms, capable of ameliorating the foreign control. The economic reforms necessary in order to loosen the imperialist economic ties, was undoubtedly enormous, if a national economy was to be evolved. Reforms in civil administration, the monetary system, law, education, economic management etc., were all an integral part of laying a new foundation for national economic progress. Such revolutionary changes would mean a radical departure from colonial economic policies, but the country's leadership was either unwilling or unprepared to undertake such changes. Instead, it was content to let sleeping dogs lie, while concentrating attention on the 'the distribution of economic power and public patronage among individuals, ethnic and racial groups' in an attempt to avert possible social conflict. Consequently, the issue of equitable allocation of federal resources, and class conflict between the 'haves' and 'have-nots', became the pre-occupation of the early post-independence leadership.

Closely associated with the above is what Yesufu (1996), described as; the continuous and most unedifying wrangling between the regional governments' on the one hand, and them and the federal government, on the other. It was such adventures that eventually led to the coup of 1966, and to the civil war. Other factors that constituted drawbacks to the accomplishment of the plan objectives include the fact that:

i. The different ministries hardly acknowledge the coordinating role of the ministry of economic development.

ii. In the conception and implementation of the plan, the local authorities were not sufficiently brought into the process, in spite of their importance and activities as development agencies in various parts of the country.
iii. There was limited opportunity for public debate and participation in the process of development planning. Hence, the plan failed to fire the national imagination of the average Nigerian.

However, considering the limitations in terms of resources, planning experience, and administrative capacity, as well as the diversionary nature of the national crisis, the plan was on balance, measurably successful, and a number of important projects such as the Kainji dam, the Niger bridge, the first oil refinery, and a number of roads and industries, were completed during the plan period. More importantly, is its "recognition and acceptance of a common objective, as well as in laying the administrative and institutional framework essential for future growth". Thus, 'the acceptance of a national economic objective by the Federal, East, West and Northern governments, facilitated planning for a common national development target, and made possible the reorganization of the federal public sector administration into such ministries as finance, development, industry, trade etc., and the establishment of a National Economic Council'... 'In addition, the establishment of such private sector-oriented development institutions as the Nigerian Industrial Development Bank (NIDB), the Nigerian Institute of Management (NIM), the Lagos Stock Exchange, and the various chambers of commerce, assumed a national character' (Usoro, 1983).

In sum, the first National Development Plan (NDP), provided a lot of lessons to be learnt in the conception, organization and implementation of development planning in Nigeria.

### 5.3.3 The Second National Development Plan (1970-1974)

The plan had five principal long-term objectives, which were to establish Nigeria as:
1. a united, strong and self-reliant nation
2. a great dynamic economy
3. a just and egalitarian society
4. a land of bright and full opportunity for all citizens and
5. a free and democratic society

Even though the objectives were not operational guidelines, against which success of a plan can unambiguously be measured, the designers of the plan stressed the need for both government and the people to seek to give concrete meaning to the objective, and ensure their full realization at all times. The plan further stressed the need for promotion of balanced development between one part of the country and another, and especially between the urban and rural areas.

It was indeed an era of state-regulated economy. On the monetary side, the credit guidelines of the Central Bank of Nigeria (CBN) led to the achievement of the following:

a) Maintenance of confidence in the Nigerian currency
b) Support for increasing level of agricultural and industrial output. The support was given, but increasing productivity was not really achieved.
c) Supplementing government's revenues and provision of deficit financing.

In February 1972, the Nigerian Enterprise Promotion Decree (NEPD), came into being. This was aimed at indigenizing most sectors of the economy by providing for Nigerians to assume greater control of enterprises within the country. The establishment of the Nigerian Enterprise Promotion Board (NEPB), Capital Issues Commission, and The Bank for Commerce and Industry, led to the achievement of reasonable success in the implementation of the decree.

It is worth noticing the basic three areas of social and economic reforms, viz:

1. The improvement of knowledge about the economy's resource endowment through the establishment of schemes for resource inventory.
2. The reorganization, strengthening and establishment of new institutions aimed at improving the quality of planning and optimum utilization of human and material resources. Twenty-three such institutions, established during the plan period are: The Central Planning Office; The Joint Planning Board ; National Economic Advisory Council; Federal Administrative Staff College; Nigerian Agricultural Bank; Nigerian National Oil Corporation; National Electric Power Authority, Road Construction Company of Nigeria; Nigerian Engineering and Construction Company, Agricultural Planning Unit; Industrial Training Fund; Nigerian Standard Organization, Industrial Development Consultancy Services; National Supply Company; Centre for Management Development; Sokoto Rima Basin Development Authority; Lake Chad Basin Development Authority; Nigerian Mining Corporation; Nigerian Population Council; National Coordinating Committee on the Environment; Nigerian Enterprise Promotion Board; Capital Issue Commission, and Nigerian Bank for Commerce and Industry

3. The reduction in inequalities in inter-personal incomes, and promotion of balanced development among the various communities in the different geographical regions in the country.
   The plan was said to be 'guided by a well-articulated system of national accounts. The planners were able to determine the most appropriate measures for achieving those objectives within certain constraints'.
   In sum, the second National Development Plan was 'a watershed' in the economic planning history of the country. It was both 'radical and revolutionary' and opened the nation to 'the first tides of industrial revolution and the attendant growth of modern capitalism.

### 5.3.4 The Third National Development Plan (1975 -1980)

The Third National Development Plan 'was essentially a continuation of the development process and policies begun in the preceding plan.
Noticeable changes were largely the result of experience gained in the planning and implementation process, rather than in objective. The Central Planning Office, with a professional planning body, assumed responsibility for a continuous planning exercise. Its emphasis was the achievement of rapid increase in the nation's productive capacity. And with the experience gained about the importance of the private sector in the development process, the planners effort centred on directing the private sector, though appropriate policies, towards the attainment of national objectives' (Usoro,1983).

In the light of the above, it is evident that the third NDP ushered in the era of greater scientific planning in Nigeria. Development plan was prepared for the first time by a professionalized planning body (the central planning office), in conjunction with the National Economic Advisory Council (NEAC) which included members drawn from the private sector. In order to foster greater efficiency in the implementation of the plan, the planning studies programme of the University of Ibadan, in alliance with the Economic Development Institute of the World Bank, went further to organize intensive course for civil servants.

'Comprehensive list of approved projects, highlighting the physical targets as well. as associated financial allocations, was prepared and efforts were made to identify sectors with direct effect on welfare of the citizens, i.e. he housing, water supplies, health facilities, education, rural electrification and community development. The aim was that by the end of the plan period, every Nigerian should experience a definite improvement in his overall welfare.

Apart from the objectives contained in the Second National Development Plan, other specific short-term objectives of the Third National Development plan were to achieve:

i. increase in per capita income;
ii. more even distribution of income;
iii. reduction in the level of unemployment;
iv. increase in the supply of high level manpower;
v. diversification of the economy;
vi. balanced development; and
vii. indigenization of economic activity.

Thus, unlike the preceding plan, the first four additional objectives of the third NDP reveal goals that are measurable and quantifiable. The estimated capital expenditure under the plan was an ambitious 30 billion (over thirteen times the actual expenditure under the preceding plan).
Shortly after the launching of the plan however, certain events of considerable national importance made a review of the plan inevitable. These included the change of government in July 1975, the creation of new states in February, 1976, and the decline in the level of oil production and its price, during the 1975/76 fiscal years. With the change of government in July, 1975, came also re-appraisal of the nation's' priorities, so as to make them reflect more adequately the philosophy of the new military administration. Greater emphasis was placed on water supply, health, agriculture and co-operatives. These by their very nature, have a direct bearing on the welfare of the common man, as against prestigious projects of doubtful social relevance. Specifically, the government decided to increase the target number of hospital beds from the 87,000 originally approved for the plan period, to a new level of 120,000 by 1980. The housing programme was also increased from60,000 to 200,000.

The creation of seven new states in February, 1976, and the decision to move the federal capital to Abuja, made the original plan grossly inadequate. To be able to function, the new states needed infrastructural facilities such as administrative and residential buildings, increased water and electrical supplies, etc. These meant increase in capital expenditure to accommodate the essential requirements of the new states and capitals. The federal capital, Abuja, was voted 500 million during the plan implementation period.

The major source of finance for the plan was based on oil earnings. The industry, however, began to suffer substantial decline in production and posted price. The crude oil output fell from a peak of 2.3 million bpd in October. 1974, to 1.5m bpd in May, 1975. While the posted price also fell from $14.661 to $12.633 in April, 1975. This unexpected sudden development, coming just after the launching of the plan, had serious implications for plan implementation and invariably, called for a realistic review.

## Self-Assessment Exercise 3

| |
|---|
| What are the factors that mitigated against the achievement of the objectives of the plan? |

Generally, factors that militated against the fuller realization of the objectives of the plan included:

1. Unexpected fall in oil prices;
2. Rapid increase in recurrent expenditure due to state creation and local government reform;
3. The inflation rate of 24%, occasioned by the Udoji award, meant a corresponding 24% reduction in the size of the budget surplus of the various governments;
4. Shortage of materials and manpower.

## Self-Assessment Exercise 4

| |
|---|
| Outline the major achievements of the plan. |

The immediate achievement of the plan however includes the following:

1. The establishment of over 147 farm centres in the country
2. Many projects were completed, while new ones were commenced. These included the cement works at Calabar, Ukpilla, Nkalagu, Shagamu, Vander and Ashaka; the pulp and paper projects at Jebba, Calabar and Iwopin; four commercial vehicle assembly plants; two passenger car assembly plants; two petroleum refineries at Warn i and Kaduna, two iron and steel plants at Ajaokuta and Aladja and three steel rolling mills at Katsina, Jos and Oshogbo.;
3. Over 10,000 km of roads were built or rehabilitated, e.g. the Lagos-Ibadan express way, Lagos-Badagry express road, Enugu-Port and Benin-Sagamu expressways. New airports were built in most state capitals. New seaports were also developed in Lagos, Warn, Calabar and Port-Harcourt. Telephone lines increased from52,000 to 200,000.
4. The Universal Primary Education (UPE), was launched in September, 1976, during which period, school enrolment increased. The number of universities was also increased from 6 to 13 during the plan period.

### 5.3.5 The Fourth National Development Plan (1981-1985)

The objectives of the Fourth National Development Plan were to promote economic growth and development, price stability and social equity. Appropriate fiscal and monetary policies were to be combined under the plan to attain rapid economic growth, and structural changes with relative stability of prices. The general rate of increase in the price level was to be kept below 10%, while the plan was to induce an economic growth rate of 7.2% per annum, and a 25% increase in per capital GDP from427 to N535.

Estimated public capital expenditure under the plan was 70.5 billion (an increase of over 230% over the actual expenditure in the preceeding plan). 56.74% (40 billion) of this was to be borne by the federal government, 39.72% (28 billion) by the state governments, and 3.5% (2.5 billion) was to be fulfilled by Federal Development Authority.
24.2% of the estimated public expenditure was to come from loans. Private sector expenditure was estimated to be 11.5 billion.

The plan accorded priority status to agriculture, education, manpower development, infrastructures, housing and health.
It is not very clear to what extent the provisions of the fourth national development plan was implemented. Yesufu (1996), has observed that there is no evidence that systematic effort was ever made to implement the plan. However, on November 30, 1983, the government set up a five-man committee headed by G. Onosode, to review the plan as a result dwindling resources, consequent upon the global oil glut, and falling prices.

In assessing the Fourth National Development Plan, Yesufu (1996) has observed the issue of using the 1991 census population figure of 88.5 million in 1990, as opposed to the projected 120 million, for the same year. This gives a very significant difference of 35.6%, and determines not merely the rate of economic growth, but the path of development in real terms'. He concluded, however, judging by the actual performances of the economy, the period 1981-85 proved to be relatively the most dismal in the economic history of the country, at least since planning as a strategy of growth and development was introduced in 1945'. The growth rate of GDP p.a. was only 1.25% (compared to 5.3%, 13.2% and 1.6% under the first three National Development Plans). The situation is even more severe when it is calculated in U.S. dollar terms. Only agriculture, government services, real estate business, and housing sectors recorded positive growth rate per annum. All other sectors, including mining, recorded negative growths. The devaluation of the naira increased the imbalance in the external trade, and the external reserves stagnated and declined. While money income was falling, the cost of living was escalating, corroding further the welfare of the citizens. The composite consumer index rose by 95.5%, an average increase of 23.8%. It was only in agriculture that the plan recorded some success (average annual growth rate of 3.4%). This, however, fell below the plan target of 4%. Moreover, the growth rate of agriculture barely matches the population growth rate, such that the dream of turning the economy into a self-reliant and self-sustaining growth oriented economy never materialized. Over N300m was spent on food importation alone between 1981-1984, in spite of the much celebrated Green Revolution Programme. Agriculture, however, came in to dominance viz-a-viz mining as a contributor to G

The achievement of more even distribution of income also remained a mirage. Some government workers (eg. in Imo State) were even owed up to eight month salary during the period. Primary per capital consumption that was expected to rise from N27.5 in 1980, and maintain a steady growth rate of 6% per annum, shot up to N257.8 in 1983. This made savings and investment difficult. Moreover, it was not possible to reduce unemployment level, as many enterprises operated below capacity, and some had to lay off some of their staff because lack of raw materials. Compounding the problem was the increase in the availability of skilled labour as a result of increase in the number of universities under the Third National Development Plan. Graduate unemployment thus became a common phenomenon in the society. Finally, even development remained an illusion, as development projects were considered, to a large extent, on ethnic and political grounds. Neither was it possible to attain better attitude to work, greater discipline, cleaner environment or a new national orientation.

### 5.3.5.1 Causes of Failure of the Plan

Some of the factors that militated against the implementation of the plan were:

1. Large scale corruption, even in high quarters, during the civilian regime. Corruption, abuse of office, nepotism, political chicanery and clannishness, reigned supreme and grew into a culture, robbing the society at large the moral fibre to stand up for the development of self-reliant economy. Strategies designed to check corruption and re-awaken national consciousness, like the 'ethical revolution' and the WAI, failed to make the required impact or only scratched the surface of the problem.
2. High level inflation made a mess of cost projection
3. Non-evolution of coherent policies designed to give the plan the direction it requires. Rather, there were erratic and ad hoc

policies and programmes designed to meet one political or ethnic demand or the other.

4. Feed-back and progress report came late.
5. Effective data base was lacking in the plan formulation.
6. Financial projections were too optimistic and simplistic, and therefore the revenue targets were easily frustrated by external shocks in the world oil market. By the end of 1984, the nation was indebted to the tune of 21,384.5 million in external debts alone. By August 1987, it stood at about 78.8 billion.
7 Over-invoicing, over-valuation of contracts and indiscipline inhibited effective implementation.

## 5.4 Rolling of National Plan in Nigeria

Development plans in Nigeria before 1986 have been medium term in nature. By 1986 however, it was 'realized' that adopting a five-year planning model has become unrealistic in the Nigerian situation, and the government decided to adopt a three-tier planning system for better economic management. This included:

1. A 15 to 20-year perspective plan, which will provide a clear vision of where the economy should be at the end of the period. The plan was to also address the key policies and actions that will be required to translate this 'vision' into reality.
2. The three-year national rolling plan.
3. One year annual budgets.

The instrumentality of rolling plans was adopted in 1988, following which the First National Rolling Plan was launched in January, 1990, for the period 1990-1992. It was intended to replace the five-year plan. While the annual budgets were to be tool for its implementation, the rolling plan was to constitute the tool for implementing the 'perspective plans'. The main objective of the National Rolling (plan), was to consolidate the achievements of SAP, and address the pressing problems still facing the economy.

Thus, the objectives of the National Rolling Plan were as follows:

1. Attainment of higher levels of self-sufficiency in the production of food and other raw materials:
2. Laying a solid foundation for a self-reliant industrial development, as a key to self-sustaining dynamic and non-inflationary growth, and promoting industrial peace and harmony;
3. Create ample employment opportunities, as a means of containing unemployment problem; and

4. Enhancing the level of socio-political awareness of the people, and further strengthening the base for a market-oriented economy, and mitigating the adverse impact of the economic
a) downturn, and the adjustment process on the most affected groups.
b) In order to achieve these objectives, the plan placed emphasis on the following priority programmes:
a) Integrated rural development, including the Agricultural Development Programmes (ADPs) in the states, the programmes of the River Basin Development Authorities (RBSAs), and rural access roads;
b) Provision of basic infrastructures including roads, mass transportation facilities, power supply, and potable water supply;
c) Completion of on-going basic industries and the strengthening of existing ones;
d) Development of small scale industries
e) Strengthening the on-going programmes of the National Directorate of Employment (NDE), maintenance of industrial peace and harmony intensification of co-operative awareness, promotion of productivity consciousness;
f) Improvement of efficiency of the administrative/bureaucratic framework for the co-ordination of public sector intervention in the economy; and
g) Laying the foundation for gradually reducing growth rate of the population.

(iii) The major thrusts are agricultural development, provision of infrastructural facilities, and key programmes benefiting the segment of the society more adversely affected by SAP.

The strategies and programmes that will ensure the realization of the above objectives of the National Rolling Plan are as follows:

i. Rehabilitation of economic and social infrastructures, especially with regard to urban and rural roads and highways, power supply, potable water, communications, health care delivery, and educational facilities at all levels;
ii. Agricultural development programmes, including sustenance of the ADP's Fadama Development Programmes, and NALDA programmes;
iii. Establishment of Employment-oriented Agricultural Programme to stemthe rising tide of unemployment;
iv. Completion of on-going irrigation projects of the River Basin Authorities, and maintenance of existing dams;
v. Enhanced involvement of the private sector towards the resuscitation of ailing government industries;
vi. Completion of Ajoakuta Steel, the Itakpe-Warri Ore rail line, and rehabilitation of Delta Steel, Aladja;

vii. Completion of teaching hospital projects at Ahmadu Bello University, Zaria, University of Nigeria, Nsukka, and Ado Beyero University, Kano, and rehabilitation of facilities at the University of Ibadan Teaching Hospital, existing Federal Medical Centres and Primary Health Centres;
viii. Resuscitation of the oil-refineries, and completion of Petrochemical Phase II, Eleme and Oso Condensate Phase II;
ix. Resuscitation of the Nigerian Railway Corporation;
x. Enhancement of aviation safety, and rehabilitation of facilities at the Murtala Muhammed, Aminu Kano, Abuja, Port-Harcourt, Calaba, and Owerri airports;
xi. Development of solid minerals, including coal, bitumen, kaolin, gold, and feldspar, among others; and
xii. Encouraging private sector participation in the areas of power supply and telecommunications.

## 5.5 Summary

The examined the goals of development plans in Nigeria, it is imperative to note that, in order to improve plan implementations in the country, the executive capacity must be strengthened. There should also be some form of feedback mechanism which will enable people to find out whether the plans achieve their objectives or not during implementation. Development planning is conscious government efforts to influence, direct, and in some cases, even control changes in the principal social and economic variables (such as consumption savings, exports, health education, infrastructures, etc), of a country over the course of time in order to achieve a pre-determined set of objectives.

However, the history planning in Nigeria can be very interesting if we notice the features in the respective plans, starting with the Ten Years Plan of Development and Welfare (1945-1955 through the second pal of 1955-1990, the post-independence development plan of 1962-1985, 1970-1974, 1975-180, 1981-85 to the first rolling plan, 1990-1992, and national rolling plan 1997-1999).

Each of this plans made considerable effort to redress the social and economic problem facing the nation at different times in history.

You would still be anxious to question why inspite all these efforts made through the respective plans, not much, at least in certain areas, has not been achieved in this connection. Certain problems could have been militating against the successful implementation of the development plans.
These include:

- Lack of proper feasibility studies;
- Lack of suitable economic and political environment;
- The bureaucratic bottleneck in administrative machinery

## 5.6 References/Further Reading/ Web Resources

Anyanwu, J.C., Oyefusi, A., Oaikhenan, H.O., Dimowo, F.A. Structure of the Nigerian Economy (1960-1997). Joanee Education Publisher Ltd.

Molem, C.S.(nd). Growth and Development of Nigerian Economy. Kaduna: Silver Bond Publisher.

Tayo Lambo (1982). Nigerian Economy: A Text of Applied Economics. Evans Brothers Nigeria Limited.

## 5.7 Possible Answers to Self-Assessment Exercise(s) within the content

### Answer to SAE 1: What is development planning?

Development planning is the process of creating a comprehensive blueprint for the physical, economic, and social development of a community or region. This can include identifying and prioritizing projects and initiatives, allocating resources, and setting goals and targets for future growth and development.

### Answer to SAE 2: What factors accounted for failure of the plan.?

There are many potential factors that can contribute to the failure of a development plan. Some common ones include: Insufficient funding, Political instability, Lack of public support, Inadequate planning and research, Implementation challenges, Inadequate monitoring and evaluation, Lack of flexibility and Corruption

### Answer to SAE 3: What are the factors that mitigated against the achievement of the objectives of the plan?

There are many factors that can mitigate against the achievement of the objectives of a development plan. Some common ones include: Insufficient budget allocation, Political interference, Lack of community engagement, Implementation challenges, Inadequate monitoring and evaluation, Lack of resources, Inappropriate technology, Unforeseen circumstances, and Corruption. These are some of the factors that can mitigate against the achievement of the objectives of a development plan, but it's important to note that every case is unique and several other factors can also be involved.

### Answer to SAE 4: Outline the major achievements of the plan.

Generally speaking, some potential major achievements of a development plan could include: Economic growth, Improved infrastructure, Increased housing, Environmental protection, Social development, Improved governance, and Community development. The specific achievements will depend on the plan and the context, and it's important to keep that in mind when evaluating the success of a development plan.

# MODULE 5 FINANCIAL REFORMS AND HUMAN RESOURCE PLANNING IN NIGERIA



## Unit 1 Financial Reforms and Human Resource Planning in Nigeria

### Unit Structure



### 1.1 Introduction

This unit will discuss the Financial Reforms in Nigeria by analyzing various policies and measures implemented to enhance the country's financial sector and drive economic growth. The unit will explain the impact of the Integrated Personnel Payroll Information System (IPPIS) on the Nigeria economy was thoroughly examined. This involved a comprehensive review of how the IPPIS system has revolutionized payroll management and financial accountability within the public sector, leading to greater efficiency and transparency. Furthermore, the discussion will delve into the Government Integrated Financial Management Information System (GIFMIS) and its pivotal role in shaping Nigeria's economic performance. By evaluating how GIFMIS streamlines financial transactions, budgeting, and reporting across government agencies, insights were gained into the system's benefits and challenges. The discourse will explain TAX Reform in Nigeria by scrutinizing the recent tax policies and initiatives introduced to optimize revenue generation and foster sustainable economic development.

Overall, the unit's in-depth analysis shed light on the significant implications of these key economic factors on Nigeria's ongoing financial evolution.

## 1.2 Learning outcomes

By the end of this unit, you should be able to:

- Explain the Financial reforms in Nigeria
- Trace the Historical Context of Financial reforms in Nigeria
- Outline the Key Drivers of Financial reforms in Nigeria
- Highlight the Major Reforms of Financial reforms in Nigeria
- State the Outcomes and Impact of Financial reforms in Nigeria
- Explain the IPPIS on Nigeria Economy
- Discuss the GIFMIS on Nigeria Economy
- Outline the Tax Reform in Nigeria
- Discuss the Impact of Financial Reforms on Nigeria Economy
- Explain the Human Resource Management Planning in Nigeria

## 1.3 Financial reforms in Nigeria

The origin of financial reform in Nigeria is rooted in the need to address inefficiencies and stimulate growth within the country's financial sector. These reforms have evolved over time, driven by both internal and external factors.

### 1.3.1 Historical Context of Financial reforms in Nigeria

Financial reforms in Nigeria can be traced back to the Structural Adjustment Program (SAP) introduced in 1986. This program, implemented under the guidance of the International Monetary Fund (IMF) and the World Bank, aimed to restructure the Nigerian economy, which was heavily reliant on oil revenues, by diversifying its economic base and liberalizing its financial sector (Ikhide & Alawode, 2001).

### 1.3.2 Key Drivers of Financial reforms in Nigeria

Several key drivers have spurred financial reforms in Nigeria:

i. **Economic Crises:** Economic downturns, such as the oil price collapse in the 1980s, underscored the vulnerabilities of Nigeria's economy and highlighted the need for a more resilient financial system (Central Bank of Nigeria, 2018).

ii. **Globalization:** The pressures of globalization and the need to integrate with the global financial system have also pushed Nigeria towards financial reforms. This includes adopting international best practices and standards in banking and finance (Sanusi, 2010).

iii. **Institutional Weaknesses:** The presence of weak financial institutions, poor regulatory frameworks, and instances of corruption necessitated reforms to restore confidence in the financial system (Soludo, 2004).

### 1.3.3 Major Reforms of Financial reforms in Nigeria

Some of the significant financial reforms in Nigeria include:

i. **Banking Sector Reforms:** Initiated in the 1990s and 2000s, these reforms aimed at consolidating the banking sector to create more robust and reliable financial institutions. This included increasing the minimum capital requirements for banks (Sanusi, 2010).

ii. **Capital Market Reforms:** Reforms to the capital market included improving the regulatory framework and encouraging more transparent and efficient operations within the Nigerian Stock Exchange (NSE) (Al-Faki, 2006).

iii. **Monetary Policy Reforms:** The Central Bank of Nigeria (CBN) has implemented various monetary policy reforms to stabilize the economy, control inflation, and ensure a stable exchange rate (Central Bank of Nigeria, 2018).

iv. **Pension Reforms:** The Pension Reform Act of 2004 introduced a contributory pension scheme, aimed at ensuring sustainable and reliable pension funds management (Ahmad, 2006).

**Self-Assessment Exercise 1**

Explain the Financial reforms in Nigeria
Trace the Historical Context of Financial reforms in Nigeria
Outline the Key Drivers of Financial reforms in Nigeria

### 1.3.4 Outcomes and Impact of Financial reforms in Nigeria

The financial reforms have had mixed outcomes. While they have led to a more resilient banking sector and a more transparent capital market, challenges such as regulatory enforcement, economic volatility, and political instability continue to pose significant hurdles (Ikhide & Alawode, 2001; Soludo, 2004).

## 1.4 Financial reforms of financial reforms in Nigeria

Financial reforms in Nigeria have undergone significant changes aimed at enhancing the stability, efficiency, and inclusiveness of the financial sector. These reforms have been pivotal in shaping the country's economic landscape. The Central Bank of Nigeria (CBN) has spearheaded many of these initiatives, focusing on restructuring the banking sector, improving regulatory frameworks, and fostering financial inclusion (Central Bank of Nigeria, 2019). Key reforms include the consolidation of banks, which reduced the number of banks from 89 to 25 through mergers and acquisitions, thereby strengthening the capital base and stability of the banking system (Sanusi, 2010).

Nigeria has implemented various financial reforms aimed at stabilizing and growing its economy. One significant reform was the establishment of the Economic and Financial Crimes Commission (EFCC) in 2003, which aimed to curb corruption and improve financial governance (Oyejide, 2017). Additionally, the consolidation of banks in 2005, which reduced the number of banks from 89 to 25, helped stabilize the banking sector and enhance financial stability (Soludo, 2006). These reforms aimed to create a more transparent and efficient financial system, encouraging investment and economic growth.

## 1.5 IPPIS on Nigeria Economy

The Integrated Payroll and Personnel Information System (IPPIS) was introduced to manage the payment of salaries and wages directly to government employees, thereby reducing payroll fraud and ghost workers. According to Okeke (2019), the implementation of IPPIS has saved Nigeria billions of naira by eliminating fraudulent practices in salary payments. This system has improved the efficiency and transparency of public financial management, contributing positively to the Nigerian economy by ensuring that government resources are used more effectively.

## 1.6 GIFMIS on Nigeria Economy

The Government Integrated Financial Management Information System (GIFMIS) is another reform aimed at improving public financial management. GIFMIS integrates budget management and accounting to enhance efficiency in the allocation and utilization of resources (Abubakar & Adams, 2018). By automating and streamlining financial processes, GIFMIS has helped to reduce corruption and improve transparency in government finances. This system has contributed to better fiscal discipline and more effective allocation of public funds, which is crucial for economic stability and growth.

## 1.7 Tax Reform in Nigeria

Tax reform in Nigeria has focused on broadening the tax base, improving tax administration, and enhancing compliance. The introduction of the Tax Identification Number (TIN) system and the establishment of the Federal Inland Revenue Service (FIRS) have been pivotal in these reforms (Fowler, 2018). These measures have increased tax revenue by improving the efficiency of tax collection and reducing tax evasion. The reforms aim to create a more equitable tax system, which is essential for sustainable economic development.

## 1.8 Impact of Financial Reforms on Nigeria Economy

The impact of financial reforms on Nigeria's economy has been profound. By improving the stability of the financial system, these reforms have helped to attract foreign direct investment, enhance investor confidence, and stimulate economic growth. For instance, the banking sector consolidation led to a more robust banking system capable of supporting larger-scale economic activities and projects (Ezeoha, 2007). Additionally, reforms aimed at improving the regulatory environment have increased transparency and reduced the risk of financial crises, thus fostering a more stable economic environment (Ogundipe et al., 2014).

Financial reforms have also contributed to the growth of the non-oil sector by providing better access to finance for small and medium-sized enterprises (SMEs). This has been crucial for economic diversification, reducing the country’s dependence on oil revenues, and promoting sustainable economic growth (Beck et al., 2011). Moreover, the introduction of policies aimed at financial inclusion has facilitated greater access to financial services for the unbanked population, thereby promoting inclusive economic growth (Demirgüç-Kunt & Klapper, 2013).

## 1.9 Human Resource Management Planning in Nigeria

Human Resource Management (HRM) planning in Nigeria is essential for the optimal utilization of human resources in organizations. Effective HRM planning involves forecasting future HR needs, assessing current HR capabilities, and developing strategies to bridge the gap between the two (Ogunyomi & Bruning, 2016). In the Nigerian context, HRM planning is particularly challenging due to factors such as economic instability, skill shortages, and high unemployment rates (Okpara & Wynn, 2008).

Organizations in Nigeria must adopt strategic HRM practices to align their human resource needs with their business goals. This includes workforce planning, talent management, training and development, and performance management. Effective HRM planning helps organizations to anticipate and respond to changes in the external environment, ensuring that they have the right people with the right skills at the right time (Aslam et al., 2013). Moreover, HRM planning is crucial for enhancing employee engagement, productivity, and retention, thereby contributing to organizational success (Armstrong, 2012).

**Self-Assessment Exercise 2**

| |
|---|
| Highlight the Major Reforms of Financial reforms in Nigeria<br>State the Outcomes and Impact of Financial reforms in Nigeria |

## 1.10 Summary

The origin of financial reform in Nigeria is multifaceted, rooted in historical economic crises, the pressures of globalization, and the need to address institutional weaknesses. Significant reforms have been implemented in the banking sector, capital markets, monetary policy, and pension systems, resulting in a more robust financial system. However, ongoing challenges require continuous efforts to sustain and deepen these reforms.

Financial reforms in Nigeria, including the establishment of EFCC, bank consolidation, IPPIS, GIFMIS, and tax reforms, have significantly impacted the country's economy. These measures have improved transparency, reduced corruption, and enhanced the efficiency of public financial management. By addressing these critical areas, Nigeria aims to create a more stable and conducive environment for economic growth and development.

In summary, financial reforms in Nigeria have played a critical role in enhancing the stability and efficiency of the financial sector, thereby positively impacting the broader economy. These reforms have attracted investment, promoted economic diversification, and increased financial inclusion. On the other hand, HRM planning in Nigeria is essential for the optimal utilization of human resources, enabling organizations to align their workforce with business goals and adapt to external changes. Both financial reforms and effective HRM planning are crucial for sustainable economic development in Nigeria.

## 1.11 References/Further Reading and Web Resources

Abubakar, H., & Adams, R. (2018). The impact of GIFMIS on public financial management in Nigeria. *Journal of Public Administration and Governance*, 8(4), 34-48.

Ahmad, M. K. (2006). Pension Reform Process in Nigeria: Transition from Defined Benefits to Defined Contribution. Central Bank of Nigeria Bullion, 30(2), 1-17.

Al-Faki, A. (2006). The Nigerian Capital Market and Socioeconomic Development. A Paper Presented at the 4th Distinguished Faculty of Social Science Public Lecture, University of Benin, 26.

Armstrong, M. (2012). *Armstrong's Handbook of Human Resource Management Practice*. Kogan Page Publishers.

Aslam, H. D., Aslam, M., Ali, N., & Habib, B. (2013). Human resource planning practice in managing human resource: A literature review. *International Journal of Human Resource Studies*, 3(1), 37-64.

Beck, T., Demirgüç-Kunt, A., & Singer, D. (2011). Financial inclusion: Policies and practices. *The World Bank*.

Central Bank of Nigeria. (2018). 2004 Annual Report. Retrieved from https://www.cbn.gov.ng

Central Bank of Nigeria. (2019). *Annual Report and Statement of Accounts*. Central Bank of Nigeria.

Demirgüç-Kunt, A., & Klapper, L. (2013). Measuring financial inclusion: Explaining variation in use of financial services across and within countries. *Brookings Papers on Economic Activity*, 2013(1), 279-340.

Ezeoha, A. E. (2007). Structural effects of banking industry consolidation in Nigeria: A review. *Journal of Banking Regulation*, 8(2), 159-176.

Fowler, B. (2018). Tax reforms in Nigeria: Challenges and prospects. *African Journal of Economic and Financial Research*, 10(2), 89-102.

Ikhide, S. I., & Alawode, A. A. (2001). Financial Sector Reforms, Macroeconomic Instability and the Order of Economic Liberalization: The Evidence from Nigeria. African Economic Research Consortium Research Paper 112.

Ogundipe, S., Salisu, A., & Ogundipe, L. (2014). Financial development and economic growth in Nigeria: A Toda-Yamamoto causality test. *Economic Modelling*, 37, 386-394.

Ogunyomi, P. O., & Bruning, N. S. (2016). Human resource management and organizational performance of small and medium enterprises (SMEs) in Nigeria. *International Journal of Human Resource Studies*, 6(2), 139-154.

Okeke, C. (2019). The effectiveness of IPPIS in the Nigerian public sector. *International Journal of Public Administration*, 42(6), 499-512.

Okpara, J. O., & Wynn, P. (2008). Human resource management practices in a transition economy: Challenges and prospects. *Management Research News*, 31(1), 57-76.

Oyejide, T. A. (2017). Economic and financial reforms in Nigeria: Progress and challenges. *Nigerian Journal of Economic and Social Studies*, 59(3), 301-320.

Sanusi, L. S. (2010). The Nigerian Banking Industry: What Went Wrong and the Way Forward. Delivered at the Convocation Square, Bayero University, Kano.

Sanusi, L. S. (2010). The Nigerian banking industry: What went wrong and the way forward. *CBN Journal of Applied Statistics*, 2(2), 101-118.

Soludo, C. C. (2004). Consolidating the Nigerian Banking Industry to Meet the Development Challenges of the 21st Century. Address Delivered to the Special Meeting of the Bankers Committee, Abuja.

Soludo, C. C. (2006). The impact of banking sector reforms on economic development in Nigeria. *Central Bank of Nigeria Journal*, 14(1), 1-13.

## 1.12 Possible Answers to Self-Assessment Exercise(s) within the content

**Answer to SAE 1**

**Historical Context of Financial reforms in Nigeria**

Financial reforms in Nigeria can be traced back to the Structural Adjustment Program (SAP) introduced in 1986. This program, implemented under the guidance of the International Monetary Fund (IMF) and the World Bank, aimed to restructure the Nigerian economy, which was heavily reliant on oil revenues, by diversifying its economic base and liberalizing its financial sector (Ikhide & Alawode, 2001).

**Key Drivers of Financial reforms in Nigeria**

Several key drivers have spurred financial reforms in Nigeria:

i. **Economic Crises:** Economic downturns, such as the oil price collapse in the 1980s, underscored the vulnerabilities of Nigeria's economy and highlighted the need for a more resilient financial system (Central Bank of Nigeria, 2018).
ii. **Globalization:** The pressures of globalization and the need to integrate with the global financial system have also pushed Nigeria towards financial reforms. This includes adopting international best practices and standards in banking and finance (Sanusi, 2010).
iii. **Institutional Weaknesses:** The presence of weak financial institutions, poor regulatory frameworks, and instances of corruption necessitated reforms to restore confidence in the financial system (Soludo, 2004).

**Answer to SAE 2**

**Tax Reform in Nigeria**

Tax reform in Nigeria has focused on broadening the tax base, improving tax administration, and enhancing compliance. The introduction of the Tax Identification Number (TIN) system and the establishment of the Federal Inland Revenue Service (FIRS) have been pivotal in these reforms (Fowler, 2018). These measures have increased tax revenue by improving the efficiency of tax collection and reducing tax evasion. The reforms aim to create a more equitable tax system, which is essential for sustainable economic development.

**Impact of Financial Reforms on Nigeria Economy**

The impact of financial reforms on Nigeria's economy has been profound. By improving the stability of the financial system, these reforms have helped to attract foreign direct investment, enhance investor confidence, and stimulate economic growth. For instance, the banking sector consolidation led to a more robust banking system capable of supporting larger-scale economic activities and projects (Ezeoha, 2007). Additionally, reforms aimed at improving the regulatory environment have increased transparency and reduced the risk of financial crises, thus fostering a more stable economic environment (Ogundipe et al., 2014).

# Unit 2 Indigenization Policies in Nigeria

## Unit Structure



## 2.1 Introduction

Indigenization can be seen as 'evolutionary process by which the natives of a country are enabled, and are seen, to acquire ownership, control and management of the economy of their country'. In this sense, it involves the elimination, or reduction of foreign ownership, control, and management of the native economy. The aim in Nigeria, is thus to achieve and retain for Nigerians the ownership, control, and management of the Nigerian economy. It is a policy meant to promote local participation in all industrial, commercial and financial activities in the country. In Nigeria, therefore, indigenisation involves government intervention of 'acquire and control, on behalf of the Nigerian society, the greater proportion of the productive assets of the country'

## 2.2 Learning Outcomes

By the end of this unit, you should be able to:

- discuss the transference of ownership control to Nigerians, in respect of those enterprises formerly wholly or mainly owned, and controlled by foreigners
- foster widespread ownership of enterprises among Nigerian citizens
- foster the development of the Nigerian capital market
- create opportunities for Nigerian indigenous businessmen
- raise the level of intermediate capital goods production in the domestic economy
- Encourage foreign businessmen and investors to move from the unsophisticated area of the economy to the area where larger

investment in terms of managerial skills, and capital, are more needed, e.g. the intermediate and capital goods production sector.

## 2.3 Indigenization Policy in Nigeria

### 2.3.1 Reasons for the Indigenization Policy in Nigeria

i. Before the indigenisation policy in Nigeria, foreigners dominated the ownership and management of firms in the country.
ii. The cost implications to Nigerian economy and inimical to her development were the concerns of the government.
iii. Those foreign firms proved irresponsive to many years of moral suasion by successive governments of the country for employment of qualified Nigerians, for the moderation of their pricing and wage policies, for managerial and technical training, and the development of their Nigerian employees.
iv. The operations of foreign-owned firms in the country became increasingly costly to the Nigerian economy.

**Self-Assessment Exercise 1**

| |
|---|
| In your own opinion, what are the reasons for indigenisation in Nigeria? |

## 2.4 Disadvantages of Indigenisation

a) Indigenisation could be misinterpreted by aliens as a crippling nationalisation
b) Reduction in foreign ownership may reduce the volume of funds for industrial investment
c) Fear of further indigenisation in the future might deter potential foreign investors
d) The resulting exodus of some skilled alien manpower reduced total jewellery, including imitation jewellery for the general public; fish and shrimp; trawling and processing; garment manufacture; industrial cleaning; internal air transport; insurance of all classes; lithe rage; manufacture of dairy products, butter, cheese, milk and other milk products; manufacture of plastic products; manufacture of tyres and tubes for bicycles, motorcycles, motor vehicle, etc.

## 2.5 Functions of the Nigeria Enterprises Promotion Board

a) To advance and develop the promotion of enterprises in which citizens of Nigeria shall participate fully and play a dominant role.
b) To advice the commissioner or minister on clearly defined policy/guidelines for the promotion of Nigerian enterprises.
c) To determine any matter relating to business enterprises in Nigeria generally, in respect of commerce and industry which may be referred to in accordance with any directive of the commissioner or minister?
d) To perform such other functions as the commissioner or minister may determine, or as may be conferred on it by the Nigerian Enterprises Promotion Act or any other enactment.

## 2.6 Advantages of Indigenisation

a) Indigenisation ensures economic self-determination, or self-reliance and available skilled manpower, especially in the management and technical cadre
b) It may reduce entrepreneurial intercourse with the outside world, thus impeding 'technological transfer'
c) Greater indigenous control (especially in Nigeria), leads to increased corruption
d) The foreign countries adversely affected may be less interested in technical co-operation
e) Retaliatory price increases might result
f) There may be decreased inflow of foreign tourists
g) Dislike of the indigenisation policy may lead to less enthusiasm for goods made in the indigenized economy
h) Scarcity of certain goods may occur, thus encouraging foreign exchange malpractices, including smuggling and hence, reduced government revenue
i) There is no guarantee that share equity ownership will not be concentrated in few rich hands, thus widening the gap between the rich (the 'haves') and the poor (the 'have-nots').
j) It encourages 'fronting', thus defeating the initial objectives.

**Self-Assessment Exercise 2**

| |
|---|
| Do you now think there are disadvantages in changing the ownership structure of industries in Nigeria? |

## 2.7 Summary

However, the objective of fostering widespread share ownership has not been achieved, since increase in share ownership took place essentially among the rich and the well-to-do individuals, or groups in the country. Indigenisation invariably is about a situation whereby the natives of a country are encouraged to acquire ownership, control and management of their economy.

However, the reasons cut across avoiding a situation whereby foreigners dominate the ownership and management of firms in the country, to where resources are repatriated by foreign based firms to their respective home countries.

Furthermore, the government promulgated in 1972, Nigerian Enterprises Promotion Act (NEPA), which ushered in the implementation of the indigenisation policy in Nigeria.

## 2.8 References/Further Reading and Web Resources

Anyanwu, J.C., Oyefusi, A., Oaikhenan, H.O., Dimowo, F.A. Structure of the Nigerian Economy (1960-1997). Joanee Education Publisher Ltd.

Tayo Lambo (1982). Nigerian Economy: A Text of Applied Economics. Evans Brothers Nigeria Limited.

## 2.9 Possible Answers to Self-Assessment Exercise(s) within the content

**Answer to SAEs 1: In your own opinion, what are the reasons for indigenisation in Nigeria?**

Indigenisation in Nigeria refers to the government policy of promoting and encouraging the participation of indigenous Nigerian businesses and individuals in the country's economy. The main reasons for this policy include: To reduce dependence on foreign businesses and investment; To promote economic growth and development in Nigeria by increasing the participation of Nigerian businesses in the economy; To reduce unemployment and poverty by creating more job opportunities for Nigerians; To promote the use of locally-produced goods and services in order to boost the Nigerian economy and To promote national pride and self-reliance by encouraging Nigerians to take ownership of their own economy and resources.

**Answer to SAEs 2: Do you now think there are disadvantages in changing the ownership structure of industries in Nigeria?**

Indigenization policies, like any policy, can have both advantages and disadvantages. Some potential disadvantages of changing the ownership structure of industries in Nigeria through indigenization include: Reduced foreign investment, Lack of expertise, Reduced economic efficiency, Possibility of corruption and It may also lead to a decrease in the quality of goods and services provided by the companies. It's important to note that these are potential disadvantages and the actual impact of indigenization policies would depend on how they are implemented and enforced

# Unit 3 Poverty in Nigeria

## Unit Structure

3.1 Introduction
3.2 Objectives
3.3 Poverty in Nigeria
 3.3.1 Poverty Situation in Nigeria
 3.3.2 Strategy for Poverty Reduction
 3.3.3 Economic Growth
3.4 Access to Social Services and Infrastructure
3.5 Targeting
3.6 Facilitating Strategies
3.7 Summary
3.8 References/Further Reading and Web Resources
3.9 Possible Answers to Self-Assessment Exercise(s) within the content

## 3.1 Introduction

Nigeria has a human population of nearly 110 million people, which is more than 15% of the total population of all of Africa, and almost equal to the total population of the 5 countries of North Africa (Algeria, Egypt, Libya, Morocco and Tunisia). The country also has a land area of about 900,000 sq. km, more than one third of which is arable with minimal irrigation. The country is endowed with a wealth of underdeveloped and untapped water and mineral resources. Recent figures from the government shows a gross domestic product valued at 103 billion for 1995, and 108 billion for 1996. It is therefore a glaring paradox when this great potential is contrasted to the state of the people, with a GNP per capita of $300, life expectancy of about 50, illiteracy rate of about 45%. Infant mortality, maternal mortality, and malnutrition prevalence are all high and increasing.

In contrast to other developing economies, the trend is more disturbing. While Nigeria ranks in the same life expectancy and per capita total consumption brackets with countries like Pakistan, Indonesia and Lesotho in the late 70s, the country is either stagnating or retrogressing in the 90s. These countries now have life expectancy in the range of 60-65 and per capital income between $450 and $900.

The bottom line is that, there is increasing poverty and deprivation in the country, and it is perhaps a slight relief to note that the government has come to the recognition of the situation (of 1996 budget). Poverty alleviation has been listed as one of the objectives of the 1996 budget, as well as a key element of the rolling plan.

As the government, civil society, and the international community embark on the search for the most appropriate and practicable way to tackle the issue of poverty, it becomes crucial to consider the size, form and dynamics of the "beast" called poverty, with a view to designing or inventing the right type of "ammunition" to "destroy" it. This in essence is the approach of this presentation.

## 3.2 Learning objectives

By the end of this unit, you should be able to:

- Discuss the Poverty Situation in Nigeria
- Explain the Strategy for Poverty Reduction
- Analysis the Economic Growth
- Explain the Access to Social Services and Infrastructure
- Discuss the Targeting
- Describe the Facilitating Strategies

## 3.3 Poverty Situation in Nigeria

### 3.3.1 Poverty Situation in Nigeria

Major changes in welfare and poverty in Nigeria can be summarised as follows:

With the first positive oil shock in 1973, there was a dramatic positive impact on most indicators. Real per capita income and per capita private consumption rose sharply, and there was a dramatic increase in real wages, particularly in the non-agricultural sector. Clearly, welfare improved sharply for many Nigerians, and poverty declined during this period.

The picture is mixed, and the welfare and poverty implications are harder to identify. Average real per capita income continues to rise rapidly until 1980, but private consumption per capita remained stable, except for a brief rise in 1978. Real wages in agriculture continued to rise until 1976, after which they remained relatively constant until 1980. But there was a sharp fall in real wages in the non-agricultural sector. The rapid expansion of social services during these years, may have contributed to some overall improvement in welfare, but the proportion of people living in poverty probably did not decline significantly.

There was clearly a serious deterioration in welfare and an increase in poverty during this period. Average per capita income plummeted after 1980, as did private consumption per capita after 1981. Real wages in both agriculture and non-agriculture fell after 1980, and by 1985, were identical, wiping out the large differential between the two that has existed for decades. There is no doubt that the welfare of many Nigerians fell sharply throughout that period, and the poverty also increased. Life expectancy at birth in 1982 was 49 and infant mortality was 96 per thousand.

Annual average caloric intake, which was about 2170, went down to about 2100. However, towards the end of this period, a supply response from agriculture began which generated increased revenue for the rural sector.

There was a broad-based recovery in the economy, fostered by policy reforms. Per capita household expenditures increased by 34 per cent, and poverty declined by 9 per cent. But real incomes did not even get close to their 1980 levels, nor did real per capita private consumption. Real wages in agriculture and non-agriculture fluctuated, but remained low. Thus, while poverty was reduced, the welfare of many Nigerians remained below what it had been in 1980. There were improvements in broad social indicators such as life expectancy, level of literacy, and infant mortality but primary school gross enrollment ratio which was 104 in 1980, went down to about 70 in 1990. In essence, this period recorded a broad decline in poverty, while core poverty continued to worsen.

With a reversal of policies, economic growth again slowed, incomes and welfare declined, and poverty both broad and core, undoubtedly increased. Real wages in agriculture and non-agriculture have fallen significantly since 1987 for agriculture, and since 1990 for nonagricultural workers. By 1994, real per capital income, real per capita consumption, and real wages were all lower than they were in 1970. Literacy rate is now 52%, with infant mortality estimated at about 9 per thousand live births. Thus, in 1995 welfare is lower, and poverty higher than in the pre-oil boom years of the early 1970s.

**Self-Assessment Exercise 1**

| |
|---|
| What could have been responsible for the increase in poverty in Nigeria between 1971-1995? |

### 3.3.2 Strategy for Poverty Reduction

A successful poverty reducing strategy in Nigeria will require a strong and focused emphasis on economic growth, access to social services, and infrastructure and targeting.

### 3.3.3 Economic Growth

The growth and poverty reduction experienced shows that modest growth on its own can bring about a small reduction in the number of poor people, although the proportion of those in poverty is reduced significantly, given the relatively high population growth rate. Simulations of the projected growth shows that a rate of growth of total consumption of between 5-7% would be required to reduce significantly, the proportion of the poor population.

To gradually reduce the number of people in poverty, growth must not only be rapid, but also broad-based, and employment generating. To generate such growth, removal of price distortions, liberalisation of the trade regime, and investment in technology and physical capital, are obvious stimulants. Government may want to maximise its position by focusing its efforts on the policy aspects of improving the welfare of its human resources, and rely more on the informal and private sectors to increase capital investment. Land laws, property rights, and tax structure are vital policy instruments in this regard, particularly for farming, mining, and manufacturing. Improved access to credit technology and materials, and markets, as well as ancillary incentives, to increase output and income are vital to poverty reduction.

## 3.4 Access to Social Services and Infrastructure

Sustained long-term growth depends critically upon increasing the access of poor people to quality social services and essential infrastructure, in order to enable them to increase their human capital and make full use of their main asset, namely their labour. Key priorities are health, education, water supplies and sanitation, rural roads, and urban transport. This requires an increase in funding, in order to expand the number of facilities, and to improve service at each facility. Increasing the supply of and access to, potable water is an important poverty reducer, not only because of the health benefits, but also because many household members (mainly women and children) spend significant amounts of time seeking good water, when they could be free to engage in other gainful activities. Provision and maintenance of rural roads and affordable and timely mass transportation to urban areas, are important to provide people with access to jobs and to markets. Access could be made sustainable through increased community participation in the development and maintenance of infrastructure, and provision of services.

### 3.5 Targeting

Targeted recourse transfers for those who remain in poverty should complement the first two strategy elements. The government can target the delivery of some services and resources to reach poor areas, and to communities living in poverty, building on existing community-based organisations and activities, where possible. Targeted programmes are obviously imperative, given the level and profile of poverty in Nigeria. Some elements of targeting should be introduced into public expenditure, particularly for social sector spending. Primary education, health care, and basic infrastructures should command larger share of their sectoral allocation.

In making a strong case for a new initiative on poverty alleviation in Nigeria, the Poverty Alleviation Programme Development Committee of the National Planning commission did suggest that, "a poverty programme should contain a large number of relatively small, well targeted, demand driven projects and sub-projects that can be implemented by the communities themselves". The new initiative is named Community Action Programme for Poverty Alleviation (CAPPA). A core element of CAPPA will be the provision of a support mechanism of finance projects which are initiated, proposed, and implemented by the intended beneficiaries (poor groups and communities), with the support of CBO's and NGO's, where necessary.

### 3.6 Facilitating Strategies

The, effectiveness of the strategy outlined above will depend critically upon increasing the institutional capacity and degree of accountability within each level of government, and or, intervention agencies, decentralization and good governance. In this regard, three key issues need to be noted. Reforming the role of the public sector, civil society and private sector participation and decentralisation.

Limitations on government resources highlight the need for government to rely more on the private sector, NGOs, and Community-Based Organizations (CBO) to undertake activities for which they are better suited. The PPA has shown that NGO's, CBOs, and even profit making private sector agencies have comparative advantage over government agencies in ensuring wider participation in needs identification, project planning and implementation, for effectiveness. These organisations and their leaders generally share the value of their constituencies and retain their confidence. Relying more on these groups, will require a considerable reform and reorientation away from direct government provision of some services toward demand-driven policies. Public sector institutional accountability and capacity, particularly for monitoring and coordination, must be strengthened. NGOs and CBOs will also need substantial strengthening to contribute meaningfully to equitable development. As their deep knowledge of the communities is being tapped, their ability to render assistance also needs to be amplified through the provision of financial resources and training.

The PPA has shown the necessity for understanding local situation, if development efforts are to be effective. Projects planning must be based on locally perceived needs and implementation preferences, as well as capability, rather than on a blueprint developed at a higher level. This implies a need to examine the roles played by each level of government, or intervention agencies. They key issues here include: the fiscal and expenditure responsibility of each level of government, resource control and transfers, and programme coordination. The current distribution of responsibilities and authorities in Nigeria presently does not make for effectiveness of local level based institutions.

**Self-Assessment Exercise 2**

| |
|---|
| Do you think economic growth will reduce poverty without increasing the access of poor people to quality social service? |

## 3.7 Summary

It is notable from the above, that Nigeria now faces enormous development challenges that are key to both welfare improvements for the general population and to poverty reduction in particular. Given the state, magnitude and dynamics of poverty in the country, it is imperative that government makes a firm commitment to poverty reduction, making it the core element of the development strategy. There is the need to establish a viable and stable macro-economic framework, and to streamline the incentive regime to promote broad-based economic growth with equity. This implies adopting sectoral policies, and re-arranging priorities in public expenditures, to promote efficient economic growth, increase productivity, and target the poor. Secondly, there is the need to reform the public sector, work in partnership with the private sector and the civil society. These challenges point to the need for Nigeria to make a fundamental shift away from policies and institutional arrangements that promote rent seeking, to policies, programs and institutions that promote efficient, sustainable, and broad-based growth and poverty reduction.

To address these challenges, there is a broad consensus within the country that a new approach to poverty reduction is needed. A rapidly growing economy is a must. The cake has to be baked first. Sharing the cake must, however, be equitable. Participation in the growth process is the surest way of ensuring poverty- reduction growth. Participation in the planning and implementation processes of development programmes can be widened and deepened. This can be achieved through decentralisation and the formation of new arrangements with community-based organisations, and with nongovernmental organisations, as well as with the private sector. This arrangement should also build on the initiatives and existing practices of the intended beneficiaries of the development programmes.

The paradox of Nigeria's development is thought provoking to planners, policy makers, and particularly, to development workers, both within and outside the country. The country is rich, but the people are poor, Nigeria is rich in land, people, oil and natural gas resources, but the people could hardly eat, drink or clothe themselves, not to talk of being largely unhealthy and uneducated. To reduce poverty in Nigeria will require a strong focus and emphasis on economic growth, access to social service, and infrastructure and targeting.

## 3.8 References/Further Reading/WebResources

Foluso Okunmadewa (1996). Poverty Reducing Growth Strategies and Options. C.B.N/World Bank Collaborative Study.

Molem, C.S.(nd). Growth and Development of Nigerian Economy. Kaduna: Silver Bond Publisher.

## 3.9 Possible Answers to Self-Assessment Exercise(s) within the content

**Answer to SAEs 1: What could have been responsible for the increase in poverty in Nigeria between 1971-1995?**

There are several factors that may have contributed to the increase in poverty in Nigeria between 1971 and 1995. Some of these include: Economic mismanagement, Corruption, Dependence on oil, Political instability, and Income inequality. Overall, it was a combination of these factors that led to the increase in poverty in Nigeria during the 1970s and 1980s.

**Answer to SAEs 2: Do you think economic growth will reduce poverty without increasing the access of poor people to quality social service?**

Economic growth alone is not enough to reduce poverty without increasing access to quality social services for poor people. While economic growth can lead to an overall increase in wealth and resources, it does not necessarily ensure that these resources are distributed equitably or that they reach the poorest members of society. In the absence of access to quality social services such as education, healthcare, and welfare programs, the benefits of economic growth may not be enough to lift people out of poverty.