NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF ART AND SOCIAL SCIENCE

COURSE CODE: ECO 207

COURSE TITLE: NIGERIAN ECONOMY IN PERSPECTIVE II

COURSE GUIDE

ECO 207
NIGERIAN ECONOMY IN PERSPECTIVE II

Course Team Ayanwale Abiodun O. S. (Course Developer/ Writer) – UI

NATIONAL OPEN UNIVERSITY OF NIGERIA

National Open University of Nigeria
Headquarters
14/16 Ahmadu Bello Way
Victoria Island, Lagos

Abuja Office
5 Dar es Salaam Street
Off Aminu Kano Crescent
Wuse II, Abuja

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

Published by
National Open University of Nigeria

Printed 2011

Reprinted 2014

ISBN: 978-058-243-6

CONTENTS PAGE

INTRODUCTION

ECO 207: **Nigerian Economy in Perspective II** is a three-credit and one-semester undergraduate course which is a complementary course to **ECO 106- Nigerian Economy in Perspective 1**. It comprises of 20 units subdivided into 5 modules. This course guide gives an overview of the course. It offers you the necessary information on the organisation as well as requirements of the course.

WHAT YOU WILL LEARN IN THIS COURSE

In this course, you will learn the contributions of some notable economists to the structure of Nigerian Economy. You will learn more details on the Infrastructure/Service sectors and other sectors of the Nigerian Economy. You will also learn economic plans, policies and programmes, economic cooperation and foreign transactions, how they all shape the economy of Nigeria.

It is the objectives of this course to build upon the lessons learnt in the prerequisite course, 'Nigeria Economy in Perspective 1', and formally to introduce to you the more advanced concept of the course with the view to greater strengthening your understanding.

This course comprises a total of 20 units distributed across 5 modules as follows:

Module 1 is composed of 4 units
Module 1 is composed of 4 units
Module 1 is composed of 4 units
Module 1 is composed of 4 units
Module 5 is composed of 4 units

The first of the five modules in this course begins a lengthy discussion on the infrastructural/ service sector. In the first unit, you will have the opportunity of acquainting yourself with definitions, concepts and general structure of service/infrastructure. The second unit reviews the activities of the communication subsector of the infrastructural sector. In the third unit, an insight is given into the activities of public utilities; water and electricity subsectors, while the last unit discusses the transport subsector of the service sector.

Successive units in this module are linked with one another. By the end of this module, you would have refreshed your memory on the concept and significance of service/infrastructure, assess the performance of communication subsector, raise issues relating to management of electricity and water supply and finally appraise the activities of the transport subsector.

In the second module, our attention shall be on general outlook of the financial subsector along with the policies and reforms associated with the running of the sector. Similar discussion will also be made with respect to the education and health subsectors.

This module is made up four units which are of the same family. In the first unit, an extensive discussion is made on the structure and composition of the financial subsector. The second unit featured a critical review of the financial sector reform and its effect on the small and medium scale industries. The third unit in this module x-rays the importance, structure and funding of the educational subsector while the last unit is concerned with the health subsector under a similar discussion with the educational subsector.

Module 3 consists of four separate, independent units though not mutually exclusive of one another when view from the angle of interdependence of economic activities. At the end of this module, you will have been acquainted with the structure and performance of the trade and commerce sector before and after independence. You will also have an insight into the performance of the Building and Construction sector especially after independence. Similarly, you will be introduced to general outlook and performance of the private and the public sector.

Module 4 consists of four separate units though not mutually exclusive of one another when view from the angle of interdependence of economic policies and programmes. At the end of this module, you will have been acquainted with the much celebrated and on-going privatisation programme. You will also have an insight into the monetisation programme in the second unit. Similarly, you will be introduced to the design and components of vision 20:2020 in unit three while a dedicated discussion will be made of the Millennium Development Goals (MDGs) in the last unit on Africa and the World at large. You will be treated to discussions on economic cooperation and integration in West Africa and Africa. International trade and external sector performance will also be an issue of concern here.

Module 5 is made up of four successive and interrelated units. The first unit explains basic concept of Economic integration and an extensive discussion on Economic Community of West African States. A discussion of monetary integration followed in the second unit. An organ of OAU, New Partnership for Africa's Development, NEPAD was equally discussed in the third unit. The module concludes with a discussion on International trade and balance of payments. The last unit reviews concepts on international trade and examine trade regimes and the external sector performance in Nigeria.

COURSE AIM

Our aim through ECO 207 is to further deepen your understanding of the Nigerian Economy in Perspective and acquaint you with the structure, contribution and challenges of the infrastructure, trade and commerce, private and public sectors of the Nigerian economy. Therefore the aims are to:

a) familiarise you with the structure and contribution of infrastructural sector and other subsectors to the Nigerian economy
b) equip you with the activities of other sectors of the economy, namely: Trade and Commerce, Building and Construction, Private and Public sectors
c) enable you appraise more government plans, policies and programmes as well as adopted plans as it affects the overall structure and different sectors of the economy
d) examine the concept of economic cooperation and integration in Africa inclusive of international trade.

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 characteristics, structure and challenges of infrastructural sector and subsectors in Nigeria
- analyse the features, prospects and challenges of trade and commerce, building and construction and the private and public sector in Nigeria
- evaluate the significance of more government plans, policies and programmes in Nigeria
- discuss different forms of economic cooperation in Africa including the functions of organs and bodies that are involved.

WORKING THROUGH THE COURSE

- This course requires you to spend quality time to read. Whereas the content of this course is quite comprehensive, it is presented in clear language that you can easily relate to. The presentation style of this course is adequate and the content easy to assimilate.

- You should take full advantage of the tutorial sessions because this is a veritable forum for you to "rub minds" with your peers – which provides you valuable feedback as you have the opportunity of comparing knowledge with your course mates.

COURSE MATERIALS

Main materials required to go through this course are:

a. Course Guide
b. Study Units
c. Assignment File
d. Textbooks and References
e. Tutorials
f. Presentation Schedule

STUDY UNITS

There are 20 units (grouped into 5 modules) in this course as follows:

Module 1 Infrastructural/Service Sector 1

Unit 1 General Characteristics and Performance of the Infrastructural/Service Sector
Unit 2 Communication Subsector
Unit 3 Public Utility Subsector
Unit 4 Transport Subsector

Module 2 Infrastructural/Service Sector 2

Unit 1 Finance Subsector
Unit 2 Financial Sector Reform in Nigeria
Unit 3 Education Subsector
Unit 4 Health Subsector

Module 3 Other Sectors

Unit 1 Trade and Commerce Sector
Unit 2 Building and Construction Sector
Unit 3 The Private Sector

TEXTBOOKS AND REFERENCES

Recommended books and eBooks for this course can be downloaded online as specified for Reference and Further Reading. There are more recent editions of some of the recommended textbooks and you are advised to consult the newer editions for your further reading.

Anyanwu, J. C. (1993). *Monetary Economics: Theory, Policy and Institutions*. Hybrid Publishers Ltd.

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

Ayodele, A. S. & Falokun, G.O. (2005). *The Nigerian Economy; Structure and Pattern of Development*. Lagos, Nigeria: Printoteque. In: Browne, L. E. (1987). "Services and Economic Progress: An Analysis." *Economic Impact* 1(57): 52-57.

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

Central Bank of Nigeria (2010). *The Changing Structure of the Nigerian Economy*. Mordi, C.N.O, A. Englama & B.S. Adebusuyi (Eds.)

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

Olayide, S. O. (1979). *Economic Survey of Nigeria* (1960-1975). Ibadan: Aromolaran Publishing Company Ltd.

World Bank (1994). *Nigeria Structural Adjustment Programme, Policies Implementation and Impact*. The World Bank, Washington D.C.

ASSIGNMENT FILE

An assignment file and marking scheme will be made available to you. This file presents you with details of the work you must submit to your tutor for marking. The marks you obtain from these assignments shall form part of your final mark for this course. Additional information on assignments will be found in the assignment file and later in this Course Guide in the section on assessment.

ASSESSMENT

Assessment of your performance is partly through Tutor-Marked Assignment which you can refer to as TMA, and partly through the End of Course Examinations.

TUTOR-MARKED ASSIGNMENTS (TMAs)

You are required to submit a specified number of tutor-marked assignments (TMAs). Every unit in this course has a tutor-marked assignment out of which you will be assessed on four of them and best three will be selected for you. The best three TMAs selected for you shall form 30 per cent of your total marks. You are expected to send your completed assignment and TMAs to your tutor on or before the deadline for submission. In case you are unable to complete your assignments on time, kindly contact your tutor to discuss the likelihood of extension. Note that extension will not be granted after due date, unless under extraordinary situation.

FINAL EXAMINATION AND GRADING

You shall be examined on all areas of this course and your final examination for ECO 207 shall be three hours duration. It is necessary that you read through the units before the final examination. The final examination shall cover all the self-assessment questions for practice and the tutor-marked assignments that you have came 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.

PRESENTATION SCHELDULE

Dates for prompt completion and submission of your TMAs and attendance of tutorials will be reflected in your course materials. You should remember to submit all assignments at the stipulated date and time. You should work as scheduled, and do not lag behind in your work.

COURSE MARKING SCHEME

The table below displays the broken down of how the course marked are allocated

Assignment	**Marks**
Assignments (best three assignments out of four that are marked)	30%
Final Examination	70%
Total	**100%**

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.

COURSE OVERVIEW

The table below describes the number of units contained in ECO 207, number of weeks to complete them and end of unit assignments.

Units	Title of Work	Week's Activities	Assessment (end of unit)
Module 1 Infrastructure/Service Sector 1			
1	General Characteristics and Performance of the Infrastructural/ Service Sector	Week 1	Assignment 1
2	Communication Subsector	Week 1	Assignment 2
3	Public Utility Subsector	Week 2	Assignment 3
4	Transport Subsector	Week 3	Assignment 4
Module 2 Infrastructural/Service Sector 2			
1	Finance Subsector	Week 4	Assignment 1
2	Financial Sector Reform in Nigeria	Week 4	Assignment 2
3	Education Subsector	Week 5	Assignment 3
4	Health Subsector	Week 5	Assignment 4
Module 3 Other Sectors			
1	Trade and Commerce Sector	Week 6	Assignment 1
2	Building and Construction Sector	Week 7	Assignment 2
3	The Private Sector	Week 8	Assignment 3
4	The Public Sector	Week 8	Assignment 4
Module 4 Economic Plans, Policies and Programmes 2			
1	Privatisation and Commercialisation	Week 9	Assignment 1
2	Monetisation Policy	Week 10	Assignment 2
3	Vision 20: 2020	Week 11	Assignment 3
4	Millennium Development Goals (MDGs)	Week 12	Assignment 4
Module 5 Economic Cooperation and Foreign Transactions			
1	Economic Cooperation and Integration in West Africa	Week 13	Assignment 1
2	Monetary Integration in West Africa	Week 13	Assignment 2
3	New Partnership for Africa's Development (NEPAD)	Week 14	Assignment 3
4	International Trade and Balance of Payments	Week 15	Assignment 4
	Revision	Week 16	
	Examination	Week 17	
	Total	17 Weeks	

HOW TO GET THE MOST FROM 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 textbook or course guide. 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 advice 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 are 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 centre. So keep in touch.

FACILITATORS, TUTORS AND TUTORIALS

There are six hours of tutorial for this course with allocated dates, time and location of tutorial which you will be notified of. You will also be notified of your tutor's name, phone number and email address as soon as you are allocated a tutorial group. Your completed and submitted assignment shall be marked by your tutor and you get your grade online. For this reason, you are to closely monitor your progress just as your tutor is doing. Your tutor should be ready to assist you as you move through the course when any difficulty is observed. Ensure you email your tutor-marked assignment to your tutor before the deadline. It would be marked by your tutor and your marks are email and text to you.
As mentioned earlier, feel free to contact your tutor by email, phone or through your discussion group whenever you need help. You may need to contact your tutor under certain circumstances, for instance if you:

- do not understand any part of the study units or the assigned readings
- have problem answering the self assessment questions
- have question or clarification on your assignment, your tutor's comments on the assignment and TMAs or with your grading.

You shall be doing yourself good by attending tutorials because of the opportunity it provides for you to have face-to-face contact with your tutor and also to ask questions which are instantly answered. Any problem faced in your course of study could be raised, you as well as others could benefit from participating in active discussions and in asking questions you prepared before attending the tutorials.

SUMMARY

This course guide provides you with an overview of what you should expect in the course of study. **ECO 207: Nigerian Economy in Perspective II** gets you acquainted with the structure, contribution and challenges of the infrastructure, trade and commerce, private and public sectors of the Nigerian economy. The course further evaluate some past and present government plans, policies and programmes as it affects the economic structure and development in Nigeria while the course round off on a note of discussing the forms of economic integration and transaction in West Africa and Africa at large.

MAIN COURSE

MODULE 1

UNIT 1 GENERAL CHARACTERISTICS AND PERFORMANCE OF THE INFRASTRUCTURAL/SERVICE SECTOR

CONTENTS

1.0 INTRODUCTION

The importance of services and infrastructural facilities to the function of real sectors within the national economy of which its lack or complete absence has great implication for their survival cannot be over emphasised. This is the reason why two modules were dedicated to the service/infrastructural sector. In this module, a general outlook; the features and importance of the sector will begin our discussion, the second section summarises the contribution of the sector to the country's Gross Domestic Product in aggregate terms. The last section in this unit will review issues relating to finance and management of infrastructure in Nigeria. The details of the contribution and performance of each subsector such as communication, public utility and transport will follow sequentially in subsequent units.

2.0 OBJECTIVES

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

- explain the two dimensions of infrastructure in Nigeria
- enumerate the significance of service/infrastructure in Nigerian economy
- evaluate the general performance of the service/infrastructural sector in Nigeria
- assess the mode of financing and management of infrastructure in Nigeria.

3.0 MAIN CONTENT

3.1 Dimensions, Features and Significance of Service/ Infrastructure in Nigeria

At the broadest level of abstraction, the service comprises the tertiary sector. Infrastructural sector is embedded in the service sector and in some instance treated as synonymous to the service sector. Infrastructure is conceptually perceived by social scientists from two interrelated dimensions. These are the social and economic dimensions. The social infrastructural sub-sector covers some social services which include the provisions of education, information, town and country planning, health services and other social welfare services in the society. Given their welfare related services, their outputs are usually termed social services while the subsector is defined as the social services sub-sector of the entire infrastructural sector. The economic infrastructural sub-sector embraces a group of hardcore economic activities which relates to the provisions of energy and power, transportation (air, water, road and rail) services, water and communications (telephones, telex, telegram and postal services). By the nature of these economic services, they are generally defined as utilities with their sub-sector described as the utilities sub-sector.

In recognition of this coverage, the structure, composition and design of these socioeconomic activities, the infrastructural sector is quite broad. Besides, the sectoral outputs are meant to consolidate the activities of the other sectors of the economy which provide essential services to direct production activities of agriculture, manufacturing, mining, commerce and trade. Incidentally, the production and allocation processes of these infrastructural services are intricate, sophisticated and complex. In this regard, they involve various interrelated activities which explain why each of the infrastructural sub-sectors are usually in large scale, modern and sophisticated in technology, capital intensive and basic in the sense of high forward linkage e.g. the production and allocation of electricity and gasoline (fuel). Besides, the products of the sector- energy and power; water, communication and transport services and others are indispensable for serving not only economic activities of agriculture, industry and other sectors which bring economic growth to the economy, but also the daily lives of people. Thus, the sector has enormous significance for:

i. the level of efficiency
ii. industrial competitiveness
iii. the pace of industrial growth
iv. the overall performance of the economy and
v. the allocation of resources.

Youngson (1967) drew attention to the positive correlation between the pace of economic development and the level of socio-economic infrastructural development subsequently proposes that:

> "Anyone who is interested in promoting economic development should be concerned about the state of economic as well as social infrastructure".

Against this background, Ayodele (1986) sees the problems of economic development in Nigeria as the problem of poor development and management of its socio-economic infrastructure, in spite of Nigeria's vast potential in economic development resources.

SELF-ASSESSMENT EXERCISE

Distinguish between social and economic dimensions of infrastructure.

3.2 General Contribution of the Service/Infrastructural Sector to National Economy

The social and economic service (infrastructural) sector generally contributed significantly to the Nigerian national output and overall economic development, though not as much as the real sector such as agriculture and mining. As seen in Table 1.1.1, the sectors contributed 13.0 percent of the GDP in 1960. This rose to 14.4 percent in 1965. By 1975, the service sector accounted for about ₦4.4 billion of the GDP value representing about 27.8 percent. The contribution of the sector witnessed a drastic fall in the 1980s, falling to a mere 9.5 percent in 1985. The sectors contribution to GDP improved slightly in 1990 to about 10 percent of the GDP and this trend continued till 2010, valued at ₦113,260.8billion and ₦140,372.6billion in 2008 and 2010 respectively.

This amounts to a percentage of 16.8 and 18.1 respectively. Out of the subsectors under the service sector, the producer of government service contributed most to GDP from 1960 to 1970 due to the dominance of the public sector; the transport sector relatively leads in terms of contribution to GDP from 1985. Over years the transport sector has been identified as one of the most vibrant subsector of the service sector. In actual fact, its contribution has been relatively higher than other subsector and consistent from 1960 till date. In few years such as 1975 community, personal and social service subsector led others in GDP value at constant factor cost. Finance and insurance services gain foothold in 1990 and have since contributed substantially to the GDP from the sector up to 2010. The growth of the communication subsector started in 2005 and this is sustained till recent time as the sector recorded the highest contribution to GDP in year 2010 perhaps because of the privatisation of the subsector that lead to a more efficient service. Generally speaking, the contribution of all subsector in the service/infrastructural sector have witnessed substantial increase since 1990 to 2010 as shown in Table 1.1.

Incidentally, the share of this sector in Nigeria's GDP is relatively small, particularly when compared with those of agriculture which was in the range of 40per cent within the 1960 to 2010 period. However, this relative smallness somehow understates the importance of this sector in the economy with respect to the sub-sectoral, inter-sectoral linkages especially with such directly productive sectors of the economy such as agriculture, industry etc. For example, the socioeconomic and strategic importance of adequate and reliable supplies of electricity, transportation, water and communication services constitute a major stimulus to rapid socio-economic growth, development and improved standard of living of the populace.

The growth of the producer of government service sector over the years was a result of fiscal decentralisation which involved the establishment of more states, local government and more ministries and parastatals. It was also reported by World Bank (1994) that the growth in the financial sector from the 1990s reflects in part the liberalisation measures which raised profitability. Other contributing factors were incentives for accessing the foreign exchange market, liberalised bank licensing policies and the legalisation of foreign exchange bureaus.

Table 1.1: Contribution of the Service (Infrastructural) Sector to Gross Domestic Product 1960-2010 (₦ million)

Sector/Subsector	1960	1965	1970	1975	1980	1985
Service Sector	**323.4**	**453.2**	**778.3**	**4,418.3**	**4,748.1**	**19,005.7**
per cent of Total GDP	**13.0**	**14.4**	**18.5**	**27.8**	**15.1**	**9.5**
a. Transport	97.4	127.6	123.5	920.3	1,168.2	5,988.6
b. Communication	8.4	15.4	10.8	43.9	58.3	232.3
c. Utilities	8.4	18.2	24.0	90.0	143.7	1,225.6
d. Hotel and Rest.	-	-	-	60.5	101.1	525.2
e. Finance & Insurance	0.0	0.0	0.0	573.9	548.3	3,431.9
f. Real Estate & Bus. Serv.	0.0	0.0	0.0	105.3	71.4	3,880.6
g. Producer of Govt. Service	156.6	216.4	500.2	1,581.0	1,678.7	2,888.7
h. Comm., Social & Personal Service	52.6	75.6	119.8	1,047.5	978.3	833.0
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**
Service Sector	**27,425.6**	**32,492.3**	**39, 881.5**	**8,5448.5**	**113,165.8**	**140,372.6**
per cent of Total GDP	**10.3**	**11.6**	**12.1**	**15.2**	**16.8**	**18.1**
a. Transport	5,438.8	6,289.5	7, 508.1	14,882.1	18,204.3	20,754.7
b. Communication	247.9	279.2	370.3	8,175.2	19,600.4	35,364.4
c. Utility	1,178.0	1,422.1	1, 448.9	20,135.3	22,984.7	24,516.5
d. Hotel and Rest	552.3	586.2	684.2	2,155.4	3,104.7	3,890.9
e. Finance & Insurance	11,642.4	14,008.9	17,136.7	22,144.5	25,594.0	27,672.5
f. Real Estate & Bus. Serv.	4,269.3	5,094.4	6,252.3	8,524.4	11,770.7	14,369.0
g. Producer of Govt. Service	3,197.2	3,467.0	3,814.1	5,294.1	6,290.2	7,038.7
h. Comm., Social & Personal Service	899.6	1, 345.0	2,666.9	4,167.9	5,617.0	6,766.0
Total GDP	**267,550.0**	**281,407.4**	**329,178.2**	**561,931.4**	**672,202.6**	**775525.7**

Source: Central Bank of Nigeria, Statistical Bulletin, Golden Jubilee Edition, 2008; National Bureau 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.

SELF-ASSESSMENT EXERCISE

Why the contribution of the service sector has remained generally low since independence?

3.3 Financing, Management and Maintenance of Infrastructure

Over the decades, a debate has ranged, globally on the roles of the public and private sectors in the management, financing and maintenance of infrastructure in the country. In Nigeria, both sectors have played significant roles in the course of development and management of the resources in the sector. Three major theories are relevant in respect of financing and management of infrastructure viz:

i. the classical or laissez-faire theory
ii. the liberal/neo-liberal thesis
iii the Mansfield mixed-economic theory.

The classical theory proposed the management of infrastructure by the private sector, the liberal theory proposed the finance and management by public enterprises while the Mansfield theory proposed a joint management by both private and public sector.

It is important to note the following crucial facts about the Nigeria public sector with respect to financing and management of infrastructure.

a. The socioeconomic, fiscal, and monetary situations in the country at independence; this led to the need to stimulate the development of a vibrant private sector and marginalisation of the public sector in the development and management of infrastructure.
b. The change of events with the crude oil boom in the 1970s; this constituted the change in the pattern of development to a public sector led development strategy.
c. The enlargements of public enterprises to finance, manage, develop, and maintain economic activities in the infrastructural sector.
d. Most of these activities were financed via loans, budgetary allocations, grants and equity shares.
e. The sustenance of public sector participation through decrees and legislative act granting monopoly to PEs, subsidisation policy which reduce service production costs, statutory determination of

PEs operation, budgetary allocations and subventions and access to external loans with government guarantee.

Some of the PEs emerging from ordinances Legislative Acts or Military Decrees in Nigeria include:

1. The Electricity Corporation of Nigeria (ECN) for electricity development within the 1950/1972 period. The Niger Dams Authority (NDA) assigned with the development of hydroelectricity resources, established to reinforce the strength of ECN. In 1972, both agencies were merged under the new name National Electric Power Authority (NEPA). NEPA has now been transformed to Power Holding Company of Nigeria (PHCN).
2. The Water Corporation of Nigeria established for the development and management of water resources.
3. The Nigerian Railway Corporation (NRC) and the Nigeria Airways Limited (NAL) for rail and air transport services.
4. The Nigerian Postal Services (NIPOST) and the Nigerian Telecommunication Limited (NITEL) with the responsibilities for postal and communications services respectively.
5. The Nigerian National Oil Company (NNOC) which metamorphosed into the Nigerian National Petroleum Company (NNPC) for the development of petroleum resources.

Some private organisations such as UAC, Leventis and CMS, local and foreign organisations as well as NGOs and religious bodies have at one time or the other contributed to the development of infrastructure in Nigeria.

The failure of the public sector in providing and maintaining adequate infrastructure is often associated with poor initial investment choice; heavy bureaucratic practices, inadequate managerial autonomy to operate; low operating and maintenance budgets; financial mismanagement and corruption and lack of competition which resulted in inefficiency. This is one of the arguments for privatisation of the infrastructural sector in Nigeria.

In these regards, and from the perspective of economic analysis and policy, the sector deserves to attract much financial and policy attentions for its development because the quality and quantum of the sectoral output have:

a. significant impact on the level and cost-induced inflationary pressures at the macro level; and

b. significant influence on the international competitiveness of the economy at the global level.

These attributes provide rationale for the allocation of substantial proportion of public capital investment expenditure to this sector in past development and rolling plans. However, it is important to note that the performance of the rolling plans within 1990/99 period was not very impressive in terms of resource allocation. Resources were thinly spread in the affected plans so much so that some infrastructural facilities such as highways and other utilities were not regularly maintained and serviced. For example, capital expenditures between 1990 and 1998 for transport and communication were ₦451.8 million and ₦1, 162.5million in 1991 and 1997 respectively. These figures rose to ₦8, 525.5million and ₦237, 058.8million in 1999 and year 2000 respectively. These merely represented about 3.6per cent of the total capital expenditure for those years. In recent time, government has seen the need to increase the funding of the infrastructural sector of the economy to transform the economy for better.

SELF-ASSESSMENT EXERCISE

Do you prefer the public sector to manage infrastructure in Nigeria?

4.0 CONCLUSION

It can be deduced from our discussion so far that 'Infrastructure' comprises of social and economic dimensions. The social infrastructural subsector covers the provisions of education, information, town and country planning, health services and other social welfare services while the economic infrastructural subsector otherwise known as the utility subsector embraces a group of hardcore economic activities which relates to the provisions of energy and power, transportation services, water and communications. Aside the sectoral outputs, the infrastructural sector is meant to consolidate the activities of the other sectors of the economy which provide essential services to direct production activities of agriculture, manufacturing, mining, commerce and trade and also the daily lives of people. Thus, the sector has enormous significance for the level of efficiency, industrial competitiveness and pace of industrial growth, the overall performance of the economy and the allocation of resources. The contribution of the sector to GDP has been relatively small and largely fluctuating, yet it serves as stimulant to the growth of other sector. Nevertheless, allocation of government's expenditure to the sector has been on the rise. Most of the activities in this sector have been in the hands of public enterprises and the blame of inefficiency of the sector has been laid at the door step of the public sector. This is the more reason why there is an alarming cry of privatisation, which has since commenced with its attendants debate, fears and apprehensions.

5.0 SUMMARY

This unit has simply introduced us to the dimensions and importance of the infrastructural sector in the Nigerian economy. It further exposes the low contribution of the sector to GDP and general inefficient performance of the sector as well as the expenditure on the sector in the national budget. A brief mention was made of the management of infrastructure in Nigeria. The specific subsectors structure and performance will form the basis of our discussion from the next unit. The details of the argument against the public sector performance with respect to infrastructure and the process of privatisation and commercialisation will be discussed in details in the fifth module.

6.0 TUTOR-MARKED ASSIGNMENT

What can be done to improve infrastructural development in Nigeria?

7.0 REFERENCES/FURTHER READING

Anyanwu, J. C. (1993). *Monetary Economics: Theory, Policy and Institutions*. Hybrid Publishers Ltd.

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

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

Browne, L.E (1987). "Services and Economic Progress: An Analysis." *Economic Impact* 1(57), 52-57.

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

Central Bank of Nigeria (2010). *The Changing Structure of the Nigerian Economy*. C.N.O. Mordi, A. Englama & B. S. Adebusuyi (Eds.).

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

Olayide, S. O. (1979). *Economic Survey of Nigeria (*1960-1975*).* Ibadan: Aromolaran Publishing Company Ltd.

World Bank (1994). *Nigeria Structural Adjustment Programme, Policies Implementation and Impact.* Washington D.C.:The World Bank.

UNIT 2 COMMUNICATION SUBSECTOR

CONTENTS

1.0 INTRODUCTION

Communication is essential to the activities of various sectors of the Nigerian economy. In this unit we shall trace the history of the communication subsector in Nigeria. We shall also highlight the structure of the communication sector while we analyse the development of the subsector. Furthermore we shall examine the contribution of the subsector to the national economy. On a final note, this unit reviews the problems militating against the efficiency of the sector.

2.0 OBJECTIVES

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

- trace the history of Communication Industry in Nigeria
- discuss the structure of the communication subsector in Nigeria
- appraise the contribution of the communication subsector in Nigeria
- enumerate the problems besetting the communication Sector in Nigeria.

3.0 MAIN CONTENT

3.1 Background to Communication Subsector in Nigeria

The Communication subsector of the economy consists of the means of sending and receiving messages, orders etc. Communications are vital to the functioning of an economy. As noted in the Fourth National Development Plan, the provision of adequate and reliable communication services is essential for efficient operation of modern economy. Means of communications are many and varied and they include telegraph, telephone, telex, postal facilities etc. The Federal Ministry of Communication is the government's outfit charged with the responsibility of providing modern, efficient communication facilities and orderly development of industrial and social sectors of the economy. These functions are performed by the three divisions of the ministry via; the Nigerian Postal Service (NIPOST), responsible for postal facilities and services, the Nigerian Telecommunications Plc. responsible for telecommunication facilities and services as well as technical services department. In recent time, the communication subsector has been caught up by the privatisation programme wherein the subsectors under it have been privatised or commercialised over time.

SELF-ASSESSMENT EXERCISE

Highlight the role of each stakeholder in the communication sector.

3.2 Brief History and Structure of Telecommunication Subsector

Until recently, the Nigerian telecommunication subsector was the exclusive reserve of public sector monopolies, largely dominated by the Nigerian Telecommunication Limited (NITEL). NITEL's antecedent lies in the Nigerian External Telecommunication (NET) Limited established by the Cable and Wireless Incorporated of United Kingdom during the colonial period. In 1962, the Government of Nigeria acquired 51 percent of the company, and by 1972 it took over the remaining 49 percent. The name of the company was subsequently changed from Cable and Wireless Incorporated to NET. In December 1984, the telecommunications arm of the Post and Telecommunication (P&T), a commercial department of the Federal Ministry of Communications which started as a postal branch of the British Post Office in 1851 was detached from its postal affiliate and merged with NET to form NITEL, a public limited liability company. What remained of P&T was transformed into Nigerian Postal Services (NIPOST).

NITEL started business on January 1, 1985, inheriting NET's authorised share capital of 4 million shares of ₦1.00 each with ₦2million fully paid. In 1992, NITEL was commercialised and renamed NITEL Plc., although no shareholding other than government exists. NITEL commercialisation was quickly followed by deregulation such that the

Federal Government through the promulgation of Nigerian Communication Commission (NCC) decree No. 75 of 1992 introduced private participation in the provision of telecommunications services in Nigeria. The second schedule of the decree listed telecommunications business open to the private sector. Figure1.2.1 shows the structure of the Nigerian Telecommunication services in Nigeria and licenses carriers and operators. The Ministry of communications performs a supervisory role while the Utility Charges Commission regulates NITEL's tariffs. NITEL is the major carrier and with the Performance Contract signed with the Federal Government and the Technical Committee on Privatisation and Commercialisation TCPC on May 22, 1992. It enjoys operational autonomy, implements, approve corporate plan not subject to Ministerial and Civil Service orders, employs and terminates staff of all levels and determines its own tariff structure (subject to the regulation of Utilities Charges Commission). It is a legal entity that is supposed to be efficiently managed and characterised accountability. By 1994, NCC had issued 42 licenses to private operators in different telecommunication sectors, services and areas open to competition. Between 1994 and 1996, 63 were licensed. This rose to 111 in 1997, with 48 licensed at the end of May 1993. Table 1.2.1 summarises the category of services and the number of licensed issued by 1994/1997. The NCC license terms, a beneficiary company must among others:

- pay licensing fees;
- acquire a frequency to be allocated by the Ministry of communication;
- acquire equipment and obtain a seal of approval from NCC; and
- show willingness to begin operation within six months.

Recent developments from 1999 to 2013 have seen the telecommunication sector undergone series of transformation. The privatisation drive that have gulped the Nigerian public services have resulted in a paradigm shift from the initial participation of private companies in services to full operation of private telecommunication company. A number of private operators have been licensed over time. These include the MTN, Airtel, Globacom, Etisalat,Visafone, Starcoms, Multilinks and a host of others.

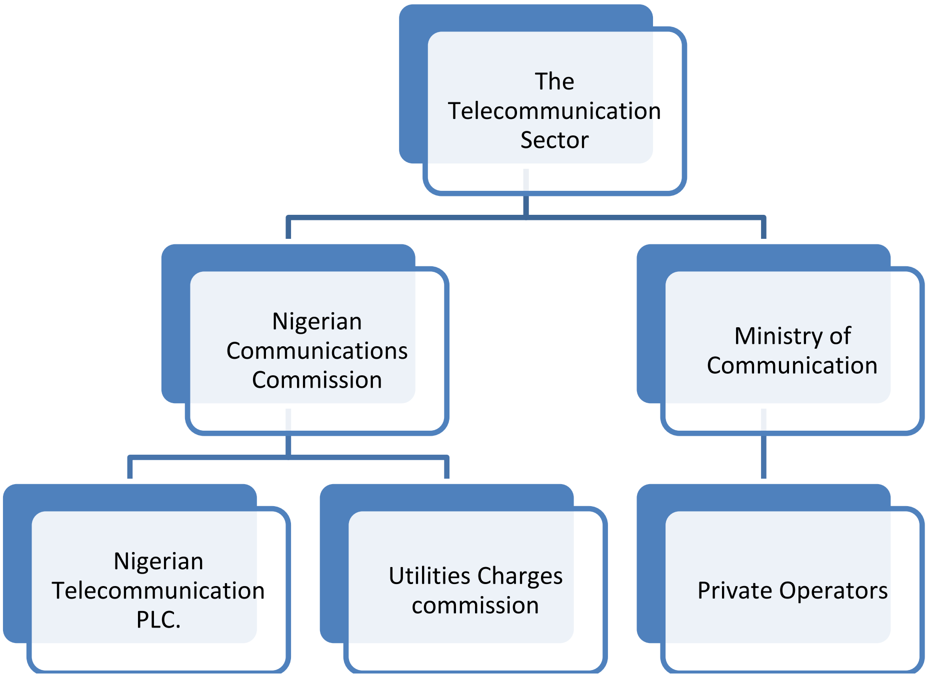

Fig. 2.1: Structure of the Nigerian Telecommunication Sector

Table 2.1: Category of Services and Number of Licenses Issued by NCC to Private Operations by 1994-1997

Service Group	No. of Operators	per cent Operators
1. Sales and Installations	12	29
2. Value Added	8	19
3. Private Networks	7	16
4. Pay Phones	5	12
5. Public Mobile	5	12
6. Community Phones	2	5
7. Repairs and Maintenance	2 1	5 2
8. Cabling		
Total in 1994	42	100
Total in 1997	100	100

Source: Anyanwu et al. (1997).

SELF-ASSESSMENT EXERCISE

Outline the structure of the Nigerian Communication subsector showing the stakeholders.

3.3 Development of the Communication Subsector

It seems clear that not much attention was paid to development of the communication sector in the First and Second National Development Plans. However in the Third National Development Plan, a massive allocation of ₦107.5million was allocated to the development of the sector. This obviously was prompted by the observed sectoral inadequacies as encapsulated in the first progress report on the Second National Development Plan. The allocation was meant for the development of telephone switching equipment, transmission, telex and other important telecommunication facilities.

From 1980 till date, successive governments have allocated huge sums of money, often meager relative to the importance of this sector in various budgets to the development of Transport and Communications which are grouped together for the purposes of budgetary allocations. Table 2.2 shows the budgetary allocation to the communication sector from 1970 to 1995.

Table 2.2: Financial Allocation to Transport and Communication

Year	Total Federal Government Budget ₦m	Allocation to Transport and Communication	Percentage
1970-1974	7169.4	279.1	3.89
1975-1979	55183.6	6898.8	7.25
1980-1984	332586.3	5350.2	1.60
1985	15369.1	261.2	1.69
1986	16772.9	578.4	1.66
1987	22028.7	830.7	3.77
1988	27749.5	395.5	2.50
1989	41028.3	828.3	2.02
1990	61148.5	714.7	1.16
1991	67529.7	690.4	1.02
1992	91579.7	913.1	0.99
1993	179081.6	2021.0	1.13
1994	210437.5	659.3	0.31
1995	256520.8	3591.4	1.40

Source: Anyanwu et al. (1997).

SELF-ASSESSMENT EXERCISE

Find out what is allocated to the communication sector from 2000-2010.

3.4 Performance of the Communication Subsector

As shown in Table 2.3, the communication subsector contribution to GDP was meager between 1960 and 2000. In 1960, the share of the communication subsector in the total GDP contributed by the service sector as a whole was 2.6 percent; this rose to 3.4 percent in 1965 and later reduced to 1.4 and 0.71 percent in 1970 and 1975 respectively. The contribution appreciated to 1.2 percent in 1980 and 1985. The subsector further witnessed substantive declines in 1990 through 2000 recording an average of 0.9 percent for those years. However, by 2008, the contribution of the sector as a percentage of the service sector GDP amount to 17.3 and 25.2 percent in 2008 and 2010 respectively. This improvement witnessed in the late 2000 was as a result of the privatisation of the subsector with attendant improvement in service quality and increasing patronage.

Table 2.3: Contribution of Communication Subsector to GDP 1960-2010 (₦million)

Sector/Subsector	1960	1965	1970	1975	1980	1985
Services	323.4	453.2	778.3	4,418.3	4,748.1	19,005.7
Communication	**8.4**	**15.4**	**10.8**	**31.3**	**58.3**	**232.3**
Telecom	8.4	15.4	10.8	31.3	58.3	130.2
Post	-	-	-	-	-	102.1
Total GDP	**2,489.0**	**3,146.8**	**4,219.0**	**27,172.0**	**31,546.8**	**201,036.3**
per cent of Service GDP	**2.6**	**3.4**	**1.4**	**0.71**	**1.2**	**1.2**
	1990	**1995**	**2000**	**2005**	**2008**	**2010**
Services	27,425.6	32,492.3	39,881.5	85,478.8	113,260.8	140,372.6
Communication	**247.9**	**279.2**	**370.3**	**8,175.2**	**19,600.4**	**35,364.4**
Telecom	137.3	159.1	207.5	7,851.7	19156.2	34,828.13
Post	110.6	120.1	162.8	323.6	441.3	536.3
Total GDP	**267,550.0**	**281,407.4**	**329,178.7**	**561,931.4**	**672,202.6**	**775,525.7**
per cent of Service GDP	**0.9**	**0.9**	**0.9**	**9.6**	**17.3**	**25.2**

Source: Central Bank of Nigeria, Statistical Bulletin, Golden Jubilee Edition, 2008.
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.

3.4 Problem of Telecommunication Services in Nigeria

A multitude of problems beset the rendering of efficient telecommunication services in Nigeria. They include grossly inadequate facilities since these facilities are high- technology facilities that have to be imported. Consequently, the problem of inadequacy of technical and engineering manpower is acute. This problem is aggravated by the rapidity with which telecommunications equipment go into obsolesce due to speed of introduction of new facilities- digital facilities displacing analogue facilities conventional telegraphic facilities yielding way to facsimile etc. Moreover, switching problems due to differences in made of telephone exchanges serve to inhibit the flexibility and hence efficiency in the delivery of communication services. Not at least is the problem of corruption and debt management that has bedeviled every public sector agency e.g. NEPA, NRC, NAL, etc. in the Nigerian economy.

SELF-ASSESSMENT EXERCISE

List other problems of the communication subsector. How can they be improved?

4.0 CONCLUSION

The Communication subsector of the economy consists of the means of sending and receiving messages, orders etc. Communications are vital to the functioning of an economy. Means of communications include telegraph, telephone, telex, postal facilities etc. The Ministry of Communication, Nigerian Communication Commission, Utility Charges Commission, Nigerian Telecommunication Plc and Private Operators are all stakeholders in the communication industry. Three functions are performed by the three divisions of the ministry viz; the Nigerian Postal Service (NIPOST), responsible for postal facilities and services, the Nigerian Telecommunications Plc. responsible for telecomunication facilities and services as well as technical services department. In recent time, the communication subsector has been caught up by the privatisation programme wherein the subsectors under it have been privatised or commercialised over time. Some of the challenges facing the industry are inadequate facilities, infrastructural and technological deficiencies and the public sector syndrome among others.

5.0 SUMMARY

This unit is an exposition of the history of the Nigerian communication sector. The composition and structure of the sector was equally exposed. This was followed by a review of the performance of the communication sector and rounded off with the problems of the communication sector in Nigeria. In a similar way, in unit 3, you will read through a discussion on the public utility sector of water and electricity.

6.0 TUTOR-MARKED ASSIGNMENT

The communication sector is better off when privatised as against being under the public sector. Discuss.

7.0 REFERENCES/FURTHER READING

Anyanwu, J. C. (1993). *Monetary Economics: Theory, Policy and Institutions*. Hybrid Publishers Ltd.

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

Browne, L.E (1987). “Services and Economic Progress: An Analysis.” *Economic Impact.* 1(57), 52-57.

Central Bank of Nigeria. Annual Report and Statement of Accounts for Various Years. Lagos.

Central Bank of Nigeria, (2010). *The Changing Structure of the Nigerian Economy*. C.N.O. Mordi, A. Englama & Adebusuyi, B. S. (Eds).

Federal Ministry of Communication, (1993). *Digest of Statistics* (1st ed.). Lagos. Jerome, A. (1997). “Public Enterprise Reform in Nigeria: Evidence from the Telecommunication Industry, Research Work in Progress.” Paper Presented at the AERC Workshop, Nairobi, Kenya. May 24-29.

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

Olayide, S. O. (1979). *Economic Survey of Nigeria (*1960-1975*).* Ibadan: Aromolaran Publishing Company Ltd.

World Bank, (1994). *World Development Report 1994: Infrastructure for Development.* Oxford: Oxford University Press for the World Bank.

UNIT 3 PUBLIC UTILITY SUBSECTOR

CONTENTS

1.0 INTRODUCTION

Public utility is no doubt an essential ingredient of economic development. Electricity and water are vital to industrial activities; no sector can function effectively without adequate supply of electricity and water. The failure or inadequate power and water supply attracts a huge cost on the part of industry to provide alternative means. In view of this fact, this unit is concerned with the discussion of the public utility subsector, most especially electricity and water. In this unit you will read about the historical development of electricity and water supply in Nigeria. The discussion will also cover the significance of the public utility subsector and assess the performance of the utility subsector.

2.0 OBJECTIVES

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

- state the importance of electricity and water
- describe the structure of the electricity and water agencies
- evaluate the contribution of the public utility sector to GDP.

3.0 MAIN CONTENT

3.1 History of Electricity Development of Nigeria

Electricity generation and consumption in Nigeria have a long and respectable history. Electricity use dates back to 1896 with the installation of the first power plant in Marina. The plant was devoted essentially to the generation of electricity for residential consumption in addition to serving to light up the streets around the government quarters in Lagos. The year 1950 however marked a turning point in the country's history of power generation and consumption. That year the Electricity Corporation of Nigeria (ECN) was established. This corporation was set up to take over the activities of the Nigerian Government Electricity undertaking which itself was an offshoot of the Public Works Department (PWD). The ECN was responsible for electricity generation and distribution until 1962 when the Nigerian Dam Authority (NDA) was established. The NDA was saddled with the responsibility for developing the hydroelectric potential of the River Niger. The electricity corporation of Nigeria and the Nigeria Dam Authority jointly constructed the Kanji Dam. In 1972, a merger of ECN and NDA was effected to form the National Electric Power Authority (NEPA). The Electricity agency in Nigeria was later transformed to Power Holding Company of Nigeria (PHCN). The current process of privatisation has engulfed the power holding company, all attentions are focused on the privatisation of the distribution sector and many companies have been licensed in this regard. In the late 2000s there have also been attempts at power generation by state government and some multinational establishments but many of these attempts are still in process while many have been truncated on policy and logistic grounds.

SELF-ASSESSMENT EXERCISE

Trace the evolution of PHCN.

3.2 Electricity: Significance, Expenditure Profile, Generation and Consumption

Electricity is vital to development. In fact, the rate of energy utilisation is often used as a development index. This is because the effect of electricity usage reverberates through the economy, serving as a source of energy for industrial and commercial outfits as well as widespread domestic use. Moreover, the process of electricity generation serves as outlet for the product of other industries such as coal, fuel, oil, natural gas etc. Electricity therefore has both supply and demand effect.

One observable feature of electricity generation in Nigeria is the shift in the structural composition of the source of energy used for electricity generation. In this regard, we note that there has been a shift from energy sources like coal, fuel, oil, natural gas or diesel oil in favour of hydrothermal power which are relatively cheaper source of energy. In addition to their cheapness, the use of thermal and hydropower for electricity generation possesses the advantage of simplicity and ease of maintenance over other energy sources for electricity generation in Nigeria. Indeed, as at 1979, the available data showed that a total of 490mw of electricity was generated using hydropower made up of 420mw from Kanji Dam and 30mw in the Jos area while electricity generated using thermal power stood at a total of 484mw distributed among steam turbine (115mw), gas turbine (333.5mw), and diesel engine (35.3mw).

In the Third National Development Plan, a whooping sum of ₦260.6million representing about 24.5per cent of total planned capital expenditure was voted for the development of hydraulic generation of electricity. Projects slated to be completed under this plan include Kanji extension which entailed the installation of four additional generating units with a combined capacity of about 440mw at a total cost of ₦25million, the development of Shiroro Hydroelectric Project with an estimated capacity of 300mw and expected to provide 500mw capacity, the development of the Gongola Power Plant Station with an estimated capacity of 30mw at a cost ₦10million and Ikom, Makurdi and Lokoja, Hydroelectric Power Stations capable of delivering 400, 600, and 1950 megawatts respectively at a total cost of ₦132.5million was allocated for the development of such thermal generation plants. Also, Sapele Thermal Plant, Afani Power Station Extension, Delta No. 2 Thermal Plant, and Eket Power Station at a cost of ₦115.5million, ₦11.8million, ₦2.2million and ₦3.0million, respectively. In the Fourth National Development Plan 1981-1985 emphasis was simply hid on the completion of projects already commenced under the Third National Development Plan and maintenance of others.

Electricity generation in Nigeria was almost the exclusive right of National Electric Power Authority (NEPA), now Power Holding Company of Nigeria, a public corporation generating well over 95per cent of total electricity generated in Nigeria. The other major supplier is the Nigerian Electric Supply Corporation (NESCO) in the past. Its share of electricity generation is quite small; moreover, NESCO relies on thermal power for electricity generation unlike NEPA that relies on both on both hydro and thermal sources.

In terms of Consumption, electricity consumption is classified into three groups namely: Industrial consumption, Residential consumption as well as consumption for street lighting purpose. Prior to 1963/1964 however, there was no distinction between industrial and commercial consumption. What could be inferred from the available statistics on electricity generation and consumption is that: there is phenomenal growth in electricity generation and consumption over time. Also, the relative share of thermal power generated up till 1995 was higher than that of hydroelectric power generated, the reverse was the case from 1996 to date. More so, there is dominant share of residential outfits in electricity consumption but growing industrial consumption is also witnessed. The increase in the volume of electric power generated can be attributed to conscious efforts made over the decade to beef up the installed capacity of NEPA through major investment programmes. In 1982, for example, NEPA installed electricity generation capacity stood at 2,902.1mw reflecting an increase of 19.4per cent over the capacity of 2,339mwin 1981 following the experience expansion of the Afam and Ijoia power stations to 700.700kwh and 8,150kwh respectively. In 1984, the Jebba Hydro-Power Station was commissioned and became fully operational thereby increasing the volume of electricity generated. On May 13 1986 the ₦700million Egbin Thermal Power Station was commissioned. This also helped to boost NEPA's installed capacity, which rose to 3508mw as opposed to its earlier capacity of 3025.5mw. In 1991, the 600mw gas turbine generating plant (Delta iv) at Ugheli, Delta state was commissioned and integrated into the national grid. The reactivation of the Egbin Thermal Power Station in 1991 further helped to boost electricity generation capability of NEPA. Efforts at increasing electric power generation have been continuous till present time.

According to the International Energy Agency (IEA), in 2008, total energy consumption was 4.4 Quadrillion Btu (111,000 kilotons of oil equivalent). Of this, combustible renewable and waste accounted for 81.3 percent of total energy consumption. This high percent share represents the use of biomass to meet off-grid heating and cooking needs, mainly in rural areas. IEA data for 2009 indicate that electrification rates for Nigeria were 50 percent for the country as a whole; approximately 76 million people do not have access to electricity in Nigeria. Nigeria has vast natural gas, coal, and renewable energy resources that could be used for domestic electricity generation. However, the country is lacking in policies to harness resources and develop or improve the electricity infrastructure. The Nigerian government has had several plans to address the need for power, including a recent announcement to create 40 gigawatts (GW) of capacity by 2020 (compared to 2008 installed capacity of 6 GW). Much will depend on the ability of the Nigerian government to utilise currently flared natural gas.

In the face of this increasing generation capacity over time and setting up of agencies for rural and urban electrification notwithstanding, electricity consumers have hardly benefitted from gains in the generation capacity. Power supply to consumers has been erratic and non-satisfactory. Some of the problems identified to be responsible for this state of affairs include the sporadic supply of gas to thermal power stations often times low level of water at hydro power stations, largely poor distributions network of NEPA etc. Efforts at making for stable electricity power supply in Nigeria in the near future should focus at these and other problems besetting this subsector of the economy.

SELF-ASSESSMENT EXERCISE

Why is PHCN unable to meet its target?

3.3 Water Development in Nigeria

Water is an important national resource and utility, yet the recognition attached to it in official government pronouncements do not seem to be as weighty as its importance. The role of Federal Government in water supply activities is not as visible as the case with electricity, transport and communications. Indeed the states have been solely responsible for water provision until later time when a ministry at the federal level was established to oversee activities in this section of utility. Many of the state government created their water boards charged with the responsibility of making portable water available especially in the urban areas. It is common knowledge that the problem of water storage, often in an endemic proportion especially in such urban areas as Lagos, Kano, Benin City, Ibadan, Port Harcourt etc. continues to loan large in Nigeria essentially because many of the so-called cities do not have organised systems of water supply. The situation in the rural area is even more pathetic, many rural dwellers still resort to ponds, rivers, and streams for water supply. Yet, water from these sources is hardly fit for consumption. Moreover, the systematic study and recording of data on ground and surface water resources available in the country is only a recent phenomenon. In addition, collection of data on water utilisation by various sectors of the economy is a recent phenomenon.

A number of efforts aimed at developing the nation’s water resources and making water available to all categories of users have admittedly been made at various times in Nigeria beginning from the immediate post-independence period and specifically with the First National Development Plan of 1962-1968. In 1976 for example the World Bank Assisted Integrated Agricultural Development Projects (ADPs), charged partly with the responsibility for making available irrigation facilities for the development of agriculture was launched. Their mandate includes the provision of Earth dams, boreholes and tube wells and wash bores designed to harness the nation’s water resources for agricultural development. In the First National Development Plan, a total of ₦48.6million or 3.6per cent of total plan allocation for capital expenditure on all sectors was voted for water resources development. In the revised Second National Development Plan, water supply received allocation an allocation of ₦148.6 million. This stood at about 200per cent over and above the allocation in the First Plan period. Under the Third national Development Plan, a total of ₦930.039million representing about 2.84per cent of the total projected capital expenditure by the public sector within the period was budgeted. By 1995, budgetary allocation for development of water resources stood at ₦2, 579.0million representing an increase of 57.1per cent over the previous year level. Further efforts a developing and harnessing the nation's water resources can be seen in the activities of the River Basin and Rural Development Authority (RBDA) scattered all over the country. The RBDA are partly saddled with the responsibility for the provision of such infrastructural facilities as dams, wells and boreholes. The Federal agencies on water supply are mostly concerned with creation of reservoir for water supply. Other roles include the establishment of laboratories for water examination and treatment, hydrological surveys and construction of water facilities; dam construction and maintenance are part of developmental effort to ensure portable water supply. Other agencies such as Directorate for Food, Roads and Rural Infrastructure (DFRRI) also contributed to water resource development in Nigeria. Other Programmes include Water Resource Decree No. 101 on controlling the use of surface water among others, National Water Resource Master Plan designed to review and analyse all existing information for a consolidated inventory of water resources. The year 1990 marked the beginning of an active water management policy by the Federal Government and its various water ministries and agencies responsible for development.

SELF-ASSESSMENT EXERCISE

What can be done to improve portable water availability in Nigeria?

3.4 Performance of the Utility Sector

The utility subsectors contributed thinly to the service sector GDP between 1960 and 2000. Apart from the 6.5 percent share contribution to the service sector GDP in 1985, the contribution ranges from 2.0 to 4.4 percent between 1960 and 2000. This was probably due to the fact that the sector was operating under the public sector which was considered inefficient for most of these periods. There was an upsurge in the contribution of the sector from 2005 to 2008 and still substantial till 2010, there was a slight drop in the percentage contribution of utility to service GDP from 23.6per cent in 2005 to 20.3per cent in 2008 and 17.5per cent in 2010 (Table 3.1).

Table 3.1: Contribution of Utility Subsector to Real Gross Domestic Product 1960-2010 (₦ million)

Sector/Subsector	1960	1965	1970	1975	1980	1985
Service Sector	323.4	453.2	778.3	4,418.3	4,748.1	19,005.7
Utility Electricity Water	**8.4** 7.2 1.2	**18.2** 16.0 2.2	**24.0** 20.0 4.0	**86.0** 86.0	**143.7** 143.7	**1,225.6** 1,019.2 206.4
Total GDP	**2,489.0**	**3,146.8**	**4,219.0**	**15,919.7**	**31,546.8**	**201,036.3**
per cent of Service GDP	**2.6**	**4.0**	**3.1**	**2.0**	**3.0**	**6.5**
	1990	**1995**	**2000**	**2005**	**2008**	**2010**
Service Sector	27,425.6	32,492.3	39,881.5	85,478.8	113,260.8	140,372.6
Utility Electricity Water	1,178.0 828.0 350.0	1,422.1 990.7 431.4	1,448.9 972.2 476.6	20,135.3 19,439.9 695.4	22,984.7 22,035.9 948.8	24,516.5 23,364.4 1,152.1
Total GDP	**267,550.0**	**281,407.4**	**329,178.2**	**561,931.4**	**674,889.0**	**775,525.7**
per cent of Service GDP	**4.3**	**4.4**	**3.6**	**23.6**	**20.3**	**17.5**

Source: Central Bank of Nigeria, Statistical Bulletin, Golden Jubilee Edition, 2008. National Bureau of Statistics, Statistical Bulletin, 2010 compiled 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.

SELF-ASSESSMENT EXERCISE

The contribution of the Public Utility to GDP has remained low over the years. Why?

4.0 CONCLUSION

Electricity is vital to development. In fact, the rate of energy utilisation is often used as a development index. This is because the effect of electricity usage reverberates through the economy, serving as a source of energy for industrial and commercial outfits as well as widespread domestic use. Conscious effort at developing electricity began in the 1950s and 1960s with the establishment of electricity corporation of Nigeria (ECN) and the Nigerian Dam Authority (NDA) for respective responsible of generation and distribution of electricity and development of the hydroelectric potential of the River Niger. The electricity corporation of Nigeria and the Nigeria Dam Authority jointly constructed the Kanji Dam. In 1972, a merger of ECN and NDA was effected to form the National Electric Power Authority (NEPA). The Electricity agency in Nigeria was later transformed to Power Holding Company of Nigeria (PHCN). The PHCN is currently undergoing transformation in the light of privatisation of the corporation. In terms of generation and Consumption; Industrial, Residential and Street lighting, there is phenomenal growth in electricity generation and consumption over time with high capital expenditure being allocated to the subsector for development, though power supply to consumers has been erratic and non-satisfactory. Some of the problems identified to be responsible for this state of affairs include the sporadic supply of gas to thermal power stations often times low level of water at hydro power stations, largely poor distributions network of NEPA etc. On the other hand, water is an important national resource and utility, yet the recognition attached to it in official government pronouncements do not seem to be as weighty as its importance. The role of Federal Government in water supply activities is not as visible as the case with electricity, transport and communications. Indeed the states have been solely responsible for water provision until later time when a ministry at the federal level was established to oversee activities of water resource. The problem of water storage is germane both in urban and rural areas. A number of efforts aimed at developing the nation’s water resources and making water available to all categories of users have admittedly been made at various times and these include the World Bank assisted Integrated Agricultural Development Projects (ADPs), RBDA, DFRRI with various mandates among others. The public utility sector have contributed minimally to the Gross Domestic Sector simply because it has long been public oriented with little or no private participation.

5.0 SUMMARY

In this unit we have examined the two major components of the public utility sector, the electricity and water resources. The discussion started with the historical development of the electricity industry. We also examined issues relating to generation consumption and funding of the electricity authorities. Similar issues of development and funding were equally examined with respect to the water industry. In the final analysis the challenges and prospects of the two industries were concisely mentioned. Now you have one more unit to finish up this module, you will definitely have an interesting session as you read through another important subsector of the service sector, the transport subsector.

6.0 TUTOR-MARKED ASSIGNMENT

Will the Privatisation of PHCN do more good than harm? Discuss.

7.0 REFERENCES/FURTHER READING

Anyanwu, J. C. (1993). *Monetary Economics: Theory, Policy and Institutions*.Hybrid Publishers Ltd.

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

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

Central Bank of Nigeria, (2010). *The Changing Structure of the Nigerian Economy*. C.N.O. Mordi, , A. Englama & B.S. Adebusuyi (Eds).

Federal Republic of Nigeria. National Development Plans 1962-1993.

Kayode, M. O. & Usman, Y. B. (1980). *Nigeria Since Independence: The First Twenty Five Years- The Economy*. Ibadan: Heinemann Educational Books (Nig.) Ltd.

Meier, G. M. (1970). *Leading Issues in Economic Development* (*2nd* ed.). Oxford University Press.

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

Olayide, S. O. (1979). *Economic Survey of Nigeria (*1960-1975*)*. Ibadan: Aromolaran Publishing Company Ltd.

World Bank. (1994). *Nigeria Structural Adjustment Programme, Policies, Implementation and Impact.* Washington D.C: The World Bank.

UNIT 4 TRANSPORT SUBSECTOR

CONTENTS

1.0 INTRODUCTION

Transportation occupies an important role in a country's commercial life, industry and in the overall economic development of any country. Sequel to this, we single out this subsector for a special discussion in this unit. We shall start with a discussion on the concept of transportation followed by a brief history and component of transportation in Nigeria. This shall be followed by an examination of the general performance of the transport sector in Nigeria. You will later examine separately the road, rail, air and water transport systems in Nigeria.

2.0 OBJECTIVES

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

- highlight the significance of transportation to the Nigerian economy
- trace the evolution and development of transportation in Nigeria
- evaluate the general performance of the transport sector in Nigeria
- summarise the features of road, rail, air and water transport in Nigeria.

3.0 MAIN CONTENT

3.1 Meaning, Importance and Historical Development of the Transport Sector in Nigeria

Transportation refers to the process of conveying or moving of goods and people from place to place. The importance of transportation derives from a number of factors. For example, it increases the geographical and occupation specialisation as well as interdependence of countries based on the principle of comparative advantage. In fact improvement in transport provides more opportunities for specialisation, this largely accounts for the remarkable improvement made so far in the development of commerce and industry since transport lies at the root of the whole process of marketing. Consequently, it leads to an enormous increase in the volume of trade, making it possible for increased and concentrated population to survive and for them to be provided with wide and more varied diet. In addition, transportation facilitates the quick deliveries of perishable and non-perishable goods. As a result, capital need not be tied up in large stock of goods since quick deliveries can be made making large-scale production possible. Thus, the role of transportation in every modern economy cannot be compromised.

The history of Transportation in Nigeria dates back to the pre-colonial era. Within this period, transportation facilities such as roads, railways, air transport facilities, etc. were virtually non-existent. Emphasis then was initially on bush path and thereafter on the dredging of inland waterways to render them navigable. Between then and now, however, giant strides have been made in the growth and development of transportation facilities in Nigeria. At present, the modes of transport in Nigeria include road, railways, air, inland waterways/sea (coastal shipping and shipping engaged in international trade) as well as pipeline. These modes of transport largely satisfy the four principal factors which determine the effectiveness of any transport system viz: safety, convenience, speed, and cost. For example, safety is of paramount importance. In terms of convenience, it must give ease or comfort as well as being suitable, easy to reach or use and handy. Moreover, the fastness of transport is also important especially when some items are needed or when perishable goods need be moved. On the cost side, effectiveness of transport is determined by the expensiveness or cheapness of the transport mode. The foregoing factors explain why government transport policy in Nigeria emphasises economy, efficiency, safety, and reliability of service to users of the facilities as spelt out in sessional paper No. 1 of 1965 entitled “Statement of Policy on Transport”. The policy contains an explicit statement of government’s determination to pressure coordinated development of various modes of transport by concentrating on the modes that are capable of carrying persons and goods at the safest, most convenient and at the lowest cost per unit of service.

SELF-ASSESSMENT EXERCISE

i. State the four criteria for a good transport system.
ii. What is the significance of the transport system to economic development?

3.2 Performance of the Transport Sector in Nigeria

The transport subsector constitutes an important sector in the service sector. This is seen from its share of contribution to the GDP of the sector from 30.1 percent share in 1960 to 31.5 percent in 2005 after a period decline between 1965 and 1980. The contribution of the sector as a percentage of the GDP of the service sector dropped to 19.8 per cent in 1990 and further declined to 19.4 per cent in 1965, 17.4 per cent in 2005 and 14.8 per cent in 2010. Of all the components of the service sector, the road transport constitute the highest contributor to GDP, over 50 percent between 1960 and 1965 and even more than 80 percent in most of the years till 2010. The efficiency of the rail system in the 70's accounted for an equal share recorded with the road transport segment, the water transport share of the transport sector GDP was even higher than that of the rail transport in 1985. The rail transport system has since become moribund from the nineties; it is not surprising that its contribution has lagged behind even water, air and other transport system since 1990 to 2010, although there have been recent and concerted efforts at reviving the rail system (Table 4.1).

Table 4.1: Contribution of Transport Subsector to Gross Domestic Product 1960-2010 (₦ million)

Sector/Subsector	1960	1965	1970	1975	1980	1985
Services GDP	323.4	453.2	778.3	4,418.3	4,748.1	19,005.7
Transport Subsector GDP	**97.4**	**127.6**	**123.5**	**920.3**	**1,168.2**	**5,988.6**
% of Service GDP	30.1	28.2	15.9	12.6	24.6	31.5
Road	57.8	82.6	73.0	920.3	1,168.2	4,946.0
Rail and Pipelines	22.2	21.2	17.4	-	-	143.4
Water	14.6	19.2	26.9	-	-	413.4
Air	2.8	4.6	6.2	-	-	318.5
Other Transport						167.4
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**
Services GDP	27,425.6	32,492.3	39,881.5	85,478.8	113,165.8	140,372.6
Transport	**5,438.8**	**6,289.5**	**7,508.1**	**14,882.1**	**18,204.3**	**20,754.7**

Subsector GDP						
% of Service Sector GDP	19.8	19.4	18.8	17.4	16.1	14.8
Road Rail and Pipelines Water Air Other Transport	4,665.6 59.9 280.8 248.5 184.0	5,536.4 0.93 274.3 188.9 289.1	6,392.8 1.3 305.8 213.7 594.6	13,385.9 1.67 321.5 318.2 854.8	16,400.6 2.0 383.3 396.0 1,022.3	18,728.8 2.2 427.2 459.2 1,137.3
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 Bulletin, Golden Jubilee Edition, 2008. National Bureau of Statistics, Statistical Bulletin, 2010 compiled 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.

SELF-ASSESSMENT EXERCISE

How does the Nigerian transport sector fared between 1990 till date?

3.3 Road Transport in Nigeria

3.3.1 Historical Development and Investment in Road Transport in Nigeria

The history of road transport in Nigeria dated back to 1904 when Lord Lugard attempted the construction of a mule road linking Zaria and Zungeru both in the Northern states of Nigeria. The road was later extended from Zaria to Sokoto, Kastina and Maiduguri. However, the road linking Ibadan and Oyo constructed in 1906 is recorded to be the first motorable road ever constructed in Nigeria. At independence in 1960, the Nigerian landscape dotted with a skeletal network of trunk roads as well as secondary and feeder roads that exhibited the characteristics which reflected the purpose of their construction. They were narrow and winding for they were simply meant to facilitate the evacuation of agricultural produce from the interior to the ports for export in addition to serving as links between scattered human settlements thus permitting ease of administration.

Since then, road transportation system has witnessed a vast improvement in Nigeria in terms of total length and quality especially in the post-civil war era, which coincided with the oil boom period. Ultra-modern roads emerged from nearly all parts of the country comprising of trunk “A” network made up of the North-South and East-West ones forming the basic grid of the national network into which other link roads enmesh; as well as Trunks “B” and “C” road. In addition, international highways leading to Nigeria exist. They include the road link with Niger Republic, Cameroon, the Republic of Ghana, Togo and Benin via Idiroko and the Republic of Chad. The growth in road statistics in Nigeria partly reflects the increased demand for road transport in Nigeria. This increased demand is also reflected in the increase in the number of vehicles registered over the period. The increased demand for road transport service is largely accounted for by the poorly developed nature of the Nigeria Railway System, the alternative land transport mode to road system.

The various governments in Nigeria have over the years given priority attention to road development in Nigeria. In the First National Development Plan (1962-68) launched immediately after political independence, substantial vote for road development was made. This reflected government’s objective of replacing the old, narrow, winding roads with poor drainage facilities that were bequeathed by the colonial masters with new widened, straightened, and improved surface road network. The total planned capital expenditure on road by the various tiers of government under this plan stood at ₦150.6million. This represents 52.6per cent of the total vote of ₦288million for the development of the transport sector. The construction of the Eko and Onitsha– Asaba bridges were included in the plan. The Investment programme of the states during this period was to be concentrated essentially on the construction and maintenance of Trunk “B” network of roads.

In the Second National Development Plan of 1970-1974 a total of ₦278.840million representing about 59per cent of the total vote for the transport sector was allocated to road development. The focus of road development under the plan was the rehabilitation of the numerous roads that were adversely affected by the civil war. In the Third National Development Plan (1975-1980), a total of ₦9, 677.54million was allocated to the transport sector. Of this, ₦6, 995.75million or 72.3per cent of the total was voted for road development. Also, In the Fourth National Development Plan (1981-1985) the sum of ₦7, 457.912million was allocated to road development out of a total of ₦10, 706.62million voted for the development of the transport sector. The other transport modes, viz: rail, air and water shared the other 30per cent. Emphasis in the plan was more on the rehabilitation and improvement of the existing road net 336 works rather than the construction of new ones, the principal objective being to protect the massive investment on road construction and development over the years. In 1986, the federal government announced a grant of ₦1.0million to each of the 301 local government areas in the country then to enable them rehabilitate bad roads within their areas in 1988, several other road projects were executed. That year too saw the launching by the Federal Government of the Mass Transit Programme (MTP).

In 1989, a sum of ₦230million was spent on rehabilitation, reconstruction or construction of a total length of 93km of roads by the federal government. In 1991, a total sum of ₦800.2million was expended on the construction of a total of about 640.9km length of roads. Similarly, a number of road and bridge projects were completed during the course of 1992. Twenty roads and four bridges were completed in 1995 by the federal government. From 1995 to 2010, there has been substantial improvement in road development but with poor maintenance culture.

3.3.2 Problem of Road Development in Nigeria

The major problems of road development in Nigeria can be traced to such factors as harsh and extreme climatic conditions, long distances and difficult terrains that make road construction an expensive project. Road construction cost is especially high in the southern part of the country owing to difficult topography. Thus, as a result of the nature of the soil, the poor drainage conditions, the swampy and marshy nature of the soil, etc., road construction is an expensive project. This means then that massive funds are needed for the development of road projects. Resources constraint and the high opportunity cost limit the amount of resources that can be expended on road development. The policy of Build, Operate and Transfer (BOT), a scheme which permits the private sector to participate in road development and management was initiated in 1995 and designed to overcome this constraint posed by fund unavailability.

SELF-ASSESSMENT EXERCISE

Identify other challenges of road construction in Nigeria.

3.4 Historical Development and Investment in Nigerian Rail Transport

Rail transport is the second form of land transport, the first being road transport, the means of rail transport is train which runs on railways. Railways are tracks laid with steel rails. Colonial administrators in West Africa introduced railways as far back as the late 19th century in order to connect administrative headquarters and principally to provide routes for easy evacuation of cash crops from seaports to European ports. For this purpose the connection of a rail line in Nigeria extending northeast from transport pre-dates the road mode of transport. The reason for this can be found in the fact that the development of the transport sector in Nigeria by the colonial masters was primarily directed at exploiting the produce of their economy. Transport system capable of conveying bulky good over long distance became naturally attractive as a means of achieving this objective. The rail road that was laid in 1898 stretched from Iddo to Ota, stretching over 106mm (32km) gauge. Within three years, it had reached Ibadan. Major cities and towns such as Jebba, Ilorin, Enugu, Zaria, Gusau, Makurdi, Minna and Port-Harcourt had been linked by 1930 with railheads at Kaura Namoda, Nguru, Jos and Maiduguri; Baro and Idogo towns also have rail links although these are of lesser importance. Railway constructed in 1964 from Kuru to Maiduguri was an extension of Borno rail which concerned the extreme North Eastern part of the country. The Nigerian Railway Corporation, a public corporation saddled with the management of the Nigerian Railway system was established as a public corporation in 1955 handle railway transport in the country. Prior to this time, the railway system was simply a department of the central government. The establishment of the NRC was aimed essentially at freeing the management of the railway system from the rigidity and bureaucratic influences of the government. Moreover, it was reasoned that this way the corporation could be run on semi-commercial basis like NEPA. However, it was not expected to be free completely from government's control at least as far as general policies of control over such issue as pricing were concerned.

Aware of the vital contribution of the rail transport system to economic development, various governments have over the year made attempts to develop the Nigerian Railway System through the funds granted to the NRC. The allocations to railway development in the various developments plans serve to corroborate this assertion. In the First National Development Plan for example, ₦43.30million representing 14per cent of total allocation to the transportation sector in the plan was voted for railway development. This rose by 87.1per cent to ₦81million in the Second National Development Plan (1970-1974) period. This stood at 17.1per cent of the transport sector size allocation in that plan. However, the disbursement under the plan left much to be desired. By 1973, a year to the end of the plan period, only ₦18.6million representing a mere 23per cent of the total allocation had been disbursed and much of this amount was expended on the purchase of rolling stock and locomotives. In the Third National Development Plan, 1975-1980, the rail transport system had an allocation development of ₦1, 029.70million representing 10.6per cent of the total allocation to the transport sector and reflecting an increase of 117per cent over the allocation within the second development plan.

In the Fourth National Development Plan (1981-1985) a total sum of ₦1, 634.0million representing 15per cent of total allocation to the transport sector was voted for the development of the railway system. Out of the total outlay of ₦2, 210million meant for the transport sector in the 1990-1992 rolling plan, ₦310million, which translates to 72per cent of the total, was meant for the railway subsector. However, this increased to ₦349million or 19.4per cent of the total outlay of the ₦2, 695.423million meant for the transport sector in the 1991-1993 rolling plan. Aside from the aforementioned allocation in the development plans, government has made other substantial allocation of funds to the development of the rail transport system over the years. In 1995 the Chinese Civil Engineering Construction Company (CCECC) was invited to the country to assess the performance of the NRC. The visit resulted in the signing of a bilateral agreement between the NRC and CCECC for the latter to render the services of track surveying and repairs. The objective being the revitalisation of the operations of NRC, the implementation of the agreement was billed to commence in 1996.

It is not a contentious issue that the NRC has not lived to its billing. Thus, some bold reform steps are called for. A nine step strategy for strategically reposition NRC include establishing business units with compatible objectives; effective board of directors; selecting effective and committed chief executive; developing vision and integrated strategy to accomplish mission; determining aero-based staffing requirements to carry out strategy; developing organisation structure to direct repositioning, revising detailed business plans as repositioning progresses. This process takes time and determination and requires continuing commitment by the government to depoliticise the NRC by giving that mission to a board and chief executive qualified to carry it out.

3.5 Historical Development and Investment in Air Transport in Nigeria

One of the most controversial companies in Nigeria actually evolved from West Africa Airways Corporation (WAAC) which was incorporated in 1945 by the British colonial government, to undertake operations which the Royal Air Force left behind at the Second World War, to facilitate scheduled flight operation into English speaking West African countries. It was then jointly owned by the former British colonies, namely: Nigeria, Ghana, the Gambia, and Sierra-Leone. On attainment of independence in 1957, Ghana pulled out to set up its own airline, the Ghana Airways, following which WAAC's influence and strength began to sag until in 1958 the British Overseas Airways (BOAC) (33per cent) and Elder Dempster Lines (16per cent), nudged on

by the colonial government, came to the rescue, refloating the sinking company as WAAC (Nigeria) Limited, with Nigeria owing 51per cent.
In May 1961, Nigeria, still basking in the triumph of political independence, bought the shares of its partners in WAAC (Nigeria) Limited hence the company (Nigeria Airways) became 100per cent owned by the Nigeria government. From that date it became the country's nation flag bearer. It however, becomes a limited liability until 1971 when it was named Nigeria Airways Limited. As the National carrier, Nigeria Airways enjoys the patronage and the diplomatic protection of the Federal Government in her international and diplomatic operation. In return for this, the government expects the company to meet the following objectives:

(a) provide scheduled and chartered air transportation, carrying passengers, mail and cargo on both domestic and international routes in the most efficient, reliable and profitable manner;
(b) provide an adequate domestic network connecting all state capitals and commercial centres; and
(c) act as back up for the National Air Force as a transportation auxiliary in the event of a war or national emergency.

Thus, Nigeria Airways rose from fledgling airline to a buoyant and promising national carrier with 27 aircraft's in its fleet at the end of the 1970s. Instead of blossoming and progressing into maturity in the 1980s, Nigeria Airways commenced a gradual but steady decline in growth and activities, in quantity and quality of its services. In desperate attempts to salvage the flag bearer, successive governments in Nigeria authorised such diverse management styles as those of the KLM administration of 1970 to 1981 and direct management between 1984 and 1988. Indeed, due to poor performance of the airline in the areas of management, accounting, ticketing, route planning, etc., in spite of grown in fleet size prompted the federal government to enter into technical and management agreements with the KLM**,** Royal Dutch Airline during the Fourth plan period. It is important to note that facilities were made available to the foreign management consultants much more than in either the pre-or post-foreign management periods.

In 1980, revenue to the air transport subsector rose to ₦140million from ₦131million in 1979 but expenditure rose to ₦163million in 1980 from ₦143million in 1979, leaving a deficit of ₦23million for the 1980 year against ₦12million recorded in 1979. However, in 1981 revenue rose dramatically to ₦229.4million with expenditure as ₦246.8million, giving a deficit of ₦27.7million and in 1983 it was ₦ 47.2million.

From 1986 air fares were deregulated with the argument that fare increase was necessary because of the depreciation of the Naira following the introduction of the second-tier foreign exchange market (SFEM). Between 1986 and April, 1992, air fares went up six times: four times for domestic and two times for international with the April 1, 1992, 70per cent increase in fares on the domestic route and 290per cent rise on the international rouse represents a 2.633per cent increase over the fares deregulation followed the de-specification of fare on Nigeria decided by the International Air Transport Association (IATA), at the composite tariff conference in 1989. Again, as a result of the hike in the aviation fuel by about 500per cent (from ₦1.07 to ₦5.50 per litre), private airlines in Nigeria and the Nigeria Airways increased fares by 500per cent. However, at a conciliatory meeting with the secretary of state for Aviation and Communication, the Federal Government conceded to a 200per cent increase of ticket on all local routes. The Nigerian airways have become ineffective in the 2000, thus informing the privatisation of the subsector leaving the sector in the hand of other private operators.

SELF- ASSESSMENT EXERCISE

Compare the rail and air transport in Nigeria in the last twenty years.

3.6 Water Transport in Nigeria

3.6.1 Nature and Characteristics of Water Transport

Water transport involves travelling or conveying of goods by inland water (river, creeks and canals) and oceans and seas, hence, we have inland water transport and sea transport. Water transport possesses a number of advantages over other modes of transport in Nigeria. For example, it is relatively cheap requiring relatively low energy and manpower input, it makes possible the handling of heavy and bulky cargos that cannot be handled by other transport modes – road, rail and air. The cost of utilising shipping ports and labour facilities which are essential prerequisites to water transport development are quite economical.

3.6.2 Seaport Development in Nigeria

The activities of seaport development, maintenance and operation in Nigeria are the exclusive monopoly of the federal government. The Federal Government carries out these functions through the Nigeria ports Authority (NPA) which was statutorily created in 1995. Seaport construction and improved port services have contributed to the significant progress made in water transportation in Nigeria, due to the resulting increase in the number of seaports in the country. Seaports, for

instance increased from 2 in 1960 to 8 by 1982. The ports include Apapa, Tin Can Island (both in Lagos) Koko, Warri, Port Harcourt, Calabar, Sapele, and Burutu ports. The important role played by water transport in the growth of economic activities in the country partly explains the massive investment in port development over the years.
In the First National Development Plan, for example, the Nigerian Port Authority had a planned capital expenditure of ₦47.2million while actual expenditure stood at ₦48million reflecting ₦0.8 million or 1.6per cent increase over the planned expenditure. Under the 1970-74 development plan, the sum of ₦37.5million was allocated essentially for rehabilitation of port facilities that were damaged during the civil war as well as for the improvement of Lagos, Warri and Calabar ports.

Between 1970 and 1973, rehabilitation programme to the tune of ₦4.1million representing about 11per cent of total planned expenditure has been executed while the plans that were yet to be executed were pushed forward to the third National Development Plan. Between 1975 and 1980, a number of port development projects including the Tin Can Island port built at a cost of ₦193million and commissioned in October 1977 the Third Apapa Wharf built at a cost of ₦80million and commissioned in April 1979, the Calabar new port which gulped ₦88million and commissioned in the same year, the New port of Sapele built at a cost of ₦49million, as well as a Federal Ocean Terminal constructed at a cost of ₦130million and commissioned in November 1982 were executed amongst others. Moreover, a multipurpose new ocean terminal to be built at a cost of ₦305million was proposed. Thus, between 1975 and 1982, a total of about N679million was spent on port development of the Federal Government of Nigeria.

In the Fourth National Development Plan (1981-85), a total of ₦961.52million representing about 8.99per cent of the total ₦10, 706.6million planned for the development of the transport sector was allocated to seaport development. It is remarkable that the massive investment in port development was a fall-out of the increase tempo of economic activity following the “out boom” that following the cessation of hostilities during the civil war. The effort at reconstruction and rehabilitation of war damaged facilities aided by oil boom revenues resulting in increased port traffic and hence port congestion. At the height of the “cement armada” in 1975, many ships had to wait to berth for up to 170-180 days as against the internationally accepted 10 waiting days while up to 450 vessels were waiting to berth at the peak of the congestion at the Lagos port. Huge demurrage costs were incurred owing to the congestion. Thus the need to overcome these problems explains the giant strides at port development in Nigeria with the resultant increase in facilities for handling traffic at the various port complexes in Nigeria.

3.6.3 Maritime Services

Established under the National Shipping Policy Decree No. 10 of 1987 the National Maritime Authority (NMA) is charged with the responsibility for coordinating the implementation of the National Shipping policy which is focused at the promotion and acquisition of shipping technology and ensuring that Nigerians fully participate in the carriage of sea-borne imports and exports. The authority would for this purpose ensure that the Nigeria national carrier, (then NNSL), exercise fully Nigeria's carrying right of at least 40per cent of the freight in revenue and volume of the nation's total trade as contained in the 40:40:20 code adopted by the United Conference on Trade and Development (UNCTAD) in 1984 which gives liner vessels of the importing developing countries an exclusive right to lift 40per cent of all home-bound cargo to and from Nigeria. Moreover, NMA was empowered to grant national carrier status to indigenous shipping lines, monitor the activities of vessel of companies granted such status as well as monitor the invisible earnings received from shipping service. It was also saddled with the responsibility for allocating routes among national carriers as well as oversees the collection of port charges. In 1992 the Authority obtained an approval for the establishment of the National Maritime Bank (Nig.) Ltd, the main objective of the bank being the facilitation of the development of the Maritime Industry. The inland water service is also in operative in Nigeria.

SELF-ASSESSMENT EXERCISE

What are the constraints to water transportation in Nigeria?

4.0 CONCLUSION

The importance of the transport sector as a service sector to other sector of the economy is worth mentioning. At present, the modes of transport in Nigeria include road, railways, air, inland waterways/sea (coastal shipping and shipping engaged in international trade) as well as pipeline. These modes of transport largely satisfy the four principal factors which determine the effectiveness of any transport system: safety, convenience, speed, and cost. The major problems of road development in Nigeria can be traced to such factors as harsh and extreme climatic conditions, long distances and difficult terrains that make road construction an expensive project. Aware of the vital contribution of the rail transport system to economic development, various governments have over the year made attempts to develop the Nigerian Railway System through the funds granted to the NRC but all efforts have not yielded the desired result. The Nigeria Airways rose from fledgling airline to a buoyant and promising national carrier with 27 aircraft's in its fleet at the end of the 1970s. Instead of blossoming and progressing into maturity in the 1980s, Nigeria Airways commenced a gradual but steady decline in growth and activities, in quantity and quality of its services and has since become moribund until privatised. Water transport involves Seaport Development, Shipping Activities, Maritime and Inland water transport and is cheaper as means of conveying goods into Nigeria.

5.0 SUMMARY

This unit outlined the significance of the transport sector. It further traced the historical development of transportation in Nigeria while defining the various components and features of effective transport system. In addition the history, feature, investment and problems of various modes of transport: Road, Rail, Air and Water were equally discussed.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss the strength and weaknesses of the four major modes of transportation in Nigeria.

7.0 REFERENCES/FURTHER READING

Anyanwu, J. C. (1996). "Reform of Parastatals Sector in West Africa: A Performance Evaluation of a Partially Commercialised Nigerian Railway Corporation" *Research Report Submitted to IDRC,* Canada.

Anyanwu, et al. (1996). "The Deregulation of Air Fares and a Performance Evaluation of Nigeria Airways Ltd." *Research Report Submitted to NISER/SSCN/ National Research Work on Liberalisation.*

Anyanwu, J. C, Oyefusi, A, Oaikhenan, H. & Dimowo, F. A. (1997). *The Structure of the Nigerian Economy (1960-1997).* Anambra: Joanee Educational Publishers Ltd., pp661.

Central Bank of Nigeria, (2010). *Statistical Bulletin* for *Various Years*.

Fashola, T. & Olanrewaju, S. A. (Eds). (1986). *Transport Systems in Nigeria*. (A joint Research by Maxwell School of Citizenship and Public Affairs, Syracuse University Federal Ministry of Transport, (1989). *Digest of Transport Statistics*. Lagos.

Iwayemi, A. (1987). “Rail Transportation in Nigeria: Issues and Public Policy”. *Nigerian Journal of Economic and Social Studies*, 29(1), 77-94.

NRC *Annual Report*, Various Years, Lagos. NRC (1995). *Nigerian Railway Corporation and National Transport Development*, Lagos: NRC Press.

MODULE 2

UNIT 1 FINANCE SUBSECTOR

CONTENTS

1.0 INTRODUCTION

This unit is the first unit in this module. You will recall that we have given a general overview of the performance of the infrastructural sector in the preceding module; we later discussed three other subsectors under the infrastructural sector namely; the communication, public utility and transport subsector. In this unit we shall examine the financial subsector which is vital in the provision of fund for the running of other sectors of the economy. We shall look at the composition of the financial system.

We shall also review the activities of the financial institutions alongside the financial instruments. Highlights of the general performance of the financial sector will also form part of our discussion in this unit.

2.0 OBJECTIVES

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

- define concepts of finance and financial system
- identify the functions of various financial institution
- appraise the performance of financial sector in contribution to the GDP.

3.0 MAIN CONTENT

3.1 Composition of the Nigerian Financial System

A financial system is a conglomerate of various markets, instruments, operators and institutions that interact within an economy to provide financial services such as resource mobilisation and allocation, financial intermediation and facilitation of foreign exchange transactions to exchange foreign trade.

The Nigerian financial system consists of the Central Bank of Nigeria (CBN) as the apex regulatory authority, the Federal Ministry of Finance (FMF) as adviser of the Federal Government on its fiscal operations, other minor regulatory agencies such as The Nigerian Insurance Supervisory Board (NISB) which regulates the activities of the insurance companies and Security Exchange Commission (SEC) that is charge with the regulation of the stock market. It is also made up of the banking sector and the non-bank financial institutions (CBN, 1994). The banking sector consists of the deposit money banks (commercial and merchant banks), the specialised institutions (community, peoples, urban development and microfinance banks) and development financial institutions (development banks). The non-bank institutions include finance companies, insurance houses, pension fund administrators, discount houses and primary mortgage institutions (PMIs). Others are the Nigerian stock exchange (NSE), stockbrokers and registrars.

The Nigerian monetary system is influenced by the monetary policy of government. In general, monetary policy refers to the combination of measures designed to regulate the value, supply and cost of money in the economy in consonance with level of economic activity.

3.2 Financial Institutions

Financial institutions are institutions which serve the purpose of channeling funds from lenders to borrowers. They hold money balance of or borrow from individuals and other institutions in order to make loans or other investments. In other words, they act as financial intermediary between those who have excess fund and those who are short of fund and therefore needs temporary financial accommodation (those in the deficit saving unit). Thus, they move funds from those in surplus savings unit of the economy to those in the deficit savings unit.

Financial institutions can be broadly classified into two: bank and non-bank financial institutions. Commercial, Merchant and Development banks are institutions in the banking sector while Building Societies, Hire Purchase companies, Insurance companies, Pension Funds and Investment Trust are non-bank financial institutions.

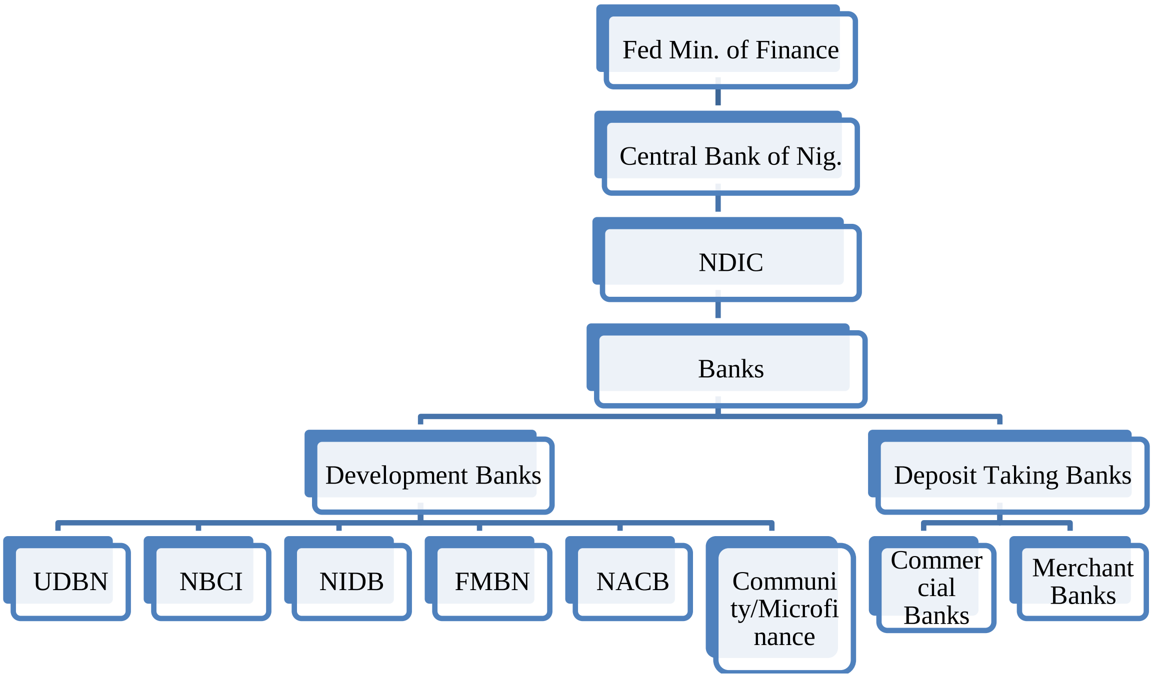

Fig.1.1: Relationship in the Nigerian Banking Sector

3.2.1 Banking Institutions

Central Bank of Nigeria (CBN)

The CBN is the apex regulatory authority of the Nigerian financial system, it was established in 1958. Its functions include ensuring and fostering monetary stability in the economy, issuing legal tender currency, maintaining the value of domestic currency, enhancing mobilisation of funds and facilitating competition among banks and non-banks financial institutions within the system. It also plays a pivotal role in the country's growth and development.

Commercial and Merchant Banks

The commercial banks in Nigeria are concerned with resource mobilisation in short, medium and long term basis. They accept deposits, grant loan advances and overdrafts to customers, provide machineries for money transfer assist in import and export services and provides foreign exchange to end users among others.

The merchant banks were established to serve the needs of corporate and institutional clients. Except for scale of operation, they have similar functions with the commercial banks and are governed by the same regulations. The adoption of conventional banking system in 2001 led to the extinction of merchant banks and they become deposit banks with the commercial banks.

3.2.2 Specialised Institutions in Nigeria

These include the defunct community banks owned by private agencies and communities which have been currently transformed into microfinance banks, the defunct people's bank established in 1988 and urban development bank established in 1992. All of these banks were made to serve interest of the people at the grassroots especially those that cannot meet up with stringent collateral demanded by the commercial banks.

3.2.3 Other Financial Institutions

Other financial Institution that play important intermediating roles in Nigeria include:

1. Nigeria Deposit Insurance Corporation (NDIC) - established in 1988 to provide deposit insurance and other related services.
2. Insurance Companies- consists of life and non-life insurance providers which mobilize long term fund and act as financial intermediaries.
3. Discount Houses - special non-bank financial institution specialising in mobilising of domestic resources through the provision of discounting/ rediscounting facilities in government short term securities.
4. Finance Companies - these companies also provide financial intermediation in the economy. Their numbers have since decline.
5. The Nigerian Industrial Development Bank - established in 1964 to provide credit and other facilities to industries for small, medium and large-scale enterprise on concessionary terms.
6. Nigerian Bank for Commerce and Industry (NBCI) - established in 1973, the primary objective of the bank is to develop indigenous enterprises through the granting of loans to small and medium-scale enterprises.
7. The Nigerian Agricultural Cooperative Bank - established in 1973 to finance agricultural projects and allied industries.
8. The Federal Mortgage Bank of Nigeria (FMBN) - established in 1977 through taking over of assets and liabilities of the Nigerian

Building Society. The bank provides banking and advisory services and research activities pertaining to housing.

9. Primary Mortgage Institutions (PMIs)- established in 1989, this institutions are concerned with property acquisition and work hand in hand with the Federal Mortgage Bank of Nigeria (FMBN).
10. Bureau de Change - in 1989, the Bureau de Change was authorised to act as dealers in the sport market for foreign exchange especially for small users.
11. The National Economic Reconstruction Fund (NERFUND) - established in 1998 with the primary objective of bridging the gap in the provision of local or foreign funds to small and medium-scale enterprises.
12. National Provident Fund (NPF) - established in 1961 as a compulsory pension scheme for non-pensionable public servants and employees in the private sector. This metamorphosed into the Nigerian Social Insurance Trust Fund (NSITF).

Generally, most of these institutions mentioned above have become defunct, either through the declaration of the conventional banking system or new policy of the government that involved transformation of some of them into new ones.

3.2.4 The Money Market

The money market is for short –term debt instruments. The primary objective is to raise short term funds for the deficit sector of the economy from the surplus sector. The principal actor in this market is the government in that it obtains funds from the market to bridge budgetary gaps by trading in short term securities such as:

- treasury bills
- treasury certificate
- call money
- certificates of deposits
- bankers unit fund and
- commercial papers.

By the financial reform of 1987 coupled with the commencement of the open market operation, the scope of the money market has been expanded.

3.2.5 The Capital Market

The market is established to mobilise long term funds for social, economic and industrial development. The market can be grouped into three namely:

- The Primary Market- this is a market for new issues of securities. Securities traded in the market include offer for subscription, right issues, debenture stocks, preference shares, state bonds and unit trust
- The Secondary Market- it consists of exchanges and over-the – counter markets where securities are bought and sold after the issuance in the primary-market
- The Unit Trust Scheme-this scheme is used for mobilising the financial resources of small and big savers. The scheme offers the advantage of low costs liquidity and high returns.

Security and Exchange Commission (SEC)

The SEC was established in 1979 as the apex regulatory organ of the capital market. The commission is to ensure adequate protection of the investing public.

Other functions are:

- the determination of the prices and the time of selling companies security
- approving the amount of such securities
- registering all security dealers and maintaining conformity with standards and professionalism
- authorising the establishment of unit trust.

3.3 Performance of the Nigerian Financial Subsector

The contribution of the financial sector to the total GDP from 1960-2008 is generally low (Table 1.1). It appreciated from 1.7 percent in 1980 to about 5per cent in 1995. The subsector however witnessed another decline in contribution to GDP from 2005 till 2010 averaging 3.7per cent for the period. As a proportion of service sector GDP, the contribution of the finance and insurance subsector is substantial, ranging from a mere 13per cent in 1985 to 42.1per cent in 1990. The contribution got to its peak (43.1per cent) in 1995 before it began to decline from year 2005 perhaps because of the reforms and clamp down on the banking sector.

Table 1.1: Contribution of the Financial Subsector to Gross Domestic Product 1960-2010 (₦million)

Sector/Subsector	1960	1965	1970	1975	1980	1985
Service Sector GDP	**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**
Finance & Insur. **Financial Institutn.** **Insurance**	0.0 - -	0.0 - -	0.0 - -	573.9 573.9 -	548.3 548.3 -	3,431.9 3,171.7 260.1
Fin&Ins. as a % Service Sector GDP	**0.0**	**0.0**	**0.0**	**13.0**	**11.6**	**18.1**
Fin&Ins. as a % Total GDP	**0.0**	**0.0**	**0.0**	**2.1**	**1.7**	**1.7**
	1990	**1995**	**2000**	**2005**	**2008**	**2010**
Service Sector GDP	**27,425.6**	**32,492.3**	**39, 881.5**	**8,5448.5**	**113,165.8**	**140,372.6**
Total GDP	**267,550.0**	**281,407.4**	**329,178.2**	**561,931.4**	**672,202.6**	**775,525.7**
Finance & Insur. **Financial Institutn.** **Insurance**	11,642.4 11,260.0 382.4	14,008.9 13,567.8 441.2	17,136.7 16,601.8 535.0	22,144.5 21,430.3 714.2	25,594.0 24,611.8 982.3	27,672.5 26,496.8 1175.6
Fin&Ins. as a % Service Sector GDP	**42.4**	**43.1**	**43.0**	**25.9**	**22.6**	**19.7**
Fin&Ins. as a % Total GDP	**4.4**	**5.0**	**5.2**	**3.9**	**3.8**	**3.6**

Source: Central Bank of Nigeria, Statistical Bulletin, Golden Jubilee Edition, 2008. National Bureau of Statistics, Statistical Bulletin, 2010 compiled 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.

SELF-ASSESSMENT EXERCISE

Make a list of the ‘bank’ and ‘non-bank’ financial institutions in Nigeria.

4.0 CONCLUSION

This unit is an exposure of the activities of the finance and insurance subsector of the service/infrastructural sector in the Nigerian economy. It began with the definition of the financial system as a conglomerate of various markets, instruments, operators and institutions that interact within an economy to provide financial services such as resource mobilisation and allocation, financial intermediation and facilitation of foreign exchange transactions to exchange foreign trade. This was followed by highlights of the functions of various bank and non-bank institutions in Nigeria, the performance of the sector was equally analysed in relation to contribution to GDP.

5.0 SUMMARY

This unit attempts a cursory look into the financial subsector under three main headings. It examines the composition of the financial system, followed by an analysis of various functions of bank and non-bank financial institutions. The last section reviews the contribution of the financial sector to national economy. You can now proceed to the second unit to examine the financial sector reforms in Nigeria as a follow up to our discussion on the financial sector in this unit.

6.0 TUTOR-MARKED ASSIGNMENT

Conventional banking is more effective than specialised banking system, argue in favour or against.

7.0 REFERENCES/FURTHER READING

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

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

.Central Bank of Nigeria. (2008). *Statistical Bulletin*. Golden Jubilee Edition, 2008.

Olalokun, et al. (1979). *Structure of The Nigerian Economy*. Lagos: Macmillian Press Ltd and University of Lagos Press.

Wikipedia, (2013). *Education in Nigeria:* Available at http//en. Wikipedia.org/wiki/education

UNIT 2 FINANCIAL SECTOR REFORMS IN NIGERIA

CONTENTS

1.0 INTRODUCTION

As earlier noted, the financial sector is vital to the development of other sectors of the economy as it provides funds for the smooth running of these sectors. A discussion on the financial sector will be incomplete without documenting the reforms that have taken place in the sector over the years. In fact the performance of the sector is largely determined by these reforms that have taken place over time. This unit is dedicated to a cursory look into this issue and most especially the effect of the reforms on the industrial sector; small and medium scale enterprises.

2.0 OBJECTIVES

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

- highlight some important reform intervention in the financial sector
- evaluate the effect of this reform on the growth of small and medium scale industries.

3.0 MAIN CONTENT

3.1 An Overview of Financial Reform in Nigeria

The financial sector reform began with the establishment of a Second-tier Foreign Exchange Market (SFEM) in September 1986 as an auction-based forum for the sale and purchase of foreign exchange. Previously the sale of foreign exchange was rigidly controlled through the use of import licenses and the exchange rate was fixed by fiat. To restore appropriate exchange rates and correct the over-valuation of the domestic currency, the authorities began the auction sales of foreign exchange to licensed dealers. A first-tier market was retained to take care of transactions related to government debt servicing, contributions to international organisations and transfers to Nigerian missions abroad.

The liberalisation of exchange rates was followed in 1987 by the full deregulation of both deposit and loan rates. In January 1987, a partial deregulation was attempted but by August, all rates had become market determined. Interest rate liberalisation was aimed at enhancing the ability of banks to charge market-based loan rates, and hence guarantee the efficient allocation of scarce resources. Simultaneously, with the interest rate deregulation, conditions for licensing new banks were relaxed. In response, the number of banks increased dramatically, from 40 in 1986 to 119 by the end of 1991. A comparable increase in the number of Non-Bank Financial Institutions (NBFIs) also occurred. The two foreign exchange markets were also unified in 1987 with the establishment of a single Foreign Exchange Market (FEM). In 1988, the government permitted the establishment of private foreign exchange bureaus. This step intended to provide a mechanism for absorbing some of the demand pressures for foreign exchange and also to accord recognition to small dealers in foreign exchange. The bureau de change was to be operated by private entrepreneurs, providing free access to foreign exchange by small dealers in an informal manner. During the same year, efforts were made to give banks expanded powers in the range of assets and liabilities they could acquire. Banks were permitted to hold stock in non-financial enterprises and to engage in insurance brokerage. The intent was to invigorate the system by encouraging serious competition among financial institutions. Another significant step was taken in 1988 with the establishment of the Nigerian Deposit Insurance Corporation (NDIC), charged with the responsibility of inducing bank deposits by promoting public confidence in the safety of the banking system and protecting depositors' interests. With this development, it was expected that financial stability would be maintained while progress was made with the other aspects of financial sector reforms.

In 1989 bank powers expanded further as permission was granted to pay interest on deposits. At the same time, efforts began to mop up excess liquidity in the system. The cash reserve requirement was raised and the practice whereby banks granted domestic loans on the security of foreign exchange deposits held abroad or in domiciliary accounts with domestic banks was prohibited. A directive that all federal and state government ministries, departments and parastatals transfer their deposits from commercial and merchant banks to the Central Bank head office or its branches in the state capitals complemented the measure. Further, in preparation for the eventual removal of direct credit controls, the auctioning of treasury bills was commenced. The instruments began to carry market-based yields as a way of making them useful for Open Market Operations (OMO) later in the liberalisation programme. To further strengthen the banking system against unforeseen shocks, the capital funds adequacy ratio was reviewed. Banks were mandated to maintain a ratio of not less than 1:10 between adjusted capital funds and total loans and advances, as against the previous ratio of 1:12. All banks were also directed to adopt a uniform reporting of all inter-bank flows (money-at-call, term deposits, etc., commercial papers, and loans and advances) in order to ensure proper monitoring of bank activities. The year 1990 witnessed a series of measures designed to strengthen bank regulation and supervision in response to the rapid expansion of financial institutions and the perceived higher risk of bank failure. First, the Central Bank began to enforce a risk-weighted measure of bank capital adequacy. Risk weighting is only in respect of perceived credit risk in each category of asset including off balance sheet items. The structure of weights is essentially based on value judgements on the relative riskiness of asset categories in broad terms. In this regard, five broad risk weights were specified: 0per cent, 10per cent, 20per cent, 50per cent and 100per cent. All banks were directed to maintain capital funds not less than 7.26per cent of total risk-weighted assets. Further, at least 50per cent of a bank’s capital must be in the form of core (primary) capital—paid-up or equity capital and disclosed reserves, i.e., shareholder’s fund. Equity capital for this purpose is defined as issued and fully paid ordinary shares and non-cumulative perpetual preferred stock. The required paid-up capital for commercial banks was increased from ₦20million to ₦50million, and that for merchant banks went up from ₦12million to ₦40million. Beginning in January 1992, banks were expected to maintain the ratio of capital to total risk-weighted assets at a minimum of 6per cent.

Also in 1990, the CBN issued prudential guidelines for licensed banks to enhance the quality of their risk assets and the soundness of their operations. Among others, the guidelines require all banks to make adequate provisions for perceived losses based on portfolio classification so as to reflect their true financial positions. Specific provisions were to be made for non-performing credit identified as substandard, doubtful or lost. Banks are also to cease accruing interest on non-performing credit facilities, while interest accrued on such accounts should not be counted as income. In order to detect early any deterioration in the quality of credit portfolio, banks are also under the guidelines mandated to review such credit portfolio on a continual basis (Ojo, 1993). In addition, a uniform accounting standard for banks was introduced to ensure the accuracy, reliability and comparability of their financial statements. The new accounting framework defined and standardised methods of treating credit risks, syndicated loans, and non-performing loans and off balance sheet items. A major aim of the new accounting standard was to ease the task of regulators in assessing the financial condition of banks in the face of increasing risks within the sector. Efforts to stabilise the economy took a new turn in 1990 as well, following the introduction of stabilisation securities. These are non-negotiable and non-transferable debt instruments of the Central Bank that banks are mandated to purchase at intervals in order to control their excess reserves. The securities carry yields slightly higher than the Treasury bill rate and quickly became the Central Bank's principal weapon of monetary control. There arose widespread concern in 1991 about the health of the financial system. Many argued that the ongoing liberalisation programme had increased systemic risk to alarming levels. The authorities responded with some regulatory measures. First an embargo was placed on further licensing of both commercial and merchant banks to prevent the banking industry from expanding beyond the authorities' regulatory capabilities. Two new decrees, the CBN Decree, No. 24 of 1991 and the Banks and Other Financial Institutions Decree (BOFID), No. 25 of 1991, which repealed the CBN Act 1958 (as amended) and the Banking Decree 1969 (as amended), respectively, came into existence. The new CBN Decree enlarged the powers of the Central Bank with regard to the maintenance of monetary stability and a sound financial system. To curtail the persistent excess liquidity in the system, the decree substantially reduced the size of the advances that the CBN may grant to the federal government in any one year. BOFID, on the other hand, concentrated on regulations that can promote the development of the financial sector in a deregulated regime. Some high points in the decree are the centralisation of the functions of bank licensing, regulation and supervision in the CBN; allowance for changes to be made to the decree without recourse to new legislation; and strengthening the regulatory powers of the CBN regarding keeping of proper books of accounts by financial institutions. The decree also provided for the control of distressed banks and winding up of failed institutions; enlargement of the duties and responsibilities of directors and external auditors of banks; and regulation of any financial sector operators in the informal sector whose activities influence the economy in a significant way.

Attempts at restructuring distressed banks also commenced later during the year; eight technically insolvent banks were identified between 1990 and 1991. To safeguard their assets, some holding actions were imposed on them while the management of one of the banks was taken over by the CBN in January 1992. Another set of five banks was taken over by the CBN in 1993 following from the same factors. Mounting complaints about the high level of loan interest rates led to the re-imposition of interest rate controls in 1991. A ceiling of 21per cent was placed on lending rates and a floor of 13.5per cent for deposit rates. The maximum permissible spread between deposit and loan rates was fixed at four percentage points. As a way of controlling the excess liquidity in the system, credit ceilings were redefined to include call money and certificates of deposit. In 1992, all interest rates were again deregulated and the Central Bank announced its desire to focus only on maintaining a given spread between lending and deposit rates. This margin was fixed at 5 percentage points.

The privatisation of government owned banks began in 1992, with government equity interest in seven banks offered for sale. The withdrawal of government interest was intended to facilitate the autonomy of bank's management, thereby improving efficiency and encouraging innovation. Previously, political interference from the government had obstructed the efficient performance of these institutions, causing them to fare worse than their privately owned counterparts. To complete the deregulation of the financial markets, all controls on the capital market were removed in December 1992. Importantly, the pricing of new issues in the market was now to be carried out by the various issuing houses, instead of the Securities and Exchange Commission (SEC). Also, an over-the-counter market was allowed to operate freely within the normal rules governing such markets. The foreign exchange market was completely overhauled in March 1992, with a major attempt made to transform the market from an auction-based one to a full inter-bank market. Weekly auctions of foreign exchange were abolished and banks were permitted to obtain foreign exchange from any available source. The Central Bank itself became an active participant, free to buy and sell foreign exchange at market determined rates. These arrangements functioned until December 1992, when they were suspended following allegations of malpractice leveled against many banks. With the increasing ineffectiveness of direct credit controls, all credit ceilings were dismantled in December 1992. The deregulation of credit, however, applied only to banks that met the Central Bank's criteria relating to capital adequacy, asset quality, managerial competence, adequate earnings and liquidity levels. Thus, credit ceilings were enforced only for those banks classified as distressed by the Central Bank.

In June 1993, Open Market Operations (OMO) was introduced. Under the scheme, OMO was to be conducted exclusively through licensed discount houses, which are supposed to constitute the open market for government securities. The principal instrument for OMO was treasury bills, with auctions taking place once a week. Banks submit open bids to discount houses, which in turn make bids to the Central Bank. The process ends when discount houses allot treasury bills to successful dealers. The introduction of OMO was meant to replace the use of direct controls for managing liquidity in the economy. In 2001, universal banking was introduced to expand operational environments of banks; the apex bank was given full autonomy in terms of supervision of other financial institution in addition to licensing, regulating and supervision of deposit money banks. Activities on improving the healthiness of the banking sector continued in the 2000s as banks capital base were raised to ₦25billion leading to merger of banks and extinction of quite others. The monitoring of the apex bank has led to declaration of distress banks in 2010 and appropriate measures and sanctions were taken to correct the anomalies. The Financial sector in recent years has witnessed a lot of reformation but more importantly the emphasis is on cashless policy and financial stability.

SELF –ASSESSMENT EXERCISE

Highlight the policy reforms in the financial sector from 1990 till date.

3.2 Sector Reforms and the Growth of Small and Medium Scale Enterprises (SMEs) In Nigeria

3.2.1 Background

The financial systems play a fundamental role in the growth and development of nations. The effectiveness and efficiency in performance of these roles depends on the level of development of the financial system, and also on the intermediation between the surplus and the deficit units of the economy. Financial sector reforms are the changes that are needed in order to establish a modern financial system capable of acting as a catalyst in allocating the economy’s savings in the most productive way among competing investment outlets. It is to ensure its soundness that had made the financial sector to be the most regulated and controlled sector of most economies. Financial sector reforms began in Nigeria with the deregulation of interest rates in 1987.

Since then, far reaching policy measures had been initiated and implemented, amongst these measures includes licensing of new banks, the capital market reforms, and the direct to indirect monetary controls have been undertaken. Globally, size had become an important ingredient for success, and the banking sector was not left out. The last few years have witnessed the creation of new banks through mergers and acquisitions, which were intended to help mobilise domestic savings, deepen and broaden intermediation, improve allocation of resources and help mobilise foreign investments.

Small and Medium scale enterprises are assumed to be the engine of growth of most economies. For both developing and developed countries, SME's plays important roles in the process of industrialisation and economic growth. Apart from increasing the per capita income and output, SME's create employment opportunities; enhance regional/sectoral economic balance through industrial dispersal and the promotion of resource utilisation. SME contributes about 40 to 60 percent of non-agricultural Gross Domestic Product (GDP) and 40 to 80 percent of employment in Asia, Africa and in the Pacific countries. In the western industrial countries, SME shares of total employment stands at more than 70 percent in the United Kingdom and United States of America (http:www.Indiversity.com globalisation and small and medium enterprises) From empirical result especially in developing countries, SMEs constitute the most viable and veritable vehicle for self-sustaining industrial development. It possesses enormous capability to grow an indigenous enterprise culture more than any other strategy. Two strands of recent literature in development economics and finance are relevant. The first strand has generated a large body of empirical evidence which shows that financial sector reform can make a significant contribution to economic growth (Levine &Demirguc-Kunt, 2001, World Bank, 2001a, Green et al., 2005). However, the exact nature of the relationships among financial sector reform and the growth of small and medium scale enterprises is less well understood (Green and Kirkpatrick, 2002; DFID, 2004). The second strand has investigated the role of small and medium enterprises SMEs development in contributing to poverty reduction and the general achievement of Millennium Development Goals (MDGs); see Snodgrass and Biggs (1996); DFID (2000); and Beck et al. (2005). For instance it has been argued that a dynamic and growing SME sector can contribute to the achievement of a wide range of development objectives, including: the attainment of income distribution and poverty reduction (DFID, 2000); creation of employment (Daniels, 1994,1999), provision of the seedbed of industrialisation (Grosh &Somolekae, 1996, World Bank, 2004); savings mobilisation (Beck et al., 2005); and production of goods and services that meet the basic needs of the people (Cook & Nixson, 2005).
In Nigeria, research efforts in the area of financial sector reforms and its impact on SMEs are minimal, when compared to the efforts into the other components of the programme such as trade liberalisation and exchange rate reforms. Even where research is available, the emphasis

has tended to be placed on the institutional aspects of the programme (Ikhide & Alawode, 1994, 2001; Ojo, 1993, and Soyibo & Adekanye, 1992) and the banking subsector (Sobodu & Akiode, 1996 and Ikhide, 1996). Despite these important roles played by SMEs, its development is everywhere constrained by inadequate funding and poor management. Unfavourable macroeconomic environment has also been identified as one of the major constraints which most times encourage financial institutions to be risk-averse in funding small and medium enterprises. The reluctance on the part of financial institutions to fund SMEs can be explained by the insufficient capital base of banks and information asymmetry that often exists between SMEs and lending institutions (Nnanna, 2001). The purpose here is to explore the interface between these two areas of development economics, by examining the ways in which financial sector reforms might contribute to the growth of small and medium enterprises in Nigeria.

3.2.2 Linkage between SMEs and Financial Institutions

Attempts to link crises in the SMEs to financial sector reforms have been met with a number of controversies. It is quite easy to enumerate reform measures and instances of crises in the system, but a lot of caution is required here in establishing causality. Sundararajan and Balino (1991) identified several ways by which financial reforms could increase the fragility of both financial and non-financial firms. These include:

a. The relaxed freedom of entry into the financial sector and freedom to bid for funds through interest rates and new instruments, which could lead to excessive risk-taking.
b. Changes in the institutional structure of the banking system that emerge during reforms, which could lead to concentration of power in banking, and interlocking ownership and lending patterns.
c. Excessive increases in interest rates arising from sharp increases in credit demand because of high business expectations and unsound liability structures – distress borrowing results and end result is financial crisis.
d. Inadequacy of instruments of monetary control or insensitivity to the need for the control of interest rates during deregulation.
e. Instability in the credit markets during deregulation, arising from inelastic demand for credit or credit rationing.
f. Excessive reliance on economic rather than prudential regulations, which should focus on bank solvency and credit risk.
g. Mismatch of investments – the deregulation of interest rates could affect financial institutions that have a large exposure to

long-term assets funded by short-term liabilities, which carry fixed interest rates (Ikhide &Alawode, 2001).

There is no doubt that the prior existence of an unstable macroeconomic environment and weaknesses in the industrial policy could have existed prior to the operation of these channels during reforms, but the manner of the implementation of the reform may facilitate the occurrence of any of the listed events, leading to industrial crisis. The significance of finance in the drive for economic growth is fairly well established and generally accepted. Nnanna (2001) observed that the take-off and efficient performance of any industrial enterprise, be it small or large , will require the provision of funds for its capitalisation, working capital and rehabilitation needs as well as for the creation of new investments. Apart from the entrepreneur, funds are required to bring together the other factors of production together before production can take place.

Provision of funds to the industrial sector, particularly, for the SMEs has been of critical interest to policy makers in both the private and public sectors. The role of finance has been viewed as a critical element for the development of small and medium-sized enterprises. Previous studies have highlighted the limited access to financial resources available to smaller enterprises compared to large organisations and the consequences for their growth and development (Levy, 1993).

Typically, smaller enterprises face higher transactions cost than large enterprises in obtaining credit (Saito & Villenuella, 1981). Poor management and accounting practices have hampered the ability of small enterprises to raise finance. Information asymmetries with lending to small-scale borrowers have restricted the flow of finance to smaller enterprises.

Stiglitz and Weis (1981) observed that small and medium scale firms with opportunities to invest in positive net present projects may be blocked from doing so because of adverse selection and moral hazard problems. Adverse selection problems arise when potential providers of external finance cannot readily verify whether the firms have access to quality projects. Moral hazard problems are associated with the possibility of SMEs diverting funds made available to them to fund alternative projects or develop the propensity to take excessive risk due to some pervasive incentive structure in the system. Steel and Webster (1992) observed that high transaction cost, risks associated with small loans, lack of collateral and a historical orientation towards larger enterprises continue to restrict small scale enterprises access to formal credit. The manufacturing sector is acknowledged to have huge potentials for employment generation and wealth creation in any economy, yet in Nigeria, the sector has stagnated and remains relatively small in terms of its contribution to Gross Domestic Product (GDP) or to gainful employment. To worsen the situation, SMEs in Nigeria do not have access to public capital markets; they naturally depend on banks for funding. Dependence on banks makes them more vulnerable for the simple reason that shocks in the banking system can have significant impact on the supply of credit to SMEs. Thus, SMEs are subject to funding problems in normal times and these problems are exacerbated during periods of financial instability.

Berger and Udell (2001), notes that shocks to the economic environment in which both banks and SMEs exist can significantly affect the willingness and capability of banks to lend to small and medium scale enterprises. These shocks according to them come in variety of forms such as technological innovation, regulatory regime shift in competitive conditions and changes in the macroeconomic environment. However, financial institutions respond to these shocks in a number of ways, one way is to develop stringent lending rules that not only avail them of full information about the firm and the owner, but also to also ensure that their investment in such firms are guaranteed in both the short and long term. They further noted that while the importance of the industrial sector in modern economies is universally accepted, the developing countries have since the 1970s shown greater interest in the promotion of the growth of small and medium scale enterprises SMEs for three main reasons:

a. the failure of past industrial policies, which were anchored on the establishment of large firms to generate efficient self-sustaining growth
b. increased emphasis on self-reliant approach to development, and
c. the greater attention paid to aspect of development other than investment and output.

He also argued, that other elements of growth which SMEs contribute to include: more economic use of resources; more employment creation per unit of capital investment; mobilisation of domestic savings for investments; development of domestic entrepreneurship; personnel development; greater utilisation of local resources; and more equitable income distribution.

Obitayo (2001) stated that SMEs are noted for their immense contributions to development processes and as the engine of growth. They are promoted as a critical segment of the manufacturing subsector as an effective strategy for tacking unemployment, diversifying output and achieving trade and balance of payment. He argued that successive Nigerian government had recognised the strategic importance of SMEs that subsidies and other support services had been provided to SMEs since independence. The growing concern about unemployment among the youth especially graduates of tertiary institutions and diminishing growth potentials in the economy have further drawn increased attention to the need to ensure the survival and growth of SMEs. Udechukwu (2007) argued that a major gap in Nigeria's industrial development process has been the absence of a strong and virile small and medium enterprises subsector. He noted that the little progress recorded from the efforts of the first generation of indigenous industrialists were almost wiped out by the massive dislocations and traumatic devaluation which took place under the Structural Adjustment Programme (SAP). He stated that the policies of SAP are rooted in the neo-classical theory of perfect competitive markets whose assumptions do not adequately reflect the constraints on SMEs in the developing countries. So much has been written on the possible factors that determine economic growth in any country. Traditional growth theory looks at capital accumulation as the most important factor in growth process, hence countries with high level of capital accumulation tend to have high rate of growth (Solow & Swen, 1956). Empirical studies have actually shown the cardinal importance of capital in economic growth. In a study covering 119 countries, Levine and Renalt (1992) found the relationship between growth and investment to be very positive. There is widespread evidence that the development of financial market sectors and institutions play a crucial role in economic growth and development.

Recent concerns about the growth and efficiency of SMEs have become prominent (Mazunder, 1997). Piere and Sabel (1984) have argued that small enterprises are more efficient because they have adopted a flexible specialisation approach and have provided the backward and forward linkages which an economy needs for self-dependence and sustenance. In the utilisation of local resources; small and medium scale industries are known for their creativity in the utilisation of local raw materials that do not require high level technology process. They produce intermediate and final consumption goods needed by larger enterprises and the economy as a whole, the symbiotic relationship is so developed that the sectors extensively depend on each other for survival. Most economies have transited from household artisan industries over time to the modern industrial set-up which has witnessed phenomenal upgrading in skills, machinery and equipment, and management practices. Historical evidence indicates that most of today's giant corporations began as very small firms. These include: Guinness of Dublin and Philips international of the Netherlands, as well as Sony and Honda of Japan. Developing countries can learn from the experiences of these giants and create a conducive environment that can enable SMEs to adapt imported technologies, modernise their process and grow to become large corporations.

Empirical Analysis

Table 2.1 below shows the two results for the impact of financial sector reforms on output performance of SMEs (Poisson regression and ordinary least estimation). In model 1, the results indicate that the coefficient of credit facilities, equity loans, business age and type of business organisation are positive and statistically significant, which suggests that financial sector reform, business age and type of business organisation have a direct effect on output performance of SMEs in Nigeria. Specifically, a unit change in type of business organisation and credit facilities will have about 8 percent and 5 percent effect on output performance of the SMEs. These results also suggest that business asset do not have any comparative advantage on output performance of SMEs.

In model 2, the estimation suggests that 67 percent of changes in output performance of SMEs were explained by comparative advantages and disadvantages of financial sector reform, firm characteristics and firm ownership. With respect to output performance, the estimates suggest that firm characteristics particularly business asset, origin of business and ownership of business are less likely to serve as the main determinant of output performance of SMEs. For example, a unit percentage change in business asset would have an inverse impact of about 2.9 percent of output performance of SMEs. Also, a unit percentage change in origin of business and ownership of business lead to about 0.5 and 0.3 percent respectively on output performance of SMEs. Additionally, the results indicate that age of business, type of business and reforms (credit facilities and equity loans) have significant impact on output performance of SMEs. A one percentage increase in age of business and type of business will lead to about 35.4 percent and 21.8 percent increase in output performance of SMEs. Financial sector reforms will have 11.1 percent and 3.8 percent direct impact on output performance of SMEs. This provides evidence to the fact that financial sector reforms, firm characteristics, firm ownership and credit facility have a significant impact on output performance of SMEs. Evidence also tends to suggest that financial sector reforms tend to exhibit multiple banking relationships with SMEs

SELF-–ASSESSMENT EXERCISE

Do the financial reforms in Nigeria have positive and negative effect on the financial sector?

Table 2.1: Effect of Financial Sector Reform on Output Performance of SMEs

Variable	Model 1(Count)	Model 2 (OLS)
Constant term	0.203 (1.65)*	0.979 (4.11) **
Firm Characteristics		
Business Assets	- 0.012 (- 0.80)	- 0.029 (- 0.95)
Age of Business	0.173 (5.92) **	0.354 (6.50) **
Type of Business	0.088 (2.92)*	0.218 (2.88) *
Organisation		
Location of Business	0.0008 (0.037)	0.17 (0.21)
Origin of Business	0.003 (0.009)	0.005 (0.30)
Firm Ownership		
Ownership of Business	0.002 (0.011)	0.003 (0.14)
Financial Sector Reform		
Credit Facilities	0.056 (2.15) *	0.111 (2.22) *
Equity Loan	0.019 (2.10) *	0. 038 (2.10) *
R2	-	0.62
R-2	-	0.67
Pseudo R2	0.028	-
DW		1.81

4.0 CONCLUSION

The reforms in the Nigerian Financial Sector have gone through series of stages thus: Two foreign exchange markets established in 1986; Interest rate controls completely removed, Bank licensing liberalised, Foreign exchange markets unified in 1987. In 1988, Foreign exchange bureaus established, Bank portfolio restrictions relaxed, Nigerian Deposit Insurance Corporation established. Also, Banks permitted to pay interest on demand deposits, Auction markets for government securities introduced, Capital adequacy standards reviewed upward and Extension of credit based on foreign exchange deposits banned in 1989. By 1990, Risk-weighted capital standard introduced and banks' required paid-up capital increased, Uniform accounting standards introduced for banks, Stabilisation securities to mop up excess liquidity introduced.

Also in 1991, Bank licensing embargoed, Central Bank empowered to regulate and supervise all financial institutions, Interest rates re-administered while in 1992, Interest rate controls removed once again, Privatisation of government-owned banks begun again, Capital market deregulation commenced, Foreign exchange market reorganised, Credit controls dismantled. Furthermore in 1993, indirect monetary instruments introduced, five banks taken over for restructuring and in 1994, interest and exchange rate controls re-imposed. Recapitalisation of the banking sector, mergers and acquisition dominated the banking reforms from 2000 while cashless policy pursuit is currently the order of the day. The effect of these reforms on the small and medium scale enterprises is fervently mixed with both positive and negative sides.

5.0 SUMMARY

This unit is a continuation of the last unit. In this unit, we reviewed the reforms in the financial sector from 1987, during the advent of SAP till present time. Furthermore, issue relating to the effect of these reforms on the industrial sector of small and medium scale enterprises was equally explained with theoretical and empirical analysis. This brings us to the end of our discussion on the financial subsector leaving us to proceed to the remaining two subsectors under the service sector, the education and the health sector.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss the significance, the procedure and likely challenges of the newly introduced cashless policy in Nigeria.

7.0 REFERENCES/FURTHER READING

Berger, A. N. & Udell, G. F. (2001). “Small Business Credit Availability and Relationship Lending: The Importance of Bank Organisational Structure”. Washington, D.C: *Federal Reserve Board Working Paper*.

Beck, T. A., Demirguc-Kunt & L. Laeven, R. L. (2005). “Finance, Firm Size and Growth”. *World Bank Policy Research Working Paper,* No. 3485.

Cook, P. & Nixson, F. (2005). “Finance and Small and Medium-Sized Enterprises Development”. In: C. J. Green, C. H. Kirkpatrick & V. Murinde (Eds). *Finance and Development: Surveys of Theory, Evidence and Policy.* Edward Elgar: Cheltenham.

Daniels, L. (1994). “Changes in the Small-Scale Enterprises Sector from 1991 to 1993: Results of a Second Nationwide Survey in Zimbabwe”. *GEMINI Technical Report* No. 71. Development Alternatives Inc: Bethesda MD.

Daniels, L. (1999). “The Role of Small Enterprises in the Household and National Economy in Kenya: A Significant Contribution or a Last Resort?” *World Development* 27(1), 55-65.

DFID. (2000). “Eliminating World Poverty: Making Globalisation Work for the Poor”. *The Department for International Development:* London.

DFID. (2004). "The Importance of Financial Sector Development for Growth and Poverty Reduction." *The Department for International Development*: London

Duru, M. & Lawal, M. K. (2012). "Financial Sector Reforms and the Growth of Small and Medium Scale Enterprises (SMEs) in Nigeria". *Universal Journal of Management and Social Sciences*, 8(2).

Garba, A. G. (2006). "The Reform Agenda and the Future of Nigeria". Draft Paper Presented at a One-day Seminar of the Nigerian Economic Society, NIIA, Victoria Island, April 25.

Green, C. J., Kirkpatrick, C. H. & Murinde, V. (2006). "Finance for Small Enterprise Growth and Poverty Reduction in Developing Countries". *Journal of International Development*, 18, 1017-1030.

Green, C. J., Kirkpatrick, C. H. & Murinde, V. (2005). *Finance and Development: Surveys of Theory, Evidence and Policy.* Edward Elgar: Cheltenham.

Green, C. J., Kimuyu, P. Manos, R. Murinde, V. (2002). "How do Small Firms in Developing Countries Raise Capital? Evidence from a Large-Scale Survey of Kenyan MSEs". *Finance and Development Working Paper* No. 54. University of Manchester: Manchester.

Grosh, B. & Somolekae, G. (1996). "Mighty Oaks from Little Acorns: Can Microenterprise Serve as the Seedbed of Industrialisation?" *World Development* 24, 1879-1890.

Ikhide, S. I. & Alawode, A. (2001). "Financial Sector Reforms, Macroeconomic Instability and the Order of Economic Liberalisation: The Evidence from Nigeria". *AERC Research Paper*, No. 112.

Ikhide, S. I. & Alawode, A. (1994). "Bank Liability Management, Structural Adjustment and Monetary Policy in Nigeria". *Nigerian Journal of Economic and Social Studies*, 33, (2).

Levine, R. (1998). "Financial Development and Economic Growth-Views and Agenda". *Journal of Economic Literature*, 35 (2), 688 – 726.

Levine, R. & Renelt, D, (1992). "A Sensitive Analysis of Cross Country Growth Regressions". *America Economic Review* 82, 942-63.

Levine, R. & Demirque-Kunt, A. (2001). "Bank-Based and Market-Based Financial Systems: Cross - Country Comparisons". In: *Financial Structure and Economic Growth: A Cross - Country Comparison of Banks, Markets, and Development*. Cambridge, MA: MIT Press: 81-140.

Levy, B. (1993). "Obstacles to Developing Indigenous Small and Medium Enterprises: An Empirical Assessment". *The World Bank Economic Review,* 7 (1), 65-83.

Mordi, C. N. O, Englama, A. & Adebusuyi, B. S. (2010) (Eds). *The Changing Structure of the Nigerian Economy*. Research Department, Central Bank of Nigeria.

Nnanna, O. J. (2001). "Financing Small Scale Business under the New CBN Directive and its likely Impact on Industrial Growth of the Nigerian Economy". *CBN Bullion,* 25 (3).

Obitayo, K. M. (2001). "Creating an Enabling Environment for Small Scale Industries". *CBN Bullion* 25 (3).

Obitayo, K. M. (1991). "Government Industrial Policies in Respect of Small and Medium Enterprises in Nigeria". *CBN Bullion,* 15 (3).

Ojo, M. (1993). "A Review and Appraisal of Nigeria's Experience with Financial Sector Reform". Central Bank of Nigeria, *Research Department Occasional Paper,* No.8.

Saito, K. & Villanueva, D. (1981). "Transaction Cost of Credit to the Small Scale Sector in the Philippines". *Economic Development and Cultural Change,* 3 (29).

Snodgrass, D. & Biggs, T. (1996). *Industrialisation and the Small Firm: Patterns and Policies*. San Francisco: ICS Press.

Staley E. & Morse, R. (1965). "Modern Small-Scale Industry". *Journal of Development Studies,* .31 (4), 529-566.

Stiglitz, J. & Weiss, A. (1981). "Credit Rationing in Market with Imperfection Information". *America Economic Review,* 71, 40-93.

Sobodu, O. & Akiode, P. (1996). ”Bank Performance, Supervision and Privatisation in Nigeria, Analysing the Transition to a Deregulated Economy”. Research Report presented at the African Economic Research Consortium Workshop, Nairobi- Kenya.

Solow, R. M. & Swen (1956). *A Contribution to the Theory of Economics*. Harvard University Press.

Soyibo, A. & Adekanye, F. (1992). “The Nigerian Banking System in the Context of Policies of Financial Regulation and Deregulation”. *Research Paper* No.17.

Sundararajan, V. & Balino, T. (1991). “Issues in Recent Banking Crises”. In: V.

Sundararajan & T. Balino, (Eds). *Banking Crises: Cases and Issues*.Washington, D.C: IMF.

Udechukwu, F. N. (2003). “Survey of Small and Medium Scale Industries and their Potentials in Nigeria”. A paper presented at the Central Bank of Nigeria (CBN) Seminar on Small and Medium Industry Equity Investment Scheme (SMIEIS).

World Bank, (2001a). *Finance for Growth: Policy Choices in Volatile World.* New York: Oxford University Press.

World Bank, (2001b). *World Development Report 2000/2001: Attacking Poverty:* New York: Oxford University Press.

World Bank, (2004). *World Bank Group Support for Small Businesses.* World Bank: Washington, DC.

UNIT 3 EDUCATION SUBSECTOR

CONTENTS

1.0 INTRODUCTION

This unit is the second unit in this module. The unit continues our discussion on the infrastructural sectors of Nigerian economy. In this unit we shall discuss the Education subsectors. Education is central to the development of any economy because of the human capital it provides for the management of material resources. Here, some conceptual definitions of education will be unveiled; you will also be opportune to learn the composition, structure and funding of the education subsector. You will also review the contribution of the sector to National Income. Lastly, the issue of deteriorating education system is raised and some remedies suggested.

2.0 OBJECTIVES

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

- define concept and significance of education
- describe the structure of the Nigerian educational system
- asses the funding of the education in Nigeria
- appraise the performance of the education subsector in the Nigerian economy.

3.0 MAIN CONTENT

3.1 Concept and Significance of Education

In its broadest meaning, education is any process by which an individual gains knowledge or insight or develop attitudes and skills. In the strict sense it is a process to attain acculturation through which the individual is helped to attain the development of the potentialities, and their maximum activation when necessary according to the right reason and to achieve his perfect self-fulfillment. It is the human resources of any nation rather than its physical capital and material resources, which ultimately determine the character and pace of economic development. Human resources constitute the ultimate basis for the wealth of a nation, capital and natural resources are passive factors of production; human beings are the active agents who accumulate capital, exploit natural resources, build social, economic and political organisation and carry forward national development. A country which is unable to develop the skill and knowledge of its citizen and to utilise them in its national economy will be unable to develop anything else. It is the formal education system that is the major institutional mechanism for developing such human skills and knowledge.

Improving and widening access to education, especially basic education has been an objective of education policy in developing countries over the past few decades. This reflects the broad recognition that education contributes to development. Basic education is often considered a right which nations have a responsibility to guarantee each generation. The evidence is overwhelming that education raises the quality of life; it improves health and productivity in market and non-market work; increases individual access to paid employment and often facilitates social and political participation.

3.2 The Structure of the Nigerian Educational System

Nigeria’s formal education system is made up of primary education, secondary education and tertiary education. The primary education is the first component of basic education, the other component being the junior secondary schools. Basic education is often considered a right which nations have a responsibility to guarantee each generation. This partly explains the adoption of the former Universal Primary Education (UPE) in 1976 and currently the Universal Basic Education (UBE). The enrolment into basic education has witnessed phenomenal growth over the years with the male in majority as compared to the female. Initially, basic education is for 6-11years and runs for a period of 6years. The primary schools is the first level of the previously adopted of 6-3-3-4 system of education. The participation of the private sector is highest at this level even though the government still funds and manages a sizeable number of primary schools.

The Nigerian secondary education is for 12-18years old. We have many of the secondary schools being owned by the federal and the state government and others under private ownership. Based on the 6-3-3-4 system of education, the secondary school is of two levels; the Junior Secondary School and the Senior Secondary School each for a period of 3years. The Junior Secondary School curriculum is both prevocational and academic while the Senior Secondary School has a comprehensive curriculum that prepares the child for higher education. Presently, the adoption of Universal Basic Education have changed the educational system to 9-3-4 in which case the primary and junior secondary education is combined to make a compulsory nine years basic education. Similarly in the secondary schools male enrolment usually dominates female enrolment.

The Nigerian tertiary of higher education system covers the Colleges of education, Colleges of Agriculture, Polytechnics, Colleges of Technology and specialised or conventional universities. Higher education in Nigeria is aimed at providing specialised manpower as well as nation building, promotion of the economic and social well-being of the nation, self-reliance and self-sufficiency. The goals of the colleges of education are to produce highly motivated, conscientious and efficient classroom teachers for the primary and junior secondary levels of the education system. The polytechnics have the objectives of production of high level and middle level manpower, technicians and technologists as appropriate in areas necessary for agricultural, industrial, commercial and economic development. On the other hand, the university education has the goals of development of high level manpower to meet the diverse needs of economic development. They carry out the function of teaching, research, extension or dissemination of existing and the new information and service to community. Currently there are about 109 universities in Nigeria consisting of Federal, State and Private Universities.

3.3 Educational Funding in Nigeria

Recurrent expenditure on education rose absolutely from ₦3.2million in 1970 to ₦2, 426.4million in 1995. It was a mere 0.55per cent of total expenditure in 1970 reaching 12.29per cent in 1995. The managers of primary secondary and secondary institutions in Nigeria are in consensus that these institutions are grossly underfunded. Evidences exist on the degree of dilapidation that characterise the primary and secondary schools buildings in the country and the irregular payment of teachers' salaries and allowances that necessities strikes, the lack of necessary teaching and learning materials at all levels of the educational system, poor working condition of all teachers among other indices. In a bid to reverse this trend the educational trade union (ASUU, SSANU, NASU and NAAT succeeded in forcing the government to sign an agreement in 2009 on allocation of minimum of 26 per cent to education in Nigeria but this has not materialised since then, the allocation is usually less than 15per cent. The situation is further worsened by the mismanagement of fund and lack of accountability.

3.4 Performance of the Education Sector

The educational subsector over the years has contributed minimally to the overall GDP as well as the specific GDP of the service sector (Table 3.1). The contribution to GDP ranges from 2.6per cent in 1960 to 3.1per cent in 1965 and 3.2 per cent by 1970. The performance of the educational sector from 1985 was extremely low in terms of contribution to GDP; in fact the contribution was stagnant at 0.2per cent of the total GDP from 1990 to 2010. The contribution of the educational sector as a per cent of the service sector contribution was not anything different. It was at very low ebb, declining from 2.1per cent in 1990 to a meager 1.1per cent by 2010. This is simply because the educational sector is mainly in the hands of the public sector and it is highly subsidised with a non-profit making orientation. There is little contribution from the private sector although a growth in this direction is being witnessed in recent times.

Table 3.1: Contribution of the Education Sector to Gross Domestic Product 1960-2010 (₦ million)

Sector/Subsector	1960	1965	1970	1975	1980	1985
Service Sector GDP	**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**
Producer of Govt. Service	**156.6**	**216.4**	**500.2**	**1,581.0**	**1,678.7**	**2,888.7**
1. Public Admin	79.8	96.8	327.6	1581.04	1678.7	2,247.5
2. Education	64.2	97.0	133.1			508.1
3. Health	12.6	22.6	39.5			133.1
Educ. as a % of Service Sector GDP	**19.9**	**21.4**	**17.1**	**-**	**-**	**2.7**
Educ. as a % of Total GDP	**2.6**	**3.1**	**3.2**	**-**	**-**	**0.3**
	1990	**1995**	**2000**	**2005**	**2008**	**2010**
Service Sector GDP	**27,425.6**	**32,492.3**	**39, 881.5**	**8,5448.5**	**113,165.8**	**140372.6**
Total GDP	**267,550.0**	**281,407.4**	**329,178.2**	**561,931.4**	**672,202.6**	**775525.7**
Producer of	3,197.2	3,467.0	3,814.1	5,294.1	6,290.2	7,038.7

Govt. Service **1. Public Admin** **2. Education** **3. Health**	 2,487.5 562.4 147.3	 2,697.4 609.8 159.8	 2,967.4 670.9 175.8	 4,105.6 964.5 224.0	 4,678.3 1,311.1 300.9	 5,091.2 1,583.4 364.1
Educ. as a % of Service Sector GDP	**2.1**	**1.9**	**1.7**	**1.1**	**1.2**	**1.1**
Educ. as a % of Total GDP	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**

Source: Central Bank of Nigeria, Statistical Bulletin, Golden Jubilee Edition, 2008.

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.

SELF-ASSESSMENT EXERCISE

Will you agree with the statement that 'education is not adequately funded in Nigeria'?

3.5 Nigeria's Deteriorating Educational Sector: Remedy

The declining state of Nigeria's educational sector, which is largely responsible for students running to foreign schools, impedes development and is a major bane to successful policies in the country.

Policy makers, the private sector, and civil society groups from various African countries, said the deplorable state of the nation's educational sector is one of the major reasons policies have not been successful.

The Deputy Minister of Communications, Science and Technology in Tanzania, Makamba said the education challenge, which cuts across Africa, should begin to be prioritised by African leaders. He said once education is addressed, other challenges would fall in place. Policies are important, they are good, but action is needed. We can start with education and end there. That is how important it is. No policy would work in Africa if we don't get education right. We can't continue with the way things are today. There is a need for an education revolution.

The future innovation starts and ends with education. We have to change the way we teach our children. Although the standard of education has been hit in many African countries, the impact it has in Nigeria has begun to attract global concerns, as the funds spent by Nigerians in the pursuit of education even in neighbouring West African country, Ghana, is more than the Federal Government spends on education in a year.

Recently, there has been an outcry on the huge sums of money Nigeria loses to foreign studies. Examination Ethics International, a non-governmental organisation, revealed that Nigeria spends over N1.5trillion on students studying abroad. In neighbouring Ghana, Nigeria spends about N160billion naira on education while in the U.K., Nigerians spend over N80 billion, the group said. Of more concern is that the majority of the population of West Africa fall in the youth category (age 15-35), a trend is projected to persist for decades. This, naturally, should promise a demographic dividend to many countries, but experts say that if only the youth can acquire the skills they need to progress.

Under current conditions, with few opportunities for upgrading skills, the dangers of youth restlessness that comes with idleness and frustration is very real, as in the Niger Delta and Northern part in Nigeria according to a report by African Centre for Economic Transformation, ACET. According to ACET, the structural weaknesses and limited diversification of the sub-region’s economies prevents job creation in sufficient numbers to absorb the growing annual number of young entrants. It also believes that the low level of literacy and other skill deficiencies further deny youth the opportunity to compete in increasingly global labour markets.

Rockfeller Foundation, an organisation which aims to achieve equitable growth by expanding opportunity for more people in places worldwide, urged that Governments should continue enacting legislation on youth education, job creation projects and a legal and financial framework to support youth self- employment. They added that the spirit of entrepreneurship among young people should also be nurtured and that further mechanism to increase youth participation will engender greater faith in the system and increase the probability of success of any initiatives.

The nation’s education system needs a total overhauling and restructuring as billions of Naira are being spent by Nigerians schooling abroad. The governments and the private sector are to pull in more effort and resources towards the development of education. There is the need for an effective monitoring of the management of funds presently being allocated to the sector, as efforts should be made to improve on what is currently being allocated to the sector, with every naira accounted for. Also, more vocational and technical education centres need to be established and the existing ones properly equipped and staffed. It is expedient that more modern learning facilities such as computers, internet web sites, and overhead projectors be provided in schools to reduce the rate at which our students ‘escape’ to other countries for educational help.

SELF-ASSESSMENT EXERCISE

Identify other challenges of education sector in Nigeria

4.0 CONCLUSION

Education is the human resource of any nation rather than its physical, capital and material resources, which ultimately determine the character and pace of economic development. Human resources constitute the ultimate basis for the wealth of a nation. Nigeria’s formal education system is made up of primary education, secondary education and tertiary education. The primary education is the first component of basic education, the other component being the junior secondary schools. Basic education is often considered a right which nations have a responsibility to guarantee each generation. Nigeria currently operates a 9-3-4 system of education with a 9 year compulsory basic education. The educational system has been underfunded overtime and the educational sector being publicly dominated contributed less to the gross domestic product.

5.0 SUMMARY

In this unit we discussed other aspects of the service/infrastructural sector. Having defined educational concepts, issues relating to the structure and composition, funding and contribution of the education subsector to the Gross Domestic Product were examined. With this explanation we have one more unit in this module and by implication one more subsector to discuss under the service sector, this subsector is the health subsector.

6.0 TUTOR-MARKED ASSIGNMENT

Apart from funding, discuss other challenges facing the education subsector in Nigeria.

7.0 REFERNCES/FURTHER READING

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

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

Bangudu, O. (2012). Available at: newsroom@premiumtimesng.com, retrieves, February 15, 2013.

Central Bank of Nigeria, (2008). *Statistical Bulletin*. Golden Jubilee Edition, 2008.FRN, (1981). National Policy on Education, Lagos

Commission on the Review of Higher Education in Nigeria (1991). Higher Education in the Nineties and Beyond, *Main Report*, Lagos.

Nwachukwu, C. (1977). "Issues and Problems of Financing Education in Nigeria". *Journal of Negro Education.* www.jstor.org/stable

Olalokun et al. (1979). *Structure of the Nigerian Economy*. Lagos: Macmillian Press Ltd and University of Lagos Press.

Wikipedia, (2013). *Education in Nigeria* Available at http//en. Wikipedia.org/wiki/education.

UNIT 4 HEALTH SUBSECTOR

CONTENTS

1.0 INTRODUCTION

This unit is the last unit in this module. The unit wraps up our discussion on the service/infrastructural sectors of Nigerian economy. In this unit we shall discuss the health subsector of the service sector. Although this sector may not be contributing substantially to the GDP, its importance cannot be overemphasised in terms of facilitation of the activities of other sectors. It is a known fact that 'health is wealth'. It is only a healthy body and mind that can contribute significantly to economic development. Here you will be introduced to some conceptual definitions and significance of the health subsector; you will be opportune to learn about the expenditure on the health subsector as well as the contribution of the subsector to GDP.

2.0 OBJECTIVES

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

- define concepts of health
- enumerate the levels and responsibilities of health care in Nigeria
- review the expenditure on health in Nigeria
- appraise the performance and challenges of the health subsector to the GDP.

3.0 MAIN CONTENT

3.1 Concepts and Significance of Health

Health is somewhat nebulous condition difficult to define and never in a state of perfection since one can be ‘really sick’ but never ‘perfectly healthy’. In the face of this, it might be useful to define health, good or bad, in terms that can be measured, can be interpreted with respect to the ability of the individual at the time of measurement to function in a normal manner with respect to the likelihood of imminent diseases. As cited in Anyanwu *et al.* (1997), health has been defined by the World Health Organisation (1996) as a state of complete physical, mental and social well-being and not merely the absence of disease or deformity.

This definition has also been interpreted as the ability to lead a socially and economically productive life. Health care implies the provision of conditions for normal, mental and physical development and functioning of the human being individually or in a group. Health they say, is wealth, it is only a healthy body with sound mind that can participate in economic activities and contribute to economic development. This is why the health subsector is a vital sector in economic development.

Health care implies the provision of conditions for normal, mental and physical development and functioning of the human being individually or in a group. It includes health protection measures; promotion of health; prevention of sickness; and curative and protective medicine in all its ramifications.

SELF-ASSESSMENT EXERCISE

Define Health and Health Care as conceptualised by the World Health Organisation (WHO).

3.2 Health Care Responsibilities

Health care is a share responsibility of all Nigerians constitutional setups, among the federal, state and local governments. The local government takes care of the primary level (emphasising Preventive Medicare, Health Clinics, Dispensaries etc.) while the state governments are responsible for the secondary level (emphasising Curative Medicare, First Referral-General Hospitals etc.). The federal government on the other hand is in charge of tertiary level (emphasising Referral Medicare) to which teaching and specialist hospitals belong.

3.2.1 Primary Health Care

Primary Health Care (PHC) is seen by 1978 Declaration at Alma-Ata as essential health care based on practical, scientifically sound and socially acceptable methods and technology, made universally accessible to individual and families in the community through their participation and at a cost that the community and the country can afford to maintain at every stage in their development, in the spirit of self-reliance and self-determination. It is the first level of contact of individuals, the family and the community with the national health system, thereby bringing health care as close as possible to where the people live and work, and constitutes the first element of a continuing health care process (Monekosso, 1992). As the Commission on Health Research for Development (1990) noted, PHC is an equity oriented health and development strategy focusing priority on the most appropriate health interventions for the most common health problems in communities of greatest need. The Alma-Ata Declaration stated that the essential elements of PHC include at least the following:

a) education concerning prevailing health problems and the methods of preventing them;
b) promotion of food supply and proper nutrition;
c) an adequate supply of safe water and basic sanitation;
d) maternal and child health care including family planning;
e) immunisation against major infectious diseases;
prevention and control of locally endemic diseases;
f) appropriate treatment of common diseases and injuries; and
g) provision of essential drugs.

Thus, as embodied in the 'Health for All' (HFA) by the year 2000 plan, it implies the promotion of the highest possible level of physical, mental and social well-being of individuals, within families, living in communities. Its practical implementation strategies involve the following inter-related activities:

a) the adoption of clear policies, strategies and plans;
b) the establishment/strengthening of health care delivery systems based on the PHC approach; and
c) the definition and implementation of community-based activities, involving many sectors and agencies.

It is not surprising therefore that the decade 1980s witnessed the emergence of PHC initiatives of many kinds including:

- Community based health actions being pursued by diverse private agencies were recognised and supported as PHC efforts advancing the goals of HFA.

- Many governments in both developing and industrialised countries adopted PHC strategies in their health sectors.
- The World Health Organisation (WHO) itself promoted HFA objectives and PHC initiatives within its internal programmes as well as with member governments.
- United Nation's Children's Emergency Fund (UNICEF) launched a 'child survival and development revolution', using social mobilisation to disseminate low cost yet effective health technologies for child survival, including universal childhood immunisation, mass utilisation of oral rehydration and the 'Bamako Initiative' to provide essential drugs in Africa.
- Several international PHC elated initiatives were launched under multiple-UN-agency sponsorship, including safe motherhood against maternal mortality; better maternal child health through family planning and a task force for child survival.
- These actions were accompanied by increased investment by some governments and development assistance agencies in PHC.

In Nigeria the targets set by various tiers of government are as follows:

Federal Government

a) the development of model LGAs in the country for PHC service delivery
b) completion of two comprehensive health centres for each of the Federal University Teaching Hospitals
c) rehabilitation of Federal-financed PHC units as well as Schools of Health Technology in the states
d) contribute financially in support of the World Bank-Assisted Sokoto and Imo Health projects and the National Essential Drug and Vaccine Programme
e) development of National Institute of Production of Vaccine and other Biological Substances in Lagos and Abuja
f) the establishment of the National Primary Health Care Development Agency (NPHCDA) for the development of the PHC nationwide
g) AIDS control and prevention programmes.

State Governments

a) provision of additional PHC facilities and the improvement and upgrading of existing ones in the state
b) completion, furnishing and equipping of on-going and abandoned basic health facilities
c) provision of equipment, drugs and supplies for the improvement and sustenance of state efforts in promoting such services as the

Expanded Programme on Immunisation (EPI), Oral Rehydration Therapy and Family Planning Services

d) the prevention and control of communicable diseases. Emphasis is placed on AIDS, Small Pox, Yellow Fever, Tuberculosis, Guinea Worm, Malaria, Leprosy etc.

Local Government Authorities (LGA)

The consolidated health projects of LGAs are essentially PHC in nature, content and orientation. Specifically, they include:

a) construction of basic health clinics and centres
b) purchase of mobile clinics, ambulances, generating sets and other PHC supporting equipment
c) provision of public conveniences
d) improvement and upgrading of existing health clinics and centres
e) provision of other equipment, drugs and other supplies to the clinics.

Consequently, activities that formed integral parts of the Nigerian PHC include: the Extended Programme on Immunisation (EPI); Oral Rehydration Therapy (ORT); Safe Motherhood and Family Planning Activities; Compilation of an Essential Drug List; and the National Formulary Decree which makes it an offence to manufacture, import, sell, display for sale, or advertise any drug not on the list. Others are Guinea worm Eradication (GWE), and National AIDS Control Programme (NACP); reduction of Tuberculosis and Leprosy; campaign against River Blindness and National Programme of Action for the Survival, Protection and Development of Nigerian Child. Apart from the financial allocation to PHC, allocation to the Department by the by the Federal Ministry of Health and Social Services (FMHSS) stood at ₦10.0million in 1990 falling to ₦9.6million in 1991, ₦9.7million in 1992 and ₦6.1million in 1993.

3.2.2 Secondary Health Care

The secondary health care level exists to provide specialised services to patients referred from primary health care level through out-patient and in-patient services at hospitals, centre for general medical, surgical and pediatric patients. This level is also expected to provide administrative, training and technical support to and supervision for the subordinate level. It serves as administrative headquarters supervising health care activities of the peripheral unit. It is available at the district, division and zonal levels of the states. Specialised supportive services such as diagnostic, blood bank, rehabilitation, and physiotherapy are often provided.

3.2.3 Tertiary Health Care

Tertiary health care, which is at the apex of the national health care system, consists of highly specialised services which provide care for specific diseases and conditions for specific groups. The institutions which falls under the tertiary health care are: teaching hospitals, specialist hospitals; orthopedic, eye, psychiatric, maternity and pediatric hospitals.

Tertiary health care institutions are often centres of high level research, training, and source of provision of specialised services in the clinical, scientific, diagnostic and technological spheres.

SELF-ASSESSMENT EXERCISE

Differentiate between the three levels of health delivery in Nigeria.

3.3 Federal Health Expenditure in Nigeria

The recurrent health expenditure in Nigeria maintained a steady rise from ₦11.9million in 1970 to ₦36.5million in 1979. It further rose to ₦172.5million in 1980 and by 1983 it has risen to ₦2, 326 million and dropped slightly to ₦2, 094million in 1984 although with some fluctuations within the years. In real terms, total health expenditure declined rapidly in 1980s and 1990s. It fell from ₦280.76million in 1990 to ₦240.8million in 1994. In fact, real health expenditures dominated nominal health expenditures between 1970s and 1984 but between 1987 and 1994 the trend reversed with a wide gap. Health expenditure in Nigeria in the 2000 has increased in absolute terms but relatively low to other sector, yet much is desired in terms of affordable health delivery in Nigeria.

3.4 Performance of the Health Sector

As seen in Table 4.1, the contribution of the health subsector to the GDP is not different from that of its education counterpart because the health sector too is largely dominated by public intervention. The subsector contributed 0.5 to the total GDP in 1960 and slightly improved to the 0.9per cent in 1970. The subsector witnessed a gross decline in contribution to 0.1per cent in 1985 and this figure remained till 2010 except in 2005 that witnessed a gross decline to a mere 0.04per cent. The decline in the sectors contribution to the GDP of the service sector also began in 1985 and this trend continued till 2010 averaging 0.3per cent for the period.

Table 4.1: Contribution of the Health Sector to Gross Domestic Product 1960-2010 (₦million)

Sector/Subsector	1960	1965	1970	1975	1980	1985
Service Sector GDP	**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**
Producer of Govt. Service	**156.6**	**216.4**	**500.2**	**1,581.0**	**1,678.7**	**2,888.7**
1. Public Admin	79.8	96.8	327.6	1,581.04	1,678.7	2,247.5
2. Education	64.2	97.0	133.1			508.1
3. Health	12.6	22.6	39.5			133.1
Health as a % of Service Sector GDP	**3.9**	**5.0**	**5.1**	**-**	**-**	**0.7**
Health as a % of Total GDP	**0.5**	**0.7**	**0.9**	**-**	**-**	**0.1**
	1990	**1995**	**2000**	**2005**	**2008**	**2010**
Service Sector GDP	**27,425.6**	**32,492.3**	**39, 881.5**	**8,5448.5**	**113,165.8**	**140,372.6**
Total GDP	**267,550.0**	**281,407.4**	**329,178.2**	**561,931.4**	**672,202.6**	**775,525.7**
Producer of Govt. Service	3,197.2	3,467.0	3,814.1	5,294.1	6,290.2	7,038.7
1. Public Admin	2,487.5	2,697.4	2,967.4	4,105.6	4,678.3	5,091.2
2. Education	562.4	609.8	670.9	964.5	1,311.1	1,583.4
3. Health	147.3	159.8	175.8	224.0	300.9	364.1
Health as a % of Service Sector GDP	**0.5**	**0.1**	**0.4**	**0.3**	**0.3**	**0.3**
Health as a % of Total GDP	**0.1**	**0.1**	**0..1**	**0.04**	**0.1**	**0.1**

Source: Central Bank of Nigeria, Statistical Bulletin, Golden Jubilee Edition, 2008. 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.

SELF-ASSESSMENT EXERCISE

Why is the contribution of health sector continuing declining over the years?

3.5 Shortfalls of Past and Present Health Policies in Nigeria

The National Health Plan of 1996-2000 identified the following major weaknesses in past and recent health policies in Nigeria:

a) Inadequate coverage: It was estimated that by 1996 about 54per cent of the population had access to modern health care services while the urban poor and rural areas are not well served.
b) The orientation of the services is inappropriate with a disproportionately high expenditure on curative services as compared to promotive and preventive health services.
c) The poor management of the services results in waste and inefficiency. Different levels of care are hence poorly coordinated.
d) The involvement of the community is minimal at critical points in the decision-making process; hence the communities are not well informed on matters affecting their health.
e) There is lack of basic health data, acting as major constraints at all stages of planning, monitoring and evaluation of health services.
f) The financial resources allocated to the health services, especially to some priority areas, are inadequate to permit them to function effectively.
g) The basic infrastructure and logistic supports are often defective owing to inadequate maintenance of buildings, medical equipment and vehicles, inadequate supply of portable water and electricity, and the poor management of drugs, vaccines and supplies system.

SELF-ASSESSMENT EXERCISE

Itemise the most critical three of the problems of health sector highlighted above.

4.0 CONCLUSION

We noted from our discussion in this unit that Health has been defined as a state of complete physical, mental and social well-being and not merely the absence of disease or deformity. Health care is a share responsibility of the federal, state and local governments. The local government takes care of the primary level (emphasising Preventive Medicare, Health Clinics, Dispensaries etc.) while the state governments are responsible for the secondary level (emphasising Curative Medicare, First Referral-General Hospitals etc.). The federal government on the other hand is in charge of tertiary level (emphasising Referral Medicare) to which teaching and specialist hospitals belong. The contribution of the health subsector to the GDP is low just like that of its education counterpart because the health sector too is largely dominated by the public intervention. Health policies in Nigeria is largely constrained by inadequate coverage, much attention on curative health, poor management, lack of basic health data and lack of basic infrastructure among others.

5.0 SUMMARY

In this last unit of this module, we defined the concept of health and health care, we examined different level of health care responsible and their respective shares. The minimal contribution of the sector to GDP was equally exposed while we finally documented the challenges of the health sector especially those that relate to policy failure over time. With these explanations, you have successfully completed your studies on the service/ infrastructural sector; no doubt you had a lengthy discussion on this sector as two modules have been dedicated to it. In the next module, you will proceed to a miscellaneous discussion on the remaining sectors in the Nigerian economy before we proceed to policy issues and other economic discourse.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss ways of surmounting the challenges facing the health sector in Nigeria.

7.0 REFERENCES/FURTHER READING

Anyanwu, J. C. (1997). *An Econometric Analysis of the Determinants of Health Expenditures in Nigeria*. University of Benin, Mimeo.

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

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

Central Bank of Nigeria (2008). *Statistical Bulletin*. Golden Jubilee Edition, 2008.

Commission on Health Research for Development, (1990). *Health Research Essential Link to Equity in Development*. Oxford: Oxford University Press,

Federal Ministry of Health. (1996). *National Health Plan* (1996-2000). FMH, Abuja

Mbanefoh, G. F, Soyibo, A. & Anyanwu, J. C. (1996). "The Demand for Health Care in Nigeria: An Econometric Analysis". Research Report submitted to the Carnegie Corporation of New York and IHPP, Washington, D.C.

Mbanefoh, G. F., Soyibo, A. & Anyanwu, J. C. (1996). "Health Care Financing and Expenditure in Nigeria". Research Report Submitted to the Carnegie Corporation of New York and IHPP, Washington, D.C.

Monekosso, G. L. (1992). "An Organisational Framework for Achieving Health for All in Developing Countries". *International Journal of Health Planning and Management*, 7(3), 22.

Olalokun et al. (1979). *Structure of The Nigerian Economy*. Lagos: Macmillian Press Ltd and University of Lagos Press.

MODULE 3

UNIT 1 TRADE AND COMMERCE SECTOR

CONTENTS

6.0 Tutor-Marked Assignment
7.0 References/Further Reading

1.0 INTRODUCTION

The first unit of this module discusses issues relating to the trade and commerce sector. It started with an introduction to the scope of commerce in Nigeria. This is followed by an exposition of the structure of trading and commerce before independence in Nigeria under three distinct headings of Trans-Saharan, Trans-Atlantic Slave and Colonial Legitimate trades. You will further read about the performance of the trade and commerce sector after independence from the point of view of internal (domestic) and external trade.

2.0 OBJECTIVES

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

- discuss the scope of general commerce and trade in Nigeria
- highlight the features and implications of Trans-Saharan, Trans-Atlantic Slave and Colonial Legitimate trades before independence
- describe the performance of the trade and commerce sector (internal and external trades) after independence.

3.0 MAIN CONTENT

3.1 Scope of Commerce and Trading

General commerce consists of the activities of buying, selling, exchange and distribution of goods and services, domestically and locally. It covers trade warehousing, transport, communications and advertising, banking, finance and insurance. The component of general commerce in Nigeria is illustrated below:

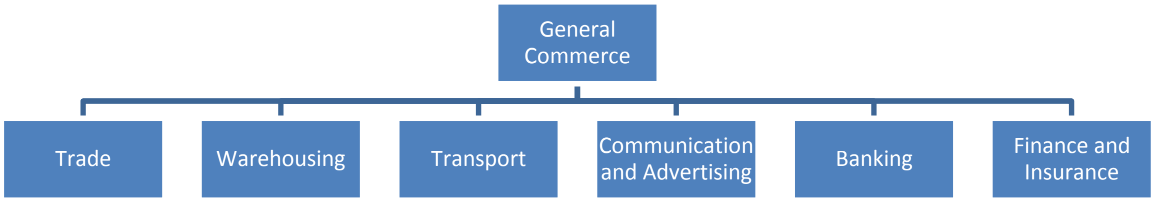

Fig.1.1: Scope of General Commerce in Nigeria

Source: Anyanwu and Madubuko (1988).

As earlier mentioned, trade is subdivided into internal (domestic) and external trade. The external trade consists mainly of importation, exportation and re-exportation of raw materials, intermediate and finished goods while the internal trade is carried out through the chains of middle men (the wholesaler and the retailer) to the consumers within the country.

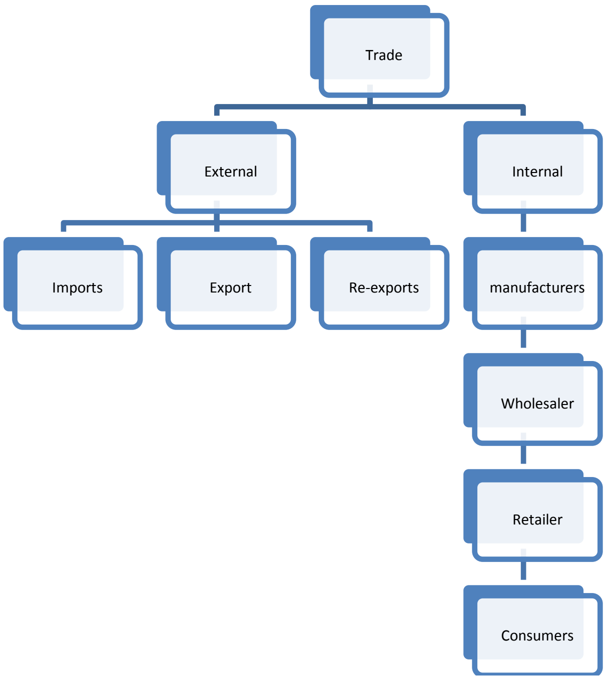

Fig.1.2: Structure of Trade in Nigeria
Source: Anyanwu and Madubuko (1988).

SELF-ASSESSMENT EXERCISE

Who are the wholesalers and the retailers in the structure of internal trade in Nigeria?

3.2 Trade and Commerce Sector before Independence

3.2.1 Background to Pre-independent Trade and Commerce

The significant feature of the indigenous economy of Nigeria was that it operates above subsistence level. All the sections of the economy were able to generate excesses that could be disposed off. This explains why external trade formed integral part of Nigerian traditional economy. The structure of division of labour and interdependence among professionals encouraged the need for market and trading. A market in the sense of traditional economy was a demarcated area where traders and consumers met to exchange products. The trading was carried out both at local (internal) and external level. Trading was exclusively in the hands of long distance traders who organised themselves into small and large caravans with associated difficulties of travelling such as harsh weather and robbery. The indigenous Nigerian economy was a dynamic one which actively engaged in diversified commercial activities and essentially dealing in agricultural products and mineral resources.

3.2.2 The Trans -Sahara Trade

The Trans-Saharan trade was regarded as the earliest branch of external trade of about 3,000 years ago. It began as early as 1,000B.C at a time when desert was crossed through the use of oxen and horses. The introduction of camel revolutionised the Trans Saharan trade as it provided a convenient link between Northern Nigeria and North Africa because camel by nature can better survive desert conditions due to ability to take an average of 227.3 litres of water at once with a load of 5.1grammes and could survive twelve days without water. The Saharan journey took two to twelve months; items transported include: gold, leather goods, dyed textile materials etc. these were exchanged for salt cowries, guns and gunpowder, Arab dresses, silks, glasses, beads, mirrors and other fancy goods.

Over time, the Trans Saharan trade witnessed the development of an efficient distributive system through specialised and experienced personnel. This included guard for security purpose, merchant who provided capital, guarantee of route safety by traditional rulers, stopovers where camels can obtain water and travelers can obtain their needs.

Implications

Trans-Saharan trade had both positive and negative impacts on Nigeria. It takes Nigeria out of isolation from the rest of the world; it also promotes the growth of the desert ports. On the other hand the Trans Saharan trade is concentrated in the hands of few royal, noble and rich families only at the neglect of the poor downtrodden in the society. Also, it later involved slave trading, thus, leading to socioeconomic dislocation. By 1870, Trans-Saharan trade fell due to political and economic reasons. This caused a re-orientation of routes towards the coast and the advent of Trans- Atlantic trade.

3.2.3 The Atlantic Slave Trade

The Atlantic slave trade according to Phillip Curtin was the largest known force of intercontinental migration in world history. It was the darkest chapter in the history of black race as it led to the dispersal of Africans all over the world. Portugal's lasting legacy for Nigeria was the initiation of Trans-Atlantic Slave Trade by 1471. The Atlantic Slave Trade developed after Europeans began exploring and establishing trading ports on the Atlantic coast of West Africa in the mid-15th century. The predisposing factor for this trade was the demand for labour on plantations (such as sugar cane plantation) especially in the tropics of Western Hemisphere. The Atlantic Slave Trade became part of a prosperity cycle known as the 'Triangular Trade'. In the first leg of the triangle, European merchants purchased African slaves with commodities manufactured in Europe or imported from European colonies in Asia. They then sold the slaves in the Caribbean and purchased such easily transportable commodity such as sugar, cotton and tobacco. Finally, the merchants would sell these goods in Europe and North America. They would use the profits from these sales to purchase more goods to trade in Africa, continuing the cycle. Britain and United States outlawed the trade in 1807 and 1808 respectively due to changing economic circumstances and rising humanitarian concerns.

Implications

Although the slave trade led to expansion of some kingdoms, the Nigerian pre- colonial traders had greatly enhanced income. However, it broadened the gap of inequality in income distribution and robbed Nigerian communities of able- bodied men and women of productive age.

3.2.4 Colonial Legitimate Trade

This period of trade began after the industrial revolution in England and abolition of colonial slave trade. Britain was eager to develop industrially and saw Africa as a cheap source of raw materials and a market for its finished products based on her exploration during Atlantic slave trade. Nigeria was rich in the production of palm oil, groundnut, cotton etc. that Britain and other European countries needed for production of soap, lubricants and candles. The production of cash crops for export spear-headed the incorporation of Nigeria into colonial economy. It enabled small scale farmers and traders to play an important role in the overseas exchange economy for the first time, though with little income. The legitimate trade in commodities attracted a number of rough-hewn British merchants to the Niger River, as well as some men who had been formally engaged in the slave trade. The colonial economy made raw materials from Nigeria to enter a wide range of manufacturing processes but the price paid for them and volume required were dictated by the imperialist. There was also an attempt to dominate the Nigerian economy through the introduction of currency, marketing boards and Research Institutes.

Implications

It is worthy of mentioning that the colonial legitimate trade promoted major agricultural goods for export of cash crops but it created problems in some areas of the economy. In fact the concentration on cash crops led to the neglect of food crops with later consequence of food insecurity.

SELF-ASSESSMENT EXERCISE

What are the advantages and disadvantages of the three types of independence trade?

3.3 Trade and Commerce Sector after Independence

3.3.1 Domestic (Internal) Trade

General commerce is made up of domestic and external trade. Domestic trade in Nigeria has been expanding in terms of volume and value since independence. The items traded include: manufactured and local foodstuffs and fruits (yams, beans, *garri*, rice, onion, oranges, bananas and plantain, maize, guinea-corn and millet, coconut, palm wine, peppers, tomatoes, potatoes, sugar cane, pineapples etc.), livestock (cattle, sheep, goat, pigs, poultry etc.), kolanuts, local protein foodstuffs (eggs, meat, fish), low value mineral products (coal, stone, marble, chips, potash, limestone, laterite etc.), timber, raw materials (tobacco leaf, groundnut, and cotton seed cake, hides and skin, cocoa, cotton lint etc.) and manufactured goods.

Manufactured and local foodstuffs accounts for over 50per cent of domestic trade in the country. This can be attributed to the size and growth rate of population. While the North and Mid-West constitute net exporters (of local foodstuffs), Lagos and Western region are significant net importers while the East is somewhat able to achieve some measures of balance. Cattles and other livestock are moved from the North to the South, kolanut from the West to the North, coal from the East to North and south, timber from West and East to the North etc. Inter-regional trading involves movements of manufactured foods and drinks, textiles and clothing, footwear engineering and construction materials, chemicals and related products across the regions. Some of the factors accountable for the growth of domestic trade in Nigeria are growing populations, improvements in transportation modes, general increase in imports and rapid urbanisation.

3.3.2 External Trade

Structurally, the Nigerian economy is tilted towards development retarding commercial and speculative activities as opposed to development inducing productive activities. The place of trading in the Nigerian economy is viewed from the angle of share of wholesale and retail trade in the total value of domestic production in the economy as well as values of imports and exports exclusive of items that are meant for further production of goods and services.

Table 1.1: Contribution of Trade and Commerce to Gross Domestic Product 1960-2010 (₦ million)

Subsectors	**1960**	**1965**	**1970**	**1975**	**1980**	**1985**
Wholesale and Retail Trade	309.4	418.4	512.9	5,718.9	6,318.0	27,876.7
% of Total GDP	12.4	13.2	12.2	21.0	20.0	13.9
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**
Wholesale and Retail Trade	35,837.7	38,310.1	43,161.9	77,283.1	117,002.9	145,034.5
% of Total GDP	13.4	13.6	13.1	13.8	17.4	18.7
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 Bulletin, Golden Jubilee Edition, 2008. National Bureau of Statistics, Statistical Bulletin, 2010 compiled 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 behaviour (growth and decline) of the general commerce subsector shown in Table 5.1.1 reveals that, in 1981, the value of wholesale trade stood at ₦9.16billion, rising by 4.26 per cent to ₦9.55billion by 1982. However, the subsector witnessed decline in 1983 and 1984, declining by 2.41per cent compared to its 1982 level and thereafter by 7.73per cent over its 1983 level to stand at ₦8.60billion in 1984. Thereafter, the subsector witnessed a recovery in 1985 having recorded an increase in output of 3.95per cent over the 1984 level with the value of transaction standing at ₦8.94billion, witnessing neither growth nor decline in the following year. From 1987 through 1995 the change in value of transaction was consistently positive although there were cases of slight decreases in the percentages recorded over these years. On the whole, the wholesale and retail trade subsector in the National income accounts witnessed an average percentage growth rate of 2.8per cent from 1981 through 1995. This growth is in sharp contrast with the trend contribution of the manufacturing sector which witnessed rather sluggish growth within the same period.

With respect to the contribution to GDP, the wholesale and retail trade sector alone accounted for 13.2 per cent of total GDP in 1965, rising to 21.0 per cent in 1975 with a decline in its contribution to 13.9 per cent in 1985, fluctuating between a respective low and high share of 13.1 per cent and 13.8 per cent between 1990 and 2005. This appreciated to 17.4 per cent in 2008 and further increased to 17.4 per cent in 2010.

In terms of import and export values, importation was valued at ₦756.4million in 1970 while export stood at ₦8856.6million same year. The total exports rose to ₦57, 7971.20million in 1989 while import rose to ₦30, 860million in the same period. On visible trade, the imports totals ₦2,496,423.69million with the breakdown as ₦402,821.00million for oil sector trade and ₦2,092,602.70million for non- oil export. Export totals ₦6, 310,247.88million; ₦6, 217,937.10million for oil sector and ₦2, 097,325.08million for non-oil sector in 2005. The balance of trade for the year was ₦2, 813,824.19million.

SELF-ASSESSMENT EXERCISE

What are the factors responsible for the growth in internal and external trade in Nigeria over the years?

4.0 CONCLUSION

From our discussion in this unit we can infer that; general commerce consists of the activities of buying, selling, exchange and distribution of goods and services, domestically and locally. The indigenous Nigerian economy was a dynamic one which actively engaged in diversified commercial activities. The Trans-Saharan trade which was regarded as the earliest branch of external trade in Nigeria liberated Nigeria from isolation but concentrated in the hand of few noble individual. This paved way for a more disadvantageous Trans-Atlantic slave trade that swept away able-bodied men in Africa. The legal abolition of slave trade gave rise to legitimate colonial trade which was targeted at extracting raw materials from Nigeria and Africa at large. After independence, manufactured and local foodstuffs accounted for over 50 per cent of domestic trade in the country attributable to the size and growth rate of population. The contribution of the sector to GDP ranges between 13 and 19 per cent from 1990 to 2010. There are trades in other goods such as cash crops, livestock, mineral resource and other raw materials. On visible trade, the import totals ₦2, 496,423.69 while Export totals ₦6, 310,247.88 in 2005. The balance of trade for the year was ₦2, 813,824.19.

5.0 SUMMARY

In this unit, you have been introduced to the scope of commerce and trade in Nigeria. The activities of the sector, phases of growth and forms of trade before independence were fully discussed. The post-independent economy was equally examined from the angle of domestic and external trade wherein statistics were analysed in terms of contribution to GDP, growth rate and imports and exports. As you have completed a discussion on the trade and commerce sector, you will have cause to read about the other three sectors in subsequent units in this module.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss the challenges of trade and commerce in Nigeria.
2. Suggest ways of surmounting such challenges.

7.0 REFERENCES/FURTHER READING

Anyanwu & Madubuko. (1988). *Commerce for Senior Secondary School Book 1*. Onitsha: Summer Publishers Ltd.

Anyanwu, J. C. (1993). *Monetary Economics. Theory, Policy and Institutions*. Onitsha: Hybrid Publishers.

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

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

Central Bank of Nigeria. *Statistical Bulletin* (Various Issues).

Olalokun et al. (1979). *Structure of the Nigerian Economy*. Ibadan: Macmillian Press Ltd and University of Lagos Press.

Olayide, S. O. (1979). *Economic Survey of Nigeria (1960-1975)*. Ibadan: Aromolaran Publishing Company Ltd.

UNIT 2 BUILDING AND CONSTRUCTION SECTOR

CONTENTS

1.0 INTRODUCTION

Another sector in the Nigerian economy is the Building and Construction sector. In this unit, we shall briefly examine the sector under three main headings: The Scope of Building and Construction, General Performance of the Building and Construction Sector and the Challenges of Building and Construction in Nigeria. As brief as our discussion in this unit shall be, the discussion shall be stocked with key points which you will find very interesting.

2.0 OBJECTIVES

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

- define the scope of building and construction sector in Nigeria
- analyse the performance of the building and construction sector in Nigeria
- appraise the challenges of the building and construction sector with a view to suggest appropriate remedy measures.

3.0 MAINCONTENT

3.1 Scope of Building and Construction

The Building and Construction sector in Nigeria consists of all establishments involved with the erection of residential and non-residential buildings as well as civil engineering works. Construction activities are varied and include jobbing contracts (labourer hired periodically for some wages), supply of building materials, construction of houses, offices, school buildings, factory buildings, roads, bridges and other complex contracts.

SELF-–ASSESSMENT EXERCISE

Is there any other component of building and construction missing above?

3.2 General Performance of the Building and Construction Sector

Existing data on the building and construction sector of the Nigerian economy are grossly inadequate. However, available statistics reveal that the contribution of building and construction to overall GDP has been very minimal since independence (Table 2.1). In 1960, the sector accounted for 4.5 per cent of the total GDP in Nigeria. This slightly improved to 5.2 per cent in 1965 and 1970. The increment continued in 1975 to 7.1 per cent and 9.7 per cent in 1980.

Table 2.1: Contribution of the Building and Construction Sector to GDP 1960-2010(₦ million)

Sectors	**1960**	**1965**	**1970**	**1975**	**1980**	**1985**
Building & Construction	110.8	162.2	221.0	1,932.5	3,056.0	3,308.0
Total GDP	**2,489.0**	**3,146.8**	**4,219.0**	**27,172.0**	**31,546.8**	**201,036.3**
% of Total GDP	**4.5**	**5.2**	**5.2**	**7.1**	**9.7**	**1.7**
Sectors	**1990**	**1995**	**2000**	**2005**	**2008**	**2010**
Building & Construction	4,350.8	5,221.7	6,433.8	8,544.5	**12,338.8**	**15,484.9**
Total GDP	**267,550.0**	**281,407.4**	**329,178.7**	**561,931.4**	**672,202.6**	**775,525.7**
% of Total GDP	**1.6**	**1.9**	**2.0**	**1.5**	**1.8**	**2.0**

Source: Central Bank of Nigeria, Statistical Bulletin, Golden Jubilee Edition, 2008. National Bureau of Statistics, Statistical Bulletin, 2011 compiled 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.

This is not unconnected with the post-civil war reconstruction activities of both the Government and private sector. The sector witnessed a huge decline between 1985 and 1990 averaging 1.65 percent. Although there was improvement in 1995 and 2000 to 1.9 and 2.0 percent respectively, this was not in any way comparable to the contribution of the sector in 1980. The sector witnessed another period of decline in 2005 and later appreciated to 1.8 and 2.0 percent in 2008 and 2010 respectively.

The contribution of the construction industry to total employment has equally been significant. Available statistics reveal that between 1960 and 1963, the sector's share of total employment was an average of over 20per cent. However, between 1963 and 1966, the percentage share fell to 9.33per cent and increased marginally to 10.17per cent in 1967, from that year the sector began to pick up again in terms of contribution to employment reaching a percentage of 20.80per cent in 1975. With the decline in the level of activities in the construction industry in the late 1980s and early nineties, it is clear that the percentage share of the sector in total employment declined as well. The massive fall in the contribution of the sector to GDP and by implication to total employment during this period is attributable to the global economic recession of the early eighties, the various austerity measures introduced in Nigeria during that period and the consequential introduction of the Structural Adjustment Programme with its implication for prices of imported raw materials.

The share of the public sector (Government) in building and construction activities (investment in construction) has been on the high side (and increasing) since independence. The share rose from 39 per cent in 1960 to 50.07 per cent in 1965 and 55.57 per cent in 1968. It is quite evident that the percentage increased further in the 1970s in view of the Government's role in the post war reconstruction. In the face of renewed commitment of the government to housing and the ever expanding organs of government in the late nineties and 2000s, the share of public sector in building and construction have continued to increase in recent times.

The sectoral distribution of construction investment reveals that between 1960 and 1965, an average of 34.28 per cent of total construction expenditure was on building (residential and official), 12.58per cent on land improvement, plantations and orchard development, 8.77per cent on transport equipment used in the construction industry, 22.95per cent on machinery and equipment while the remaining 20.50per cent was on other construction activities other than land improvement. Between 1966 and 1970, the share of buildings fell to an average of 29.86per cent, land improvement, etc. equally fell to 6.53per cent. On the other hand, investment in other construction (except land improvement), transport equipment and machinery and equipment increased to 20.92per cent, 11.32per cent and 23.6per cent respectively. Between 1970 and 1975, Building construction and land improvements etc.

further declined to an average 26.25per cent and 4.2per cent respectively. Investment in construction except land improvement rose massively to 34.05per cent and transport equipment to 15.2per cent for the same period. The trend has been in alternation till 2000's.

Foreign-owned construction companies dominated and still occupy key place in Nigeria's construction industry. Though fewer in number (compared with indigenous firms), their levels of operations (in terms of size of contracts) are far greater than those of their counterparts. The phenomenon remains even though there have been noteworthy companies in the country over the years while the former almost dominate the handling of public construction activities. The influence of the latter is felt more in the construction of private building (residential and official).

Finally, an interesting development in the general building and contribution sector is that, while other building and construction works outside of residential buildings have been having a share of GDP less than 2per cent (on the average) since 1985, the share of housing has been about 2.5per cent. In other words the, housing sub-sector has been growing at faster rate than all other building and construction activities put together since the latter half of the 1980s. This is now unconnected with the massive devaluation of the naira, under the Structural Adjustment Programme and the inflow of foreign currencies from Nigerian abroad for investment in landed properties (for their own personal use when they eventually return to the country or for letting out to willing tenants at given rates). Even in the 2000s the quest for housing among the Nigerian populace has been responsible for increasing share of housing over and above other sectors in the building and construction sector.

SELF-ASSESSMENT EXERCISE

Why the performance of building and construction sector has remained stagnant since independence?

3.3 Challenges of Building and Construction: Remedy

One of the problems that beset the construction industry in Nigeria apparent from the rising cost of inputs is the unfavourable conditions under which the construction companies carry out their works (especially when it relates to Government contracts). Rigid rules concerning disbursement of contracted payments, refusal to grant advance payment, and delay in payment of bills even in respect of complete contracts have all gone a long way in contribution to the low quality of work done in most cases, the increasing presence of uncompleted projects in the country and the general declined in the sector’s performance.

One glaring feature of the Building and Construction Industry in Nigeria is the growing dependence on imported building materials to the neglect of the use of local materials. Thus, in spite of the Structural Adjustment Programme and its implication for import substitution as observed by Bukley *et al.* (1993), “a conservation estimate of the foreign exchange content of housing investment in 1990 was such that the price of imported materials for housing construction was greater than the income from all non-oil exports”. Given the devaluation and depreciation of the naira, the implication of this is the observed high cost of new housing in Nigeria. One reason why the domestic input markets have failed to replace the imported materials used in housing construction has been identified to be the lack of credibility that a complete and adjustment has occurred in the foreign exchange market. In their opinion, for domestic producers to begin to think seriously about investing in an industry that produces non trade able goods, a credible macro and sectoral environment is needed. The credibility will have much more important effects than increased funding for research into low-cost housing production; techniques and manpower training programmes as recommended in the National Housing Policy. On a macro level, two factors are identified for credibility:

(1) a freely determined exchange rate so that imports are not subsidised relative to domestic production
(2) a less inflationary environment so that long-term finance can prosper.

On the sectoral level, credibility requires access to land and finance on competitive, affordable terms, and the allocation of domestic input production on a market rather than administrative basis with adequate designs, local materials could produce satisfactory building that will stand the test of time. Judicious use of cement, stabilised laterite brick walling (in place of sandcrete building), local raffia mat and polished raffia sticks for ceiling (rather than the costlier conventional asbestos for ceiling), etc. will surely reduce housing cost

In addition, part of the solution to the housing and other urban problems could be found in spreading industrial, commercial and administrative activities into more urban centres and making rural areas attractive to people as residential places. The integration of economic and physical planning and promotion of balance and even development should now form the bedrock of development planning in the states as one of the ways of facing the challenge of housing the urban masses in Nigeria.

Finally, In order to avoid delinquency, care should be taken to ensure that mortgagors are not made to undertake repayment scheme which they cannot keep. Greater use of a flexible scheme for repayments should be made to recover capital sooner from the high-income households. Loan recoveries could be made in a rising scale to correspond to the borrowers' income. In this manner, capital could be more quickly recouped and reinvested. There should be in addition the provision of debt counseling services explaining the meaning of interest rates and charges as well as the best way of financial management.

SELF-ASSESSMENT EXERCISE

Don't you think the abolition of mortgage bank has effect on the performance of the building and construction sector?

4.0 CONCLUSION

The unit began with the definition of scope of the building and construction sector as consisting of all establishments involved with the erection of residential and non-residential buildings as well as civil engineering works and contracts involving houses roads and bridges and supply of building materials. An examination of the general performance of the sector reveals that the sector has significantly contributed to the growth and development of the economy in terms of significant contribution to GDP and provision of employment. From our observations, it is clear that inadequate housing still constitutes a major problem of underdevelopment in Nigeria. Apparent rising cost of inputs, rigid rules and delay payment concerning disbursement of contracted payments among others constitute hindrances to the sector. Availability of fund for contract execution, foreign exchange management and sourcing raw materials internally are some of the measures needed to move the section forward.

5.0 SUMMARY

Here, we have examined the performance of the Building and Construction Industry in general; emphasis was later placed on the housing subsector. You have equally been treated to a concise appraisal of the problems confronting the industry while some measures were suggested to ameliorate those mentioned problems. With the understanding of this, you can now progress to the two sectors that cut across activities in other sectors, I mean, the private and the public sector. We shall commence with the private sector in the next unit.

6.0 TUTOR-MARKED ASSIGNMENT

In your own opinion, how can the problems of housing be reduced to the barest minimum in Nigeria?

7.0 REFERENCES/FURTHER READING

Adeniyi, F. O. (1981). "Housing the Urban Masses in Nigeria". *The Nigeria Journal of Development Studies*. 1(2), 37-48.

Anyanwu, J. C. (1990). "Housing Finance in Nigeria: The Role of Financial Institutions". *Prajnan*. 19(4), 337-353.

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

Agunbiade, A. O. (1983). *Population Growth and Housing, Population and Development in Nigeria*. Nigerian Institute of Social and Economic Research, Ibadan. pp. 70-88.

Buckley, R. M., Faulk, D. & Olayide, L. (1993). "Private Sector Participation, Structural Adjustment and Nigeria's New National Housing Policy: Lesson from Foreign Experience". *CBN Economic and Financing Review*, 31(1).

Central Bank of Nigeria, *Statistical Bulletin* (Various Years) and *Annual Reports* and *Statements of Accounts* (Various Years).

Filani, M. O. (1987). *Accessibility and Urban Poverty in Nigeria*: *The Urban Poor in Nigeria*. Ibadan: Evans Brothers (Nigeria) Publishers Ltd. pp. 128-138.

Muoghalu, L. N. (1987). *The Urban Poor and Accessibility to Public Housing in Nigeria*. Ibadan: Evans Brothers (Nigeria) Publishers Ltd., pp. 161-171.

Nwosu, E. J. (1985). "Uneven Opportunities in Urban Housing: The Case of Imo State of Nigeria and Achieving Even Development in Nigeria Problems and Prospects". *Economic Development Institute,* Enugu Campus UNN pp. 133-152.

Olaloku, F. A. et al. (1976). *Structure of the Nigerian Economy*. Lagos: Macimillan Press Ltd and the University of Lagos Press.

Oruwari, M. O. (1987). *Federal Government Low Cost Housing Project Elekhahia Revisited: The Urban Poor in Nigeria*. Ibadan: Evans Brother (Nigeria) Publishers Ltd., pp. 172-182.

UNIT 3 THE PRIVATE SECTOR

CONTENTS

1.0 INTRODUCTION

The activities of the real sectors are carried out under the private or public sector, this exercise a great influence on the structure and performance of each sector. In order words, the structure and performance of each sector varies under the private or public sector. It is based on this fact that the private sector as well as the public sector demands some attention in this course. In this unit we shall start with the analysis of structure and performance of the private sector and the effect of Government policies on the private sector. We shall leave the discussion on the public sector for the fourth and the last unit in this module.

2.0 OBJECTIVES

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

- state the types and organisations that make up the private sector in Nigeria
- analyse the performance of the private sector in Nigeria
- enumerate the private sector challenges in Nigeria
- examine government interventions to the private sector.

3.0 MAIN CONTENT

3.1 General Outlook and Performance of the Private Sector

The Second National Development Plan (NDP) distinguished between two types of participants in the Nigeria private sector; incorporated businesses and households. These two are also called the organised and unorganised private sectors. The organised private sector in Nigeria include most activities in manufacturing, mining, construction, commerce, finance and incorporated part of road transportation. These are usually coordinated under different organs such as the Manufacturers' Association of Nigeria (MAN), The Nigeria Association of Chambers of Commerce, Industries, Mines and Agriculture (NACCIMA), and the Nigerian Employers Consultative Association (NECA). The unorganised sub-sector comprise mostly agriculture, housing, distribution (excluding departmental stores), road transport, small scale industries, crafts, voluntary agencies, non-profit organisation and miscellaneous activities of individuals. Some of these are formally operated while the majority (the informal subsector) operates informally. The unorganised subsector in Nigeria contains millions of individual proprietors, petty traders, unit transport operators and self-employed craftsmen and artisans (Obadan, 1993).

The private sector in Nigeria accounts for about 75per cent of GDP in the colonial era and first post-independence decade and about 50per cent of GDP before the introduction of SAP. Also the sector contributed up to 50per cent of modern sector employment in the pre-SAP era and is the major source of gainful (general) employment in Nigeria. The contribution of the private sector to Gross Capital Formation (GCF) was 75.1per cent in1970, 86.5per cent in 1971 and 50.9per cent in 1981. However, the percentage share of Gross Investment (GI) declined significantly in the 1980s falling to 18.3per cent in1982, 11.2per cent in1987 and 20.4per cent in 1991. Since 1992 however, there has been very significant improvement in the private sector's contribution to Gross Investment (increasing from 20.4per cent in 1991 to 32.5per cent in 1992, 49.5per cent in 1993). Finally, the private sector dominates the consumption component of aggregate demand in Nigeria (from an average of 85per cent in the late 1970s and early 1980s to 90per cent in the late 1980s and early 1990s).

The sector distributions of private economic activities in Nigeria reflect the fact that the Nigeria private sector is still heavily natural resources-based. Agriculture (dominated by small-holder production) is the most important sector in terms of employment while industry accounts for most exports (over 90per cent of which are fuel and minerals). Manufacturing still accounts for as little as less than 10per cent of GDP and less than 5per cent of exports. Its contribution to employment is also less than 6per cent. In fact, the manufacturing sector is yet to make a meaningful impact on real industrialisation in Nigeria. Most of the manufacturing enterprises in the country are mainly the light assembly type and industrial output is in final consumer goods. In addition, inter-industry linkages are weak, thus undermining the possibility for a multiplier effect on the economy, and there is little transfer of technology (Obadan, 1993).

Consequent to the Structural Adjustment Programme, within the manufacturing sector, while firms in domestic resource-based industries (e.g. furniture and wood products, industrial rubber, non-metallic minerals, soap and certain food and beverage products) are expanding, established import-intensive, low domestic value-added manufacturing firms are contracting. Also the informal manufacturing sector (center around secondary sector activities such as food processing, cosmetics, footwear, and garment and tertiary activities such as transport and mechanic repairs, retail trade, food preparation and distribution) is large and growing. The urban informal sector accounts for over half of employment in manufacturing. Firms operating in this sector include household firms as well as enterprises with many employers providing important inputs and services to the rural and urban communities. Most of these enterprises were created from personal savings, or financed through informal saving schemes. Bank finance plays a very minor role in their operations.

Another feature of the private sector in Nigeria is the dominant and pervasive role of Multi-National Corporations (MNCs). One very important implication of this dominance is the marginalisation of indigenous enterprises in the sphere of direct productive economics activities (Obadan, 1993; Obadan, 2000). Foreign enterprises dominate in particular the oil sector. Indigenous private enterprises are on the other hand concentrated in the soft areas of the economy (commerce, services, small-scale and low-technology industries). The Nigerian Enterprises Promotion Decree (1972, amended in 1997) was particularly intended to significantly reduce the foreign dominant of economic activities and promote indigenous private sector involvement in the economy but this was later amended again in 1989 and repealed in1995.

SELF-ASSESSMENT EXERCISE

Briefly highlight the structure and performance of the private sector in Nigeria.

3.2 Constraints to Private Sector Growth

The Nigeria Government has done much to promote the growth and development of the private sector in Nigeria. However, there are many factors that have hindered the development of the sector. These range from civil disturbances through Government harassment and interference to uncertain exchange rates, impassable roads, frequent power failure and poor telecommunication facilities (IFC, 1995). We can classify these problems into four groups as follows:

1. weak infrastructure and a relatively unskilled labour force
2. macroeconomic instability
3. government policy constraints including the following:

   - Legal and regulatory constraints-price controls, non-transparent, uneven and slow investment licensing, slow and unreliable operation of the judicial system and land ownership laws.
   - The financial system: low level of financial intermediation, selfishly motivated lending, crowding out by the public sector, etc.
   - The structure and administration of taxation: widespread exemption and evasion, poor and uneven tax administration etc.
   - Poor dialogue between government and private sector.

4. political instability.

SELF-ASSESSMENT EXERCISE

Enumerate the challenges facing the private sector in Nigeria.

3.3 Government and the Private Sector in Nigeria: Some Reflections

The 1980s have been described as a lost decade for majority of African countries including Nigeria. This is despite the relatively modest economic growth recorded in the 1970s. The slump in commodity prices, the main source of foreign exchange, and an increased debt burden precipitated a declined from which the country (and indeed Africa) is just beginning to emerge (IFC, 1995). In the remaining part of this decade and the subsequent one, Africa generally will have to face the stark realities of a hostile international economic environment. The advent of the single market in Europe and developments in Eastern Europe are events of deep concern in view of Africa's excessive dependence on the European community for her exports. In the midst of such harsh realities, the basic aim of each country in the south of the Sahara is to bring about the economic growth that could provide better earning for the average African. It is obvious that Africa must attain collective self-reliance through the most productive and efficient use of her scare resources. Africa's human resources, her farmlands, minerals, forests, water and all other resources have to be brought into effective use to produce the best outputs for a continuous increase in the income per head and the quality of life of every person (Mohammed, 1993).

The emerging trend in the world economy today is to view and relate to the private sector as the "engine of growth". The role of the government has been redefined as being limited to:

- Providing for justice, law and order and domestic security which are necessary for the achievement of individual and corporate goals. In this context, the strengthening of the legislative and judicial institutions and guaranteeing their independence should form a critical aspect of any reform.
- Formulating and implementing broad macroeconomic policies to guide the direction of the economy and to remove temporary distribution.
- Establishing the regulatory framework to support an enabling environment for sustaining development. This reduces compliance cost and makes it possible for all economic actors to play by the rules of the game.
- Providing public goods and services (health care, basic education, basic infrastructures) that the private sector will not provide efficiently and with equity.

In this connection, it is noted that even in areas such as education and health where the case for government provision is overwhelming, recent experiences suggest that the private sector may have a role to play if the complementary roles of the government and private sectors are well response to private sector demands, has provided an appropriate enabling environment, incentives and desire policy measures. But many operators in the private sectors are not reciprocating by complying with the rules of the game. That is why, for example, government abolishes tariffs on certain imports, lower excise duties and lift bans on imports, yet these incentives will not be reflected in lower prices. The Nigerian situation contrast sharply with the successful adjustment stories of Korea, Turkey etc., where successful performance is derived primarily from initiatives taken by firms acting within a decentralised system and in response to generalised incentives.

It is clear that at present, Nigeria does not have a patriotic and viable private sector. The private sector is weak and does not seem to have its own momentum for generating growth and development. The sector is highly dependent on government policies and programmes for its survival. This weakness indicates that Nigeria does not have a viable private enterprises sector which can support real economic growth within the framework of a free enterprise system. This essentially explains why the Structural Adjustment Programme is yet to make the desired impact in certain areas. In the light of the above, it is evident that considerable role still exist with the public sector in Nigeria (apart from the traditional role). For example, the government of the Organisation for Economic Co-operation and Development (OECD) countries (which by all standards are free enterprise economics) supported the private sector by providing adequate social and economic infrastructure, and through the use of effective fiscal and monetary policies to complement market forces in the allocation of resources. The governments of Japan, Korea and Taiwan, apart from performing the traditional function of the public sector have supported private sector enterprises, whose operations met certain performance standards such as sound business and financial management. The support of the U.S. Government to private enterprises covers a wide range of areas such as price supports to farmers, financing of research and development in the agricultural sector and tariff protection for industries. In fact, the U.S. in her golden age of industrialisation was among the world's most protectionist countries. Moreover, big business enterprises in the U.S. have been regulated in the name of free competition to protect the less-powerful socio-economic groups (Ukpong, 1993).

In particular, there is the need for the Nigerian Government to maintain the policy of guided deregulation already embarked upon in view of the fact that at present the direction of the economy cannot be totally left in the hands of the private sector. As a corollary, the Government needs to handle with caution the present privatisation and commercialisation of public enterprises. Commercialisation rather than privatisation and joint-venture arrangements may be better for some key industries in terms of maximising general economic and social benefits. For the Nigerian public sector to be more able to meet the challenges of a growing economy, however, there is the need for more effective public sector management. As noted by the World Bank's comment on public sector management in Nigeria: Among the many reasons for the country's dismal development performance, the quality of public sector management is a critical one. The quality of public service delivery, including utility and infrastructure services, remain appalling, thus undermining Nigeria's competitiveness. Much federal government spending remains outside the budget process as the control mechanisms have been incapable of halting unauthorised extra-budgetary spending.

Public enterprises are badly managed and private investors are still subject to time-consuming regulatory processes. Repeated military coups, foiled or successful, and government reshuffles have characterised the development of the country since independence and have had substantial impact on the character and management of the public sector.

The country at present faces three interrelated development challenges:

a. It has to establish a viable and stable macroeconomic framework to permit the resumption of real growth.
b. It needs to refocus its development thrust towards poverty reduction. This would require the development of policies that promote efficient and sustainable growth and targeted public intervention in basic social services.
c. The need to reform public sector management through the establishment of good governance and improvement of the incentive framework for the civil service (World Bank, 1996).

In relation to the third, the critical issues that need to be addressed in Nigeria are:

a. A lack of transparency in financial management, which results in part from the failure to follow statutory required accounting and auditing procedures. Corruption and wasteful spending is the major reason behind the failure of the public sector in Nigeria. Bad policies are not as vicious in their effects on the economy as the stripes inflicted by corruption and waste (Obadan, 1993).
b. Weak planning and budgeting procedures, which provide the incentives for extra-budgetary expenditures and the lack of budgetary discipline (including rent-seeking activities).
c. A non-responsive civil service, affected by poor staffing policies, inconsistent personnel management and inadequate incentives.

These according to the World Bank's report (1996) constitute the first order distortions that need to be dealt with as a matter of urgency to support the establishment of a meaningful institutional capacity for the formulation and implementation of development policies. In addition, there is the need to define a clear philosophy on the role of public enterprises (PEs) in the economy. The obscene of such a clear vision has caused both commercial and non-commercial enterprises to be similarly organised in terms of personnel recruitment, wage policy and financial reporting. Moreover, there has been substantial political control over PEs the management of which is shrouded in secrecy without clear and transparent guidelines as to decision taken. Again investment planning and execution lack proper appraisal procedures and disbursement strategies while the recent privatisation and commercialisation exercise lacks transparency and raises ambiguities as to the impact of the programme (World Bank, 1996). There is therefore the need to define the role of PEs in the on-going structural reform and to establish the framework for those enterprises that are to remain within the jurisdiction of the public sector. For an appropriate allocation of public sector functions among the different tiers of government and the creation of a right balance of authority and accountability between the Federal, State and Local governments.

SELF-ASSESSMENT EXERCISE

Define the standard role of the government in maintaining the private sector.

4.0 CONCLUSION

We have both the organised and unorganised private sector. The organised private sector in Nigeria includes most activities in manufacturing, mining, construction, commerce, finance etc. These are usually coordinated under different organs such as MAN, NACCIMA and NECA. The unorganised sub-sector comprise mostly agriculture, housing, distribution, road transport, small scale industries, crafts, voluntary agencies, non-profit organisation and miscellaneous activities of individuals. The private sector in Nigeria accounts for about 75per cent of GDP in the colonial era and first post-independence decade and about 50per cent of GDP before the introduction of SAP. Also the sector contributed up to 50per cent of modern sector employment in the pre-SAP era and is the major source of gainful employment in Nigeria. The private sector dominates the consumption component of aggregate demand in Nigeria. The sector distributions of private economic activities in Nigeria reflect the fact that the Nigeria private sector is still heavily natural resources-based. Agriculture is the most important sector in terms of employment while industry accounts for most exports. Manufacturing still accounts for as little as less than 10per cent of GDP and less than 5per cent of exports. Its contribution to employment is also less than 6per cent. Another feature of the private sector in Nigeria is the dominant and pervasive role of Multi-National Corporations (MNCs).

One very important implication of this dominance is the marginalisation of indigenous enterprises in the sphere of direct productive economics activities.

5.0 SUMMARY

This unit is focused on the activities of the private sector. It reviews the general outlook of the sector in terms of structure, components and performance. It further highlights the major problems confronting the growth of the private sector in Nigeria. On a final note the interventions of successive government over time and the effect of dominance of the public sector on the activities of the private sector were examined.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss fully the challenges and prospects of the private sector in Nigeria.

7.0 REFERENCES/FURTHER READING

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

Central Bank of Nigeria. *Statistical Bulletin* (Various Years).

IFC, (1995). *Building the Private Sector in Africa*, Washington D.C.: International Financial Corporation.

Mohammed, A. R. (1993). "The Role of the Private Sector in Free Enterprise Economy: Managing a Free Enterprise Economy". *NES*.

Obadan, M. I. (1993). "The Workings of a Free Enterprise Economy: Managing a Free Enterprise Economy". *NES*.

Obadan, M. I. (2000). "Privatisation of Public Enterprises in Nigeria: Issues and Conditions for Success in the Second". *NCEMA*, Monograph Series, No. 1.

Ukpong, I. I. (1993). "The Role of the Public Sector in a Free Enterprise Economy: Managing a Free Enterprise Economy". *NES*.

World Bank. (1996). *Public Sector Management Strategy for West Central Africa.* (Institutional and Social Policy, Africa Region). World Bank, Washington D.C.

UNIT 4 THE PUBLIC SECTOR

CONTENTS

1.0 INTRODUCTION

This unit as aforementioned in the last unit will focus on the public sector, a counterpart of the private sector. The importance of the public sector cannot be overemphasised especially for the role they play in the provision of infrastructure and for the fact that the government is a player in many sectors of the economy. The public sector will be examined under three distinct headings of antecedents and structure; evolution; forms and structure.

2.0 OBJECTIVES

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

- trace the history of public enterprise in Nigeria
- highlight the necessities for public enterprises in Nigeria
- discuss the forms and structure of public enterprises in Nigeria.

3.0 MAIN CONTENT

3.1 Public Enterprises in Nigeria: Antecedents and Structure

The economic aspiration of any country {developed, developing, centrally planned or market-oriented}, is to socio-politically and economically transform the economy and society from its current state to a more desired state of socio- economic development in future.

However, doing this requires adequate efforts to resource mobilisation and allocation, particularly, with respect to the production, distribution and consumption of public goods. Against the background of the need to mobilise resources and also the fear, particularly, in under-developed (developing) countries that the resources to be mobilised are scarce, the Keynesian theoretical approach to economic transformation proposes large-scale involvement of the public sector in economic development programmes especially in the post 1930 economic depression period. Perhaps, in consonance with this theoretical exposition, most African countries (Nigeria inclusive) under condition of capital scarcity and structural defects in private business organisations and regardless of ideological disposition, unavoidably, extensively utilised Public Enterprises (PEs) otherwise known as State Owned Enterprises (SOEs) for resource mobilisation and allocation, especially, in the social services and utilities sector within post World-War II period. From the socio-political perspective, Ayodele (1996) conceives PEs (SOEs) as:

"business enterprises affected with public interests, bear intimate connection with the process of transportation, other socio-economic services and distribution, are under obligation to afford their facilities to the public generally upon demand at fair and non-discriminatory rates, enjoy in large measure, an independence and freedom from business competition brought about either by their acquisition of monopolistic status or by the grant of a franchise or certificate from the state placing it in this position".

Examining this concept from its economic perspectives, Tanzi (1984) cited in Ayodele and Falokun (2005), perceives it as:
"organisation whose primary function is the production and sale of goods and services, in which government or other government controlled agencies have an ownership stake that is sufficient to ensure their control over the enterprises regardless of how actively that control is exercised".

A critical but careful examination of these conceptions show that the issue of ownership, management and control of such business enterprises reside in government in order to move the nation to a more desired state in future. Perhaps, against the backdrop of the foregoing, Nigeria, for many decades up to 1986 when it adopted the World Bank and the International Monetary Fund (IMF) endorsed Structural Adjustment Programmes (SAP), made fairly extensive use of PEs, (SOEs) for its resource mobilisation and allocation. The restriction of the operation of PEs to the social services and utilities sector may not be unconnected with the multifarious socio-economic problems which the country was facing at the time. In fact, such problems included:

- inadequacy of basic infrastructure- electricity, water supply, transport services, telecommunications etc

- dependence on subsistent agriculture
- inadequacy of capital resources
- weakness of the real economic sectors of the economy, particularly, the manufacturing sector
- technological under-development for a technology breakthrough.

The impact of these problems explain why in the presence of a very weak private sector in the country, PEs had to be brought into playing the leading role at least in the supply of social services and utilities (education, information facilities, water, electricity, telecommunication, transport services etc.).

By the 1970s, the global economies had started to witness a period of commodity boom. In this regard, Nigeria derived some windfall gains from the sale of its crude oil. We may wish to recall that the price of crude oil rose persistently from about $2.00per barrel (pb) in1972 to about $4.00pb in 1980. Production equally rose from 0.5million barrel per day (mbd) in 1972 to 2.5mbd in1980. With the windfall gain from this boom, the economic activities of Public Enterprises (PEs) became expanded beyond the orthodox domain of social services and utilities and spilled to agriculture, manufacturing, mining, banking, insurance, commerce and so on. By about the mid-1980s, the total number of PEs at the federal level alone had reached about 600 enterprises while smaller ones at state and local government levels had reached about 900 enterprises, some of the PEs at the federal level include:

- National Electrical Power Authority (NEPA), a merge of the Electricity Corporation of Nigeria (ECN) and Niger Dams Authority (NDA) for the development of electricity resources.
- Nigerian National Petroleum Corporation (NNPC) which metamorphosed from the Nigerian National Oil Company (NNOC) for the development of crude oil resources.
- Water Corporation of Nigeria for the development of water resources.
- Nigerian Railway corporation (NRC) and the Nigeria Airways Limited (NAL) for rail and air transport services, respectively.
- The Nigerian Postal Services Limited (NIPOST), and the Nigerian Telecommunications Limited (NITEL), for postal and communication services, respectively.
- Eleven river basin development authorities for the development of agricultural resources.

In specific terms, PEs economic activities by the mid- 80s had incorporated economic, activities such as:

- banking and insurance
- oil prospecting, exploration, refining and marketing
- cement, paper and steel mills
- hotels and tourism
- fertiliser plants
- motor assembly plants-Peugeot Volkswagen cars
- rail, sea, air and land transportation
- agriculture via the river basin authorities.

The expansion of the PEs economic activities beyond its orthodox domain had some financial implication which did not create any financial problem at that time because of the positive impact of the windfall gains from the commodity boom of the period. In fact, by about 1980, an increasingly dominant PEs sector had emerged with the expansion of the PEs sector so much so that the sector had started to account for about 50percent of the GDP and above 65percent of the modem sector employment in Nigeria (FRN 1988).

In the mid-80s, about ₦36.465billion was invested in PEs at the federal level alone in terms of equity holding, local, annual grants or subventions. Consequent upon the negative impact of the rate of inflation on asset valuation, the Technical Committee on privatisation and Commercialisation (TCPC), the national body established to oversee the Commercialisation and Privatisation Programmes now Bureau for Public Enterprises (BPEs) on current level of assets valuation had revalued this investment at about ₦500billion (TCPC, 1993). In addition to this investment level, government had usually expended about 40per cent of its fixed capital expenditure and more than 30per cent of its recurrent expenditures on these PEs annually for the maintenance and sustenance of their activities. Besides, the production costs of the PEs were greatly subsidised in order to make for low tariffs of the produced products and services. For example, government subsidies on electricity supplies ranged between 35-52per cent up to 1986 when SAP was adopted.

3.2 The Evolution of PEs: Socio-Economic Justification

The evolution and sustenance of PEs in Nigeria were based on some development motivating factors which were not primarily ideological. This explain why the second National Development Plan, 1970-74, perceives PEs as companies which can be seen as important instrument of public intervention in the development process. In this regard the motivating justification as noted in Second National Development Plan, 1970-74 include:

- the stimulation and acceleration of economic development under condition of capital scarcity and structural defects in private business organisation
- the need to avoid the danger of leaving some sensitive sectors of the nation economy to the whims of a weak private sector which was the direct, indirect or remote control of foreign large scale industrial combines.

Rooted in these broad justifications are:

- the need to make provision for some basic services at affordable prices;
- the need for a rapid socio-economic transformation;
- bailing the private sector from the risk and uncertainties associated with the capital intensive projects linked with the provision of social services and utilities;
- the prevention of some crucial sectors of the nation economy from the dominance of foreign private entrepreneurs.

In pure ideological terms, the justifications for using PEs to motivate national development are couched under the following arguments:

- the skepticism about the efficiency of the market system to manage and allocate resources effectively for national development (Samuelson, 1983: Galbraith, 1978)
- the limitations of the price system which can only be checked using regulatory devices (private activity, regulation, subsidisation and strict control)
- the cut-throat advertising and other promotional effort of the private sector to induce people to purchase more and more of goods of marginal significance at the expense of social services and utilities that are development- oriented
- seeing the price system as a mechanism which involves coercion via the allocation of goods to those who can afford their equilibrium prices only (Samuelson, 1983).

However, in spite of the foregoing justifications which are basically more ideological than socio-economic, the impact of the global economic crisis of the 1980s on the Nigerian economy and society has exposed the weakness of these justifications.

The exposure has reflected in:

i. creating a precarious fiscal posture which could not accommodate the inefficiency of PEs; and

ii. creating some financial problems which made it difficult to retain the mechanisms for maintaining the PEs sector.

3.3 The Public Enterprise Forms and Structure

It may be recalled that the economic activities of PEs cut across the entire sectors of the economy in Nigeria. To allow for effectiveness, their formation and organisation take different forms. In this regard, the following forms existed in the country:

i. Public Utilities

These are enterprises producing some hard core infrastructure such as electricity, water, telecommunication and transport services. Such enterprises whose economic activities are related to the production of the foregoing strategic products and services were created under specific Ordinances, Parliamentary Acts or Decrees. With these legal instruments, enterprises in these categories are exempted from competition, being conferred with the monopoly status. These enterprises are usually defined as public corporations/authorities. Examples are NEPA, NIPOST, NITEL, NRC and the likes.

ii. Central Institutions

Enterprises under this form are expected to get involved in the production of some specific economic functions which are basic and strategic to the effective fiscal and financial operations in the country. Such enterprises are usually established using a special legislative procedure. Few of such institutions are the Central Bank of Nigeria (CBN), NICON, and The Mint.

iii. Incorporated Companies

There are some enterprises in which government can be classified as the sole/partial beneficial owners. Such enterprises are expected to be incorporated under the 1990 Company and Allied Matters Decree. Such enterprises are defined as incorporated enterprises in form). An example is the Flour Mills of Nigeria.

iv. Special Legislature Enterprises

Given that the economic activities/services of some enterprises are of special nature, their establishment are usually undertaken under special legislation to allow for the performance of such functional duties as health and educational services in which a country can develop hospitals and universities respectively.

v. Non-Civil Service Enterprises

In some cases, there are some economic activities that of great importance to national development. Such activities could be either outside of the utilities and the civil service as ministerial departments.

When such companies are established, they are regarded as created outside the civil service as departments of ministries. Example is Government Coastal Agency and Inland Waterways. It is important to note that each of the foregoing varying economic formulations has its own independent Board of Directors or Management Board to initiate, formulate and supervise the enterprises operating policies. However, the Ministry of Finance Incorporated (MOFI) constitutes the holding company of all government investment within and outside the country in terms of government’s participation in these varying enterprises. That is, MOFI centrally invested in enterprises on behalf of government. In this regard, it maintained full documentation of such investments in equity or loan.

We may wish to note, however, that consequent upon recent developments with respect to the advent of self-accounting status of ministries, some ministries hide under the status to make direct investment joint venture in enterprise without the knowledge of MOFI. In fact, in some cases there might be no proper documentation of such investments.

Given the foregoing forms of PEs, it was important for them to aspire for success. Thus, to ensure their success, each one of this PEs as earlier noted had its own independent Management and a Board of Directors of Management to initiate policies. However, the autonomy of PEs was constrained by their attachment to supervising ministries. This suggests that PEs enjoyed operational autonomy within the limits imposed by the supervising ministries using the civil service circulars. This further suggests that although PEs were not usually given the free hand to taking business decision (investment, operation, pricing, projects etc.) which supervising ministries often impose on them, the PEs managers remained accountable for the performance of the business.

However, the ownership structure of PEs in Nigeria, its framework allows the Ministry of Finance Incorporated (MOFI) to stand in for the Federal Government in terms of holding all government investment. In this regard, MOFI performed the under listed functions:

i. collection of all interests and dividends on behalf of government;

ii. monitoring investments within the context of the established objectives;
iii. maintenance of proper adequate and accurate records of government investments and custodian of share certificates and loan agreements;
iv. provision of guarantees where/when called upon on behalf of government; and
v. advisory role to ministries on Board representation.

Although these functions were anticipated on paper, however in practice it was different as many ventures were arranged and payment made without the knowledge of MOFI. Thus, MOFI is expected to be deficient in terms of appropriate knowledge of the level of investments. However, whatever the level of investment and given the efficient operation of PEs, they are currently being privatised under Nigeria's deregulation policy. The success of the policy may probably create a new economic structure for the Nigerian economy. The details of the privatisation of PEs will be broadly discussed in the next module.

4.0 CONCLUSION

From the socio-political perspective, Ayodele (1996) conceives PEs (SOEs) as business enterprises affected with public interests, bear intimate connection with the process of transportation, other socio-economic services and distribution, are under obligation to afford their facilities to the public generally upon demand at fair and non-discriminatory rates, enjoy in large measure, an independence and freedom from business competition brought about either by their acquisition of monopolistic status or by the grant of a franchise or certificate from the state placing it in this position. The issue of ownership, management and control of such business enterprises reside in government in order to move the nation to a more desired state in future. Some of the federal level includes NEPA, NNPC, NRC, NAL, NIPOST, NITEL, and River Basin Development Authorities. The justifications for the establishment of PEs are**: t**he need to make provision for some basic services at affordable prices; **t**he need for a rapid socio-economic transformation; **b**ailing the private sector from the risk and uncertainties associated with the capital intensive projects linked with the provision of social services and utilities; the prevention of some crucial sectors of the nation economy from the dominance of foreign private entrepreneurs. PEs are categorised into: Public Utilities, Central Institutions, Incorporated Companies**,** Special Legislature Enterprises**,** Non-Civil Service Enterprises.

5.0 SUMMARY

This is the last unit in this module. Here, we explained the antecedents of public enterprises in Nigeria. We further highlighted the rationales for setting up public enterprises in Nigeria while we discussed various categories and structures of public enterprises in Nigeria. The details of privatisation of public enterprises in Nigeria will be discussed in details in the next module.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss in details the structure and function of any two public enterprises in Nigeria.

7.0 REFERENCES/FURTHER READING

Anyanwu, J. C. (1993). *Monetary Economics: Theory, Policy and Institutions.* .Hybrid Publishers Ltd.

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

Ayodele, A. S (1991). "Public Enterprises Institutional Reforms in Nigeria". Paper presented at *NCEMA* workshop for Civil Servants in Nigeria.

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

FRN (1988). The Privatisation and Commercialisation Decree, Federal Republic of Nigeria, Abuja.

Galbraith, J. K (1978). *Affluent Society*. (3rd Revised ed.). New York: New American Library.

Samuelson, P. (1983). "The Economic Role of Private Activity". Selected Paper No.7. In: Mansfield (Ed.) *Principles of Micro Economics, Rating, Issues and Cases.*

TCPC. (1993). "The Presidency: Technical Committee on Privatisation and Commercialisation". *Final Report*, Vol.1 (*Main Report*), Nigeria

MODULE 4

UNIT 1 PRIVATISATION AND COMMERCIALISATION

CONTENTS

1.0 INTRODUCTION

Since the 1980s, government overtime has lamented the magnitude of government expenditure most of which the public sector takes the largest share of this expenditure burden. The Structural Adjustment Programme as well as National Economic Empowerment and Development Strategy have advocated for reduced government spending and a private sector led economy. In the light of this, privatisation and commercialisation has become the order of the day all over the world.

Incidentally, the privatisation programme is broadly aimed at improving operational efficiency of public enterprises (PEs) and subsequently the improvement of public finances through institutional reforms in the light of Nigeria’s fiscal imbalances. Hence, this unit is dedicated to a detail discussion on the objectives of the privatisation programme, the conceptual basis and its implementation procedure in Nigeria. The unit also covers a discussion on the merits and demerits of privatisation while suggesting a way forward for the programme.

2.0 OBJECTIVES

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

- state the objectives of privatisation
- define the types and concepts of privatisation
- describe the institutional arrangements and approach to privatisation in Nigeria
- evaluate the privatisation programme in Nigeria with a view to suggest remedy measures.

3.0 MAIN CONTENT

3.1 Background Information on the Privatisation Policy

Theoretically, and empirically, too, socio-economic development revolves around the issues of the character, structure, pattern and the evolution of desirable inter-personal relations of production, allocation and the utilisation of resources. It is therefore important to note that in a country's quest to optimally develop and manage its available primary resources, equitably allocate and effectively utilise such resources and subsequently put economic development under way, policy makers, economic planners, researchers and professionals, alike irrespective of ideological differences, usually propose effective economic regulation or deregulation, depending on the prevailing socio-economic conditions.

The primary focus of economic management through economic regulation or deregulation is economic development for the improvement of the quality and standard of living of the populace. Against the background of the foregoing perceptions, many countries (industrialised, developing and even centrally planned), regardless of ideological disposition, have currently embarked on economic deregulatory devices to attain effective economic management and consequently economic development objectives. In this regard, economic deregulation constitutes one major policy hallmark of government's efforts at restructuring of the economy. Particularly in some countries, the strength of this economic recognition is reinforced by legislatives acts, ordinances or decrees. For example, in Nigeria, the privatisation policy has it basis from Decree No.25 of October, 1988.

As at December, 2000, the total liabilities of thirty nine public enterprises were in excess of ₦1.1trillion with accumulated losses of

₦92.3billion. It is estimated that successful governments in Nigeria had invested up to ₦800billion in public enterprises but annual returns have been less than 10 percent. In the same vein, low quality of service, non-alignment of supply to demand and negative multiplier effects on the economy of their poor performance became a cause for concern. It is important to note that the deplorable economic situation in Nigeria has culminated into huge external and internal debts; chronic fiscal deficit (imbalance); and serious economic decline; all amidst abundant primary resources. Against this background, the privatisation policy has been proclaimed a viable alternative to save the country's economy from this deplorable condition.

SELF-ASSESSMENT EXERCISE

State the rationales for the adoption of privatisation policy in Nigeria.

3.2 Objectives of Privatisation

In addition to legalising the privatisation policy in Nigeria, the commercialisation and privatisation Decree (FRN, 1988) specially defines the objectives of privatisation as:

i. the rationalisation and restructuring of the public sector to lessen the dominance of unproductive investments and the reduction of enterprises budgetary burdens
ii. the re-orientation of enterprises towards a new horizon of performance improvement, viability and overall efficiency, relying on the private sector
iii. the ensurance of the realisation of positive returns on investments in enterprises
iv. checking of the absolute dependence on the treasury for funding by otherwise commercially oriented enterprises and so encouraging their approach to the capital market
v. the initiation of the economic into the process of gradual cession to the private sector in all economic activities which by their nature and type of operations are better for the private sector entrepreneurs
vi. the creation of favourable investment climate for both local and foreign investor
vii. the reduction of the magnitude of both internal and external debts
viii. the provision of institutional arrangements and operational guidelines that would ensure the gains of privatisation and commercialisation are sustained in the future.

SELF-ASSESSMENT EXERCISE

Which of the objectives stated above do you consider most relevant?

3.3 Conceptual and Theoretical Framework

Privatisation is conceptualised as:

"The transfer of government-owned shares in enterprises to private shareholders, comprising individuals and corporate bodies (FRN. 1988)".

By this conception, government would restrict itself and its agencies to the maintenance of law and order. That is, irrespective of whatever PEs could be producing utilities, social services (or other goods) they would be privatised so much so that government would not be engaged directly in the production of goods of services. However, under the privatisation scheme several scenarios of the programme exist for the attainment of economic efficiency. In fact, the Economist 1993), identifies about 57 varieties of the privatisation programme. By these varying forms, privatisation covers sub-contracting, management contracts, lease, concessions as well as build, operate and transfer schemes which entail the introduction of competitive tendering, deregulation and the establishment of surrogate markets within the public sector organisations (Jerome, 1999).

Privatisation and Commercialisation Policy is a four-pronged programme of:

i. **Partial Commercialisation-** where an enterprise was expected to operate in a way to cover at least its operating costs from its own sources, Balance could be provided in form of capital gains but on a justified basis.
ii. **Full Commercialisation-** where the affected public enterprises were to be operated as a fully commercialised enterprise, setting its prices appropriately so as to operate at a profit. Such an enterprise was not to receive any government subventions and could raise its necessary investible fund through capital market, but would still remain 100per cent government owned.
iii. **Partial Privatisation-** where the government sells only a proportion of its equity interests.
iv. **Full Privatisation-** where there would be full divestiture (selling) of all government equity interests.

SELF-ASSESSMENT EXERCISE

Differentiate between Full Privatisation and Full Commercialisation.

3.4 The Privatisation Programme: Institutional Arrangements and Implementation Procedures

There is need to establish autonomous institutions to oversee the privatisation programme, there are various administrative approaches for putting such agencies in place for effectiveness. Three of such administrative approaches are:

i. The Decentralised Methodology

Under this approach, the former PEs' supervisory ministries or government agencies form the membership of the institution of the involvement of these former ministries in the processes of privatising PEs in their jurisdiction, the approach is tagged a decentralized methodology. This approach is couched under the assumption that these former ministries known and understand the operation of the PEs under their jurisdiction better than any other institution. Hence, privatising such PEs under their supervision would be easy.

ii. The Treasury Methodology

This is a centralised approach which rests on the logic of using the relationship between the Ministry of Finance (MOF) and the National Treasury (NT) to oversee the implementation of the programme. Under the assumption that the MOF oversees the operations of the NT, the finances of PEs subsequently emanate from this ministry. It is therefore assumed that under this connection, the MOF and the NT, on behalf of government, would be able to institutionally administer the privatisation programme very well. Thus, given the involvement of the NT, this approach is tagged the treasury methodology.

iii. The Independent Focal Point Methodology (IFPM)

Under this approach, an autonomous institution is raised via the selection of natural and independent professionals, policy-makers and experts on their individual merits to constitute the central/national programme supervisory institution. That is, this approach does not rely on Public Enterprises (PEs) – related bodies for programme implementation. Rather, it considers the establishment of a neutral and independent central institution with high degree of autonomy to plan and implement the program. This approach assumes that the neutrality of the emerging institution would make it accountable only to the highest political authority and would be independent of the civil service. Technically, the autonomy of this institution, derived from its neutrality with the PEs and the ministries, makes this approach to stand out as the best to oversee the planning and execution of the privatisation programme.

The Nigerian Approach

Perhaps, given the merits of the IFPM over the other methodologies, Nigeria adopted this approach to establish its Technical Committee for Privatisation and Commercialisation (TCPC) as an autonomous institution to oversee the privatisation and commercialisation programme in the country. The legal status of the TCPC emerged from the Decree No.25 of October, 1988. However, under Decree No. 78 of 1993, the TCPC was reconstituted and named the Bureau for Public Enterprises (BPEs). Beside the TCPC, now BPE, the Nigerian government recognised early enough, the seriousness of the negative consequences of the arbitrariness of the tariffs of the products and service of affected PEs. Further, the Nigerian government also recognised the need to allow tariffs to appropriately reflect the level of investment and to also match the quality of service. Against this background, government by decree No.104 of 1992 established the Utilities Charges Commission (UCC) as a tariff regulatory independent institution. The UCC's regulatory functions became necessary under the need to expand domestic production for industrial growth, greater plants capacity utilisation and the reduction of the rates of inflation and unemployment in Nigeria.

Technically, there are about five theoretical approaches for getting public equity shares disposed under the privatisation scheme. The five modes adopted in Nigeria as presented in are:

i. The Public Sales of Share (PSS)

The PSS method, effected through the Nigerian capital market, enables enterprises with the required qualities to be on the Nigerian stock Exchange. Such qualities required for listing under the PSS method include:

a. having clean record of profitable operation for five years; and
b. having a good history of dividend payment, usually not below 5 per cent for 3 years.

In Nigeria, the TCPC privatised 35 PEs via this approach and also sold more than 1.5billion shares to private individuals and associations throughout the country as at 1995.

ii Private Placement (PP)

Some PEs have small government holding which were difficult for the TCPC to persuade shareholders to take up under a public offer of shares when such PEs qualified for the listing requirements of the stock exchange. Besides, there could be some minor cases where the full potentials for listing are yet to be exploited. Under this situation, there could be hope that they would be nurtured for a few more years. Given these conditions the PP approach was be applied. In Nigeria, seven enterprises were privatised using the PP methodology.

iii The Sales of Assets (SOA)

Some PEs could have unimpressive track records while their future outlook could be hopeless. Under these conditions such PEs would not feature under the PSS or PP because of the non-possession of the listing requirements. In this regard, such PEs would have their assets liquidated and sold piece-meal through public tender. The sale of 18 PEs out of 26 PEs was handled by the Federal Ministries of Agriculture and Transport before the establishment of the TCPC in 1988.

iv. Management Buy Out (MBO)

Whatever the economic conditions of any enterprises, the organising institution can decide to sell the entire affected enterprise or a substantial part of its equity capital to the workers. In this regard, the reorganisation and management of such enterprises would purely be those of the TCPC under the MBO approach in Nigeria.

v. Deferred Public Offer (DPO)

In spite of the awareness of PEs inefficiency, it is usually assumed that some of them could be considered viable. Under this situation, selling such PEs by equity shares may lower the anticipated revenue there from than the real value of the underlying assets. Given this situation, the DPO approach could be adopted to revalue the assets and subsequently negotiate, on a willing-buyer/willing-selling basis, a price that is more reflective of the current value of the affected PEs assets. Nigeria adopted this approach on the condition that the new owners would sell not less than 40per cent of the equity to the Nigerian public within five years of the takeover. In fact, four hotels were privatised in Nigeria using this approach.

Table 1.1: Privatisation by Modes in Nigeria on Sectoral Classification

	PSS	**DPO**	**PP**	**SOA**	**MBO**
Insurance	13	-	-	-	1
Banking	9	-	1	-	-
Manufacturing	10	-	6	6	-
Petroleum Marketing	3	-	-	-	-
Tourism/Hotels	-	4	-	-	-
Transport	-	-	-	2	-
Total	35	4	7	8	1

Source: TCPC, 1993

The 1994/97 Period of the Second Phase of Privatisation in Nigeria

Admittedly, the privatisation programme in Nigeria started with great enthusiasm on the parts of government and the entire Nigerian populace in 1986 or thereabout. However, by the early 1990s the programme had attracted a lot of criticisms due to some inadequacies in the implementation of the programme and the huge losses incurred by government on its investments, besides, except for air transport and the postal services, a truly competitive market environment as envisaged in the commercialisation and privatisation decree remained elusive up till 1994.

Additionally, political and bureaucratic factors, contrary to expectations reared their heads to create some setbacks in the privatisation process, particularly in the face of the considerable controversy that surrounded the implementation programme. The pricing of some products and services (e.g. petroleum products) remained arbitrary. Government also noted some setbacks in the privatisation programme which probably arose from some political and bureaucratic factors, as noted earlier and subsequently assumed that there were certain enterprises which, if fully privatised, would culminate in government disposing of its assets at giveaway prices. In recognition of the above lapses in the privatisation programme, government decided in the best interest of country to suspend it at the end of 1994. In spite of this suspension, the Federal Government in its 1995 budget speech reaffirmed its commitment to the PEs institutional reform. Thus, a new policy of contract leasing was to replace the sale of shares in PEs as from January, 1995 (FRN, 1995).

The leasing arrangement was to involve contract leasing enterprises to both local and foreign entrepreneurs on as it were basis. In its 1996 budget statement, government indicated its intention to allow the private sector entrepreneurs to invest and compete with the public sector in the provision of utilities, particularly, electricity, transport services and telecommunication whose enterprises were initially commercialised.

Not much was done within the 1995/97 period in the sphere of contract leasing arrangements. However, in 1998, Federal Government budget statement, perhaps, in line with the spirit of the Vision 2010 Report, finalised also in 1998 (FRN 1998), government resolved to commence the privatisation programme to evolve a private sector-led Nigerian economy focusing more, specifically, on NITEL, NEPA and NIPOST.

Against the background of the criticisms and setbacks of the first phase of the programme, government expressed its determination to ensure that the gains of the programme for the populace outweigh whatever losses that would occur. Besides, it is anticipated that the programme would be instrumental to the-evolution of a wider business ownership and also to the stimulation of the process of competition necessary for the assurance of efficiency. To this end, the 'Guided Privatisation', a microeconomic strategy, was adopted to the neglect of the former macroeconomic approach adopted in the first phase.

In this regard, the Decree No. 28 of May, 1999, was promulgated to provide a legal backing to the guided privatisation programme. In accordance with this decree, the National Council on Privatisation (NCP) is at the apex of programme institutional framework for the policy reactivation of the privatisation programme. Additionally, the decree makes provision for the re-establishment of the BPEs for the implementation of the privatisation policies designed by the NCP.

SELF-ASSESSMENT EXERCISE

Which approach was adopted by Nigeria in the first and second phases of privatisation programme and why?

3.5 Socio-Economic Impact of Privatisation Policy: Merits and Demerits.

(a) Merits

The overall major economic impact of this improvement on the entire economy according Obadan and Ayodele (1998) include:

i. The fairly wide spread equity share holding ownership across the ethnic and income groups. This has probably led to the expansion of the capitalisation of the Nigeria Stock Exchange from about ₦12billion in 1989 to about ₦70.5billion and ₦285billion in 1991 and 1996, respectively.
ii. The improvement of the market awareness of citizens as the capital market becomes a preferred vehicle for divestment to ensure wide spread equity share ownership.

iii. The high price movement from the pre-policy bases, in the process of allowing such prices to reflect their production cost, such that the privatised enterprises have consequently generated high capital appreciations to sustain business operations.
iv. Enterprises' significant turnover and profitability which allow for self-sustaining operations.
v. Post policy increase of cash dividend pay-out of about 363.6per cent.

(b) Demerits

It is important to note that the privatisation programme, just like any other normal programme has its own peculiar problems, In fact, such problems are within the areas of the social, economic, political and ideological settings. They include, among several others, the following:

The Socio-Political and Ideological Problems

It is important to recall that, conceptually, privatisation has ideological connotations as theoretically revealed in the classical/neo-classical and liberal/neo-liberal expositions. In this regard, to the programme critiques, the policy could be seen as an imposition of international capitalism which should be discarded. Besides, quoting the guideline to the implementation of guided privatisation in the second phase of the programme in Nigeria, some of these critiques, referring to the 40:40:20 equity structure for government, foreign entrepreneurs and Nigerian investors, respectively, see it ideologically, as a way that the government's 40 percent shareholding would prevent the substitution of private monopoly for public monopoly which might not be in the nation's interest in a market-oriented environment. It is therefore argued that the equity structure, as planned, cannot provide privatised enterprises sufficient guarantees of freedom from external interference. This may subsequently foreclose the prospects of efficient management and worthwhile returns.

Inaccessibility to Credit

In recognition of the impacts of the on-going economic crisis on the populace, particularly, in Nigeria and also the precarious financial and fiscal postures there from, many prospective equity shareholders may not seem to possess enough investible funds to process their application forms contrary to the expectation of government. Perhaps, in anticipation of this possibility, the Central Bank of Nigeria (CBN), within the first phase of the programme, gave a directive to all commercial banks in the country to grant credit facilities to prospective equity shareholders In spite of the appropriateness of this directive; it failed because only two banks complied with it. Perhaps in recognition of this failure, the Nigeria government stated in the second phase of the programme under its recent guided privatisation scheme that a Nigeria Trust fund would be established to provide credit facilities to prospective equity share holders. This recognition has further led to be establishment of a shares purchase Fund aimed at the provision of credit facilities to prospective shareholders.

Uncooperative Attitude of Some Public Officials

Under the privatisation programme, affected PEs would be insulated from all ministerial controls and interference. It is therefore improper on social, political and ideological grounds for some officials of the PEs former supervisory ministries to misconceive the programme as a way to reduce their power and thereby oppose it. Whereas, such officials would be less vocal in their opposition than the professionals, the impact of their opposition could be devastating and harmful to the programme. For example, it could result in serious programme implementation delays which could paralyse the entire programme. These delays were noticed in the first phase for success.

Problem of Geo-Political Income-Group Spread

Contrary to the anticipation of government, there are usually imbalances in equity shareholder distribution among income groups and geo-politically. For example, in spite of the level of awareness which was heightened through publicity, the problems of imbalances in equity share holder distribution among income groups and geo-politically were-unresolved in Nigeria. The emerging problems there from aggravated the Nigeria tribal consciousness. Besides, there is the fear that it could worsen the already skewed income distribution against the under-privilege and the poor. Efforts must be geared towards equitable spread among income groups and regions in the country as much as possible.

Problems of Labour Retrenchment

In most African countries (Nigeria, Ghana, Tanzania, Zambia etc.) where privatisation policy is adopted, labour unions have usually perceived the policy as anti-labour. This perception arises from assumption that the privatisation of PEs would culminate in driving restructuring which would inevitably result in massive retrenchment of workers. In this regard, most labour unions usually oppose the adoption of the policy in African countries.

The Fear of Fixing Arbitrarily High Prices

It is important to recall that under the regulatory developed devices, prices of utilities and social services were stated below their production costs. This explains why government adopted the subsidisation policy to augment the established prices. However, with the privatisation policy, all forms of subsidies have been eliminated. Besides, all affected PEs are to be self-reliant, self-financing and self-sufficient. There is therefore the fear of high price movements arising from arbitrary fixing of tariffs in PEs processes of allowing such prices to reflect their production costs and have some mark-up to allow for self-financing operations.

SELF-ASSESSMENT EXERCISE

Weigh the pros and cons of the privatisation policy in Nigeria.

3.6 Moving Forward the Privatisation Programme

It must recognised that if the private sector is to motivate the economy towards national development, government policies must be streamlined to focus on the creation of an environment that is conducive to private sector initiative and activities via appropriateness. Towards this end, the following policy issues may be considered for the attainment of the goals of the privatisation programme:

Administration Controls

In order to facilitate the survival of the dominance of the private sector in its development motivating roles, all forms of ministerial or government controls must be removed. Legislative Acts, ordinances and decrees favouring monopoly of power must be relaxed. This would allow for the free entry and exist of private entrepreneurs; privatisation policy must be reinforced by liberalisation of all economic activities under the supervision of autonomous agencies. This would allow for effective competition and efficiency in operations.

Self-Reliant Private Ventures

The private sector operators require reappraising themselves of the basis for successful operations. Their current dependence of government patronage must change. Besides, in most cases, the business ventures currently have no value-added. These anomalies may have to be removed with an effective business plan aimed at the removal of all traces of parasitic economic bahaviour for self-reliance. The private sector operators should strive to identify the necessary strength for coping with the demand of the new market oriented environment.

Effective Trade Liberalisation

In order to allow the private sector to survive in its bid towards championing economic development, trade liberalisation must be reinforced by appropriate international political diplomacy. This is necessary because international commodity pricing is more or less currently determined by geo-political factors rather than by the free interplay of market forces. This fact becomes recognised if it can be noted that bilateral economic relations, are increasingly becoming more meaningful and sustainable between the south-south than north-south economies.

Operational Framework

The public sector should be pre-occupied with issue of laws and order which would make the privatisation programme thrive in spite of its ideological undertone. Under this framework, government should establish an operational framework couched under the establishment of the legal, social, economic and competition framework in the processes of production, management and allocation of resources.

SELF-ASSESSMENT EXERCISE

Apart from the aforementioned suggestions in moving the privatisation process forward in Nigeria. What other options are available?

4.0 CONCLUSION

Owing to huge external and internal debts, **c**hronic fiscal deficit and serious economic decline occasioned by the ineffective production efficiency of the public enterprise, the privtisation policy has become an imperative integral policy of the developing economies such as Nigeria. The Objectives of Privatisation include among others the rationalisation and restructuring of the public sector to lessen the dominance of unproductive investments and the reduction of enterprises budgetary burdens;The re-orientation of enterprises towards a new horizon of performance improvement, viability and overall efficiency, relying on the private sector and Checking the absolute dependence on the treasury for funding by otherwise commercially oriented enterprises.

Privatisation and Comercialisation Policy is a four-pronged programme of Partial Commercialisation, Full Commercialisation, Partial Privatisation and Full Privatisation. The Nigerian Concept of privatisation is a guided type with the Independent Focal Point Methodology as the underlying approach. Enterprises were privatised through the Public Sales of Share, Private Placement, The Sales of Assets, Management Buy Out and Deferred Public Offer. Nigeria has gone through different phases of privatisation with the following accumulated benefits: fairly wide spread equity share holding ownership across the ethnic and income groups which has led to the expansion of the capitalisation of the Nigeria Stock Exchange; improvement of the market awareness of citizens; The high price movement from the pre-policy bases, in the process of allowing such prices to reflect their production cost, such that the privatised enterprises have consequently generated high capital appreciations and turnovers to sustain business operations. However the programme is still largely constrained by socio-political and ideological problems, Inaccessibility to credit, Uncooperative attitude of some public officials, Problems of Labour retrenchment and the fear of fixing arbitrarily high prices among others.

5.0 SUMMARY

In this unit, we commenced our discussion with the meaning and objectives of privatisation programme. This was followed by a discussion on the theoretical basis of privatisation and the general institutional arrangement and approaches, especially the one adopted in Nigeria. We finally appraise the merits and demerits of privatisation policy in Nigeria and suggest ways of improving the programme. Monetisation policy is next on our discussion in the immediate next unit.

6.0 TUTOR-MARKED ASSIGNMENT

What is your opinion on the ongoing privatisation programmes in Nigeria, how will it benefit the citizenry?

7.0 REFERENCES/FURTHER READING

Ajakaiye, D. O. (1984). *Economy-wide Effect of Privatising and Reorganising Nigeria's Public Enterprise: Some Critical but Neglected Issues*. Ibadan: NISER.

Ariyo, A. & Jerome, A. (1999). "Privatisation in Africa: Appraisal".*World Development*, 27 (1).

Ayodele, A. S. (1991). "Public Enterprise Institutional Reforms in Nigeria". Paper Presented at NCEMA Workshop for Civil Servants in Nigeria.

Ayodele A. S. (2001). "Privatisation/Commercialisation Policy in Nigeria: Some Theoretical and Empirical Issues". In: Umamikogbo (Ed.) *Issues in Privatisation and Commercialisation of Public Enterprises in Nigeria*. Ibadan: Krafi Books Ltd.

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

Bureau of Public Enterprises, (1996). *Public Enterprise Monitor*. A Quarterly Newsletter of the Bureau of Public Enterprises, Preview Edition.

Expo, H. A. (1997). “Public Policy, Private Sector and Development Evidence from Nigeria”. A Paper Presented at the Third Biennial Conference on African Issues, Cotonou, Benin Republic.

Federal Republic of Nigeria, (1988). *The Commercialisation and Privatisation Decree.* Federal Republic of Nigeria. Abuja, Nigeria.

Jerome, A. (1999). “Restructuring Economies through Privatisation”. *Bullion* CBN, 23(3), 28-34

Obadan, M. I. (2000). *Privatisation of Public Enterprises in Nigeria; Issues and Conditions for Success in the Second Round*. NCEMA Monograph Series, No. 1.

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

TCPC, (1991). Annual Report and Audited Accounts, 1989/90, 1990/91

Yesufu, T. M. (1996). “The Nigerian Economy: Growth without Development”. *Benin Social Series for Africa* (University of Benin) Benin City,pp 89-110.

UNIT 2 MONETISATION POLICY

CONTENTS

1.0 INTRODUCTION

Since the attainment of political independence in 1960, there has been a persistent decline in productivity in the public sector, marked by a colossal increase in the cost of governance, resulting to a plethora of policy prescriptions, to bail Nigeria from a state of suspended paralysis.

You will recall that both SAP and NEEDS called for a reduction in government spending and a private sector led economy. The monetisation policy is one of the measures of the government to reduce the cost of governance, facilitate budgeting and budgetary control; minimise waste and abuse of public facilities, obtain savings for capital projects, promote a culture of discipline and maintenance, etc. This unit attempts a critical analysis of the concept and components of the monetisation policy. It also states the implications of monetary policy and gains from the monetisation policy against the backdrop of several issues raised with respect to its implementation.

2.0 OBJECTIVES

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

- highlight the scope and components of the monetisation policy in Nigeria
- appraise issues in favour and against the monetisation policy.

3.0 MAIN CONTENT

3.1 Background to Monetisation Benefits in Public Service

Public and political office holders in Nigeria control and allocate the public sector resources as well as influence the behaviour of all actors in the society. Thus, as managers, and custodians of national resources, these officers deserve to be appropriately remunerated if they must be efficient, productive, committed and transparent. Fringe benefits and allowances have always been an integral aspect of the remuneration of officers in the Nigerian Public Service right from the colonial period. These fringe benefits and allowances, from time to time, have had to undergo reviews depending on the exigencies of the time. For example, fringe benefits of public servants were monetised on the recommendation of the Udoji Salaries and Wages Review Commission (1974). The Obasanjo Administration adopted the monetisation programme following strong representations by the Revenue Mobilisation, Allocation and Fiscal Commission and after an intensive debate on the argument that the nation is devoting over 60per cent of its revenue to sustaining recurrent overheads, to the detriment of capital/infrastructural development. Consequently, Government introduced the monetisation programmes, on the conviction that the policy will reduce to barest minimum such negative fiscal tendencies as waste and abuse of public facilities. For instance, it cost Government lots of funds to construct, purchase or rent residential accommodation for public servants. Large amounts of resources were occasionally spent on renovation, maintenance, and furnishing of such accommodation, as well as on the purchase, fuelling and maintenance of official vehicles for public servants.

It is on record that many public servants maintained a fleet of official vehicles in their offices and homes. Similarly, telephone, electricity and other utility services in the official quarters of public servants maintained by government, were open to various forms of abuse and misuse. One main consideration underlying the implementation of the monetisation policy is the desire to reduce the pressure on public resources, arising from government's involvement in the physical provision of fringe benefits. We therefore attempt in this unit to discuss these issues and challenge within the Nigeria public sector, particularly under the 2003/2004 monetisation policy.

3.2 Monetisation of Benefits: Operational Conceptualisation

Conceptually, the monetisation of workers' benefit operationally implies: "the conversion of workers' benefit previously made available in kind to public officers into cash payment" (Yayale Ahmed, 2004).

Included among such benefits are the provision of free accommodation and its maintenance, furniture, transportation and chauffeur driven vehicles for top public office holders. Besides, others being paid in cash include payments for utilities in the official residence, meal subsidy, domestic servants allowance, leave grant and medical allowance on a reimbursable basis. Incidentally, the 2003/2004 budgetary monetisation programme introduced some modifications which became effected within the 2004 budget period. Under this modification, some of the previous benefits become abolished, some few others become modified while monetary values are attached to others and are expected to be paid out to affected officers based on their status. For example, entertainment allowance for senior public officer's is abolished while the cost of medical treatment which hitherto was being reimbursed, is henceforth to be paid out at the rate of 10per cent of an officer's basic salary. It is important to recognise that this policy is effected within the purview of the economic reforms in the Nigeria economic system. Thus, it is to promote greater convergence between the planned objectives of the budget and the implemented outcomes with some rationales.

SELF-ASSESSMENT EXERCISE

Define the word 'monetisation'.

3.3 The Rationale for Monetisation and Suggested Items

The central theme of the debate to eliminate corruption in Nigeria is explained under the need to have some resource reservations for national development. The administration is determined to encourage the evolution of wages and salaries structure in both private and public sectors that would make the war against corruption feasible and uphold the dignity of labour.

Against the background of these pronouncements, national minimum wage had been raised while the monetisation policy has been proposed to guarantee a decent livelihood to Nigerians. The monetisation of fringe benefits can be perceived desirable from the following important dimensions:

(i) Consistency with the on-going liberalisation policy.
(ii) Consistency with the desire to empower officials to allocate incomes in accordance with preferences more likely to reduce the tendency for impropriety, reduce corrupt practices and enhance efficiency in resources allocation and utilisation.
(iii) Making the full cost implication of governance to facilitate more effective assessment of the cost of governance.

(iv) Promotion of greater care of assets as non-monetisation tends to encourage non-chalance, dependency syndrome and unwillingness to leave office for fear of dramatic drop in status and living conditions after leaving office.

SELF-ASSESSMENT EXERCISE

What factors accounted for the introduction of the monetisation policy in Nigeria?

3.4 Scope and Specification of Monetisation Policy

The application of the monetisation policy covers:

(i) Political and public office holders and the judicial officers
(ii) Civil servants
(iii) Public officers in the parastatals.

Table 2.1: Suggested Fringe Benefits for Public and Political Office Holders

S/No	Allowances	Political Official	Public Officials	Judiciary
1.	Housing	*	*	*
2.	Transport	*	*	*
3.	Insurance Cover of Premium	*	*	*
4.	Children Education	*	*	*
5.	Outfit	*	*	-
6.	Personal Staff	*	*	*
7.	Constituency	*	*	-
8.	Leave Grant/Recess	*	*	*
9.	Robe	-	-	*
10.	Medical	*	*	*
11.	Correspondence	-	-	-
12.	Office Equipment at the Constituency	*	-	-
13.	Housing Furniture	*	*	*
14.	Official Cars	*	*	*
15.	Utility	*	*	*
16.	Entertainment	*	*	*
17.	Construction of Personal			

	Housing Units	*	-	-
18.	Winding Up Benefits	*	*	*
19.	Post-Retirement Security Allowance	-	-	*

Source: Ayodele and Falokun (2005).
Note:* = Applicable - = Not Applicable

Some Components of the 2003/2004 Monetisation Policy

The monetization scheme as currently structured is expected to cover the following aspects of the public workers benefits:

(i) Residential Accommodation
-GL O1-06: 50% of Annual Basic Salary
-GL O7-14: 60% of Annual Basic Salary
-GL15-17: 75% of Annual Basic Salary

(ii) Furniture
-GL 01-06: Nil
-GL 07-17: 200% of Annual Basic Salary in 5 Years (i.e. 40% per annum)

(iii) Domestic Servants
-GL 15:1 Domestic Servant on HAPSS 03 Step 8
-GL 16-17: 2 Domestic Servant on HAPSS 03 Step 8

(iv) Transport/Motor Vehicle Fueling and Maintenance
-GL 01-17: 25% of Annual Basic Salary

(v) Motor Vehicle Loan
-GL 01-05: 100% of Annual Basic Salary
-GL 06-07: 150% of Annual Basic Salary
-GL 08-17: 200% of Annual Basic Salary

(vi) Medical Treatment
-GL 01-17: 10% of Annual Basic Salary

(vii) Meal Subsidy
-GL 01-06: N6, 000.00
-GL 07-10: N8, 400.00
-GL 12-14: N9, 600.00
-GL 15-17: N10, 800.00

(viii) Utility
-GL 01-16: 15% of Annual Basic Salary
-GL 17: 20% of Annual Basic Salary

(ix) Leave Grant
-GL 01-17: 10 % of Annual Basic Salary

(x) Driver
-GL 17: 1 driver on HAPSS 03 Step 8

(xi) Personal Assistance

- 25% of Annual Basic Salary for Political, Public and Judicial Offices

Highlights of the monetisation programme above imply that:

- Individual pay cheques will henceforth, include all monetised benefits of staff, such as- Housing, transportation, utilities, etc.
- Employees are thereafter responsible for all their expenses including accommodation, transport, etc.; Ministries, Extra-Ministerial Departments and Federal Government Agencies would henceforth purchase no new vehicles.
- Government will no longer provide chauffeur-driven cars to its officials; rather, they will now use their personal vehicles driven by personal drivers, for private and official assignments. In addition, the use of pilot vehicles and siren by political office holders will be discontinued; and
- Government will no longer rent or build residential apartments for any category of political office holders or public servants, except the President, Vice-President, Senate President and Deputy Senate President, the Speaker of the House of Representatives and the Deputy Speaker, as well as the Chief Justice of the Federation.

3.5 Issues in Monetisation Policy in Nigeria

3.5.1 Measures to Cushion the Effects of Monetisation

As a result of monetisation, many Government vehicles would be sold off. Consequently, many drivers would invariably become redundant. Government, however, is not insensitive to the effect such a development may likely have on the individuals concerned and the society at large. Hence, on the fate of excess drivers in the system, as a result of the new policy, the following steps were suggested:

- Those with relevant and adequate qualifications would be retained and redeployed appropriately.
- Depending on the need, others will be deployed to drive staff buses under the Office of the Head of the Civil Service of the Federation.
- Drivers who will not be deployed will be rationalised, but would be assisted by the National Poverty Eradication Programme, or be allowed to buy one vehicle, out of the pool of excess vehicles to be boarded by the Ministries, Agencies and Extra-Ministerial Departments, subject to payment of the book value of the vehicles in accordance with extant regulations. This is meant to

provide a means of self-employment to the disengaged drivers in line with government's determination to create more jobs.

3.5.2 Gains and Challenges of Monetisation

This policy is expected to have far reaching impact on Government planning, budgeting and discipline, and will positively impact on our national value system and ethics. The ramifications of the impact of monetisation as a public policy reform can be listed as follows:

- Monetisation Policy will enable government to get the true picture of what it costs to maintain a Political Office Holder, or Public Servant, in office and therefore lead to more realistic budgeting and budget implementation; it is the most transparent avenue for the disbursement of remuneration and fringe benefits from employers to employees.
- Monetisation will curb the excesses of public officers, as government will no longer provide chauffeur-driven cars to its officials. For example, unlike in the past, Ministers are now to drive to office and back in their personal cars, with their personal drivers; also the use of pilot vehicles and sirens by political office holders will be discontinued.
- The policy will correct the wrong public perception of government utilities such as telephone, electricity and others, as limitless resources which hitherto were used without caution.
- The policy will stop the practice of providing and furnishing official accommodation for public servants including political office holders, the only exception being the President, the Vice President, the Senate President, the Speaker and Deputy Speaker of the House of Representatives and the Chief Justice of the Federation.
- Unauthorised journeys at government expense will be minimised.
- The policy will ensure equity in the allocation of scarce resources.
- Public Officers will develop and imbibe a culture of discipline and frugal use of public utilities.
- The policy will encourage public officers to own vehicles, houses and furniture, thereby assisting them to plan better for their retirement.
- Overall, the Monetisation Policy will eliminate the trauma of transition from public life to private, which sadly, has resulted in many Public Servants dying shortly after retirement.

As stated by Ayodele and Falokun (2005), monetisation can be discussed meaningfully from two broad dimensions based on the foregoing:

(i) Employee reward system stemming from the concern for equitable reward for all categories of employees efficient allocation of scarce resources;
(ii) Resource management for effective resource utilisation. Given the above, the drivers of the monetisation policy are:

   a) the encouragement of public servant to own personal asset (houses, comfortable post-service life properties, etc.);
   b) the minimisation of wastes, misuse and abuse of public facilities;
   c) the reduction in capital, maintenance and running cost;
   d) the production of the observance of maintenance culture and discipline in the use of public utilities;
   e) the reduction in the rent cost burden on government;
   f) the provision of a stronger base for the execution of more capital project from the conservation of resource from the policy process.

The implementation of the policy is supposed to be gradual and should be in phases to avoid getting the economy overheated. In this regard, the phases are as follows:

(i) Public office holders to be implemented in full beginning with the lawmakers from July, 2003
(ii) Civil servant to be partially implemented effective from 1st October 2003, but actual payment commenced between March and May 2003, with the arrears still outstanding in most ministries.
(iii) Parastatals- yet to be implemented. However, observations show that some parastatals already have in place viable monetisation policy in various dimensions.

It is important to recognise that the non-uniformity in the implementation of the policy has already sown confusion and distrust. The policy implementation does not seem to align with the formulation. It would have been easier and better implemented if made gradual experimenting with one item which could be for few years to perfect before jumping to another item learning from previous experiences as proposed for enterprises reforms under guided privatisation.

It is contended that, although, the objectives of the policy may appear laudable and splendid, the implementation impacts of the policy are likely to be catastrophic if care is not taken. The cushioning measures of the government to alleviate the adverse effect of the policy are questionable, insufficient, cosmetic and superficial in nature. Inevitably, it is likely to be more beneficial to the political class than the public servants; compound societal problems, hence will impact negatively on productivity of workers. It is a contention that the sustainability of the policy, depends on the ability of the country to foot the cost, availability of political will and popular acceptability of the effect of the policy (Agba, 2003).

4.0 CONCLUSION

Conceptually, the monetisation of workers' benefit operationally implies the conversion of workers' benefit previously made available in kind to public officers into cash payment. Included among such benefits are the provision of free accommodation and its maintenance, furniture, transportation and chauffeur driven vehicles for top public office holders. Others being paid in cash include payments for utilities in the official residence, meal subsidy, domestic servants allowance, leave grant and medical allowance on a reimbursable basis. Fringe benefits and allowances have always been an integral aspect of the remuneration of officers in the Nigerian Public Service. Consequently, Government introduced the monetisation programmes, on the conviction that the policy will minimise such negative fiscal tendencies as waste and abuse of public facilities. In addition, it encourages public servant to own personal asset and reduce capital, maintenance and running cost. The non-uniformity in the implementation of the policy has already sown confusion and distrust. The policy implementation does not seem to align with the formulation. The cushioning measures of the government to alleviate the adverse effect of the policy have been described as questionable, insufficient, cosmetic and superficial in nature. Inevitably, it is likely to be more beneficial to the political class than the public servants, compound societal problems, hence will impact negatively on productivity of workers if not properly implemented.

5.0 SUMMARY

This unit exposed us to another important economic policy in Nigeria, the monetisation policy. We have successfully defined the meaning of the policy while defining the rationale for its adoption. We also discuss the components and scope of the programme while weighing the gains and likely challenges of the policy in implementation. Next you will have the opportunity to know much about the recent vision 20:2020 plan in addition to other policies you have learnt about.

6.0 TUTOR-MARKED ASSIGNMENT

Argue both in favour and against the implementation of the Monetisation Policy in Nigeria.

7.0 REFERENCES/FURTHER READING

Adeyemi, S.O. (1996). "Beyond Structural Adjustment: A Policy Framework. Beyond Adjustment; Management of the Nigerian Economy". 1996 *NES* Conference Proceedings, 113-141.

Agba, M. S. (2006). "The Monetisation Policy of the Federal Government of Nigeria and its Implication, Sophia". *An African Journal of Philosophy,* 8(2), 77-83.

Ahmed Yayale, M. (2004). "Implication of Monetisation Civil Service Fringe Benefits on the 2004 Federal Government Budget"..*Bullion*, A Publication of the Central Bank of Nigeria, 28(2).

Akinyosoye, V. O. (2005). *Government and Agriculture in Nigeria, Analysis of Policies, Programmes and Administration*. Lagos: Macmillan Nigeria Publishers Limited, pp. 598.

Aluko, M. E. (2003). *The Monetisation of Fringe Benefits in the Nigerian Public Service*. USA: Burtonsville, M. D.

Ayodele, A. S. (2005). "The 2003 Monetisation Policy in Public Service". Paper Presented at the Workshop on Policy Issues on the Nigerian Economy, *NCEMA*, Ibadan.

Federal Ministry of Finance. (2011). *Monetisation of Benefits in Public Service*.

Federal Ministry of Finance, Abuja. www.fmf.gov.ng.

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

Oke, T. O. (2004). "Issues in Monetisation of Public Sector Officers Benefits". Paper Presented at the Workshop on Policy issues on the Nigerian Economy, *NCEMA*, Ibadan.

UNIT 3 VISION 20: 2020

CONTENTS

1.0 INTRODUCTION

One of the most comprehensive long term plans in recent time is vision 20: 2020 which synchronise the ideas in the past plans and modify in line with the current trend. A concise review of the meaning and focus of vision 20:2020 will feature in this unit. Moreso, the rationale for setting up the plan and the programme strategy will also form part of our discussion in the unit. A broad discussion on the strategies to be used in achieving vision20:2020 amidst various constraints will be featured in this unit.

2.0 OBJECTIVES

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

- explain the meaning and focus of vision 20:2020
- state the rationale for vision 20:2020
- discuss the implementation strategy of vision 20: 2020.

3.0 MAIN CONTENT

3.1 Meaning and Focus of Nigeria Vision 20:2020 (NV20:2020)

Concept Nigeria's economic potential is well recognised. It is the biggest economy in the West African sub region. Given the country's considerable resource endowment and coastal location there is potential for strong growth. Yet Nigeria has realised very little of this potential. Previous efforts at planning and visioning were not sustained. The history of economic stagnation, declining welfare and social instability, has undermined development for most of the past 30 years. But in recent years, Nigeria has been experiencing a growth turnaround and conditions seem right for launching onto a path of sustained and rapid growth, justifying its ranking amongst the N11 countries. These are the countries identified by Goldman Sachs to have the potential for attaining global competitiveness based on their economic and demographic settings and the foundation for reforms already laid.

The Nigeria Vision 20:2020 (NV20:2020) is Nigeria's long term development goal designed to propel the country to the league of the top 20 economies of the world by 2020. Attainment of the Vision would enable the country achieve a high standard of living for its citizens. The NV20: 2020 was developed by Nigerians for the Nigerian people and involved a process of thorough engagement with all stakeholders across all levels of government and society. The Vision is therefore, a rallying point for all Nigerians, regardless of ethnicity, political leaning, economic status, or religion behind a common cause of placing the country on a sustainable development path and transformation into a modern society better able to play a greater role in the comity of nations. The Vision was to be pursued through a series of three –four year plan which will further articulate the strategies, policies, projects and programmes among other things.

The two broad objectives are to:

- make efficient use of human and natural resources to achieve rapid economic growth
- translate the economic growth into equitable social development for all citizens.

The development aspirations cut across four dimensions:

- Social - building a peaceful, equitable, harmonious and just society
- Economic - developing a globally competitive economy
- Institutional - having a stable and functional democracy
- Environmental – achieving a sustainable management of the nation's natural resources.

SELF-ASSESSMENT EXERCISE

What is vision 20:2020 desirous of?

3.2 Why Nigeria Needs NV20:2020

Nigeria has had a relatively long experience in development planning beginning with the Colonial Development Plan (1958-1968). Fixed medium-term development plans and National Rolling Plans were also developed and implemented with mixed results. Other strategic efforts such as the Structural Adjustment Programme (SAP), National Economic Empowerment and Development Strategy (NEEDS), the strategy for attaining the Millennium Development Goals (MDGs) and the 7-Point Agenda were not effectively implemented, and therefore, recorded modest success. Weak implementation of these strategic development initiatives has constrained the country's growth and development. Another reason for plan underachievement and failures was lack of political will to see the development strategy through to the end. Nigeria has, therefore, adopted a long term approach to development planning and set for itself the goal of being among the 20 largest economies of the world by 2020. This is why it has chosen the following vision Statement:

The Vision Statement

By 2020, Nigeria will have a large, strong, diversified, sustainable and competitive economy that effectively harnesses the talents and energies of its people and responsibly exploits its natural endowments to guarantee a high standard of living and quality of life to its citizens.

In the context of globalisation and the increasing relevance of Nigeria as a leading emerging market economy, the need for total transformation of Nigeria through long-term development management strategies has become compelling. Vision 20:2020 is important for the following reasons:

- need for Nigeria to plan development on a long-term basis in order to achieve structural transformation
- need to reduce the country's overdependence on oil
- need to effectively transform the lives of Nigerians in terms of significant improvements in their standards of living
- need for the country take its rightful position among the nations of the world.

SELF-ASSESSMENT EXERCISE

What is the essence of Vision20: 2020 plan?

3.3 How will NV20:2020 transform the Economy?

The NV20:2020 offers strategies towards realising Nigeria's potentials and her emergence as one of the 20 leading global economies in the world by 2020. The specific actions to be taken in that direction include:

- urgently and immediately address the most serious constraints to Nigeria's growth and competitiveness
- aggressively pursue a structural transformation of the economy from a mono-product to a diversified and industrialised economy
- investing in human capital to transform the Nigerian people into active agents for growth and national development
- investing in infrastructure to create an enabling environment for growth, industrial competitiveness and sustainable development.

Fig. 3.1 and .3.2 respectively summarises the overall framework and strategic directions of NV20:2020. The strategy has a clear focus and seeks to involve the people actively in pursuance of economic growth and development activities and enable them share fully in the benefits there from.

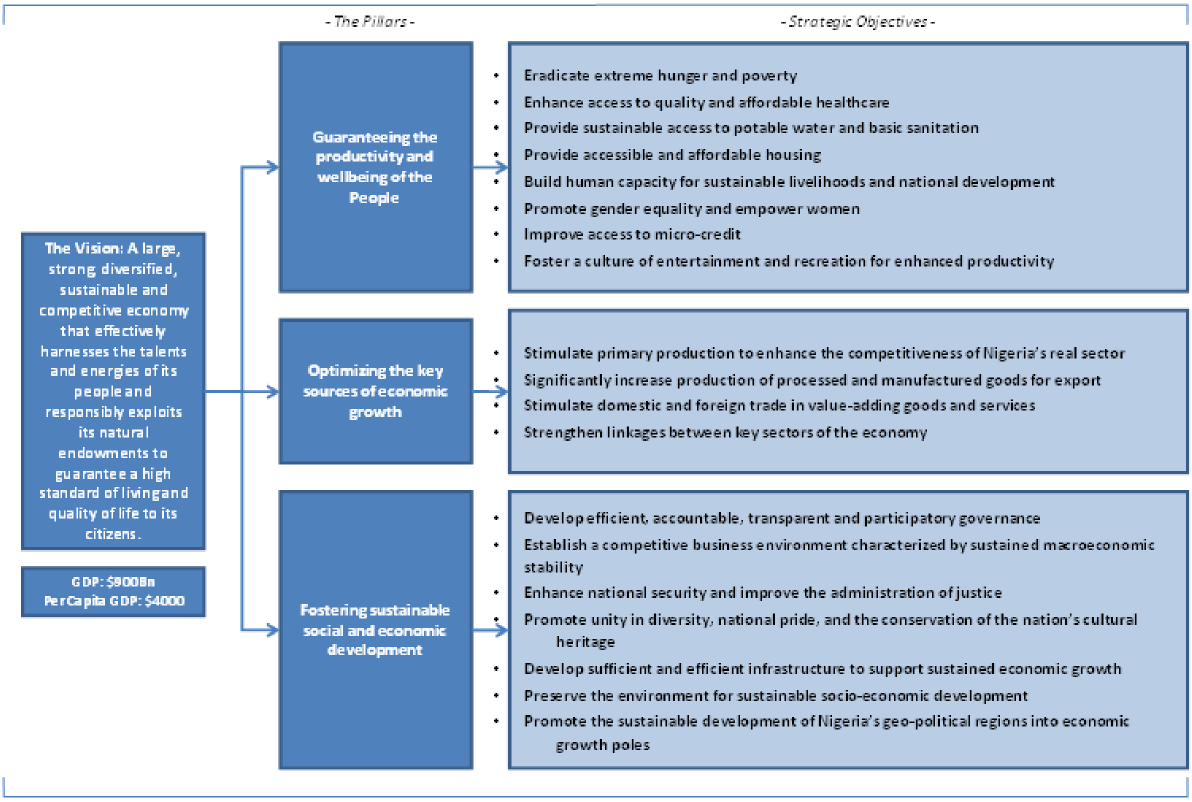

Fig. 3.1: Overall Framework for Vision 20:2020

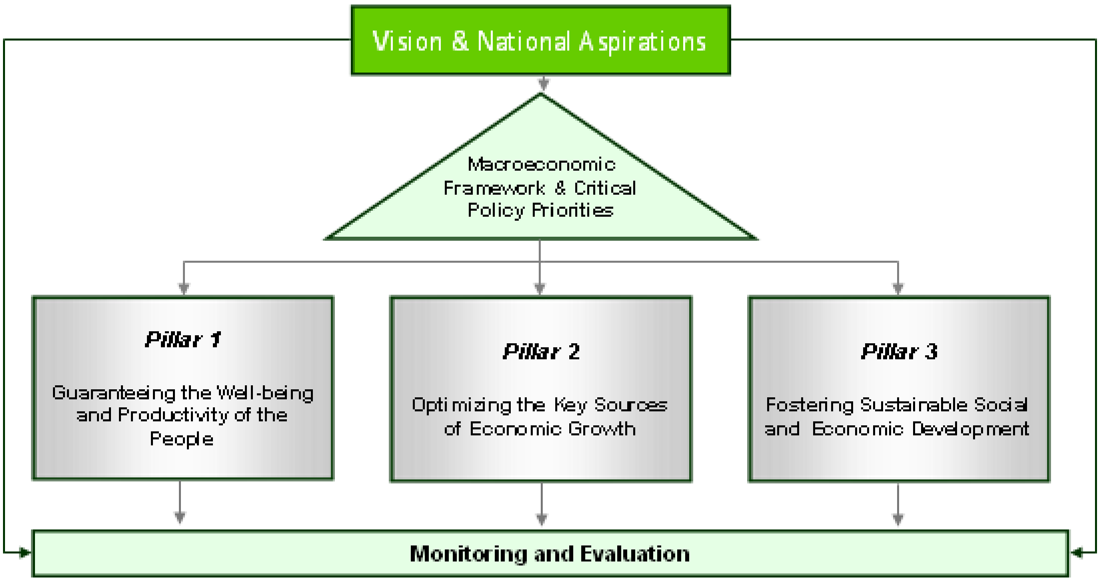

Fig. 3.2: Strategic Framework for NV20:2020

3.4 Domestic and External Constraints to Growth and Development in Nigeria

- Poor and decaying infrastructure.
- Epileptic power supply.
- Weak fiscal and monetary policy co-ordination.
- Fiscal dominance and its implications for inflation and private sector financing.
- Pervasive rent-seeking behaviour by private and public agents, including corruption.
- Weak institutions and regulatory deficit.
- Policy reversals and lack of follow-through.
- Inordinate dependence on the oil sector for government revenue/expenditure.
- Disconnect between the financial sector and the real sector.
- High population growth which places undue stress on basic life-sustaining resources and eventually results in diminished well-being and quality of life.
- Insecurity of lives and property.
- Threats of climate change, especially in relation to food production.
- Vulnerabilities in the global economic environment, in particular, the global economic crisis and disturbances in the international oil market.

3.5 Major Contributors to the Growth of the Nigerian Economy

Over the past decade, agriculture, wholesale and retail trade, telecommunications and manufacturing contributed most to the growth of Nigerian economy. At present, manufacturing's role as key driver is limited but it has high potentials and would be stimulated during the vision period in order to maximise its linkage with other relevant sectors of the economy.

The desire to achieve the goals of NV20:2020 compels the economy to achieve broad-based double-digit growth rates. During the vision period, the economy is expected to grow at an average rate of 13.8 per cent per annum, to be driven by the agricultural and industrial sectors over the medium-term while the manufacturing and service sectors are expected to drive the economy towards the end of the Vision period.

Under the NV20:2020 manufacturing and services are expected to dominate the structure of national output, while gross national investment is expected to increase, and the infrastructure base of production is expected to improve considerably. Income per capita should have risen to US$4, 000 from the current (2008) estimate of US$1,230. The current structure of production is expected to reverse as the relative contribution of agriculture to national output declines to a maximum of 15 per cent over the long-term, as the sector continues to grow.

Vision 20:2020 sets some targets in various sectors of the economy; these are depicted in Table 3.1 below.

Table.3.1 Optimal Structure of National Output by 2020 versus Existing Structure

Activity Sector	Projected Share of Output by 2020 (%)	Existing Share of Output
Agriculture	3 – 15	42.1
Industry	30 – 50	23.8
Manufacturing	15 – 30	4
Services	45 – 75	34.1

3.6 Macro-economic Strategies and Policy Thrust to Achieve the NV 20: 2020

The management of the macro-economy over the medium-term will focus on restoring and maintaining macroeconomic stability in order to position the economy on a sustainable growth path. The specific macro strategies include:

- achieving double-digit economic growth rates, single-digit inflation, stable exchange rate and investment friendly interest rates;
- achieving significant progress in economic diversification;
- stimulating the manufacturing sector and strengthening its linkage to agriculture, oil and gas sectors, etc.;
- raising the relative competitiveness of the real sector;
- deepening the financial sector and sustaining its stability to finance growth;
- encouraging massive investments in infrastructure and human capital and creating an enabling environment for domestic and foreign private investment; and

- implementing appropriate fiscal, monetary, trade and debt management policies.

Critical Policy Priorities

The Vision identifies a number of critical policy priorities in the short-term. These are:

- Correcting the weaknesses of the revenue allocation system which relies heavily on revenue from crude oil. To reverse this, the Vision will encourage greater internal revenue generation efforts at the state and local government levels.
- Increased investment in critical infrastructure. Government will focus on:
- increasing the quantity and quality of infrastructure spending;
- development of a framework for joint financing of infrastructure projects between the tiers of government; and
- encouragement of private investments in infrastructure
- deepening reforms at all levels of government;
- promoting private sector-led non-oil growth to build the foundation for economic diversification;
- investment in human capital development to enhance national competitiveness;
- entrenchment of merit as a fundamental principle and core value;
- intensifying the war against corruption;
- upgrading the capability of the internal security apparatus of government, and enhancing the efficiency of their operations.

SELF-ASSESSMENT EXERCISE

Discuss the implementation strategies of NV20:2020 highlighting the areas of priorities

4.0 CONCLUSION

The Nigeria Vision 20:2020 (NV20:2020) is Nigeria's long term development goal designed to propel the country to the league of the top 20 economies of the world by 2020. The Vision is a rallying point for all Nigerians, regardless of ethnicity, political leaning, economic status, or religion behind a common cause of placing the country on a sustainable development path and transformation into a modern society better able to play a greater role in the comity of nations. The two broad objectives are to: make efficient use of human and natural resources to achieve rapid economic growth and translate the economic growth into equitable social development for all citizens. The development aspirations cut across four dimensions: Social, Economic, Institutional and

Environmental targets. Critical priorities areas include: correcting the weaknesses of the revenue allocation system which relies heavily on revenue from crude oil, increased investment in critical infrastructure, promoting private sector-led non-oil growth to build the foundation for economic diversification, investment in human capital development to enhance national competitiveness, intensifying the war against corruption and upgrading the capability of the internal security apparatus of government, and enhancing the efficiency of their operations among others.

5.0 SUMMARY

In this unit, we began by introducing the meaning and concepts of vision20: 2020, we further highlighted the reason for initiating such plan. Also, we stated the strategies through which vision20: 2020 will transform the economy. Some targets of Vision 20: 2020 were equally listed along with key priorities areas of the plan. Our discussion in this module will be incomplete without examining the prominent internationally acclaimed plan which Nigeria subscribes to along with other committee of nations. In this regard, the Millennium Development Goals (MDGs) will be our bane of discussion in the last unit of this module. I am sure you will be enthusiastic to read about the MDGs before you move into the last module of this course.

6.0 TUTOR-MARKED ASSIGNMENT

Do you think Nigeria can meet her target for vision 20: 20 20?

7.0 REFERENCES/FURTHER READING

Adeyemi, S. O. (1996). “Beyond Structural Adjustment: A Policy Framework. Beyond Adjustment; Management of the Nigerian Economy”. 1996 NES Conference Proceedings, 113-141.

Akinyosoye, V. O. (2005). *Government and Agriculture in Nigeria, Analysis of Policies, Programmes and Administration*. Lagos: Macmillan Nigeria Publishers Limited, pp. 598.

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

National Planing Comminsion-NPC, (2010). *Nigeria Vision 20:2020 Document*, Abridged Version. 12 December 2010, Available at http://www.npc.gov.ng/home/doc.aspx?mCatID=68253.

Wikipedia, (2013). *Nigeria vision 2020*. Available at http://en.wikipedia.org/wiki/Nigeria_Vision_2020.

UNIT 4 MILLENIUM DEVELOPMENT GOALS

CONTENTS

1.0 INTRODUCTION

It is impossible for Nigeria to operate its economic activities in isolation of other countries of the world as economic matter is a function of many externalities. This is the more reason why Nigeria also key in into international economic goals and policies. One of such goal is the Millennium Development Goals (MDGs). In this unit the internationally adopted plans, Millennium Development Goals (MDGs) will be discussed especially for the role it plays in shaping several economic plans and policies in Nigeria. In actual fact, Vision 20:2020 was a combination of the MDGs, NEEDS and vision 2010.

2.0 OBJECTIVES

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

- state the Millennium Development Goals and their targets
- appraise the achievements of the MDGs.

3.0 MAIN CONTENT

3.1 Introduction to MDGs

The Millennium Development Goals (MDGs) are eight international development goals that were officially established following the Millennium Summit of the United Nations in 2000, following the adoption of the United Nations Millennium Declaration. All 193 United Nations member states and at least 23 International Organisations have agreed to achieve these goals by the year 2015.

Each of the goals has specific stated targets and dates for achieving those targets. To accelerate progress, the G8 Finance Ministers agreed in June 2005 to provide enough funds to the World Bank, the International Monetary Fund (IMF), and the African Development Bank (ADB) to cancel an additional $40 to $55billion in debt owed by members of the Heavily Indebted Poor Countries (HIPC) to allow impoverished countries to channel the resources saved from the forgiven debt to social programs for improving health and education and for alleviating poverty.

Debate has surrounded adoption of the MDGs, focusing on lack of analysis and justification behind the chosen objectives, the difficulty or lack of measurements for some of the goals, and uneven progress towards reaching the goals, among other criticisms. Although developed countries' aid for achieving the MDGs has been rising over recent years, more than half the aid is towards debt relief owed by poor countries, with much of the remaining aid money going towards natural disaster relief and military aid which do not further development.

Progress towards reaching the goals has been uneven. Some countries have achieved many of the goals, while others are not on track to realise any. A UN conference in September 2010 reviewed progress to date and concluded with the adoption of a global action plan to achieve the eight anti-poverty goals by their 2015 target date. There were also new commitments on women's and children's health, and new initiatives in the worldwide battle against poverty, hunger, and disease.

Government organisations assist in achieving those goals, among them are the United Nations Millennium Campaign, the Millennium Promise Alliance, Inc., the Global Poverty Project, the Micah Challenge, The Youth in Action EU Programme, "Cartoons in Action" video project, and the 8 Visions of Hope global art project.

3.2 Millennium Development Goals, Targets and Indicators

The MDGs were developed out of the eight chapters of the Millennium Declaration, signed in September 2000. There are eight goals with 21 targets and a series of measurable indicators for each target:

Goal 1: Eradicate Extreme Poverty and Hunger

- **Target 1A: Halve the proportion of people living on less than $1 a day**
    - *Proportion of population below $1 per day (PPP values)*
    - *Poverty gap ratio [incidence x depth of poverty]*
    - *Share of poorest quintile in national consumption*

- **Target 1B: Achieve Decent Employment for Women, Men, and Young People**
    - *GDP Growth per Employed Person*
    - *Employment Rate*
    - *Proportion of employed population below $1 per day (PPP values)*
    - *Proportion of family-based workers in employed population*

- **Target 1C: Halve the proportion of people who suffer from hunger**
    - *Prevalence of underweight children under five years of age*
    - *Proportion of population below minimum level of dietary energy consumption*

Goal 2: Achieve Universal Primary Education

- **Target 2A: By 2015, all children can complete a full course of primary schooling, girls and boys**
    - *Enrollment in primary education*
    - *Completion of primary education*

Goal 3: Promote Gender Equality and Empower Women

- **Target 3A: Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015**
    - *Ratios of girls to boys in primary, secondary and tertiary education*
    - *Share of women in wage employment in the non-agricultural sector*
    - *Proportion of seats held by women in national parliament*
    - *For girls in some regions, education remains elusive*
    - *Poverty is a major barrier to education, especially among older girls*
    - *In every developing region except the CIS, men outnumber women in paid employment*
    - *Women are largely relegated to more vulnerable forms of employment*
    - *Women are over-represented in informal employment, with its lack of benefits and security*
    - *Top-level jobs still go to men — to an overwhelming degree*
    - *Women are slowly rising to political power, but mainly when boosted by quotas and other special measures*

Goal 4: Reduce Child Mortality Rates

- **Target 4A: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate**
  - *Under-five mortality rate*
  - *Infant (under 1) mortality rate*
  - *Proportion of 1-year-old children immunized against measles*

Goal 5: Improve Maternal Health

- **Target 5A: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio**
  - *Maternal mortality ratio*
  - *Proportion of births attended by skilled health personnel*
- **Target 5B: Achieve, by 2015, universal access to reproductive health**
  - *Contraceptive prevalence rate*
  - *Adolescent birth rate*
  - *Antenatal care coverage*
  - *Unmet need for family planning*

Goal 6: Combat HIV/AIDS, Malaria, and Other Diseases

- **Target 6A: Have halted by 2015 and begun to reverse the spread of HIV/AIDS**
  - *HIV prevalence among population aged 15–24 years*
  - *Condom use at last high-risk sex*
  - *Proportion of population aged 15–24 years with comprehensive correct knowledge of HIV/AIDS*
- **Target 6B: Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it**
  - *Proportion of population with advanced HIV infection with access to antiretroviral drugs*
- **Target 6C: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases**
  - *Prevalence and death rates associated with malaria*
  - *Proportion of children under 5 sleeping under insecticide-treated bed nets*
  - *Proportion of children under 5 with fever who are treated with appropriate anti-malarial drugs*
  - *Incidence, prevalence and death rates associated with tuberculosis*
  - *Proportion of tuberculosis cases detected and cured under DOTS (Directly Observed Treatment Short Course)*[18]

Goal 7: Ensure Environmental Sustainability

- **Target 7A: Integrate the principles of sustainable development into country policies and programs; reverse loss of environmental resources**
- **Target 7B: Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss**
  - *Proportion of land area covered by forest*
  - *CO_2 emissions, total, per capita and per $1 GDP (PPP)*
  - *Consumption of ozone-depleting substances*
  - *Proportion of fish stocks within safe biological limits*
  - *Proportion of total water resources used*
  - *Proportion of terrestrial and marine areas protected*
  - *Proportion of species threatened with extinction*
- **Target 7C: Halve, by 2015, the proportion of the population without sustainable access to safe drinking water and basic sanitation (for more information see the entry on water supply)**
  - *Proportion of population with sustainable access to an improved water source, urban and rural*
  - *Proportion of urban population with access to improved sanitation*
- **Target 7D: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum-dwellers**
  - *Proportion of urban population living in slums*

Goal 8: Develop a Global Partnership for Development

- **Target 8A: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system**
  - *Includes a commitment to good governance, development, and poverty reduction – both nationally and internationally*
- **Target 8B: Address the Special Needs of the Least Developed Countries (LDCs)**
  - *Includes: tariff and quota free access for LDC exports; enhanced programme of debt relief for HIPC and cancellation of official bilateral debt; and more generous ODA (Official Development Assistance) for countries committed to poverty reduction*
- **Target 8C: Address the special needs of landlocked developing countries and small island developing States**
  - *Through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly*

- **Target 8D: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term**
  - *Some of the indicators listed below are monitored separately for the least developed countries (LDCs), Africa, landlocked developing countries and Small Island developing States.*
  - *Official development assistance (ODA):*
    - *Net ODA, total and to LDCs, as percentage of OECD/DAC donors' GNI*
    - *Proportion of total sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation)*
    - *Proportion of bilateral ODA of OECD/DAC donors that is untied*
    - *ODA received in landlocked countries as proportion of their GNIs*
    - *ODA received in small island developing States as proportion of their GNIs*
  - *Market access:*
    - *Proportion of total developed country imports (by value and excluding arms) from developing countries and from LDCs, admitted free of duty*
    - *Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries*
    - *Agricultural support estimate for OECD countries as percentage of their GDP*
    - *Proportion of ODA provided to help build trade capacity*
  - *Debt sustainability:*
    - *Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative)*
    - *Debt relief committed under HIPC initiative, US$*
    - *Debt service as a percentage of exports of goods and services*
- **Target 8E: In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries**
  - *Proportion of population with access to affordable essential drugs on a sustainable basis*
- **Target 8F: In co-operation with the private sector, make available the benefits of new technologies, especially information and communications**

- *Telephone lines and cellular subscribers per 100 population*
- *Personal computers in use per 100 population*
- *Internet users per 100 Population*

SELF-ASSESSMENT EXERCISE

Attempt a list of the eight MDGs.

3.3 Appraisal of MDGs

Drawbacks of the MDGs include the lack of analytical power and justification behind the chosen objectives. The MDGs leave out important ideals, such as the lack of strong objectives and indicators for equality, which is considered by many scholars to be a major flaw of the MDGs due to the disparities of progress towards poverty reduction between groups within nations. The MDGs also lack a focus on local participation and empowerment (excluding women's empowerment) (Deneulin & Shahani, 2009). Researchers also point out some important gaps in the MDGs. For example, agriculture was not specifically mentioned in the MDGs even though a major portion of world's poor are rural farmers. Again, MDG 2 focuses on primary education and emphasises on enrollment and completion. In some countries, it has led to increase in primary education enrollment at the expense of learning achievement level. In some cases, it has also negatively affected secondary and post-secondary education, which has important implication on economic growth. Another criticism of the MDGs is the difficulty or lack of measurements for some of the goals (Attaran, 2005)

The MDGs are also argued to help the human development by providing a measurement of human development that is not based solely on income, prioritising interventions, establishing obtainable objectives with operationalised measurements of progress and increasing the developed world's involvement in worldwide poverty reduction. The measurement of human development in the MDGs goes beyond income, and even just basic health and education, to include gender and reproductive rights, environmental sustainability, and spread of technology. Prioritising interventions helps developing countries with limited resources make decisions about where to allocate their resources through which public policies. The MDGs also strengthen the commitment of developed countries to helping developing countries, and encourage the flow of aid and information sharing. The joint responsibility of developing and developed nations for achieving the MDGs increases the likelihood of their success, which is reinforced by their 189-country support (the MDGs are the most broadly supported poverty reduction targets ever set by the world).

However, areas needing the most reduction, such as the sub-Saharan Africa regions have yet to make any drastic changes in improving their quality of life. During the same time frame as China, sub-Saharan Africa reduced its poverty by a mere one percent and is at a major risk of not meeting the MDGs by 2015. Even though the poverty rates in sub-Saharan Africa decreased in a small percent, there are some successes regarding millennium development goals in sub-Saharan Africa. In the case of MDG 1, sub-Saharan region started to eradicate poverty by strengthening the industry of rice production. Originally, rice production was one of the main problems since its production rate could not catch up the rapid population growth by mid-1990s. This caused great amount of rice imports and great costs for the governments reaching nearly $1billion annually. In addition, farmers in Africa suffered from finding the suitable species of rice that can well-adapt in their conditions with high-yield characteristic. Then, New Rice for Africa (NERICA) which is high-yielding and well adapting to the African conditions was developed and contributed to the food security in sub-Saharan regions including Congo Brazzaville, Côte d'Ivoire, the Democratic Republic of the Congo, Guinea, Kenya, Mali, Nigeria, Togo, and Uganda. Now about 18 varieties of the hybrid species are available to rice farmers and, for the first time, many farmers are able to produce enough rice to feed their families and to gain profit at the market. Sub-Saharan region also show improvement in the case of MDG 2. School fees that included Parent-Teacher Association and community contributions, textbook fees, compulsory uniforms and other charges were highly expensive in sub-Saharan Africa, taking up nearly a quarter of a poor family's income. This was one of the barriers for enrollment and, thus, countries like Burundi, the Democratic Republic of the Congo, Ethiopia, Ghana, Kenya, Malawi, Mozambique, Tanzania, and Uganda have eliminated school fees. This resulted in the increase in student enrollment in several regions. For instance, in Ghana, public school enrollment in the most deprived districts soared from 4.2million to 5.4million between 2004 and 2005. In Kenya, enrollment of primary school children surged significantly with 1.2million extra increases of children in school in 2003 and by 2004, the number had climbed to 7.2million.

According to some experts, MDG 7—to halve the proportion of the population without sustainable access to safe drinking water and basic sanitation—is still far from being reached. Since national governments often cannot provide the necessary infrastructure, civil society in some countries started to organise and work on sanitation says the magazine *D+C Development and Cooperation*. For instance, in Ghana there is an umbrella organisation called CONIWAS (Coalition of NGOs in Water and Sanitation), which today has more than 70 member organisations focusing on providing access to water and sanitation.

Goal 8 of the MDGs is unique in the sense that it focuses on donor government commitments and achievements, rather than successes in the developing world. The *Commitment to Development Index*, published annually by the Centre for Global Development in Washington, D.C., is considered the best numerical indicator for MDG 8.[37] It is a more comprehensive measure of donor progress than official development assistance, as it takes into account policies on a number of indicators that affect developing countries such as trade, migration, and investment.

To accelerate progress towards the MDGs, the G-8 Finance Ministers met in London in June 2005 (in preparation for the G-8 Gleneagles Summit in July) and reached an agreement to provide enough funds to the World Bank, the IMF, and the African Development Bank (ADB) to cancel an additional $40 to $55 billion in debt owed by members of the Heavily Indebted Poor Countries (HIPC). This would allow impoverished countries to re-channel the resources saved from the forgiven debt to social programs for improving health and education.

The International Health Partnership (IHP+) also aims to accelerate progress towards the MDGs by putting international principles for effective aid and development cooperation into practice in the health sector. In developing countries, money for health comes from both domestic and external sources, and governments must work in coordination with a range of international development partners. As these partners increase in number, variations in funding streams and bureaucratic demands also increase. As a result, development efforts can become fragmented and resources can be wasted. By encouraging support for a single national health strategy or plan, a single monitoring and evaluation framework, and a strong emphasis on mutual accountability, IHP+ builds confidence between government, civil society, development partners, and other stakeholders whose activities affect health.

As 2015 approaches, however, increasing global uncertainties such as the economic crisis and climate change have led to an opportunity to rethink the MDG approach to development policy. According to the *In Focus* policy brief from the Institute of Development Studies, the "After 2015" debate is about questioning the value of an MDG-type, target-based approach to international development, about progress so far on poverty reduction, about looking to an uncertain future and exploring what kind of system is needed after the MDG deadline has passed.

Further developments in rethinking strategies and approaches to achieving the MDGs include research by the Overseas Development Institute into the role of equity. Researchers at the ODI argue progress can be accelerated due to recent breakthroughs in the role equity plays in creating a virtuous circle where rising equity ensures the poor participate in their country's develop and creates reductions in poverty and financial stability. Yet equity should not be understood purely as economic, but also as political. Examples abound, including Brazil's cash transfers, Uganda's eliminations of user fees and the subsequent huge increase in visits from the very poorest or else Mauritius's dual-track approach to liberalisation (inclusive growth and inclusive development) aiding it on its road into the World Trade Organisation. Researchers at the ODI thus propose equity be measured in league tables in order to provide a clearer insight into how MDGs can be achieved more quickly; the ODI is working with partners to put forward league tables at the 2010 MDG review meeting.

Other development scholars, such as Naila Kabeer (2003), Caren Grown (2005) and Noeleen Heyzer (2005) argue that an increased focus on women’s empowerment and gender mainstreaming of MDG-related policies will accelerate the progress of the MDGs. Kabeer argues that increasing women’s empowerment and access to paid work will help reduce child mortality. To illustrate, in South Asian countries, which have high levels of gender discrimination, babies often suffer from low birth weight due to limited access to healthcare and malnutrition. Since low-birth weight babies have limited chances of survival, improving women’s health by increasing their bargaining power in the family through paid work, will reduce child mortality. Another way empowering women will help accelerate the MDGs is the inverse relationship between mother’s schooling and child mortality, as well as the positive correlation between increasing a mother’s agency over unearned income and health outcomes of her children, especially girls. Increasing a mother’s education and workforce participation increases these effects. Lastly empowering women by creating economic opportunities for women decreases women’s participation in the sex market which decreases the spread of AIDS, an MDG in itself (MDG 6A).

SELF-ASSESSMENT EXERCISE

Do you agree with the scholarly criticism of the MDGs?

4.0 CONCLUSION

In this unit we examined one internationally adopted plan in Nigeria, the MDGs. The MDG is a worldwide initiative to reduce poverty and hunger. It consists of eight international development goals that were officially established following the Millennium Summit of the United Nations in 2000, United Nations Millennium Declaration. All 193 United Nations member states and at least 23 international organisations have agreed to achieve these goals by the year 2015. Each of the goals has specific stated targets and dates for achieving those targets. The Appraisal of the milestone in the achievements of MDGs shows that much is desired in the attainment of these goals in developing countries like Nigeria.

5.0 SUMMARY

This unit has so far reviewed the goals and specific targets of the MDGs. The objectives and focus of the plan have been duly served while the implementation structures and patterns were equally expounded. In the final analysis a scholarly critique is made of the MDGs programme. With these analyses we have finally come to the end of this unit and by implication the end of this module. The last module is essentially on external economy. It is concerned with issues relating to economic cooperation, international trades and foreign investment.

6.0 TUTOR-MARKED ASSIGNMENT

How far or close is Nigeria to the Millennium Development Goals?

7.0 REFERENCES/FURTHER READING

Attaran Amir, (2005). "An Immeasurable Crisis? A Criticism of the Millennium Development Goals and Why They Cannot Be Measured". *PLS Medicine* 2(10),318.

Brooks World Poverty Institute (2012). *The Making of the Millennium DevelopmentGoals*. http://www.bwpi.manchester.ac.uk/resources/Working-Papers/bwpi-wp-1607.pdf. Retrieved 2013-01-31.

Deneulin, S. & Shahani, L. (2009). *An Introduction to the Human Development and Capability Approach: Freedom and Agency*. Sterling, VA: Earthscan. http://www.idrc.ca/en/ev-146686-201-1-DO_TOPIC.html#ch03note8. Retrieved February 3, 2013.

Grown, C. (2005). "Answering the Skeptics: Achieving Gender Equality and the Millennium Development Goals". *Development* 48(3), 82–86.

Haines, A. & Cassels, A. (2004). “Can the Millennium Development Goals be Attained?” *BMJ: British Medical Journal*, 329(7462), 394-397.

International Relations and Cooperation. (2004). *NEPAD in Brief*. .Department of International Relations and Cooperation, South Africa.

Kabeer, Naila. (2003).*Gender Mainstreaming in Poverty Eradication and the Millennium Development Goals: A Handbook for Policy-Makers and Other Stakeholders*. Commonwealth Secretariat.

Noeleen, H. (2005). “Making the Links: Women's Rights and Empowerment are Key to Achieving the Millennium Development Goals”. *Gender and Development*, 13(1), 9-12.

Siteresources.worldbank.org.http://siteresources.worldbank.org/DATASTATISTICS/Resources/MDGsOfficialList2008.pdf. Retrieved 2013-02-04.

United Nations. (2006). “The Millennium Development Goals Report: 2006”. *United Nations Development Programme*.www.undp.org/publications/MDGReport2006.pdf.

United Nations. (2009). *United Nations Millennium Development Goals website*, retrieved 31 January 2013.

World Bank, (2012). *List of Goals, Targets, and Indicators.*

MODULE 5

UNIT 1 ECONOMIC COOPERATION IN WEST AFRICA

CONTENTS

1.0 INTRODUCTION

There is no nation that operates in isolation; there are some level of co-operation and integration in economic activities designed at different strata of the society. West Africa is not left out in economic cooperation and integration, one of such cooperation that dated back in history is the Economic Co-operation of West African States. In this unit before we shall fully discussed the activities of ECOWAS, before then, we deem it fit to introduce the concept of economic cooperation and integration. On ECOWAS we shall discuss the formation, aims and objectives of ECOWAS. We will further highlight the institution of ECOWAS in addition to achievements, benefits and problems facing the union.

2.0 OBJECTIVES

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

- define and state types of economic integration
- trace the evolution and membership of ECOWAS
- enumerate the aims and objectives and institutions of ECOWAS
- assess the achievements and appraise the challenges of ECOWAS.

3.0 MAIN CONTENT

3.1 What is Economic Integration?

Economic integration refers to the merging to various degrees of economic and economic policies of two or more countries in a given region. In a sense, it implies factor-price equalisation which can be produced by trade, without factor movements, by factor movement, by factor movement without trade, or by some combination of the two. Factor-price equalisation here means that because countries trade at a common international price ratio, factor prices among the trading partners will tend to be equalised assuming identical technological possibilities for all commodities across countries (Anyanwu, 1993a).

Thus, economic integration denotes varying degrees of economic co-operation, merging, mingling and mixing with neighbours in a number of areas such as trade, mobility of labour and capital payments, fiscal and monetary policies, axial welfare provisions, and co-ordination of investment plans.

SELF-ASSESSMENT EXERCISE

State other definitions of Economic Integration.

3.2 Types of Economic Integration

There are five types of economic integration which entail different degrees of economic co-operation. These are:

a. Free Trade Area (Trade Integration): Under this arrangement tariffs and other trade restriction between the participating countries are abolished while each member country adopts its own external tariffs and other commercial policies against non-member countries. The European Free Trade Association (EFTA) formed in 1960 is a typical example.

b. Customs Union: This involves the abolition of all forms of internal restrictions on trade within the union and the adoption of a common external tariffs policy by all members of the countries. The European Economic Community (EEC) achieved this status in the 1960s.

c. The Common Market (Factor Integration): This involves the abolition of trade restrictions and impediments to factor movements among member countries.

d. Economic Union (Policy Integration): The economic union combines the abolition of restrictions on both commodity and factor movements with some degree of harmonisation of national economic policies. A typical example is the European Economic Community (EEC).

e. Total Economic Integration (Total Integration): This involves the unification of monetary, fiscal, social policies and requires the establishment of a supra-national agency whose decisions are binding on all member-countries. Achievement of total integration has been difficult due to great concern for national sovereignty.

SELF –ASSESMENT EXERCISE

State the differences between the following:

i. Free Trade Area and Custom Union.
ii. The Common Market and Economic Union.

3.3 Objectives of Economic Integration

a. It aims at reducing the external vulnerability of the participants. This thus improves their bargaining power with their third party trading partners.

b. It aims at promoting efficiency through specialisation and smoothness of trade transactions. That is, it aims at bringing about more efficient utilisation of resources while the harmonisation of economic and trade policies ushers in a smooth and orderly system of trade among member-countries.

c. It aims at increasing the level of economic activity through increase trade. This permits the exploitation of external economies, and inter-industry linkages. This in the long-run lowers cost of production.

d. It aims at enlarging the size of the market for firms producing below optimum capacity prior to integration. This brings about economies of scale. Large markets so created also help to sustain heavy industries.

e. The resultant enlarged market and lower unit cost will further stimulate demand and consumption and ultimately lead to increased investments and economic growth.
f. It results in trade creation, that is, a shift in the geographic location of production from high-cost to lower-cost member countries. It must be pointed out however that trade diversion (polarisation effect) may result. That is, the integration may cause the locus of production of formerly imported goods to shift from a lower cost non-member country to a high-cost member country.
g. It is also a stimulus of competition; Effective completion makes possible the existence of internal and external economies.
h. It results in coordinated industrial planning.
i. It creates job opportunities as a result of increased investment and emergence of infant industries.

3.4 Economic Community of West African States (ECOWAS)

3.4.1 Formation of ECOWAS and Member States

The initial moves at forming the organization were made by the then Nigeria Head of States, General Yakubu Gowon (Rtd.) and the Togolese leader, Gnassingbe Eyadema at the time they signed a bilateral trade agreement in April 1972. That agreement was seen by Eyadema as an embryo of a West African Economic Community. Other Countries came into the picture in 1973 at Lome, Togo when the Council of Ministers of the Organisation of African Unity (OAU) agreed in principle to form West African Economic Community. On May 28, 1975, however, the treaty establishing the ECOWAS was signed by fifteen West African Nations in Lagos, Nigeria. These countries include the host country, Nigeria, Benin Republic (formerly Dahomey), the Gambia, Guinea, Guinea Bissau, Ghana, Cote D'Ivoire (Ivory Coast), Senegal, Togo and Burkina Faso (Formerly Upper Volta). Cape Verde later joined at her independence to make number sixteen.

3.4.2 Aims and Objectives of ECOWAS

Article 1 of the treaty of ECOWAS stipulates that:

1. The aim of ECOWAS is to promote co-operation and development in all fields of economic activities particularly in the fields of industry, transport, telecommunication, energy, agriculture, natural resources, commerce, monetary and finance questions and in social and cultural matters for the purposes of

raising the standard of living of its people, of increasing and maintaining economic stability, of fostering closer relations among its members and of contributing to the progress and development of the African continent.

2. To attain the above aim, the specific objectives of the ECOWAS are as follows:

a. Elimination of custom duties and other charges of equivalent effect in respect of the importation and exportation of goods among member states.
b. Abolition of quantitative and administrative restrictions on trade among member states.
c. Establishment of common custom tariffs and a common commercial policy towards non-member countries.
d. Abolition of obstacles to free movement of persons, services and capital between member states.
e. Harmonisation of the agricultural policies and the promotion of common projects in the member states notably in the fields of marketing, research and agro-industrial enterprises.
f. Joint development transport, communication, energy and other infrastructural facilities as well as the evolution of a common policy in these fields.
g. Harmonisation of economic and industrial policies of member states and the elimination of disparity in the level of development of member states.
h. Establishment of a fund for co-operation, compensation and development.
i. To carry out such other activities calculated to further the aims of the community as the member states may from time to time undertake in common.

3.4.3 Institutions of ECOWAS

Article 4 of ECOWAS treaty stated the institutions of ECOWAS as:

a. The authority of Heads of State and Government
b. The Council of Ministers
c. The Executive Secretariat
d. The Tribunal of the Community
e. Four Technical and Specialised commissions:
    i. The Trade, Customs, Immigration, Monetary and Payments Commission
    ii. The Industry, Agriculture and Natural Resources Commission

iii. The Transport, Telecommunication and Energy Commission
iv. The Social and Cultural Affairs Commission

The Authorities of Heads of State and Government

The Authorities of Heads of States and Government of member states is the principal governing institution of ECOWAS. It is responsible for, and has the general direction and control of the community and the achievements of its aims. Its decisions and direction are binding on all institutions of ECOWAS. The Authority meets at least once in a year. It determines its own procedure including that of convening its meetings, for the conduct of business thereat and at other times, and for the annual rotation of the office of chairman among the members of Authority. The chairman for 1987 and 1988 was President Ibrahim Babangida of Nigeria while Late General Sanni Abacha held the position in 1996/97.

The Council of Ministers

The council of ministers consists of two representatives of eachmember state. Its responsibilities include:

i. to keep under review the function and development of the community in accordance with the Treaty
ii. to make recommendations to the Authority on matters of policy aimed at the efficient and harmonious functioning and development of the community
iii. to give directions to all subordinate institutions of the community
iv. to exercise such other powers conferred on it and performs such other duties assigned to it by the Treaty.

Its decisions and directions are binding on all subordinate institutions of the community unless otherwise determined by the Authority. It meets twice in a year; one of such meetings is held immediately preceding the annual meeting of the Authority. It also determines its own procedure including that for convening its meeting, for the conduct of business thereat and at other times and for the annual rotation of the office of chairman among the members of the Council of Ministers.

The Executive Secretariat

The Executive Secretariat is headed by an Executive Secretary who is appointed by the Authority and who serves for a term of four years and eligible for reappointment for another term of four years only. The Executive Secretary who is the principal executive officer of ECOWAS is assisted by two Deputy Executive Secretaries.

The Executive Secretary is responsible for the day-to-day administration of ECOWAS and all its institutions.
His duties include:

i. to service and assist the institutions of ECOWAS in the performance of their functions
ii. to keep the functioning of ECOWAS under continuous examination and where appropriate report the result of its examination to the Council of Ministers
iii. to submit a report to all sessions of the Council of Ministers and all meetings of the Authority
iv. to undertake such work and studies and perform such services relating to the aims of the community as may be assigned to him by the Council of Ministers and also make such proposals thereto as may assist in the efficient and harmonious functioning and development of ECOWAS.

Technical and Specialised Commissions

The four commissions earlier mentioned shall submit from time to time reports and recommendations through the Executive Secretary to the Council of Ministers.

The Tribunal of the Community

This ensures the observance of laws and justice in the interpretation of the provisions of the ECOWAS Treaty. It has the responsibility of settling such disputes as are referred to it in accordance with Article 56 of the ECOWAS Treaty. Its composition, competence and statuses are prescribed by the Authority.

ECOWAS Fund for Co-operation, Compensation and Development (ECCD)

Article 50 of ECOWAS Treaty established the ‘Fund’ based in Lome, Togo. Its resources derived from:

i. Contribution from member states.
ii. Income from ECOWAS enterprises.
iii. Receipts from bilateral and multilateral sources as well as other foreign sources.
iv. Subsidies and contributions of all kinds and from all sources.

The ‘Funds’ is used for the following:

i. To finance projects in member states.
ii. To provide compensation to member states which have suffered losses as a result of the location of community enterprises.
iii. To provide compensation and other forms of assistance to member states which have suffered losses arising out of the application of the provisions of the Treaty on the Liberalisation of Trade within the community.
iv. To guarantee foreign investment made in member states in respect of enterprises established in pursuance of the provisions of the Treaty on the harmonisation of industrial policies.
v. To provide appropriate means to facilitate the sustained mobilisation of internal and external financial resources for the member states and the community.
vi. To promote development projects in the less developed member states of the community.

3.4.4 Achievements of ECOWAS

a. Easing the Movement of Persons:
This is the first phase of the protocol which entitles ECOWAS citizens to stay in any member state for 90days without visa (but with other residential and necessary documents).
b. The ECOWAS Card:
The motor vehicle third party insurance, otherwise known as the 'Brown Card' is one of the protocols so far ratified and being implemented by member states. It establishes a common settlement system of claims in international motor traffic.
c. Rights of Residence:
This protocol enables citizens to take up jobs in any member state without the need for work permit.
d. Telecommunication Projects:
U.S $35million ECOWAS spent on telecommunications project.
e. Road/Air Transport Projects:
Road and Air transport projects worth US$26million dollars was embarked upon to link member states.
f. ECOWAS Headquarters:
Construction of ECOWAS headquarters in Abuja. Nigeria set aside ₦5 million in support of the community's budget towards this project.
g. Ecobank:
The Ecobank Transactional Incorporated (ETI) and its Togolese subsidiary (affiliate) were both officially opened in March 1988 in Lome, Togo, the West Africa's first $50million off-shore bank, specifically designed to mobilise convertible currency resources within the 16-nation ECOWAS and from the worldwide investment community in order to establish major ventures

capital fund for equity investments in the region, has thus materialised. The project was officially presented by the President of the Federation of West African Chambers of Commerce (FWACC) to the summit meeting of ECOWAS Heads of States and Governments in May 1983 in Conakry, Guinea. The Ecobank was subsequently given the go-ahead in November 1984 during the ECOWAS summit held in Lome, Togo.

3.4.5 Problems Facing ECOWAS

1. **Relations with colonial masters-pursuit of different commercial policies**
   All the member nations of ECOWAS still tie their commercial if not their entire apron strings to their former colonial masters, thus, making it very difficult for ECOWAS to adopt a common commercial policy for the benefit of the sub-region.
2. **Dependence on revenue from import duties**
   Member nations of ECOWAS over depend on revenue from import duties hence it becomes difficult to achieve the objectives of establishing common tariffs and the removal of restriction on the free flow of goods between the member nations.
3. Some of the countries are poor that they depend heavily on some of the advanced nation of Europe and America. This can lead to divided loyalty.
4. **Pursuit of different social and economic policies**
   Instead of embarking on the achievement of exchange of ideas and personnel, establishment of customs union/common tariff many member nations rather pursue their individual objectives hence some are pro-west and other pro-east. This thus breeds conflict ideologically speaking.
5. **Political instability**
   Almost in all the nations that make up ECOWAS, coups d'état have become very important so that new military juntas introduce new measures which some are very busy trying to grapple with internal problems in order to avoid other taking over forcefully so that they have little or no time for the success of the organisation.
6. **Differences in Currency**
   The fact that the member nations don't have a common currency makes exchange a little wearisome due to problems of international exchange (and the rates international exchange which fluctuate from time to time).
7. There is uneven development which can lead to suspicion on the part of less developed ones.

8. The relatively large size and economic resources of some of the member states creates fears of dominance among some of the smaller nation e.g. Nigeria has above 140million, she also has enormous oil reserves and earned a lot in recent times out of this.
9. The economies are competitive rather than complementary.
10. All the member nations have unemployment problems and this may sometimes distract their attention from the community.
11. The free movement objectives has rather succeeded in creating problems especially for the so-called richer ones among the members e.g. Nigeria where religious fanaticism and riots and all sorts of social vices like armed robbery, prostitution, etc. are committed by reckless foreign nationals of ECOWAS particularly those from Ghana, Chad and the Cameroons.
12. **Financial Crunch**
    Most members were unable to pay their annual subventions to the body thus jeopardising the achievement of its set objectives. It is worthy of note that in the July 1987 summit of the Heads of state and Governments held at Abuja, these key problems were touched upon. That summit adopted the programme on monetary integration which would ensure the creation of a common sub-regional currency. When this monetary integration is attained, it will create exchange rate certainty such that intra-community economic relations will not be disrupted by trade restrictions, exchange controls or exchange revisions that may have similar effects on the trade as tariffs. The economic recovery package adopted, emphasised Structural Adjustment Programme, with a proposal of 136 projects at both the national and sub-regional levels.

3.4.6 How a Nation Such as Nigeria will benefit from being a Member of ECOWAS

1. The nation will have access to a wider market both for the sale of products and for the purchase of its requirement at home.
2. Mobility of labour will result especially with the ‘free movement’ objective. However, the richer nations are likely to suffer the socio-economic and political problems of aliens-influx such as Nigeria has been experiencing before the expulsion of illegal immigrants. This succeeded in creating unemployment for Nigerian nationals, participated in religious riots and other social vices like armed robbery and prostitution.
3. Rational Division of Labour is likely to result among the member nations. This may therefore encourage the growth of industries that have not yet been established.
4. Co-ordinated industries planning are likely to result, especially in those industries where economies of scale are likely to exist.

5. A corollary of the above (coordinated industrial planning) is that there will be resulting accelerated industrial growth since certain industries dominance is eliminated.
6. Trade creation may also occur as a result of the imposition of external barrier and encouragement of internal free trade. Trade creation here refers to a situation where production shifts from high to low cost member nations. The trade diversion when production and consumption of member nations shift from lower cost non-member source of supply to higher–cost member producers that may result will not be totally undesirable if infant industries grow up as a result of larger market and if each member nation were to protect its import substituting industry against cheaper foreign suppliers and more so if employment opportunities are created internally.

3.4.7 How to Achieve the Aims of ECOWAS

a. Trade restrictions in the form of tariff and quota system should be removed.
b. Industrial development should be harmonised, this will encourage territorial specialization.
c. Factors of productions should be allowed to move freely from one country to another-geographical factor mobility
d. A common tariff should be established. This will promote trade within member states.
e. Member-country leaders should disengage themselves from the straightjacket of gradualism, raise their political will and commitment, and show increased imagination by taking bolder steps into the more controversial and dynamic areas of integration (Anyanwu, 1993a)

SELF –ASSESSMENT EXERCISE

Is ECOWAS still relevant as a viable economic union in West Africa?

4.0 CONCLUSION

Economic integration refers to the merging to various degrees of economic and economic policies of two or more countries in a given region. There are five major types of economic integration namely Free Trade Area, Customs Union, The Common Market, Economic Union and Total Economic Integration. Objectives of Economic Integration include: reducing the external vulnerability of the participants, promoting efficiency through specialisation and smoothness of trade transactions, increasing the level of economic activity through increase trade, enlarging the size of the market for firms producing below optimum capacity prior to integration among others. ECOWAS was formed through the initial moves by the then Nigeria Head of States, General Yakubu Gowon (Rtd.) and the Togolese leader, Gnassingbe Eyadema at the time they signed a bilateral trade agreement in April 1972. That agreement was seen by Eyadema as an embryo of a West African Economic Community. On May 28, 1975, however, the treaty establishing the ECOWAS was signed by fifteen West African Nations in Lagos, Nigeria. ECOWAS institutions are:The authority of Heads of State and Government**,** The Council of Ministers**,** The Executive Secretariat**,** The Tribunal of the Community and four Technical and Specialised commissions. The achievements of ECOWAS include: Easing the Movement of Persons, The ECOWAS Card, Rights of Residence, Telecommunication Projects, Road/Air Transport Projects and Ecobank among others. Some of the problems confronting ECOWAS includes: Relations with colonial masters-pursuit of different commercial policies, Dependence on revenue from import duties, Pursuit of different social and economic policies, Political instability, Financial Crunch and Differences in Currency.

5.0 SUMMARY

In summary, this unit took us through introduction to economic integration including its meaning and types. We proceeded to a discussion on the most prominent economic integration in West Africa, ECOWAS. Our discussion on ECOWAS focused on the formation, aims and objectives of ECOWAS. We further highlighted the institution of ECOWAS as well as the achievements, benefits and challenges facing the union.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss in detail any organ of ECOWAS.

7.0 REFERENCES/FURTHER READING

Anyanwu, J. C. (1993). *Monetary Economics: Theory, Policy and Institutions*, Onitsha: Hybrid Publishers Ltd.

Anyanwu, J. C. (1993). “Towards West African Monetary Integration: The Basic Issues”. Paper Presented for the international Conference on West African Integration, Dakar, Senegal.

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

UNIT 2 MONETARY INTEGRATION IN WEST AFRICA

CONTENTS

1.0 INTRODUCTION

This unit is the second unit in this module. Here we shall continue our discussion on economic cooperation and integration in West Africa. This time around we shall discuss monetary integration in West Africa. Having discussed the monetary integration background, we shall proceed to discuss some basic concepts of monetary integration and benefits of monetary integration. Finally, we will also explain the activities of Ecobank in terms of its formation, objectives, ownership and structure.

2.0 OBJECTIVES

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

- define some basic concepts of monetary integration
- analyse the benefits of monetary integration in West Africa
- itemise the problems of monetary integration in West Africa
- summarise the activities of Ecobank, an organ of ECOWAS.

3.0 MAIN CONTENT

3.1 Background to Monetary Integration in West Africa

The decision for ECOWAS monetary integration was taken eight years after 1975 during the Conakry meeting of the Heads of State and Government in May 1983. Consequent to that decision, the committee of Governors of Central Bank of ECOWAS as its meeting in Dakar in September, 1983, set up a 'Study Group' under the auspices of ECOWAS Secretariat. The Study Group's report was submitted in two phases. The revised phase II report was submitted to the committee of Governors at their meeting in Nouakchott, Mauritania, in April, 1987.It will be recalled that the terms of reference given to the Study Group include:

a) The economic implication and the pre-requisite for the establishment of the monetary zone;
b) Critical evaluation of the experience of the West African Monetary Union (WAMU) Founded by Benin, Burkina Faso, Cote D'Ivoire, Niger, Senegal, and Togo;
c) The management framework and institutional arrangements for ECOWAS monetary Zone;
d) Discussion of the appropriate policies and adjustment measures required by each member country for adhering to the monetary zone; and
e) Examination of the viability of the various possible approaches to the monetary zone, e g. a single monetary zone, an enlarge WAMU along –side two or three sub regional monetary union, and if several monetary zones are co-existing, establishment of a regional co-ordination mechanism.

The study group in its report proposed a monetary zone of the WAMU type for ECOWAS, and a transitional period of five years (1988-1992) before the single ECOWAS Monetary Zone could be created. During that period, some country will adopt specific corrective policy measures to remove source of disharmony arising particularly from exchange rate and monetary and fiscal policies of the Government. The adjustment measures recommended are to be undertaken by the non-members of the L'Union Monetaire Quest Africaine (UMOA) to harmonise their policies with those that obtain among the seven- member French-speaking countries of the UMOA.

The recommended policy measures include exchange rate adjustment; ceiling government borrowing from the banking system; appropriate distribution of bank credit between government and private sectors and fiscal harmonisation. The envisaged monetary union is based on the common currency model with these features: a common central bank; a common convertible currency to replace existing national currencies; pooled external reserves; the centralisation of short term domestic and external liabilities of national central banks in the common central bank; the re-designation of existing national central banks; and a convertible guarantee agreement with issuer of a major international currency in order to ensure stability and international confidence in the new common currency. Following the consideration of the report, the Committee of Governors accepted it and decided to adopt a phased approach to ECOWAS Monetary Cooperation to reflect the time profile of objectives to be pursued. The short term efforts will be directed towards improvement and strengthening of the West African Clearing House (WACH) mechanism to facilitate increased intra-regional trade and payments transactions through greater use of national currencies.

For the medium-term, effort will be made towards the achievement of limited convertibility, while the creation of a single monetary zone with a common currency is the long term objectives. In June, 1987, the recommendation was committed to the Finance and the executive ministers of ECOWAS at their Abuja meeting. After considering and adopting the recommendation, the Finance Ministers recommended the setting up of an interim coordinating committee comprising representatives of all the central banks, Ministers of Finance and the Executive Secretariat to undertake the necessary follow –up action on details of the programmes. The Ministers of Finance submitted their recommendation to the 21st Session of the Councils of Ministers of ECOWAS which was held in Abuja from July 3 to 6, 1987.

In considering the report, the Council of Ministers stressed the importance of monetary co-operation given problems posed by the multiplicity of currencies to the sub-regional integration process. In this regard, the executive Secretariat of ECOWAS was requested to develop the community co-operation programme in trade, monetary, transport and communications sectors into coherent package to ensure the required complementarily. It also underscored the need for strong political will in implementing the proposed monetary co-operation programme. Thereafter, the Council of Ministers submitted the proposals to the Authority of Heads of State and Government for consideration.

In the tenth ordinary session held in Abuja from 7th to 9th July, the Authority welcomed the progress recorded on the preparation towards the creation of a single monetary zone in West Africa. Consequently, the Authority adopted the proposed ECOWAS Monetary Cooperation Programme. A Co-ordination and Implementation Committee (CIM) was set up to see how a single monetary zone with limited convertibility, would work out, leading to the establishment of a common currency in 1994.Unfortunately, time flies and yet little progress has been made and there are a lot of problems to be overcome. It is in the light of this development that's the debate over exactly what type of economic monetary integration in West Africa would be desirable, and how and at what pace this should be achieved has intensified in recent times.

SELF-ASSESSMENT EXERCISE

Trace the history of monetary integration in West Africa.

3.2 The Concept of Monetary Integration

Monetary Integration involves the explicit harmonisation of monetary policies and the common pool of foreign exchange reserves under the authority of a single central bank. However, during the intermediate period, a pseudo- monetary union exists, while a full integration implies fixed exchange rates (an exchange rate union), convertibility and capital market integration. Thus, complete monetary integration refers to the permanent and irrevocable fixing of members' exchange rates, the complete convertibility of capital, and the establishment of a single central bank to be vested with the power controlling a pool of members' foreign exchange reserves and of coordinating the economic and monetary policies of the whole community. That is, it is the total and irreversible convertibility of currencies; complete freedom of capital movements in fully integrated financial markets; and irrevocably fixed exchange rates, with no fluctuation margin between member currencies (Anyanwu,1993b)

3.3 The Benefits of Monetary Integration in West Africa

The benefits of this monetary integration include:

a. the limitation of the influence some metropolitan countries (such as France) in West Africa;
b. the common pool of foreign exchange reserves implicit in the integration will help to economise the use of foreign exchange reserves;
c. the limitation of the impotence of West African Nation at international organisations;
d. the reduction of the preponderance of smuggling of goods and currency trafficking;

e. enhancement of intra sub-regional trade and overall level of investment within the sub-region by improving the pattern of resource allocation, better economic growth, capital movement, and domestic savings;
f. promotion of fiscal discipline; and the elimination of intra sub-regional the balance of payments problems.

3.4 The problems of Monetary Integration in West Africa

An indication of the restraints to West Africa Monetary Integration may be gauged in part from an examination of the direction of the sub-region trade. The most striking aspect of this is the minimal amount of intra-West Africa trade that takes place. That intra –West African trade is so miniscule is a symbol both of a great contemporary weakness. The sub-region's trade flow was such that the intra-ECOWAS exports as a proportion to ECOWAS world exports was only 3per cent in 1972 but grew only marginally to 3.5per cent in 1979. On the other hand, intra-ECOWAS imports as a proportion of total community, total imports grew from 2.8per cent in 1970 to only 6per cent in1979 with an average of 4per cent for the period. Total intra-ECOWAS trade as a percentage of total ECOWAS world trade rose from 2.3per cent in 1970 to a mere 3.5per cent in 1979.There is also a similar picture in ECOWAS share of intra-Africa trade. Although ECOWAS' share of intra-African trade was rising, but the rise was rather slow and small, changing from 1.2per cent in 1960 to 2.1per cent in 1970, 3.9per cent in 1980 and 9.6per cent in 1989. It is also worthy of note that there is a considerable amount of inter-country variation in the percentage share of intra- ECOWAS trade in total trade. While the land-lock countries, such as Niger, Burkina-Faso, and Mali oriented a fairly substantial share of their total trade toward the sub-region, others oriented more of theirs outside the sub region. For example in 1970, Nigeria is responsible for over 42per cent of total ECOWAS world exports but only 0.6per cent of intra-ECOWAS exports. On the import side, the country accounted for 38.3per cent of total imports coming into the community but just 0.4per cent of intra-ECOWAS imports. A similar pattern prevailed in 1979 and for the two sub-periods. Unfortunately, too for countries that had a fair share of their trade from the sub-region, there is declining trend as can be seen in the cases of Burkina Faso (-4.2per cent) and Niger (-3per cent) between the sub-regions shown in the Table 2.2.

One can still go further to illustrate this unfortunate trend of low intra-ECOWAS trade with the case of the largest ECOWAS member country, Nigeria. Table 2.3 shows the nation's total export by country/region of destination from 1980-1989. It shows that in 1980 while 50.4per cent of total exports went to the European Community only 1.7per cent went to

ECOWAS; in 1985, 66.2per cent of total exports went to the European Community while only 3.5per cent went to ECOWAS.

Table 2.1: ECOWAS Share of Intra-African Trade (1960-1989)

Year	Total Value of Exports (US$)	Intra-Trade of ECOWAS as % of Total Exports
1960	17.0	1.2
1970	61.0	2.1
1976	478.0	3.1
1980	1,956.0	3.9
1987	1,132.0	7.8
1988	1,298.0	9.2
1989	1,503.0	9.6

Source: Anyanwu (1993b)

Table 2.2: Intra-ECOWAS Trade as Percentage of Total Trade, 1970-1975 and 1983-1988

Member States	1970-1975			1983-1988			% Change in Total Trade in the Two periods
	Imports	Exports	Total Trade	Imports	Exports	Total Trade	
Benin	5	11	8	7.6	9.6	7.7	-0.3
Burkina	20	45	32.5	33	12	28.3	-4.2
Faso	-	-	-	3	3.9	2.6	n. a
Cape	6	2	4	4	15.9	6.7	2.7
Verde	7	2	4.5	22	6	16.4	11.9
Gambia	3	1	2	4	0.5	1.7	-0.3
Ghana	0	1	0.5	7	1.2	3.9	3.4
Guinea	5	7	6	12	13	12,8	6.8
Guinea	1	1	1	4	1.4	2.4	1.5
Bissau	24	32	28	33	8	29.8	1.8
Cote	15	1	8	6	5.8	5.8	-2.2
D'Ivoire	13	29	21	23	13	18	-3.0
Liberia	0	2	1	1	3.5	2.6	1.6
Mali	7	15	11	12	16.7	12,6	2.6
Mauritania	8	2	5	21	1.4	11.6	6.6
Niger	5	3	4	5	6.8	5.8	1.8
Nigeria							
Senegal							
Sierra							
Leone							
Togo							

Source: Anyanwu (1993b).

Table 2.3: Nigeria's Total Exports by Country/Region of Destination, 1980-1989 (%)

Year	EC	U.S.A	Japan	ECOWAS	Others	Total
1980	50.4	33.2	1.5	1.7	14.7	100.0
1981	50.5	28.3	0.1	4.4	14.3	100.0
1982	41.8	34.8	0.1	2.4	20.9	100.0
1983	59.0	21.6	0.1	2.8	16.5	100.0
1984	62.0	13.0	0.1	4.5	19.4	100.0
1985	66.2	18.1	0.1	3.5	12.1	100.0
1986	47.8	35.0	0.1	3.9	15.2	100.0
1987	41.9	47.8	0.1	6.2	4.8	100.0
1988	36.3	49.8	0.2	7.0	6.7	100.0
1989	36.5	51.1	2.7	7.0	0.7	100.0

Source: Anyanwu (1993b).

In 1989, 36.5per cent of Nigeria's export went to the European Countries (EC) while 51.1per cent went to the US-only 7per cent went to ECOWAS. The case of imports is even worse as we can see from Table 2.4. The table reveals that 57.9per cent of Nigeria's imports came from the European Countries in 1980 while only 0.7per cent came from ECOWAS in that year. By 1989, 61.1per cent of Nigeria's total imports came from the EC while only 0.9per cent came from ECOWAS. Thus, available evidence portrays ECOWAS members as not conducting a reasonable proportion of their external trade among themselves. To worsen matters, West African economies are deeply penetrated by those of France, Britain, and other ex-colonial powers, and increasingly by the USA and Japan whose transactional corporations are moving in to exploit and extract. In the troubled areas of West Africa-Liberia, Benin, Togo etc. interventions by outside powers is now almost *de rigueur*. Also trade is monopolised as for the Nigerian case where over 70per cent of exports and imports respectively go to and from industrial nations of the world.

Even in this, West African countries have been competitors (exports of primary products) rather than partners in trade with industrialised countries of the West, and the rivalry extends to attracting tourists and inward investment from European firms or wider-based multinational corporations. Another resulting uncomfortable fact is that something like 70per cent of all West Africa's revenues comes from the export of primary products. This leaves little room in which to maneuver. Such close relationships with western world are not limited to exports and imports but extend to debt dependency such that by 1989 western banks held between one-half and two-thirds of the US$55.9billion (only US$ 15.8billion in 1980) owed by West African countries.

Indeed, West African monetary integration effort raises considerable difficulties that came of working together; disparity of size as between Nigeria on one hand and the rest on the other; the existing pattern of trade entirely geared to countries outside Africa (mainly in the West) and communication developed to assist this skewed trade partners. Other problems facing West African monetary integration are tariff and non-tariff barriers in which West African nations depend heavily for revenue. Such trade barriers include import duties, export duties, production taxes or excise duties, and consumption taxes. The non-tariff barriers of exchange controls involving restrictions on payments for imports, invisibles and capital transfers, prescription of currency and compulsory surrender of part or whole of import proceeds; quantitative import and export controls (import and export licensing , import and export quota prohibition); and advance import suppliers; documentation and procedural requirements; and sanitary health, and quality standards and packaging requirements. Indeed, such stringent trade and exchange restrictions create malpractices which have serious consequences for monetary integration. Such malpractices include over-valuation of imports, under-valuation of exports, smuggling and illegal currency trafficking. The resulting loss of revenue to government, the dissipation of scarce exchange resources through capital flight, pressure on exchange rate and the balance of payments exerts unfavourable impact on fiscal and monetary policies. Thus, to the extent that these forces exacerbate the disharmonies in exchange rates and fiscal and monetary policies, they constitute serious obstacles to West African monetary integration.

Table 2.4: Nigeria's Total Imports by Country Region of Origin, 1980-1989

Year	EC	U.S.A	Japan	ECOWAS	Others	Total
1980	57.9	9.3	10.2	0.7	22.0	100.0
1981	62.1	10.7	13.3	0.4	13.5	100.0
1982	56.3	9.5	11.6	0.3	22.6	100.0
1983	51.1	11.2	9.2	0.5	28.0	100.0
1984	54.0	12.5	8.1	1.2	24.2	100.0
1985	58.9	13.4	7.4	0.7	19.6	100.0
1986	55.0	11.8	5.1	0.9	27.2	100.0
1987	62.7	8.3	9.0	1.3	18.7	100.0
1988	46.4	8.7	8.3	1.8	34.8	100.0
1989	61.7	15.9	6.6	0.9	15.5	100.0

Source: Anyanwu (1993b).

Another major problem of monetary integration is that of currency inconvertibility. Indeed, a major limitation to West African monetary integration is the existence of a multiplicity of non-convertible national currencies in West Africa. This factor has resulted in the emergence of restrictive trade and wide spectrum of diverse exchange regimes as well as divergent fiscal and monetary policies in the sub-region. Perhaps with the exception of Liberia where the US dollars is the major currency and the Franc Zone where the CFA France with convertibility is used, all other currencies in the sub-region are inconvertible. Incidentally, the hurdles to cross towards convertibility are not so easy ones since the prerequisites include realistic exchange rates (credible in terms of market expectations i.e. real exchange rate that is compatible with a sustainable balance of payments over the medium term), appropriate macroeconomic (monetary and fiscal policies elimination of price controls, and adequate foreign exchange reserves.

A final difficulty which will always impede the evolution of a successful monetary integration in West Africa is lack of political will to implement such indigenously articulated programme for economic growth and development. West African leaders prefer foreign prescriptions to homegrown solutions to the economic malady. It is little wonder then that almost all the countries in West Africa have embarked upon one economic adjustment programme or the other recommended by Western financial institutions but those recommended by the Economic Commission for Africa or other sub-regional groups have been ignored. The flesh is willing but the spirit appears weak. Though the problems are formidable, they may still be overcome. Yet, if they are to be overcome, West Africa must find some new political motivation to bring it nearer to genuine unity, without such motivation, the current efforts towards West African monetary integration like other similar sub-regional efforts will turn out to have been no more than an exercise in rhetoric.

SELF-ASSESSMENT EXERCISE

Evaluate the merits and challenges of Monetary Integration in West Africa.

3.5 Ecobank Transnational Incorporated

3.5.1 Formation of Ecobank

The history of Ecobank dates back to 1979 when several presidents of the West African Chambers of Commerce and industry began to develop the idea of creating a financial institution with the aim of promoting intra-African trade and industry within the sub-region and thereby lending the private sector support to the realisation of the objectives of ECOWAS. Some leading members of the Federation of the West

African Chambers of Commerce (FWACC) latter brought the idea of the project to the knowledge of some Head of State of the sub-region who supported it. The project was officially presented by the President of FWACC to the summit meeting of ECOWAS Heads of State and Government in May 1983 in Conakry, Guinea. In the 1984 summit Lome, it was approved. However, the bank was formally created in1986. Its headquarters is in Lome, Togo. The bank was officially opened on the March, 1989.

3.5.2 Objectives of Ecobank

a. Ecobank is to contribute to the financial, economic and social development of the ECOWAS member countries.
b. To mobilise and promote investment for productive purpose of private and public resources from within and outside the sub-region.
c. To promote the development of trade, particularly of intra-ECOWAS trade which by 1988 accounted for only 5per cent of trade in the sub-region.
d. To provide supporting facilities for project rehabilitation at services to help solve pressing problems of industry in member states of ECOWAS.
e. To provide technical assistance for the preparation, financing and implementation of development projects.
f. To promote the growth and improvement of indigenous banking and financial institution and service throughout ECOWAS.

3.5.3 Ownership and Structure of Operations of Ecobank

Ecobank is the second off-share bank in private sector in ECOWAS countries with the Federation of West African Chambers of Commerce at its vanguard. Its authorised capital is $100million out of which 50per cent were initially issued and totally subscribed to. The shareholders in the bank are individuals and institutions from the 16 countries of West African who participate through their various countries' chambers of commerce and industry. The ECOWAS Fund for Co-operation, Compensation and Development (FCCD) is also a shareholder having contributed 10per cent of the bank's capital. As a bank with off-shore status, it will operate in the various countries without submitting directly to the regulations of individual countries and with its capital holding always in a convertible currency (probably the dollar).Only the bank's affiliated in each member state will be under local banking regulations with its capital in local currency. The Togolese subsidiary or affiliate which was opened also in March, 1989, had an authorised capital of 750million CFA Francs (1.e. ₦11.75million FEM rate as at 1 March,

1989) out of which 25per cent are owned by the Ecobank Transnational and the remaining 5per cent by local concerns. With the opening of the Togolese affiliate, the next opened late in 1989 is the Nigeria affiliate (known as Ecobank-Nigeria) to be followed by the Ivorian and Senegalese branches in that order. The affiliates in the other 12 countries will have to wait because of the precarious economic conditions prevailing in those countries.

The Nigerian affiliate has an authorized capital of ₦25million and was registered in March 1987, though it was expected to commence operation late in 1988, this Nigerian subsidiary is owned 40per cent by ETI and 60per cent locally. The local subsidiaries of the bank in each country are divided into two sections: One for commercial banking while the other is a corporation for development services. The two sections operate independently so that the development corporation does not constitute a stumbling block for the progress of the commercial banking operations. The ETI operates as wholesales bankers in the principal financial centres of the world and through its West African headquarters, provide such quality of financial services as may not be available as yet in ECOWAS.

The Ecobank regulations provide for a Board of Directors of ten members in addition to one chairman. One of such members is to be nominated by the ECOWAS fund and two others by the technical partners, the CITIBANK of America. The other seven members shall be representatives of the Founder –Shareholders and other investors of Ecobank and shall be drawn from the countries of the West African sub-region. The ETI then has Dr. Thomas Hope of Sierra Leone as President and Chief Adeyemi Olusola Lawson (of Nigeria) as Vice President. The technical partners, the Citibank, are represented by Mr. Alan S. Goldie who is also the Assistant Director-General.Ecobank-Togo has Mr. Yao Pali Tchalla as president and Mr. H.P. Barlay as Managing Director. Table 2.5 shows the distribution of Ecobank Transnational Incorporated capital.

Table 2.5: Distribution of ETI Capital

Countries	Allocation in $m	% of Allocation
1. **ECOWAS**	5.00	10.0
2. **Benin**	1.75	3.5
3. **Burkina Faso**	2.00	4.0
4. **Cape Verde**	0.50	1.0
5. **Cote D'Ivoire**	5.00	10.0
6. **Gambia**	0.50	1.0
7. **Ghana**	1.50	3.0

8. Guinea Bissau	1.00	2.0
9. Guinea	0.50	1.0
10. Liberia	1.75	3.5
11. Mali	1.00	2.0
12. Mauritania	0.50	1.0
13. Niger	1.75	3.5
14. Nigeria	20.00	40.0
15. Senegal	3.50	7.0
16. Sierra Leone	1.75	3.5
17. Togo	2.00	4.0
Total	**50.0**	**100.0**

SELF-ASSESSMENT EXERCISE

Weigh the pros and cons of monetary integration in West Africa.

4.0 CONCLUSION

We discussed in this module that the decision for ECOWAS monetary integration was taken eight years after 1975 during the Conakry meeting of the Heads of State and Government in May 1983. The study group in its report proposed a monetary zone of the WAMU type for ECOWAS, and a transitional period of five years (1988-1992) before the single ECOWAS Monetary Zone could be created. The recommended policy measures include exchange rate adjustment; ceiling government borrowing from the banking system; appropriate distribution of bank credit between government and private sectors and fiscal harmonisation. The envisaged monetary union is based on the common currency model with these features: a common central bank; a common convertible currency to replace existing national currencies; pooled external reserves; the centralisation of short term domestic and external liabilities of national central banks in the common central bank; the re-designation of existing national central banks; and a convertible guarantee agreement with issuer of a major international currency in order to ensure stability and international confidence in the new common currency. The benefits of this monetary integration include: the limitation of the influence of some metropolitan countries in West Africa; the common pool of foreign exchange reserves implicit in the integration will help to economise the use of foreign exchange reserves; the limitation of the impotence of West African Nation at international organisations and the reduction of the preponderance of smuggling of goods and currency trafficking among others. The problems of Monetary Integration in West Africa are the unfavourable direction of sub-regional trade, disparity of size as between Nigeria on one hand and the rest on the other; tariff and non-tariff barriers, currency inconvertibility and lack of political will. Ecobank was set up with the objective of contributing to the financial, economic and social development of the ECOWAS member countries through mobilisation and promotion of investment for productive purpose of private and public resources from within and outside the sub-region.

5.0 SUMMARY

In this unit, we explained the history and basic concepts of monetary integration. We further discussed the benefits of West African nation from monetary integration as well as the constraints to the realisation of monetary integration in West Africa. Having dealt with economic co-operation in West Africa, we can now proceed to other economic co-operation in Africa such as NEPAD.

6.0 TUTOR-MARKED ASSIGNMENT

What is the status of Ecobank in the present time, can the bank stand the test of time?

7.0 REFERENCES/FURTHER READING

Anyanwu, J. C. (1993). *Monetary Economics: Theory, Policy and Institutions*.Onitsha: Hybrid Publishers Ltd.

Anyanwu, J. C. (1993). “Towards West African Monetary Integration: The Basic Issues.” Paper Presented for the international Conference on West African Integration, Dakar, Senegal.

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

UNIT 3 NEW PARTNERSHIP FOR AFRICA's DEVELOPMENT (NEPAD)

CONTENTS

1.0 INTRODUCTION

A nation cannot be an island on its own, economic co-operation on many grounds has become a reality in Africa and the world at large. We have introduced this concept of economic co-operation and discussed an aged and highly recognised economic co-operation in West Africa, ECOWAS. Yet, there are many more economic co-operations in Africa and the globe at large. One of such is a partnership in economic terms that was initiated by the African Union (AU) and thus emerged the New Partnership for African Development (NEPAD). In this unit, NEPAD an African adopted plan will be discussed especially for the key role it played in shaping several economic plans and policies at the national level.

2.0 OBJECTIVES

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

- define the meaning and objectives of NEPAD
- describe the structure of NEPAD
- highlight some programmes of NEPAD
- appraise the performance of NEPAD.

3.0 MAIN CONTENT

3.1 Origin, Meaning, and Focus of NEPAD

3.1.1 Historical Background: Origins and Influences

By the 1970s and 1980s, many African countries were liberated, but these were also decades that were characterised by political instability, military coups, one-party governments, dictatorships and the heightened influence of Cold War politics in African affairs. Faced with the onset of an economic crisis – huge foreign debts and declines in social development – and the failure of the international financial institutions' free market policies, African countries tried to reverse these trends by calling for a new international economic order (NIEO) through which they could craft self-reliant, culturally relevant and state-influenced development strategies. In such a context, African leaders found it necessary to transform the focus of the Organisation of African Unity (OAU) from political liberation to economic development. Hence, throughout the 1980s and 1990s African governments went on to design a series of pan-African development approaches which they felt were relevant to the needs of their people. These initiatives included: the Lagos Plan of Action (1980), the Final Act of Lagos (1980), Africa's Priority Programme for Economic Recovery (1986-1990), the African Alternative Framework to Structural Adjustment Programme (1989), the African (Arusha) Charter for Popular Participation and Development (1990), the Abuja Treaty (1991) and the Cairo Agenda (1994) amongst others.

Faced with the failures of these plans, the ills of the structural adjustment programmes of modernisation and falling growth rates when other regions such as Asia were on the rise, ‘a new breed of African leaders' entered the 21st century with proclamations of a re-birth for Africa. It is in this regard that the New Partnership for Africa's Development (NEPAD) is the result of three parallel initiatives. The first is the Millennium Africa Recovery Plan (MAP), led by South African President Thabo Mbeki and unveiled at the World Economic Forum in Davos in January 2001. The second initiative is the Omega Plan, crafted by the President of Senegal, Abdoulaye Wade, and presented to the Summit of Francophone African leaders in Cameroon in January 2001. MAP and the Omega Plan were then combined to give birth to a third initiative the New African Initiative (NAI) that then led to NEPAD in 2001.All the three initiatives shared a common interest in increasing the pace and impact of Africa's development. While these initiatives share common characteristics, there were also differences reflecting the regional and other priorities of the enactors. Compromises had to be made in order to merge the three proposals into one initiative.

NEPAD thus reflects the compromises involved in arriving at a single initiative.

Founding member countries of NEPAD included South Africa, Nigeria, Algeria, Egypt and Senegal. NEPAD was adopted by African Heads of State and Government of the OAU in 2001 and was ratified by the African Union (AU) in 2002 to address Africa's development problems within a new paradigm. NEPAD's main objectives are to reduce poverty, put Africa on a sustainable development path, halt the marginalisation of Africa, and empower women. Since its initiation, NEPAD has been promoted widely both within Africa and in the industrialised North. NEPAD is now recognised as Africa's development plan by all the governments of the North, and the international financial institutions, and by many international governance institutions like the United Nations. NEPAD is widely seen as the mechanism through which support to Africa's development efforts can be best delivered. Thus, the NEPAD process has come to be accepted not only by African countries and RECs but also by Africa's development partners as the framework mechanism for their development efforts.

The 37th OAU Summit in Lusaka, Zambia in July 2001 adopted the New Partnership for Africa's Development (NEPAD), as the integrated and comprehensive socio-economic development programme to accelerate Africa's renewal, in the form of Declaration 1 (XXXVII).The Lusaka Summit also agreed on the creation of the Heads of State and Government Implementation Committee (HSGIC), which in turn established the NEPAD Steering Committee and the NEPAD Secretariat to coordinate and administer its activities. NEPAD had as its overarching objectives the eradication of poverty, the promotion of sustainable development and the arrest of the marginalisation of Africa under globalisation. In particular, the goal to eradicate poverty in Africa was focused on meeting the Millennium Development Goals (MDGs).In line with the integration of NEPAD into the structures and processes of the AU, the 14th AU Summit held in Addis Ababa, Ethiopia in February 2010, strengthened the NEPAD programme by transforming the NEPAD secretariat into an implementation Agency - the NEPAD Planning and Coordinating Agency (NEPAD Agency).It is also in this regard that the NEPAD Heads of State and Government Implementation Committee (HSGIC) was transformed into the NEPAD Heads of State and Government Orientation Committee (HSGOC). In addition, the Summit authorised the Chairperson of the African Union Commission to exercise supervisory authority over the NEPAD Agency.

3.1.2 Meaning of NEPAD

The New Partnership for Africa's Development (NEPAD) is a VISION and STRATEGIC FRAMEWORK FOR AFRICA's RENEWAL. NEPAD is a comprehensive integrated sustainable development initiative for the economic and social revival of Africa. It is a pledge by African leaders, based on a common vision and shared conviction that they have a pressing duty to the African people to eradicate poverty and to place their countries, both individually and collectively, on the path of sustainable growth and development, at the same time, to participate actively in the world economy and body politic. NEPAD envisages a new framework of an Action Plan between the continent and the rest of the world based on Africa setting its own agenda.

It seeks to lay out, in broad terms, a strategy for Africa’s economic renaissance and sustainable development. It is a comprehensive integrated development plan that addresses key social, economic, environmental and political priorities. NEPAD is a unique opportunity to improve governance in Africa and lure investment to the continent. Its foundation stone is a commitment to uphold global standards of democracy and good governance.

The NEPAD strategic framework document arises from a mandate given to the five initiating Heads of State (Algeria, Egypt, Nigeria, Senegal, and South Africa) by the Organisation of African Unity (OAU) to develop an integrated socio-economic development framework for Africa. The 37th Summit of the OAU in July 2001 formally adopted the strategic framework document.

1.1.3 Objectives and Principles of NEPAD

Objectives of NEPAD

- To eradicate poverty;
- To place African countries, both individually and collectively, on a path of sustainable growth and development;
- To halt the marginalisation of Africa in the globalisation process;
- To enhance its full and beneficial integration into the global economy;
- To accelerate the empowerment of women.

Principles and Values of NEPAD

- Good governance as a basic requirement for peace, security and sustainable political and socio-economic development;
- African ownership and leadership, as well as broad and deep participation by all sectors of society;
- Anchoring the development of Africa on its resources and resourcefulness of its people;
- Partnership between and amongst African peoples;
- Acceleration of regional and continental integration;
- Building the competitiveness of African countries and the continent;
- Forging a new international partnership that changes the unequal relationship between Africa and the developed world and
- Ensuring that all partnerships with NEPAD are linked to the Millennium Development Goals (MDG) and other agreed development goals and targets.

3.1.4 Immediate Desired Outcome of NEPAD

1. Africa becomes more effective in conflict prevention and the establishment of enduring peace on the continent;
2. Africa adopts and implements principles of democracy and good political economic and corporate governance, and the protection of human rights becomes further entrenched in every African country;
3. Africa develops and implements effective poverty eradication programmes and accelerates the pace of achieving set African development goals, particularly human development;
4. Africa achieves increased levels of domestic savings, as well as investments, both domestic and foreign;
5. Increased levels of Official Development Assistance (ODA) to the continent are achieved and its effective utilisation maximised;
6. Africa achieves desired capacity for policy development, coordination and negotiation in the international arena, to ensure its beneficial engagement in the global economy, especially on trade and market access issues
7. Regional integration is further accelerated and higher levels of sustainable economic growth in Africa is achieved; 8. Genuine partnerships are established between Africa and the developed countries based on mutual respect and accountability.

SELF-ASSESSMENT EXERCISE

What is the focus of NEPAD?

3.2 NEPAD Programmes and Structure

3.2.1 NEPAD Programmes

The eight priority areas of NEPAD are: political, economic and corporate governance; agriculture; infrastructure; education; health; science and technology; market access and tourism; and environment.

During the first few years of its existence, the main task of the NEPAD Secretariat and key supporters was the popularisation of NEPAD's key principles, as well as the development of action plans for each of the sectoral priorities. NEPAD also worked to develop partnerships with international development finance institutions—including the World Bank, G8, European Commission, UNECA and others—and with the private sector.

After this initial phase, more concrete programs were developed, including:

- The Comprehensive Africa Agriculture Development Programme (CAADP), aimed at assisting the launching of a 'green revolution' in Africa, based on a belief in the key role of agriculture in development.
- The NEPAD Science and Technology programme, including an emphasis on research in areas such as water science and energy.
- The "e-schools programme", adopted by the Heads of State and Government Implementation Committee (HSGIC) in 2003 as an initiative to equip all 600,000 primary and secondary schools in Africa with Information Technology (IT) equipment and internet access within 10 years, in partnership with several large IT companies.
- The launch of a Pan African Infrastructure Development Fund (PAIDF) by the Public Investment Corporation of South Africa, to finance high priority cross-border infrastructure projects.
- Capacity building for continental institutions, working with the African Capacity Building Foundation, the Southern Africa Trust, UNECA, the African Development Bank, and other development partners. One of NEPAD's priorities has been to strengthen the capacity of and linkages among the Regional Economic Communities.
- NEPAD was involved with the Timbuktu Manuscripts Project although it is not entirely clear to what extent.

3.2.2 NEPAD Structure

NEPAD is a programme of the African Union designed to meet its development objectives. The highest authority of the NEPAD implementation process is the Heads of State and Government Summit of the African Union, formerly known as the OAU. The Heads of State and Government Implementation Committee (HSGIC) comprises 3 states per AU region as mandated by the OAU Summit of July 2001 and ratified by the AU Summit of July 2002. The HSIC reports to the AU Summit on an annual basis. The Steering Committee of NEPAD comprises the Personal Representatives of the NEPAD Heads of State and Government. This Committee oversees projects and programme development. The NEPAD Secretariat coordinates implementation of projects and programmes approved by the HSIC.

The NEPAD leadership and governing structures

The NEPAD governance structures are:

- The Assembly of the African Union (AU)
- The NEPAD Heads of State & Government Orientation Committee (HSGOC)
- The NEPAD Steering Committee (SC)

Relationship between AU Assembly and HSGOC

The Chairperson of the HSGOC reports to the AU Assembly on the activities of the HSGOC and makes recommendations for consideration and adoption. In this regard, the NEPAD Agency provides the chairperson with technical support on drafting the Chair's summary report to the Assembly and prepares the draft decision(s) to be tabled in the Assembly for resolution. The other NEPAD related reports are provided to the Heads of State and Government in order to widen understanding, engagement and ownership of NEPAD by all the Heads of State and Government in the Assembly.

NEPAD Agency

What is the NEPAD Planning and Coordinating Agency (NEPAD Agency)?

NEPAD has strengthened its programme by transforming its secretariat into a more focused implementation agency, namely the NEPAD Agency. This development is the result of NEPAD's integration into the structures and processes of the African Union (AU) as per the AU Assembly decision at the February 2010 14th AU Summit in Addis Ababa, Ethiopia. This is the first time that an African regional initiative has been institutionalised in the form of a development agency within the AU family. The Agency is the institutional vehicle for implementing the AU development agenda of NEPAD. The Agency – whose offices will carry on being based in South Africa as was the case with the Secretariat – offers a more practical and technical focus on the NEPAD goals and on important development projects across the continent.

What is the mandate of the NEPAD Agency?

Designated as the technical body of the African Union, the core mandate of the NEPAD Agency is to facilitate and coordinate the implementation of regional and continental priority programmes and projects and to push for partnerships, resource mobilisation and research and knowledge management. The strategic direction of the NEPAD Agency is based on the following thematic areas:

- Agriculture and food security;
- Climate change and natural resource management;
- Regional integration and infrastructure;
- Human development;
- Economic and corporate governance; and
- Cross-cutting issues of gender and capacity development.

The Agency is financed through the statutory budgets of the African Union Commission (AUC), voluntary contributions from AU member states, and additional budgetary support from development partners and the private sector.

The NEPAD Agency within Africa's institutional architecture

The agenda of the NEPAD Agency includes promoting enhanced state capacity in Africa to drive the continental development processes and assisting in creating an enabling environment to stimulate private sector engagement for sustainable growth and development, including implementing investment programmes and projects.

The NEPAD Agency functions and intervenes in the African development agenda by building institutional linkages and tapping into existing technical resources in support of the NEPAD agenda. In providing support to the NEPAD Agency, the core implementers for the NEPAD programme are AU Member States, regional institutions, particularly RECs, and multilateral and bilateral development agencies.

The NEPAD Agency mobilises expert knowledge and resources to support the development and design of investment programmes for wealth creation and socio-economic growth, and is committed to becoming a learning and results-oriented institution.

In advocating and promoting the AU of Africa ownership and leadership of the continent's development process, the Agency robustly engages African and global stakeholders in closer and value-driven partnerships for the implementation of the NEPAD programme, particularly civil society organisations.

NEPAD Agency's operating model

The management structure of the Agency revolves around five key interlinked functions: strategy and knowledge management; Policy alignment and programme development; programme implementation and coordination; partnerships, resource mobilisation and communication; and corporate services.

What are the desired key outcomes of the NEPAD Agency's interventions?

The Agency's objectives include:

- strengthened regional and continental integration to achieve sustainable economic growth and development
- enhanced capacity of member states and RECs to monitor and evaluate the implementation of the NEPAD programme
- implementation of effective growth strategies and poverty eradication programmes to accelerate African development goals through high-quality sector and cross-sector programmes and projects
- that Africa achieves desired implementing capacities for active engagement on the global stage in all respects
- that the NEPAD Agency becomes the knowledge hub on the continent
- partnerships based on equality, mutual respect, accountability and responsiveness are forged between Africa and development partners for better delivery of AU/NEPAD development goals
- civil society and the private sector become an integral part of the development processes.

3.2.3 NEPAD Partners

- UN Economic Commission for Africa (UNECA)
- African Development Bank
- Development Bank of Southern Africa (DBSA)
- Investment Climate Facility (ICF)
- African Capacity Building Foundation
- Office of the UN Under-Secretary-General and Special Adviser on Africa
- IDC (The Industrial Development Corporation) - Sponsor of NEPAD.

SELF-ASSESSMENT EXERCISE

Mention some important programmes embarked upon by NEPAD.

3.3 Appraisal of NEPAD

NEPAD was initially met with a great deal of skepticism from much of civil society in Africa as playing into the 'Washington Consensus' model of economic development. In July 2002, members of some 40 African social movements, trade unions, youth and women's organisations, NGOs, religious organisations and others endorsed the African Civil Society Declaration on NEPAD rejecting NEPAD; a similar hostile view was taken by African scholars and activist intellectuals in the 2002 Accra Declaration on Africa's Development Challenges.

Part of the problem in this rejection was the process by which NEPAD was adopted was insufficiently participatory—civil society was almost totally excluded from the discussions by which it came to be adopted. More recently, NEPAD has also been criticised by some of its initial backers, including notably Senegalese President Abdoulaye Wade, who accused NEPAD of wasting hundreds of millions of dollars and achieving nothing. Like many other intergovernmental bodies, NEPAD suffers from slow decision-making, and a relatively poorly resourced and often cumbersome implementing framework. There is a great lack of information about the day-to-day activities of the NEPAD secretariat—the website is notably uninformative—that does not help its case.

However, the program has also received some acceptance from those initially very critical, and in general its status has become less controversial as it has become more established and its programs have become more concrete. The aim of promoting greater regional integration and trade among African states is welcomed by many, even as the fundamental macroeconomic principles NEPAD endorses remain contested. But if these are to become real, NEPAD will have to be transformed into an internal relationship of accountability between African governments and their own citizens. The ability of the programme to achieve objectives will depend largely upon what the governments do, primarily at a national level, to implement the commitments in the comprehensive plan. National interpretation, ownership and control are critical factors that will determine the success or otherwise of NEPAD. For NEPAD to have a real impact on the lives and livelihoods of Nigerian people, it will be vital to engage all stakeholders including the private and public sector, and the civil society in the “NEPAD National Process” according to country-owned development strategies. The Plan has to effectively take off at the national level. A proper legislative backing may be needed to put in place an effective and functional institutional arrangement for the operationalisation of NEPAD programmes in Nigeria.

SELF-ASSESSMENT EXERCISE

What can be done to assist NEPAD in actualising its goals?

4.0 CONCLUSION

NEPAD seeks to lay out, in broad terms, a strategy for Africa’s economic renaissance and sustainable development. It is a comprehensive integrated development plan that addresses key social, economic, environmental and political priorities. NEPAD is a unique opportunity to improve governance in Africa and lure investment to the continent. The eight priority areas of NEPAD are: political, economic and corporate governance; agriculture; infrastructure; education; health; science and technology; market access and tourism; and environment. Amidst several criticisms of non-participatory evolvement and poor implementation, NEPAD is still seen as a programme that can foster African unity and development. Some measures that will make real the aspirations of NEPAD include its transformation into an internal relationship of accountability between African governments and their own citizens. The ability of the programme to achieve objectives will depend largely upon what the governments do, primarily at a national level, to implement the commitments in the comprehensive plan. It will also be vital to engage all stakeholders including the private and public sector, and the civil society in the “NEPAD National Process”. A proper legislative backing may be needed to put in place an effective and functional institutional arrangement for the operationalisation of NEPAD programmes in Nigeria.

5.0 SUMMARY

This unit has so far reviewed an economic co-operation in Africa,NEPAD. The objectives, core principles and values of NEPAD were rendered. We further reviewed the structure, operational framework and programmes of NEPAD. In addition some African and International partners of NEPAD were equally listed. In the final analysis, scholarly appraisal of the programme was briefly treated while suggestions to improve the effectiveness of NEPAD were provided.Having said this, it is my pleasure to inform you that **y**ou are gradually approaching the end of this module and by extension the end of this course as you have one unit more to go. I am sure you will be excited and delighted to hear that, the last unit is just on international trade. You will definitely find it interesting as a parting shot. Have a wonderful time as you read through the last unit.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss extensively the NEPAD concrete programmes listed in section 3.2.

7.0 REFERENCES/FURTHER READING

International Relations and Cooperation, (2004). *NEPAD in Brief*. Department of International Relations and Cooperation, South Africa.

NEPAD: Official website, Available at:http://www.nepad.org.

University of Iowa Center for International Finance and Development: What is NEPAD? A FAQ on NEPAD by an Academic Institution. http//www.uiowa.edu/ifdebook/faq/nepad.shtml.

Wikipedia, (2013). NEPAD Retrieved from http://en.wikipedia.org/w/index.php?title=New_Partnership_for_Africapercent27s_Development&oldid=483528134.

UNIT 4 INTERNATIONAL TRADE AND BALANCE OF PAYMENTS

CONTENTS

1.0 INTRODUCTION

This unit is the last unit in this module and invariably the last of this course ECO 207. The unit examines issues relating to international trade. It commences with theoretical exposition of the background and rationale for international trade. Some concepts were reviewed such as comparative advantage law and conditions for international trade. Also, the balance of Payments concept was exposed while a case is made of the Nigerian experience in relation to the above. A similar discussion equally occurred on trade policy regimes while external sector performance was also examined.

2.0 OBJECTIVES

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

- state the rationales for international trade
- explain the concepts of comparative advantage; conditions for trade and balance of payments
- relate the Nigerian experience regarding the concepts above
- identify the features of trade policy regimes in Nigeria
- summarise the external sector performance.

3.0 MAIN CONTENT

3.1 Theoretical Background and Rationale for International Trade

All over the world, Nigeria inclusive, international trade has been an area of interest to both policy-makers and economists. Its importance lies on the ability to obtain goods which cannot be produced in the country or which can only be produced at greater expense. Also, it enables a nation to sell its domestically produced goods to other countries of the world.

The performance of a given economy in terms of growth rates of output and per capital income has not only been based on the domestic production and consumption activities, but also, on international transaction of goods and services. Indeed, it has been generally acknowledged that foreign trade is an engine of growth and development (Adewuyi, 2002). Nevertheless, the importance of foreign trade in the development process has been stressed in the two-gap programming model developed by Mcknnon (1964) and Chenery and Strout (1966).

Reasons for International Trade

The rationales for international trade include:

- obtaining goods which cannot be produced in a given country or can only be produced at greater expense in other of the world
- differences in climatic and geological conditions
- differences in the skills of labour
- differences in the accumulation of capital account
- differences in factor endowments (Derek 1974).

SELF-ASSESSMENT EXERCISE

What are the other reasons for international trade?

3.2 Conceptual framework

3.2.1 Law of Comparative Advantages/Costs

The framework for foreign trade is based on the law of comparative costs. Comparative costs assumes that trade will be beneficial to a country if it concentrates on the production of those goods in which it has the greatest relative advantage over its trading partners. This law is however, an extension of the absolution advantage paradigm in industry. That is, gains will be available to a given country so long as it transfers resources towards the industry in which its absolute or comparative advantage is greatest. The country then sells the surplus to other industries in which their deficiency is least (Derek 1974)

3.2.2 Conditions for International Trade

However, it must be noted that the theory discussed above depends on the existence of certain conditions for international trade, and complications arise if these conditions are not met.
These conditions include:

- existence of free trading environment that enables a country to concentrate on the production of good or goods for which its comparative advantage is greatest;
- there should be free movement of factors from one industry to another;
- the production opportunity cost ratios in different countries must differ;
- the exchange rates of currencies must lie between the limits set by the international (non-trading) price ratios for different products;
- transport costs should not be so high as to outweigh the price advantage enjoyed by exporters over domestic producers and
- trade should not be seriously inhibited by artificial barriers to trade (Derek, 1974 and Livesey 1978)

SELF-ASSESSMENT EXERCISE

Which of the conditions listed above do you consider most critical?

3.3 The Balance of Payments (BOP)

The Balance Of Payments are records of economic transactions between a country and the rest of the world. It has three major components:

i. Current Account- this comprises transactions arising from the sale or purchase of goods and services and unilateral payments.
ii. Capital Account- is the record of asset transactions.
iii. Official Settlement Account- it matches any imbalance in the current and or capital account so that all the BOP account sum to Zero (CBN, 1994).

3.4 Nigeria's Experience

At independence, the Nigerian economy was essentially a primary product exporter based on a two –pillar product – agricultural and mineral products between the period of 1960 and 1966; the major agricultural products contributed about 71.4 percent of total export value. However, the emergency of crude oil in the economic scene during the seventies, coupled with the two global oil price shocks of 1973/74 and 1979 and the macroeconomic policy distortions resulting essentially from the introduced trade, exchange, and interest rate controls, the price fixing institutions and commodity boards, brought down the shares of agricultural sector in total exports. Since then, the share of agricultural products in the total export value has continued to decline, it declined as far as 2.3 percent in1984 and further to 2.2 percent in 1988 (Falokun 1996, Omole and Falokun, 1999).In actual price the two global oil price shocks of 1973/74 and 1979 virtually made economy a mono-product exporter in which the contribution of oil sector to total export valued increased by about 37.3 percent in 1989 from 57.6 percent in 1970 to 94.9 percent in 1989 (CBN, 1999). From 1989 to date, the annual average contribution of the oil sector to total export has been hovering around 70 and 90 per cent. Moreover, the oil sector has become the major source of foreign exchange earning to government contributing more than 90 percent annually. For example, the revenue accruing to government through the petroleum profit tax increased by about 368 per cent in 1989 from ₦5.16billion in 1979 to about ₦24.16billion in 1989. By 2001, the oil revenue has further increased to ₦31, 707billion (CBN 2001).

Specifically, the macroeconomic policy distortions resulting essentially from the introduced trade, exchange, and interest rate control, the price fixing institutions and commodity boards during the period between 1970 and 1985 turned the country into an import dependent economy. For instance, aggregate imports of the country grew substantially during the period. It grew ₦0.7billion in 1970 to over ₦562billion in 1996 and further to ₦1, 266billion in 2001. The structure of imports during this period was inimical to rapid industrial take-off. For example, the aggregate growth rate of imports of raw materials and capital goods was greater than 70 percent during the period (CBN 1994). By 1985, the country has started to experience exchange rate over-valuation brought about by the control regimes. Thus, given the substantial appreciation of the naira exchange rate (due to fixed exchange rate policy and heavy inflow from the oil revenue) and the imports substitution industrialisation strategy (backed by tariff policy) that protected the nation's industrial sector, most sector of the economy such as agriculture, manufacturing, mining and quarrying, crude petroleum, transport and communication relied increasingly on imported raw materials and became more and more capital intensive. For Instance, the imports of capital goods and raw materials increased from 35.5 and 28.8 percent in 1980 to 35.2 and 35.3 percent respectively in 1985. By 1986, the importation of capital goods has increased to 40.8 percent (CBN 1994).

Moreover, the trade and exchange controls that allowed the naira to appreciate in the real term by rising oil revenue (due to the two global positive oil price shocks of 1973/74 and 1979), in combination with rising domestic cost of production, has resulted in sharp decline in the international competitiveness of the Nigerian industrial commodities during the period between 1960 and 1985. The implication of this is severe pressures on the nation's external reserves, foreign indebtedness and balance of payments position.

In order to correct the above stated economic distortions, economic reforms were embarked upon by the policy authorities from 1986 to date. Of all the economic reforms introduced by the government, the external sector policy measures (i.e. trade and exchange policy measures, foreign exchange budget and external debt management) were the most prominent.

3.5 Trade Policy regimes

The different trade policy regimes introduced in Nigeria since 1960 can be grouped under two main periods:

a) The period of fixed policy regimes (1960-1985)
b) The era of economic reforms (from 1986 to date)

A. Period of Fixed Policy Regimes (1960-1985)

During this period, trade and exchange rate controls were the most prominent measures adopted. The controls included quantitative restrictions in the form of import and export licensing requirements, imposition of tariff and restriction on certain categories of imports and exports (CBN, 1994 and Falokun, 1997). These control policies placed increased emphasis on export-oriented growth and import substitution industrialisation. This was done in order to boost the export capacity of the country and at the same time transform the industrial base of the economy. Also, the control policy was introduced so as to reduce the persistent pressure on the balance of payment. Moreover, the control policy encompassed the price fixing institutions and commodity board in order to further boost the primary export commodities of the country.

B. The Period of Economic Reforms

In order to correct the prevailing economic distortions, the policy authority introduced some reform policies such as trade, exchange and financial reforms. The objective of the trade reform was to improve the export incentives and eliminate the discretionary controls on the other hand. That is, the reform was designed to achieve fiscal balance and balance of payments viability by altering and restructuring the production and consumption pattern of the economy, eliminating price distortions, reducing the heavy dependence on crude oil exports and consumer goods import, enhancing the non-oil export base and achieving sustainable growth (CBN, 1994; Falokun, 1997).

The salient features of the different trade policy regimes introduced in Nigeria since independence to date can be summarised as follows:

1960-1985

- Trade and Exchange Controls
- Price Fixing institutions and Commodity boards
- Import Licensing and Quantitative Controls
- Credit Control and Interest Rate Control
- Heavy Public Investments in Public Enterprises

1986 to Date

- Financial Sector Reform
- Price Deregulation
- Exchange Rate and Trade Liberalisation
- Export Diversification Incentives
- Privatisation and Commercialisation Policies
- External Debt Management

SELF-ASSESSMENT EXERCISE

Describe a list of the features of the two main trade regimes in Nigeria.

3.6 External Sector Performance

The external sector performance has been deteriorating in recent times. For instance since 1992, the overall balance of payments position had consistently been in deficits contrary to surplus position of about ₦8,727.8million in 1988 and ₦18,498.2million in 1990. The overall deficit in 1994 was put at ₦43, 428.6million financed largely through accumulation of external payments arrears which amounted to ₦50, 600million. The overall balance of payments deficit increased from ₦43, 428.6million in 1994 to ₦195, 216.3million in 1995 but declined to ₦53,149.9million in 1996. In 1997, the country recorded a surplus balance of payments of ₦1, 076.3million. This was due to the buoyancy of the merchandise trade account occasioned by the surge in the price of crude oil from an average of $17.33per barrel in1995 to $21.21 in 1997.

However, the balance of payment surplus recorded in 1997 could not be sustained until 2000 when about ₦314, 149million was recorded. Consequently, the current account deficit stood at an average deficit of ₦331, 429.5million in 1998. The overall balance of payment positions indicated a surplus of ₦314, 148.7million in 2000 in contrast to the deficit of ₦220, 671.4million and ₦326, 635.0million in 1998 and 1999 respectively. This development was adduced to the surplus in the current account which more than offset the deficit in the capital account. In 1997, net inflow of foreign exchange through the banking system was US$3,743.1, 72per cent higher than US$2,088.6million recorded in 1996. The nominal exchange rate stability achieved at Autonomous Foreign Exchange Market in 1996 was also sustained throughout 1998. The adoption of Independent Foreign Exchange Market in 1999 slightly depreciated the naira exchange rate from ₦91.8= US$1 to ₦101.7= US$1 in 2000. It is generally believed in Nigeria, particularly by some professionals and economic analysts that with the current exchange rate, the value of the naira is greatly eroded. Thus, the plea to the CBN is to work out an adequate processing of allowing the value of the naira to appreciate.

SELF-ASSESSMENT EXERCISE

How can Nigeria improve her Balance of Payments position?

4.0 CONCLUSION

Trade between nations referred to as International trade is necessitated by the following reasons: Obtaining goods which cannot be produced in a given country or can only be produced at greater expense in other of the world; Differences in climatic and geological conditions; Differences in the skills of labour; Differences in the accumulation of capital account; and Differences in factor endowments. An important concept that guides such trade is the law of comparative advantage under certain defines conditions. The Balance Of Payments are records of economic transactions between a country and the rest of the world. It has three major components namely the current account, capital account and official settlement account. Nigeria is essentially a primary producing economy, the macroeconomic policy distortions resulting essentially from the introduced trade, exchange, and interest rate control, the price fixing institutions and commodity boards during the period between 1970 and 1985 turned the country into an import dependent economy. The advent of SAP in 1986 also signifies a change in the trading pattern in Nigeria. The different trade policy regimes introduced in Nigeria since 1960 can be grouped under two main periods: The period of fixed policy regimes (1960-1985) and the era of economic reforms (from 1986 to date). The external sector performance was also reviewed all along.

5.0 SUMMARY

This final unit of this course took us through a broad discussion on international trade and Balance of Payments. We defined various concepts relating to internal trade and BOP while rendering the rationale and conditions for international trade. The two main periods of trade regimes were identified with its component while the performance of the external sector with respect to Nigeria was analysed. I congratulate you on the successful completion of this course, Nigerian Economy in Perspective 2. I hope you find it interesting and complementary to ECO 106, Nigerian Economy in Perspective 2. Apart from academic purpose these courses should interest you the most because of the practical implication of the discourse in our lives as Nigerian citizen. I believe reading it over again will do you more good; I cannot but wish you the best of luck in your examination.

6.0 TUTOR-MARKED ASSIGNMENT

How can Nigeria move from import-dependent nation to export oriented economy?

7.0 REFERENCES/FURTHER READING

Adewuyi, A. O. (2002). *Balance of Payments Constraints and Growth Rate Differences under Alternative Policy Regimes*, Nigerian Institute of Social and Economic Research (NISER). Monograph Series No. 10. Ibadan, Nigeria.

CBN. (1994). *CBN Briefs 1994 Series*. Central Bank of Nigeria (CBN), Abuja.

CBN.(1999). *Statistical Bulletin* (10), 2, CBN, Abuja.

CBN, (2000). *The Changing Structure of the Nigerian Economy and Implication for Development*: Lagos: Nigeria. Realm Communication Limited.

Chenery & Strout. (1966). "Foreign Assistance Economic Development". *American Economic Review*.

Derek, L. (1974). *Success in Economics*. Success Study Books.

Falokun, G. O. (1996). *Inter-Industry Indicators of Export Promotion Potential in Nigeria*. NISER Monograph Series. No. 11, NISER, Ibadan.

Falokun, G. O. (1997). "Promoting Industrial Export Potentials". In: O. Adedotun Phillips and S. Tunji Titilola (Eds). *Nigeria in 2010.* NISER Ibadan, Nigeria.

Falokun, G. O. (1998). *Sources of Industrial Growth in Nigeria: A Factor Decomposition Approach*. NISER Monograph Series No.12, NISER, Ibadan.

Livesey Frank (1978). *A Textbook of Economics*. Polytech Publishers Ltd.

Mckinnon, (1964). "Foreign Exchange Constraints in Economic Development and Efficient Aid Allocation". *Economic Journal* (74), 388-409.

Omole, D. A. & Falokun, G. O, (1999). "Determinants of Sectoral Performance". Paper Presented at the Training Programme on Sectoral Policy Analysis and Mangement. Organised by the National Centre for Economic Management and Administration (NCEMA).