**COURSE GUIDE**

# DES 215
# NIGERIAN ECONOMY IN PERSPECTIVE I

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## Introduction

**DES 215** Nigerian Economy in Perspective 1 is a three-credit and one-semester undergraduate course. It comprises of 20 units subdivided into five modules. This course guide gives an overview of the course. It offers you with the necessary information on the organisation as well as requirements of the course.

## Course Competencies

This Course guide provides you with an overview of what you should expect in the course of study. DES 215: Nigerian Economy in Perspective 1 gets you acquainted with the profile of the Nigerian economy; the evolution, structure and contribution of the agricultural and industrial sectors of the economy were equally exposed. The course further appraises the structure of some past and present government plans, policies and programmes as it affects the economic structure and development in Nigeria.

## Course Objectives

To achieve the aims of this course, there are overall objectives which the course is out to achieve, though, there are set out objectives for each unit. This is to assist the students in accomplishing the tasks entailed in this course. The objectives serves as study guides, such that student could know if he is able to grab the knowledge of each unit through the sets of objectives in each one. At the end of the course period, the students are expected to be able to:

- Explain the basic concepts of economic structure and systems
- Outline the features and profile the Nigerian economy before and after independence
- Discuss the evolution, structure and contribution of agricultural and industrial sectors to economic development before and after independence in Nigeria
- Appraise the challenges and prospects of the agricultural and industrial sector in Nigeria
- Evaluate the effectiveness of some Nigerian government plans, policies and programmes to economic structure and development.

## Working Through this Course

The study units in distance learning are replacements of the university classroom lectures. A major advantage of distance learning is that you can read and work at the same time through specially designed study materials. It assists you to study at your own pace, your own time and places that go well with you. Consequently, you shall have to read the lectures instead of listening to a lecturer. Just like a lecturer might give you some readings to do, so also are the study units which provides you with readings on the units as well as exercises to do at the end of each units. It also consists of instructions on when you should read each unit in the course material and when you should do your assignments. The study units follows a common simple format where the first item is an introduction to the subject matter of each unit followed by how a particular unit is integrated with the other units and the whole course.

In each unit, there are set of learning objectives intended to assist you to know what you should be able to do or what you should grab from the unit after completing it. These objectives should be your study guide such that at the end of completing each unit, you should reflect and check whether you have achieved the set objectives. Cultivating this habit will considerably increase your probability of passing the course. The main body of a unit guides you through the required reading from other sources. This will guide you through reading from other sources such as your text book or course guides. Realistic plans of working through the course are as follows: Phone or email your tutor if you have any trouble with any unit. Do not hesitate to call or email your tutor to provide assistance to you when you need one. In addition, follow the advices below carefully:

1. It is advisable you read the course guide with necessary care. See this as your first assignment.
2. Try to arrange a study plan by referring to the Course Overview in the Course Guide. The expected time to spend on each units and the assignment related to it should be well noted. Writing out your own dates for working on each unit according to your study plan is a good idea.
3. Stick to your study plan after you have created one. Student usually failed because they are lagging behind in their course work. In case you have any complexity in your study plan, do not hesitate to inform your tutor before it is too late.
4. Turn to each unit and read carefully the introduction and the objectives for them.
5. Information about what you need for a unit is given in the "Overview" at the beginning of a unit.
6. The contents of a unit is presented in such a way that it provides you with a sequential order to follow, so work through the course units. As you work through each unit, use it to guide your readings. You may be required to read sections from one or more references other than the Course Material.
7. It is suitable if you can review the objectives for each unit for you to know if you have achieved them or not. In case you feel uncertain after reviewing the objectives, review the study material or consult your tutor.

8. But when you feel convinced that you have achieved unit objectives, you can then move to the next unit. Progress unit by unit through the course and space your study plan such that you ensure you're on to-do list.
9. After submission of an assignment, do not wait for your marks before you proceed to the next unit so as to keep to your study plan. If you have any question, clarification or observation, contact your tutor as soon as possible.
10. On completion of the last unit, evaluate the course; check that you have achieved the objectives of each unit as listed in each unit and the overall Course objectives in the Course Guide. Then get prepared for the final examination.
11. The latest course information to keep you current about the course will be continuously available at your study center. So keep in touch.

**Study Units**

There are 20 units (grouped under five modules) in this course stated as follows:

**Module 1 Understanding Nigerian Economic Structure and System**

Unit 1 Concept of Economic Structure
Unit 2 Concept of Economic System and Structural Dualism
Unit 3 Profile of the Nigerian Economy
Unit 4 Overview of the Nigerian Economy

**Module 2 The Nigerian Agricultural Sector**

Unit 1 The Characteristics and Importance of the Nigerian Agricultural Sector
Unit 2 The Agricultural Sector during Pre-independence and Post-Independence Period
Unit 3 The Challenges and Prospects of the Nigerian Agricultural Sector
Unit 4 Policy Intervention in the Nigerian Agricultural Sector

**Module 3 The Nigerian Industrial Sector 1- General Overview; Manufacturing Subsector**

Unit 1 Concepts and Importance of the Industrial Sector
Unit 2 The Manufacturing Subsector during Pre-Independence and Post-Independence Period

Each study unit will take at least two hours, and it includes the introduction, objective, main content, self-assessment exercise, conclusion, summary and reference. Other areas border on the Tutor-Marked Assessment (TMA) questions. Some of the self-assessment exercise will necessitate discussion, brainstorming and argument with some of your colleges. You are advised to do so in order to understand and get acquainted with historical economic events as well as notable periods.

There are also textbooks under the reference and other (on-line and off-line) resources for further reading. They are meant to give you additional information if only you can lay your hands on any of them. You are required to study the materials; practice the self-assessment exercise and tutor-marked assignment (TMA) questions for greater and in-depth understanding of the course. By doing so, the stated learning objectives of the course would have been achieved.

## References and Further Readings

Recommended books and eBooks for this course can be downloaded online as specified for References and further readings.

## Presentation Schedule

The date of submission of all assignments and date for completing the study units as well as the final examination dates shall be communicated to you online.

**Assessment**

You shall be examined on all areas of this course and your final examination for DES215 shall be 3 hours duration. It is necessary that you read through the units over and over again before the final examination. The final examination shall cover all the self-assessment questions for practice and the tutor-marked assignments that you have come across earlier. Thus it is advisable you revise the whole course material after studying from the first to the last units before you sit for the final examination. It is also advisable that you evaluate the tutor-marked assignments and your tutor's comments on them before you sit for the final examination.

**How to get the Most from the Course**

In distance learning the study units replace the university lecturer. This is one of the great advantages of distance learning; you can read and work through specially designed study materials at your own pace and at a time and place that suit you best.

Think of it as reading the lecture instead of listening to a lecturer. In the same way that a lecturer might set you some reading to do, the study units tell you when to read your books or other material, and when to embark on discussion with your colleagues. Just as a lecturer might give you an in-class exercise, your study units provides exercises for you to do at appropriate points.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit and how a particular unit is integrated with the other units and the course as a whole. Next is a set of learning objectives. These objectives let you know what you should be able to do by the time you have completed the unit.

You should use these objectives to guide your study. When you have finished the unit you must go back and check whether you have achieved the objectives. If you make a habit of doing this, you will significantly improve your chances of passing the course and getting the best grade.

The main body of the unit guides you through the required reading from other sources. This will usually be either from your set books or from a readings section. Some units require you to undertake practical overview of historical events. You will be directed when you need to embark on discussion and guided through the tasks you must do.

The purpose of the practical overview of some certain historical economic issues are in two folds. First, it will enhance your understanding of the material in the unit. Second, it will give you practical experience and skills to evaluate economic arguments, and understand the roles of history in guiding current economic policies and debates outside your studies. In any event, most of the critical thinking skills you will develop during study are applicable in normal working practice, so it is important that you encounter them during your studies.

Self-assessments are interspersed throughout the units and answers are given at the ends of the units. Working through these tests will help you to achieve the objectives of the unit and prepare you for the assignments and the examination. You should do each self-assessment exercises as you come to it in the study unit. Also, ensure to master some major historical dates and events during the course of studying the material.

The following is a practical strategy for working through the course. If you run into any trouble, consult your tutor. Remember that your tutor's job is to help you. When you need help, don't hesitate to call and ask your tutor to provide it.

1. Read this Course Guide thoroughly.
2. Organize a study schedule. Refer to the `Course overview' for more details. Note the time you are expected to spend on each unit and how the assignments relate to the units. Important information, e.g. details of your tutorials, and the date of the first day of the semester is available from the study centre. You need to gather together all this information in one place, such as your dairy or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working breach unit.
3. Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their course work. If you get into difficulties with your schedule, please let your tutor know before it is too late for help.
4. Turn to Unit 1 and read the introduction and the objectives for the unit.
5. Assemble the study materials. Information about what you need for a unit is given in the `Overview' at the beginning of each unit. You will also need both the study unit you are working on and one of your set books on your desk at the same time.
6. Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the unit you will be instructed to read sections from your set books or other articles. Use the unit to guide your reading.
7. Up-to-date course information will be continuously delivered to you at the study centre.
8. Work before the relevant due date (about 4 weeks before due dates), get the Assignment File for the next required assignment.

Keep in mind that you will learn a lot by doing the assignments carefully. They have been designed to help you meet the objectives of the course and, therefore, will help you pass the exam. Submit all assignments no later than the due date.

9. Review the objectives for each study unit to confirm that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult your tutor.
10. When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to pace your study so that you keep yourself on schedule.
11. When you have submitted an assignment to your tutor for marking do not wait for its return `before starting on the next units. Keep to your schedule. When the assignment is returned, pay particular attention to your tutor's comments, both on the tutor-marked assignment form and also written on the assignment. Consult your tutor as soon as possible if you have any questions or problems.
12. After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objectives (listed in this Course Guide).

**Online Facilitation**

The course, Introduction to Development Studies II (DES 112), exposes you to development planning and the reasons why planning is essential for economic growth and development. Development planning might be more important to underdeveloped or developing countries because of the need to step-up growth. The modules also teach you various non-governmental institutions/organizations involved in planning process, both directly and indirectly. Although, there is no country without a development plan, however, planning varied across countries and it is mainly influenced by cultural, political and economic systems. Apart from planning commission and government agencies, planning process also involves Non-Governmental Organizations (NGOs) assisting in one way or another to complement government efforts. These NGOs together with regional and international organizations have assisted in adding more values to development planning in many developing countries. Nigeria is one of the developing countries which have benefited from assistance offered by the international organizations. Nevertheless, the conditions for obtaining assistance remain unfavourable to the underdeveloped or developing countries. This means that for the feasibility of success of development planning, planners in developing countries may have to look inwards and annex domestic resources to realize development planning objectives.

**Module 1 Understanding Nigerian Economic Structure and System**

Unit 1 Concept of Economic Structure
Unit 2 Concept of Economic System and Structural Dualism
Unit 3 Profile of the Nigerian Economy
Unit 4 Overview of the Nigerian Economy

**Module 2 The Nigerian Agricultural Sector**

Unit 1 The Characteristics and Importance of the Nigerian Agricultural Sector
Unit 2 The Agricultural Sector during Pre-independence and Post-Independence Period
Unit 3 The Challenges and Prospects of the Nigerian Agricultural Sector
Unit 4 Policy Intervention in the Nigerian Agricultural Sector

**Module 3 The Nigerian Industrial Sector 1- General Overview; Manufacturing Subsector**

Unit 1 Concepts and Importance of the Industrial Sector
Unit 2 The Manufacturing Subsector during Pre-Independence and Post-Independence Period
Unit 3 The Challenges and Prospects the Industrial Sector in Nigeria

**Module 4 The Nigerian Industrial Sector 2- Mining And Quarrying Subsector**

Unit 1 The Characteristics and Importance of Mining
Unit 2 The Crude Oil Industry
Unit 3 The Solid Minerals and Associated Natural Gas Industry.
Unit 4 The Challenges and Prospects of the Mining Subsector.

**Module 5 Economic Plans, Policies And Programmes 1**

Unit 1 Development Planning in Nigeria (1st- 4th plans)
Unit 2 Indigenisation Policy
Unit 3 Structural Adjustment Programmme (SAP).
Unit 4 The Challenges and Prospects of the Mining Subsector.

# Module 1 Understanding Nigerian Economic Structure and System

## Introduction

The general aim of this module is to introduce you to the basic concept of economic structures and systems which is essential to the understanding of the workings of any economy. Key elements include the definition of economic structure and systems. In addition, you will be introduced to the broad profile and structure of Nigerian economy as a follow up to the theoretical framework aforementioned. This module aims at providing theoretical background for the comprehensive understanding of the empirical profiles and structure of the Nigerian economy in aggregate and sectoral terms.

This module which introduces the concept of economic structure and system is made up of four units; in the first unit, you will have the opportunity of acquainting yourself with definitions of economic structure, determinants of economic structure and sector as a basic unit of structural analysis. The second unit reviews the various economic systems as a determinant of the economic structure in addition to structural dualism and factors of diversity. In the third unit, an insight into the profile of the Nigerian economy is given while the last unit discusses a general overview of the Nigerian economy in aggregate terms. Successive units in this module are linked with one another. By the end of this module, you would have refreshed your memory on the meaning of economic structure, identify various types of economic systems and conceptualise the profile and structure of the Nigerian economy.



## Unit 1 Concept of Economic Structure

## 1.1 Introduction

You must have read the Course Guide. I also assume that you have familiarised yourself with the introductory comments in Module 1. This unit is the first among the four 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 explained here, hence, requires your maximum attention and understanding.

## 2.0 Learning Outcomes

At 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 Main Content

### 1.3.1 What is 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. To start with, I consider it important for us to examine what 'economic structure' is all about. I believe this will provide a convenient platform for us to have a full grasp of the entire course content.
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 organisational 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 organisational 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. Issues on structural diversity and the factors responsible for such will be discussed in the next unit of this module.

Self-Assessment Exercises 1

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|---|
| In line with scholarly guide from the above definitions, construct a definition of your own on 'economic structure'. |

### 1.3.2 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 programmes.

Self-Assessment Exercises 2

| |
|---|
| In What way is the study of Economic Structure significant in Nigeria? |

**1.4 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 Exercises 3

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

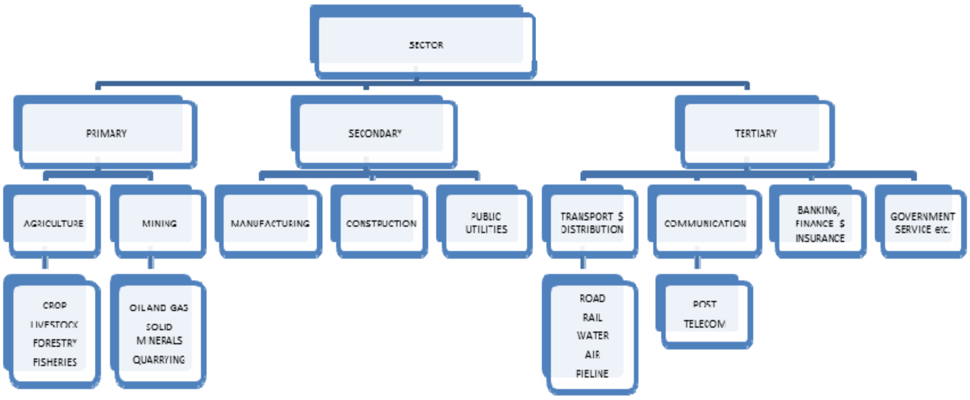
### 1.4.1 Unit of Analysis of Economic Structure

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 (see Fig. 1.1.1)

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.

Fig 1.1.1 Classification of Sectors




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)

Self-Assessment Exercises 4

| |
|---|
| Attempt a classification of 10 working members of your family into primary, secondary or tertiary sector workers. |

## 1.6 Summary

From our discussion so far on the concept of economic structure, we can infer the following facts:

- For effective functioning of any nation, it must possess a formidable structure upon which its economy is built.
- The economic structure describes how an economy is organised in terms of production and allocation of resources.
- A study of economic structure serves as a diagnostic as well as planning tool in the economy
- The structure of any economy is largely determined by its economic ideology often referred to as ‘economic systems’.
- An economy is best analysed in terms of its simplest unit termed ‘sectors’
- The three main sectors in any economy are the ‘primary’ ‘secondary’ and ‘tertiary’ sector

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 harmonisation, 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.

## 1.7 References/Further Readings

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## 1.8 Possible Answers to SAEs

**Answers to SAEs 1**

➢ 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.

**Answers to SAEs 2**

➢ The significances of the study of economic structure are

- 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.
- The study of economic structure enables us to formulate policies to prevent or minimize deviations from the accepted developmental or structural norm.

- 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.

**Answers to SAEs 3**

the Key Determinant of Economic Structure are prominent; the market or capitalist economic system, the centrally planned or social system and the mixed economic system

**Answers to SAEs 4**

- In primary sector: farming- crop agriculture, Livestock, forestry, Fishing,
- In secondary construction and public utility industries of gas, water and electricity.
- In tetarry transportation, distribution, banking and finance, communication, hotel and restaurant, real estate, health

# Module 1 - Unit 2: CONCEPT OF ECONOMIC SYSTEM & STRUCTRAL DUALISM

**CONTENTS**



## 2.1 Introduction

You will recall that we established in unit 1that 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, student will 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 Main Content

### 2.3.1 Economic Ideologies

**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.

**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.

**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.

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

**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 Exercises 1

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

**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 Exercises 2

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

## 2.4 Economic Systems

### 2.4.1 **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.

### 2.4.2 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 Exercises 3

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

### 2.4.3 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.

### 2.4.4 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.

### 2.4.5 The Market Socialist Economic Systems

This is a form of mixed economic system characterized 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 Exercises 4

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

### 2.5. Structural Dualism in Developing Economies

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.

### 2.5.1 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.

Self-Assessment Exercises 5

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|---|
| How will the degree of physical and natural resource endowment influence structural diversity in an economy? |

## 2.6 Summary

From our discussion so far we have examine 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.

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## 2.8 Possible Answers to SAEs

**Answers to SAEs 1**

1. This means the highest and last stage of capitalism, when 'free competition gives way to the dominance of monopolies and finance capital is established; 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 selfappointed elite.

**Answers to SAEs 2**

2. 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.

**Answers to SAEs 3**

3. In a pure mark-et or capitalist economic system the emphasis is on private ownership and control of resources, production and distribution process. There is complete decentralisation of everything. 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.

**Answers to SAEs 4**

Nigeria presently is more of a capitalist economy because The productive assets are purely in the hands of private owners whose objective of operation is profit maximisation.

**Answers to SAEs 5**

The geographical features in terms of the location, size, and the inherent ecological system

The nature of production and the degree of the diversification of the production base; and

The type of political features with the degree of external dependence.

## Module 1 - Unit 3: PROFILE OF THE NIGERIAN ECONOMY

**CONTENTS**



### 3.1 Introduction

In the first two units of this module, the fundamental concepts upon which an economy can be analysed (i.e. the economic structure and systems) has been discussed in details. This has no doubt provided a foundation for the understanding of this unit and the next unit in this module. This third unit of module 1 tries to profile the Nigerian economy under various headings. These include: the geographical and demographic, socio-cultural, political and institutional, and resource profiles of Nigeria. In actual fact, all these aforementioned indices have a lot to do with the economic structure of the country as the economy does not operate in vacuum. In order words, the geographical and demographic settings, socio-cultural, political and institutional features and available resources among other factors to a large extent determine the structure of any economy. Similarly, the overview of the Nigerian economy as will be discussed in the next unit will be predicated on this background. This is the more reason why this unit must be treated with utmost attention and concentration.

## 3.2 Learning Outcomes

At the end of this unit student will 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 Main Content

### 3.3.1 The Geographical and Demographic Profile of Nigeria
### 3.3.2Background to Geographic and Demographic Profile

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.

### 3.3.3 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, Cross river, 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, characterised 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 Exercises 1

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|---|
| 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 stateowned 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.

**3.5 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.

Fig. 1.3.1: Map of Nigeria Showing the States


### 3.5.1 The Resource profile of Nigeria

**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.

### 3.5.2 Natural 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-cum- extraction, 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 Exercises 3

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

## 3.6 Summary

In this unit, we learnt in terms of geographic and demographic feature that Nigeria is essentially a tropical region which constitutes the largest population in Africa with five main distinct vegetations. The country is blessed with rivers, mountains and two main seasons; dry and wet season of varying temperature and rainfall. Politically, Nigeria has operated under protracted period of military rule and currently stabilising her civilian rule and perfecting its acclaimed federalism system of government. Apart from natural agricultural resource endowment, Nigeria also possesses numerous natural resources of which oil and gas is dominant along with other solid minerals with great potential for exploration. Human and capital resources equally form a base for the Nigerian economy to thrive.

In this unit, we had the opportunity of analysing the fundamental features of the economy that goes a long way in shaping its structure as well as determining the pace of economic development. We started with an exposure of the geographical features of Nigeria and proceeded to a discussion on the Nigerian political system. To crown it the resource profile of Nigeria were rendered. In essence the unit forms bedrock for evaluating the potential of Nigeria as a nation and consequently the implication of these profiles in determining the economic structure of Nigeria. You will appreciate the knowledge of these profiles better when an overview of the Nigerian economic structure is being discussed in the next unit.

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## 3.8 Possible Answers to SAEs

Answers to SAEs 1

1. 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.

**Answers to SAEs 2**

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.

# Module 1 - Unit 4: OVERVIEW OF THE NIGERIAN ECONOMY

Contents:



## 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

At the end of this unit students are expected to:

1. Categorise the Nigerian economy based on the three prominent criterion
2. Describe the features of the Nigerian economy during the pre-independence era
3. 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.

## 4.4 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. The performance of the economy during the pre-independence period is summarized in the Table 1.4.1 below:

Table 1.4.1: Nigerian Pre-Independent Economic Performance Indices

| Expenditure Category( £) | 1950 ( £) | 1955 ( £) | 1960 ( £) | Increase Amount( £) | 1950-1960 % Increase | % Per Annum |
|---|---|---|---|---|---|---|
| Gross Domestic Product (GDP) | 699.3 | 891.9 | 1023.9 | 329.7 | 42.1 | 4.1 |
| Govt. exp. on Goods and serv. (GE) | 24.0 | 45.5 | 77.0 | 53.0 | 220.8 | 22.1 |
| Gross Fixed Invest. (GFI) | 48.4 | 102.6 | 158.0 | 109.6 | 226.4 | 22.6 |
| Consumption Expen. (CE) | 609.4 | 805.5 | 870.0 | 260.6 | 42.76 | 4.28 |
| G.E as % of GDP | 3.4 | 4.9 | 7.7 | 4.3 | 126.5 | 12.7 |
| GFI as % of GDP | 6.9 | 11.1 | 15.4 | 8.5 | 123.2 | 12.3 |
| C. E as % of GDP | 87.1 | 87.4 | 85.0 | -2.1 | -2.4 | -0.2 |

As shown in Table 1.4.1, the 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.

**4.4 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 the manufacturing sector. Generally, the structural adjustment programme led to increase in nominal GDP.
Table 1.4.2 presents the level and sectoral distribution of the country's Real GDP between 1960 and 2010.

Table 1.4.2: Nigeria Real Gross Domestic Product 1960-2010(Nmillion)

| | **Sectors** | **1960** | **1965** | **1970** | **1975** | **1980** | **1985** |
|---|---|---|---|---|---|---|---|
| **1** | **Agric** | **1, 599.8** | **1,742.2** | **1, 887.7** | **7,639.4** | **6,5018.8** | **65,748.4** |
| | **Crop** | **1, 284.4** | **1, 366.2** | **1,437.0** | **4,942.8** | **3,944.7** | **52,750.9** |
| | **Livestock** | **139.6** | **158.0** | **143.8** | **973.1** | **1,557.1** | **8,856.2** |
| | **Forestry** | **131.8** | **143.4** | **129.2** | **320.5** | **270.7** | **2,310.9** |
| | **Fisheries** | **44.0** | **74.6** | **177.7** | **1, 403.1** | **729.4** | **1,830.4** |
| **2** | **Industry** | **145.6** | **370.8** | **819.1** | **7,463.0** | **10,922.9** | **85,097.4** |

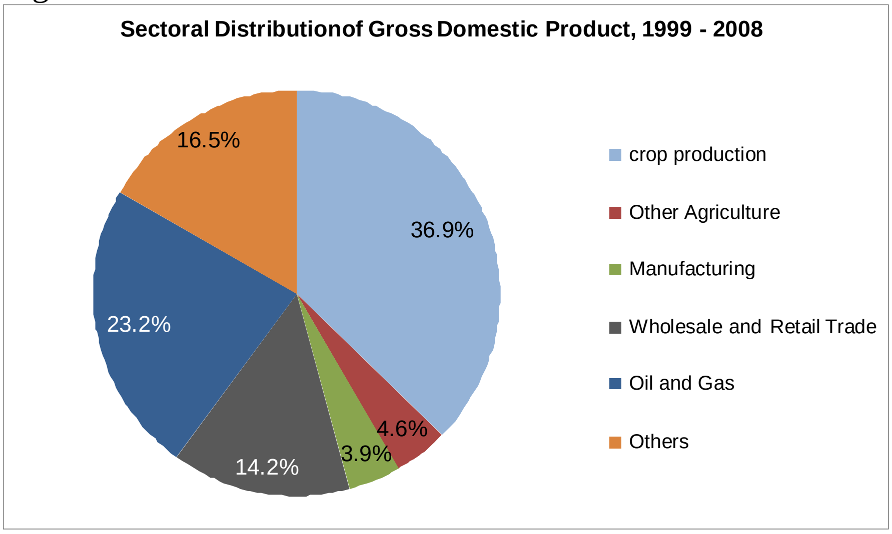
| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **CrudePetr.&gas** | **11.0** | **116.8** | **465.6** | **5,770.6** | **6,754.3** | **72,152.0** |
| | **Solid Minerals** | **20.6** | **33.0** | **35.9** | **505.9** | **682.7** | **913.0** |
| | **Manufacturing** | **114.0** | **221.0** | **317.6** | **1,186.5** | **3485.9** | **12,032.4** |
| **3** | **Building& Construction** | **110.8** | **162.2** | **221.0** | **1,932.5** | **1,932.5** | **3,308.0** |
| **4** | **Wholesale & Retail Trade** | **309.4** | **418.4** | **512.9** | **5,718.9** | **6,318.0** | **27,876.7** |
| **5** | **Services** | **323.4** | **453.2** | **778.3** | **4,418.3** | **4,748.1** | **19,005.7** |
| | **Total GDP** | **2,489.0** | **3,146.8** | **4,219.0** | **27,172.0** | **31,546.8** | **201,036.3** |
| | **Sectors** | **1990** | **1995** | **2000** | **2005** | **2008** | **2010** |
| **1.** | **Agric** | **83,344.6** | **96,220.7** | **117,945.1** | **233,463.6** | **283,175.4** | **316,728.7** |
| | **Crop** | **68,416.7** | **80,702.8** | **98,392.6** | **206,178.4** | **252469.7** | **282,049.7** |
| | **Livestock** | **9,562.0** | **10,051.3** | **11,449.9** | **14,643.9** | **17,877.6** | **20,264.1** |
| | **Forestry** | **2,149.1** | **2,421.9** | **2,555.5** | **3,005.4** | **3,587.5** | **4,019.3** |
| | **Fisheries** | **4,216.8** | **3,044.6** | **5,547.1** | **7,636.0** | **9,240.5** | **10,395.6** |
| **2** | **Industry** | **115,591.4** | **108,162.7** | **121,756.6** | **159,161.4** | **146,519.6** | **157,905.0** |
| | **Crud.Petr.& gas** | **100,223.4** | **93,536.7** | **106,827.5** | **136,345.5** | **116,594.6** | **122,957.9** |
| | **Solid Minerals** | **665.6** | **789.8** | **970.2** | **1,510.8** | **2,118.3** | **2,665.8** |
| | **Manufacturing** | **14,702.4** | **13,836.1** | **13,958.8** | **21,305.1** | **27,806.8** | **32,281.3** |
| **3** | **Building &Construction** | **4,350.8** | **5,221.7** | **6,433.8** | **8,544.5** | **12,338.8** | **15,484.9** |
| **4** | **Wholesale& Retail Trade** | **35,837.7** | **38,310.1** | **43,161.9** | **77,283.1** | **117,002.9** | **145,034.5** |
| **5** | **Services** | **27,425.6** | **32,492.3** | **39,881.5** | **85,478.8** | **113,165.8** | **140,372.6** |
| | **Total GDP** | **267,550.0** | **281,407.4** | **329,178.7** | **561,931.4** | **672,202.6** | **775,525.7** |

Source: Central Bank of Nigeria, Statistical Buletin, Golden Jubilee Edition, 2008; National Bureau of Statistics, Statistical Bulletin, 2010 compilled edition

*Note that the GDP was compiled from 1960-1973 using 1962/1963 constant basic price, from 1974-1980 using 1977/1978 constant basic price and from 1981-2010 using 1990 constant basic price It is apparent from Table 1.4.2 that Nigeria's total GDP using 1962/63 constant basic price was N2.5 billion at independence in 1960. This figure consistently rose to N4.2billion in 1970 and N31.5 billion in 1980. In 1990, the total GDP value amounted to N267.6 billion and by 2000 the total GDP valued at 1990 constant basic price was N329. 2 billion. This has recently surged to N775. 5 billion in the year 2010. Out of this total, agriculture accounted for more than 40 percent in most of the period of analysis, constituting agriculture to be the largest contributor to Nigeria's output of goods and services. Although in relative terms the contribution has fluctuated over time and its contribution in recent time was not as much as its contribution at independence. Crude oil sector accounted for about 21.4 percent in 1980. In absolute terms, this contribution rose to N106.8 billion in 2000.

This represents about 33.3 percent for that year. It is also apparent from Table 1.4.2 that significant contribution to the GDP in 2000 came from wholesale and retail trade and this increment was sustained till 2010. Significantly, less contribution were made by the solid minerals and the manufacturing subsector of the industrial sector over the years although the industrial sector as a whole witnessed increasing contribution through the crude petroleum and gas subsector. It is important to note that the service sector as a whole recorded substantial improvement from 1995 till 2010 but relatively small compare to other main sectors. The contribution of the building and construction sector has remained minimal in relative terms throughout the period of analysis.

Fig. 1.4.1: Sectoral Distribution of GDP 1999-2008




Source: National Planning Comisssion (2009)

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 90percent 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.

## 4.6 Summary

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.

In this unit we categorised 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.

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## 4.8 Possible Answers to SAEs

# MODULE 2 - THE NIGERIAN AGRICULTURAL SECTOR

## Introduction

From this module 2 you will be taken through specific discussions on different sectors of the Nigerian economy. This module is principally aimed at discussing in details the Nigerian Agricultural Sector.
The module on the Nigerian Agricultural sector is made up of four units; in the first unit, you will be introduced to the nature and characteristics of the agricultural sector, the second unit analyses the status and performance of the sector before and after independence. The third unit reviews the challenges and solution to the problems of agricultural sector in Nigeria. The final unit explains and analyses the policy interventions in the Nigerian agricultural sector.

In this module, you have four homogenous units which are much related in terms of the subject matter. By the end of the module, you would have had a grasp of the nature, structure and contribution of the Nigerian agricultural sector during the pre- independence and post-independence period. In addition, you will be able to have an idea of the prospects and challenges of the Nigerian agricultural sector including policy intervention in the sector over time.

Unit 1 Characteristics and Importance of the Agricultural Sector in Nigeria

Unit 2 The Nigerian Agricultural Sector during Pre-Independence and Post
Independence Periods

Unit 3 The Challenges and Prospects of the Nigerian Agricultural Sector

Unit 4 Policy Intervention in the Nigerian Agricultural Sector

# **Module 2 – Unit 1 -** CHARACTERISTICS AND IMPORTANCE OF THE AGRICULTURAL SECTOR IN NIGERIA

**CONTENTS**



## 1.1 Introduction

I assumed you have familiarised yourself with the basic concepts of economic structure in module 1, you have equally been exposed to an overview of the Nigerian economic profile as a whole. I also believe you have read and comprehend the introductory comments of this module, with these you are set for a detailed discussion on specific sectors of the Nigerian economy. You will recall that we are taking off this broad discussion with the agricultural sector. In this first unit, a background of the Nigerian agricultural sector is provided through a discussion on the nature and scope of the agricultural industry as well as its contribution to the economy. This will no doubt form an integral part of a comprehensive discussion of the Nigerian agricultural sector as continued in subsequent units. Therefore, a basic knowledge of this concept will facilitate your understanding of the remaining units in this module.

## 1.2 Learning Outcomes

At the end of this, student would be able to:

1. Define the meaning and scope of Agriculture
2. Enumerate the Importance of Agriculture to Nation's Development
3. Highlight the Features of Nigerian Agricultural System

## 1.3 Main Content

### 1.3.1 Background to Agricultural Sector

Given the location of the Nigerian economy on the global spectrum and its associated climatology, it is not surprising to find the country endowed with an expansive fertile agricultural land, numerous rivers, streams and lakes, forests of varying types and grasslands. These resources create an impression which indicates that if these enormous resources are well managed and maintained there could emerge in the country, a vibrant agricultural sector supportive of food and raw materials self- sufficiency for the large population and industrial sector in addition to other roles. Inspite of the existence of this impressive magnitude of the deposit of these primary resources for effective agricultural activities in Nigeria, the sector has continuously in empirical terms stagnated due to its diminishing productivity. Despite this drawback the agricultural sector constitutes a dominant sector in the Nigerian economy accounting for an average of 45 percent contribution to the Gross Domestic Product within the last decade. In the light of this, we shall begin our discussion on the agricultural sector in this unit with the basic features and importance of the sector in the Nigerian economy.

### 1.3.2 Meaning and Scope of Agriculture

Agriculture involves the cultivation of land, raising or rearing of animals for the purpose of production of food for man, feed for animals and raw materials for industries. The agricultural sector in the Nigerian context embraces all the sub-sector of the ‘primary industry’. Essentially, it involves cropping, livestock, forestry, fisheries and aquaculture, including sub activities under these sectors such as pasturing, food and cash crop cultivation under cropping; poultry, piggery, cattle rearing under livestock; Lumbering under forestry; as well as processing and marketing of these agricultural products.

Self-Assessment Exercises 1

| |
|---|
| What are the components of agricultural sector in Nigeria? |

## 1.4 The Role of Agriculture in Economic Development

The customary approach to the role of agriculture in economic development is formulated in terms of the "contributions" the agricultural sector can make or the "functions" it can perform during the process of economic development.

To Reynolds (1975), therefore agricultural development can promote the economic development of the underdeveloped countries in four distinct ways;

i. By increasing the supply of food available for domestic consumption and releasing the labour needed for industrial employment;
ii. By enlarging the size of the domestic market for the manufacturing sector;
iii. By increasing the supply of domestic savings; and
iv. By providing the foreign exchange earned by agricultural exports.

Ayodele (2005) captures the goal of agricultural sector in Nigeria as follows:

i. The promotion of self-sufficiency in food for the teaming and fast expanding population and also for the supply of inputs (raw materials) into the industries, especially the manufacturing firms.
ii. The generation of employment opportunities for the country's labour force
iii. The diversification of the sources of foreign exchange-earnings through increased agricultural exports arising from the adoption of appropriate technologies in production and distribution.
iv. Improvement of the socio-economic welfare of people engaged in agriculture, particularly, the rural people enroute the generation of regular income.

Generally, the role of agriculture in transforming both the social and economic framework of an economy cannot be over emphasized. It is a source of food for the teeming population. It is also essential for expansion of employment opportunity, for reduction of poverty and improvement of income distribution, for speeding up industrialisation and easing the pressure on balance of payments. In effect, it has been the main source of gainful employment, from which the nation can feed its teeming population, a regenerative, providing the nation's industries with local raw materials and as a reliable source of government revenue.

In their own contribution, Omowale and Rodrigues (1979) opined that for most developing countries agriculture has been assigned an important role in national development. Agriculture has been seen as a means of reducing dependence on certain importations, containing food price increases, earning foreign exchange, absorbing many new entrants to the labour market and increasing farm incomes at times of severe unemployment and rural poverty.

Agreeing with the above views, Johnston (1970) opines that the appraisal of agriculture's contribution or role in the national economy can be made using for primary criteria, namely;

i. The proportion of the population engaged in agriculture
ii. The share of agriculture in the Gross Domestic Product
iii. The proportion of the nation's resources (other than labour) devoted to or employed in agricultural production, and finally,
iv. The contribution of the agricultural sector to foreign trade.

Thus, in attempting to assess the importance of the agricultural sector in the Nigerian economy we shall look at its contribution to food supply, employment, Gross Domestic Product, export earnings and balance payments.

### 1.4.1 **Agriculture and Food Supply**

Agriculture remains the major source of food for the Nigerian populace. The crop sub- sector parades a large array of staple crops, made possible by the diversity of agro- ecological production systems. The major food crops are: cereals such as sorghum, maize, millet, rice, wheat; tubers such as yam, cassava; legumes like groundnut, cowpeas and others such as vegetables (Akande, 2007). These are the commodities that are of considerable importance for food security and incomes of households. The livestock, fisheries and forestry subsector equally provide food of various forms for the citizenry. Nigerian agriculture has in recent years not been able to meet the food needs of the country. Rather, food production per capita has been declining. In order to supplement the low domestically produced food supply; there has been a substantial rise in food imports. These have taken substantial portions of the much needed foreign exchange thus, hindering development.

### 1.4.2 Agriculture and Employment

More than 70% of the rural population of Nigeria is engaged in one type of agriculture activity or the other. This roughly indicates the extent to which the agricultural sector absorbs the labour force in the country. However, a World Bank Report (1979) puts it that the agricultural sector employed 71% of the total labour force in Nigeria in 1960 and by 1977 this was 68% in 1980, falling to 55% in 1985, 53% in 1986, 55% in 1987, 55% in 1988 and 57% annually from 1989 to 1992. Recent reports equally show that agriculture still employs over 60 percent of the Nigerian population.

One of the most firmly accepted dogmas of economic development is that there is a secular decline of agricultural population and labour force of agriculture's share in the GDP in the course of development. The fall in the proportion of labour force engaged in agriculture is thus theoretically plausible and has been due to the structural changes in the economy where other sectors assuming different dimensions and engaging more labour than they previously did. However, while in the course of economic development, a decreasing proportion of the national labour force which is employed in agriculture over time is inevitable, it is important that agricultural labour productivity increases in order to compensate for the outflow of labour, at a rate not less than that of labour migration less natural increase; and also to have expanding nonagricultural employment opportunities to absorb the out-migration of labour from the agricultural sector. It is necessary to point out that given the importance of labour in agriculture of most African nations including Nigeria, and the poor labour absorptive capacity of their industrial sectors, rapid outflow of labour from the agricultural sector has generated not only social but economic problems as well. A partial consequence of a high labour outflow from agriculture has been a decline of agricultural production in Nigeria in recent years. Enhancement of agricultural labour productivity should therefore be a goal for the country.

### 1.4.3 Agriculture and Gross Domestic Product

Agriculture, specifically in Nigeria is a major contributor to the country's Gross Domestic Product. In the early 60's, agriculture was contributing over 60 percent to the GDP, this dropped to about 20 percent in the 70's. While this trend is theoretically plausible in the cause of economic progress, there are other reasons which explain the rapid decline in the share of agriculture in GDP in Nigeria such as overdependence on oil. The share of agriculture in the GDP from the year 2000 till now has been revolving around 40 percent. However, despite the relative decline in the share of the agricultural sector, it still remains an important sector. And with the exhaustion of oil in the future, the economy will continue to depend critically on the agricultural sector.

### 1.4.4 Agriculture and export earnings

The contribution of agriculture to economic development can also be measured in terms of its contribution to export earnings. Nigeria has a highly diversified agro- ecological condition, which makes possible the production of a wide range of agricultural commodities. Nigeria's wide range of climatic variations allows it to produce a wide variety of food and cash crops. These cash crops were Nigeria's major exports in the decades right up to the 1960s until the surge of world oil prices in the early 1970s (Philip et. al, 2009).The contribution of agriculture increased in absolute terms over the years from N282.4 million in 1960 to N13852.7 million in 1995. Its relative share however declined from 83.2% in 1960 to only 1.8% in 1995. This declining share is being witnessed till 2010.

The reasons usually adduced for these features are its poor performance in terms of productivity and the relative importance of the petroleum sector. Apart from these factors, the relative decline of agriculture can be blamed on declined in world demand for primary products, which constitute the bulk of Nigerian agricultural exports as well as domestic industrial growth in Nigeria which has led to increases in the use of major proportions of some of these products as raw materials. A strategy for increased output is needed to ensure increase export earnings and the adequate supply of raw materials for the growth of local industries.

### 1.4.5 Agriculture and Balance of payments

One must add that increased agricultural output of industrial raw materials reduces dependence on imported inputs and goes to improve our balance of payments position. The invigoration of agriculture is essential not only for expansion of employment opportunity, reduction of poverty, improvement of income distribution and speeding up industrialisation but also for easing the balance of payments. Agriculture in Nigeria performed this enviable role in the 1960s and before the advent of oil. The combined effects of the shortfall led to balance of payments deficits from 1981 to 1994. While net surpluses of N1.8 million and N2.4 billion were recorded in 1976 and 1980, 1981 witnessed a deficit of N2.9 billion. In 1982 and 1983 deficits stood at N1, 398.3 million and N244.8 billion respectively while in 1994 it stood at N7, 194.9 million, having falling from N13, 615.9 million in 1993, by 2008-2009, the deficit has risen to an average of N5,437,042.9 billion. This therefore confirms a greater need for renewed attention to our agricultural sector to improve the country's balance of payment position.

In summary, the role of agriculture in transforming both the social and economic framework of an economy cannot be over emphasised. It is a source of food and raw materials for the industrial sector. It is also essential for expansion of employment opportunity, for reduction of poverty and improvement of income distribution, for speeding up industrialisation and easing the pressure on balance of payments. In effect, it has been the main source of gainful employment, from which the nation can feed its teeming population, a regenerative, providing the nation's industries with local raw materials and as a reliable source of government revenue or foreign exchange earnings.

Nigeria is blessed with a high level of oil and agricultural resources. However, despite the large revenue derived from the oil sector, agriculture remains the main stay of the Nigerian economy. Historically, there is virtually no country that has made economic progress without prior gains in her agricultural sector. The Nigerian agricultural sector is one of the most important sectors in terms of Gross Domestic Product (GDP) and employment generation potential. It contributes significantly to national food self- sufficiency by accounting for over 90 percent of total food supply in the country. It is a major and sustainable portal for foreign exchange earning being the main contributor in the non-oil sector.

With a very large proportion of the estimated 75% of the national population residing in the rural areas and working in agriculture, growth in the sector is expected to have a significant impact on poverty reduction and job creation. Not only will such growth lead to extra employment opportunities, but also the additional supply will help stabilize and reduce food prices, which will benefit the poor who because of their large propensity to consume, spend more than half of their income on food. Most importantly, an improvement in agriculture has been known in other countries, to help in the facilitation of growth in other sectors of the economy through its multiplier effect. Furthermore, agriculture is expected to provide substitutes to the highly expensive imports of food and live animals which totalled N174.23 billion in 2006 (CBN, 2007).

Self-Assessment Exercises 2

| |
|---|
| Which of the roles of agriculture in economic development do you consider most important and why? |

**1.5 Features of Nigerian Agriculture**

Production in the agricultural sector is usually organised in two varying systems i. The Large Scale Capitalist Plantation- This form of production employs modern technology to agriculture and thus, production is large scale and massive. This group relies on the use of hybrid seeds/seedlings, exotic breeds of livestock and mechanisation processes. However, because of its relative few large scale plantations and mechanisation approach, it has little room for employment of the labour force. ii. The Peasant System- This form consists of a subsistence output on small scale holdings. The class relies on traditional methodology using crude implements such as local hoes and cutlasses. Incidentally, the larger proportion of those engaged in agriculture are in this system of agriculture. Most of the export agricultural products are produced are produced by this group of producers.

Agricultural productivity is still very low due to the inadequate application of modern implements such as tractors and chemicals. Shifting cultivation which has perhaps almost disappeared in most parts of the world is still widely practiced by peasant farmers. This is due to fragmentation of farm holdings. Livestock farming which is predominantly practiced in the north is undertaken by large numbers of cattle fulanis. These cattle fulanis wander from place to place in search of good pasture for their cattle, especially in the dry season. Fishing is carried on along the coast by fishermen who use canoes and throw nets.

This structure of agriculture makes it laborious, tedious and poorly remunerative. These fragmentations make it difficult for the farmers to have any strong case to support their applications for bank loans.

The Nigerian agricultural system consists of production, processing, storage, marketing, extension, research and training. While production is a result of the combined factors of land, labour, capital and entrepreneurship, its magnitude and efficiency from farm gate to the consumer depends on cultivation effectiveness, handling and preservation as well as the processes of making the products readily available and affordably consumable. Productivity, a form of efficiency with which the produce or commodity is obtained, is a function of the combination of research and the application of skill and is measured per unit of land, per unit of labour input or per unit of investment. Research addresses the issues of material, temporal and spatial constraints which are itself a function of skill acquisition and development through formal and informal training generally called education.

## 1.6 Summary

We learnt in this unit that, agriculture involves cropping, livestock, forestry, fishing, processing and marketing of these products. Agriculture was identified as a source of food and raw materials for industries in addition to employment generation, and foreign exchange earnings among other significance. Agricultural production system was categorised into ‘Large scale capitalist plantation’ and ‘peasant farming’. The Nigerian agricultural system consists of production, processing, storage, marketing, extension, research and training. Furthermore, we noted that Nigeria possess suitable and sufficient land mass for agricultural development but still record low productivity due to crude nature of agricultural operations and low technological and financial support.

In this unit, you have been introduced to the scope, importance and features of the Nigerian agricultural sector. A brief mention was also made on the potential of agriculture to drive economic development as well as the major constraints impeding such development. Some of these issues will be discussed in a broader perspective in the remaining units of this module. In this case, a comprehensive understanding of all the units in this module will bring about a holistic view of the activities in the agricultural sector of Nigeria.

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## 1.8 Possible Answers to SAEs

**Answers to SAEs 1**

The agricultural sector in the Nigerian context embraces all the sub-sector of the ‘primary industry’. Essentially, it involves cropping, livestock, forestry, fisheries and aquaculture, including sub activities under these sectors such as pasturing, food and cash crop cultivation under cropping; poultry, piggery, cattle rearing under livestock; Lumbering under forestry; as well as processing and marketing of these agricultural products.

**Answers to SAEs 2**

By increasing the supply of food available for domestic consumption and releasing the labour needed for industrial employment;

**Module 2 - Unit 2: WOMEN’S RIGHT AND CULTURAL HEGEMONY IN DEVELOPING SOCIETIES**

**CONTENTS**



## 2.1 Introduction

In the first unit, you have been introduced to the nature, scope and importance of the Nigerian agricultural sector. As was earlier mentioned in the first module, the economy could be analysed from the point of view of the happenings before independence and after independence. In this unit, a review of the structure and performance of the agricultural sector during the pre-independence and post- independence era is made. The intention here is to provide a background to our understanding of the structure and performance of the agricultural sector in the economic development of Nigeria. A careful study of this unit will enable you to have the opportunity of comparing the contribution of agricultural sector to economic development in the past and the present. This unit requires your deep understanding and attention because you will have cause later to study what went right or wrong at various stages under review when the challenges and prospects of the agricultural sector is being discussed in the next unit..

## 2.2 Learning Outcomes

At the end of this unit students are expected to:

1. Describe the status of the Nigerian agricultural sector before independence.

2. Discuss the performance of the Nigerian agricultural sector after independence
3. Compare and contrast the performance of the Nigerian Agricultural sector before and after independence.

## 2.3 Main Content

### 2.3.1 The Agricultural Sector during Pre-Independence Period

Before the colonial era, rural Nigeria had fairly complex organization. The social organisations were predominantly peasant communities, producing a variety of commodities mostly to satisfy their needs with little surpluses for exchange with other communities. Trading among the various communities was broadly based on barter terms and agriculture involved the production of crops for subsistence.

The coming of the colonialists introduced a money economy among the peasant communities. This provided an incentive for the peasant farmers to produce more cash crops for sale and eventual export to Western Europe. The various Nigerian communities produced a diversity of crops and this was a reflection of their diverse physical environment. Food crops include yam, cocoyam, cassava, (grown mostly in the south) while cash crops included oil palm (from the east), cocoa (from the west), cotton and groundnuts (from the north). According to Helleiner (1966) export production accounted for about 57% of Nigeria's Gross Domestic Product (GDP) in 1929. Oil palm products alone accounted for between 85% and 90% of exports during the same period.

The growth of the Nigerian agricultural sector was, however, not smooth. The period between 1929 and 1945 was a difficult one for the export sector. The great depression of the 1930s was marked by fluctuations in world commodity prices especially primary commodity prices. These disturbances lasted till the end of the war. Although the volume of Nigeria's export commodities increased during this time, the value did not increase proportionately to the volume. Another period of export boom for Nigeria was between 1945 and 1954. The world economy was just recovering from the effects of the Second World War and demand for primary products to revitalize the industries of the advanced countries destroyed during the war also increased. Prices of primary products rose to higher levels. Another important factor which led to rapid increase in commodity prices especially after 1945 was the threat of another world war with the outbreak of the Korean War in 1950. The Nigerian export sector gained tremendously from these disturbances. However, after 1954, the export boom gave way to another period of price instability.

The reliance of the economy on agricultural products and the instability of cash crop prices and agricultural incomes led to the establishment of Marketing Boards with monopolistic powers to buy these crops from farmers and sell them overseas. The role of the Marketing Boards was very important especially in stabilizing farm incomes and generating funds for the execution of development projects in the country.

In spite of the importance of these crops and agriculture as a whole, the methods of production remain primitive with the hoe and the cutlass as the major implements. The existence of these methods can be attributed to the activities of the colonial masters who made no attempt to alter the production technology in the sector as long as agricultural products were being made available.

Self-Assessment Exercises 1

| |
|---|
| What major effect did colonialism had on the Nigerian Agricultural sector? |

### 2.3.2 The Agricultural Sector during Post-Independence Period

General Performance of the Nigerian Agricultural Sector after Independence

Agricultural production till date remains the mainstay of the Nigerian economy. It is the main source of food for most of the population. It provides the means of livelihood for over 70 percent of the population, a major source of raw materials for the agro-allied industries and a potent source of the much needed foreign exchange (Okumadewa, 1997; World Bank, 1998). At independence, agriculture sustained the Nigeria economy and held the promise of a vibrant agrarian economy (Akande 1998). The agricultural sector in periods immediately after independence performed creditably the roles highlighted above, to such an extent that the regional development witnessed during these period were linked directly to the sector. However, over the years, the sector has witnessed a tremendous decline in its contribution to national development. Development economists have in fact, attributed the present economic marasmic situation in Nigeria to the poor performance of the agricultural sector. The near eclipse of the sector in the era of oil boom (1972-1975), inconsistent and unfocussed government policies have been described as the fatal perturbations that rocked the boat of food security, food self-sufficiency and industrial growth in Nigeria with its attendant poverty level on the rise (Okuneye, 2003). It must be stated that even though the country has witnessed substantial increase in food output volumes in the last three decades through remarkable improvement in poultry, arable staple foods and fisheries production; however, these growths have not matched the rising food demand situation, sequel to the high population growth rate in the country. As a result of this, there exist high incidences of protein/energy malnutrition, nutrients' deficiencies, related diseases, rising food import bill and a general reduction in labour productivity (FAO, 2007).

Nigeria's growth experience shows a gradual and steady performance in the immediate post-independence period, with a healthy balance of payments position through exports of cash crops. Marketing boards were used to extract surpluses from the agricultural sector, which were used to provide basic infrastructure. The development of the economy since 1960 has witnessed a declining share of agriculture in the gross domestic product (GDP). Part of this decline is traceable to the relatively higher growth rate of manufacturing and mining, which is consistent with the development pattern characteristics of developing countries. Agricultural export was the engine of growth prior to 1973, providing much of the revenue that the government used in developing a basic infrastructural system. Agricultural export also financed the import substitution industrialisation programme.

According to Vasanth (2011), Nigeria ranks twenty fifth worldwide and first in Africa in farm output. Agriculture has suffered from years of mismanagement, inconsistent and poorly conceived government policies, and the lack of basic infrastructure. Still, the sector accounts for about 40% of GDP and two-thirds of employment. Nigeria is no longer a major exporter of cocoa, groundnuts (peanuts), rubber, and palm oil. Cocoa production, mostly from obsolete varieties and over aged trees, is stagnant at around 180,000 tons annually; 25 years ago it was 300,000 tons. An even more dramatic decline in groundnut and palm oil production has also taken place. Once the biggest poultry producer in Africa, corporate poultry output has been slashed from 40 million birds annually to about 18 million. Import constraints limit the availability of many agricultural and food processing inputs for poultry and other sectors. In the same regard, fisheries are poorly managed. Most critical for the country's future, Nigeria's land tenure system does not encourage long-term investment in technology or modern production methods and does not inspire the availability of rural credit. Agricultural products include cassava (tapioca), corn, cocoa, millet, palm oil, peanuts, rice, rubber, sorghum, and yams. In 2003, livestock production, in order of metric tonnage, featured eggs, milk, beef and veal, poultry, and pork, respectively. In the same year, the total fishing catch was 505.8 metric tons. A good illustration of inadequate agricultural performance is the fisheries subsector, which saw output drop from averages of about 650,000 tonnes annually in the 1970s to 120,000 of fish per year by 1990. To conceptualise properly- The CBN's 2008 annual report celebrated a

7% rise in output between 2007 and 2008, but this 'impressive' growth was to re- attain a level of 670,000 tonnes p.a. In other words, a tenuous return to 1970s levels
which belies the fact that Nigeria's population more than doubled in that period from over 60million to over 140 million. Ironically, the fall in fisheries can be partly attributed to environmental degradation and pollution in the Niger Delta region by the oil companies (BGL Agriculture Report, 2009).

Round wood removals totaled slightly less than 70 million cubic meters, and sawn wood production was estimated at 2 million cubic meters. The agricultural sector suffers from extremely low productivity, reflecting reliance on antiquated methods. Although overall agricultural production rose by 28 percent during the 1990s, per capita output rose by only 8.5 percent during the same decade. Agriculture has failed to keep pace with Nigeria's rapid population growth, so that the country, which once exported food, now relies on imports to sustain itself. Nigeria has a land area of 98.3 million ha; 74 million ha is good for farming; but less than half is being explored. The population involved in farming is 60 – 70%, yet, there is threat of hunger and poverty; 70% of the population live on less than N100 (US $ 0.7) per day (Wikipedia, 2011).

**2.4 GDP Share and Growth of the Nigerian Agricultural Sector and subsectors**

As shown in Table 2.2.1, the contribution of agriculture to real GDP shows that in absolute terms, agriculture contributed about N1.6 billion to the country's GDP. This represents about 64.3 percent of the total GDP. Although, the absolute value of the contribution of agricultural sector to the GDP continue to increase, the relative share of the sector has continued to decline from 55.4 percent in 1955 to about 48 percent in 1975. The adverse effect of the dominance of the oil sector in the 70s culminated into a low share value of 20.6 percent by 1980. The percentage share of the agricultural sector ranges between 30 and 37 percent within the period of 1985 and 1995. Due to some further corrective measures the agricultural sector share in the total GDP has since improved to a little above 40 percent from the year 2000 till 2010.

The contribution of different subsectors of agriculture to GDP shows substantive fluctuations in trends (Table 2.2.1 and Table 2.2.2). The crop sub-sector contributes the most to GDP, with contribution ranging between 30 and 40 percent of agric GDP. This is followed by the livestock sub-sector. According to Olomola et al (2008), the subsistence nature of Nigerian agriculture also makes the crop sub-sector quite relevant, most important and most focused sub-sector of agriculture. From the table, agricultural performance has improved in recent years (2000-2010). However, there is need to improve other sub-sectors, especially the foresry and fisheries in order to increase its contribution to the GDP.

Table 2.2.1: Agricultural Sector Contribution to GDP (1960-2010) (Nmillion)

| | **1960** | **1965** | **1970** | **1975** | **1980** | **1985** |
|---|---|---|---|---|---|---|
| **Agriculture** | **1, 599.8** | **1,742.2** | **1, 887.7** | **7,639.4** | **6,501.8** | **65,748.4** |
| Crop | 1, 284.4 | 1, 366.2 | 1,437.0 | 4,942.8 | 3,944.7 | 52,750.9 |
| Livestock | 139.6 | 158.0 | 143.8 | 973.1 | 1,557.1 | 8,856.2 |
| Forestry | 131.8 | 143.4 | 129.2 | 320.5 | 270.7 | 2,310.9 |
| Fisheries | 44.0 | 74.6 | 177.7 | 1, 403.1 | 729.4 | 1,830.4 |
| **Total GDP** | **2,489.0** | **3,146.8** | **4,219.0** | **27172.0** | **31546.8** | **201036.8** |
| **% Share Agric** | **64.3** | **55.4** | **44.7** | **48.0** | **20.6** | **32.7** |
| | **1990** | **1995** | **2000** | **2005** | **2008** | **2010** |
| **Agriculture** | **83,344.6** | **96,220.7** | **117,945.1** | **233,463.6** | **283,175.4** | **316,728.7** |
| **Crop** | **68,416.7** | **80,702.8** | **98,392.6** | **206,178.4** | **252469.7** | **282,049.7** |
| **Livestock** | **9,562.0** | **10,051.3** | **11,449.9** | **14,643.9** | **17,877.6** | **20,264.1** |
| **Forestry** | **2,149.1** | **2,421.9** | **2,855.5** | **3,005.4** | **3,587.5** | **4,019.3** |
| **Fisheries** | **4,216.8** | **3,044.6** | **5,547.1** | **7,636.0** | **9,240.5** | **10,395.6** |
| **Total GDP** | **267550.0** | **281407.4** | **329,178.7** | **561,931.4** | **672,202.6** | **775,525.7** |
| **% Share Agric** | **31.2** | **34.2** | **35.8** | **41.6** | **42.1** | **40.8** |

Source: Computed from CBN (2008), Statistical Buletin, Golden Jubilee Edition; National Bureau of Statistics (2010), Statistical Buletin, Compilled Edition

*Note that the GDP was compilled from 1960-1973 using 1962/1963 constant basic price, from 1974-1980 using 1977/1978 constant basic price and from 1981-2010 using 1990 constant basic price.

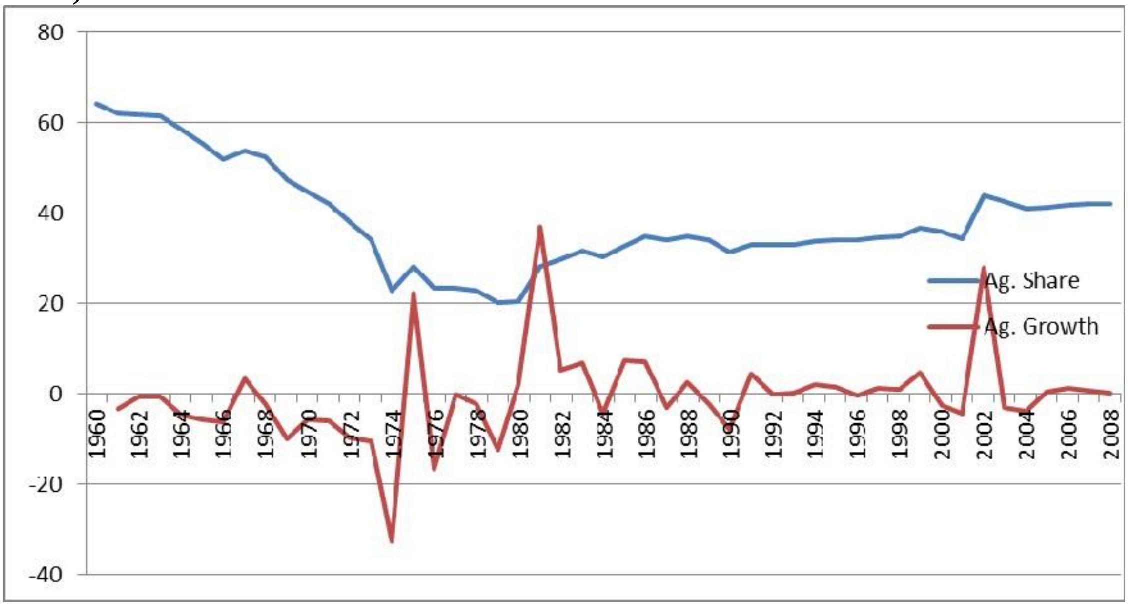
Table 2.2.2: Summary Contribution of Agriculture to GDP 1970 -2010

| Period | Crop | Livestock | Fishery | Forestry | Total Agric. |
|---|---|---|---|---|---|
| 1970 – 1979 | 34.78 | 2.91 | 0.71 | 1.21 | 48.20 |
| 1980 – 198 | 32.86 | 3.28 | 0.90 | 1.19 | 39.28 |
| 1990 – 1999 | 34.81 | 2.74 | 0.64 | 1.08 | 39.27 |
| 2000 – 2010 | 37.15 | 2.67 | 0.56 | 1.39 | 41.76 |

Source: Central Bank of Nigeria, Statistical Bulletin (several issues)

Figure 2.2.1 also shows the agricultural share in the total GDP and rate of growth of agriculture between 1960 and 2008. It was shown that the growth rate was not significantly different from zero within the period of 1960- 1972. Although there was significant rise in agricultural growth between 1972-1974 and 1980 and 1984, the trend was stagnant and not significantly different from zero between 1984 and 2008, with the exception of year 2001-2003. This shows a poor performance of agriculture in Nigeria. Even though other sectors performed this role in developed countries, the agricultural population in those countries is not as high (about 2-5%) as in the developing countries like Nigeria and the industrial sector is well developed.

Figure 2.2.1: Agriculture Share of GDP (Real terms, in percentage: 1960-2008)




**Source: Okuneye and Ayinde (2011)**

## 2.5 Assessment of the Nigerian Agricultural Sector in Phases after Independence

The history of Nigeria's agricultural development in the post-independent era could be classified into four phases, namely pre-1970, 1971-1985, 1986-1994 and 1995 to date (CBN 2007). The era of relatively good performance of the sector occurred during the pre-1970 phase, when production activities in the sector were dominated by private operators but fell during the 1971-1985 period when surprisingly there were substantial public sector interventions, with the Federal Government directly involved in production, processing and storage activities. The latter two phases saw a reduced direct intervention by the Federal Government thereby allowing markets to function and the subsequent return to growth in the sector.

The Pre-1970 phase was characterised by a declining share of agriculture value added to GDP, from greater than 60 percent in 1960 to about 45 percent in 1970. Being a postcolonial era, those elements of colonial agriculture policy persisted, with the marketing boards playing a pivotal role of extracting agricultural surplus, but these were not used necessarily to support price stabilisation as envisaged but instead supported the development of infrastructure, industries and social amenities. Along with declining share of agriculture in exports, the overall growth performance of the sector also declined on average.

The 1971-85 periods saw a much pronounced decline of the share of agriculture value added in GDP, partly because of the rising dominance of the oil sector but also because of the extreme uncertainty in policy direction brought about by the increased government intervention in the sector. To support a vision of "agri-business", policy directions included the Land Use Decree which vested the ownership of land in the state governments, and state acquisition of large tracks of peasant–held land for the River Basin Development Authority (RBDA) and for the Agricultural Development Projects (ADPs), dams, etc. These efforts were supported by the importation of massive quantities of fertilizers, chemicals, machinery, seeds, etc. and infrastructure developments (dams, feeder roads, farm service centres, fertilizer distribution centres and tractor hiring units). But the growth performance during this period was highly erratic and associated with wide swings.

Since 2001 the agriculture sector has generated over half of new jobs with an average annual 2003-2010 sector growth rate of about 7.0 percent. The current growth of agriculture has, nonetheless come from increasing cropped area rather than gains in productivity.

Self-Assessment Exercises 2

| |
|---|
| What are is/are the underlying factor for the poor performance of agriculture between 1971 and 1985 |

## 2.6 Summary

From our discussion so far, we can infer that the pre-independent economy in Nigeria was marked by the dominance of the agricultural sector. Trading in agricultural commodities was the order of the day. The colonial rule up to 1930 involves the export of varieties of cash crops. The year 1929 to1945 was a difficult one for the agricultural sector due to fluctuating world price resulting from world war. In contrast, this soon paved way for a period of export boom between1945-1954 which was followed by another period of price instability which necessitated the establishment of agencies like the marketing board. Nevertheless, agricultural sector remained a dominant sector before independence. On the other hand, in the post-independence period, the contribution of the agricultural sector ranges from 65 percent in 1960/61 to 40-42 percent in 1999/2010 with the crop subsector maintaining the lead. Nigeria's growth experience shows a gradual and steady performance in the immediate post- independence period, with a healthy balance of payments position through exports of cash crops. Marketing boards were used to extract surpluses from the agricultural sector, which were used to provide basic infrastructure. Subsequently, the declining GDP share of agriculture is being witnessed, hence a need for refocusing the agricultural sector to reclaim its position at independence.

This unit described the agricultural sector before independence. The evolution of the agricultural sector through the ages of barter trade and money economy was exposed. Also, the transition from food crop production to exportation along with the challenges involved has been discussed. Here, you also learnt about the performance of the Nigerian agricultural sector after independence. An assessment of the Nigerian agricultural sector in phases after independence including the growth rate indicators was equally made. This gives an ample opportunity to compare and contrast the scenario before and after independence. The declining trend so exposed calls for reexamination of the challenges of the sector, the appraisal of the policies and programmes implemented over the years with the sole aim of suggesting a way forward. All these will be taken care of in the next unit.

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## 2.8 Possible Answers to SAEs

**Answers to SAEs 1**

The coming of the colonialists introduced a money economy among the peasant communities. This provided an incentive for the peasant farmers to produce more cash crops for sale and eventual export to Western Europe. The various Nigerian communities produced a diversity of crops and this was a reflection of their diverse physical environment. Food crops include yam, cocoyam, cassava, (grown mostly in the south) while cash crops included oil palm (from the east), cocoa (from the west), cotton and groundnuts (from the north).

**Answers to SAEs 2**

The 1971-85 periods saw a much pronounced decline of the share of agriculture value added in GDP, partly because of the rising dominance of the oil sector but also because of the extreme uncertainty in policy direction brought about by the increased government intervention in the sector. To support a vision of "agri-business", policy directions included the Land Use Decree which vested the ownership of land in the state governments, and state acquisition of large tracks of peasant–held land for the River Basin Development Authority (RBDA) and for the Agricultural Development Projects (ADPs), dams, etc. These efforts were supported by the importation of massive quantities of fertilizers, chemicals, machinery, seeds, etc. and infrastructure developments (dams, feeder roads, farm service centres, fertilizer distribution centres and tractor hiring units). But the growth performance during this period was highly erratic and associated with wide swings.

# Module 2 - Unit 3: CHALLENGES AND PROSPECTS OF THE NIGERIAN AGRICULTURAL SECTOR



## 3.1 Introduction

You have been taking through a discussion on the performance of the Nigerian Agricultural sector before and after independence in the preceding unit. This has given you the opportunity to compare and contrast the sector before and after independence. It was obvious that the sector has witnessed a decline in its contribution to the GDP after independence. This point to the fact that the sector no doubt is faced with some challenges, although tackled through series of policy and programmes overtime with little success, yet not insurmountable. This unit being the last unit in this module and a round off discussion on the Nigerian agricultural sector sets to address the various challenges militating against the performance of the Nigerian agricultural sector while reviewing the past and present efforts at revamping the sector. Finally, scholarly suggestions were rendered to move the sectors forward in Nigeria.

## 3.2 Learning Outcomes

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

1. Itemise and explain the challenges facing the Nigerian agricultural sector
2. Enumerate some policies and programmes of government in Nigeria
3. Highlight and discuss a way out of the challenges of the Nigerian Agricultural sector

## 3.3 Main Content

### 3.3.1 Challenges of Nigerian Agricultural Sector

It should be noted that agriculture has been beset by long standing problems impeding its productivity and contribution to national aggregate output as expected. As reported by Ihimodu (1983); Sanni (2000); Okuneye (2003); NPA (2007), BGL Agriculture Report (2009), Philip et al (2009), Eze et al. (2010),Vasanth ( 2011) and Wikipedia (2011) among several authors these challenges can be grouped and summarized thus:

1. **Inadequate Funding, Credit and Associated Economic Challenges**

Inadequate and untimely funding of agriculture by the public sector coupled with inefficient and/or ineffective application of such funds (budgetary or otherwise) constitute bottlenecks to agricultural development. Budget allocation to agriculture has been historically low. About 4% of total federal expenditure of N2.87 trillion in 2009 was allocated to agriculture and water resources. Of the N796.7 billion allocated for capital expenditure, 11.52% was for agriculture and water resources. This spending falls well below the 10% goal set by African leaders in the Maputo agreement and falls short of agriculture expenditure requirements according to international standards. The Prices of inputs- fertilizer, herbicides, and pesticides have risen astronomically. These have limited their adoption and subsequent impact on yield and production levels. Also, lack of credit to farmers has limited farm size commensurate with what they can afford. When credit is available, the interest is high, thus increasing farmers' cost of production. Lack of good linkages between the farm sector and the industrial sector generate a demand pull situation, which will propel high prices for industrial raw materials.

2. **Inadequate Infrastructure**

Infrastructural facilities in the rural areas (where production actually takes place) are grossly lacking. These areas are characterised, amongst others by poor feeder roads and inadequate road network between the rural areas where agricultural production mainly takes place and the urban areas and lack of appropriate on farm and off-farm storage facilities. Irrigation facilities are still very poor despite the existence of River Basin and Rural Development Authorities (RBRDA). More so, there are few or no health care facilities in the rural areas and hence a lot of man-days are lost to ill-health which could have been easily treated. Schools (primary and secondary) are few in the rural areas and hence the migration of youth to the urban areas, among other reasons.

3. Land ownership and tenure Incentives to invest in agriculture are undermined by policies regarding land ownership and land tenure. The

Land Use Act of 1978, invested proprietary rights to land in the 'state'. User rights are granted to individuals through administrative systems rather than a market allocation system. Individual and public ownership of land are often implemented side-by-side, and rather than seek allocations from the local government, people acquire access by a variety of informal means. The Land Use Act does not recognise the informal contracts, so most of these are legally secure.

The insecurity of tenure is therefore a constraint to expanding production in agriculture and also serves as a disincentive to making long term improvements of the land. Hence, fragmentation of holding antithetical to tractorisation is a common feature of farm holdings in Nigeria.

**4. Poor agricultural production system**

Majority of farmers in Nigeria's agricultural sector have small holdings varying between zero and less than 5 hectares. They employ rudimentary farm equipment (example hoes, cutlass, etc.) and poor cropping techniques (such as bush fallowing, bush burning, crop rotation, non-use of fertilizer and improved seeds). Very few of these farmers employ mechanized farming techniques such as tractorisation and irrigated systems, thus, they are limited only to seasonal cultivation.

5. **Low quality of private sector investment**

Private investment in agriculture, both in primary production as well as processing (value added) is currently low. Factors contributing to the low level of investment include high risk of investment caused by policy inconsistency, low investor confidence in the sector, high production cost, insecurity of land tenure, insufficient institutional and infrastructural support (roads, national railway, network, electricity, and storage facilities), low use of business credit and unfavourable business climate.

**6. Low productivity**

There is an inverse relationship between growth in the area of land cultivated and yields for virtually all crops. Nigeria's yield is lower than those of her competitors, both in the areas of cash crops and food crops and animal husbandry. The low productivity in the sector can be attributed to weak research and extension services, low use of improved genetics and purchased inputs, low levels of mechanization and irrigation, poor access to production credit especially in accessing micro credit facilities, decline in soil fertility, ageing farm population, rural-urban migration by the youths, high drudgery (physical effort per output), unattractiveness and natural factors.

**7. Non-competitiveness**

The sector cannot compete in the international markets. This non-competitiveness can be attributed to several factors, including poor grading and standardization, high cost of marketing, high production cost structure, processing and transportation to trade points, unfavourable exchange rates, difficulty of accessing regional and global markets, domestic policy-related obstacles that discriminate against export and the price of competing products.

8. **Weak domestic policies, institutions and unspecified roles of the 3 tiers of Government** Successive governments have formulated and implemented conflicting policies to support agricultural production, and as a result agricultural policies have tended to change frequently with changes in political leadership. Consequently, there are ineffective linkages between policy-research-extension and farmer-input-market-factory/industry, etc. This fragmented approach to policy making has constrained agricultural growth because it has prevented a sustained commitment to a coherent, integrated strategy for agricultural development. The loose policy framework does not encourage stability in import-export of certain crucial items (either as raw materials or finished products such as textiles, vegetables oils, etc. Also, policies formulated lack clearly defined roles for the 3-tier of Government leading to inefficiency in programmes execution. There is also inadequate and untimely fund release by all tiers of government, the lack of funds to procure processing machinery and equipment, and the absence of state and local government implementation committees in most cases.

9. **Manpower/Skill Challenge in Research, Extension and Farm Labour**

The extension service delivery system still suffers from inadequate number of extension men/women. The few ones that are in place, lack mobility to improve on extension-farmer contact while women extensionists are few to handle gender issues. The frequency of extension message discovery is limited by poor research conditions in Universities and Research Institutes while there is shortage of experienced professional and technical manpower especially needed for mechanization. Able- bodied people are leaving farming/rural areas; this has negative effects on labour availability, production and productivity. Hence, the agricultural wage rates have increased, thereby increasing the cost of food production and in turn food prices.

**10. Environmental/ecological/edaphic challenge**

Farmers suffer from high incidence of pests and diseases, insufficient rainfall/drought in some areas, harsh weather which limits the number of hours people work on farms. Other environmental problems include: soil and wind erosion; marginal lands which affect tractorisation and the land availability; desert encroachment; pollution by industrial activities especially oil companies and some manufacturers as well as soil infertility problem in some areas.

**11. Food Processing challenge**

It is estimated that about 20-40% of the yearly harvest is lost during processing. The primary cause is the lack of efficient harvesting techniques. Most farmers harvest crops by hand, instead of using machines. Also, storage methods are not generally up to standards. Most of the crops are lost to physical damage caused by insects, bacteria, or fungus.

Self-Assessment Exercises 1

List any three of the challenges listed above that you consider most critical, why?

3.4 **Overcoming the Challenges to Agricultural Production Nigeria**

The Nigerian government has over the years formulated good agricultural policies meant to encourage production but the intended results, however have not been achieved. The situation can be remedied only if political decision makers show enough will to do what is right. Several industry experts and analysts have made recommendations on the course of activities to return the nation back to agriculture because even though oil accounts for 90% of the nation's revenue, it only contributes less than 20% to the country's GDP with agriculture contributing over 40% while it employs more than 60% of Nigerians. In order to ensure sustained and increased agricultural production and/or productivity, policies must outlive the government that formulated them. The practice of changing macroeconomic policies with successive federal governments is inimical to long-term investments in agriculture. The following are recommended by various scholars to ensure that agricultural policies succeed in Nigeria:

i. **Increased government expenditure on agriculture**: adequate budgetary provision and releases should be made to fund policy initiatives. There is thus an urgent need to increase budgetary allocation to agriculture and ensure it is fully and properly executed with strong emphasis, for a start, on rural development as most of Nigeria's farmers reside in the rural areas and gain their livelihood from the farm and other rural-based economic activities.

ii. **Clarified roles for the three tiers of government in agriculture service delivery**: With a federal system of government, Nigeria faces the challenges of defining roles and responsibilities of each tier of government with respect to public services and investment. However, these roles should be clarified to reduce overlaps and gaps in agricultural interventions to improve efficiency and effectiveness. More importantly, it should be ensured that sub-national governments are given access to and control over resources in accordance with expenditure assignments, with the level of accountability being very unambiguous. While the sub-national governments have discretionary power over their budgets, they must be held accountable for their performance, thus ensuring the provision of better quality service. This way, the efforts of governments would not be undermined by corruption.

iii. **Increased efforts on encouraging processed agricultural exports:** Government should continue to encourage the export of agricultural produce but with emphasis shifting from raw agricultural produce to processed agricultural products that will add more value to the workers and the economy. The government can help ensure increased flow of resources for the rehabilitation of what used to be our traditional agricultural exports, if not to export, at least to reduce the importation of products like vegetable oil and rice. This the government can do through increased collaborate with the private sector. Therefore, the various tiers of government should act in concert with the economic reform agenda to promote a greater role for the private sector in agricultural production, processing and marketing of farm commodities.

iv. **Review of subsisting schemes**. Review of subsisting schemes and reform of existing institutions to make them more supportive of farm output. For instance, Bank of Agriculture needs to be made a wholesale and retail financing institution to make its operations more efficient and self-sustaining.

v. **Training and capacity building for staff of the institutions involved with implementation of agricultural policies** – CBN, banks, ministry of agriculture, etc. to strengthen institutional capacity as well as training and capacity building for the loan beneficiaries on their operations and fund management.

vi. **Simplification of operational procedures in credit administration:** this will help to reduce cost and bureaucracy as well as modification of the terms of financing under most policy initiatives, such as interest rates, eligibility criteria, legal rights, etc to enhance access.

vii. **Granting loans to group of farmers:** (inform of self- help groups or cooperatives), integrating credit with input supply and output marketing would reduce default problems.

viii. **Monitoring and supervision:** Financial institutions should monitor and supervise all facilities disbursed and the Central Bank of Nigeria should effectively and diligently carry out their regulatory function on all banks to check non- compliance, insider abuse and defaults.

ix. **Land tenure system:** A review of the Land Use Act of 1978 by the National Assembly: Communal ownership of farmland will be difficult to dismantle in the foreseeable future; however, the elements which appear to differ among communities need to be reviewed within the context of each community, towards improving individual titles to farmland, bearing in mind the need for gender equity.

x. **Adequate pricing of agricultural commodities:** Adequate pricing of agricultural commodities in Nigeria so that farm incomes will be high enough to enable farmers to purchase farm inputs. Adequate pricing must be accompanied by improved knowledge among farmers on the use of fertilizers, and adequate linkages among traders, suppliers, and farmers. This also will encourage the increased quality of private sector investment and youth participation.

xi. **Support for National Agricultural Research Institutes:** Support of the National Agricultural Research Institutes (NARIs) by government through promoting awareness of the technology prototypes they have researched upon. Private agro- processing SMEs, NARIs, and financial institutions (especially commercial banks) should cooperate to develop these prototypes into commercial products.

xii. **Encouragement of private investment in agricultural research and development:** To achieve the desired impact of research funding on agricultural productivity in Nigeria, the government must encourage private investment in agricultural research and development and act with greater transparency and timeliness in the budgeting, approval and fund release processes of agricultural research.

xiii. **Direct promotion and practice of extension delivery:** Whatever agricultural extension model is adopted, the government's direct promotion and practice of extension delivery in Nigeria must be divested. Larger participation by the private sector will reduce the budgetary burden, improve delivery efficiency and consequently, enhance agricultural productivity.

xiv. **Market-driven subsidy programs:** Subsidy programs in Nigeria need to be market responsive. Specifically, input subsidy programs should be used to develop, not weaken, competitive private sector-led input markets. Such programs should be targeted to poor farmers who, without subsidies, would not adopt key inputs. They should complement, not undermine, commercial sale outlets and should be limited in duration, that is, accompanied from the start with a phase-out schedule.

xv. **Improved access for women to farmland:** There is need to sustain the current drive toward improved access for women to farmland, extension services and related farm inputs, with the active support of local Community-based organizations and international development agencies.

xvi. **Infrastructural Development:** development of infrastructural facilities in the rural areas is sine qua non to developing agriculture. Even though this is a medium term approach, it can be commenced now using a number of Local Government Areas in each state as a pilot programme. Such facilities like good feeder roads will enhance the evacuation of output and transportation of inputs to the rural areas. In particular, onfarm storage facilities appropriate for specific agricultural enterprises should be designed and commercialized for use in villages/rural areas.

xvii. **Cultural and Productivity Improvement:** Farm productivity can be increased through adequate cultural and other practices which include erosion control; tackling inadequacy of rain-fed agriculture with more support for fadama development and management; local input production to compensate for shortage; improved processing, storage and marketing of agricultural products; mechanization to ease farm operations; crop, livestock, fisheries and forestry improvements through research support and adequate extension.

## 3.6 Summary

This unit being the last unit in this module has highlighted and discusses the numerous challenges facing the Nigerian agricultural sector ranging from funding to infrastructure, cultural/productivity, policy and environmental challenges. Various policies, programmes and institutions set up by successive governments of the day to revamp the Nigerian agricultural sector were enumerated and appraised. These include marketing boards and agricultural corporation from pre-independence era; The Nigerian enterprise promotion act and land use decree of the pre-SAP era, the establishment of NDE, NALDA, and NAIC among others in the SAP era to support fiscal and monetary policy of the government and economic reforms of special programme on food security, root and tubers expansion programme, presidential initiatives on selected crops and Fadama series of post-SAP period in addition to international supported programmes. In the final analysis, practical suggestions by various scholars on the appropriate ways of moving the Nigerian agricultural sector forward based on the identified challenges and shortfalls in past governmental efforts were rendered.

In summary, you have been exposed to the challenges confronting the agricultural sector in Nigeria dominated by peasant farming and crude practices. Past efforts of successive government in tackling this menace were equally examined and solution to move Nigerian agricultural sector forward were discussed. It is obvious from this multi –factorial essence of agricultural production that it must be practiced with the deepest sense of national responsibility by way of sustainable policy environment, reliable policy instruments and professionally sound and stable institutional framework. By this, the performance of agriculture in Nigeria will be able to meet up with the expectation of food security, guaranteed industrial linkages, poverty alleviation, foreign exchange earnings and economic development among other immeasurable goals and accompanying benefits. This concludes our discussion on the agricultural sector; you can now proceed to the next unit for another important sector in Nigerian economy.

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## 3.8 Possible Answers to SAEs

**Answers to SAEs 1**

the challenges listed above that you consider most critical
Poor agricultural production system
low productivity
Inadequate Infrastructure

# Unit 4: POLICY INTERVENTION IN THE NIGERIAN AGRICULTURAL SECTOR

4.1 Introduction
4.2 Learning Outcomes
4.3 Main Content
4.3.1 An Overview of Policy Interventions in the Nigerian Agricultural Sector
4.3.2 Budget Allocation and Appraisal of Some Agricultural Development Schemes
4.4 Appraisal of Performance of Agricultural Institutions under Nigeria's Development Plans
4.5 Targets of Agricultural Development Programmes

4.6 Summary
4.7 References/Further Readings/Web Resources
4.8 Possible Answers to Self-Assessment Exercise(s)

## 4.1 Introduction

As discussed in the last unit, the agricultural sector is faced with numerous challenges and these suggestions to ameliorate these challenges have been provided overtime as rendered in the unit. Yet, there has been conscious effort to tackle the challenges of the agricultural industry through series of policy and programmes in Nigeria. This unit reviews the past and present efforts at revamping the sector. It also mention the success or otherwise the failure of these policies and programmes.

## 4.2 Learning Outcomes

At the end of this unit, student should be able to:
1. Enumerate some policies and programmes of government in Nigeria
2. Evaluate the success or otherwise failure of the agricultural schemes, institutions and programmes

## 4.3 Main Content

### 4.3.1 An Overview of Policy Interventions in the Nigerian Agricultural Sector

The need to restructure the agricultural sector in an effort to enhance its role in the transformation of the Nigerian economy had long been recognized in Nigeria as evident from various plans, policies and programmes implemented over time. Historically, four distinct agricultural and rural policy phases may be identified in Nigeria. The first phase spanned the entire colonial period and the first post- independence decade from 1960 to about 1969 (the pre-1970 era); the second covered the period from about 1970 to 1985; the third phase started from 1986 in the Structural Adjustment Programme (SAP) period to 1994; the fourth is the post-SAP era to date, spanning 1995-2010.

**1. The Pre-1970 Period**

The prevailing philosophy for agricultural development during this period was characterised by minimum direct government intervention. As such, the private sector and the small-scale resource-poor farmers determined the direction of agricultural development efforts in the country. The three Regional Governments (Eastern, Northern and Western, and later the Mid-Western), were merely supportive of the activities of these farmers and government efforts largely took the form of agricultural research, extension and export crop marketing, and price stabilisation activities. Some of the governments in the 1950s and 1960s, created public-owned Agricultural Development Corporations, Commodity Boards and launched a number of Farm Settlement Schemes, but these actions found their justification more in social considerations and in promoting community participation in agricultural activities than direct intervention on their part. However, it must be stated that some of them got rooted in styles or approaches of some countries in the developed countries and some under transition which had a compulsion to do so such as Israel. In the particular case of the western regional government, the Farm Settlement Scheme sensitized the young ones to go into agriculture and created an opportunity for the products of the free education programme to be employed immediately after their graduation.

**2. Pre-Structural Adjustment Period (1970-1985)**

This period was characterized by oil revenue boom and high levels of public expenditures by the Federal Government. The poor performance of the agriculture sector engendered the drive for increasing government intervention that resulted in a wide range of agricultural policies, programs and projects, some of which had the direct involvement of government in agricultural production. Sector-specific agricultural policies were largely designed to facilitate agricultural marketing, reduce agricultural production cost and enhance agricultural product prices as incentives for increased agricultural production. Major policy instruments during this period included the following:

a. Agricultural Commodity Marketing and Pricing Policy
b. Input Supply and Distribution Policy
c. Agricultural Input Subsidy Policy
d. Agricultural Mechanization Policy
e. Water Resources and Irrigation Policy
f. Agricultural Extension and Technology Transfer Policy To support the policy directions of the Government; two important legal enactments were undertaken, viz: the Nigerian Enterprises Promotion Decree of 1972 and 1977 and the Land Use Decree of 1978.

3. **The Structural Adjustment Programme (SAP) Period (1986-1994)**

The main policies put in place during this phase included:

a. Fiscal Policies: A five year tax-free period for profits earned by companies engaged in agricultural production and agro-processing was provided.
b. Monetary Policies
c. Trade Policies
d. Agricultural Support Service Policies

- Water Resources and Irrigation: Re-organization of the River Basin Development Authorities in 1986 to concentrate only on water resources management and land development, including provision of irrigation facilities. In 1993 also, FADAMA I, a programme on dry-season farming initiative was launched.
- Employment: Establishment of National Directorate of Employment (NDE) in 1986 to promote employment programmes with a special school leaver and agricultural graduates programme both for keeping rural youth's interest in agriculture and for assisting agricultural graduate in establishing farms of their choice.
- Agricultural Insurance: Establishment of National Agricultural Insurance Company (NAIC) in 1987 to operate and administer the Nigerian Agricultural Insurance Scheme.
- Agricultural Land Development: Establishment of a National Agricultural Land Development Authority (NALDA) in 1991 to execute a national agricultural development programme for small scale farmers organized on group basis.
- Agricultural Training and Manpower Development: Training is one of the strategies of the Nigerian government for agricultural development. This has resulted in the establishment of Faculties of Agriculture in all the conventional Universities, Colleges and Institutes of Agriculture, followed in 1988 to 1992 by the establishment of three Universities of Agriculture.

e. **Rural Development Policy**: This was the first time a policy attention was given to rural development. In 1986, the Directorate for Food, Road and Rural Infrastructure (DFRRI) was established. This directorate was involved in the construction of rural feeder roads, rural water supply schemes, and rural electrification projects.

f. The 1988 Agricultural Policy Document: In 1988, a more holistic and articulated agricultural policy document of Nigeria was launched.

g. 1991: National Land Development Authority established NALDA Farms in nearly all the States with 4 ha demarcated for each farmer involved in the community based programme.

**4. Post SAP Period (1995-2012)**

There were no significant policy pronouncements during this phase prior to 1999.

Instead the period was characterized by substantial importation of agricultural products while programmes to support agriculture witnessed policy uncertainties. Expenditures on agricultural programs declined with concomitant effect on capital projects.

The post 1999 period, however, witnessed the initiation of several economic reforms with the agricultural sector being central to most of such efforts.

1999 - Special Programme on Food Security

1999 - Root and Tuber Expansion Programme (RTEP): this programme was designed to improve on the level of production of roots and tubers in the country.

2000 - Integrated Rural Development Strategy

2001- Presidential Initiatives on special crops (rice, vegetable oil and cassava): The Presidential Initiative on Rice (PIOR) aimed for national self-sufficiency in rice production by 2005, food security, and the ability to export by 2007.

2003 - FADAMA II programme: This is in two phases. The first is funded by the World Bank and the second by the African Development Bank. Twelve States are covered by the World Bank funded phase while six States are funded by the African Development Bank. Subsequently, FADAMA III programme has recently (2009) taken off in some selected States. The aim of the FADAMA programmes is to use the banks of rivers and water logged areas for agricultural purposes, particularly so given the low proportion of irrigated areas in Nigeria put at only 7% of total cultivated arable land.

2003 - Cocoa Rebirth Programme: This programme covers the fourteen (14) States that are cocoa producing. A Deputy Governor in one of the States is the Chairman of the Committee and the Committee is anchored in the Federal Ministry of Agriculture, Abuja.

2004 - National Economic Empowerment Development Strategies (NEEDS) Programme

2004 - New Agricultural Policy. This is more detailed as it includes important areas of agriculture which were not emphasized in the 1988 document.

2006 – National Fertilizer Policy for Nigeria.

2007 –2011 **-** The 7-Point Agenda: This encompassed, power and energy, food security, wealth creation, transport sector, land reform, security, and education. With respect to food security, the reform is primarily agrarian based. The emphasis on the development of modern technology, research, financial injection into research, production and development of agricultural inputs to revolutionise the agricultural sector leading to an expected 5 – 10 fold increase in yield and production. This is expected to result in a massive domestic and commercial outputs and technological knowledge transfer to farmers. The agriculture sub-component of the 7-Point Agenda is spelled out in the 5-Point Agenda of Federal Ministry of Agriculture and Water Resources (FMAWR). The key programmes of the 5-Point Agenda are: Developing Agricultural Policy and Regulatory Systems (DAPRS), Food Systems Network (FOODSNet), Rural Sector Enhancement Programme (RUSEP), Developing Agriculture Inputs Markets in Nigeria (DAIMINA), and Maximising Agricultural Revenue in Key Enterprises (MARKETS).

Self-Assessment Exercises 1

| |
|---|
| Enumerate three programmes or policy in the four phases mentioned above |

**4.3.2 Budget Allocation and Appraisal of Some Agricultural Development Schemes**

The schemes for financing agriculture have the first objective of encouraging banks to lend to the sector despite the relatively higher inherent risk and uncertainty. This was done by providing the banks with low-cost funds for lending. Another way was to cover their risk exposure to some extent using one instrument or the other. The second objective is promoting farmers' access to credit by the provision of concessionary terms.

1. **Agricultural Credit Guarantee Scheme Fund (ACGSF), 1978 till date**. Established by Act No. 20 of 1978, this offers a 75 per cent guarantee backed by the Central Bank of Nigeria (CBN) on agricultural credit in default, net the amount realized from the disposal of security for such credit. Financing is at market-determined interest rates. The CBN offers a rebate equivalent to 40 per cent of the loan interest when loans are duly repaid. This2 scheme deals with small scale farmers who need small loans to operate. For instance, in 2005, more than 70% of all loans were smaller than fifty thousand naira to each farmer who applied and accounted for 36% of total loan value. Only 11% of all loans were larger than N100, 000and accounted for 32% of total loan value. The scheme

has, however, suffered bureaucratic and administrative bottlenecks. For instance the processing of applications and claims has been slow so much so that at the end of 2005, there was an accumulated backlog of 4064 unprocessed claims, the oldest of which dated back to 25 years (IFPRI, 2008).

2. **Small and Medium Enterprises Equity Investment Scheme (SMEEIS), 2001.** This is a voluntary initiative of the Bankers' Committee to support micro, small and medium enterprises (MSMEs), including agro and agro-allied businesses. Financing is in form of either debt or equity. In the case of debt, the borrowing rate is not to exceed single digit.

3. **Refinancing and Rediscounting Facility (RRF), 2002 to date**. Banks that lend long-term to agriculture and are in need of liquidity are availed an amount which is a certain percentage of the outstanding asset portfolio to long-term agriculture by the CBN at reduced rates at the discount window.

4. **Agricultural Credit Support Scheme (ACSS), 2006 till date**. The initial ACSS fund of N50 billion was established with contributions mostly from the CBN and deposit money from banks for the financing of large agricultural projects such as establishment or management of plantations, cultivation or production of crops, livestock, and fisheries and farm machinery and hire services. The borrowing rate is 14 per cent, with the CBN absorbing 6 per cent while the borrower pays 8 per cent at full repayment. The purpose of ACSS is to facilitate the development of the agricultural sector by advancing credit to farmers at low interest rates. By pursuing this strategy, the government hopes to exert downward pressure on prices of agricultural produce, especially food, leading to reduced inflation, increased exports, diversification of government revenue base, and increased foreign exchange earnings.

5. **Large Scale Agricultural Credit Scheme (LASACS), 2009.** A N200 billion fund established by the Federal Government in the wake of the current global economic crisis to finance large integrated commercial farm projects with an asset base of at least N350 million (excluding land) with prospects of increasing this to N500 million in three years' time, and medium-sized agricultural enterprises with an asset base of N200 million (CBN, 2009). The terms of borrowing are favourable, including a long tenor and single digit lending rate. 6. Supervised Agricultural Loans Board. Most state governments set up these boards to dispense finance in form of credit to farmers. It should be added that aside this boards, the state Agricultural Development Programmes (ADP) have recently been working in conjunction with the National Programme for Food Security (NPFS) in the provision of credit to farmers.

### 4.4 Appraisal of Performance of Agricultural Institutions under Nigeria's Development Plans

1. **Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB), 1972 to date.** Formerly Nigerian Agricultural and Cooperative Bank, NACB, it was jointly established by the Federal Government of Nigeria (FGN) and the Central Bank of Nigeria (at a ratio of 3:2) to dispense credit to cooperatives , agribusiness , and individual small holder farmers at a subsidized interest rate. As we as direct investment through equity participation in projects, guarantees for agricultural ventures and rural savings services. Its present name came after a merger of people's bank of Nigeria, Family Economic Advancement Programme and Nigerian Agricultural and Cooperative bank in 2002. Even though it now collects deposits, it has not lived up to expectation due to poor funding.
2. **River Basin Development Authority (RBDA), 1977 to date**. Nine RBDAs were established in 1977 as part of the Third National Development Plan (1975 – 80) to add to the existing Sokoto and Rima RBDAs. Their focus is the provision of especially rural water infrastructure but also roads; N32.8 billion was budgeted for this plan. It was the first plan to make rural development and, especially rural electrification, a priority area of government (FGN, 1975).The scheme also involved a massive development of the nation's water resources through creation of irrigation schemes to encourage all season farming.
3. **National Grains Production Company (1979)** for the expansion of grain production through giving improved seeds as credit to the farmers.
4. **Directorates of Foods, Roads and Rural Infrastructure (DFRRI), 1986 to 1993.** This agency adopted an integrated approach to rural development. The philosophy recognized that increased food production was tied to development of rural economic infrastructure. Budget allocation to DFRRI was N433 million in 1986, N500 million in 1987 and N1 billion in 1988 respectively.
5. **Nigerian Agricultural Insurance Corporation (NAIC), 1987 to date.** This provides insurance cover for all types of farming and farming related activities, including insurance for stock in transit. The premium paid on NAIC policy is heavily subsidized by the CBN to make it affordable for small holder farmers. The indemnity paid in the event of occurrence of a risk insured against helps in ploughing the farmer back to business.
6. **People's Bank of Nigeria, 1990**. This was an initiative that targeted self- help groups with credit for micro and small business. It was merged with the FEAP and NACB to form NACRDB in 2002.
7. **National Agricultural Land Development Authority (NALDA) – 1992.** It was established to succeed where others failed. Its promoters touted realization that despite moderate achievements in some areas of the agricultural sector, land management and planning was largely ignored.

It was argued that that this oversight along with other deficiencies underpinned the perennial problems experienced in the agricultural sector. Simply put, NALDA was to open up more areas for agricultural production with supporting credit, research and subsidies. During the 8 years of NALDA intervention, significant successes were recorded. The area planned for operation was comparable with the work done and areas of improvement were also determinable. However, the programme had its shortcoming such as the untimely release of budgeted funds to the management of NALDA.

**4.5 Targets of Agricultural Development Programmes**

1. **National Accelerated Food Production Programme (NAFPP), 1972**. This was part of the Second National Development Plan (1970 – 74). The plan itself had no clear statement on rural development, although N1, 353 million was voted for it (FGN, 1972). It targeted self-sufficiency in the production of rice, maize, sorghum, millet and wheat. It was a joint programme of Federal Government and USAID. Its objectives include accelerating and increasing food production through the adoption of improved packages of production technology, speedy up the transfer of research results to farmers, pursuing intensive and extensive cultivation of crops and linking research to production agencies through extension services.
2. **Agricultural Development Programme (ADP) – 1975**. It is jointly funded by the World Bank, Federal and States in Nigeria aimed at provision of rural roads, farm service centers, agricultural Extension services, credit, etc towards achieving food production. Extension activities implemented by ADPs included establishing demonstration farms, identifying lead farmers, providing information to lead farmers on improved farming practices, facilitating access to improved technology and inputs and helping lead farmers teach others.
3. **Operation Feed the Nation (OFN), 1976**. The OFN was part of the Third National Development Plan (1975 – 80) which was voted N2, 050.738 million. Like the earlier plan, there was no categorical strategy for rural development, except some N500 million for rural regrouping (Olayiwola and Adeleye, 2005). However, it had objectives to mobilize the people to embrace agriculture, eliminate the traditional disdain for agriculture by the educated, enhance food production on a large scale, create jobs and income and utilize all available land resources in the country.
4. **Green Revolution programme - 1980.** The civilian regime initiated this programme aimed at wiping away hunger through credit supply to farmers, encourage and intensify cooperative education, mobilizing the local people to actively participate in agriculture, application of research on food and fibre to enhance abundance in staple food production, processing and distribution in Nigeria.

5. **Rural Banking Programme, 1977 to 1991**. Banks were encouraged to not only establish rural branches but also to extend at least 50 per cent of the deposit mobilized from the rural areas as loans and advances to rural dwellers. Defaulting banks were to be penalized.

6. **Preferred sector allocation of credit, 1970 to 1996.** Banks were mandated to extend 40 per cent of their loans and advances to agriculture which was designated a preferred sector. Banks that failed to meet this target were penalized. The funds not lent were transferred to the then Nigerian Agricultural and Cooperative Bank, NACB. During the period, concessionary interest rates for agricultural loans policy was put in place between 1980 to 1987. Banks were mandated to extend credit to agriculture at a regulated rate of 9 per cent per annum.

7. **Community banking programme, 1991 to 2007.** The programme provided for the establishment of community banks with a focus on rural banking operations. The National Board for Community Banks (NBCB) was the regulator of these banks until 2002 when this function was transferred to the CBN. It was intended to serve communities that were able to establish one based on personal recognition, character and credit worthiness of the borrower.

8. **Root and Tuber Expansion programme -2000.** It was established to commercialize root and tuber crop production and improve living conditions, income, food security and nutritional health of the poorest small holder households.

**9. National FADAMA Development Programme** aimed at increasing income of beneficiaries by at least 20%. The programme was designed in 1993 to promote simple and low cost improved irrigation technology under World Bank financing. FADAMA is a Hausa word for low lying flood plains usually with easily accessible shallow groundwater. It is a major instrument for achieving the government's poverty reduction objective in rural areas of Nigeria. The beneficiaries are meant to come as a group known as FADAMA Community Association to the National FADAMA Development Programme. The programme empowers the association with resources, training, and technical assistance support to properly manage and control the resources for their own development .FADAMA adopts a socially inclusive and participatory process in which all FADAMA users will collectively identify their development goals and pursue it when assisted .The programme is in its third phase currently due to its success in the States that adopted it.

10. **Family Economic Advancement Programme (FEAP), 1997 to 2001.** This was established to serve the credit needs of the family in their daily economic activities through input supplies, loan in form of cash, and capacity building.

11. **National Poverty Eradication Programme (NAPEP), 1999 to date**. Like FEAP, NAPEP was established by the federal government. The mode of operation is tailored towards directed (subsidized) credit to

farmers. The programme consists of four schemes namely, Youth empowerment scheme which involves capacity acquisition, mandatory attachment, and credit delivery; Rural infrastructures Development scheme which involves the provision of portable water, rural electrification, transportation and communication development. ; Social welfare Services Scheme which is involved with qualitative education, primary health care, farmers empowerment and provision of social services, provision of agricultural input and credit delivery to rural farmers. ; and Natural Resources Development and Conservation Scheme which contains programmes for environmental protection through conservation of land and space , development of agricultural resources , solid minerals and waters resources.

12. **Microfinance Banks, 2005 to date**. Microfinance brings financial services such as savings, deposit, payments, transfers, micro insurance and micro leasing to the active (or productive) poor and low income people, who would otherwise have no access to such services. The Microfinance Policy outlines the principles and guidelines for the practice of microfinance in Nigeria, including provision for the establishment of private sector driven microfinance banks with market-centred operations, veritable source of loanable funds for microfinance banks is the Micro Credit Fund, integration of microfinance institutions into the formal banking system.

13. **Presidential Initiatives, 2000s.** There have been several recent presidential initiatives aimed at financing the production and export of certain commodities such as cassava, rice, cocoa and oil palm to reverse the trend in food importation which represented a worrying percentage of total imports, an indication that the agricultural sector had diminished in its capacity to provide the nation's food and industrial raw materials and to generate foreign exchange.

Self-Assessment Exercises 2

Which of these initiatives above do you consider most effective in Nigeria?

## 4.6 Summary

Against the background of numerous challenges confronting the agricultural sector defying many proffered solution, this unit enumerate and discusses various policies, programmes and institutions set up by successive governments of the day to revamp the Nigerian agricultural sector. These include marketing boards and agricultural corporation from pre-independence era; The Nigerian enterprise promotion act and land use decree of the pre-SAP era, the establishment of NDE, NALDA, and NAIC among others in the SAP era to support fiscal and monetary policy of the government and economic reforms of special programme on food security, root and tubers expansion programme, presidential initiatives on selected crops and Fadama series of post-SAP period in addition to international supported programmes. The agricultural schemes, institutions and programmes were individually appraised.

Here you have been exposed to past efforts of successive government in tackling this decadence in the agricultural sector. An appraisal of the policies and programmes was equally made. It is obvious from this multi –factorial essence of agricultural production that it must be practiced with the deepest sense of national responsibility by way of sustainable policy environment, reliable policy instruments and professionally sound and stable institutional framework. By this, the performance of agriculture in Nigeria will be able to meet up with the expectation of food security, guaranteed industrial linkages, poverty alleviation, foreign exchange earnings and economic development among other immeasurable goals and accompanying benefits. This concludes our discussion on the agricultural sector; you can now proceed to the next unit for another important sector in Nigerian economy, the Industrial sector.

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## 4.8 Possible Answers to SAEs

**Answers to SAEs 1**

1999 - Special Programme on Food Security

1999 - Root and Tuber Expansion Programme (RTEP):

2000 - Integrated Rural Development Strategy

2001- Presidential Initiatives on special crops (rice, vegetable oil and cassava): The Presidential Initiative on Rice (PIOR)

**Answers to SAEs 2**

Microfinance Banks, 2005 to date. Microfinance brings financial services such as savings, deposit, payments, transfers, micro insurance and micro leasing to the active (or productive) poor and low income people, who would otherwise have no access to such services. The Microfinance Policy outlines the principles and guidelines for the practice of microfinance in Nigeria, including provision for the establishment of private sector driven microfinance banks with market-centred operations, veritable 94 source of loanable funds for microfinance banks is the Micro Credit Fund, integration of microfinance institutions into the formal banking system.

## Module *3*: THE NIGERIAN INDUSTRIAL SECTOR

### Module Introduction

In module 2, you have been taken through specific but extensive discussion on the Nigerian agricultural sector. I am sure you have found it interesting enough. It is high time we move into another important sector within the Nigerian economy, I mean the Industrial sector.
Here our attention shall be on general outlook of the industrial sector as well as the manufacturing subsector of the industrial sector. You will be treated to an extensive discussion on the manufacturing subsector which is a principal subsectors in the industrial sector. The processing subsector is subsumed into the manufacturing sector.

This module is made up four units which forms a continuum. In the first unit, a general introduction is made of the concept and importance of industry. This unit is followed by a second unit which discusses the concept, significance and performance of the manufacturing subsector before and after the advent of independence in Nigeria. The third but last unit in this module reviews the challenges and prospect of the industrial sector especially as it affects the manufacturing subsector.

Unit 1 Concepts and Importance of Industry
Unit 2 The Manufacturing Sector during Pre-Independence and Post-Independence Period
Unit 3 The Challenges and Prospects of Industrialisation in Nigeria

## Unit 1: CONCEPTS AND IMPORTANCE OF INDUSTRY

1.1 Introduction
1.2 Learning Outcomes
1.3 Main Content
1.3.1 Concept of Industry/Industrialisation
1.3.2 Scope of the Nigerian Industrial Sector
1.4 Necessity and Significance of Industrialisation
1.5 Overall Contribution of the Industrial Sector to GDP

1.6 Summary
1.7 References/Further Readings/Web Resources
1.8 Possible Answers to Self-Assessment Exercise(s)

## 1.1 Introduction

This is the first of the three units in this module. It comprises essentially of brief definitions and meanings of concepts; industries, industrialisation. In addition, the importance and necessities industrialisation in the Nigeria’s economy shall be discussed. These will no doubt famliarise you with some rudiments of industrialisation. It will also introduce you to relevant concepts that will feature along the line of discussion in subsequent units. Hence, a thorough understanding of this introductory unit is important to facilitate your understanding of subsequent units in this module. You should therefore give it the utmost attention it deserves.

## 1.2 Learning Outcomes

At the end of this unit students will be able to:

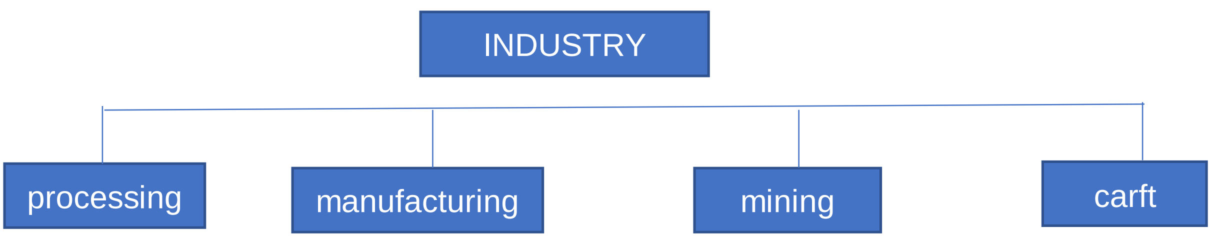
1. Define Industry/Industrialisation and state its scope
2. Explain the significance of industry/industrialisation
3. Asses the overall contribution of the industrial sector to GDP

## 1.3 Main Content

### 1.3.1 Concept of Industry/ Industrialisation

An industry refers to a number of firms producing broadly similar commodities. Thus, industrialisation is the process of building up a nation’s capacity to convert raw materials and other inputs to finished goods and to manufacture goods for other production or for final consumption. There are four main types of industry: Processing Manufacturing, Craft and Mining industries.

**Fig. 3.1.1 Types of Industry**



Self-Assessment Exercises 1

| |
|---|
| Attempt a definition of processing, manufacturing, craft and mining. |

### 1.3.2 Scope of the Nigerian Industrial Sector

For the purpose of accounting and records, the Nigeria Industrial sector is traditionally subdivided into three main subsectors. These are:

1. **Crude Petroleum and Natural gas subsector** which is essentially a primary sector that involves the extraction of crude oil and natural gas which are directly marketed raw domestically and internationally without any form of processing.
2. **Solid Minerals subsector** is involved in coal mining, metal ores mining, quarrying and mining of other mineral resources like columbite, limestone, marble etc. This is also a primary processing subsector.
3. **The manufacturing sector** which engages in all activities that convert raw materials into finished or intermediate products. They include oil refining, cement manufacturing and other consumable items manufacturing industry.

Self-Assessment Exercises 2

| |
|---|
| Which of the three subsectors identified do you considered most developed and income earning for Nigeria? |

### 1.4 Necessity and Significance of Industrialisation

The Primary focus of economic planning and management through whichever approach (regulation of deregulation), particularly, in developing countries such as exist in Africa is economic transformation for economic development. Effective economic transformation/development is expected to reflect in the improvement of the quality and the standard of living of the populace. The specific impact of such and improvement in the quality of life would involve:

i. raising people's living level so much so that their incomes and consumption level of food, medical services, education, utilities and social services expand through relevant economic growth processes: and
ii. creation of conditions conducive to the growth of people" self-esteem through the establishment of social, political and economic system and institution which promote human dignity and respect".(Todaro,1977).

However, to expedite action and subsequently reinforce the pace of the processes of attaining these goals, Boeninger (1991), proposes the need for the government of the country to make provision for the prevalence of some socio-economic transformation conditions which involve increasing people's freedom to choose by enlarging the range of their choice variables, for example, increasing the varieties of consumer and capital goods and services at reasonable costs.

In recognition of these, industrialisation is generally accepted by policy makers, economic planners, researchers and professionals, irrespective of their ideological differences as one of the most desirable means of attaining these important objectives. In this regard, industrialisation constitutes a veritable channel of attaining the lofty and desirable conception and goals of improved quality of life for the populace. Thus, in a supportive mood, as cited in Ayodele and Falokun (2005), Lewis (1967) assumes that in any economy, one or more sectors serve as a prime mover driving the rest of the economy forward. This role of engine of growth or leading sector has usually been played by the industrial sector under the industrialisation process.

Against this background, industrialisation involves extensive technology based development of the productive (manufacturing) system of an economy. Thus, the development of the industrial sector represent the deliberate and sustained application and combination of suitable technology, management techniques and other resources to move the economy from the traditional low level of production to a more automated and efficient system of mass production of good and services. Industrialisation is the pivot of economic growth and development, industrialisation process seems to be the main hope of most developing countries such as Nigeria with large population and large labour force. It is therefore anticipated that the excess labour resource in the country could only be absorbed by the desired positive developments in the processes of industrialisation. This therefore explains why successive governments in Nigerian have usually accepted and pursued industrialisation as a way of transforming the entire Nigerian economy.

Thus, the country aspired industrially in the 1960s, hoping to use the proceeds from agricultural commodities (cocoa, groundnuts, palm produce etc.) boom to energise the industrial transformation process. This aspiration became reinforced in the 1970s with the windfall gains from the crude oil price explosions of the 1972/73 and 1979/80 seasons. Inspite of these aspirations which ought to have favoured effective industrialisation process in an economically conducive manufacturing environment, most of the result as reflected in the performances of the manufacturing sector, remain socio-economically undesirable. Against this backdrop, current economic planning and policy instrument are directed at the development of the key productive sectors, particularly manufacturing and commerce from the promotion of an increasing pace of industrialisation in Nigeria.

Self-Assessment Exercises 3

Is industrialisation the pivot of economic growth? Justify your position.

### 1.5 Industrial Sector Contribution to Nigeria's GDP

As computed in Table 3.1.1, the industrial sector as a whole contributed N145.6 billion the countrys GDP in 1960. This contribution rose from 5.9 percent in 1960 to 11.8 percent in 1965. This upward trend continued in 1970 when the sector contribution amounts to 19.5 percent and a peak of 46.9 percent between 1975 and 1980 perhaps because of increasing oil wealth. Although there was a slight decline in 1980, the contribution in real terms improved in 1985 to 42.3 percent and 43.2 in 1990. From 1990 the industrial sector as a whole began to decline as it contributed 37.0 percent in the year 2000, 28.3 percent in 2005 and a mere 22.0 percent in 2010.

Table 3.1.1: Industrial Sector Contribution to Real GDP 1960-2010 (Nmillion)

| **Sectors** | **1960** | **1965** | **1970** | **1975** | **1980** | **1985** |
|---|---|---|---|---|---|---|
| **Industry** | **145.6** | **370.8** | **819.1** | **7,463.0** | **10,922.9** | **85,097.4** |
| 1Crud.Petr.& gas | 11.0 | 116.8 | 465.6 | 5,770.6 | 6,754.3 | 72152.0 |
| 2Solid Minerals | 21.6 | 33.0 | 35.9 | 505.9 | 682.7 | 913.0 |
| 3Manufacturing | 114.0 | 221.0 | 317.6 | 1,186.5 | 3,485.9 | 12,032.4 |
| | | | | | | |
| **Total GDP** | **2,489.0** | **3,146.8** | **4,219.0** | **27,172.0** | **31,546.8** | **201,036.3** |
| **Industry as a % of Total GDP** | **5.9** | **11.8** | **19.5** | **27.5** | **34.6** | **42.3** |
| **Sectors** | **1990** | **1995** | **2000** | **2005** | **2008** | **2010** |
| **Industry** | **115,591.4** | **108,162.7** | **121,756.6** | **159,161.4** | **146,519.6** | **157,905.0** |
| 1Crud.Petr.& gas | 100,223.4 | 93,536.7 | 106,827.5 | 136,345.5 | 116,594.6 | 122,957.9 |
| 2Solid Minerals | 665.6 | 789.8 | 970.2 | 1,510.8 | 2118.3 | 2,665.8 |
| 3Manufacturing | 14,702.4 | 13,836.1 | 13,958.8 | 21,305.1 | 27806.8 | 32,281.3 |
| **Total GDP** | **267,550.0** | **281,407.4** | **329,178.7** | **561,931.4** | **672,202.6** | **775,525.7** |
| **Industry as a % of Total GDP** | **43.2** | **38.4** | **37.0** | **28.3** | **22.0** | |

Source: Computed from CBN, Statistical Buletin, Golden Jubilee Edition, 2008; NBS, Statistical Buletin, 2010 compilled edition

*Note that the GDP was compilled from 1960-1973 using 1962/1963 constant basic price, from 1974-1980 using 1977/1978 constant basic price and from 1981-2010 using 1990 constant basic price

Self-Assessment Exercises 4

| |
|---|
| What was responsible for the declining contribution of the industrial sector to GDP after 1980? |

## 1.6 Summary

Having defined Industry and Industrialisation in this unit, we have highlighted the four main types of industries viz: Processing, Manufacturing, Craft and Mining. We further define the scope of Nigerian industrial sector as: the crude oil and natural gas, the solid minerals and the manufacturing subsectors. We equally highlighted the significance of the industrial sector thus: raising people's living level so much so that their incomes and consumption level expand through relevant economic growth processes and creation of conditions conducive to the growth of people, self-esteem through the establishment of social, political and economic system and institution which promote human dignity and respect. On a final note a brief mention was made of the overall contribution of the sector to GDP.

This unit is a conceptual unit defining broad range of concepts and defining scopes for such; industry and industrialisation. The need and significance of industry were also expounded alongside discussing the contribution of the industrial sector to GDP. In essence, a platform has been built for a comprehensive discussion on the Nigerian industrial sector in subsequent units.

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## 1.8 Possible Answers to SAEs

**Answers to SAEs 1**

1. The manufacturing engages in all activities that convert raw materials into finished or intermediate products.

**Answers to SAEs 2**

1. Crude Petroleum and Natural gas subsector which is essentially a primary sector that involves the extraction of crude oil and natural gas which are directly marketed raw domestically and internationally without any form of processing.

**Answers to SAEs 3**

**1.** industrialisation constitutes a veritable channel of attaining the lofty and desirable conception and goals of improved quality of life for the populace and involves extensive technology based development of the productive (manufacturing) system of an economy.

**Answers to SAEs 4**

1. perhaps because of increasing oil wealth, Although there was a slight decline in 1980, the contribution in real terms improved

# Unit 2: THE MANUFACTURING SECTOR DURING PRE-INDEPENDENCE AND POST-INDEPENDENCE PERIOD

**CONTENTS**



## 2.1 Introduction

As a follow up to unit 1, we shall examine the meaning and concept of manufacturing; the status of the manufacturing industry in Nigeria before and after independence. The discussion in the pre-independence period will be very brief simply because not much is known about manufacturing in Nigeria before independence unlike the agricultural sector which is culturally and traditionally part of Nigerian prominent vocation and has since contributed immensely to the economy even before independence. The bulk of manufacturing activities came into existence during the post-independent era when the manufacturing industry goes through a lot of visible stages. Hence, the post-independence assessment will be more detailed. You will be exposed to the phases of growth of the manufacturing sector after independence. Furthermore, the contribution of the sector to GDP after independence shall be enunciated in this unit.

## 2.2 Learning Outcomes

At the end of this unit, it is expected that the students would be able to

1. Highlight the meaning and importance of manufacturing
2. Summarise the position of the Nigerian manufacturing sector before independence
3. Give an overview of the status of the manufacturing sector in Nigeria after independence
4. Asses the manufacturing sector contribution to Gross Domestic Product

## 2.3 Main Content

### 2.3.1 Concept and Importance of Manufacturing

Manufacturing is a sub-set of the industrial sector. Manufacturing involves the conversion of raw materials into finished consumer goods or intermediate or producer goods. Manufacturing, like other industrial activities, creates avenues for employment, help to boost agriculture, help to diversify the economy, while helping the nation to increase its foreign exchange earnings in addition to enabling local labour to acquire skill. Furthermore, it minimizes the risk of overdependence on foreign trade and leads to the fullest utilisation of available resources.

### 2.3.2 The Nigerian Manufacturing Sector before Independence

The organisation of manufacturing in Nigeria has passed through several stages of development. In the first phase of the pre-independence era, not many activities are established in the Nigerian manufacturing sector. Manufacturing activities were only limited to primary processing of raw material for export and the production of simple consumer item by foreign Multinational corporations anxious to gain a foothold in a growing market. During this period, manufacturing was mostly resource-based, but some element of import substitution and, therefore, imported raw material base was already present. Indigenous manufacturing was virtually absent.

Self-Assessment Exercises 1

| |
|---|
| Why was manufacturing virtually absent in Nigeria before independence? |

## 2.4 The Manufacturing Sector after Independence

An overview of the Manufacturing Sector after Independence
The manufacturing sector in Nigeria after independence shall be discussed under the following subheadings:

a. **Immediate Post-Colonial era (1960s):** the post-colonial era of the 1960s signifies the second phase of Manufacturing in Nigeria. This era is characterised by more vigorous import substitution and the beginning of decline for the oriented processing of raw materials. Immediately after independence (1960), the need arose to adopt an import substitution industrialisation to reduce the heavy dependence, on the external sector for the supply of manufactured products, capital goods and equipments. Government subsequently created some industrial incentives to encourage foreign investors to invest in Nigeria's industrial sector. That is, foreign entrepreneurs were technically and strategically invited to champion Nigeria's industrialisation because of the scarcity of investible funds in the country. Thus, in order to induce greater support for the industrialisation process in Nigeria particularly among foreign entrepreneurs, the packages of incentives put in place which include among several others, could be categorised under five groups especially within the immediate post-independence period (1960s-70s):

i. Fiscal measures on taxation and interest rates to make for cheap production costs;
ii. Effective protection of infant industries with import tariff;
iii. Export protection of products produced in Nigeria;
iv. Foreign currency facility for international trade; and
v. The evolution of development banks for resource mobilization.

Specifically, there were policies such as granting of pioneer status, tax holidays to newly established firms, low utilities tariffs to all firms, export license waiver etc. applicable within the manufacturing sector.

In spite of the incentives created, the little investible funds that came in within the 1960/70 period were not focused on manufacturing but diverted to commerce to make quick money. Besides, it did not reduce Nigeria's dependence on the external sector as envisaged. Such a policy of import substitution meant initially to reduce over- dependence on foreign trade and save foreign exchange turned out to be a mere assemblage of those items rather than manufacturing. This negated the original aim, since almost every item needed by the so-called manufacturing industries was imported. At the same time, foreign ownership of manufacturing facilities reached its peak.

b. **The advent of Oil (1970s):** this was remarkable because the advent of oil and the enormous resource it provided for direct government investment in manufacturing. In this period of the global commodity and crude oil booms, Nigeria experienced some windfall gains which expectedly heralded considerable revenue inflow. Such an inflow constituted a financial relief in Nigeria's process of industrial transformation. In this regard, it was assumed that Nigeria would use the crude oil revenue for effective industrial transformation. Thus, relying on the windfall gains from crude oil sales, the country embarked on the establishment of major industrial ventures such as; the Peugeot and Volkswagen Assembly plants; and the petro- chemical plant, among several others. This made the government to exercise almost a complete monopoly in the following sub-sectors: basic steel production, petroleum refining, petrol- chemicals, liquefied natural gas, edible salt, flat steel plants, machine tools, pulp and paper (basic), yeast and alcohol , and fertilizer (nitrogenous and phosphatic) and hence intense economic activity but poor results since government's attempts at diversification into non-traditional products such as steel, petrochemicals, fertilizers, and vehicle assembly yield little success.

The import substitution industrialisation therefore later, yielded place to export promotion industrialisation, particularly after the 1972/73 windfall gain from the crude oil price explosion at the global crude oil market. It may be recalled that by 1970 or thereabout, crude oil sold for less than $2 per barrel (pb) with Nigeria producing less than 0.5 million barrels per day (mbd). However, by 1972/73 the price changed and rose persistently from $2pb to about $40pb with crude oil production equally rising to reach about 2.5mbd in 1979/80. In the early 1970s, the manufacturing sector had depended mainly on the external sector for foreign exchange to purchase equipment, spare parts and intermediate inputs. There was phenomenal increase in the performance of the sector within the mid-1970s and 1980s period occasioned principally by the massive inflow of foreign exchange from crude oil sales.

c. **Dwindling Government Revenue (1980s):** this phase is marked by dwindling government revenue consequent upon the nose-diving of oil prices at the world market and hence many adhoc attempts at revamping the economy were made. By the mid- 1980s, the crude oil prices had actually collapsed having declined from about S40pb in 1980 to about S8 pb, with crude oil production declining from 2.5mbd in 1979/80 to 0.5 mbd within the first quarter of 1986. In fact, before the mid-1980s, the commodity price at the global commodity market had also actually collapsed. This suggests that if mining activities had not eroded agricultural activities in Nigeria, the economic crisis which accompanied the collapse of the crude oil price would have come earlier than the time it came because of the earlier collapse of the commodity prices. The desire to ward off the implication of the economic crisis resulted in the adoption of SAP in Nigeria (FRN, 1986).

These attempts include the adoption of export promotion strategy on the realisation of the pitfall of the import substitution strategy. The SAP era beginning from July 1986 even emphasized this strategy especially as it relates to non-oil exports, hence, the extension of export promotion incentives of various descriptions. Also, due to observed lopsided development in the entire manufacturing sector, a strategy of balanced development was emphasized in order to promote greater linkages within the sector but its result has been rhetorical than practical.

However the near total collapse of the economy's driving force (crude oil price) which started in 1981 reversed the phenomenal increase in the performance of the manufacturing sector in Nigeria. As from 1975, the sector witnessed a persistent decline up to 5.4% in 1980. Although, it rose to 10.5% in 1985 when its value added was 8.7% of GDP.

In addition, due to dwindling oil revenues and foreign exchange (and its high cost) following naira depreciation at the Second Tier Foreign Exchange Market (SFEM) for the importation of raw materials and spare parts, the government decided to lay emphasis on the strategy of industrialisation by local sourcing of raw materials hence, the manufacturers were encouraged to find local substitutes/alternatives of their raw materials. Apart from helping to maximize local resources utilization, it also helped to save foreign exchange, among other merits. It is partly because of this that a new industrial policy was enunciated in 1989 aimed at providing greater employment opportunities to stem the social and political consequences of unemployment thereby increasing export of manufactured goods, improving the nation's technological capacity, increasing local content of industrial output so as to promote greater linkages and backward integration in order to raise the general level of economic activity, attract foreign investment for local industrial development and increase private sector participation aimed at accelerated pace of industrial development. It is important to recognize that by the mid-1980s, Nigeria had completely been transformed into a monolithic, inefficient and import-dependent economy. Thus, the need was created to evolve from that structure, a diversified, dynamic and export oriented economy which constituted one of Nigeria's objectives of adopting the world Bank/IMF endorsed Structural Adjustment Programme (SAP) in July, 1986. The manufacturing sector was expected to play a central role in this process of evolution, hence, SAP proposed the enhancement of the productive efficiency of the manufacturing sector, particular, against the backdrop of the declining oil revenue to reinforce factor accumulation and imports within the process of economic deregulation. SAP initiated some comprehensive reform programmes which advocated minimal government influence in trade and other spheres of industrialisation. These programmes embodied several policies were targeted at the influencing the manufacturing sector. Such policies included:

A. technical devaluation of the naira to alter domestic prices in favour of manufacturing exports through the floating exchange rate system;

B. the increase of capital allowances for plant and machinery ;

C. the introduction of the tax free dividends for foreign personal and corporate equity holders within the 1987/92 period;

D. special tax incentives of about 140 percent relief in respect of research and development expenses on raw materials development;

E. tax holiday for entrepreneurs wishing to invest in economically disadvantaged areas;

F. the establishment of domiciliary accounts for exports to maintain export earnings in foreign denominated currency;

G. the adoption of the privatisation and commercialisation policy for the enhancement of industrial productivity and efficiency;

H. the promulgation of the Export Incentives Decree of 1986; and

I. the establishment of an Export Guarantee and Insurance Scheme to assist Nigerian firms to compete at the international market effectively.

In the area of cash inducements, an export expansion fund was created for the provision of cash inducements for exporters who would have provided a minimum of N50, 000.00 worth of semi- manufactured or manufactured products.

**d. Declining growth (1990s)**

From 1990, the manufacturing industry persistently witnessed a declining growth. The growth declined to 6.8% in 1995; 6.5% in 1996; 6.3% in 1997 and 6.2% in 1998. The decline in its performance can rightly be attributed to some major factors which included:

- a week demand due to the sharp fall in real income arising from the economic recession and high product prices; and
- Low export market penetration due to poor quality control/and the high cost of production. The elements of these high costs include, high tariffs, increased costs of energy inputs, rising cost of imported inputs, occasioned by sharp depreciation of naira exchange rate and the high cost of private provision of utilities and security. Inevitably, with observed development, low productivity growth became one major constraining feature of the Nigerian manufacturing sector.

Self-Assessment Exercises 2

| |
|---|
| Of what significance is the discovery of oil to the manufacturing industry? |

### 2.5 Manufacturing Sector Contribution to Nigeria's GDP

As computed in Table 3.2.1, the manufacturing subsector contributed 4.6 percent in 1960, 7.0 percent in 1965 and 7.7 percent in 1970 and 1975. The contribution from the

Table 3.2.1: Manufacturing Sector Contribution to Real GDP 1960-2010 (Nmillion)

| **Sectors** | **1960** | **1965** | **1970** | **1975** | **1980** | **1985** |
|---|---|---|---|---|---|---|
| **Industry** | **145.6** | **370.8** | **819.1** | **7,463.0** | **10,922.9** | **85,097.4** |
| **Manufacturing** | **114.0** | **221.0** | **317.6** | **1,186.5** | **3,485.9** | **12,032.4** |
| i. Oil Refinery | - | - | - | - | - | 160.8 |
| ii. Cement | - | - | - | - | - | 766.6 |
| iiiOther manufacturing | 114.0 | 221.0 | 317.6 | 1,186.5 | 3,485.9 | 11,105.1 |
| **Total GDP** | **2,489.0** | **3,146.8** | **4,219.0** | **27,172.0** | **31,546.8** | **201,036.3** |
| **Manufacturing as a % of Total GDP** | **4.6** | **7.0** | **7.5** | **4.4** | **11.1** | **6.0** |
| **Manufacturing as a % of Ind. GDP** | **78.3** | **59.6** | **38.8** | **15.9** | **31.9** | **14.1** |
| **Sectors** | **1990** | **1995** | **2000** | **2005** | **2008** | **2010** |
| **Industry** | **115,591.4** | **108,162.7** | **121,756.6** | **159,161.4** | **146,519.6** | **157,905.0** |
| **Manufacturing** | **14,702.4** | **13,836.1** | **13,958.8** | **21,305.1** | **27806.8** | **32,281.3** |
| i. Oil Refinery | 174.9 | 189.6 | 193.3 | 686.8 | 914.9 | 1,047.1 |
| ii. Cement | 680.0 | 714.4 | 267.9 | 397.8 | 554.8 | 681.7 |
| iiiOther manufacturing | 13847.5 | 12,932.2 | 13497.6 | **20,220.5** | 26,336.9 | 30,552.5 |
| **Total GDP** | **267,550.0** | **281,407.4** | **329,178.7** | **561,931.4** | **672,202.6** | **775,525.7** |
| **Manufacturing as a % of Total GDP** | **5.5** | **4.9** | **4.2** | **3.8** | **2.1** | |
| **Manufacturing as a % of Ind. GDP** | **12.7** | **12.8** | **11.5** | **13.4** | **9.4** | |

Source: Computed from CBN, Statistical Buletin, Golden Jubilee Edition, 2008; NBS, Statistical Buletin, 2010 compilled edition

*Note that the GDP was compiled from 1960-1973 using 1962/1963 constant basic price, from 1974-1980 using 1977/1978 constant basic price and from 1981-2010 using 1990 constant basic price

subsector rose to 11.1 percent in 1980 due to the oil wealth that was invested in the sector and subsequently decline to 6.0 percent in 1985. This downward trend had continued since then despite all efforts to revitalise the sector. By 1990 the contribution has gone down to 5.5

percent and 4.2 percent in the year 2000. Worse still, it continued to diminish in contribution to GDP as it recorded a share of 3.8 percent and 2.1 percent respectively in 2005 and 2010.

It is of important to note that the manufacturing subsector of the industrial sector respectively contributed 78.3 and 59.3 percent of the total contribution of the industrial sector to GDP in 1960 and 1965 respectively. The share of the manufacturing subsector in the total GDP contribution of the industrial sector begin to decline from 38.8 percent in 1970 to 15.9 percent in 1975. This is expected because in the 60's activities in other subsectors such as crude oil and solid minerals are still at very low ebb, hence the manufacturing subsector dominates the contribution from the industrial sector. However, since the prominence of crude oil as a major foreign earning resource for Nigeria, the oil subsector dominates the contribution from the industrial sector against the initial domination by the manufacturing sector. The contribution of the manufacturing sector (as a percentage of the GDP of the industrial sector) further declines to 14.1 percent in 1985, 12. 8 percent in the 90s and 9.4 percent in the year 2010.

Self-Assessment Exercises 3

Highlight the importance of manufacturing in economic development

**2.6 Summary**

The fact revealed in this unit is that manufacturing in the pre-independent economy was limited to primary processing of raw materials with little element of import substitution and this is essentially done by foreign multinational companies then present in Nigeria. As also studied in this unit, the manufacturing sector in the immediate post-colonial era (1960's) was characterised by more vigorous import substitution and the beginning of decline for the oriented processing of raw materials to reduce heavy dependence on external sector. Consequent upon this, many protective policies were implemented in Nigeria. The advent of oil in the 70's was remarkable because of the enormous resource it provided for direct government investment in manufacturing which made the government to exercise almost a complete monopoly in many sub-sector such as basic steel production, Petroleum refining, petrol-chemicals, liquefied natural gas, edible salt, flat steel plants, machine tools and pulp and paper (basic) among several others. The dwindling government revenue phase (1980's) is marked by the adoption of export promotion strategy on the realisation of the pitfall of the import substitution strategy. The SAP era which began in 1986 even emphasized this strategy especially as it relates to non-oil exports and a strategy of balanced development was emphasised in order to promote greater linkages within the sector. Since the 90's, the manufacturing sector witnessed a declining growth due to a weak demand resulting from sharp fall in real income and low export market penetration.

In this unit, we attempted a review of the manufacturing industry in Nigeria beginning with the pre- independent period. The feature and performance of this sector before independence was briefly stated. The Nigerian manufacturing sector was examined in phases after independence. You were taken through the features of the sector during the immediate post-colonial era of 1960's, the advent of oil era in the 70's, the dwindling government revenue era (1980's) and the declining growth phase in the 1990's. The effect of SAP and renewed commitment of government to industrialisation in recent years were equally mentioned. On the final note, you were exposed to statistics on the contribution of the manufacturing sector to GDP over this period. Having read and digested this.

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## 2.8 Possible Answers to SAEs

**Answers to SAEs 1**

1. Manufacturing activities were only limited to primary processing of raw material for export and the production of simple consumer item by foreign Multinational corporations anxious to gain a foothold in a growing market. During this period, manufacturing was mostly resource-based, but some element of import substitution and, therefore, imported raw material base was already present. Indigenous manufacturing was virtually absent.

**Answers to SAEs 2**

1. this was remarkable because the advent of oil and the enormous resource it provided for direct government investment in manufacturing. In this period of the global commodity and crude oil booms, Nigeria experienced some windfall gains which expectedly heralded considerable revenue inflow. Such an inflow constituted a financial relief in Nigeria's process of industrial transformation.

**Answers to SAEs 3**

1. It is of important to note that the manufacturing subsector of the industrial sector respectively contributed 78.3 and 59.3 percent of the total contribution of the industrial sector to GDP in 1960 and 1965 respectively.

# Unit 3: CHALLENGES AND PROSPECTS OF THE INDUSTRIALISATION IN NIGERIA

**CONTENTS**



## 3.1 Introduction

This unit is the last of the four units in this module. The main thrust of the unit is to review some of the challenges of industrialisation in Nigeria. The strategies of industrialisation as implemented by successive government over the years will also be examined in addition to examining the incentive of various governments to industrialisation in Nigeria. This unit also reviews suggestions on the ways of energising the Nigerian industrialisation process. Specifically, the challenges of oil, solid minerals and associated gas will be examined along with proffered solutions to these challenges. I belief reading this to completion will arm you with a comprehensive and complete information on the industrial sector in Nigeria..

## 3.2 Learning Outcomes

At the end of this unit, students will be able to:

1. Itemise and explain the general challenges confronting the industrial sector in Nigeria
2. Enumerate the specific challenges facing the oil and solid minerals subsector
3. Highlight the strategies and incentives to industrialisation in Nigeria
4. Suggest general and specific measures of moving forward the industrial sector in Nigeria.

## 3.3 Main Content

### 3.3.1 General Challenges of Industrialisation in Nigeria

Industrialisation, most especially manufacturing is faced with numerous challenges in Nigeria. Some of these are enumerated and discussed below:

**1. Inadequate funding**

Inadequate and untimely funding of manufacturing industries by the public and private sector coupled with inefficient and/or ineffective application of such funds constitute hindrance to Industrial development. Budget allocation to the development of the industrial development has been found inadequate quite often. The setting up, production and maintenance of industry are highly capital-intensive, yet little or no credit is made available for industries. When credit is available, the interest rate is high, thus increasing their cost of production.

**2. Inadequate Infrastructure**

In Nigeria, infrastructural facilities are grossly inadequate. These are characterised amongst others by poor feeder roads and inadequate road network. Water and power supply is still at low ebb in Nigeria, this necessitated the use of alternative water and power supply with attendant increase in production cost. More so, there are few or no affordable health care facilities and hence a lot of man-days are lost to ill-health among other infrastructural deficiencies and decay.

**3. Shortage of Raw Materials/Input**

Agriculture is a major source of raw materials to industry. Meanwhile, majority of farmers in Nigeria's agricultural sector have small holdings varying between zero and less than 5 hectares. They employ rudimentary farm equipment (example hoes, cutlass, etc.) and poor cropping techniques (such as bush fallowing, bush burning, crop rotation, non-use of fertilizer and improved seeds). Very few of these farmers employ mechanized farming techniques such as tractorisation and irrigated systems, thus, they are limited only to seasonal cultivation. This limits the raw materials provided by them to the industrial sector. In the same vein, other non-agricultural inputs are scarce, costly or non- available in the country. Most industries resort to importation at a high cost in the face of unfavourable exchange rate. This has adverse effect on the industrial sector.

**4. Non-competitiveness of Nigerian Industrial Product**

The products of the Nigerian industrial sector cannot compete in the international markets. This non-competitiveness can be attributed to several factors, including poor grading and standardization, high cost of marketing, high production cost structure, processing and transportation to trade points, unfavourable exchange rates, difficulty of accessing regional and global markets, domestic policy-related obstacles that discriminate against export and the price of competing products.

**5. Inconsistent domestic policies, programmes and institutions**

Successive governments have formulated and implemented conflicting policies to support industrial development, and as a result these policies have tended to change frequently with changes in political leadership. Consequently, there are ineffective linkages between policy-research-market-industry. This fragmented approach to policy making has adverse effect on industrial development in Nigeria. The loose policy framework does not encourage stability in import-export of certain crucial items (either as raw materials or finished products). Also, policies formulated lack clearly defined roles for operators leading to inefficiency implementation.

**6. Manpower/Skill Challenge**

There is little or no support for empirical academic research that could be extended to industries. In addition, there is shortage of experienced professional and technical manpower in the industry. Most often Nigerian has to rely on external aid and expatriates for technical support which are often costly and not readily available.

**7. Devaluation of Naira**

Even though this policy is meant at solving market distortions, since Nigerian industries are import dependent in terms of sourcing for raw materials, foreign exchange affects the border price of imported goods and thereby increase the cost of production.

Self-Assessment Exercises 1

| |
|---|
| Identify other challenges of Industrialisation in Nigeria overleaf |

### 3.3.2 Strategies of Industrialisation in Nigeria

It is evident that in an attempt to transform depleting resource dependent economy to an industrialised self- sustaining economy, some strategic policy instruments had been put in place in Nigeria, particularly, since independence. Nigeria and other West African countries have adopted a number of strategies of industrialisation in their development efforts. In Nigeria, for instance, the following industrialisation strategies had been adopted:

(a) Import Substitution Strategy
(b) Export Promotion Strategy.
(c) Balanced Development Strategy
(d) Local resource based Strategy.

i. **Import Substitution Strategy**:

After independence, Nigeria changed from the policy of producing primary products introduced by the colonial masters to that of producing those items originally imported. Most of the raw materials needed by the industries were imported, the policy thereby resulted in mere assemblage rather than manufacturing.

**ii. Export Promotion Strategy:**

Realising the obvious pitfalls of the import substitution strategy, Nigeria added the strategy of export promotion. This involves the production and exportation of new products and those originally imported. In order to encourage and implement this policy the Nigerian Export Promotion Board (NEPB) was established. Lack of incentives and raw materials had led to the failure of this strategy. There has been a renewed emphasis on this strategy since 1986 by the export promotion incentives.

**iii. Balanced Development Strategy:**

This policy was adopted as a result of the lopsided development of the industrial sector. The main aim of balanced development of all industries is to promote greater linkages within the sector. That is, the government wants to create intra-industry linkages and inter-sectoral linkages so that intra-industry transaction could increase.

**iv. Local Resource-based Strategy:**

As a result of dwindling of revenues and foreign exchange for the importation of raw materials and spare parts, the government decided to lay emphasis on the strategy of industrialising by local sourcing of raw materials. Industries are thus encouraged to find local substitute or alternatives of their raw materials. For instance, breweries grow and use local millet and maize while the ban on wheat importation has necessitated the baking of corn bread. This strategy was to help maximum utilisation of local resources as well as help save foreign exchange, among other merits.

Self-Assessment Exercises 2

| |
|---|
| Of all the strategies discussed above, which one do you consider most effective when Implemented? |

### 3.4 Government Incentives to Industrialisation

Indeed, manufacturing in Nigeria appears a favoured sector, probably because it is generally believed that the main instrument of rapid growth, structural change and selfsufficiency lies in the manufacturing industry. Thus, resources have been channeled into this sector through heavy public sector investment in addition to a high level of protection for private investment. The government of West African countries has encouraged industrialisation and the strategies for same through a number of incentives, these includes:

**a. Tax Holiday:**

Infant or new industries are exempted from the payment of profit for some years of operation such as five years. The aim is to protect them from international competition and enable them build up enough funds for expansion purposes.

**b. Tariff Protection:**

In some cases, the government imposes heavy import duties on foreign goods so as to protect local industries from international competition.

**c. Import Duty Relief:**

In other cases the government grants import duty-relief to industries particularly new ones for the importation of capital equipment.

**d. Total Ban on Certain Foreign Goods:**

In Nigeria, the government at a time banned some foreign goods so as to protect local industries engaged in the production of similar products as well as to encourage increased local production.

**e. Provision of Supportive Activities:**

The government also provided other incentives in the form of aids like building of industries estates.

**f. Provision of Loans:**

In Nigeria there are guidelines on credit allocation by financial institutions such as commercial banks, merchant banks, industrial development banks and other financial agencies at the federal, state and local government level to support the industrial sector.

**g. Provision of Accelerated Depreciation Allowance:**

The government also allows another form of income tax relief by allowing industries to set aside huge sums for covering wear and tear of their equipment and machines.

**h. Direct Government Participation:**

The government has also come in to participate directly in certain strategic industries either alone or through joint participation with foreigners or local entrepreneurs.

**i. Approved User Scheme:**

This involved the giving of concessionary rates of duty to certain selected items of industrial import of manufacture.

**j. Export Incentives:**

In Nigeria export promotion incentives include the refund of import duty on raw materials for production of export goods, refund of excise duty paid on export manufactures, exemption from import levy of 30% of raw materials importer for export production (in 1986), generous import license for importing raw materials for export production, exporters retaining 25% of their proceeds of foreign exchange earnings from export in their foreign currency account with Nigerian banks, assistance on export costing and pricing, liberalised export license and the establishment of an Export Credit Guarantee and Insurance Scheme.

**k. Promulgation of Decree**

Relevant laws were made in industrial policy areas to energise the processes of effective industrialistion in Nigeria. Most of these policies and the laws protecting their implementation are documented in what constitute the 1988 Industrial policy of Nigeria. Recognising the need to facilitate and ease the processes of the incorporation, registration and supervision of industrial enterprises, the 1990 companies and Allied Matters Decree was promulgated.

**L. Institutional Support**

On a final note on the incentives to put industrialization on its proper course in Nigeria, government provided some institutional support via the establishment of:

i. the Industrial Development Coordination Committee (IDCC);
ii. the Industrial Development Bank (IDB)
iii. Industrial Training fund (ITF);
iv. the Raw Materials Research and Development Council (RMRDC);
v. the Project Development Agency (PRODA);
vi. the Federal Institute of Industrial Research, Oshodi (FIIRO);
vii the Standard Organisation of Nigeria (SON); and
viii the Investment Information and Promotion Centre (IIPC)
ix Nigeria Bank for Commerce and Industry

Self-Assessment Exercises 3

Find out the specific function/jurisdiction of any three of the above listed industrial institutions in Nigeria

**3.5 Energising Nigeria's Industrilisation Process: Policy Measures**

Given the country's uncompetitive and high cost economic environment as discussed in the foregoing, it is imperative for energizing the environment under which there would be free inflow of foreign inventible funds- this may not be possible unless the current industrial environment changes to encourage industrial policy instruments that make Nigeria a least-cost industrial producer. This suggests that something drastic must be done policy-wise to modify the existing high banks' lending rate to make it supportive to the industrialisation process. Besides, the depreciation of the exchange
rate would have to yield place to remain a foreign exchange allocation rather than a foreign exchange intermediary.

**1. Stability of Naira value**

The foreign exchange policy measure of devaluing the naira had the laudable objectives of encouraging exports, increasing foreign exchange earnings and solving the problem of the price distortions in the markets. However, it appears that the realistic value of the naira has been passed somewhere up the scale. Though a lot of profit had been realised from the sale of foreign exchange in SFEM\FEM in terms of naira, we should understand that for industrial development in this country, foreign exchange is paramount as most of the industries in Nigeria are import dependent. Besides, foreign exchange affects the border prices of imported goods. Therefore, efforts should be made to make the naira stabilize at a realistic level determined by the forces of demand and supply, in order to minimize the problem of foreign exchange scarcity. One argument against the continued depreciation of the naira is that for most of the imports whether consumer goods, raw materials or intermediate inputs; the usual habits as well as to import demands, are fairly rigidly fixed. With such an inelastic import demand, despite a rise in prices resulting from the devaluation/ depreciation of the naira, buyers cannot easily change the quantity of goods they buy from the suppliers. Where, however, the forces of demand is responsive to price change, the share of the market is so negligible that the reaction would not be able to influence the world market price. Empirically, the reaction so far in Nigeria has only produced a shortage of spare parts and raw materials, given rise to capacity underutilisation in the affected industries. To achieve a realistic value for the naira, it would be necessary to increase the quantity of foreign exchange currencies available for purchase in naira. It is a known fact that as the quantity supplied increases, relative to demand, its price falls, which would give rise to interaction of demand and supply at a lower level of equilibrium. The importance of this is that foreign currencies would be made cheaper relative to the naira and this would enable industrialists import the needed raw materials and intermediate inputs (spare parts) for the industries.

**2. Restoration of First-Tier foreign Exchange market**

Meanwhile, until this realistic level is achieved, it is necessary to restore the First-tier Freight Exchange Market (FFEM) to be for the settlement of foreign debts and other official foreign obligations in order to reduce the burden caused by the sudden merger of the markets-In short, an appropriate and sustainable exchange rate policy should be adopted which is expected to address some fundamental issues such as the availability of, and ease of accessibility to foreign exchange by all users. Also important is the minimization of differentials among foreign exchange across markets. In order to achieve the afore-mentioned objectives however, bureau-de-change must be allowed to operate unfettered in terms of the rates they charge. But restriction has to be imposed on the amount of foreign exchange a bureau can buy and sell. The aim is to ease access to small scale industries to foreign exchange. Moreover government should track the autonomous rate closely to make premium on the official rate insignificant.

**3. Reduction of Lending Rate to Ease Loan Access**

The deregulation of interest rates has discouraged borrowing for investment by industrialist. The free interplay of market force still keeps the lending rate fairly high and makes the saving-cum lending rates gap to become wider. In view of the fact that the annual rate of inflation in the economy is over ten per cent it would be advisable for government to lower the rediscount rate in order to enable banks to reduce their lending rate to more acceptable level without necessarily discouraging savings. The idea is to encourage borrowing and investment particularly in the industrial sector where capacity utilization has been as well as the effective operations of industrial development bank.

**4. Liberalisation of Market with Caution**

Also, we should note that liberalising trade as one of the principles of "World Trade Organisation (WTO) could make a nation like Nigeria a dumping ground to advantage of foreign economies because of our inelastic import demand and non-productive non- oil export sector, leaving the country with balance of trade deficits. Therefore, the policy has to be implemented with caution. Rather, it would be better to liberalise trade in goods and services that are required for the Nigerian industrial development, but in areas where dependence on foreign inputs is negligible, and with regard to finished products for which local substitutes are available, quantitative barriers should be designed to effectively control their importation.

**5. Development of Cognate Sectors to Provide Input and Promote Linkages**

In addition, other related sectors like the agricultural sector, should be developed so as to promote both forward and backward linkages. That is, product of the agricultural sector will serve as input in the industrial sector and vice versa.

**6. Privatisation and Commercialisation with Caution**

Also, privatisation and commercialisation of public corporations should be done with caution. This is because, a hike in price will follow when subsides are removed where they exist, which will adversely affect their consumption via increased product prices. It is therefore important to consider the inflationary implications of this policy. Some of these key enterprises should be allowed to remain as public enterprises until there is marked industrial take-off, accompanied by self-discipline and changes in attitude, behaviour and values.

**7. Reorganisation of the Financial Sector**

Given the foregoing, it is important to recognize that in the process of energizing the industrial transformation of the Nigeria economy, the CBN and the associated financial institutions have a major role play in sanitising the financial system to make for, efficiency and low cost industrial production. In this regard, the CBN would need to introduce some policy instruments aimed at:

- the reduction of the spread between savings and lending rates;
- the reduction of the excess profits of commercial banks, particularly from their operations in the foreign exchange market. All of

the commercial banks must be seen as intermediaries between the users of foreign exchange and the CBN rather than the allocators of foreign exchange to the users.

**8. Creating a Conducive environment for Industry to Thrive**

On the entire market, government owes it a duty to make the industrial environment attractive and perfect for operation. These could be attained through;

- adequate guaranteed supply of utilities to all users;
- established wage structure to raise effective demand for goods and services; and creating a condition for a sustainable democratic government to usher in a stable eco-political situation in the country.

**9. Right Policy by the Government**

In these regards, the country's continuous dependence on a narrow range of primary exports makes it very vulnerable to external shocks. Government should therefore put up prudent strategies to diversify Nigeria's export base policy efforts must emphasis the need to minimize the large currency depreciations which could lead to a further decline in terms of trade. Against this background, policy efforts must focus on accelerating the implementation of export diversification initiatives. In the fact, such diversification strategies must be comprehensive. Policy instruments must emphasise both the supply and demand sides of the production process. The supply side must focus for success on research and development, human capital development and effective marketing that facilitate an expanded range and improved quality of exportable commodities. On the demand side, policy strategies must be directed at expanding domestic, regional and Western markets and thereby increasing market share. All of these proposed policy measure are reinforcement; the issue of the need to minimise the effect of the negative influences in the context of unfavourable macro economy environment. This relates to competitive production cost and quality of products, fiscal restraint, money supply growth that is consistent with the real GDP, increased productivity and improvement in the supply of infrastructural services in the country. Besides, the administration must equally address the issue of the dearth of foreign investors from multiple dimensions such as:

- reaching agreement with Bretton Woods institutions and creditors on Nigeria's debts;
- deliberately wooing investors to Nigeria;
- global information dissemination to investors on opportunities and potentials for investment in Nigeria; and
- Amendment of laws inhibiting competition and foreign investment inflow.

**10. Energy sector and Infrastructural Development**

In addition, there are sector specific measures to address the identified constraints to industrialisation in areas such as the energy crises and infrastructural development to revitalise the industrial sector. In this regard, government's primary role particularly under the ongoing privatisation programme, is to ensure that in cooperation with the private sector, there is the supply of adequate and efficient infrastructure (energy, telecommunications, water, financial services, etc.) to instill a positive and internationally competitive environment for effective industrial activities. It is strongly believed that with adequate and efficient infrastructure, government would find it easier to move the country away from the production and export of primary commodities to the production and export of processed and manufactured products. In fact, this may create the necessary incentives and encouragement for the development of agro-allied industries.

**11. Production of Industrial blueprint**

Lastly, there is the need to produce an industrial blue print for moving the manufacturing industries to export household goods, high quality textiles and garments and furniture. To reinforce the pace of industrial transformation in the country, all uncompleted important projects in the capital sector must be reviewed for completion where still viable, and their expansion, where desirable.

Self-Assessment Exercises 4

| |
|---|
| Which other positive measure do you consider appropriate to salvage the Nigerian industrial sector? |

## 3.6 Summary

It can be inferred from our discussion so far that Nigerian industrial sector is faced
with a number of challenges of which infrastructural inadequacy, poor technological wherewithal, policy inconsistency, illegal mining and bunkering and competitiveness of product with foreign goods are of paramount importance. Yet, overtime the country have adopted a number of strategies of industrialisation in their developmental effort, these include: Import Substitution, Export Promotion, Balanced Development and Local resource based Strategy. In addition, government incentives to industrialisation include: Tax Holiday, Tariff Protection, Import Duty Relief and Ban on Certain Foreign Goods. Others are: Provision of Loans, Direct Government Participation, Export Incentives, Promulgation of Decrees and Institutional Supports. The suggested

measures to energise the industrial sectors include: reduction of bank lending rate, tackling naira devaluation, Liberalisation and privatisation with caution and export diversification initiatives. Others relates to competitive production cost and quality of products, fiscal restraint, money supply growth that is consistent with the real GDP, increased productivity and improvement in the supply of infrastructural services in the country. In addition, other related sectors like the agricultural sector, should be developed so as to promote both forward and backward linkages, there is also the need to produce an industrial blueprint for moving the manufacturing industries forward.

This concluding unit of module 3 has reviewed the challenges of industrialisation in Nigeria. It has also taken us through the adopted strategies of various governments in dealing with these challenges. The incentives provide to the industrial sector over time were equally discussed. The unit was rounded off with proffered solution to energise the Nigerian Industrial sector. With these you have successfully completed this module on the industrial sector. I am sure you found the module educative and rewarding. You will be very enthusiastic by now to proceed into the next module to discuss the details of another subsector, the Mining and Quarrying subsector.

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## 3.8 Possible Answers to SAEs

**Answers to SAEs 1**

- Manpower/Skill Challenge
- Devaluation of Naira
- Shortage of Raw Materials/Input
- Non-competitiveness of Nigerian Industrial Product

**Answers to SAEs 2**

1. Export Promotion Strategy: Lack of incentives and raw materials had led to the failure of this strategy. There has been a renewed emphasis on this strategy since 1986 by the export promotion incentives.

**Answers to SAEs 3**

**a. Direct Government Participation:**

Their function is to participate directly in certain strategic industries either alone or through joint participation with foreigners or local entrepreneurs.

**b. Approved User Scheme:**

The function is to give concessionary rates of duty to certain selected items of industrial import of manufacture.

**c. Export Incentives:**

**d. Stability of Naira value**

**Answers to SAEs 4**

1. The foreign exchange policy measure of devaluing the naira had the laudable objectives of encouraging exports, increasing foreign exchange earnings and solving the problem of the price distortions in the markets.

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# MODULE 4: THE INDUSTRIAL SECTOR 2- MINING AND QUARYING SUBSECTOR

## Module Introduction

This module is a continuation of the last module as we examine the most prominent subsector of the industrial sector. It is primarily aimed at discussing specific issues relating to the mining subsector as done for the Manufacturing sectors in modules 3. This module is made up of four distinct units which are thematically related. In the first unit, you will have the opportunity of acquainting yourself with the background on the resource deposits of Nigeria and the features and importance of the Nigerian mining sector. The second unit will take you through a discussion on the Nigerian crude oil sub sector of the mining industry followed by a broad overview of the solid mineral subsector of the mining sector. You will in addition study the associated challenges and remedy of each subsector.

By the end of this module, you would have refreshed your memory on characteristics and importance of the Nigerian mining sector; gained an insight into the activities and performance of the income generating crude oil and mineral sub sector as well as appraise the challenges and prospects of the mining industry



## Module 4 - Unit 1: CHARACTERISTICS AND IMPORTANCE OF THE MINING SECTOR

**CONTENTS**

## 1.1 Introduction

As earlier noted, the location of a country in the global spectrum determines, to a large extent, the country's degree of endowments in natural resources. The deposits of such natural endowments could subsequently be developed, managed, maintained and utilised for national development. Against this background, the first unit in this module provides a background on the extent of oil and mineral deposit in Nigeria. This was followed by another introduction to the operation and characteristics of the Nigerian mining sector while the unit terminates with a discussion on the contribution of the sector to economic development.

## 1.2 Learning Outcomes

At the end of this unit, student would be able to:

1. Itemise some natural resources in Nigeria that are important to the mining sector
2. Summarise the characteristics of the Nigerian mining sector
3. Highlight the contribution of the mining industry to national economy

## 1.3 Main Content

### 1.3.1 Background Information on Oil and mineral Deposits in Nigeria

In view of the location of Nigeria in the tropics, it constitutes one of the few countries in the world whose domestic natural resources are- in excess of its domestic resources requirements. For example, Nigeria is richly endowed with vast natural resources which include: crude oil (petroleum resources), bitumen, coal, lignite, natural gas, limestone, tin ore, kaolin, columbite, gold, silver, zinc, lead, clay, gypsum, marble, granite, sand, iron ore, stones, rocks, and shale. Incidentally, most of these resources remain largely untapped. Natural resources mainly tapped currently are crude oil, natural gas, coal and lignite, tin ore and iron ore and limestone. The deposit of bitumen in Igbokoda, Ondo State of Nigeria, is reported to be the second largest deposit of bitumen in the world, yet it remains untapped for development.

Given the focus on the restricted few resources, mining currently constitutes a central economic activity in the Nigeria economy. In this regard, modem and sophisticated economic activities in the mining sector largely involve exploration, extraction and the subsequent development of crude oil, solid minerals and associated gas in which some trans-national oil companies (TNC) are connected in their collaboration with the Nigerian government. It is important to recognise that the mining sector did not command economic planners and policy makers' attention at about independence. This is largely due to the fact that its contributions to the GDP, foreign exchange earnings and total national revenue were negligible at that time. Since about the mid- 1970s to date, particularly when crude oil and gas have constituted the single most important raw material in the world trade both in volume and value, government's policy attention has usually been directed at the mining sector. Besides, given that petroleum products and gas constitute important energy sources from the mining sector, the sector has therefore been given a prime position in its strategic roles in the country's development process.

The strategic roles accorded the mining sector, therefore, probably explains why it is necessary for it to attract the large scale of capital resources involved in the development of the sector; the scope of trade, size, sophistication and the complexities of associated technologies; and the potential financial rewards contained therein. All of these attributes combine to make the mining sector, particularly, the crude oil sub- sector of the mining sector, unique among the other sectors of the Nigerian economy. In recognition of the attributes of this uniqueness, particularly, the potential financial rewards, the TNCs and other operators have usually engaged in a kind of persistent competition for a grip of the power to control the sector in order to dictate its pace of development and subsequently the operations (economic activities with the level of investments, products supplies, pricing and distribution). In fact, some of the operators interested in the socio-economic matters in the mining sector particularly the crude oil sub-sector of the mining sector are:

- The TNCs directly connected with crude oil exploration, exploitation and marketing (i.e the consortia such as the Seven Oil Sisters, Standards oil, Socony, Mobil Oil, Standard Oil of California, Gulf Oil. Texas Oil, all from the S.S; British petroleum; Royal Dutch\ Shell linked with Anglo/Dutch);
- Nigeria where the mineral deposits exists for development; and
- International oil consumers (i.e. resources importers amongst which are the powerful industrial countries e.g. U.S

The urge for power acquisition and its subsequent acquisition is expected to be willed on the manipulation of the minerals influencing socio-economic and political factors which shapen the resources industry as well as the international resources market.

Such factors include; individual operator's relative share of the global financial, technical, technological, administrative and manpower capabilities. These factors have significant dominance on resources (e.g.

crude, oil, gas etc.) parameters such as output, products prices and their associated demand and supply parameters.

It is important to recognise that the resources events at the global level usually help in the processes of the development of each resource industry at the national level in Nigeria. That is, the extent of exploration, exploitation and marketing, For example, petroleum products in Organisation of Petroleum Exporting Countries (OPEC) and non–OPEC countries, significantly, depend on the level of the aforestated resources parameters, particularly prices as influenced by the above factors. This suggests that the rate, pace and degree of the development in the mining sector could usually be regarded as exogenously determined. Given the exogenous factors influencing the development of the mining sector, it would be expedient to examine the empirical implications of the global events as they affect the development of the mining sector in Nigeria.

This unit, therefore, attempts to examine the degree of the development of the mining sector in Nigeria along with its implications on its relative contributions to the GDP, foreign exchange earnings and national revenue.

Self-Assessment Exercises 1

| |
|---|
| Why is all attention shifted to the mining sector in Nigeria? |

**1.4 Mining Activities: Operations and Characteristics**

By the nature and location of mineral resources (crude oil, gold, natural gas, coal etc.) in the earth crust, economic activities associated with any of the mining industries (e,g crude oil or coal industry) embrace those which relate to exploration, extraction, refining, transportation and distribution, marketing and sales. In recognition of these varying facets of the associated activities in the mining sector, operations in the sector are usually complex and highly capital intensive. This explains why in technologically under-developed countries such as Nigeria where appropriate technologies and associated equipment, machines and spares are by importation, mining operations are highly expensive as they require huge capital investment activities and technologies.

The complexities of these varying operations with their huge investments explain why the required capital investment expenditure is beyond individual financial capacity and why several foreign companies are involved in the mining industry in Nigeria before 1975. Thus, given the nature and operations of such foreign mining companies in the mining

industry particularly their persistent struggle to control the market, the industry can be described as;
"notable a high revenue yielding, capital intensive and dynamic industry accustomed to long pay- out period". (Lavers, 1987).

Another major characteristic of the mining industry (e.g the crude oil industry) is its peculiar manpower requirements. Compared with other sectors (e.g. agriculture), it employs relatively few but highly specialized, skilled and dedicated people in all the technical areas of operation. In some cases available high skilled personnel at the various operational stages require maximum flexibility to take on responsibilities hence, the need for intensive training programmes in both the technical and non-technical areas of the industry. Such intensive training would provide a concrete base for personnel to cope with the dynamics of the industry as dictated by prevailing socioeconomic and political factors.

Self-Assessment Exercises 2

> Compare the manpower requirement of the mining sector with that of the agricultural sector?

**1.5 Contribution of Mining and Quarrying Sector to the National Economy**

The impressive performance of the mining and quarrying sub-sector in the share of the GDP and its total monopoly of foreign exchange earnings especially since the 1970s is however accounted for by a major mineral product, crude petroleum. Crude petroleum, the dominant mineral in the mining and quarrying sector of the Nigerian economy accounted for 91.8% of the output of the sector in 1981, 96.7% in 1985, 97.6% in 1987, 97.8% in 1990, 97.9%, 97.6% and 97.0% in 1992, 1994 and 1995 respectively. The share of crude oil in the sector has been consistently high even till 2010, contributing above 95 percent in most cases. The exploitation and sale of other mineral products in Nigeria remain very low. The contribution of the mining and quarrying sub-sector to the national economy only became significant after about five years after independence. By 1970, mining and quarrying had emerged to become the leading sector in terms of percentage share of GDP. The share of the sector in the GDP is depicted in table 4.1.1 below.

**Table 4.1.1: Contribution of the Mining and Quarrying Sector to Real Gross Domestic Product 1960-2010 (Nmillion)**

| | 1960 | 1965 | 1970 | 1975 | 1980 | 1985 |
|---|---|---|---|---|---|---|
| **Mining&Quarrying** | **31.6** | **149.8** | **501.5** | **6276.5** | **7437.0** | **73065.0** |
| **a. Crude Petr.& gas** | 11.0 | 116.8 | 465.6 | 5,770.6 | 6,754.3 | 72152.0 |
| **b. Solid Minerals** | 20.6 | 33.0 | 35.9 | 505.9 | 682.7 | 913.0 |
| Coal Mining | 1.8 | 2.8 | 0.2 | - | - | 1.53 |
| Metal Ore | 9.0 | 10.8 | 8.6 | - | - | 15.02 |
| Quarry. & Other Min. | 9.8 | 19.4 | 27.1 | 505.9 | 682.7 | 896.5 |
| M&Q as % of Total GDP | 1.3 | 4.8 | 11.9 | 23.1 | 23.6 | 36.3 |
| **Total GDP** | **2,489.0** | **3,146.8** | **4,219.0** | **27,172.0** | **31,546.8** | **201,036.3** |
| | **1990** | **1995** | **2000** | **2005** | **2008** | **2010** |
| **Mining&Quarrying** | **100889.0** | **94326.7** | **107797.7** | **137856.3** | **118712.9** | **125623.7** |
| **a. Crud. Petr.& gas** | 100,223.4 | 93,536.7 | 106,827.5 | 136,345.5 | 116594.6 | 122957.9 |
| **b. Solid Minerals** | 665.6 | 789.8 | 970.2 | 1,510.8 | 2118.26 | 2665.8 |
| Coal Mining | 0.91 | 0.13 | 0.18 | 0.12 | 0.16 | 0.19 |
| Metal Ore | 12.06 | 6.4 | 6.78 | 7.56 | 10.6 | 13.24 |
| Quarry. & Other Min. | 652.6 | 783.3 | 963.2 | 1,503.2 | 2107.5 | 2652.4 |
| M&Q as % of Total GDP | 37.7 | 33.5 | 32.8 | 24.5 | 17.7 | 16.2 |
| **Total GDP** | **267,550.0** | **281,407.4** | **329,178.7** | **561,931.4** | **672202.6** | **775.525.7** |

**Source: Computed from NBS, Statistical Bulletin, 2010 compilled edition**
***Note that the GDP was compiled from 1960-1973 using 1962/1963 constant basic price, from 1974-1980 using 1977/1978 constant basic price and from 1981-2010 using 1990 constant basic price**

The contribution of the mining and Quarrying sector in real terms became more pronounced after 1970 when oil was discovered in commercial quantity and full exploration began. Between 1960 and 1970, the contribution of the mining and quarrying sector rose from 1.3 percent share in 1960 to 4.8% in 1965 and 11.9% in 1970. In 1975 the contribution of the sector to real GDP rose to 23.1 percent. Mining and quarrying resumed its position as a main contribution to GDP, 23.6 percent in 1980 and substantially increased to 36.3 percent in 1985. It also improved slightly in 1990 to 37.7 percent of the GDP; the sector began to witness a decline in 1995 to 33.5 percent, 32.8 percent in 2000. By 2005 the decline in the contribution of the sector to the national output has declined to 24.5 percent, 17.7 percent in 2008 and 16.2 percent in 2010.

Self-Assessment Exercises 3

| |
|---|
| Can the contribution of the mining sector to national economy be consistent in Nigeria? |

## 1.6 Summary

Nigeria constitutes one of the few countries in the world whose domestic natural resources are in excess of its domestic requirements. These vast natural resources include: crude oil (petroleum resources), bitumen, coal, lignite, natural gas, limestone, tin ore etc. With the exception of crude oil which constitutes an important source of energy, most of these resources remain largely untapped. Economic activities associated with any of the mining industries embrace those which relate to exploration, extraction, refining, transportation and distribution, marketing and sales. Operations in the sector are usually complex, highly capital intensive and required specialized skilled personnel. Crude oil constitutes a major foreign exchange earner for the country and the mining industry has accounted for a significant contribution to the gross domestic product overtime with the highest contribution recorded in 1980s and 1990s.

Here you have been introduced to the depth of natural resource endowment of Nigeria. You have also learnt about the distinguishing characteristics and operation of the mining sector in Nigeria. The final section in this unit made mention of the significance of the mining industry to national economic development especially in terms of contribution to GDP. Having learnt all these you are set for a comprehensive discussion on the performance of the mining industry in the next two units.

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## 1.8 Possible Answers to SAEs

**Answers to SAEs 1**

1. By the nature and location of mineral resources (crude oil, gold, natural gas, coal etc.) in the earth crust, economic activities associated with any of the mining industries (e,g crude oil or coal industry) embrace those which relate to exploration, extraction, refining, transportation and distribution, marketing and sales. In recognition of these varying facets of the associated activities in the mining sector, operations in the sector are usually complex and highly capital intensive.

**Answers to SAEs 2**

1. Compared with other sectors (e.g. agriculture), it employs relatively few but highly specialized, skilled and dedicated people in all the technical areas of operation. In some cases available high skilled personnel at the various operational stages require maximum flexibility to take on responsibilities hence, the need for intensive training programmes in both the technical and non- technical areas of the industry. Such intensive training would provide a concrete base for personnel to cope with the dynamics of the industry as dictated by prevailing socioeconomic and political factors.

**Answers to SAEs 3**

1. The contribution of the mining and Quarrying sector in real terms became more pronounced after 1970 when oil was discovered in commercial quantity and full exploration began.

## Module 4 - Unit 2: THE CRUDE OIL SUBSECTOR

**CONTENTS**



### 2.1 Introduction

As earlier noted, the mining industry comprises of few subsectors of which crude oil and solid minerals subsector are dominant others include associated gas and quarrying subsector. In this unit our attention is on the crude oil subsector which harbors a lot of petroleum products. We intend to give a historical perspective of the crude oil subsector and follow it up with a discussion on the performance and contribution of the subsector to Nigerian economy. I know you are very familiar with the activities of this sector because of its role in our routine life and overall economic development; this is an added advantage towards the understanding of this unit.

### 2.2 Learning Outcomes

At the end of this unit student would be able to:

1. Sumarise the history and evolution of the crude oil industry in Nigeria
2. Asses the contribution/performance of the crude oil subsector in Nigeria

### 2.3 Main Content

### 2.4 Historical Background of the Nigerian Crude Oil Industry

Crude oil was discovered in Nigeria in 1956 (Olorunfemi, 1985). Oil production started immediately and increased rapidly. However, it was not until the 1970s before the tremendous influence of the crude oil industry as one prime mover of the Nigerian economy became apparent. This manifestation emerged from a combination of the global oil industry's circumstances, particularly the rise in oil prices which can be linked with Organisation of Petroleum Exporting Countries achievement in the 1970s. Prior to the 1956 oil discovery, there has been varying exploratory activities which started about 1908 with the establishment of the Nigeria Bitumen Company (NBC) by a German business interest for the exploration of bitumen. The NBC collapse during World War I and became replace in 1973 with Shell D'Arcy, a fore-runner of Shell Petroleum Development Company which also collapsed during World War II (1939- 1945). This oil company in partnership with British Petroleum (BP) returned to oil exploratory activities in 1946. Thereafter, after an initial investment expenditure of about 15 million, oil was discovered in commercial quantities at Olobiri in the Niger Delta area.

Before this time, that is, from November 1938, almost the entire country was covered by a concession granted to the company to explore for petroleum resources. This period also witnessed the arrival on the scene of other MNOCs such as Gulf Oil, Texaco (now ChevronTexaco), Elf Petroleum (now Total), Mobil and Agip. To date, the above companies constitute the major players in Nigeria's oil industry. By 1958, oil production and exports started with about 5,100 barrel per day (bpd). Given the dynamics within the global oil market, perhaps, arising from the afore- mentioned persistent struggle among oil industry's operators and their impact on the parameters that influence the oil industry, oil production and exports consistently rose from about 0.5 million bpd in 1972 to about 2.5 million bpd in 1979/80 under oil price regime of about \$4 pb in 1972 and about \$40 pb in 1979/80. The development of the Nigeria oil industry has been based on different government and the other oil operators (Table 4.2.1).
These include:

i. The Concession Agreement;
ii. The Joint Venture Agreement;
iii. Production Sharing Contract; and
iv. iv. Service Contract;

**Table 4.2.1 Ultimate Hydrocarborn Recoverable in Nigeria**
**Oil in 106 bbls**

| | Proven | Undiscovered | Total |
|---|---|---|---|
| Land | 14,000 | 4,300 | 183000 |
| Off-shore | 6,500 | 6,200 | 12700 |
| Grand Total | 20,500 | 10,500 | 31000 |
| TOE (10x6) | 2665 | 1371 | 4036 |

**Source: Balogun (1991). Energy Utilization in Nigeria**

Nigeria has a total of 159 oil fields and 1481 wells in operation according to the Ministry of Petroleum Resources. The most productive region of the nation is the coastal Niger Delta Basin in the Niger Delta or "South-south" region which encompasses 78 of the 159 oil fields. Most of Nigeria's oil fields are small and scattered, and as at 1990, these small unproductive fields accounted for 62.1% of all Nigerian production. This contrasts with the sixteen largest fields which produced 37.9% of Nigeria's petroleum at that time. As a result of the numerous small fields, an extensive and well-developed pipeline network has been engineered to transport the crude. Also due to the lack of highly productive fields, money from the jointly operated (with the federal government) companies is constantly directed towards petroleum exploration and production. Nigeria's petroleum is classified mostly as "light" and "sweet", as the oil is largely free of sulphur. Nigeria is the largest producer of sweet oil in OPEC. This sweet oil is similar in composition to petroleum extracted from the North Sea. This crude oil is known as "Bonny light". Names of other Nigerian crudes, all of which are named according to export terminal, are Qua Ibo, Escravos blend, Brass river, Forcados, and Pennington Anfan.

There are six petroleum exportation terminals in the country. Shell owns two, while Mobil, Chevron, Texaco, and Agip own one each. Oil companies in Africa investigate offshore production as an alternative area of production. Deepwater production mainly involves underwater drilling that exists 400 m or more below the surface of the water. By expanding to deep water drilling the possible sources for finding new oil reserves is expanded. Through the introduction of deep water drilling 50% more oil is extracted than before the new forms of retrieving the oil. Angola and Nigeria are the largest oil producers in Africa. The U.S. remains the largest importer of Nigeria's crude oil, accounting for 40% of the country's total oil exports.

Nigeria had an estimated 37.2 billion barrels of proven oil reserves as of January 2011. The majority of reserves are found along the country's Niger River Delta and offshore in the Bight of Benin, the Gulf of Guinea, and the Bight of Bonny. Current exploration activities are mostly focused in the deep and ultra-deep offshore with some activities in the Chad basin, located in the northeast of the country. In 2010, total oil production in Nigeria was slightly over 2.46 million bbl/d, making it the largest oil producer in Africa. Crude oil production averaged close to 2.15 million bbl/d for the year. Recent offshore oil developments combined with the restart of some shut-in onshore production have boosted crude production to an average of 2.17 million bbl/d for the month of July 2011. Planned upstream developments should increase Nigerian oil production in the medium term but the timing of these startups will depend heavily on the Petroleum Industry Bill (PIB) and the fiscal/regulatory terms it imposes on the oil industry.

Throw more light on the following agreement with multinational companies in oil contract
i. The Concession Agreement;
ii. The Joint Venture Agreement;
iii.Production Sharing Contract; and
iv.iv. Service Contract;

## 2.5 Performance of the Crude Oil and Gas sub Sector

It is obvious from Table 4.2.2 that the Crude Petroleum and gas subsector dominates the contribution of the mining and quarrying sector to the GDP in Nigeria. The contribution rose from 30.6 of the total contribution of the mining and quarrying sector to 88.0 percent in 1995. Since 1970 till date the subsector accounted for more than 90 percent of the total contribution from the sector with minimal contribution from the counterpart solid mineral subsector. The contribution was even more than 98 percent of the mining and quarrying GDP from 1985 to 2010. This is a reflection of the over concentration on the crude oil subsector over and above other subsector in the mining and quarrying sector.

In terms of contribution of crude oil and gas to overall GDP, the subsector rose from a contribution of mere 0.4 percent at independence to 3.7 and 11.9 percent in 1965 and 1970 respectively prior to the active commercial quantity discovery and exploration in the oil sector. This contribution continued to rise over time from 1975 (21.4% of the total GDP) to 35.9 percent in 1985 and reach its peak, contributing about 38 percent in 1990. The subsector soon began to decline in its contribution from 1995 and has recently dropped to 15.9 percent from 24.3 percent in 2005. This is probably arising from a concerted efforts aimed at diversification of the country resource base emerging from series of programmes and policies since the advent of the Structural Adjustment Programme (SAP) in 1986.

Since the global energy crisis of 1972/73, the energy sector, particularly the petroleum sub-energy sector of the Nigerian economy has become the single most important source of revenue, particularly foreign exchange earnings. Revenue from the petroleum sector has risen in the share of total revenue from 55.4% in 1980 to well over 80% in 2001. The share in foreign exchange earnings is currently above 90% of the total. For example, in the year 2000, that sub-energy sector of the country accounted for over 90% of the country’s foreign exchange earnings; about 85% of the Federal Government’s collectable revenue; and over 78 of the national commercial energy consumption. In 2008, the total trade in oil was valued at N10,600,273.7 billion which is more than double trade in non-oil products same fiscal year. The revenue from oil valued at N6, 530, 630.10 represents 83 percent of the total revenue for the year 2008. These significant explain why most Nigerian energy analysts define the Nigerian petroleum sub-energy sector and virtually the energy sector as the Nigerian engine of growth; fuelling the entire Nigerian economy and society.

Globally, Nigeria ranks the sixth largest producer of crude oil and the first in sub- Saharan Africa. Besides, it is an OPEC member with OPEC production quota of about 2, 033 mbd up till June in year 2001 out of which about 300, 000 barrels (15%) was allocated for domestic-consumption using its four refineries with a total installed capacity (which is usually far above available capacity), is expected to yield about 22.75m litres of gasoline per day against an estimated domestic consumption of 21.4m litres with a balance of 1.35m litres available for exports to African and European countries.

Incidentally, analysts have gone further to link the development witnessed in education, health, transportation and the other sector of the Nigerian economy with the finances derived from the sector. Thus, the petroleum sub-energy sector and the entire sector are critical to Nigeria's national economy while their management is of keen interest to all governments (federal, state and local) in the country.

**Table 4.2.2: Contribution of the Oil subsector to Real Gross Domestic Product 1960- 2010 (Nmillion)**

| | 1960 | 1965 | 1970 | 1975 | 1980 | 1985 |
|---|---|---|---|---|---|---|
| Mining&Quarrying | 31.6 | 149.8 | 501.5 | 6276.5 | 7437.0 | 73065.0 |
| a. Crude Petr.& gas | 11.0 | 116.8 | 465.6 | 5,770.6 | 6,754.3 | 72152.0 |
| b. Solid Minerals | 20.6 | 33.0 | 35.9 | 505.9 | 682.7 | 913.0 |
| Crud. Pet % of M&Q | 30.6 | 88.0 | 92.8 | 91.9 | 90.8 | 98.8 |
| Crud. Pet % of Total | 0.4 | 3.7 | 11.9 | 21.2 | 21.4 | 35.9 |
| Total GDP | 2,489.0 | 3,146.8 | 4,219.0 | 27172.0 | 31,546.8 | 201,036.3 |

## 2.6 Summary

This unit is an exposition of the activities of the oil subsector in Nigeria. The unit commenced with a historical background where it was stated that crude oil was discovered in Nigeria in 1956 and it was not until the 1970s before the tremendous influence of the crude oil industry as one prime mover of the Nigerian economy became apparent. Pioneer actors in the oil industry include the Nigeria Bitumen Company(NBC), Shell D'Arcy, Gulf Oil, Texaco (now ChevronTexaco), Elf Petroleum (now Total), Mobil and Agip under various arrangements. Nigeria had an estimated 37.2 billion barrels of proven oil reserves as of January 2011 found mainly along the country's Niger River and Delta. In 2010, total oil production in Nigeria was slightly over 2.46 million bbl/d, making Nigeria the largest oil producer in Africa. The performance of the crude oil and gas subsector reveals that the energy sector, particularly the petroleum sub-energy sector of the Nigerian economy has become the single most important source of revenue, particularly foreign exchange earnings. The revenue from oil valued at N6, 530, 630.10 represents 83 percent of the total revenue for the year 2008 and 15.9 percent of the GDP in the same year.

So far this unit has treated us to a discussion on the Nigerian oil industry, from the historical background of the subsector to the performance of the sector in terms of foreign exchange earnings and contribution to GDP. Having learnt these, you can now proceed to examine the counterpart of the oil sector in the mining industry, the solid mineral subsector in the next unit.

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## 2.8 Possible Answers to SAEs

# Module 4 - Unit 3: THE SOLID MINERALS AND ASSOCIATED GAS SUBSECTOR

**CONTENTS**



## 3.1 Introduction

Principal minerals produced (at present) in Nigeria (apart from crude oil) are Cassiterite (tin ore), columbite, coal, limestone, marble and gas. The first five however differ from the last in that they belong to the class of solid minerals. In this section, we shall examine developments in the mining sector stating the production trend of different types of minerals and the contribution of the sector to GDP. In addition, we shall also study the activities of the associated gas subsector of the mining industry

## 3.2 Learning Outcomes

At the end of this unit, student would be able to:
1. Highlight the production trend of different minerals in Nigeria
2. Describe the overall performance of the solid mineral subsector in Nigeria
3. Discuss the activities of the associated gas subsector

## 3.3 Main Content

### 3.3.1 Solid Minerals' Production in Nigeria

The Geology of Nigeria is comparable to those of other countries where world class deposits have been found. The mineral spread in Nigeria is significant with evidence of 34 different minerals distributed in Nigeria's richly endowed geology. Although not all the mineral occurrences ultimately have enough reserves to be of viable interest to mining companies. Nigeria has several previously explored mines that could be re- opened. The gold mining opportunity in Nigeria could be very much like that of Ghana where abandoned mines could be redeveloped. Thus, significantly increasing the country's mining potential. Some of the known minerals include: Gold, Coal, Bitumen, Iron-ore, Tantalite, Columbite, Lead, Zinc Sulphides, Barytes, Cassiterite, Gemstones, Talc, Feldspar and marble.

In its September 2008 ministerial press briefing, the Minister in charge of the Ministry of Solid Minerals Development stated that in order to give the reforms in the mining sector a more meaningful approach, the leadership of the Ministry has prioritized the development of Seven Strategic Minerals (7SM), Coal, Bitumen, Limestone, Iron Ore,
Barytes, Gold and Lead, Zinc. These seven minerals are world class and have been carefully chosen for development in view of their strategic importance to Nigeria's economy and their availability in quantities that are sufficient to sustain mining operations for years. One obvious implication of the above is that potential investments in any of these seven may receive accelerated response from the government as such investments would be seen as been in alignment with the government broader goal of enhancing infrastructural development across the six geopolitical zones of the country and their expected contribution to the nation's GDP.

The production of solid mineral in Nigeria has generally been on the increase. From 763, 511 tonnes in 1970, it increased by 171.1% to 2, 069.233 tonnes in 1973. It however fell in 1975 and 1977 (by 7.6 and 10.2% respectively to 1,912,014 and 1,717,346 tonnes respectively. Production increased by 57.2% in 1980 and fell again by 41.9% to 1,567,162 tonnes in 1983. There were positive growths in 1985 and 1987 (29.8% and 38.4% respectively) while 1990 recorded a production fall of 49.7%. Total output in 1990 was 1,416, 574.5 tonnes. The subsequent years however witnessed continuous rise production of solid minerals with percentage increase of 6.4 in 1991, 130.4 in 1992; 2.9, 1.0 in 1993 and 1994 respectively and 12% in 1995. The increase in 1995 is particularly noteworthy. It was in that year that the Nigerian Government showed some seriousness in the development of the sub-sector by creating the Federal Ministry of Solid Minerals with a mandate to evolve appropriate policy and machinery for rapid exploration and development of solid minerals in the country. This followed from the recognition of the role of solid minerals as a major source of basic inputs for the industrial segment of the non-oil export sub-sector. Again the emergence of public interest in the sector attracted private sector response to invest and exploit the sector.

**(a) Limestone**

Limestone has been the major solid mineral produce in Nigeria accounting on the average for over 90% of total output. The highest level of production indexed 143.2 and 142.3 in 1994 and 1995 respectively. For those years, the percentage increases in limestone production were 75.2 and 38.9 respectively. These are, however, less than the 130.4% increase experienced in 1992. The continued growth in limestone production is a result of increasing demand by the Aladja Steel Company and the various cement companies which uses it as the minerals.

**(b) Coal**

Coal occupies a second place in solid mineral production in Nigeria. It is particularly used as a source of energy in Nigeria and beyond, even though its share of energy consumption in the country is negligible. According for 7.9% of total solid mineral production in 1970, its share increased to 15.8% in 1973 and 12.6% in 1977. In 1980 however, the percentage share of output fell to 6.5 and 3.4 in 1983. In 1985, there was an improvement in production as revealed in a share of 6.9%, and also in 1986 as a result of a greater external demand which result in the export of 30,000 tonnes compared with 5,000 in 1985. In 1991, the percentage share had risen to 9.1%. Coal production however has been witnessing a continuous download production movement since 1992. The index of production (with 1985 as base year) was 70.8 in 1992, 38.5 in 1993, 16.6 in 1994 and 13.8 in 1995.

**(c) Cassiterite**

Cassiterite (or tin ore) production in Nigeria has been on the downward trend since 1970 (except 1990 that recorded a percentage production increase of 47.3 and 1993, 1994, 62.8 and 19.0 respectively). Accounting for 1.4% of total solid mineral production in 1970, the share fell to 0.4% in 1973 and continued on the downward journey to 0.00% . The index of production which was 972.7 in 1970, 716.5 in 1973, 543.8 in 1975, 400.8, 322.3 and 190.9 in 1977, 1980 and 1993 respectively fell to a mere 6.6 in 1992 and 12.4 in 1995.

One of the problems facing the production of cassiterite in Nigeria is that of marketing. The production of the mineral is much tied to events in the global market as a large proportion of output is exported. Excess supply in the world market and the attendant fall in prices have had negative effects on production. During the first nine months of 1985 for example, the average price of tin in the international market was £9, 548.80 per tonne, about 10.4% higher than 1984 average price. However, the glut in the market persisted and the price of tin in the London Metal Exchange (LME) dropped to £8, 140.00 in October 1985 (about 4.2%) below the International Tin council's permissible level of £8, 500.00 (CBN, 1985).

In 1988, the price had declined further to £4, 300.00 per tonne. In the same year, following the sixth meeting of the Conference of Minister of the Association of Tin Producing Companies (ATPC) held at Abuja. The Nigerian Minister of Mines, Power and Steel announced various measures to revive the tin industry in Nigeria (CBN, 1988) but nothing serious appeared to have been achieved in this regard as the production of cassiterite continued to suffer even after 1988. Neither has the ATPC been able to rationalise the supply of tin to the international market.

**(d) Marble**

Of the solid minerals in Nigeria, marble has experienced about the highest average production growth rate. From an output of 1, 830.0 tonnes production increased to 5,680.0 tonnes in 1977. Output increased further by a staggering 3, 301.5% from 2,137.0 in 1985 to 72,691 tonnes in 1987. There were declines in production in 1980, 1990, 1992 and 1993. However, in 1995, marble output increased by 31.8% to 22, 460.0 tonnes. Despite this impressive growth, the share of marble in total solid minerals production in Nigeria has been very negligible (less than 1% except in 1986, 1987, 1990, and 1991). The Nigeria Marble Mining Company, lgbetti and the Jakura Marble Plant, Lokoja which both constitute the main producer of marble in the country presently operate a huge excess capacity.

**(e) Columbite**

Like marble, columbite occupies a very insignificant share in total solid mineral production in Nigeria. The percentage share of output since 1970 1997 has been less than (0.5%) half a percentage. Up till 1990, production has generally been on the decline (from a production index of 1, 608.1in 1970 to 69.4 in 1990. There was however improvement in output in 1991 through 1992, 1994 and 1995 (with percentage increase 19.4, 6.7, 3.0 and 117.6 respective). The highest percentage production growth was recorded in 1995. However, production growth in these periods did not translate in to any increased share of total output.

**(f) Other Minor Minerals**

Other minerals which are currently being produced in the country include lead, zinc, gold, zicron, wolfram (a byproduct of tin mining) and radio-active minerals (uranium, thlorite etc). Other trace minerals like tungsten, molybednite, gypsum, bauxite, barites and phosphates have been indicated through geological surveys but their mining has not developed.

Self-Assessment Exercises 1

Can the mining of solid minerals serve as a viable complement to the production of crude oil in Nigeria?

### 3.4 Performance of the Solid Minerals subsector

Generally, the contribution of the solid mineral subsector remains insignificant since the advent of oil in the 1970s. The sector contributed about 65percent to the mining and quarrying sector GDP which drastically reduced to 22 percent in 1965. The subsector witnessed further decline in 1970 to 7.2 percent in 1970 and appreciates slightly to 9.2 percent by1980.

**Table 4.3.1: Contribution of the Solid Mineral Sector to Real Gross Domestic Product 1960-2010 (Nmillion)**

| | **1960** | **1965** | **1970** | **1975** | **1980** | **1985** |
|---|---|---|---|---|---|---|
| **Mining&Quarrying** | **31.6** | **149.8** | **501.5** | **6276.5** | **7437.0** | **73065.0** |
| **a. Crude Petr.& gas** | 11.0 | 116.8 | 465.6 | 5,770.6 | 6,754.3 | 72152.0 |
| **b. Solid Minerals** | **20.6** | **33.0** | **35.9** | **505.9** | **682.7** | **913.0** |
| Coal Mining | 1.8 | 2.8 | 0.2 | - | - | 1.53 |
| Metal Ore | 9.0 | 10.8 | 8.6 | - | - | 15.02 |
| Quarry. & Other Min. | 9.8 | 19.4 | 27.1 | 505.9 | 682.7 | 896.5 |
| Solid Mineral as a % of Minining GDP | 65.2 | 22.0 | 7.2 | 8.1 | 9.2 | 1.3 |
| | **1990** | **1995** | **2000** | **2005** | **2008** | **2010** |
| **Mining&Quarrying** | **100889.0** | **94326.7** | **107797.7** | **137856.3** | **118712.9** | **125623.7** |
| **a. Crud. Petr.& gas** | 100,223.4 | 93,536.7 | 106,827.5 | 136,345.5 | 116594.6 | 122957.9 |
| **b. Solid Minerals** | **665.6** | **789.8** | **970.2** | **1,510.8** | **2118.26** | **2665.8** |
| Coal Mining | 0.91 | 0.13 | 0.18 | 0.12 | 0.16 | 0.19 |
| Metal Ore | 12.06 | 6.4 | 6.78 | 7.56 | 10.6 | 13.24 |
| Quarry. & Other Min. | 652.6 | 783.3 | 963.2 | 1,503.2 | 2107.5 | 2652.4 |
| Solid Mineral as % of Mining GDP | 0.7 | 0.8 | 0.9 | 1.1 | 1.8 | 2.1 |

Source: CBN, Statistical Bulletin, Golden Jubilee Edition, 2008; Computed from NBS, Annual Abstract of Statistics, Compiled edition, 2010

*Note that the GDP was compiled from 1960-1973 using 1962/1963 constant basic price, from 1974-1980 using 1977/1978 constant basic price and from 1981-2010 using 1990 constant basic price

The neglect of the sector overtime was reflected in its value share that ranges between 0.7 and 2.1 between 1990 and 2010 with the lowest value (0.7 percent) recorded in 1990 and the highest share (2.1) being recorded in 2010 perhaps for the recent efforts at rejuvenating the moribund subsector of the mining industry. Of all the individual components of the sector, quarrying and other mining division seems to contribute most to GDP followed by metal ore mining and lastly coal mining.

**3.5 Associated Natural Gas (ANG) Production in Nigeria**

The production of natural gas in Nigeria is associated with crude oil (petroleum) production. The exploitation of crude petroleum inevitably involves the extraction of natural gas. Such gas produced can either be utilised or flared. Gas flaring involves the burning of unwanted gas. Such activities apart from being a waste of a resource which could otherwise have generate billions of naira for the nation if utilized, generate serious environmental consequence. The utilisation of ANG in Nigeria has been in various ways. Some of the natural gas utilised is consumed as fuel by the oil companies, some are sold to industries while some are converted into Liquid (LNG). An average of 50% of the natural gas utilised in the country (about 12.5% of total production) has been for industrial use. Natural Gas is infact a significant source of energy in Nigeria. Some major industrial users are the Power Holding Company of Nigeria (PHCN), National Fertilizer Company of Nigeria (NAFCON), The Obigbo Gas plant, Delta Glass, etc. Of these, NEPA account for an average of over 75% of total industrial purchase and act as the major determinant of the changes in the level of industry consumption of natural gas in the country.

About 30% (on the average) of natural gas utilised (almost 8.5% of total gas produced) are reinjected while an average of 13% of utilised gas (about 2.5% of total gas produced) are used by oil companies. The proportion of utilised gas converted into liquid form (for domestic use among others) has been negligible and declining over time from 7.8% of utilised gas (or 1.9% of total gas produced) in 1985 to 1.8% (or 0.5% of total gas produced) in 1986 and 0.34% (0.08% of total production) in 1992, only in 1993, did the percentage share of LNG in gas utilisation rose to 13.3% (almost 4% of totally produced gas). This corresponded to a decline of 15% in gas flared during the same year.

Nigeria had an estimated 187 trillion cubic feet (Tcf) of proven natural gas reserves as of December 2010 according to the BP Statistical Review of World Energy, which makes Nigeria the ninth largest natural gas reserve holder in the world and the largest in Africa. The majority of the natural gas reserves are located in the Niger Delta and the sector is also impacted by the security and regulatory issues affecting the oil industry.

In 2009, Nigeria produced about 820 Bcf of marketed natural gas and consumed about 255, mostly for electricity generation where, according to the International Energy Agency (IEA) natural gas accounts for about 60 percent of generated electricity.

The greater bulk of natural gas produced in Nigeria are flared. Gas flaring account for an average of over 75% of total gas produced (the lowest percentage recorded so far given available statistics was the 69.9% for 1987 which amounted to 11,768.6 million cubic meter).The economics of gas flaring in Nigeria is a simple one. Gas is inevitable extracted, in oil production, and, usually, the more oil (petroleum) is exploited, the more the natural gas extracted. The utilisation of natural gas for each of the four purposes above involves some cost. Thus, after selling to industries, oil companies find it economically convenient to flare the excess than to reject or convert to liquid gas, especially when the former has no apparent cost. The first attempt by the Nigerian government to discourage and perhaps eliminate gas flaring in Nigeria was made in 1979 via Decree 99. The decree was aimed at stopping gas flaring in the country by January 1985. In December 1985 however, a modification was made to the decree stipulating a fine of 2kobo payable in foreign exchange for every thousand cubic metre of gas flared. An exception was however given to some 86 of the155 oil fields where 75% of gas produced was effectively utilised or where the gas contained 15% of impurities which considerable render the gas unsuitable for industrial purposes (CBN, 1983). The decree (with its modification) had a pronounced effect during the subsequent two to three years as the percentage of gas flared to total output fell from 79.2 in 1984 to 75.2 in 1985, 75.0 in 1986, 69.9 in 1987 and 72.8 in 1988. Thereafter however, gas flaring went on the increase. True to economic rationality, the oil companies found it cheaper to pay the prescribed fine than to inject excess natural gas.

In 1992, the Nigerian National Petroleum Company (NNPC) represented by the National Engineer and Technical Company (one of its subsidiaries) signed an agreement with Chevron Nigeria Ltd. (a major oil producing company in Nigeria) and Bechtel ltd, to process gas for the domestic market. The agreement involved engineering designs needed by Chevron Nigeria Ltd. to install gas gathering and extraction facilities on the Escravos coast in Delta State. The gas process contract was to cost $450 million (CBN, 1992). In addition, by 1993, concrete arrangements had been made for the establishment of the Nigerian Liquified Natural Gas (NLNG) company. The company was to be a joint venture between NNPC and three other major oil and gas producing companies in Nigeria (Shell, Elf and Agip). Its mission is “to acquire and ensure a growing share of the international market for Nigeria's abundant natural gas resources by the promotion and sustained implementation of a competitive LNG project" (NNPC, 1993).

Self-Assessment Exercises 2

| What are the demerits of gas flaring in Nigeria? |
|---|

## 3.6 Summary

The production of solid mineral in Nigeria has overtime been on a fluctuating trend but increased in aggregate terms. Limestone has been the major solid mineral produce in Nigeria accounting on the average for over 90% of total output. This is followed by coal while other minerals that contributed significantly to solid minerals output are marble, caseterite and columbite. Others produced in minor quantities include lead, Zinc, gold, Zicron, wolfram (a byproduct of tin mining) and radio-active minerals (uranium, thlorite etc.) while many more have been identified but yet to be mined. Associated natural gas accompanied crude oil production and is considered significant for their variety of uses and conversion into liquefied natural gas. However, large quantities of these gases are still being flared.

In this unit, you have been opportune to trace the general production and performance of the solid minerals subsector of the mining industry in Nigeria. You have also study the production of specific solid minerals while a discussion on associated natural gas was equally rendered in the unit. You have finally come to the end of the discussion on the solid mineral subsector. You are left with only one unit in this module where the challenges of various industries in the mining subsectors will be discussed and remedies proffered.

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## 3.8 Possible Answers to SAEs

**Answers to SAEs 1**

Generally, the contribution of the solid mineral subsector remains insignificant since the advent of oil in the 1970s. The sector contributed about 65percent to the mining and quarrying sector GDP which drastically reduced to 22 percent in 1965. The subsector witnessed further decline in 1970 to 7.2 percent in 1970 and appreciates slightly to 9.2 percent by1980.

**Answers to SAEs 2**

Gas flaring involves the burning of unwanted gas. Such activities apart from being a waste of a resource which could otherwise have generate billions of naira for the nation if utilized, generate serious environmental consequence.

The proportion of utilised gas converted into liquid form (for domestic use among others) has been negligible and declining over time from 7.8% of utilised gas (or 1.9% of total gas produced) in 1985 to 1.8% (or 0.5% of total gas produced) in 1986 and 0.34% (0.08% of total production) in 1992, only in 1993, did the percentage share of LNG in gas utilisation rose to 13.3% (almost 4% of totally produced gas). This corresponded to a decline of 15% in gas flared during the same year.

## Module 4 - Unit 4: THE CHALLENGES AND PROSPECTS OF THE MINING SUBSECTOR

**CONTENTS**



### 4.1 Introduction

Despite the fact that the crude oil subsector occupies a key position in the Nigerian economy because of its contribution to GDP, national income and foreign exchange earnings, the subsector is faced with numerous challenges that have attracted a lot of heated debate, a number of remedies have equally been suggested over time. In this unit, you will be treated to a light discussion on the challenges of the oil and solid minerals industries. Some suggestions to overcome these challenges will equally be rendered.

### 4.2 Learning Outcomes

At the end of this unit student would be able to:

1. Highlight the challenges of the crude oil industry
2. Enumerate the challenges of the solid mineral subsector
3. Examine the issue of gas flaring in the Associated Gas unit
4. Suggest remedies to overcome the challenges highlighted above

## 4.3 Main Content

### 4.3.1 Challenges of the Nigerian Oil Industry; Remedy Measures

The oil industry is primarily located in the Niger Delta where it has been a source of conflict. Local groups seeking a share of the oil wealth often attack the oil infrastructure and staff, forcing companies to declare force majeure on oil shipments. At the same time, oil theft, commonly referred to as "bunkering", leads to pipeline damage that is often severe, causing loss of production, pollution, and forcing companies to shut-in production. The industry has been blamed for polluting air, soil and water leading to observed losses in arable land and decreasing fish stocks. Another frustrating challenge of the industry has to do with inadequacy of the supply and distribution of, energy products, especially petroleum products with its associate disruption of economic activities and social life in the country. We will expose you to some details on these challenges in the next few paragraphs.

Since December 2005, Nigeria has experienced increased pipeline vandalism, kidnappings and militant takeovers of oil facilities in the Niger Delta. Additionally, kidnappings of oil workers for ransom are common and the Gulf of Guinea is also an area that has seen incidents of piracy. Security concerns have led some oil services firms to pull out of the country and oil workers unions to threaten strikes over security issues. The instability in the Niger Delta has caused significant amounts of shut-in production and several companies to declare force majeure on oil shipments. Energy Intelligence Agency estimates Nigeria's nameplate oil production capacity to have been close to 2.9 million barrels per day (bbl/d) at the end of 2010 but as a result of attacks on oil infrastructure, daily crude oil production ranged between 1.7 million and million barrels. Disruptions have been attributed to direct attacks on oil infrastructure as well as pipeline leaks and explosions resulting from bunkering activities.

Considerable attention has been drawn to the environmental damage caused by oil spills in the Niger Delta. According to the Nigerian National Oil Spill Detection and Response Agency (NOSDRA) approximately 2,400 oil spills had been reported between 2006 and 2010 that resulted from sabotage, bunkering and poor infrastructure. The amount of oil spilled in Nigeria has been estimated to be around 260,000 barrels per year for the past 50 years according to a report cited in the New York Times. The oil spills have caused land, air, and water pollution severely affecting surrounding villages by decreasing fish stocks, contaminating water supplies and arable land. More recently, the United Nations

Environment Program (UNEP) released a study on Ogoniland and the extent of environmental damage from over 50 years of oil production in the region. The study confirmed community concerns regarding oil contamination across land and water resources, stating that that the damage is ongoing and estimating that it could take 25 to 30 years to repair.

Towards the end of 2009 an amnesty was declared and the militants came to an agreement with the government whereby they handed over weapons in exchange for cash payments and training opportunities. This amnesty has led to decreased attacks and some companies have been able to repair damaged oil infrastructure. However, the lack of progress in job creation and economic development has led to increased bunkering and other criminal attacks, which can significantly damage oil infrastructure.

In order to remedy some of the oil, natural gas and electricity industry problems, the Nigerian government is currently debating a Petroleum Industry Bill (PIB) that is designed to reform the entire energy sector. The Bill was first introduced in 2009 and although parts of the PIB have recently been made into law, the Bill in its entirety continues to be debated by the National Assembly. This ongoing debate had delayed investments in oil exploration, project development and has also affected the natural gas sector by delaying planned liquefied natural gas (LNG) projects.

It is important to note that there are increases in the prices of these products within the period of analysis. However, such price increases should not be taken as eliciting the expected reduction in the domestic consumption of these products. What is therefore, accountable for the decrease in petroleum products consumption is the inadequate supply and distribution of the products. The critical situation of this inadequacy of supply and distribution of energy products reached a serious energy crisis point in 1998/ 99 slightly before the inception of the civilian administration. Incidentally, this undesirable inadequacy of supply and distribution of energy products in Nigeria became compounded by some other prevailing socio- economic development bottle- necks such as:

- chronic budget deficits;
- serious erosion of the naira value;
- huge internal and external debts;
- high stagflation pressures; and
- serious economic decline.

Some of the instruments which were planned to tackle this menace are:

- up-grade the performance of major infrastructural institutions such as the Nigerian National Petroleum Corporation (NNPC) and National Electric Power Authority (NEPA);, and
- refurbishing, rehabilitation and expansion of the existing refineries;
- encouragement of the private investors to establish refineries under the on-going deregulation policy; and
- the deregulation of the prices of petroleum products and also the downstream activities.

Self-Assessment Exercises 1

| |
|---|
| Identify the main Challenges in the Nigerian oil industry |

## 4.4 Issues on Deregulation Policy in the Oil Industry

It may be recalled that government approved the 1993 price increases under the expectation that the resultant revenue therefrom would not only eliminate NNPC's deficit, but would in addition release about N40 billion to government in 1994 for the prosecution of laudable public capital projects. This did not materialize, identical sentiments were put across 1995, 1997 and 2000 and 2012 for price increases and the results were basically the same simply because the prices were direct results of negotiations rather than being based on an objective analysis employing sophisticated pricing techniques. Thus, many analysts believe the answer to these energy problems lies in the deregulation and the liberalisation of the energy activities, particularly those relating to the downstream activities of the petroleum industry.

Several authors have conceived the concept, deregulation, from varying but non- conflicting dimensions. The general consensus that emerges shows that it implies:

"the reduction of government control and allowing the market forces to dominate in industry decision making" And/or

"state withdrawal of its legal powers to direct the economic conduct (pricing, entry, and exit) and social conduct of non-governmental bodies"

This show that economic deregulation implies greater freedom of choice in economic conduct by private businesses in a free (democratic) society, indicating why freedom of choice is the core of the main stream of economic thought. This implies that government will stop interfering in the downstream activities of the petroleum industry and would allow private investors to refine, distribute and sell petroleum products at prices not determined by government or its agencies. The fundamental economic objective of deregulation is to allow for competition in the petroleum products markets with its attendant increased economic efficiency and welfare packages. Thus, economic case for deregulation is usually built around three issues which Iwayemi (2002) identifies as

- ✓ elimination of the large welfare losses emanating from supply inefficiencies and poor quality of service;
- ✓ static efficiency gains in terms of allocative efficiency; and
- ✓ dynamic efficiency gains associated more with market-oriented pricing, providing the necessary incentive to innovate and improve the quality of supply through investment.

With these issues perfectly consider, deregulation, reinforced by liberalization, produces:

- ➢ A well run refining segment driven by competition and profit to deliver products efficiently
- ➢ An effective distribution network propelled by profit and good management in a volume market; and
- ➢ An efficient retail segment that is kept on its toes by the pressures of competition in the market.

Given the foregoing analysis on deregulation, it is plausible to assume that technically, the price of petroleum products may not be easily deregulated, the new competition environment would affect the prices. Thus, to make economic deregulation work, particularly in the petroleum products markets in Nigeria, government would need to put in place, a competition policy to ensure that collusion among producers or suppliers does not scuttle competition as provided in the U.S. under anti-trust laws. In recognition of the foregoing, particularly as applied to the case of petroleum products markets, effective deregulation would specifically embrace:

- Unrestricted access by legitimate domestic petroleum refiners to crude oil at international market prices;
- Products prices to be set by demand and unmanaged supply;
- Unrestricted freedom by willing entrepreneurs to import the products;
- Competitive and transparent tariff structure on import when politically expedient, and counter balancing taxation of domestic production to ensure level playing ground; and v. Simplified transparent licensing and regulatory system to maintain highest safety and environmental production standards in subsectors of the industry.

Against this background, economic liberalisation, conceptualised as the permission of free entry to and exit from any business venture, is needed to reinforce the effectiveness of economic deregulation policy. This would make provision for many producers for competition which reinforce efficiency.

The Main Concern

It is obvious from this discussion that for the policies of deregulation and liberalisation to attain their desired objectives, both the government and the populace would need to be watchful of some critical issues. Some of such issues as would have been noticed in the foregoing sections relate to the need for the:

- Establishment of a perfectly competition energy market environment so much so that consumers' needs are adequately met;
- Prevention of any possible collusion by producers to form cartels to control the market products quality and quantity, prices, investment etc;
- Establishment of optimal and affordable energy prices such that the poor is not neglected in the consumption of energy products;
- Prevention of fraudulent practices in the energy market.
- Security of business ventures in the energy industry;
- Transparent business operations in the energy industry;
- Institution framework for energy planning and management in the country; and
- Conceptual issue in policy design implementation, evaluation and others.

Thus, as earlier noted, to make economic regulation and liberalisation work effectively in Nigeria's energy sector, government would need to:

- ✓ Put in place anti-trust laws to prevent producers' possible collusion to create a monopoly situation; and
- ✓ Establish a regulatory agency to impose the 'Pareto Optimality' conditions required for perfect competitive environment- In fact, the Utilities Charges Commission (UCC) may be restructured and empowered to add this to its Functions.

**4.5 Challenges of Solid Mineral and Associated Gas Production in Nigeria; Remedy Measures**

In relation to solid minerals, there exists a great work for the ministry to accomplish. Some of the problems besetting the subsector include rising production costs, depressed prices in global market, inadequate finance both for working capital and to purchase spares and recondition obsolete machineries and equipment (a reflection of the hitherto uncommittedness of the Nigerian Government to the subsector), inaccessibility of the mining sites due to excessive flooding during the rainy season and increased activities of illegal miners and smugglers which obscure the real level of mineral output (CBN, 1995). Given these however, the sub-sector has great potentials and can be exploited to become a significant contributor to Gross Product and important foreign exchange earner, if the Government will give to it the same level of attention given to crude petroleum at the early stage of its exploitation.

Table 4.4.1 is on associated gas production and its utilization in Nigeria. It is apparent from the table that a sizeable proportion of gas produced is usually flared. For example, about 80 per cent was flared in 1985. This proportion declined to 77.5, 72.2 and 53.8 per cent in 1990, 1996 and 2000 respectively. The decline reached about 51.8% in 2002.

Table 4.4.1: Associated Gas Production and Utilisation in Nigeria (Million Cubic Metres)

| **Year** | **Production** | **Utilisation (mcm)** | **(%)** | **Flaring (mcm)** | **(%)** |
|---|---|---|---|---|---|
| 1985 | 18569 | 37723 | 20 | 14846 | 80 |
| 1986 | 18739 | 4822 | 25.7 | 13917 | 74.3 |
| 1987 | 17085 | 4794 | 28.1 | 12291 | 71.9 |
| 1988 | 20253 | 5516 | 27.2 | 14737 | 72.8 |
| 1989 | 25053 | 6323 | 25.2 | 18730 | 74.8 |
| 1990 | 28163 | 6343 | 22.2 | 21820 | 77.5 |
| 1991 | 31587 | 7000 | 22.2 | 24588 | 75.8 |
| 1992 | 32465 | 7058 | 21.7 | 25406 | 78.3 |
| 1993 | 33793 | 6577 | 20.1 | 26216 | 79.9 |
| 1994 | 32793 | 6577 | 20.1 | 26216 | 79.9 |
| 1995 | 32980 | 6910 | 21 | 26070 | 79 |
| 1996 | 36970 | 10150 | 27.5 | 26820 | 72.5 |
| 1997 | 36754.8 | 10207 | 27.8 | 26547.8 | 72.2 |
| 1998 | 36036.6 | 10886.5 | 30.2 | 25150.1 | 69.8 |
| 1999 | 35856.4 | 12664.6 | 35.3 | 23191.8 | 64.7 |
| 2000 | 47537.7 | 21945.5 | 46.2 | 25592.2 | 53.8 |

***Source***: CBN, Statistical Bulletin Vol. II No. 2 Dec. 2000

Because many of Nigeria's oil fields lack the infrastructure to produce and market associated natural gas, it is often flared. According to the National Oceanic and Atmospheric Administration (NOAA), Nigeria flared 536 Bcf natural gas in 2010 or about a third of gross natural gas produced in

2010 according to NNPC. In 2011, the NNPC claimed that flaring cost Nigeria US $2.5 billion per year in lost revenue. Gas flaring is discouraged by the international community as it contributes to climate change. In fact, in Western Europe 99% of associated gas is used or re-injected into the ground. Gas flaring in Nigeria releases large amounts methane, which has very high global warming potential. The methane is accompanied by carbon dioxide, of which Nigeria is estimated to have emitted more than 34.38 million tons in 2002, accounting for about 50% of all industrial emissions in the country and 30% of the total CO2 emissions. As flaring in the west has been minimised, in Nigeria it has grown proportionally with oil production. While the international community, the Nigerian government, and the oil corporations seem to agree that gas flaring need to be curtailed, efforts to do so have been slow and largely ineffective.

It was opined that with the establishment of the Ministry of Solid Minerals by the Nigerian Government in 1995 and the commencement of the liquefied Natural Gas Project (LNG) in 1997 after many years of planning and postponing will eliminate or at least bring to a minimum the pervasive occurrence of gas flaring in Nigeria. The government of Nigeria has been working to end natural gas flaring for several years but the deadline to implement the policies and fine oil companies has been repeatedly postponed with the most recent deadline being December 2012, which appears unlikely to be met. In 2009, the Nigerian government developed a Gas Master Plan that promotes new gas-fired power plants to help reduce gas flaring and provide muchneeded electricity generation; however, progress is still limited.

-Gas to Liquids (GTL) A Chevron-operated Escravos Gas to Liquids (GTL) project is currently underway. The project is a joint venture with NNPC and South Africa's Sasol and began in 2008. Escravos GTL has faced multiple delays and cost overruns but is currently scheduled to be operational by 2013.

-Liquefied Natural Gas (LNG) A significant portion of Nigeria's marketed natural gas is processed into LNG. In 2009, Nigeria exported close to 500 Bcf of LNG. Of this, 13.3 Bcf went to the United States, providing 3 percent of total U.S. LNG imports (2 percent of Nigerian exports). Most of Nigeria's LNG was exported to Europe (66 percent), mainly Spain (31 percent), France (15 percent) and Portugal (13 percent). Other export destinations include Asia (15 percent) and Mexico (16 percent). Nigerian LNG exports were down close to 30 percent from 2008 volumes which can also be attributable to problems in the Niger Delta, specifically problems at the Soku gas processing facility. Available U.S. EIA data indicate that the U.S. imported 41 Bcf of LNG from Nigeria in 2010 representing 10 percent of LNG imports but only about 1 percent of total

U.S. natural gas imports. Nigeria's main natural gas project is the Nigeria Liquefied Natural Gas (NLNG) facility on Bonny Island. Partners including NNPC, Shell, Total, and Agip completed the first phase of the facility in September 1999.

## 4.6Summary

Nigeria oil industry is faced with many challenges of which bunkering and ethnic demands leading to pipeline damage, causing loss of production, land and sea pollution, and forcing companies to shut-in production in addition to inadequacy of the supply and distribution of energy products are of importance. Some of the instruments which were planned to tackle this menace are the up-grade of major infrastructural institutions; refurbishing, rehabilitation and expansion of the existing refineries; encouragement of the private investors to establish refineries couched under the on-going deregulation policy. Some of the problems besetting the solid mineral industry include rising production costs, depressed prices in global market, inadequate finance, obsolete machineries and equipment, inaccessibility of the mining sites and increased activities of illegal miners and smugglers. Given these however, the sub-sector has great potentials and can be exploited to become a significant contributor to Gross Product and important foreign exchange earner, if the Government will give to it the same level of attention given to crude petroleum at the early stage of its exploitation. A major problem in the associated gas industry is gas flaring; effort at conversion into LNG and other useful and harmless forms has been identified as the solution to this problem

Here, we examined the challenges of the oil and solid mineral industry and relate some of the policy measures meant to address these challenges overtime. The unit is also briefly dedicated to issues relating to the deregulation of the oil sector. Having learnt these, we have completed our discussion on the mining subsector of the industrial sector. Indeed we had a great discussion as in this module..

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a

## 4.8 Possible Answers to SAEs

**Answers to SAEs 1**

Some Challenges in the Nigerian oil industry

- chronic budget deficits;
- serious erosion of the naira value;
- huge internal and external debts;
- high stagflation pressures

# Module 5 - ECONOMIC PLANS, POLICIES AND PROGRAMMES 1

## Module Introduction

You are mostly welcome to the last module of this course on 'Nigerian Economy in Perspective 1'. I salute your courage, patience and perseverance in studying the first three modules so far. You will recall that we started with an introduction to the concepts and structure of the Nigerian economy in the first module. The second module commenced a specific discussion of the distinct sectors in Nigerian economy starting with the Nigerian Agricultural sector. We equally proceeded to the third unit where we dealt extensively with the Industrial sector as a whole and the manufacturing sector in specifics. Further discussions on the remaining Nigerian economic sectors and subsectors such as mining and quarrying, service and infrastructure, trade and commerce, building and construction etc. will feature in the second part of this course, i.e. Nigerian Economy in Perspective 2.

In the course of discussing all the sectors in modules 1-3, you will observe that we had cause to mention briefly some plans, programmes and policies of government that are peculiar to some of these sectors. In actual fact, we have used some of them to bivocate our discussion on economic performance such as the pre- SAP and post-SAP era. You will also agree with me that this course will be incomplete without exposing you to the details of these mentioned plans, policies and programme. This last module is general aimed at discussing some past and present economic plans, policies and programmes in Nigeria which in many instances shapen the performance of the entire aforementioned sector over time. You must equally note that this unit is not exhaustive of government plans, policies and programmes in Nigeria and internationally. I do not intend to bore you with the catalogue of these plans, policies and programmes, I have decided to pick few relevant and important ones for your digest while many others will be discussed in the second part.

Although the five units in this module treated different policy or programme but one cannot be divorced from the other as one dovetail into another. By the end of this module you would have gotten an idea of some past developmental plans and have an idea of the rise and fall of the indigenisation policy in Nigeria. Also, you will familiarize yourself with the basis of the much mentioned Structural Adjustment Programme. You will have also been acquainted with some more recent plans and programmes such as NEEDS and NEPAD. A discussion on NAPEP brings us to the end of this module and by implication the end of this course. The discussion on Privatisation and commercialisation, monetisation and internationally adopted plans such as MDGs and NEPAD will be reserved till the second part of this course. I hope you will reflect and bring into focus all that you have learnt in the preceding modules and connect with the policy issues that will be rendered here.



**Module 5 - Unit 1:** DEVELOPMENT PLANNING IN NIGERIA

**CONTENTS**



## 1.1 Introduction

This unit being the first of the five units in this module is dedicated to a general review of the various developmental plans in Nigeria before and after independence. These developmental plans gave birth to the variety of programmes and policies that will be discussed in subsequent units. In this unit, you will be briefed on the developmental efforts before independence. You will also be treated to a concise revision of the First, Second, Third and Fourth Developmental Plans in Nigeria in the post –

independence era. In furtherance of this, some observations will be raised with respect to the Third and Fourth Developmental Plans, thereafter, the achievements and problems associated with the plans will be explained. On a final note, a brief discussion will be made on indigenisation policy in Nigeria.

## 1.2 Learning Outcomes

At the end of this unit student would be able to:

1. Describe the element of planning in the pre-independence period
2. Summarise the objectives of the four development plans
3. Appraise the achievements and shortfalls of the development plans
4. Enumerate the general problems associated with low performance of development plans in Nigeria

## 1.3 Main Content

### 1.3.1 Background to Economic Planning

Every society has set of resources, natural and man-made, which are normally harnessed to produce the goods and services consumed by members of the society and for export. It is the sum total of the values of these goods and services that provides an estimate of the economic worth (income) of the society as a country. One measure of this income is the Gross Domestic Product (GDP). The resources used to produce the goods and services come in different forms, namely, vegetation, waters in rivers, lakes and shores, domesticated, wild animals and aquatic animals; all man made physical assets, human resources that provide the workforce, and management as a stock of human capital that combines all other resources optimally to produce the goods and services. For any quantum of resources, there is potential GDP that can be produced and it is expected that as more resources are employed every year, the potential GDP should follow a steady growth pattern. However, in real life the actual GDP deviates from the potential GDP because of some inherent bottlenecks or usual externalities in the economy. The goal of the managers of any economy is always to close gap between the potential and actual GDP, that is, remove the bottlenecks and create a situation of full employment and economic stability.

It is an established fact that backward societies have not succeeded in making full use of their potentials for development not only because of the underdevelopment of their natural resources, including human resources and production technologies, but also due to the underdevelopment of the existing socio-economic organisations and institutions, including the network of markets and administrative machinery of government in such societies. The general presumptions, therefore, is that the elimination of these structural deficiencies in the economy of a backward society would enable such a society, be it a nation, state or local government area, to make better use not only of its domestic resources, but also its external economic opportunities in the form of international trade, and technological organisational innovations.

It is in pursuance of the foregoing that developing countries have always engaged in economic growth and development planning. The conventional plan attempts to promote economic growth and development in three main ways, namely by:

- Increasing the overall rate of investment in the economy
- Engaging in some special types of investment designated to ease bottlenecks of production in important sectors of the economy
- Trying to improve the coordination between the different sectors and subsectors of the economy.

Of these three, the third is perhaps the most important but the least understood function of economic planning amongst technocrats and policy makers in developing countries. The other two functions cannot be efficiently carried out without effective coordination between different governments departments and agencies within the public sector, and the private sector. In order to improve coordination, it is necessary to spread reliable economic information to indicate the future course of government intentions and activities. This way, people concerned both in the public and private sectors can make appropriate plans on their own to bring them in line with government plans. This issue has always been a source of concern to people in and out of government in Nigeria.

Self-Assessment Exercises 1

| |
|---|
| Why is development planning essential in any economy? |

### 1.3.2 Development Planning in Nigeria before Independence

Nigeria as a country has always engaged in one form of national planning or the other. The earliest national plan was the 1946-1955 Ten-year plan of Development and welfare (with plan revisions, 1951-55). This was followed by the plan of 1955-1960 which was later extended to 1962.

These first two plans were initiated by the colonial administrators. They were however, not development plans in the true meaning of the term, but only a list of projects, which were not put together in a coordinated way or related to any overall national economic target (Oluwasanmi, 1966). However, some growth was witnessed in the economy in these periods of national plans.

Self-Assessment Exercises 2

| |
|---|
| What do you understand by this statement “The first two plans initiated by the colonialist before independence were not development plans in the true meaning of the term”. |

### 1.3.3 Development Planning in Nigeria after Independence

#### General Overview

As earlier noted the colonial government undertook no serious plan, however, after independence in 1960, development planning had a broad scope; encompassing government policies to achieve national economic objectives, such as accelerated growth and higher level of average welfare. The plans affected policies of Government agencies such as the Central Bank of Nigeria (CBN), Government owned parastatals, Marketing Boards and Extension services. Post-independence plans were more comprehensive and integrated than Pre-Independence plans formulated by British led Government. The plans included details about our resources potential and their mobilisation in the different sectors of the economy. All the plans were influenced by the theories and approaches most widely accepted at the time. The National Development Plans spanned 23years (1962-1985).

In all, the country has since initiated four medium-term development plans, a stop-gap Structural Adjustment Programme (SAP) and a long-term perspective plan termed vision 2010 which was later extended to vision 2020. The First National Development plan 1962-1968, was intended to put the economy on a fast growth path, by giving priority to agriculture and industrial development as well as the training of high and intermediate manpower to fill the gap in human resource requirements in view of the exit of expatriate workers after independence. The second National Development Plan, 1970-1974, was launched after the civil war to reconstruct and rehabilitate economic and social infrastructure damaged during the war. The next two plans were of more serious nature and more elaborate. The third national development plan, 19751980, was designed in the oil-boom years of the mid-1970s and, therefore very ambitious. Its principal aims were to diversify the economy, promote balanced regional developments and domesticate the economy through the deliberate encouragement of local private investment. The lack of appropriate executive capacity and unanticipated shortfalls in revenue, however, limited the achievement of the plan as several of the projects were rolled over to the fourth National Development Plan, 1980-1985. This fourth plan suffered mostly from the wasteful and relaxed spending of the post-military civilian administration of 1979-1983 and the collapse of international prices of crude oil. The period between the Second and Fourth National Development Plans (1970-1985), signaled both a period of unparalleled foreign exchange earnings totaling N152.5 billion and the beginning of an unequalled importation of food into the country, which was a manifestation of the failure of the development plans to achieve the often proclaimed national objective of food self- sufficiency. As indicated in what follows, all the four post-independence plans have similar overall goals of economic development and improved well-being of Nigerians, but they all failed to meet the expectations of the people. Let us now go into the details of the development plans.

### 1.3.4 The First National Development Plan (1962-1968)

The First National Development Plan was essentially similar in focus to the ones designed for the country by the pre-independence colonial administrators. It included economic targets to be met, policies friendly to the private sector and a list of projects to be undertaking by the government. Though political leadership made decisions about the general objective s and priorities for the First Plan, foreign economist were the main author of the plan They favoured decentralized decision making by private units, disregard for major discrepancies between financial and social profitability and high economic payoffs from directly productive investments (as opposed to indirect return from social overheads). The plan discouraged increased taxes on the wealthy (out of fear of dampening private initiative), and advocated a conservative monetary and fiscal policy emphasising a relatively small plan, openness to foreign trade and assistance, and reliance on overseas assistance. It was an export-oriented, urban– biased plan which focused on mainly on the promotion of agricultural export to the neglect of food crop production and urban–based import-substitution manufacturing establishments without any consideration for rural-based industries (Olatunbosun, 1975).

**The objectives of the First National Development Plan are summarised thus:**

- To raise the growth rate of GDP to 4% per annum
- To achieve an investment rate of 15% of the GDP
- To raise the saving ratio from 9.5% to 15% of the GDP iv. To lay enduring foundation for national development in infrastructural and social facilities
- Attainment of self-reliant nation

Against these planned objectives, the First National Development Plan suffered from poor feasibility studies, inadequate evaluation of projects, minimal contribution of ideas from local academic environment and excessive political interference in the implementation of decisions (Lewis, 1966). The political crisis of in the nation during the period further stalled project implementation and weakened the effectiveness of the plan.

### 1.3.5 The Second National Development Plan (1970-1974)

As earlier stated, this plan was principally aimed at restoring and rehabilitation of economic activities adversely affected by 1967-1970 civil war. To achieve this, the bulk of available resources were allocated to reconstruction and rehabilitation projects. Primary production, which is agricultural production, was allocated only 12.9 percent in the plan as against 28 percent for transportation and communication. Agricultural programmes during this plan period were designed without regard to the complementary relationship between production, marketing and storage on one hand and between agriculture and rural development on the other hand. This explains why GDP grew at an impressive rate during the second plan period while the agricultural sector still remained relatively neglected, signaling the beginning of a decline in the sector. The objectives of the Second National Development Plan are:

- ✓ To build a just and an egalitarian society
- ✓ Attainment of a united and strong nation
- ✓ To make Nigerian a dynamic and democratic society
- ✓ To reconstruct and rehabilitate existing socioeconomic infrastructure
- ✓ To enhance participation of the Government in agricultural production
- ✓ To promote domestic industries through the policy of import substitution

### 1.3.6 The Third National Development Plan (1975-1980)

The general objectives of the Third National Development Plan are stated below:

- ➢ To boost standards of living of the populace
- ➢ To expand facilities in the areas of social services
- ➢ To provide employment for all citizens
- ➢ To achieve 9% GDP growth rate

The most elaborate plans for agricultural development were designed under the Third plan which was extended to the Fourth plan. This issue is aptly demonstrated by the long list of agricultural programmes during the plan period. Agricultural Programmes during the Third National Development Plan were estimated to gulp a capital expenditure of N2, 201 billion breaks down as 74.5% for crops subsector; 15.6% for Livestock subsector; 5% for forestry subsector and 4.6% for fisheries subsector. Some of the agricultural programmes under this plan are: National Accelerated Food Production Programme (NAFPP), Tree Crop Production Programme, Farm Input Supply Programme, and Infrastructural Development Programme. Others include Beef Production Programme, Dairy Production Programme, Livestock Marketing Programme, Forestry Development Programme, Forest Protection Programme, Artisanal Fisheries Programme, Aquaculture Development Programme, Fisheries Research Programme among others.

### 1.3.7 The Fourth National Development Plan (1981-1985)

The Fourth National development plan has the following objectives:

- To increase the real income of the average citizen
- To create room for more even distribution of income among individuals and socioeconomic groups
- To reduce the level of unemployment and underemployment
- To achieve a balance in the developments of different sectors of the economy and the various geographical areas of the country
- To increase dependence on nations own resources in seeking to achieve the various objectives of the society
- To achieve 7.2% GDP growth rate

Similar to what obtained under the Third National Development Plan, the Federal Government, in view of its high liquidity position, embarked on a number of ambitious agricultural development programmes with or without the collaboration of State Governments during the Fourth Plan period. An increase of 47% over the third plan period was allocated to the agricultural sector. Over fifty different agricultural programmes were implemented in different subsectors of agriculture. However, no other sector or region was neglected under the Fourth Plan as the objective of balanced development was the overriding force behind the design of the plan. The Fourth National Development Plan was the last development plan because Structural Adjustment Programme (SAP) was introduced to substitute the fifth National Development Plan in 1986. SAP was used by the World Bank (IMF) to overthrow the need for planning and government intervention in Nigeria.

## 1.4 Observations on the Third and Fourth National Development Plans

The seemingly long list of agricultural programmes and projects earmarked for execution during the Third and Fourth plans was a reflection of Government's desire to use the increased wealth from crude oil export to accelerate the economic growth and overall development of the country. The high expectation of government were based on increased rate of daily crude oil output from 300,000 barrels in 1970 to 1.2 million in 1980 and sharp rise in crude oil prices in the international market from US$6 per barrel in 1970 to US$25 per barrel in 1980. The mood of the Nigerian Government then was best captured in a statement in the official document of the third Plan which claim " there will be no savings and foreign exchange constraints during the third plan period and beyond" (Federal Government of Nigeria, 1975). The plans therefore outline an ambitious desire to expand the agricultural sector and also other sectors dealing with industry, transport, housing, water supplies, health facilities, education, rural electrification, community development and other projects which have indirect bearing on the welfare of the ordinary people. However, many of the projects included in the plans lacked proper appraisal of technical feasibility, cost and benefit, or the technical administrative arrangements required to establish and operate them. In fact economic reasoning gave way to economic enthusiasm, as the necessary coordination required in project implementation was absent. By mid-1975, Government had realised that the oil revenue-based income projections were too optimistic and many projects had to be postponed, scaled or cancelled. While some projects were retained for political reasons, a good number of them were rolled over to the Fourth Plan.

Some measure of economic stability was experienced in the country towards the end of the 1970's due mainly to better economic management at the macro level of governance. However, when the Fourth Plan was to start, all the optimistic assumptions of the Third Plan were repeated by the civilian administration as many agricultural and non-agricultural projects were admitted into the plan. As with the Third Plan, the Fourth Plan soon ran into problems in the early 1980s. Falling oil revenues and an increased need for imported food that had resulted from the inability to execute relevant agricultural programmes, threatened the Fourth Plan

Self-Assessment Exercises 3

| |
|---|
| State the dates and at least one objective each of the four development plans discussed above. |

### 1.5 Some Achievements of National Development Plans

1. Execution of development projects such as the oil refinery in Port Harcourt, the Niger Bridge at Asaba, the Niger Dam at new Bussa etc.
2. Rehabilitation of farms and plantation, abandoned during the civil war.

3. Reconstruction and Rehabilitation of industrial facilities damaged during civil war e.g. the cement company in Calabar.
4. Establishment of twenty new Federal Government Secondary Schools
5. Establishment of the Nigerian National Oil Corporation (NNOC), now Nigerian National Petroleum Corporation.
6. Reconstruction of 2,200 miles of roads
7. Extension of communication facilities, thus making available a total of 6,400 additional telephone lines
8. Establishment of food production companies

### 1.5.1 General Problems Associated with Low Performance of National Development Plans

1. Deficiencies in the plan and implementations
2. Financial constraints
3. Lack of mass commitment
4. Corruption
5. Political instability and upheavals
6. Plan Indiscipline
7. Inadequate well-trained planners and executors
8. Lack of information and Data
9. Lack of national interest and political will
10. Institutional weaknesses

Self-Assessment Exercises 4

| |
|---|
| What factor (s) mainly account for the little success of the Developmental plans in Nigeria? |

## 1.6 Summary

This unit has revealed that the colonial government undertook no serious plan but a list of projects to be executed before independence. Post-independence plans were more comprehensive and integrated as it included details about our resources potential and their mobilisation in the different sectors of the economy and spanned 23years (1962-1985). In all, the country has since initiated four medium-term development plans, a stop-gap Structural Adjustment Programme (SAP) and a long-term perspective plan termed vision 2010 which was later extended to vision 202020. Against this background, the discussion here concentrated on the first to fourth national development plan. We noted that The First National Development plan 1962- 1968, was intended to put the economy on a fast growth path, by giving priority to agriculture and industrial development as well as the training of high and intermediate manpower to fill the gap in human resource requirements. The second National Development Plan, 1970-1974, was launched after the civil war to reconstruct and rehabilitate economic and social infrastructure. The third national development plan, 1975-1980, was designed in the oil-boom years of the mid-1970s and is principally aimed at diversifying the economy, promote balanced regional developments and domesticate the economy through the deliberate encouragement of local private investment. This fourth plan (1980-1985) suffered mostly from the wasteful and relaxed spending of the post-military civilian administration of 1979-1983 and the collapse of international prices of crude oil despite its laudable anticipation.

So far in this unit we have discussed the principal elements of the pre-independence development plans. The four national development plans since independence were equally exposed while. From the next unit you will have the opportunity examine some of the programmes and policies embedded in these plans. We shall begin with the old indigenization policy, then the much celebrated Structural Adjustment programme (SAP), The National Economic Empowerment and Development Strategy (NEEDS) and the National Poverty Eradication Programme (NAPEP).

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## 1.8 Possible Answers to SAEs

**Answers to SAEs 1**

It is essential because development planning had a broad scope; encompassing government policies to achieve national economic objectives, such as accelerated growth and higher level of average welfare

**Answers to SAEs 2**

**Answers to SAEs 3**

In (1962-1968), To raise the growth rate of GDP to 4% per annum

In (1970-1974) . To build a just and an egalitarian society

In (1975-1980), To achieve 9% GDP growth rate

In (1981-1985), To increase the real income of the average citizen

**Answers to SAEs 4**

- Execution of development projects such as the oil refinery in Port Harcourt, the Niger Bridge at Asaba, the Niger Dam at new Bussa etc.
- Rehabilitation of farms and plantation, abandoned during the civil war.
- Reconstruction and Rehabilitation of industrial facilities damaged during civil war e.g. the cement company in Calaba

# Module 5 - Unit 2: INDIGENISATION POLICY IN NIGERIA

**CONTENTS**



## 2.1 Introduction

One of the most prominent past policy in Nigeria is the indigenization policy. The policy which was meant to check the dominance and excesses of foreigners in Nigerian economic affairs and pave way for local entrepreneurs to grow met its waterloo so soon based on unfolding events over time. In this unit, the rationale for the indigenisation policy, its objectives and provision as well as the merits and limitations to the policy will be duly explained. Other issues such as the functions of the Enterprise Promotion Board which was directly linked with the policy and the later modifications to the policy will equally form the subject of discussion in this unit

## 2.2 Learning Outcomes

At the end of this unit, student would be able to:

1. State the meaning and objectives of Indigenisation
2. Examine the Provisions of the Indigenisation Policy
3. Appraise the merits and demerits of indigenisation policy

## 2.3 Main Content

### 2.3.1 Meaning and Reasons for Indigenisation

What is Indigenisation?

Indigenisation can be seen as 'an 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 economy. It is a policy meant to promote local participation in all industrial, commercial and financial activities in the country. In Nigeria, indigenization involves government invention to acquire and control on behalf of the Nigerian society the greater proportion of the productive assets of the country (Anyanwu, 1993).

### 2.3.2 Why Indigenisation Policy in Nigeria?

a. Before the indigenization policy in Nigeria foreigners dominated the ownership and management of firms in the country.

b. The sectoral investment preference and dividend policies of these foreign firms were costly to the Nigerian economy and inimical to her development.

c. Those foreign firms proved irresponsive to many 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.

d. the operations of foreign-owned firms in the country increasingly costly to the Nigeria economy.

### 2.3.3 What are the Objectives of Indigenisation Policy in Nigeria?

The objectives include:

a. The transference of ownership and control to Nigerian in respect of those enterprises formerly wholly or mainly owned and controlled by foreigners.

b. Fostering wide spread ownership of enterprises among Nigerian citizens.

c. Fostering the development of the Nigeria capital market.

d. To create opportunities for Nigerian indigenous businessmen.

e. To raise the level of intermediate capital goods production in the domestic economy.

f. To 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.

Self-Assessment Exercises 1

| |
|---|
| What is the rationale for the promulgation of the Indigenisation policy in Nigeria?<br><br>? |

## 2.4 The Provisions of the Nigerian Indigenisation Policy

As a result of the aforementioned reasons and objectives, the Nigerian Enterprises promotion Decree (now Act) was promulgated in 1972. In 1977, the 1972 Act (then a Decree) together with its amendments were repealed and replaced by the Nigerian Enterprises promotion Act, 1977. This followed the recommendation of the industrial enterprises panel headed by Chief A. Adeosun. The 1977 Act contained provisions for the implementation of the second phase of the scheme as well as the creation of three schedules of enterprises instead of two schedules as contained in the 1972 Act. Schedule I of the 1977 Act contained 40 enterprises while schedule II contained 57 enterprises and schedule III contained 39 enterprises. However, the enterprises contained in the three schedule were revised in 1981 (June 15) such that schedule I had 36 enterprises schedule II-576 enterprises, and schedule III-456 enterprises.

**SCHEDULE I:**

Schedule I of the 1981 revision contain 36 enterprises exclusively reserved (100%) for Nigerian citizens and associations. The 1977 defined a Nigerian citizen or association as:

i. A person who is citizen of Nigeria by virtue of the constitution of the federation;
ii. Any person of African descent, not being a citizen of Nigeria, who is a national of any country in African unity, and who continues to reside and carry on business in Nigeria, if the country of which he is a national also permit citizens of Nigeria and operate businesses or enterprises in the country on the basis of reciprocity; and
iii. Any company registered under the companies Act 1968, partnership, association or body (whether corporate), and except as otherwise prescribed under the Act. The entire capital or other financial interest of which is owned wholly and exclusively by citizens of Nigeria.

Thus, no foreigner was allowed to establish or continue to operate such enterprises in this schedule in the country after December, 1978. Enterprises included are ; advertising and public relations business; all aspect of pool betting business and lotteries: assembly of radios, radiograms, record changers, television sets, tape recorders and other electrical domestic appliances not combined with manufacture of components; blending and bottling of alcoholic drinks; blocks and ordinary tile manufacture for building and construction works; bread and cake making; candle manufacture; casinos and gaming centres; cinemas and other places of entertainment; commercial transportation (wet and dry cargo and fuel); commission agents; departmental stores and supermarkets having an annual turnover of less than N2 million; distribution agencies excluding motor vehicles, machinery and equipment and spare parts; electrical repair shops other than repair shop associated with distribution of electrical goods; estate agency; film distribution (including cinema films); hairdressing; ice-cream making when not associated with the manufacture of other dairy products; indenting and confirming; laundry and dry-cleaning, manufacturer's representative; manufacture of suitcases, brief cases, hand bags, purses, wallets, portfolios and shopping bags; municipal bus services and taxis; newspaper publishing and printing ; office cleaning; passenger bus services of any kind; poultry farming; printing of stationery (when not associated with printing of books) protective agencies; radio and television broadcasting; retail trade (except by or within departmental stores or supermarkets); singlet manufacture; stevedoring and shorehandling; tyre retreading; travel agencies; and wholesale distribution of local manufactured and other locally produced goods. Any foreigner who engages in any of the above enterprises and any person who acts as a front for the purpose of assisting a foreigner to operate the business whether as an owner or part-owner is guilt of an offence under sections 17 and 18 of the Act. Penalties, sealing up of business premises, disposal of enterprises, and N15, 000 fine or five year's jail term for people acting as fronts.

**SCHEDULE II:**

Schedule II involves 57 enterprises which must have a minimum Nigerian equity participation of 60% subject to approval by the Nigerian Enterprises promotion Board (NEPB) and the former Capital Issues Commission (now the Nigerian Securities and Exchange Commission, NSEC). Some of the enterprises under this schedule are: Banking (commercial, merchant and development banking); basic iron and steel manufacture; beer brewing; boat building; bottling of soft drinks; business services (other than machinery and equipment rental and leasing) such as business management and consulting services; fashion designing; clearing and forwarding agencies; coastal and inland waterways shipping; departmental stores and supermarkets having annual turnover of not less than N2m; distribution and servicing of motor vehicles tractors and spare parts thereof or similar objects; establishments specializing in the repair of watches, clocks and independence thus complementing political independence.

**SCHEDULE III:**

Schedule III covers 45 enterprises under the 1981 revision in which at least 40% equity participation of Nigerians is required. Some of the enterprises hereby include: distilling, rectifying and blending of spirits such as ethyl alcohol, whisky, brandy, gin and the likes; fertilizer production; manufacture of drugs and medicines; manufacture of poultry, China clay products and earthenwares, manufacture of glass products; manufacture of structural metal products components of bridges, tanks, metal doors and screen and windows frames manufacture of radios, television and communication equipment and apparatus; manufacture of aircrafts; manufacture of motor vehicles and motorcycles; shipbuilding and repairing (excluding boat building); agricultural plantation for tree crops, grains and other cash corps; ocean transport/shipping; oil servicing companies, data processing and tabulating services (on a fee or contract basis): sugar plantation and processing; etc.

To implement the provisions of the Act, the Nigeria Enterprises Promotion board (NEPB) was established by Decree no. 4 of 23 February 1972. It was to be assisted by Nigeria enterprises promotion Committees in the states.

**2.5 Functions of the Nigerian Enterprise Promotion Board**

a. To advance and develop the promotion of enterprises in which citizens of Nigeria shall participate full and play a dominant role.

b. To advice the Commissioner of Minister on clearly defined policy/guidelines for the promotion or 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 it 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.

**2.5.1 Merits and demerits of Indigenisation**

**Merits of Indigenisation Policy**

a. Indigenization ensures economic self-determination or self-reliance and available skilled manpower especially the management and technical cadre.

b. It ensured economic survival under conditions determined by native citizens rather than by foreigners.

c. The economic vacuum created by departing aliens forced the country to satisfy those needs.

d. If fostered employment and managerial opportunities for native citizens.

e. It was a corrective measure of the colonial patterns of investments which was based on static scheme of comparative advantage in international trade.

f. It stimulated active participation of the native citizens in the management and control of foreign firms that dominate the private sector of the national economy.

g. It encouraged aliens to foster an enduring partnership with native citizens and thus widened and deepened the markets for their securities and products.

h. It was a protective partnership which encouraged supra-territorial oligopolies to adapt themselves to the environment in which they operate.

i. It raised the quality of indigenous manpower in the industrial and commercial sectors.

j. Indigenisation resulted in increased competition among native citizens which in turn resulted in improved quality of goods and services.

k. It compelled alien suppliers to give necessary technical support to native agents, manufactures, etc.

l. It led to the preservation of foreign exchange that goes to aliens in forms of salaries, bonuses, etc.

m. Indigenization encouraged joint local and alien ownership.

n. It enabled indigenes to share fully in the fruits of economic growth.

o. It reduced the level of neocolonial exploitation.

p. It increased propensity to substitute local raw materials thus stimulating agriculture, related input sectoral linkage via diversification.

q. It enhanced egalitarianism since income will be distributed among more people through indigenization.

**Demerits of Indigenisation**

a. Indigenisation was misinterpreted by aliens as a creeping nationalisation.

b. Reduction in foreign ownership reduced the volume of funds for industrial investment.

c. Fear of further indigenization in the future 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 (scheduled and charter services); insurance, all classes; litharge; manufacture of dairy products, butter, cheese, milk and other milk products; manufacture of plastic products; manufacture of tyres and tubes for bicycles and motorcycles, of tyres and tubes for motor vehicles.

e. It reduced entrepreneurial intercourse with the outside world, thus impeding technological transfer.

f. Greater indigenous control (especially in Nigeria) leads to increased corruption.

g. The foreign countries adversely affected were less interested in technical co- operation.

h. Retaliatory price increase resulted.

i. There was decreased inflow of foreign tourists.

j. Dislike of the indigenization policy led to less enthusiasm for goods made in the indigenized economy.

k. scarcity of certain goods occurred thus encouraging foreign exchange malpractices, including smuggling and hence reduced government revenue.

l. 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')

m. It encouraged 'fronting' thus defeating the initial objectives.

### 2.5.2 Modification of Indigenisation Policy

In order to encourage foreign capital inflow, the federal government, in January 1989, amended the Nigerian Enterprises promotion Decree, 1977. This was contained in industrial policy released in January, 1989. With the amendment, there existed only one list of scheduled enterprises exclusively reserved for Nigerians for the purpose of 100% equity ownership. All other business not contained in the list of scheduled business were now open for 100% Nigerian or foreign participation except in the areas of Banking, Insurance, Petroleum Prospecting and Mining where the existing arrangements still subsist. Foreigners are also free to participate even in the scheduled business provided:

a. Such participation involves equity capital not below twenty million naira (N20m) and

b. Prior approval is obtained from the industrial Development Co-ordination Committee (IDCC).

The objective of allowing for this special dispensation was to encourage large-scale production-operation in same scheduled business not only for the local market but for export. However, the new ownership structure applies to new investments only.

The 40 scheduled enterprises exclusively reserved for 100% Nigerian ownership were: advertising and public relation business; all aspects of Pool betting business and lotteries; assembly of radios, radiograms, record changers, television sets, tape records and other domestic electronic appliances not combined with manufacture of components; blending and bottling of alcoholic drinks; blocks and ordinary tile manufacture for building and construction works; bread and cake making; candle manufacture; casinos and gaming centres; cinemas and other places of entertainment; commercial transportation (wet and dry cargo and fuel): commission agents; departmental stores and supermarkets having an annual turnover of less than N2 million; distribution a agencies excluding motor vehicle; machines and equipment and spare parts; electrical repair shops other than repair shops associated with distribution of electrical goods; estate agency; film distribution (including cinema films); Hair-dressing; ice-cream making when not associated with the manufacture of other dairy products; indenting and confirming; laundry and dry-cleaning; manufactures' representatives; manufacture of suitcases, brief-cases, handbags, purses, wallets, portfolios and shopping bags ; municipal bus services and taxis; newspaper publishing and printing; office cleaning passenger bus services of any kind; poultry farming printing of stationery (when not associated with printing of books); protective agencies; radio and television broadcasting; retail trade (except by or within departmental stores and supermarkets); single manufacture; stevedoring of local manufactured and other locally produced good; establishments specialized in the repair of watches, clocks and jewellery including imitation jewellery for the general public; garment manufactures; grain mill products including rice milling; and manufacture of jewellery and related articles imitation jewellery.

Unfortunately, the Nigerian Enterprises Promotion Decree of 1989 was repealed in 1995 and replaced by the Nigeria Investment Promotion Commission Decree 16 of 1995. This action, according to government, was intended to attract foreign investment inflow and enhance capacity utilization in the productive sectors of the economy. The essentially threw open foreign participation in Nigerian Enterprises. This is a clear manifestation of inconsistency in government policies and a step backward to neo-colonialism. This is inspite of government's urge to Nigeria manufactures to enter into arrangements with foreign partners to process raw materials into finished goods. Such raw material would not attract import duty while the re- exported goods would be duty free (CBN, 1995).

## 2.6 Summary

Indigenisation can be seen as 'an 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. Indigenisation ensures economic self-determination or self-reliance and available skilled manpower especially the management and technical cadre. It ensured economic survival under conditions determined by native citizens rather than by foreigners, it also fostered employment and managerial opportunities for native citizens. On the other hand, the indigenization was misinterpreted by aliens as a creeping nationalization while Reduction in foreign ownership reduced the volume of funds for industrial investment. Also, Fear of further indigenisation in the future deter potential foreign investors.

In this unit we have discussed the meaning rationale and objectives of indigenisation policy in Nigeria. We further rendered the details of the provisions of the acts that established the indigenisation policy under the supervisory body, Nigeria enterprise promotion board. In the final analysis, the merits and demerits of the policy were enumerated while a mention was made of the adjustment component of the programme due to prevailing circumstances.

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## 2.8 Possible Answers to SAEs

**Answers to SAEs 1**

- Before the indigenization policy in Nigeria foreigners dominated the ownership and management of firms in the country.
- The sectoral investment preference and dividend policies of these foreign firms were costly to the Nigerian economy and inimical to her development.

# Module 5 - Unit 3: THE STRUCTURAL ADJUSTMENT PEOGRAMME (SAP)

**CONTENTS**



## 3.1 Introduction

We mentioned in our overview of the Nigerian developmental plans that the country has since initiated four medium-term development plans in succession after independence. However, after these plans there are quite a number of long term plans. The Structural Adjustment Programme is perhaps the most prominent of the developmental efforts in Nigeria, it is still a reference point in Nigeria till date despite it's somewhat truncation via the launch of the NEEDS package. Even then, the NEEDS strategy and the visions 2010 and 20: 2020 documents still possess some elements of the SAP package. It is on this note that we discuss this much celebrated structural adjustment programme in terms of its background, components and programme packages and its effect on the Nigerian economy, especially between 1986 when it took off and 1993 when it effectively operated.

## 3.2 Learning Outcomes

At the end of this unit student would be able to:

1. Explain the meaning of SAP
2. List the components/package of SAP
3. Explain the meaning of this components/package

4. Describe the Nigerian economic performance under SAP

## 3.3 Main Content

### 3.3.1 Post Third and Fourth Developmental Plans

By 1986, the economic problems of the nation in general were such that major structural changes were needed to be introduced to economic management. This informed the adoption of the Structural Adjustment Programme (SAP) in the mid- 1986. The objective of SAP was to change the mode of Government interventions in economic management matters so that the private sector could play a more leading role in the management of the economy while government creates enabling environment. Government was expected to begin to withdraw from business ventures and privatise public sector enterprises. Market forces of supply and demand were then to determine prices generally, including the exchange rate, prices of utilities, rates/prices of services and agricultural export commodities. Thus commodity boards were abolished. But SAP policy measures were not implemented as designed, the measures were applied haphazardly and most of the tenets were violated by the Government itself.

By 1989, three years after SAP began; the Government changed the development planning process. The concept of a fixed five-year plan was abandoned and instead a three-year “Rolling Plan” concept was introduced. The goal of rolling plan was to bring some element of stability into the planning process. This gives room for flexibility as uncompleted plan are rolled into the following year. The rolling plan suffered from lack of harmonisation and coordination, evaluation and subject to political manipulations.

By 1996, a vision 2010 committee was set up to develop a blueprint for transforming the country into a developed one by 2010. The vision report calls for a paradigm shift in the mindset of Nigerians to imbibe new core values, norms, and standards that would align with the requirements of the global realities of rapid technological change, globalisation and liberalisation. The exercise although highly participatory and rich was more of a ‘talk show’ than a document of action.

The fragile Nigerian economic environment was prepared for change in 2003 when the Federal Government put forward and started implementing another development plan called the National Economic Empowerment and Development Strategy (NEEDS), with State and Local Government counterparts known as State Economic Empowerment and Development Strategy (SEEDS) and Local Economic Empowerment and Development Strategy (LEEDS). The FCT version is accordingly FEEDS. According to the Government, this approach to development planning is rooted in the lessons and experience of the past failed national plans with a better articulated vision and realistic appraisal of what is feasible within a three-year mediumterm framework. The medium-term plan was itself, derived from the country's longterm goals of poverty reduction, wealth creation, employment generation and value reorientation. The NEEDS package at all levels is targeted at macroeconomic stability, institutional reform, improved security and administration of justice, creating a competitive private sector, sectoral strategies with emphasis on agriculture and food security, market enlargement and human development agenda. The realization of the fact that the target of vision 2010 could not be met within the stipulated time frame led to the design of vision 20: 2020 which intended to see Nigeria as one of the first twenty relevant economy by the year 2020. The document was a modification and extension of vision 2010 and a revision in line with current trends and developments. The details of the Structural Adjustment Programme will be discussed in this unit.

### 3.3.2 Background to Structural Adjustment Programme

The early 1980s drove home a truth which had been emerging in the 1970s-that the world economy was becoming increasingly unstable. The combined effects of the second oil shock, an associated recession in Organisation for Economic Cooperation and Development (OECD) countries, a prolonged slump in real commodity prices, the outbreak of the debt crises with all its consequences for developing countries, access to world savings and the erosion by non-tariff barriers of previous trade liberalisation put the balance of payment of many developing countries under great strain making imperative decisive policy responses (Killick, 1995). On the economic scene of Nigeria, the oil boom of 1973-1974 affected not only the investment, production and consumption patterns of the country but also sociocultural values, political aspirations, style of economic management and policies and programmes implemented (Olaniyan, 1996). Massive investments were made into infrastructure with significant capital outlay for imported components. Industries were outward-looking such that the global crisis meant for them acute shortage of essential raw materials, capacity underutilisation and factory closures. The competitiveness of the agricultural sector was eroded by the over-valued exchange rate and investment was skewed in favour of short-term highly profitable venture such as construction, commerce and service sector at the expense of such productive ventures as agriculture and manufacturing which have long-term gestation periods creating structural imbalance within the economy. There was a growing desire for imported consumer goods and conspicuous consumption was the order of the day among the affluent. Capital assets were neglected and maintenance culture virtually died out. All these against the background of financial misappropriation in the public sector and concerted misuse of import licenses and overloading of invoices between many Nigerian businessmen and their overseas counterparts; the gross abuse of import and export tariffs at many custom point; fraudulent money transfer overseas aided and abetted by many bank officials (Yesufu 1996). The compound effect of the above was severe fiscal crisis, foreign exchange shortage, balance of payment and external debt crisis, high unemployment rate and negative economic growth (Olaniyan, 1996)

The global economic crisis created awareness in the OECD Government and the International financial institutions (IFIs, consisting of the IMF and World Bank). That 'many past policy intervention were aggravating rather than easing economic problems in developing countries and needed to be reformed'. The World Bank response was the opening of a structural adjustment window while the IMF introduced (or reviewed in the case of Extended Fund Facilities, EFF) the Structural Adjustment Fund (SAF) and Enhance Structural Adjustment Fund (ESAF) (Killick, 1995).

The first response of Nigeria Government on the deteriorating economic conditions in the country was to introduce some stabilisation, austerity and counter-trade measures between 1982 and 1984. The Economic Stabilisation Act (1982) imposed more stringent exchange control measures and import restrictions supported by appropriate monetary and fiscal policy. In order to secure foreign assistance to solve its balance of payment problems, the government approached the IMF for a three-year extended facility from 1983. In line with its new policy however, the IMF introduced some conditions that must be met for the loan to be given- the more popularized 'IMF conditionalities'. These were- sixty percent devaluation in the national currency, rationalization in the size of the public service, trade liberalization and the removal of petroleum subsidy. The Babangida government in a bid to capture the confidence of Nigerians and thus secure for itself legitimacy decided to throw the matter to the general public. By public debate involving the learned and the unlearned who knew not so much about what the IMF is and what the conditionalities really meant (talkless of the implications to the national economy of accepting such conditionalities), by various expressions of public opinion encompassing both the professional and the street traders, Nigerians were to make their view known whether they wanted IMF loan with its attached conditionalities or not. Of course, the Nigerian public rejected the loan. Barely one year after, however, in July 1986, the Government adopted an externally packaged structural adjustment program.

### 3.3.3 SAP; Meaning and Composition

The Nigerian Structural Adjustment Programme was designed to fit the standard IMF- World Bank structural adjustment package and meant to effectively alter and restructure the consumption and production pattern of the economy, as well as to eliminate price distortions and heavy dependence on the exports of crude oil and imports of consumer and producer goods (Anyanwu 1993). The programme was initially proposed as ‘an economic package designed to rapidly and effectively transform the national economy’ over a period of less than two years. (Yesufu, 1996).

Three factors were proposed as being the rationale for the adoption of SAP

a. An excessive dependent by the nation on imports, especially consumer goods including food.

b. Almost total neglect of domestic production in all the five sectors of the economy: agriculture, industry, construction, commerce and transportation.

c. Almost total dependence on earnings from oil exports alone for boosting government revenues as well as for accumulated foreign exchange reserve (Yesufu, 1996).

Two major negative fall outs of the above were persistent balance of payment deficit (external imbalance) and huge fiscal deficits (internal imbalance). The balance of payment problem was identified to be a consequence of the over-valuation of the naira. Under the SAP therefore, the exchange rate is to reflect the scarcity value of the national currency. The devaluation of the naira would enhance the level of non-oil exports. The incidence of huge fiscal deficits was to be addressed through reduced government expenditure. To achieve this, the government was to privatise its parastatals especially those that have been incurring huge losses, reduce its level of activities and withdraw state subsidies especially with regard to social services, fertilizer distribution, and petroleum products. Moreover, the government was to restrict public sector capital programmes to priority projects that could be sustained under the projected revenue and expenditure profiles. All other capital projects were to be sold outright as the private sector or placed on hold. In addition, the government was to liberalise imports in order to get rid of inefficient domestic industries and place emphasis on industries with enhanced local values added in order to lay an enduring industrial base. The fulfillment of the above were made necessary pre-conditions for debt- rescheduling, debt reduction and the inflow of new money from the world bank, the IMF and the international community. Some of the policy modifications under the SAP directed in line with the above are:

1. **Monetary**

-deregulation of interest rate

-establishment of a market-based foreign exchange (FOREX) system

-pursuance of restrictive monetary policy
2. **Fiscal**
-privatisation and commercialisation of several public enterprises
-adoption of cost recovery measures in health care delivery and
-educational services
3. **Trade**
-abolition of import licensing systems
-general reduction in the level of import tariffs

As noted by Adeyemi (1996), the philosophy of the Structural Adjustment Programme 'was predicated on demand management as a measure of curtailing fiscal and external imbalance with a restrictive monetary policy… The ultimate objective was to achieve non-inflationary growth and to stimulate domestic production of tradable goods'. In addition, 'the programme was to achieve a sustainable external debt service profile and hence domestic savings and investments and the inflow of external resources'. The various components of SAP are: The second-tier foreign Exchange Market (SFEM); Establishment of Bureau de change, Privatisation and Commercialisation, Removal of Petroleum Subsidy and Interest rate deregulation among others. In subsequent sections, we will discuss issues relating to the foreign exchange market the establishment of Bureau de change and interest rate deregulation. We have aforetime mention the issue of subsidy removal and deregulation of the oil sector in module 4, we will also have a detailed discussion on privatisation in unit 4.

Self-Assessment Exercises 1

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|---|
| What are the components of SAP? |

### 3.4 The Second-Tier Foreign Exchange Market (SFEM)

SFEM was established by decree No. 23 of 1986 and came into operation on 29th September 1986. It is a market established for the buying and selling of foreign exchange at rates determined by the forces of demand and supply. The Federal Ministry of Finance and the Central bank of Nigeria (CBN) were to regulate the market in terms of formulating policies and guidelines for its operations. The participants in the market include the CBN, authorized dealers (consisting of commercial and merchant banks), other corporate bodies appointed by the Federal Ministry of Finance and members of the public. The trading instruments include foreign bank notes and coins, traveler's cheques, bank drafts, mail and telegraphic transfers and other instrument as may be determined by the ministry from time to time. The market sources of fund include international reserves by the CBN, export earnings from non-oil sector held in domiciliary accounts, banks excess holding of foreign currencies not immediately required by them, other deposits in domiciliary accounts, invisible trade earnings and loans from the World Bank and other foreign bodies.

The market was to operate under a closed auction system in which the Central Bank calls for bids from all authorised dealers for available foreign exchange. Available foreign exchange is then sold to successful bidders for on-the-counter sale to their customers at a price determined at the bidding session plus a margin fixed by the CBN. The market was initially convened once in a week but later fortnight. All transactions involving foreign exchange were covered by the market including exports, imports, Basic Travel Allowance (BTA), business travels air-tickets, hospital bills, school fees of students in foreign universities etc. In case of fraud, forgery, willful mutilation, aversion of funds etc. penalties range from 15 years imprisonment for individual to fines of ten times the amount involved and forfeiture of all assets for corporate bodies (Anyanwu, 1993).

Other policy measures taken to complement the operation of the SFEM included:
1. The abolition of import and export licensing
2. Elimination of mandatory surrender requirements for all non-oil proceeds
3. Abolition of price controls
4. Freedom for Nigerian residents to retain all (100%) of their net foreign earnings. In addition exporters were expected to repatriate their export earnings into their domiciliary accounts. Such funds could only be used for eligible transactions.

At its commencement, the market first operated the ‘Average Bid System’. Under this, the average of successful bid rates is taken to be effective exchange rate for the period (until the next sitting). This method was however changed for the ‘Marginal Rate System’ in 1986. Under this, banks were arranged in descending order of bidding and the rate that clears the available foreign exchange rules for the period. By April 1987 however, the ‘Dutch Auction’ pricing system was adopted under which each bank is expected to buy at its quoted rate. The purpose was to penalise the banks that bids too high. The exchange rate at the second-tier market was initially higher than that of the first-tier maket but latter begin to fluctuate until second-tier and first-tier rates were merged in June 1987 resulting in one single foreign exchange market. FEM later became the Inter-Bank Foreign Exchange Market (IFEM) which was totally deregulated on March 1992 causing more drastic depreciation in the Naira. Further modifications were made to the market in 1995 for it to reflect the policy of deregulation; IFEM was changed to Autonomous Foreign Exchange Market. The number of participants was drastically reduced and the procedure for the conduct of the market changed from the bidding sessions to intervention exercises by the CBN.

### 3.5 Establishment of Bureau de Change

In order to cater for the needs of the small transactions segments of the Nigeria's foreign exchange market, the Government authorised the establishment of Bureau de Change in its 1989 budget speech. Following the CBN guidelines released on February same year, these were to be operated by private enterpreneurs at designated points throughout the country. The objectives were to enlarge the scope of the official market for foreign exchange transactions, involve private enterpreneurs in the buying and selling of foreign currencies and curtail parallel (black) market transactions thereby enhancing the value of the Naira. By the end of 1989 a total of 50 operators were licenced with the challenges of widening gap between the official and parallel exchange rate which was later controlled by the introduction of AFEM.

Self-Assessment Exercises 2

| Why was Bureau de Change established |
|---|

#### 3.5.1 Interest Rates Deregulation

Until July 1987, interest rates in Nigeria were directly administered by the CBN. Such management by monetary authorities based on expert advice was as a result of the absence of a well-developed financial market in the country. The Federal Government under such system set the deposit and lending rates for the financial intermediaries and also the rates for lending to specified sectors of the economy. On account of this, the lending rates to agriculture, small scale enterprises and residential building construction were kept lower than the rates for other sectors.

The CBN thereafter abolished with effect from August 1, 1987, all controls on interest rates. They were hence to be determined by forces of demand and supply. In addition the minimum discount rate for all banks in the country was raised from 11% to 15% while the liquidity ratio was also raised from 15% to 30%. Aggregate credit ceiling to the private sector by the commercial banks was lowered from 8% to 7.4% while for merchant banks the ratio of total loans and advances to total asset less contingent liabilities was reduced from 55% to 37.5%. There have been upward reviews since then and the commercial bank lending rates have been on the increase.

### 3.5.2 Economic Performance under the Structural Adjustment Programme

The economy appears to have performed better in terms of sectoral and overall GDP growth rates during the SAP period. This is attributable to positive developments in the agriculture (including livestock, forestry and fisheries), oil and finance sector. Of these, the highest contribution to GDP came from agriculture (an annual average of 40%) followed by mining and quarrying (13.3%). Agriculture boosted the growth rate as there was favourable climate, conscious adoption of a floating exchange rate which had a positive impact on agricultural prices, the scrapping of agricultural boards and implementation of key agricultural programmes (Olaniyan, 1996). The contribution of mining and quarrying to GDP however fell from 14.11% in 1986 to 13.1% in 1993 (a percentage fall of about 7.2). The percentage share of the manufacturing sector in the GDP fell from 8.0% in 1986 to 7.9% in 1993. Although it witnessed some increase in 1987, 1988 and 1991 while the contribution of insurance and finance to the GDP rose from 4.0% in 1986 to 8.9% in1992. The share of services generally (including distribution, transportation and communication, government services, finance and insurance, real estate and business services, hotel and restraint, community, special and personal services) rose from 26.0 in 1986 to 29.5 in 1993. Thus while the SAP is negatively affected real investment (i.e. manufacturing and crafts) it greatly promoted the development of trade and services (Odejide 1996).

Gross National Savings (GNS) however increased from an annual average of 6.1% before SAP (between 1981 and 1985) to 18% of GDP in 1986-1990 while institutional savings increased from 6.0% to 20.9% of GDP over the same periods. The savings/GDP (S/G) ratio which stood at 7.8% between 1982 and 1985 rose to 19.0% between 1986 and 1996. This is attributable to the deregulated interest rate regime and liberalisation of rules for establishment of banks and financial houses which enhance financial intermediation (Adeyemi 1986). The growth in savings did not however translate into an increase in investment. Gross Fixed Investment (GFI) fell from 48.5% of GDP between 1981 and 1985 to 13.8% in 1988 and slightly increased to 16.2% in 1990. The investment/GDP ratio (I/G) fell from a yearly average of 11.2% between 1982 and 1985 to 5.4 % between 1986 and 1994. A major underlying factor for this was the rapidly declining foreign investment, which had been projected to complement domestic savings. In fact, SAP gave rise to a large measure of disinvestment and a high incidence of plant closures, especially in industries that had relied mainly on imported raw materials (Adeyemi, 1986).

Merchandise exports increased under the structural adjustment programme from $6billion between 1982 and 1985 to $13.8 billion in 1990. This was however due to oil exports. Non-oil exports fell from $557 million to $106 million during the same period. In other words, the annual average growth rate of non-oil exports fell from 31.6% between 1982 and 1985 to -4.8% between 1986 and 1994. However the country experienced improved balance of payment position under SAP because the manageable size of the growth in imports (from a yearly growth rate of -12.9% between 1982 and 1985 to a yearly average of -11.6 between 1986 and 1994). Although imports increased under the SAP period as compared to pre-SAP era (as witnessed in the reduction in the size of the negative growth), the increase was manageable. This according to Adeyemi (1986) was due to high proportion of foreign exchange earnings (even after devaluation) used to service debts which considerably reduced importation of capital and consumer goods. Thus, contrary to the fundamental objectives of SAP, apart from the agricultural sector, non-oil export did not improve but rather suffered; neither did the expected reduction in importation on account of devaluation of naira materialised. This appeared indeed difficult in the face of a trade liberalisation policy.

Net Resource Transfer (NRT) into the economy during the adjustment period was negative. In other words, there was an outflow rather than inflow of resources. An increasing loss of confidence in the economy gave rise to capital flight, contrary to expectation that a regulated exchange rate would stimulate foreign investment and domestic non-oil exports.

The external debt burden increased from U.S$19.5 billion in 1985 to U.S$34.4 billion in1991 as a result of new borrowings, increase in foreign interest rates, capitalisation of unpaid interest charges as well as the appreciation of exchange rates of various Europeans and Japanese currencies against U.S dollars. The debt service ratio which stood at an annual average of 16.3% between 1982 and 1985 increased to 26.7% between 1986 and 1994 , creating a great strain on the foreign exchange earnings and reflecting thus , 'the failure of debt rescheduling programme mapped out by the London and Paris club of creditors'.

More disturbing however is the issue of government fiscal deficit under SAP. The achievement of internal balance (together with external balance) was a major objective of SAP and strict fiscal discipline was expected on the path of the Nigerian Government in line with that purpose. In contrary, Federal Government deficit rose by more than

320% at current prices between 1985 and 1993. In real term, deficit rose from 31.5% in 1985 to 138% in 1993.

**Table 4.3.1 Percentage Distribution of GDP by Sectors (At 1984 Constant Prices) 1986-1993**

| | Sector | 1986 | 1988 | 1991 | 1993 | Yearly Average |
|---|---|---|---|---|---|---|
| 1. | Agriculture | 42.7 | 41.5 | 38.8 | 37.9 | 40.0 |
| 2. | Mining and Quarrying | 14.1 | 12.7 | 13.7 | 13.1 | 13.3 |
| 3. | Manufacturing&Craft | 8.0 | 8.7 | 8.4 | 7.9 | 8.2 |
| 4. | Utilities(Elect, Water) | 0.5 | 0.5 | 0.6 | 0.6 | 0.5 |
| 5. | Building and Constru. | 1.8 | 2.0 | 1.9 | 1.9 | 1.9 |
| 6. | Transport & Comm. | 4.3 | 3.9 | 3.4 | 2.2 | 3.2 |
| 7. | Distribution | 13.0 | 13.8 | 12.7 | 12.6 | 13.1 |
| 8. | Govt. Services | 7.1 | 7.9 | 8.4 | 10.2 | 8.5 |
| 9. | Finance and Insurance | 4.0 | 4.8 | 8.7 | 8.9 | 6.8 |
| 10 | Real Estates | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| 11 | Hotel and Restaurants | 0.7 | 0.6 | 0.5 | 0.5 | 0.6 |
| 12 | Housing (Dwelling) | 2.7 | 2.5 | 2.3 | 2.4 | 2.5 |
| 13 | Community, special and Personal Services | 0.9 | 0.8 | 0.7 | 0.8 | 0.8 |
| | Total GDP | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

**Source: FOS, National Accounts of Nigeria (1981-1991), Yesufu (1996)**

As a proportion of GDP total government deficit spending rose from 12.9% in 1986 to a fearful 117.45% in 1993, by implication the government borrowed 17.4% more than the nation's GDP in 1993. It was not surprising that the inflation rate skyrocketed during the SAP years, from 5.4% percent in 1986 to 57.2 in 1993. The government did not succeed in in improving the availability of consumer goods or to ensure stability of prices (Yesufu, 1996).

### 3.6 Summary

The Nigerian SAP was designed to fit the standard IMF- World Bank structural adjustment package and meant to effectively alter and restructure the consumption and production pattern of the economy, as well as to eliminate price distortions and heavy dependence on the exports of crude oil and imports of consumer and producer goods. The programme package includes monetary instruments: deregulation of interest rate establishment of a market-based foreign exchange (FOREX) system and pursuance pursuance of restrictive monetary policy. It also includes Fiscal Policies such as privatisation and commercialization of several public enterprises, adoption of cost recovery measures in health care delivery and educational services. In trade, there is abolition of import licensing systems and general reduction in the level of import tariffs. The economy appears to have performed better in terms of sectoral and overall GDP growth rates during the SAP period. This is attributable to positive developments in the agriculture, oil and finance sector. Gross National savings and merchandise export also increased during the SAP period. However, the fiscal deficit rose over time and the government did not succeed in improving the availability of consumer goods or to ensure stability of prices, hence inflation was high.

This unit 2 of this module has provided you with information on the concept and meaning of the structural adjustment programme. Some of the programme packages under SAP such as Second-tier foreign exchange, devaluation of Naira, establishment of Bureau-de Change and Interest rate deregulation were subjects of independent discussions. The discussion was rounded off with an exposure of the effect of SAP via the performance of various economic sectors under SAP. You should also note that we have deliberately reserve the discussion on the Privatisation and Commercialisation which is also a component of SAP package to unit 4 after NEEDS because it is also part of the NEEDS and the process is still ongoing in Nigeria.

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## 3.8 Possible Answers to SAEs

**Answers to SAEs 1**
**the components of SAP are**
1. **Monetary**
-deregulation of interest rate
-establishment of a market-based foreign exchange (FOREX) system
-pursuance of restrictive monetary policy
2. **Fiscal**
-privatisation and commercialisation of several public enterprises
-adoption of cost recovery measures in health care delivery and
-educational services
3. **Trade**
-abolition of import licensing systems
-general reduction in the level of import tariffs

**Answers to SAEs 2**

Bureau de Change was established In order to cater for the needs of the small transactions segments of the Nigeria’s foreign exchange market, the Government authorised the establishment of Bureau de Change in its 1989 budget speech. Following the CBN guidelines released on February same year, these were to be operated by private enterpreneurs at designated points throughout the country. The objectives were to enlarge the scope of the official market for foreign exchange transactions, involve private enterpreneurs in the buying and selling of foreign currencies and curtail parallel (black) market transactions thereby enhancing the value of the Naira

# Module 5 - Unit 4: NATIONAL ECONOMIC EMPOWERMENT AND DEVELOPMENT STRATEGY (NEEDS)

**CONTENTS**



## 4.1 Introduction

One of the most participatory and articulated economic package in recent time in Nigeria is the National Economic Empowerment and Development Strategy. This unit is dedicated to a discussion on the NEEDS plan. One cannot outrightly state that the NEEDS era is gone as there are claims that other economic plans, policy and programme such as vision 2010 and vision 20: 2020 has its root in the NEEDS plan. In this unit, you will be introduced to what NEEDS represents; the challenge in Nigeria that NEEDS is finding solution to; the strategies of NEEDS as well as the implementation design. Lastly you will read through a critique of the NEEDS programme.

## 4.2 Learning Outcomes

At the end of this unit student would be able to:

1. State the meaning of NEEDS
2. Itemise and explain the challenges in Nigeria that informed the NEEDS
3. Describe the key strategies of NEEDS
4. Assess the effect of NEEDS on the Nigerian economy

## 4.3 Main Content

### 4.3.1 National Economic Empowerment and Development Strategy (NEEDS)

**Background to NEEDS**

After the successful transition to civil rule on May 29th1999, the then President Chief Olusegun Obasanjo, stated the need for reform because of the myriads of socio- economic problems that engulfed Nigeria. According to the Government, the economy was overburdened with problems such as an energy crisis manifested in widespread scarcity of petroleum products and erratic power supply; high fiscal deficits which threw macroeconomic fundamentals out of order and a near total collapse of infrastructure and services. The economy was experiencing low industrial outputs, high unemployment and a crushing debt burden (Obasanjo, 1999). The President therefore launched a series of economic reforms in March 2004 designed to address the structural and institutional weaknesses of the Nigerian economy. The economic reform package includes acceleration of privatisation, deregulation and liberalisation of key sectors of the economy, monetary and fiscal reforms, infrastructural development, enhanced transparency and accountability and institutionalisation of anti-corruption machineries as key factors of good governance (Adogamhe, 2007). President Obasanjo’s administration stated that the new reform programs have been condensed in what they called an all-embracing home-grown economic program known as the National Economic Empowerment and Development Strategy (NEEDS). The Federal Government also seeks an effective economic coordination of and a close collaboration with the state and Local Governments by encouraging them to design and implement equivalent programs based on the NEEDS model with acronyms including State Economic Empowerment and Development Strategy (SEEDS) and Local Economic Empowerment and Development Strategy (LEEDS) respectively. The NEEDS program which was modeled from the IMF‟s Poverty Reduction and Growth Facility (Adogamhe, 2007) was specifically designed to lay a solid foundation for sustainable poverty reduction, employment generation, wealth creation, and value-oriented economy (Obasanjo, 2004). The poverty reduction and wealth creation were dependent on the private sector to grow the economy and provide jobs and on the public sector to provide an enabling environment for development (Okonjo-Iweala, 2005). There was a high expectation that the new economic reform could fix the socio-economic problem that bedeviled Nigeria for a long period considering its scope, comprehensiveness and reorientation potentials it portrays. It could be deduced easily from program papers that NEEDS differs significantly from the past similar economic policy

Nigeria had in the mid 1980 called Structural Adjustment Program (SAP) as it is thought to be more comprehensive, realistic, and better coordinated and tends to reflect the input of the country's stakeholders.

### 4.3.2 What is NEEDS?

NEEDS is Nigerian's plan to prosperity. It is the people's way of letting the government know what kind of Nigeria they wish to live in, now and in the future. It is the Government ways of letting the people know how it plans to overcome the deep and pervasive obstacles to progress that the government and the people have identified. It is also a way of letting the international community knows where Nigeria stands in the region and in the world and how it wishes to be supported.

The Needs vision is based on the constitution; the KURU DECLARATION (box 4.3.1); previous initiatives such as vision 2010 and the widespread consultation and participation throughout Nigeria. The programme core value recognises the importance of respect for elders, honesty and accountability, cooperation, industry, discipline, self-confidence and moral courage.

Box 4.3.1 The 2001 Kuru Declaration

To build a truly great African democratic country, politically united, integrated and stable, economically prosperous, socially organised with equal opportunity for all and responsibility from all, to become the catalyst of African renaissance and making adequate all all-embracing contribution, sub regionally, regionally and globally.

Although Nigeria is rich in natural and human resources, 7 of every 10 Nigerians live on less than $1 a day. NEEDS wished to make poverty a thing of the past in Nigeria. It aimed to create a Nigeria that Nigerians can be proud to belong to and grateful to inhabit, a Nigeria that rewards hard work, protects its people and property, and offer its children better prospects than those they may be tempted to seek in Europe or the United States. NEEDS wanted all citizens, regardless of gender, race, religion, or politics to feel that they have a stake in Nigeria's future and that their loyalty and diligence will be rewarded. The NEEDS vision is also one in which Nigeria fulfills its potential to become Africa's largest economy and a major player in the global economy.

Self-Assessment Exercises 1

| |
|---|
| What is the vision of NEEDS? |

### 4.3.3 The Nigerian Challenges NEEDS seeks to Address

**Poverty and Inequality**

The plan for prosperity must address this paradox; about two-thirds of Nigerians are poor, despite leaving in a country with vast potential wealth. Although revenues from crude oil have been increasing over the past decades, Nigerians have been falling deeper into poverty. In 1980, an estimated 27 percent of Nigerian lived in poverty. By 1999, about 70 percent of the population had income of less than $1 a day- and the figure has risen since then. Poverty levels vary across the country, with the highest proportion of poor people in the northwest and lowest in the southeast. Poverty is dynamic and has many dimensions. People may move in and out of poverty as a result of natural disasters and health problems, lack of access to credit, or the lack of natural resources. Poor people are more likely to live in rural areas, be less educated, and have larger families than the rest of the population. Deprivation resulting in poverty has several dimensions; it is not just lack of income, but deprivation from other basic needs. The many strands of poverty intertwine and can pull people into a downward spiral. Because tackling one factor may not be enough to lift a family out of poverty, an effective poverty reduction strategy must attack poverty on all fronts at the same time. Poverty is not the same as inequality but solving the problems of inequality can help lift people out of poverty. One of the key ways in which needs is different from previous development plans is that it relies on a holistic view of the social and economic challenges facing Nigeria and offers a multipronged approach to tackling them.

**Weak and Inappropriate Public Sector**

Nigeria legacy of mismanagement and corrupt governance has encouraged many
people to seek ways of sharing the national cake instead of helping to bake it. By 1999, corruption was practically institutionalized. Government was widely regarded as a provider of large contracts, distributed by officers in power to people wealthy enough to buy their influence. This was particularly in the case of oil industry. Over time the judiciary became intimidated as the rich and the powerful manipulated laws to their advantage. Instead of engaging in productive activities that would help our economy grow, people choose to peddle their influence and position.

The legitimacy and stability of the state suffered, as people began to devise ways to survive that lay outside the law.

**Poor Economic Management**

Perhaps the greatest hindrance to progress has been the boom-and-bust mode of economic management, encouraged by the dominance of oil in the economy. Past governments allowed oil income to influence spending when income was high, while dips in oil prices were treated as temporary together with poor coordination, between federal and state governments in budgeting and expenditure. The practice led to spiraling debt. All tiers of government spend far more than they earn. The deficit for the past five years alone amount to more than 1 trillion with external and domestic debt of 70% of GDP, current revenue is largely eaten up just as debt service. Nigerian has one of the weakest economies in the world and it has lost decades of development as a result of low economic growth. Despite oil export earnings of about $300 billion since the mid-1970s average income in 2000 was 20% lower than in 1975. Despite the mounting debt burden, past government did not control public expenditure. Politics were not coordinated within federal departments or between federal and state governments. As a result the national plan and budget have little relevance as a guide to funding and implementing development programme.

**Hostile Environment for Private Sector Growth**

Overdependence on oil and traditional sector such as agriculture and services is partly due to hostile business environment. Businesses wishing to operate in Nigeria face many constraints including poor infrastructure, particularly road networks and electricity supply, inadequate physical security, corruption, weak enforcement of contract and high cost of finance. These factors have deterred foreign entrepreneur from investing in Nigeria and induced many Nigerians to take their money and skills abroad.

Self-Assessment Exercises 2

| What are the NEEDS **Strategy?** |
|---|

## 4.4 NEEDS Strategy

Needs focuses on four key strategies, reorienting values, reducing poverty, creating wealth and generating employment. It is based on the notion that these goals can be achieved only by creating an environment in which business can thrive, government is redirected to providing basic services, and people are empowered to take advantage of the new livelihood opportunities the plan will stimulate.

**Reorienting Values**

NEEDS set out far-reaching public reforms that made it clear that corruption and graft will be punished. The National orientation Agency and its state-level counterparts were strengthened to lead a campaign to re-instill the virtues of honesty, hard work, selfless service moral rectitude and patriotism. The campaign drew on resources from a variety of government agencies, non-governmental organisations (NGO), and community-based organisations including schools, colleges, universities and private sector, religious, social, cultural and traditional organisations.

**Poverty Reduction**

NEEDS is about Nigerian people, their wealth, health, employment, education, political power, physical security, and empowerment are of paramount importance in realising the vision of the future. To reduce poverty and inequality, the plan purposes acting on several fronts:

- Offering farmers improved irrigation, machinery, and crop varieties to boost agricultural productivity and tackle poverty head on since almost half of Nigeria's people work in agriculture. Supporting small and medium-size enterprises to help create jobs. Together with the state economic and development strategies (SEEDS), NEEDS seek to implement an integrated rural development to stem the flow of migration from rural to urban areas.
- Half of Nigeria's people are children, the bridge to a prosperous future. NEEDS recognises the importance of children by making the improvement of the education system a priority.
- HIV/AIDS is a major social and health problem. It also threatens the country's productivity and economy. The plan was to improve the system of health care delivery, with emphasis on HIV/AIDS and other preventable diseases, such as malaria, tuberculosis, and reproductive health-related illnesses.
- NEEDS calls for replacing the pension scheme which was in crisis then with a contributory scheme. It proposes special programmes targeting people who have the weakest political voice and who are most vulnerable to the ravages of poverty. Laws and programmes were to be implemented to empower women, children, the disabled, and the elderly.
- NEEDS emphasises the critical importance of improving infrastructure. More- and more reliable-electricity and new better maintained networks of road that will encourage businesses to expand.
- Trade policy, so critical to Nigeria's stake in the regional economy modified to unburden businesses of the red tape and complex procedures that hinders it from flourishing.

- NEEDS envisaged forging stronger links between educational institutions and industry to stimulate rapid industrial growth and efficient exploitation of resources.

**Empowering People**

By allowing the private sector to thrive, NEEDS creates opportunities for employment and wealth creation. It empowers people to take advantage of these opportunities by creating a system of incentives that reward hard work and punish corruption, by investing in education, and by providing special programmes for the most vulnerable members of the society.

**Promoting Private Enterprises**

The private sector is the engine of growth under NEEDS. It will be the executor, investor and manager of businesses. The government is expected to play the role of enabler, facilitator and regulator, helping the private sector to grow, create jobs and generate wealth. Deregulation and liberalisation was expected to diminish governmental control and attract private sector investment.

**Changing the way the government does its work**

NEEDS aimed to restructure the government to make it smaller, stronger, better skilled and more efficient at delivering essential services. It seeks to transform the government from a haven of corruption to an institution that spurs development and serves the people. The number of government jobs was to decline and the cost of running the government was expected to fall dramatically, as in-kind benefits for civil servants, such as subsidised housing, transport and utilities are monetised. Reforms and regulations were to be implemented to ensure greater transparency and accountability, and corrupt practices were to be outlawed. Governmental activities and budgeting was informed by a framework that connects policy with government's income and expenditure.

## 4.5 Implementation of NEEDS

Effective implementation of policies and programmes is vital to the success of NEEDS. Implementation defines the process, institutional framework and instrument for translating aspirations, goals, and programmes into action and concrete results. Critical to successful implementation is an effective institutional framework, particularly as a public service dedicated to excellence and supportive of reforms. Equally important is adequate infrastructure and an enabling environment to private investment. Other critical factors are education, healthcare, and abiding commitment to change.

As a necessary complement to NEEDS, state governments were developing State Economic Empowerments and Development Strategies

(SEEDS). Local Governments were also being encouraged to develop medium-term development programmes specifying benchmarks, targets, deliverables, timelines and implementation guides. These plans were expected to complement SEEDS and NEEDS. NEEDS recognised that effective local level planning is critical to reduce inefficiency resource allocation and to ensure integrated rural development and poverty reduction.

**Institutional Framework**

The institutional framework for implementing NEEDS recognised the importance of coordination among the federal government (NEEDS), states (SEEDS), and local government levels (LEEDS) for achieving the national development goals. State governments (through the National Economic Council and the National Council on Development Planning) constitute an integral part of implementation, monitoring, and evaluation framework. The system is cohesive and provides for interaction with all stakeholders. At the apex are the President, Vice President and the National Assembly. The Federal Executive Council and the National Economic Council consider all matter pertaining to implementing NEEDS and SEEDS, presenting periodic report to the president and the National Assembly.

A key institution was the Independent Monitoring Committee. The committee-chaired by the Secretary to the Government of the Federation and composed of government officials, representative of the private sector, the press and the civil society- monitors and evaluates implementation of NEEDS and SEEDS programmes and projects. It informs the national assembly of its findings and reports to the president and the National Economic Council for appropriate actions. The Committee will post quarterly reports on performance on the Nigerian economy website. The summary of the findings were also disseminated to the Nigeria people through print and electronic medium. Members of the National Economic Council used the results of the monitoring and evaluation to fine-tune the implementation in their state. The report of the National Economic Council review was also forwarded to the national assembly and the president. The secretariat of NEEDS is located at the National Planning Commission which will coordinate the implementation framework. Other critical agencies are the Joint Planning Board, The national Council and Development Planning, and the National Economic Council.

**New Form of Coordination and Partnership**

NEEDS envisions new forms of coordination and partnership, from the matching grant to a peer reviewed mechanism and public –private partnerships.

**Matching Grant Scheme**

An Adhoc committee was set up to take a census of federal government projects in the states and determine which can be passed on to communities, local governments or state or sold outright. This committee also identified the areas for direct intervention by the federal government and areas for facilitation or coordination and application of matching grant. Coordination among the tiers of the government is important to avoid duplication and waste in the delivery of services. Under a proposed financing scheme, the federal government was to provide matching grants to states and local governments for programmes that are national priorities but are best handled at the state or local level.

**Peer-Reviewed Mechanism and Public-Private partnership**

A peer reviewed mechanism was proposed at all levels of implementation-within ministries and agencies, among the ministries and state level, at the federal, state and local government levels, between the public sector on one hand and the private sector and civil societies on the other, and within the framework of aid coordination. NEEDS also intends to mainstream public-private partnership at all levels of government for interaction with private sector association NGOs and civil society organisations.

**Restructuring the National Statistical System**

NEEDs recognised that Nigeria national statistical system was weak. The current system is governed by the 1957 statistics act which is obsolete. Timely and reliable statistics are critical to effective planning, monitoring and evaluation. A new master plan was developed for the national statistical system and the government increased funding for the federal office of statistics.

**Financing the Plans**

NEEDS targeted minimum annual GDP growth rates of 5% in 2004, 6% in 2005 and 2006 and 7% in 2007. While ambitious, it is the minimum needed to achieve adequate per capita income and improve welfare. To finance the programme, the government planned to increase efficiency of resource use by curbing wasteful expenditure, selling assets, reforming the tax system, increasing the efficiency of resource use, mobilising domestic savings and attracting foreign direct investment and overseas development assistance. They also seek debt relief from creditors.

### 4.5.1 An Appraisal of NEEDS

Using economic data and statistics, NEEDS had recorded tremendous successin the Nigerian economy. However, the economic reform was not free of criticisms from different stakeholders of the Nigeria's economy. Many individuals have maintained that available evidences have indicated some shortcomings and failure of NEEDS. Many critics have claimed that NEEDS instead of ameliorating poverty had aggravated it and had failed to improve the basic infrastructures that have direct link to poverty reduction. The UNDP using its Human Poverty Index (HPI) showed an increase in poverty from 34.0 percent to 38.8 percent during the period 2001-2007 (UNDP, 2009). The HPI ranges from 0 (for no deprivation) to 100 (for extreme deprivation). Recently, Nigeria ranks 114th with HPI-1 value of 36.2% among 135 selected countries (UNDP, 2009). The UNDP's HPI-1 measures severe deprivation in health, education and standard of living. In a similar research about how far the globe was doing on poverty and hunger reduction that included 81 countries of the world (Gentilini and Webb, 2008) found that Nigeria was seriously behind when measured against a new poverty indicators they called poverty-hunger index. Specifically, they found that Nigeria had 0.156 values on matching towards achieving the Millennium Development Goals (MDGs) which interprets to mean low. More important revelation about the poverty situation in Nigeria in their research was the negative values of -0.392 and -0.355 on poverty and poverty gap composites respectively. The negative values on the two composites of the poverty and hunger index (PHI) were indicators of reversing trends in the Nigeria's performance towards reducing poverty and poverty gap that formed part of PHI. In the 81 countries included in the (Gentilini and Webb, 2008) robust poverty study, Nigeria was ranked 73rd in terms of poverty and hunger index. The reform measures have left much to be desired on the Nigeria's local manufacturing sector. Harsh business environment has restrained the performance of local manufacturers in Nigeria. The sector confronts with myriad of constraints including acute power shortage, multiple taxations, insecurity of life and property, high interest rate, poor infrastructure, inefficient port administration, among others leading to more than 45 percent decline of industrial capacity underutilization and closure of more than 60 percent of industrial companies (Amanze, 2010). The reforms need to be consolidated by different policy measures designed to discourage imports and encourage greater reliance on the products of domestic industries, stimulate local production to contribute to GDP growth, create more jobs and reduce unemployment and poverty.

The privatisation process of Nigeria's reform regime was marked by lack of transparency and institutional capacity, weak private sector, poor management and absence of popularly acceptable regulatory framework. The sales of public assets were mostly without competitive bidding and were largely sold off to the political class, politically well-connected individuals and family members of political elites (Adogamhe, 2007; Izibili and Aiya, 2007). Relative to lack of transparency and institutional capacity, Nigeria's Senate investigations had revealed the corrupt involvement of the top two political power holders of Nigerian State in the privatisation process. The sum of $145m was found to be diverted as loans from the Petroleum Technology Development Fund (PTDF). Similarly, the investigations have indicted notable political leaders of diverting funds from same PTDF for purchase of public assets to the tune of $27m (Alechenu and Josiah, 2007; Orilade, 2007). Specifically, privatisation process in Nigeria was manipulated to generate new opportunities for rent-seeking and corrupt business practices, in a manner that undermines rather than enhances economic efficiency (Daily independent editorial, 2010).

In spite of the reform structures and institutions established by the Government to ensure economic efficiency, transparency and proper management, there is enough evidence that the reforms did not achieve those noble objectives (Adogamhe, 2007). Critics and analysts have claimed the corruption is on the increase and could not allow any meaningful reform such as NEEDS to make impact on the economy. Tilde (2010) reveals that US$16 billion was defrauded between 2004 and 2007 on electricity projects alone. In a similar fashion, from 1997 to 2010 the EFCC puts the economic and financial crimes at an approximate sum of N1.2t. In the Corruption Perceptions Index (CPI) 2009, report by Transparency International (TI), a global anti-corruption watchdog, Nigeria received 2.5 out of a possible 10 marks, emerged 27th out of the surveyed 47 nations in sub-Saharan Africa, and 33rd out of the 53 countries in Africa. Nigeria's CPI index in the span of an eight year period dating back to 2001 did not improve until 2006 when it ranked 142nd out of 163 countries. For four years consecutively from 2001 to 2005 Nigeria ranked second to last in CPI ranking with 1.0 (Edet, 2009). With less corruption, many infrastructures will function and budgeted funds will be spent for the real purpose (Okoh, 2010). In essence, the wealth and the economic growth the Government has been claiming, has not in any fundamental way improved the ordinary Nigerians' condition in terms of literacy, health, nutrition, employment and physical security" (Jide and Azken, 2007).

## 4.6 Summary

In this unit, NEEDS has been described as the Nigerian's plan to prosperity jointly charted by people, government and the international community. It is a vision in which Nigeria fulfils its potential to become Africa's largest economy and a major player in the global economy. NEEDS seeks to address the challenges of poverty and inequality, Weak and Inappropriate Public Sector, Poor Economic Management and Hostile Environment for Private Sector Growth. To achieve these, NEEDS focused on four key strategies: reorienting values, reducing poverty, creating wealth and generating employment. Critical to successful implementation of NEEDS is an effective institutional framework put in place and a coordinating framework. As a necessary complement to NEEDS, state governments were developing State Economic Empowerments and Development Strategies (SEEDS) and Local Governments were also being encouraged to develop LEEDS. Despite the achievements recorded by NEEDS, the reality indicates that the reforms have left much to be desired. Nigeria must have focused leadership and stronger state institutions for reforms to significantly reduce poverty and stimulate economic progress

So far in this unit, we have studied what the National Economic Empowerment and Development Strategy (NEEDS) entails. We commenced with a discussion on the meaning of NEEDS before discussing the Nigerian challenges NEEDS aimed at addressing. In addition, the four key strategies of NEEDS were discussed while the implementation modalties were equally explained. The unit continued with an appraisal of the NEEDS programme. Similarly we examine the meaning, mandate and focus of NAPEP. We further discussed the implementation strategy of NAPEP and highlight some of the achievements of the programme. Having gone this far, you can now proceed to the discussion on privatization and commercialization in the next unit.

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## 4.8 Possible Answers to SAEs

**Answers to SAEs 1**

The Needs vision is based on the constitution; the KURU DECLARATION (box 4.3.1); previous initiatives such as vision 2010 and the widespread consultation and participation throughout Nigeria. The programme core value recognises the importance of respect for elders, honesty and accountability, cooperation, industry, discipline, self-confidence and moral courage

**Answers to SAEs 2**

**Reorienting Values:** NEEDS set out far-reaching public reforms that made it clear that corruption and graft will be punished.

**Poverty Reduction:** NEEDS is about Nigerian people, their wealth, health, employment, education, political power, physical security, and empowerment are of paramount importance in realising the vision of the future. To reduce poverty and inequality, the plan purposes acting on several