Nigerian economy: Essays on Economic Development

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CONTENTS

INTRODUCTION 1
The Crux of the Matter
   By Mete Feridun, S.T. Akindele

CHAPTER I 14
The Nature of the Nigerian State and Its Economy
   By S.T. Akindele, C. Uwazomba, Mete Feridun

CHAPTER II 27
Does Globalization Lead to Increased Poverty? Empirical Evidence from Nigeria
   By Henry N. Ogbuaku, Ademola Adebisi, Mete Feridun

CHAPTER III 48
Industrialization and Economic Development in Nigeria: A Study of the Role of the Iron and Steel Sector
   By E.J.C. Duru, Agba Michael Sunday

CHAPTER IV 75
An Appraisal of the Effects of Politics on the Nigerian Economy
   By S.T. Akindele, Wole Aiyegbisi, T.O Asaolu,
   O.R. Olaopa, R.A. Ajisafe, Ayo Adesopo, S. A. Adedokun,
   P. O. Oladele, M. O. Saibu and P.O. Abogan.

CHAPTER V 133
Nigeria’s Economic Crisis Under the Military: The Pedagogy and Anatomy of Management Measures
   By E. J. C. Duru
CHAPTER VI
What Determines the Choice of the Exchange Rate Regimes in Nigeria?

By Tokunbo Simbowale Osinubi,
Lloyd Ahamefule Amaghionyeodiwe

CHAPTER VII
Managing Fiscal Stress in the Public Sector: The Nigerian Experience

By J.A. Fabayo, S.T. Akindele

CHAPTER VIII
An Economic Analysis of Growth, Unemployment and Poverty in Nigeria

By Tokunbo Simbowale Osinubi

CHAPTER IX
Fiscal Indiscipline, Official Corruption and Economic Growth in Nigeria: An Examination of Possible Nexus

By A.G. Abiola

CHAPTER X
Market Reform and De-industrialisation in Nigeria: 1986-2003

By W.A. Isola

CHAPTER XI
Public Enterprises and Privatisation Policy: The Nigerian Experience

By T.O. Asaolu, P.O. Oladele
CHAPTER XII  
An Empirical Examination of the Nexus Between Military Spending and Evolution of Nigeria’s External Debt  
  By Mete Feridun, S.T. Akindele

CHAPTER XIII  
Relative Importance of Domestic and External Shocks to Output and Prices in Nigeria  
  By P.A. Olomola

CHAPTER XIV  
Re-engineering the Economic Process of an Economy Experiencing Sluggish Growth  
  By J. Balouga

CHAPTER XV  
The New Revenue Formula and the State/Local Government Joint Account: Contents, Dimensions and Implications for the Nigerian State and its Economy  
  By S.T. Akindele, F. Omotoso

CHAPTER XVI  
The Psychology of Productivity and Economic Growth in Nigeria  
  By C.O. Ajila

CHAPTER XVII  
Is Freer Trade always Detrimental to the Environment?  
  By F.S Ayadi, J. Balouga

CHAPTER XVIII  
State Creation and the Political Economy of the Nigerian State  
  By F. Omotoso
CHAPTER XIX  
The Effect of Recent Privatisation on Capital Market Development in Nigeria  

    By R.O. Ajisafe, M.O. Saibu, S.A. Adedokun

CHAPTER XX  
The Political Economy of Nigeria Crises  

    By Femi Mimiko, Funso Aluko

CHAPTER XXI  
Impact of The Agricultural Sector on The Nigerian Economy  

    By Adeleke Salami

CHAPTER XXII  
A Politico-Economic Analysis of the Rise in the Phenomenon of Religion in Nigeria  

    By Yunusa Kehinde Salami

CHAPTER XXIII  
Nigerian Federation and the Issue of Resource Control Right  

    By A.A. Adesopo, A.S. Asaju

CHAPTER XXIV  
Economic Analysis of Cashew Nut Marketing in Nigeria: A Case Study of Ondo State  

    By Osotimehin K.O., Adedokun O.A., Tijani A.A.

CHAPTER XXV  
Select Bibliography  

    By Akindele, S.T.; Olaopa, O.R., Feridun, M., Uwasomba, C.U.
INTRODUCTION

THE CRUX OF THE MATTER

Mete Feridun, S. T. Akindele

In Africa, the incidence of poverty has been increasing significantly for many years. For instance, it is documented that the number of poor people increased by about two-thirds between 1970 and 1985, and rose from 180 million (47% of the population) in 1985 to 265 million by the year 2000 (Aluyor, 2000). Different groups of the poor in Africa are affected differently because they are faced with different constraints, needs, and roles in the society. In fact, virtually all-African countries are known to be in poverty, and their people experience very poor living conditions. It is true that there may be pockets of rich people in these countries, but vast majority of the people wallow in abject poverty (Ndekwu, 1998). If we use per capita income as a measure of poverty, African economies are generally poor. For instance, in 1998, the African country with the highest GNP per capita was South Africa with GNP per capita of US$2,290 when the world average was US$3,470. Out of the 10 poorest countries in the world in 1988, 7 of them were in Africa. This ratio improved to 6 out of 10 in 1990 but deteriorated to 8 out of 10 in 1995 (Ndekwu, 1998). Many African countries experienced deterioration in their GNP per capita in the 1990s (see World Development Reports 1990, 1995 and 1997). This suggests deterioration in living conditions and increased incidence of poverty. As a matter of fact, the sight of various groups of people looking desperately malnourished and in obvious want of every basic need of life is a common feature in Africa and other less developed regions of the world. It is instructive to state, at this juncture, that poverty in extreme cases is a
condition that dehumanizes people and reduces them to a sub-human level of destitution (Sagbamah, 1997).

In particular, Nigeria is a nation that is endowed with multifarious and multitudinous resources. Nevertheless, due to gross mismanagement, profligate spending, and adverse policies of various governments, these resources have not been optimally channeled to profitable investments to bring about maximum economic benefits. As a result of the foregoing, Nigeria has been bedeviled with unemployment and poverty. Economic growth, which is supposed to be a solution to the problems of unemployment and poverty, appears not to be so in Nigeria. Nigeria’s official statistics show that economic growth has not always been accompanied by decline in unemployment and poverty.

With increased globalization, Africa’s share of world trade in general and raw materials in particular has also been declining during the last twenty years. Africa’s average share of world exports dropped from 5.3% (1960-69) to 1.5% (1999). In 1970, the $1/day poverty rate (22.2%) was very similar to that of Asia (22.4%). By 1998, however, the African rate almost doubled to 40.5% whereas the Asian has almost disappeared (1.7%) (Sala-i-Martin, 2002). The increase was insignificant during the 1970s but it grew to be substantial during the 1980s and 1990s. In the same context, the number of poor people increased by 175.5 million over the entire period (22.8 million in the 1970s, 51.7 million in the 1980s and 101 million in the 1990s). One of the largest increases (56 million) was recorded in Nigeria because of its large population. It is estimated that about 70% or 80 million Nigerians live on less than $1 per day (FOS). The popular discussion in many domestic and international seminars is the degree to which globalization has indeed worsened the plight of the poor. The UNDP Human Development Index (HDI), ranked Nigeria as 142nd with an HDI of 0.400 among the 174 countries listed in 1997. By 1998, the country
dropped to 146th position and fell among the 40 poorest countries. The conviction, therefore, is that poverty line has been on the increase. This is in line with the recent observation, using UNDP Human Development index (HDI) economic and social indicators, that Nigeria is one of the poorest countries in the world. The incidence of poverty has been high and on the increase since 1980. Data from the Federal Office of Statistics (FOS) on poverty profile in Nigeria showed that the incidence of poverty rose from 28.1% in 1980 to 43.6% in 1985, but dropped slightly to 42.7% in 1992 from where it rose sharply to 65.6% in 1996 and steadily rose to 70.2% in 2003.

This book aims at providing information regarding the latest studies conducted on the Nigerian economy. The first paper on the nature of Nigerian State is by S.T. Akindele, C. Nwasomba and Mete Feridun. These Scholars articulate that the state is supposed to act as a pivot in the socio-political and economic development of a country. According to them, among many roles or functions of the state are the maintenance of political stability and security, promotion of economic growth by expanding the capacity or development of the country’s productive forces, provision of the essential needs of the citizenry and an improvement in their standard of living. The state also exists to ensure that national identity which transcends ethnic, regional and other particularistic ties is created with a view to promoting national integration through political participation, economic exchange and cultural interaction.

They further argue that through its role as a regulator, the state ought to moderate or contain the very contradictions of which it is a product. In this essay they contend that the Nigerian state does not have the capacity to discharge its responsibilities. The origin and character of the Nigerian state are implicated in their analysis as the state itself is also involved in the struggle for primitive accumulation with other forces in the
society. The Nigerian economy will remain underdeveloped and stymied until the nature and character of the Nigerian state is reconfigured. The second paper by Henry N. Ogbuaku, Ademola Adebisi and Mete Feridun, attempts to investigate whether globalization leads to increased poverty in Nigeria. In the last two decades, with increasing globalization, many developing countries have seen severe financial crises, as well as sharp increases in unemployment and poverty in the short run. The article investigates the empirical relationship between globalization and poverty based on Nigerian data spanning the period between 1980 and 2001. Using multiple and log-inverse regressions based on average yearly GDP per capita, trade openness and financial openness, the authors found evidence that trade openness has a significant adverse impact on poverty, whereas, financial openness has a positive effect. Evidence further suggests that the positive effect of financial openness is not strong enough to offset the negative effect of trade openness. The third article by E.J.C. Duru and Agba Michael Sunday, investigates the role of the iron and steel sector in the industrialization and economic development of Nigeria. The argument that historical experiences support the fact that industrialization is marked by decline in agricultural products and a corresponding increase in non-agricultural activities mostly in manufacturing industries and services, appears to be true when juxtaposed with the fact that Nigeria’s industrialization is inextricable linked to social pathologies with ineptitude of leadership, weak organizational competence, corruption, faulty policy articulation and implementation, dynamics of international politics where IMF, World Bank, the Paris Club etc, hold sway. Consequently, Nigeria’s industrialization including the Iron and Steel complex development could be enhanced only when a permanent intellectual readiness, and methodological and rigorous mind, all of which contributed strongly to the development of the industrial societies, are taking into consideration. In
other words, scientific and technological advancements are crucial to every nation’s economic development including Nigeria. The fourth article is by S.T. Akindele, Wole Aiyegbusi, T.O Asaolu, O.R. Olaopa, R.A. Ajisafe, Ayo Adesopo, S. A. Adedokun, P. O. Oladele, O. Saibu and P.O. Abogan. This article provides an appraisal of the effects of politics on the Nigerian economy. The paper calls for a clear identification of the symmetry between politics and economy and, the implications of the relationship between the two for the Nigerian state. While discussing the subject matter of politics, the authors chronicle its misconception in terms of practical dimension within the nation’s landscape and, the consequences of such contradictory perception for the nation’s policy focus. They concluded by suggesting that, the conceptual hybrid of politics and economy deserves a better and proper understanding in order for the nation to safely avoid constant policy blindness and administrative ineptitude both of which, acting as a combination, has wrecked havoc on her economy to the extent that it has been boxed into a comatose state. Next article by E. J. C. Duru examines the Nigeria’s economic crisis under the military and provides a pedagogy and anatomy of management measures. One of the most fundamental problems confronting the Nigerian nation-state has been the ever-deepening economic crisis which the country has been grappling with for many years now. This paper seeks to examine this crisis and also consider some of the remedial measures which have been adopted (or can be adopted) with a view to tackling the problem. The sixth article by Tokunbo Simbowale Osinubi and Lloyd Ahamefule Amaghionyeodiwe investigates what determines the choice of the exchange rate regimes in Nigeria. This paper examined the choice of the exchange rate regime in Nigeria using a time series approach. Both multinomial logit and simultaneous limited-independent models were estimated using time series data from 1960 to 2000. The study found that when domestic inflation was
relatively high with respect to world inflation, a fixed exchange rate regime was preferred. This serves as an anchor. Also, domestic monetary disturbances appreciated the real exchange rate and favored a more flexible arrangement, while in the presence of real shocks the balance of payments acted as a shock absorber and a fixed regime was more likely. The seventh article by J.A. Fabayo, and S.T. Akindele provides an account of the management of fiscal stress in the public sector: in Nigeria. In doing this, the authors discussed the subject matter of fiscal politics as a concept that encapsulates the nitty-gritty of fiscal stress and its next higher stage of fiscal crisis. In the process, they identified the symptoms of fiscal stress in the public sector and, their antecedents within the Nigerian political economy. They equally identified and examined what Nigeria should do in order to be able to properly manage the fiscal stress of her public sector. The eighth article is by Tokunbo Simbowale Osinubi. It provides an economic analysis of growth, unemployment and poverty in Nigeria. Nigeria is a nation that is endowed with multifarious and multitudinous resources—both human and material. However, due to gross mismanagement, profligate spending, kleptomania and adverse policies of various governments of Nigeria, these resources have not been optimally utilized; these resources have not been adequately channeled to profitable investments to bring about maximum economic benefits. As a result of the foregoing, Nigeria has been bedeviled with unemployment and poverty. Economic growth, which is supposed to be a solution to the problems of unemployment and poverty, appears not to be so in Nigeria. Nigeria’s official statistics show that economic growth has not always been accompanied by decline in unemployment and poverty. It is in this respect that this study finds it worthwhile to address the following questions using time series data for a 31-year period, 1970-2000: (a) what is the nature of relationship between poverty, unemployment and growth in Nigeria? (b)
what steps should be taken to ensure that growth is such that brings about increase in unemployment and poverty in Nigeria. The ninth article by A. G. Abiola is on Fiscal Indiscipline Official Corruption and Unimpressive Economic Growth in Nigeria: an Examination of Possible Nexus. The study examined the relationship among fiscal indiscipline, official corruption and unimpressive economic growth in Nigeria. It found that one leads to the other in an endless cyclic manner and years of high fiscal indiscipline measured by fiscal deficit corresponded with years of significant unimpressive economic growth. Furthermore, the study found that the traditional system of budgeting has been stimulating fiscal indiscipline, official corruption and consequently unimpressive economic growth. The study recommends fiscal reforms to reduce wasteful spending as well as Performance and Programme Budgeting System (PPBS) to remove the shortcomings of the traditional system of budgeting as an alternative with a view to ameliorating the fiscal indiscipline and the resulting official corruption. Based on these findings, the study conclusively articulates that if official corruption is minimised and traditional budgeting system is reversed the path to impressive economic growth will become relatively easier. The tenth article by Isola, Wakeel Atanda, focuses on Market Reform and De-Industrialisation in Nigeria between 1986 and 2003. The study reveals that market reform in Nigeria has negatively impacted on her industrial sector contrary to expectation. Given this, the author argues that the Nigerian Government should urgently address the issue of infrastructure decay which has become the bane of the nation’s industrial sector. The eleventh article by T. O. Asaolu And P. O. Oladele, is on Public Enterprises And Privatization Policy: The Nigerian Experience. This paper focuses on Public Enterprises and Privatization policy within the context of the Nigerian economy. It starts with a conceptual analysis of the term public enterprises and, an overview of
Public Enterprises in Nigeria. This is followed by a careful analysis of the predicaments of the Nigerian economy and the identification of necessary panacea to them. With this as the background, the paper critically examines the actual Nigerian experience vis-à-vis the issues of Public Enterprises Management and Privatization Policy. It choreographs the governmental and administrative pedigree of the Nigerian State. This tally with the actual commencement of the management of Public Enterprises and Privatization policy within the anatomy of the Nigerian political economy. The twelfth article by Mete Feridun And S.T. Akindele, an Empirical Examination of the Nexus Between Military Spending and Evolution of Nigeria’s External Debt, investigates the effect of military spending on the evolution and growth of Nigeria’s external debt. It uses Granger-causality testing procedure based on annual data spanning the period between 1981 and 2003. Results of Granger-causality test show that the null hypotheses of military expenditure does not granger cause external debt is rejected in 1 year lag, at the 5% level. Results show no evidence of reverse causality. Based on this, they concluded that military burden has an impact on the evolution of debt in Nigeria. This finding suggests that military burden may be important factor in determining debt in LDCs. The thirteenth article by Philip A. Olomola, is on The Relative Importance of Domestic and External Shocks to Output and Prices in Nigeria. The specific objectives of this study were to determine the existence of output and prices volatility, analyze the impacts of external shocks, mainly, oil price shock and foreign interest rate shock, and domestic shocks, on output and prices in Nigeria, and measure the magnitude of such impacts. Furthermore, the study estimated which of the domestic and external shocks contribute more to output and prices fluctuations in Nigeria over the period covered by the study. Quarterly data from 1970 to 2003 were used for estimation. The econometric findings presented in this study demonstrated that both output
and prices experienced incessant volatility over the years, and that external shocks (oil price and foreign interest rate shocks) do not have substantial effects on output and inflation rate in Nigeria. Shocks to output and inflation arose from shocks to domestic variables. Inflation rate depended on shocks to output, domestic money supply and the real exchange rates. Also, it was found out that it is not the oil price itself but rather its manifestation in real exchange rates and money supply that affected the fluctuations of aggregate output. The author concluded that external shock (oil price shock and foreign interest rate shock) was not an important determinant of output and domestic price level in Nigeria. Rather, it was money supply and price shocks that affected output growth in Nigeria. The fourteenth article by J. Balouga, Re-Engineering the Economic Process of an Economy Experiencing Sluggish Growth, attempted to suggest schemes/programmes in respect of reengineering the economic process of an economy experiencing sluggish growth. The author made two assumptions in the process: One, that the problems plaguing the economy have been diagnosed and two, that the leadership is democratically elected into office, it is impeccable / transparent**, vigilant and that it has the vision and the will to reposition the economy. We suggest that, in conjunction with implementation committees, government machinery be used. Leaders must be firm enough to monitor and punish, without fear or favour, any erring citizen(s) yet flexible enough to change course whenever the situation warrants it. The fifteenth article by S.T. Akindele and Femi Omotoso on The New Revenue Formula and the State/Local Government Joint Account: Contents, Dimensions And Implications, explores and examines the new revenue allocation formula in the context of the state – local government joint account system under the Obasanjo administration. In the process, the content dimensions and implications of the joint accounting system for the Nigerian political economy were analyzed in relations to the
inter-governmental character of Nigerian fiscal federalism as contained in the nation’s 1999 federal constitution. The authors contended that there is need for local governments to be fairly treated by the Federal and State Governments in terms of finance and respect for the constitutional stipulations on same. The sixteenth article by Chris Ajila, Psychology of Productivity and Economic Growth in Nigeria, advances the view that productivity is the attitude of the mind. It is the mentality of progress and of constant improvement of that which exists. It is, in fact, a sine-qua-non to economic growth. The paper highlights some of the factors that can positively affect productivity in Nigeria and concludes that unless these factors are well taken care of, productivity will always be at the low level and the economy will not grow. The seventeenth article by Ayadi, Folorunso Sunday and Balouga, Jean, entitled: Is Freer Trade Always Detrimental to the Environment?, articulates that trade liberalization has been celebrated all over the world as an antidote to poverty and, that, it has significantly increased global output and income. For instance, according to the authors, it has been analyzed both theoretically and empirically as enhancing economic status of participating states as opposed to protectionism.. The eighteenth article by Femi Omotoso, is on State Creation and the Political Economy of the Nigerian State. In this article, the author examines the nexus between state creation and political economy of the Nigerian state. He traces the historical pedigree of agitations for, and, creation of states within the nation’s political landscape. He identifies that state creation in itself, does not effect efficient governmental process unless it is accompanied by creation of institutional and fiscal incentives that can promote effective mobilization and utilization of resources for the betterment of the larger citizenry. The nineteenth article by Ajisafe R .O., Saibu M.O And Adedokun S.A, entitled: The effects of Privatization of Public Enterprises on the Capital Market
Developments in Nigeria: A Statistical Note, examines the nature and the magnitude of the impact of privatization process on capital market development in Nigeria. The authors argued that privatization places the capital market in a vantage position to serve as a source of investment and financing to the public and entrepreneur respectively. The study adopts simple descriptive statistics using data between 1988 and 2003 to investigate the effect of privatization on capital market development in Nigeria. The data for the study were sourced from the security and exchange commission and bureau of public enterprises. Also supplementary data were sourced from Central Bank of Nigeria Statistical Bulletin. Graphs, tables and charts were used in analysing the data for this study. The results of the analysis showed that privatization program correlate positively with the development of the capital market in Nigeria. The policy implication from the above result is that response of investors to public share offer will improve in a situation where the policy of widespread share ownership should be maintained as in privatization offer.

The twentieth article by Femi Mimiko And Funso Aluko, on The Political Economy of the Nigerian Crises, examines the nature of the Nigerian economic crisis since independence. It focuses on the trend of Nigeria’s development process since 1960, with a view to identifying the point in which the economic crises started and how it has become sustained. It contends that the crisis has its root in colonialism, though, precipitated by the global oil crises of the early 1980s. The paper concludes that the nature of the Nigerian state and low quality political leadership have sustained this crisis. It recommends good governance in the context of a re-structured State as the basic requirement to transcending the Nigerian crisis. In the twenty-first paper, Adeleke Salami, examines the Impact of the Agricultural Sector on the Nigerian Economy. He contends that agriculture would have been able to contribute immensely to the Nigerian economy if
not for its neglect and other constraints brought about by policy shift since the discovery of oil within the Nigerian political and economic landscape. In the twenty-second paper, Yunusa Kehinde Salami argues that the religious institutions and religious activities in the present Nigeria indicate a radical rise. This rise attracts a critical scholarly discussion. Given the factual evidence of the record of proliferation of religious institutions and religious assemblies in Nigeria, the author in this paper identifies some very important causes for the sudden change in many Nigerians that move them towards religious sanctuaries. In the process, the paper focuses on national traits of this rise rather than on the tendencies of particular persons or individual religious sects. It further examines the problems of there being no consensus on the definition of religion. The paper identifies the definition that ties religion to spiritual necessity and he other which bases religion on natural and socio-economic explanations. Drawing from the natural and socio-economic explanation of religion, the paper undertakes a politico-economic analysis of the rise in the phenomenon of religion in Nigeria. The paper concludes that the movement of Nigerians into religion is mainly motivated by the need to take refuge from the politically and economically harsh environment. In the twenty-third paper, A.A. Adesopo and A.S. Asaju drew our attention to the need to give that controversial issue, termed “Resource Control” in Nigerian context, a chance within her polity. The paper drew its conclusion partly from the large deposit of varieties of natural mineral resources across the length and breadth of Nigeria lying fallow and more importantly the need to practice what the concept of federalism, including its corollary fiscal federalism, said in the real sense of it. The true situation of Nigerian federation constrains autonomy of the lower levels of government from where the agitation for a right to control resources mainly originated. In the interim, a number of alternative solutions were offered. In the twenty-fourth paper, K.O.
Osotimehin, O.A. Adedokun and A.A. Tijani examined the economics of cashew nut marketing in Ondo State, Nigeria. It was conducted in five local government areas where cashew nut marketing activities were prevalent. Both primary and secondary data were analysed to achieve the stated objective of the study. The primary data were obtained from a sample comprising 75 cashew farmers, 25 local cashew nut gatherers and 2 processors in the study area. The descriptive analysis revealed that (i) cashew nut production was just evolving as 88 percent of the farmers had less than 19 years experience in cashew nut production, (ii) most of the respondents had not fully understood the importance of quality in the marketing of agro-produce, (iii) about 40 percent of the respondent farmers were not aware of the existence of any official grading pattern for cashew nuts, whereas 40 percent of the gatherers who were aware of the grading pattern did not it into practice in the conduct of their businesses, (iv) storage pattern among the respondents was impressive as they all dry their produce for at least 2 days. The structure-conduct-performance analysis revealed that the two firms operating in the area of study employed a total of 562 workers. The scale of operation of JOF Farms had reduced from 8 metric tones per day at inception to 2 tonnes per day, while that of ACET Nig. Ltd had increased from 4 tonnes per day to 8 tonnes per day. Both processing farms were found to be price takers in the international market. The last paper in chapter twenty-two by Akindele, S.T. Olaopa O.R and Feridun, M, contains a Selected Bibliography on the subject matter of this book. It is compiled to act as a supplement to the references respectively provided by various contributors to this volume. Not only this, it is envisaged that the effort in this chapter would serve as additional outlets to the consumers of the research findings contained in this book.
Introduction

The modern concept of the state is of European origin, and state formations dates back to the feudal times – the 16th and 17th centuries. Monarchs, first in England and France, followed by most other parts of Europe succeeded in subordinating the landed aristocracy and developing more centralized rule. Military forces were brought under the undisputed command of the monarch. Royal bureaucracies developed in order to tax and regulate the population. In other words, the genesis of the modern European State thus lay in the drive of centralizing monarchs for undisputed mastery and control within their dominions. The emergence of the doctrine of the sovereign ruler crystallized through this process. The word of the sovereign ruler was considered binding within a given territory. As has been subsequently reformulated by Rod Hague and Martin Harrop (1982:15) this notion became the doctrine that the state expressed the fundamental will of the whole community.

The state is seen as a complex organization within the society which wields political authority including the employment of legitimate coercion over other organizations and groups. According to Joel Migdal (1987:396), the state is a sprawling organization within society that co-exists with many other formal and informal social organizations, from families to large tribes and large industrial enterprises. Migdal further explains that:

*What distinguishes the state, at least in modern era, is that the state officials seek...*
predominance over those myriad other organizations. That is, they aim for the state to make binding rules guiding people’s behaviour or, at least, to authorize particular other organizations to make those rules in certain realms (Migdal 1987:396).

James Malloy (1977:4), puts this more precisely by claiming that the state is characterized by strong and relatively autonomous governmental structures that seek to impose on the society a system of interest representation based on enforced limited pluralism. As shall be seen presently, this autonomy is absent in the Nigerian state and this has largely impeded the role of the state as an important structure in the socio-political and economic development of Nigeria. Other African States face the same problem.

State autonomy entails increased state capability vis-à-vis other social groups in the society. An autonomous state is capable of translating its own preferences into authoritative actions, resisting strong social pressures, and capable of changing social and economic structures in line with its own objectives (Nordlinger 1987:361; Skoopol, 1985:29-30; Krasner 1984:55-57). The autonomy of the state is further determined by its ability to organize social groups and the capacity to penetrate into the fabric of society (Migdal 1987:393). In respect of Nigeria and other African countries there appears to be a consensus of opinion to the effect that African states are easily constrained by internal and external factors and as a result, lack autonomy (Ake 1985; 1989; Midgal 1987, 1991; Ihonvbere 1991; Williams 1981).

The classical sociological theories of the Weberian tradition and the political theories of the liberal tradition give the impression that the
state is an objective coercive force which guides and contains society in an impartial manner. In this essay, we identify with Ake’s conception of the state as a specific modality of class domination (Ihonvbere 1989:44). This view accords with that of Engels (1972) which sees the state as a condensation of social relationships, the cohesive force of conflict-ridden society, a force for order, and, ultimately, a relation of power between antagonistic social classes. It is desirable to briefly look at the perceived functions of the state before we return to the question of the Nigerian State.

**Functions of the State**

The state in broad terms fulfils four functions. First, it has a directive role in which it encourages and propagates a consensus about what constitutes the national interest. Second, it has a protective role, where it acts to maintain the status quo through the development of such coercive apparatuses or institutions as the police force and the army. Third, it intervenes in the economy in both positive and negative ways, ranging from nationalization and privatization through to the enforcement of certain procedures in both manufacturing and business practices. Four, it has an external role in which it defends the consensus view of what constitutes the national interest against what other nation states see as their national interests.

What the foregoing demonstrates is that, the state has the responsibility of maintaining political stability, promoting economic growth and development by expanding societal capacity or development of the country’s productive forces, providing for the well-being of all citizens and improving their standard of living, establishing a national identity to transcend ethnic, regional and other particularistic ties. The promotion of national integration through political participation, economic exchange and
cultural integration by all segments of the population, expanding the organization of the state and its active presence in civil society and enhancing the state’s capacity to fulfill its extractive and distributive functions are also other functions the state is expected to perform.

The nature of the state is a function of the extent to which these goals are translated into concrete policy programmes and governmental activities, and, of the order of priority assigned to various public policies. How far has the Nigerian State responded to its responsibilities in the areas articulated above? Before a reasonable and satisfactory answer is given to the above question, we shall turn our attention first to the emergence of the Nigerian state and the forces that shaped it.

Nigeria’s Colonial State

It is pertinent to recall that Nigeria was colonized. Colonialism is a process aimed at the direct exploitation of a country economically. According to Okolo (1987:16) it entails the military, economic and political subjugation of one nation or nations by another backed up by financial oligarchy.

The colonial economy of Nigeria was mainly involved in the extraction of raw materials like cocoa, groundnut, rubber and palm oil from the hinterland to the metropolitan countries of Europe. This process was financed by the commercial and trading houses like the United African Company (UAC), John Holt and Miller Brothers which came with colonialism. These raw materials were refined into finished products and sent to the peasants and workers as consumable products, and sold at maximum cost for profit. The encouragement of cash crops and the other activities which aided the transfer of profit to the metropolitan countries of Europe and North America, finally incorporated the economy into the
global capitalist economy with the colonial economy of Nigeria being dependent and incapable of internal linkages and expansion.

The opening of Tin Mining in Jos and Coal Mining in Enugu, and the establishment of railways aided in the opening up of the economy and the further linking of the colonial economy with the metropolitan economies. Manufacturing industries were not established except to avoid the threat of competition which led to the establishment of Nigerian Breweries Limited in 1949 in Lagos. The colonial authorities did not encourage rapid industrialization but they stimulated the production of primary products. With the type of educational system put in place by the colonialists, they were able to train out an elite of workers and businessmen who later took over the state. It is also very significant to note that the capitalist mode of production introduced by the colonialists did not completely erode the pre-capitalist mode of production, the peasant mode in which the farmers owned their own land to produce primary products for consumption was and is still in existence. And, as Ihonvbere (1989:16) has clearly articulated, this contact with the forces of western imperialism, not only distorted and reconfigured Nigeria’s economy, it also ensured its structural articulation or incorporation into the international division of labour and paved the way for its further underdevelopment and peripheralization. Other consequences of the colonial contact included: unequal exchange; dependence on exportation of narrow range of cash crops and oil for foreign exchange earnings; creation of a pliant, dependent and unproductive bourgeoisie; a docile and dependent private sector; the domination of the economy by the multinational corporations and a state that is unhegemonic and unstable. This grim reality is replicated in other African countries. Amuta (1986:152) captures it thus:

In most of independent Africa, political power is wielded by a marginal bourgeoisie whose
The Social Character of the Nigerian State

The social character of a state reflects the nature of its leadership group, its objective interests and values, and its relative strengths and weaknesses (Ntalaja 1987:73). In Nigeria, the leadership group that took over the state was made up for the most part by petit-bourgeois nationalists who, on the whole, were more interested in replacing Europeans in the leading positions of power and privilege than in effecting a radical transformation of the state and the society around it. It is an authoritarian state designed to fulfill the accumulation interests of the rulers and their metropolitan allies. Aworawo (2000:6) has noted that except for the first three years or so after independence in the 1960s, the Nigerian state has been almost perpetually in crisis since independence manifesting in numerous cases of mass violence between ethnic groups across the country, coups and counter coups and civil war. Violent conflicts within Nigeria have their roots in deprivation leading to mass poverty and immiseration. Poverty has, in turn, intensified the crisis of the Nigerian state.

The state is primarily concerned with the maintenance of law and order and the accumulation of wealth in the interest of its ruling class. It is the major avenue of wealth accumulation as well as a source of wealth by virtue of its extensive control over economic resources. For most high-
level officials, the state is a structure of control to be used for the pursuit of private interests. The most important of these is, personal enrichment, a goal made easier to attain because of the state’s extensive involvement in the economy. While the people continue to wallow in abject poverty, the ruling minority is elevated to the ranks of the world’s wealthiest groups. The state has failed the people because of its inability to address and satisfy their basic needs. It is only when the ordinary people can participate in the process of their own economic and social development that the state can be said to represent their true interests and aspirations. The Nigerian state serves principally the interests of those who control it as well as those of their allies and patrons.

It is in this light that we can appreciate the various epithets with which the Nigerian state is described. These range from neocolonial and prebendal (Joseph 1983); Rogue state (Joseph 1995); Neo-patrimonial state (Medard in Ibrahim 1988) Lame Leviathan (Callaghy: cited in Ibrahim 1988), Rentier (Falola and Ihonvbere 1985) e.t.c. The upshot of all these is that the state lacks the capacity to reinvent itself. The crises and contradictions of accumulation have become a big baggage to it. Given its neocolonial character it has the double task of preserving the country’s dependent position in the international division of labour.

The issue of state autonomy therefore appears to focus on the struggles between the state and the other social groups within and sometimes outside the state. These include ethnic groups, religious groups, business corporations, other states, and international organizations such as the World Bank, International Monetary Fund (IMF), United Nations (UN) e.t.c.

In Nigeria, the state has not been able to mediate in the struggles between classes and groups. It is an instrument of private and sectional
interests and therefore unable to lay down the rules for, and arbitrate in both political and economic competitions. The state is seen as the primary source of wealth accumulation hence the struggle to capture state power and its offices has remained fierce and ruthless (Diamond 1988; Joseph 1991).

Furthermore, even though, the Nigerian state possesses an awesome military force alongside other instruments of coercion which could be used to compel obedience, it still does not confer autonomy on it, and the state has not been able to penetrate the society. According to Ake (1994:38),

*The coercive monolithism of most African political systems readily gives the impression of strong states with immense penetrative capacity, states which are everywhere doing everything. Yet African states are actually week. In Nigeria, for instance, the state has little influence on the lives of the rural people. Much development that has taken place in rural communities has occurred not because of the state but in spite of it. To many rural dwellers, the state exists primarily as a nuisance to be avoided in their daily struggle for survival.*

As earlier stated, the state has been unable to penetrate into the fabric of the society. There are still in existence many groups outside the direct control or influence of the state. These groups do not feel the impact of the social, economic and political effects of the government; their
productive and accumulative patterns are largely pre-colonial and the leaders of these groups have adopted rules of behaviour different from and sometimes antagonistic to the state’s. It is in this context that groups like the Odua People’s Congress (OPC), Egbesu Boys, Movement for the Survival of the Sovereign State of Biafra (MASSOB), Movement for the Survival of the Ogoni People (MOSOP), Arewa Boys, Bakassi Boys and such other groups in the country whose activities and posturing question the relevance of the state.

The question can be asked: why has the Nigerian state been this subversive to the interest of its citizens? A critical look at the turn of events immediately after independence is necessary in the understanding of this question. Independence set in motion social processes with the most important element being a new class structure. The social group which came to power largely represented Bourgeois and petit-bourgeois interests which soon displayed alarming tendencies to manipulate state power not for genuine independence but for their own class interests (Turok 1987:12). Thus, post-independent Nigeria has been marked by a total lack of economic growth, or distorted growth, which has failed to provide for the basic needs of the people as a whole. The establishment of social amenities has been highly unbalanced, generally favouring the rich rather than the poor, the urban over the rural. Similarly, employment where available, has been created in non-productive sectors rather than in basic production. The consequence has been the immiseration and pauperization of great numbers of ordinary people who had hoped that independence would bring qualitative relief from the conditions brought about by colonialism.

Since independence in 1960, Nigeria is supposed to have realized $300 billion from the oil sector alone. Thirty percent (30%) of this amount is unaccounted for. Nigeria is regarded as the second largest economy in Africa. It is also the sixth largest producer of oil in OPEC. Ninety percent
of the country’s earnings comes from oil, which makes the economy susceptible to the vagaries of the international oil market. But the rent-seeking mentality of the state operator will not allow them to creatively open the economy by way of diversification and prudent management of resources at their disposal. The control of the economy, especially after the civil war years, provided a formidable instrument for inducement for selfish, corrupt behaviour.

The oil boom filled the state coffers with windfall revenue in billions and statism intensified the structure of incentives. The boom years expanded opportunities for unbridled corruption and profligacy. The country’s real productive base (agriculture) was displaced, so was entrepreneurship. Planning was distorted and a contract economy boomed. Primitive accumulation and years of pirate capitalism grew apace. The western powers did not help matters as they allowed their avaricious demand for Nigerian oil and gas to becloud their senses. They colluded with the state forces to ruin the country and its economy.

The consequences of this aberrant condition as Dara (2000:112), has noted are frustration, outrage and despair manifesting themselves in the increasing erosion of state authority, the disengagement from its structures and rules, even (through emigration) from the country networks of production and exchange, the readiness to violence, organized and spontaneous, and the deepening descent into crime and lawlessness. The state actors unconcerned with the reality of events in the country further struggle to consolidate their hold on the state since the state is seen as an instrument of political domination and a source of economic power. They also use the state to penetrate the private sector.

During the indigenization programme of the mid 1970s those who were in control of the levers of the state took over the economy as they
directly or through their cronies became the owners or directors of such indigenized firms. Accordingly, the state has become a key object of intra-class fractional struggles. The state is used to serve the interests of the state forces rather than those of the society at large. Even, with the failure of indigenization, the same forces who benefited from the exercise are the ones currently buying over the patrimony of the people.

State-owned enterprises have failed in Nigeria not because they are state enterprises, but because of the manner in which they have been run as avenues for personal enrichment. And, as Claude Julien (Quoted in Ntalaja 1987:85) has written with respect to the public monopolies under the regime of Ferdinand Marcos in the Philippines, the public sector, in most third world countries is, in reality, a caricature of the public sector, in the service of truly private interests. The privatization of the state constitutes the major obstacle to Nigeria’s economic development. The mismanagement, corruption, capital flight and other ills associated with the state have not only crippled the economy of Nigeria but also reduced the state’s ability to maintain the social infrastructure and thus serve the needs of ordinary people.

The Nigeria state is faced with the national and social question. The social question involves the state’s capacity for economic and social development or its ability to raise the standard of living of the teeming population. Development has been sacrificed on the alter of the struggle for political and economic power. The neo-colonial state itself constitutes an obstacle to development. The deepening crises of the state and its declining capacity for development and economic growth have to be understood in a larger perspective as part of the general crisis of world capitalism.
References


CHAPTER II

DOES GLOBALIZATION LEAD TO INCREASED POVERTY?
EMPIRICAL EVIDENCE FROM NIGERIA

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Introduction

Globalization, or the integration of economies and societies through trade, investment, finance, information and labor flows, is an inevitable feature of today’s world. There is a considerable body of opinion arguing that globalization has led to substantial economic progress among rich and poor countries alike. On the other hand, many point to the challenges that it poses for many countries as well as for the most vulnerable socio-economic groups within countries. This judgment stems from the visible evidence of a wide gap that exists between the economic well-being of developed vis-à-vis developing countries, where poverty is prevalent. It has been argued that trade liberalization though beneficial in the long run by improving efficiency in the use of productive resources, thereby leading to higher growth rates and lower poverty level, may lead to higher poverty by reducing the demand for unskilled labor and worsening income distribution, at least, in the short run. Similarly, even though financial integration may bring significant benefits in the long-term, it has also been associated with deep financial instability, economic crises and sharp increases in poverty rates, especially in developing countries.

It is now increasingly recognized that the process of globalization entails significant risks and enormous economic and social cost. Openness to global markets can expose domestic financial markets to greater volatility which could be more severe in countries with weak financial systems and economic policies lacking credibility. In this context, large
reversals in short-term capital flows have led to severe financial crises and sharp increases in employment and poverty in the short run. The United Nations Human Development Report (HDR, 2001) indicates that while GDP per person in industrialized countries rose from $6,500 in 1960 to $16,750 in 1998 that of least developed countries remained at $750 so the rich-poor gap increased by $10,250 per person during that period. According to the report, while in the decade and a half before 1980 developing countries experienced a higher rate of income growth than developed countries, since 1980 this pattern has reversed. In Africa, South of the Sahara, 25% of the people, corresponding to 340 million people live on less than $1 dollar a day.

With increased globalization, Africa’s share of world trade in general and raw materials in particular has been also been declining during the last twenty years. Africa’s average share of world exports dropped from 5.3% (1960-69) to 1.5% (1999). In 1970, the $1/day poverty rate (22.2%) was very similar to that of Asia (22.4%). By 1998, however, the African rate almost doubled to 40.5% whereas the Asian has almost disappeared (1.7%) (Sala-i-Martin, 2002). The increase was insignificant during the 1970s but it grew to be substantial during the 1980s and 1990s. In the same context, the number of poor people increased by 175.5 million over the entire period (22.8 million in the 1970s, 51.7 million in the 1980s and 101 million in the 1990s). One of the largest increases (56 million) was recorded in Nigeria because of its large population. It is estimated that about 70% or 80 million Nigerians live on less than $1 per day (FOS). The popular discussion in many domestic and international seminars is the degree to which globalization has indeed worsened the plight of the poor. The UNDP Human Development Index (HDI), ranked Nigeria as 142nd with an HDI of 0.400 among the 174 countries listed in 1997. By 1998, the country dropped to 146th position and fell among the 40 poorest countries. The
conviction, therefore, is that poverty line has been on the increase. This is in line with the recent observation, using UNDP Human Development index (HDI) economic and social indicators, that Nigeria is one of the poorest countries in the world. The incidence of poverty has been high and on the increase since 1980. Data from the Federal Office of Statistics (FOS) on poverty profile in Nigeria showed that the incidence of poverty rose from 28.1% in 1980 to 43.6% in 1985, but dropped slightly to 42.7% in 1992 from where it rose sharply to 65.6% in 1996 and steadily rose to 70.2% in 2003. The question is whether the rising incidence of poverty in Nigeria since the 1980s is a direct consequence of globalization or whether there are internal factors within Nigeria responsible for this trend.

In the decades since 1980, the International Monetary Fund (IMF) and the World Bank have increasingly required certain measures to be adopted by low-income borrowing countries as conditions of access to foreign credit. These have included cuts to public spending, privatization of public enterprises, removal of government subsidies, trade liberalization, and the deregulation of the financial system among others. All these measures have tended to open up poor countries while the plight of the poor in these countries has worsened. As a result, concerns about the adverse effects of globalization, have increased. In fact, the major issue is whether the over 1 billion people who still live on less than $1 a day are sharing in the benefits of greater integration or are disproportionately hit by the short-run crises and economic downturns. In spite of the challenges that globalization has posed to poor countries, it is only recently that a systematic research has been conducted into the nature of the relationship between poverty and globalization. This article aims at contributing to the literature through investigating the empirical relationship between globalization and poverty based on Nigerian data spanning the period between 1980 and 2001. Using GDP per capita, trade openness, and
Theoretical Issues and Review of the Recent Literature

The economic risks associated with globalization result from the fact that unplanned liberalization of trade and the financial sector risks ruining local enterprises and destabilizing economies. On the other hand, access to markets of industrialized countries carries an opportunity for developing countries to reap the benefits of competition, gain access to information, knowledge, resources, and economies of scale etc. that ultimately reduces poverty. In essence, it is not hard to think of a number of channels through which the process of globalization may hurt the poor. Taking the two main keys of the globalization process – trade and finance into consideration, it may be argued that for developing economies, trade reform, for instance may lead in the short-run to higher unemployment and greater poverty, as a result of pervasive labor market distortions such as a low degree of wage flexibility and imperfect labor mobility across sectors. Therefore, we shall discuss the link between globalization and poverty will be in the context of trade and financial openness.

The links between trade and poverty is a subject that elicits controversy. In this context, the standard argument is based on the Stolper-Samuelson theorem (1941), according to which trade results in gain for labor since it is a relatively abundant factor in most low-income countries. It is, therefore, believed that openness would benefit low-skilled labor intensive production, thereby increasing the demand for and the wages of
low skilled workers in developing countries. Since low skilled workers are the most likely to be in a situation of poverty, there would be a reduction in the number of the poor and in inequality. Also, with globalization, there is an exchange of labor among countries where low skilled labor flows from poorer countries to richer ones.

An argument in favor of the beneficial effects of trade is put forward by Bhagwati and Srinivasan (2002), who point out that if a country wants to maintain an export-led development strategy, that is, if a country wants to rely on free trade, it must maintain a macroeconomic stability framework. Because stability implies low inflation, it is another channel through which trade affects the poor positively, since the poor tend to be hardest hit by high inflation. The shape of the world income is affected by the degree of openness to international trade and the extent of specialization. This has two implications; first, international trade accelerates economic growth while keeping the inequality between countries constant; therefore, overall, poverty gains from openness. Second, no considerations can be drawn from this theory with regard to single country distributions and, therefore, to national poverty ratios. Ravallion (2001) used World Bank data and computation methodology to argue that growth is inequality neutral, spreading equally to the whole distribution, thereby confirming that economic growth is the main engine of poverty reduction. UNCTAD’s recent report (2002) does not adopt a sophisticated econometric approach. Rather, it attempts to come up with some stylized facts about links between poverty and trade. One main merits of the report is that it takes a more realistic approach than most previous studies by focusing on changes in the trade structure, rather than simply on the trade figures. The overall conclusion of the report is that the current conventional wisdom that persistent poverty in developing countries is due to their low level of trade integration is too simplistic.
A study by the World Bank (2002) suggests that the countries that have opened themselves the most to trade in the last two decades have, on average, grown the fastest. These countries managed to reduce import tariffs, on average, by 34 percentage points since 1980, compared with only 11 percentage points for those developing countries that, on average, saw no growth in per capita incomes over the period. Because trade is good for growth, and growth is allegedly good for the poor (on average, increased growth raises the incomes of the poor in proportion to those of the population as claimed by Dollar and Kraay (2001), whose study concludes that trade (or, more generally, international economic integration) is good for the poor.

Winters (2000) make succinct although not conclusive comments on the topic by stating that “trade liberalization is generally found to increase economic opportunities for consumers and producers and to raise earnings for workers”. On the other hand, it is absurd to pretend that liberalization never pushes anyone into poverty, nor even that liberalization cannot increase the extent or the depth of poverty in some circumstances. Although, these arguments suggest that trade liberalization may improve resource allocation in the short run and benefit the poor in the long run sound good, there are other arguments suggesting the opposite. For instance, opening a country’s market to foreign firms tends to reduce the market power of domestic firms and increase competitive pressures on them, eventually forcing some of them out of business. In the longer run, the country may well become more efficient in using its productive resources, thereby enjoying higher growth and lower poverty. But in the short term, the inability to compete, and the presence of labor market rigidities may hamper the reallocation of labor between non-tradables and tradables that a reduction in tariffs normally entails (Agenor and Aizenman, 1996).
It has also been argued that trade openness breeds unequal distribution and unfair use of economic power in favor of Transnational corporations (TNCs), and the richer nations, thereby, increasing inequality between the rich and the poor. For example, at the end of the 1990’s, high-income countries, representing a sixth of the world’s population, received two-thirds of the world’s income (Watkins, 2002) while developing countries receive proportionately less for their labor and resources, that is, for every $1 generated through export activity, only $0.03 goes to low-income countries. Trade liberalization may also lead to higher poverty by reducing the demand for unskilled labor and worsening income distribution. In a number of countries (especially in Latin America), openness to trade during the 1980s and 1990s has coincided with an increase in the demand for, and return to skilled labor relative to unskilled labor, and a worsening of income distribution. An explanation of this is that trade liberalization has been associated with the introduction of higher-level technology, the use of which requires skilled labor. In addition, it has also been recognized that financial openness may impact on growth by stimulating domestic investment, improving efficiency and productivity, or by increasing the “knowledge” applied to production. In particular, financial openness helps to mitigate asymmetric information problems and to reduce the fixed costs associated with small-scale lending; it improves the opportunities for the poor to access the formal financial system. In this age of global financial markets, foreign investment is looking for the lowest risk, highest return sector and hence it is prepared to relocate to wherever it can find these. The observed growing, upward movement, in portfolio flows is traceable mainly to repatriated flight capital (Latin America and East Asia) under the influence of high risk, high return, the opening up of the stock markets of developing countries to foreign capital including international stock market trading through such devices as
America Depository Receipts (ADRs), and to a minor extent, the activities of institutional investors such as pension funds, insurance companies, trust funds and money market funds. Openness to capital flows may also increase opportunities for portfolio risk diversification and consumption smoothing through borrowing and lending, and producers who are able to diversify risks on world capital markets may invest in more risky (and higher yield) projects, thereby raising the country’s rate of economic growth (Obstfeld, 1994). Increased access to the domestic financial system by foreign banks may also raise the efficiency of the intermediation process between savers and borrowers, lowering mark-up rates in banking, as well as the cost of investment, and raising growth rates (Baldwin and Forslid, 2000). However, it has become increasingly known that a high degree of financial openness may entail significant short-term costs as well. The magnitude of the capital flows recorded by some developing countries in recent years and the abrupt reversals that such flows have displayed have been associated with deep financial instability and sharp increases in poverty rates - particularly in countries with imprudent sovereign debt management, improperly sequenced capital account liberalization and poorly regulated domestic financial systems. The South East Asian crises are a case in point (see Horton and Mazunidar, 2001).

Another channel through which financial openness may have adverse effect on the poor (at least in the short run) is the credit market. As argued by Agenor and Aizenman (1998, 1999) in a framework that emphasizes the links between capital flows, the financial system, and the supply side of the economy. This was in line with the costly state verification approach pioneered by Townsend (1979). The increased exposure to volatile shocks that is associated with financial openness may translate into higher domestic interest rates (because of the increased risk of default, lower domestic output, and thus possibly higher poverty rates. In
Africa, for instance, Globalization is expected to bring about profound changes in the structure of national economies, from reliance on primary products to labor intensive manufacturing, mostly for exports. It is also expected to promote easier and better access to international resources and macroeconomic stability. It is strongly believed that these factors will result in improved economic performance, with rapid growth in output and employment and a reduction in absolute poverty (Athukorala, 1998). A significant number of surveys of the literature explaining Africa’s dismal economic performance in recent years and their attendant inability to reduce poverty are provided in Collier and Gunning, (1999). Specifically, Bevan, Collier and Gunning (1999), compared the Nigerian to Indonesian economies. They drew on the unifying elements, such as, the determinants of growth; the importance of historical and organizational factors in determining alternatives to redress poverty, as well as the relative role of ideas, interests, and ideology in influencing decision-making. They found that although both countries benefited from the discovery of oil and were liberated from colonialism, they differed greatly on how they dispersed their windfall profits and the environment that they created for development. This is why many African countries embarked upon the privatization of public utilities, reform of both domestic financial markets and taxation systems, and liberalization of labor markets- all these have accelerated the flows of both goods and foreign direct investment (United Nations, 1999 and Sala-i-Martin 20002 and 2000b). The assumption underlying the promotion of globalization is that foreign investment unrestricted and unregulated, brings only benefit to developing countries. Experience shows that not all FDI is beneficial and selectivity concerning FDI can be advantageous to the economy in the long run. Expanding global trade is also promoted as beneficial to all countries. The argument is that production specialization according to each nation’s comparative advantage
leads to a more efficient allocation of resources, to higher levels of growth and will in turn promote national development and reduce poverty. However, there is no convincing evidence that trade liberalization will lead to economic growth and poverty reduction. Successful development strategies require a blend of imported practices with domestic institutional innovations. Policy makers need to forge a domestic growth strategy, relying at least in part on indigenous investors and institutions.

Most of the empirical literature on growth and poverty reduction emphasized the relationship between output, growth and investment. A number of combined cross sectional time series econometric models found a positive and significant relationship between the rate of real GDP and the ratio of investment to output. Studies by Barro (1996), Collier and Gunning (1999) include a near global sample of countries, while that of Ghura and Hadjimichael (1996) deal with African countries. International comparisons also suggest that the problem of low investment is central to the explanation of low growth and high poverty incidences in Sub-Saharan Africa. All through the 1990s, Hernandez-Cata, (2000) indicates that the ratio of investment to GDP for the region fluctuated around 17 percent, below the ratios attained in Latin America (22 percent) and Asia (29 percent). In the light of empirical evidence, it is obvious, therefore, that raising investment ratios must be an integral part of globalization strategy to enhance growth, improve living standards and, consequently reduce poverty. With the gains by nations from closer interactions in trading activities following the liberalization of accounts, emphasis has shifted to some minimal capital account liberalization. Although, the opening up of capital accounts has been slow especially among developing economies, current account liberalization has progressed smoothly. It has often been argued that the more open an economy is, the higher the rate of economic growth. So also the extent to which an economy is liberalized is influenced
by factors such as the strength of the domestic economy, the competitiveness of the external sector, the level of the exchange rate, domestic gross capital formation, amongst others.

Data and Methodology

To investigate the relationship between globalization and the poor, we take cognizance of the difficulties arising when one attempts to do a study of this nature. These difficulties relate to the appropriate definitions of variables to use. The dependent variable is a poverty indicator measured for the population as a whole. Poverty is a multi-dimensional problem, which results from a combination of economic, political and environmental factors, and which consists of several aspects. In particular, this study concentrates on the measurement of at least one of its several dimensions (nutrition, health, consumption, powerlessness, and income levels). Since income is easier to measure than most other dimensions, we use it as a reliable proxy for determining the “adequate level of consumption” and therefore poverty. To this effect, we define poverty on the basis of the number of individuals whose income falls below the conventional threshold, the poverty line. While the definition and the methodology used to measure poverty are hedged about with caveats, no consensus exists on the appropriate poverty index. The Headcount Poverty index is the most popular and easiest to understand. They measure the percentage of the population falling below the poverty line. Another index is the depth of poverty, which measures the average level of consumption of the poor with respect to the poverty line. The third is the poverty rate, which is defined as the fraction of a country’s (or world) population that live below the absolute poverty line. For the purpose of this study, we use as poverty indicator, the yearly average GDP per capita. Since the average income of a Nigerian per day falls below the $1/day threshold, this index has been
generalized to mean that the average Nigerian is living below the poverty line. In dealing with Globalization, we also encountered some problems of measurement. In particular, it is difficult to find an appropriate measure of trade and financial openness, which should ideally measure how open domestic markets are to foreign markets. In previous studies, tariffs, non-tariff barriers, effective rates of protection, trade liberalization, relative prices, import penetration, export intensity, and deviations of actual from predicted trade flows or volumes have been used as proxies for openness (see Edwards (1998), Harrison (1996), Harrison and Hanson (1999), and Rodriguez and Rodrik (1999). However, because of data considerations, we use two indicators only. TRADE, the ratio of the sum of imports and exports of goods and services over GDP (this is referred to as the “trade openness indicator”). For financial openness, we use FDI representing the ratio of foreign direct investment flows to GDP. If trade openness lowers poverty, the first variable (TRADE) should have an inverse coefficient. Similarly, if financial openness reduces poverty, the FDI-GDP ratio should have a negative coefficient in the estimated regression. It is important to point out that these two variables or measures of globalization are problematic, because they capture indirectly the process of trade and financial process. In the light of the variables defined above, we test whether a statistically significant relationship exists between the yearly average per capita income and the degree of openness of the economy. In order to accomplish this goal, we specify a simple model of poverty and globalization as follows:

\[ POV_{it} = \beta_0 + \beta_1 \text{TRADE}_{it} + \beta_2 \text{FDI}_{it} + \xi_{it} \]  

(1)

Where

Pov\textsubscript{it} = yearly average per capita income
Trade_{it} = the ratio of export plus import to GDP
FDI_{it} = the ratio of foreign direct investment to GDP
ζ_{it} = error term with all the associated assumptions

This means that the level of poverty in Nigeria reported between the period between 1980 and 2001, is assumed to depend on the corresponding measures of trade and financial openness. The dataset is constructed based on the period of 1980-2001 (the so-called globalization years). First we regressed the average yearly per capita income (as a proxy of income poverty in Nigeria) against two globalization indicators (trade openness and financial openness) using the least squares method. The result is presented below:
Table 1: Result of OLS Multiple Regression (model 1)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>T-statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.000819</td>
<td>(21.0856)*</td>
</tr>
<tr>
<td>Trade openness</td>
<td>0.000397</td>
<td>(5.293)*</td>
</tr>
<tr>
<td>Financial openness</td>
<td>-0.000159</td>
<td>(-0.4057)**</td>
</tr>
</tbody>
</table>

N 22  
R-Squared 0.596336  
Adjusted R-squared 0.553845  
F-Statistic 1.336

* Significant at the 95% and 99% confidence level.  
** Not significant at both 95 and 99% confidence level

This regression result shows that the trade openness variable is positively related to GDP per capita while financial openness is negatively related to GDP per capita. While the financial openness variable conforms to our a priori expectation, the trade openness variable does not. However, only the trade openness variable is statistically significant. The adjusted R-squared indicates that the independent variables account for approximately 55% of changes in the dependent variable. The F-Statistic, a measure of the overall goodness of fit of the model corroborates the R-squared that the model is significant. The DW statistic, a measure of autocorrelation indicates that the test is inconclusive as its value (1.34) fell within the lower and upper
bounds of the DW table. In view of this, we proceeded by re-specifying our initial model in order to find the appropriate functional form. To this effect, we adopted the log-inverse function by regressing the log of the dependent variable on the inverse of trade and financial openness. Thus, the new estimated function is given as,

\[ \ln GDP_{it} = \beta_0 + \beta_1 \frac{1}{RTrade_{it}} + \beta_2 \frac{1}{RFDI_{it}} + \xi_{it} \]  \hspace{1cm} (2)

Where

GDP_{it} = \text{Average per capita income in Nigeria}

\[ \frac{1}{RTrade} = \text{The inverse of the trade openness variable} \]

\[ \frac{1}{RFDI} = \text{The inverse of the financial openness variable} \]

\[ \xi_{it} = \text{The disturbance term where } \xi_{it} \text{ is normally distributed with constant variance.} \]

The estimated result from this model appears more robust than the results obtained from model 1. The result is presented in table 2.
Table 2: Result of Log-inverse function (model 2)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.030842</td>
<td>(219.269)*</td>
</tr>
<tr>
<td>Trade openness</td>
<td>-0.063922</td>
<td>(5.6095)*</td>
</tr>
<tr>
<td>Financial openness</td>
<td>3.80 E-05</td>
<td>(2.092107)*</td>
</tr>
</tbody>
</table>

N: 22  
R-squared: 0.7097  
Adjusted R-squared: 0.679170  
F-statistic: 23.223  
D-W statistic: 1.88

*Significant at the 95% and 99% confidence level

The result of the log-inverse function displayed in table 4 above shows that trade and financial openness variables are significant at the 5% level. However, the financial openness variable contradicts our a priori expectation, while the trade openness variable gave us our expected sign. In particular, trade openness is inversely related to the poverty indicator, implying that trade is harmful to the poor. On the other hand, the financial openness variable entered with very low positive sign against our a priori expectation. In particular, we computed the elasticity of trade and financial openness with respect to the log of the dependent variable at their sample means. The result shows that a percentage rise in trade openness will lead
to a 0.027% decline in average GDP per capita. For financial openness, a percentage increase of 1% increases GDP per capita marginally (approximately 0.00000013%). The adjusted R-squared shows that the explanatory variables account for approximately 68% of changes in the dependent variable. This result is reinforced by the F-test, which is highly significant. The Durbin-Watson statistic of approximately 2 (1.88) indicates the absence of autocorrelation in the model. The overall effect indicates that the positive effect of globalization through financial openness is overwhelmed by the negative effect of trade openness; hence, we can conclude that globalization is detrimental to growth and further impoverishes the poor in Nigeria.

Conclusion

In this paper, we have attempted to empirically examine the extent to which globalization impoverishes the poor. On the basis of empirical evidence, based on multiple and log-inverse regressions linking various measures of real and financial integration to poverty, we have found that trade openness has a significant adverse effect on poverty, whereas, financial openness appears to have a positive effect. However, the positive effect from financial openness is not sufficiently strong to offset the negative effect of trade openness. The assumption underlying the promotion of globalization is that foreign investment when unrestricted and unregulated, brings benefits to developing countries, however, not all foreign investment is beneficial, hence, and selectivity concerning foreign investment can be advantageous for the economy in the long run. A proper analysis of the phenomenon of globalization is still in the making. What is clear, however, is that there are losers and gainers in the process. While it has the capacity to enrich a minority of countries or people who lead the process, most others will be left behind, be further marginalized or even
become more impoverished. To prevent further marginalization and impoverishment of the poor, the following issues are important:

(i) Developing countries must be aware of globalization trends and be sufficiently flexible to be open to policy options that best protect the interest of the most vulnerable groups in the society.

(ii) Developing countries must strive to maintain macroeconomic stability to create the right conditions for investment and saving.

(iii) Tackling the internal causes of poverty remains important. With a given level of resources, a country can still cut wastage to a minimum and make the best of things, while striving to raise the resource level.

(iv) The new paradigm of sustainable development and human centered development should be further strengthened and given concrete manifestation in terms of policy and activity.

(v) Developing countries must strengthen their analytical, policy and negotiating capacity, so as not to allow the powerful actors to determine international and national policies alone.

(vi) Outward oriented policies to promote efficiency through increased trade and investment.

(vii) Strong institutions and an effective government to foster good governance.

(viii) Education, training and research and development to promote productivity.

(ix) The United Nations should reaffirm its paradigm of aiding the developing countries to become more equal in the international arena and not “surrender” to the whims and caprices of WTO, the World Bank and the IMF.
Advanced economies can make a vital contribution to the low-income countries’ efforts to integrate into the global economy by reducing subsidies on their agricultural and other products.

References


CHAPTER III

INDUSTRIALIZATION AND ECONOMIC DEVELOPMENT IN NIGERIA: A STUDY OF THE ROLE OF THE IRON AND STEEL SECTOR

E.J.C. Duru and Agba Michael Sunday

Introduction

...the widening development gap between the developed countries and the less developed countries has been a product of the technological (and scientific) superiority of the developed countries, and ... the technological inferiority of the latter has largely emanated from the structural incapacity to produce capital goods required for economic development.

Bright U. Ekuerhare (1992:82)

...although economic development (and industrial development) involves capital and expertise, it is ultimately a function of how motivational resources are structured and managed.


The growing quagmire associated with development paradigms in Africa engendered by the persistent crisis of increased disequilibrium between policy formulation and implementation has given rise to extensive debate among scholars as to its “underlying causes and possible remedies”. The failure of past industrial development strategies is inexorably linked to developing countries to catch up with the industrialized west. This results from the truism that a virile sector is the kingpin upon which economic development and social transformation rest. In the light of this reality, the need to re-examine and reconstruct the hypothetical edifices upon which industrial development in Third World Countries have been constructed...
and based cannot be over emphasized. Consequently, the crux of the matter is this intellectual discourse is to attempt a concerted explication on the possibility of industrial and economic development in the 21st century against the backdrop of the contextual prerequisites for this possibility in Nigeria. It is contended that while key industrial projects and approaches (like the Ajaokuta Steel Complex, Delta Steel Company, National Iron Ore Mining Company at Itakpe, and the import substitution strategy of industrialization) in Nigeria have profoundly undermined the conventional assumptions of social pathologies (namely, ineptitude of leadership, greedy attitude of businessmen, weak organizational competence, corruption, bazaar mentality, faulty policy direction, sloppppish work ethic, the lobotomized psychology of Nigerians, etc.), Nigeria’s ability to develop industrially and economically will remain circumscribed in the 21st Century unless she is able to transcend and transform her paralyzing political, social and institutional base through far reaching reforms. Conversely, as a mode of analysis, we would adopt the theoretical postulations of the orthodox and radical paradigms to examine the problems of the Nigerian Iron and Steel Industry (namely the Ajaokuta Steel Complex) with a view to isolating the prerequisites for a far reaching reform in this sector in the 21st Century. Our choice for the above national industrial core project as the basis of our analysis is based on the fact that this is a major industrial project which has gulped billions of dollars without completion and full capacity utilization. Furthermore, steel development is pivotal to industrialization since it is considered as the main vehicle for the production of consumables and capital goods, military hardware, intermediate products for other industries, fabrication of machines and tools, generation of employment, development of operating, maintenance and managerial skills fundamental in other industrial establishments and the generation of foreign exchange earnings. Nigeria cannot continue to depend on oil as the major source of foreign
exchange earning as experience has statistically demonstrated that the GNP of the industrialized west is remarkably influenced by iron and steel. Steel for instance, accounts directly for 2 to 5% of the GNP of these social formations (countries) while indirectly it accounts for up to 20% of the GNP in those nations. The dwindling trend in the price of crude oil makes steel development and exploration even more fundamental in the 21st Century. As a prognosis for action, it is argued that given a well planned time-frame, administrative competence pertinent in making managerial and multiple inter-locking decisions, enlightened, purposeful and determined leadership (political commitment), proper allocation of resources, political stability and fundamental reforms of existing economic, social and institutional structures along functional lines, industrial development in Nigeria in the 21st Century appears to be a distinct possibility. For the purpose of exposition, the paper is divided into five sections. Part one of the essay focuses on conceptual definitions/clarifications while part two discusses the role of industrialization in economic development. Section three of the paper deals with Nigeria’s extant strategies of industrialization and also attempts to decomposition of the predicament of industrial development in Nigeria. Attempt is made in section four of the essay to provide a prognosis for action. Finally, section five is a concluding remark on the paper.

Conceptual Definitions/Clarifications

Our understanding of the issue under discussion would immensely be enriched if the two germane terms (industrialization and economic development) employed in this essay are placed in their proper definitional perspectives. The term “industrialization” has been variously defined by different scholars. Clarence Zuvekas, Jr. defines industrialization as a process of transforming raw materials with the aid of human resources and
capital goods into consumer goods, new capital goods which permit more consumer goods (including food) and social overhead capital, which together with human resources provide new services to both individuals and business (1979:242). Joseph E. Imhanlahimhin defines industrialization “as a process of a country’s heavy dependence on large amount of goods manufactured in its territory and the services rendered, with prejudice to the sustainability of the manufacturing industries from which the foods and services emanate (Imhanlahimhin, 2002:193).

The point that flows concomitantly from these two definitions is that industrialization is associated with the transformation of raw materials into goods and services. Zuvekas’ definition identifies human and mechanical resources as fundamental in the transformation of raw materials for immediate consumption of further production. Imhanlahimhin’s definition falls short of this but it portrays industrialization as leading to the heavy dependence on mass production of goods and services manufactured within the territory of the country. Basically, industrialization deals with the utilization of the principles of applied science to build up a country’s capacity to transform raw materials and to manufacture intermediate and capital goods for consumption or further production.

Having defined industrialization, what then is economic development? Economic development id a term that is difficult to define. This is because these are multiplicity of goals and there are as many definitions of the term as there are many scholars. Some scholars define economic development as growth accompanied with structural changes in the political, social and economic life of the country. For example, Mahmood A. Zaidi and Sudhin K. Mukhopadhyay (Zaidi, 1975). State that economic development is accompanied with changes in the inter-sectional flows of intermediate goods. These structural changes as they observed
assume certain patterns depending on the stage and nature of development of the economy. Thus, Clarence Zuvekas (Zuvelas, 1999) acknowledges that economic development implies a decline in agriculture’s share of the gross national product and a corresponding increase in the share of such sectors as government administration, manufacturing, utilities, construction and financial institutions. What this definition suggests is that economic development is a holistic concept which embodies an increase in a country’s real national income over a period of time.

Despite variations of the definition of economic development, it will suffice in this essay to define economic development as the realization of specific values such as higher per capita income, progressive reduction in unemployment, hunger, disease, illness, poverty and the incremental improvement of the standard and quality of life index of the people.

The Role of Industrialization in the Economic Development of Nigeria

One way of appreciating a discussion on the role of industrialization in the economic development of Nigeria and other developing countries is to adopt the historical approach. In the early years of Nigeria’s independence, it will be recalled that exportable primary products were considered as the prime movers of Nigeria’s economy. The percentage contribution of agriculture to GDP at independence was about 70 percent, although by 1966 it had declined to about 55 percent. This decline is partly linked to these of synthetic substitutes in the developed countries which cut down the demand for such products at the international market thereby making primary production less attractive opportunities for economic expansion. It is in the light of these changes as T.A. Oyejide trenchantly puts it that “most of the less developed countries insist on
trying to diversity their economies by embarking on a process of government inspired or planned industrialization (Oyejide, J.A., 1975).

The historical experiences of the industrialized west marked by the above development in the World Economic Order may have informed the argument that industrialization is marked by a decline in agricultural products and corresponding increase in non-agricultural activities mostly in manufacturing industries and services. Perhaps this posture has been well captured by Arthur Lewis when he writes that there is “Sharp fall in the proportions recorded in agriculture as we pass from poverty to riches. The poorest countries show seventy percent or more of their population engaged in agriculture, whereas the richest can feed themselves twice as well with only twelve to fifteen percent in agriculture (Lewis, 1975). This contention seems splendid. But it is shaky in several respects based on historical experiences in the world economic order. Firstly, industrialization must be accompanied by continuous expansion in agricultural productivity as this provides the raw materials for industrial production. Even in the industrialized West, agrarian revolution preceded industrial revolution, thus, ensuring the flow of raw materials, food, export earnings and labor force for industries. At the stage of monopoly capital (advanced industrial production) these inputs of raw materials, food and market were ensured by colonial dependency. Secondly, this thesis might as well be regarded as a hypothesis “awaiting the test of praxis”. More fundamentally, it is “not a sufficient explanation of the phenomenon” as this may as well account partially for the emphasis laid in Nigeria on industrialization ignoring the agricultural sector of the economy. However, the postulate emphasizing a shift from primary products to industrialization makes sense on the grounds that the use of synthetic substitutes in the advanced countries cut down the demand for such products and therefore
primary production offers less attractive opportunities for economic expansion.

The role of industrialization in economic development of developing countries has been demonstrated by David Coleman and Frederich Nixson, Colman (1978). They argued that the industrialization of a basically agricultural, primary export-oriented economy was seen by policy makers and planners in a developed countries as a means of breaking loose from the chains of dependency forged during the colonial epoch thereby matching the newly acquired independence with economic independence. Industrialization is fundamental in that it will create “extensive employment opportunities…, raise output per head and living standards throughout the economy and, significantly, it would induce necessary and desirable changes in social and cultural attitudes and institutions through modernizing’ impact of imported organizational methods and technologies”. It is believed that industrialization would also alleviate balance of payments constraint, diversify the economy and reduce excessive dependence on the export of a few primary products whose prices were allegedly subjected to long-run secular deterioration and which in the short-run, exhibited substantial year-to-year fluctuation around the trend.

Since this paper focuses on iron and steel industry, it is imperative to examine the role of the Iron and Steel industry in the economic development of Nigeria in the 21st Century. As stated earlier and worth reiterating, the iron and steel industry is pivotal to industrial development since it is a pertinent vehicle for the production of consumables, raw materials, capital goods, intermediate products for other industries, military hardware, fabrication of machines and tools, generation of employment, skill development fundamental in operating, maintaining and managing other industrial establishments and the generation of foreign exchange
earnings. For example, it is believed that the Ajaokuta Steel Complex when fully operational can offer direct and indirect employment to well over 500,000 Nigerians of different professional cadres at a productive capacity of 1.3 million tones of steel annually. It therefore means that such a viable venture can help curb the alarming problem of unemployment and help diversify the economy of Nigeria to generate foreign exchange earnings.

The Iron and Steel industry is often regarded as a dynamic sector of industrialization because of its backward and forward linkages to the economy. By backward linkage, we mean a situation where the establishment of a steel industry will induce attempts to supply, through domestic production, the resources needed in that outfit while forward linkage simply means that the establishment of say Ajaokuta Steel Complex brings with it the establishment of industries like the National Iron Ore Mining Project at Itakpe to supply raw materials needed, Coal Mining Industries, Railway Stations to name but a few. In other words, steel development births the establishment of various upstream and downstream industries.

Steel is the underpinning of any significant industrial and technological development in any country. In fact the GNP of most advanced countries like Japan, China, United states of America, Germany and others is remarkably influenced by Iron and Steel production. As stated earlier and worth reiterating steel accounts directly for 2 to 5% of the GNP of these countries while indirectly it account up to 20% of the GNP. Writing on the strategic nature of steel industry in development, S. A. Adelakun has noted that industrial development is imperative because:

*It contributes significantly to economic prowess, infrastructrual development, public services, military capability, agriculture, transport, citizens’ quality of life*
Adelakun’s position on industrial development as expressed above depicts that industrialization affects man in various ways. The relevance of iron and steel development to the industrialization of Nigeria in the 21st Century is graphically captured in the diagram below:

A critical survey of the above diagram depicts the inexorable fact that the development of our modern industries is inextricably hinged on the development of our Iron and Steel industry. Nigeria cannot therefore afford to compromise the value of her steel industry in the 21st Century. It is my believe that this century will witness a renewed zest of efforts by
Third World Counties to catch up with the West though the “Catching up” phenomenon as Eskor Toyo (1996) has rightly noted poses a very serious question: should Africa, Asia and Latin America aim merely to catch up with Europe?

Nigeria’s Extant Strategies of Industrial Development: Understanding the Problem

Nigeria like other Third World countries has adopted various industrial development strategies/policies prescriptions advocated by different schools of thought such as the conventional and radical paradigms in political economy. Observably, these strategies (namely import substitution, export promotion, structural adjustment, exchange rate adjustment and sometimes a combination of all) have not been able to bail the Nigerian economy from the woods.

The decline in the international demand for primary products around the late 1950s and the consequent fall in the foreign exchange earnings occasioned by the persistent argument for an inward looking pattern of industrialization engendered the policy of import substitution supported by high protective tariffs in Nigeria. Claude Ake in his book: *A Political Economy of Africa* presented various arguments advanced for the introduction of the policy of import substitution. According to him, the balance of payment problems created by a declining world market for their primary products; the argument that foreign exchange would be saved while domestic industrialization would be promoted by supplying the already established local market with local resources; the expectation that import substitution would correct the difference in the income elasticities for imports and exports; the argument for unemployment reduction; the argument that through import substitution more goods would be made
available all combined to fuel the introduction of the policy of import substitution, (Ake, 1981).

In definitional terms, import substitution according to Clarence Zuvekas (1979) is a development strategy base on the planned substitution of domestically produced goods for imports. Kilby’s study of Nigeria’s strategy of industrial development depicts a “market protection hypothesis” where as Coleman and Frederich (1978) recorded that “newly independent governments wishing to stimulate industrial development would impose protective tariffs on imports of manufactured goods and force international corporations (or local enterprise previously engaged in the import of the goods) to establish domestic production facilities if they wished to protect their market position”.

Over two decades of implementing the import substitution strategy of industrialization left a less than satisfactory record. Though the strategy accounts for the rapid expansion of industrial activities in Italy and former USSR in the late nineteenth Century and Brazil, Mexico and South Africa in the wake of the Great Depression in 1929, it failed in Nigeria because it was characterized by last stage finishing touches of production which are either capital intensive or “heavily dependent on the importation of raw materials, spare parts, and technical stills for maintenance, repairs, and replacements”. Conversely, the import substitution industrialization failed because the technologies needed for the goods and services were capital intensive and beyond the capacity of Nigeria. Secondly, the location of manufacturing and employment industries were only in seven towns (Kaduna, Lagos, Jos, Port Harcourt, Kano, Enugu, and Ibadan) which resulted to lack of forward and backward linkages fundamental for Nigeria’s economic advancement. The problematic nature of industrialization through import substitution has been adequately captured by T. A. Oyejide (1975) who argues that “the critical problem which is
usually associated with industrialization through import substitution is that at some point—probably when the “easy” stage of import substitution which involves basically consumer goods and those with simple and inexpensive production techniques has been passed—the growth of domestic industries becomes so rapidly tied to a minimum level of imports of intermediate and capital goods”. For this reason, it becomes virtually impossible to restrict such imports to (ease problems of balance of payments difficulties, obligations of debt payments, etc), without hurting the continued growth of domestic industries. Thus, while it may appear that import substitution industrialization helps to repress imports, it actually increases the importation of production inputs like machinery and building materials, management services, skilled labor and cost of technology transfer.

The inexorable conclusion from the preceding thesis occasioned by the epileptic nature of our Iron and Steel industries (as we shall see latter in the case of Ajaokuta Steel Complex) and the inability of the manufacturing industries to produce intermediate and capital goods to catch up with the developed countries forcibly depicts the facile nature of the past strategy of industrialization. The caricature of the industrial sector of the economy for instance is demonstrated by the construction of the Ajaokuta Steel plant which has gone on for about two decades without completion despite the billions of dollars the project has engulfed. What would have been the cause of this unpleasant development considering that countries like India; Brazil, South Korea and Mexico took between four to five years to build their Iron and Steel industry? Why must Nigeria’s case be different? These are pertinent questions that demand an in-depth analysis of the Ajaokuta Steel Complex in order to answer them. We shall therefore devote the remaining part of this section to the task of providing an insight as to why after two decades the Ajaokuta Integrated Steel Complex is not completed despite the billions of dollars the project has gulped. The
historical antecedence of Ajaokuta Steel Complex dates back to September 14, 1979 when the National Steel Council Decree N0 60 of 1979 incorporated the Ajaokuta Steel Complex with five other steel companies. Prior to this, the Federal Government promulgated Decree No. 19 of 1971 setting up the National Steel Development Authority (NSDA) to plan, operate and maintain iron and steel plants in the country. It was also charged with the responsibility of carrying out steel raw materials surveys and mining operations to ensure adequate supply of raw materials to the Nigerian Steel industry. Construction of the proposed Ajaokuta Integrated Steel Complex started in June 1981, ten years after establishing the Nigerian Steel Development Authority (NSDA). The contract for the construction of the complex was entered with the Tiajpromexport (TPE) of USSR-now Russian Federation.

It is imperative to note that the Ajaokuta Steel Complex is one of the national industrial core projects embarked upon by the Federal Government to serve as a backbone to the manufacturing and other industries. It is to be supported by other projects like the Delta Integrated Steel Company, Ovwian Aladja, Delta State; National Iron Ore Mining Company at Itakpe, and the three National Steel Rolling Mills at Oshogbo, Katsina and Jos. In an ideal situation, the National Iron Ore Mining Company is expected to supply 2.1 million tones per year of 63/64 per cent Fe grade concentrate to Ajaokuta Steel and 550,000 tones per year of 67/68 per cent Fe grade super concentrate to Delta Steel company. The latter concentrate has been adjusted to 66/67 per cent Fe grade concentrate due to the absence of essential Fourth line and post beneficiation plant to produce 67/68 per cent Fe grade concentrate. This arrangement sounds more mythical than real. This is because the Iron Ore Mining Company since its so called completion, has not operated above 20 per cent capacity installed
and lacks a lot of its required infrastructural facilities, working capital and equipments fundamental for full capacity utilization.

The Ajaokuta steel project as one scholar observed in 1994 is the biggest and most problematic of all national steel projects. Since construction started in the complex, there has been incessant shift in the date of its completion and commission. It was originally scheduled to be completed in six and half years (December 1987) which was later rescheduled to 1991 and subsequently to 1994. The latest date being 2004. To gain adequate insight into the factors that have thrown the Ajaokuta Steel Complex into the epileptic state that it is now, it is pertinent to consider the political milieu of Nigeria. Since independence, Nigeria has witnessed frequent changes in government and policies. The slow work in the Ajaokuta project is attributed to incoherent and uncoordinated policies and ideas brought about by the incessant changes in government. By 2002, since construction stated in the complex, Nigeria had witnessed the rule of five military juntas and three civilian governments with several different steel ministers and advisers with uncoordinated and incoherent policies and ideas of the way forward for our Iron and Steel industry. Furthermore, as Chukwuma Umezurike maintained, the situation in the Ajaokuta Steel Complex is complicated by the fact that:

The abnormal and inconsistent changes in government also brought with it into the steel, as well as other industries, non-policy oriented management appointments. This is to say that political instability, leading to disoriented management appointments dictated by ethnic and financial interests including unpleasant local influences arising from ill-motivated sitting of projects; all these forces have contributed in
Umezurike’s observation as expressed above is similar to the position of the orthodox paradigm in the literature of economic development. The orthodox genre which has it historical antecedence from the works of Max Weber locates the genesis of the maladies of our steel industry to “leadership ineptitude, faulty policy direction, organizational incompetence, official corruption, bazaar mentality of the entrepreneurs, and sloppish work ethic of the population”. Though the prescriptive solution of the orthodox school (namely mobilization of domestic savings, creation of conductive investment environment, the adoption of fiscal and monetary policies supportive of growth, export promotion, control of population, etc) has not bailed Nigeria from the woods of underdevelopment, the inexorable realization is that Nigeria is impoverishly industrialized partly because of lack of political commitment to policies, faulty and uncoordinated industrial policy direction which is a consequence of the frequent change in government. What this essentially implies in the context of Nigerian Iron and Steel industry is that the adoption of soundly based industrial policy backed by political and managerial commitment constitute the crux of a viable and sophisticated industrial development.

One of the most intractable problems that have also delayed the completion of the Ajaokuta Steel project is related to the technological complexity of the plant. Steel development is a capital-intensive project which requires very high level of technology and expertise. And since Nigeria lacks the technological capability and expertise to meet the challenges arising from the steel industry she has had to rely on external sources like Tiajpromexport (TPE) of Russia to meet her technological
need. Since the contemporary international system is so complex, dynamic and unregulated, the Nigeria Steel industry is badly affected in the event of negative changes. For examples, in the early 90s, there was a worrisome exodus of Russian experts (TPE) from the complex perhaps because of failure on the part of the Nigerian Government to meet her financial and other obligations to the foreign vendor. The situation is complicated by the fact that the attempt by Nigeria to acquire Steel technology may have angered the international community as pejoratively expressed by E. Mudiare:

\[
\text{Nigeria’s independent posture in trying to acquire Steel technology seems to have angered the international community, especially the Western World, who, from the jaundiced perspective of a Cold War participant, saw a Soviet attempt at building a Steel Plant for Nigeria as flirtation with Communism by a former British Colony.... It is a sad fact of life that the Western World and a World Bank which is controlled by the West (the universality of the Bank’s name notwithstanding) consider Nigeria, a former Western Colony, as a raw materials provider and a dumping ground for the West’s excess industrial output. So any attempt at building a Steel Plant would upset the status quo (Mudiare, 1994).}
\]

Judged by the disquieting development at the international milieu, it may be correct to argue from the standpoint of the radical genre that the maladies of the Ajaokuta Steel Complex are inextricably tied to the epileptic changes in the international economic order which is a product of the manipulation engineered by developed countries and their transnational forces and agents like the World Bank, International Monetary Fund, Paris
The development with respect to the exodus of Russian experts from the Plant raises fundamental conundrum as repetition expressed by B. A. Okorie and I. E. Mgbo:

*Can we afford to let the Russians go even before we have commissioned the BF (Blast Furnace) and LD (Linz-Donawitz) converted and understudied the liquid production programme at ASCL (Ajaokuta Steel Company Limited)? The former USSR has given way to the CIS (Commonwealth of Independent States), and it is only TPE that can facilitate the sourcing and supply of special spare parts to ASCL, at least during this fledging period in the company’s life. Can any other group, Germans and Italians inclusive, play this role satisfactorily, or alternatively, do we plan to dismantle the CIS-built infrastructure at Ajaokuta and replace them with substitutes built by such a group? Answers to these questions leave us with no choice but to conclude that in the interest of the nation and that of Ajaokuta in particular, we cannot afford to part with the Russians now or for a long time to come, Okorie and Mgbo (1994).*

The epiphenomenon of the above complications is inextricably linked to the fact that Nigeria lacks the technological capability to meet the technological expertise required at the Ajaokuta Steel Complex. Mention must also be made of the fact that the slow pace of work in the Ajaokuta Steel is linked to the problem of inadequate working capital; shortage of raw materials; lack of spare parts; low staff morale due to non-payment of
salaries; poor planning and implementation of projects; high debts; inadequate maintenance of equipment; old and obsolete machinery; high cost of import; theft; corruption and embezzlement of funds. Some of these problems have been comprehensively articulated by A. A. Afonja (1994:52) as follows:

i. The major units required for producing steel billets are yet to be completed—sinter plant, coke oven, blast furnace and oxygen converter. As a result, the height section mill which was commissioned over a decade ago has remained idle due to non-availability of billets.

ii. The development of the National Iron Ore Company at Itakpe iron deposit, the proposed source of Iron Ore for the sinter plant is yet to be completed.

iii. A reliable source of coking coal required to meet the coke oven is yet to be found. (Danjuma Ocheja Attah (1994) analysis has demonstrated, Nigerian coal because of its poor chemical properties needs to be blended with foreign coals to get the metallurgical coke required. This development leaves us with the only option of 100% importation of coking coal—a situation which is rather expensive as it involves an expenditure of about 200 million US Dollars annually during the first phase of the project, and even higher expenditure as the company attains its full production capacity).

iv. Most of the equipment at the plant were manufactured more than 10 years ago and many are obsolete. This problem has been aggravated by the changes in the international politics—most of the rolling equipment were manufactured by East Germany which no longer exists and many of the companies which manufactured the parts have folded up. Other machineries and equipment in the plant were manufactured in several ports of the defunct Union of Soviet
Socialist Republics (USSR), which is now or has metamorphosed into the current Commonwealth of Independent States (C.I.S). Even if these spare parts are found, their importation is expensive due to the cost of foreign exchange.

v. The foundry and machine shop complex which was commissioned some years ago is also idle due to lack of funds and raw materials.

Finally, it would be imperative to close this section with a note on the influence of elitism, sabotage and corruption on the plant using a recent development in the plant as a case study. Recently, fake Coals were supplied to the plant. Now the vendor supposed to be a highly placed man in Nigeria may have used his connection and influence to sign a contract of millions of naira only to supply fake coals detrimental to the development of the complex. This is a case of bazaar mentality, waste, wrong choice of vendor and undue influence by the ruling elite. Thus, the problem in Ajaokuta Steel Complex with reference to its non-completion despite the billions of dollars the project has gulped cannot be isolated form the “rapaciousness of indigenous ruling elite”.

Prognosis for Action

In the light of the above problems which combined to bring the industrial development of Nigeria into a state of suspended paralysis, it is contended in line with C.O. Bassey’s work that unless Nigeria is able to transcend and transform her paralyzing political, social and economic institutions through adequate time-frame, administrative competence (fundamental in making multiple inter-locking decisions), enlightened and determined leadership (political commitment), proper allocation of existing resources, political stability, and fundamental reforms of existing structures...
along functional lines, industrial development in the 21st Century would be illusive and a mirage. Industrial development is an extremely complex process which involves technological, social, managerial, economic and political parameters and considerations, dynamically composed, orchestrated and performed by a changing cost of actors and decision-makers. This therefore demands the “building and management of enterprises which harmonize and integrate resources, technology and human effort for productive purposes” (UNIDO, 1982). As a prescriptive measure to industrial development, UNIDO (1982:67) has prescribed three major elements: the formulation of relevant policy and planning measures by national Governments; building up of technological institutions and the training of industrial and technological manpower; and the appropriate choice of technology for industrial development, since inappropriate choice will not only be expensive but will also distort the pattern of development.

The formulation of appropriate policy and planning measures is fundamental because industrial development cannot exist in a vacuum. In any social formation, critical issues of public policy, that is, complex and inter-locking administrative and political decisions (political commitment) are required to set strategies and targets of industrialization and how motivational resources should be structured and managed at the level of implementation. In this respect, Dike has succinctly remarked:

*A government without a definite policy is like a traveler without a destination. He may cover many kilometers and yet not be able to say where he is going or how far he has gone (Dike, 1991).*

Industrialization cannot take place without the fostering and inculcating a scientific culture in Africa’s mentality. While the scientific culture should not be merely reduced to research, it strongly needs genuinely scientific values such as critical mind, strong commitment to
truth, capacity to innovate and rapid assimilation of innovations. But Nigeria as A.A. Ayida observed “has not yet become an inquisitive society with scientific tradition”. The potential utilization of Nigerian’s abundant supply of natural resources is handicapped because of absence of technology and the spirit of innovation (Ayida, 1971). Thus, Nigeria must be oriented towards a permanent intellectual readiness, a methodological and rigorous mind all of which contributed strongly to the development of industrial societies. Reduced to fundamental terms, scientific and technological advancement are crucial to any industrial development and breakthrough (Cooper, 1973).

Fundamental also to industrialization is financial resources which can only be made available through good economic institutions. Industrialization is capital intensive and in the case of Britain in the eighteenth century the capital required in building machinery and communications were made available by British landowners (feudal aristocrats) whose wealth came from rents, home and overseas trade (Henderson, 1967). Although this method of financing industrialization is anachronistic, the point being made is that good economic institutions coupled with good fiscal regimes are prerequisites for fostering industrialization in Nigeria. Let it be pointed out unequivocally, that, the International Monetary Fund (IMF), World Bank and the Paris Club do not provide Nigeria with a good source of finance for industrial and national development. Loans from these economic institutions (and political institutions as their activities sometimes portray them to be) as being a means of milking the Third World dry. It is also pertinent to note that as part of the prerequisite for industrial development in Nigeria, manpower which involves motivation must be taken into serious consideration. In contextual terms, due to the problem of massive migration of highly qualified personnel from less developed to developed countries and low
staff morale because of non-payment of salaries and incentives, a good policy of immigration and attractive motivation in terms of reward system, constitute partly the essential ingredient for industrial development in Nigeria.

Central to industrialization is the issue of agriculture. As noted earlier and worth reiterating, there is a strong inter-sectoral linkage between agriculture and industrialization as the latter provides the raw materials for manufacturing and industrial activities. In Nigeria as in other African countries, industrial take-off has not been preceded by any remarkable development in agriculture and as Nigeria has no colony to exploit and an effective agricultural programme, this has caused industrial bottlenecks with respect to agricultural raw materials, the development of agro-allied industries and food supply. This distortion of industrialization process in Nigeria imposes the burden of importing basic materials for industries, and led to the folding up of several factories owing to the shortage of foreign currency and high cost of materials. Hence, agriculture must not be ignored in the 21st Century, rather it must be followed up with the formulation of feasible policies implemented effectively for meaningful results.

In specific terms, with respect to the Ajaokuta Steel Complex, a joint partnership venture between Nigeria and foreign vendors is recommended. Nigeria could enter into a partnership venture with Russia and make her contribute 40 per cent of the finance required in completing the complex while Nigeria takes 60 percent. By this, the Russian vendor would be committed to completing the complex for profit maximization. Recently, some international vendors – Tiapromexport (TPE) Russia; Kobe Steel, Japan; Solgas Energy Inc, Cyprus; and Voest Alpine Industrial Service (VAIS), Australia submitted divergent proposals on how to get the Ajaokuta Steel Complex completed and running. Solgas for instance is
basically interested in managerial and financial input while others want to be involved in technical input. But the Federal Government is favorably disposed to a foreign vendor that is interested in going all the way and taking equity in the industrial complex. This is a welcome disposition. Alternatively, a joint-venture between Nigeria and the Japanese vendor could be entered into. Japan utilizes the blast furnace system and though she has no raw – materials but buys scraps, she is able to produce the cars we consume. The Ajaokuta Steel Complex could be completed and reactivated to produce pig iron which will be sent to Japan for further processing into steel and flat sheets. The profit from the joint-venture could be shared. Steel development is a complex undertaking that requires the putting in place of a good railway, electric power system, communication network, and a host of other structures. As Umezurike has remarked:

"Steel making and/or production is a tough business requiring heavy financial investments, uninterrupted supply of input materials and steady energy supply. It also demands discipline and dedication from the professionals…. The making of iron and steel ... starts with the capacity to extract the metals from their ores, refine and then process the materials to finished products. It is not ... enough to build a steel plant and expect all is done. The wear and tear, high temperature creep and corrosion to mention but a few structural deformations that go with such systems must be considered in the over-all production mechanism and process, if there is to be a steady flow of steel and hence economic profit, Umezurike (1994)."

What this essentially means is that if Nigeria is to have a virile steel sector in the 21st Century, nothing short of a wholesale commitment in building
fundamental structures for effective and full capacity utilization in the sector is required. This would invariably demand public and private investment as an estimated $460 million is required to complete the first phase of the complex by 2004 according to the report of the technical audit contracted to Tiajpromexport (TPE) of Russia at the cost of $1.2 million.

**Concluding Remarks**

What have we done so far in this paper? We have examined the role of industrialization in the economic development of a country. We have also seen the reason why Nigeria must develop her iron and steel industry if she must make any significant progress in her industrial development. We have also through in-depth analysis of the Ajaokuta Steel Complex highlighted the problems militating against the completion of the project. Against the backdrop of this analysis, we have established the fundamental prerequisites for a meaningful industrial development in Nigeria in the 21st Century.

One of the prevailing arguments that ran concurrently in the paper is that the maladies of Nigerian industrialization are inextricably linked to her social pathologies (ineptitude of leadership, weak organizational competence, corruption, sloppish work ethic, bazaar mentality), frequent change in government, faulty policy direction and the dynamics of international politics manipulated by international agencies such as IMF, World Bank, Paris Club to name but a few. Nigeria in an effort to catch up with the industrialized West has been losing much capital rather than gaining it. Thus, Eskor Toyo (1994) acknowledges that the catch up phenomenon is faulty and self-frustrating.

The biggest challenge confronting Nigeria in the 21st Century is how to diversify her economy and promote non-oil export in order to earn
tangible foreign exchange earnings to solve evidential problems like unemployment, inequality, inadequate facilities, etc. As C.O. Bassey has rightly acknowledged, this will “unalterably depend on the rapidity of the transformation of its national economy from what Shaw has characteristically described as ‘an oil-extraction and commodity – production base’ into a self – reliant and productive – industrial economy. This will in turn depend on fundamental reorientation in structural and value parameters through comprehensive corrective strategies”, Bassey (1999).

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CHAPTER IV

AN APPRAISAL OF THE EFFECTS OF POLITICS ON THE NIGERIAN ECONOMY


Introduction

This paper examines the effects of politics on the Nigerian economy. It calls for a clear identification of the symmetry between the two and, the consequences of the relationship for the Nigerian State and its citizenry. However, it is our conviction that, no meaningful attempt can be made vis-à-vis the aims and objectives of this paper in isolation from the conceptual elucidation of the terms involved. The twin-concepts involved or in focus are Politics and Economy. This conceptual analysis becomes mandatory for a clear understanding of the nexus between the two. In fact, the raison d’etre of the topic of this paper is principally located within the parameters of the end result of their affinity. This end result is explainable within the context of the term political economy. This being the case, this paper is structurally divided into six parts. The introduction is the first. It is followed by the second part which deals with the conceptual analysis of Politics and Economy referred to above, as the twin-concepts. Deriving from the contents of the second part, the third part analyses the concept of political economy as a conceptual hybrid of politics and economy, leading to a synoptic identification of the political determinants of the economic system. The fourth part focuses on the consequences of faulty practical politicking in Nigeria-as articulated in the process of our conceptual
analysis of politics in part two-for the determinism of the Nigerian economic system/economy. Within this section of the paper, the Nigerian ecological factors responsible for the (negative) economic developments/policies are identified and examined in the context of their impacts on the practical linkage between the Nigerian politics and her economy and, where this has brought the latter (i.e., the economy) today within the context of globalization and its removal of jurisdictional boundaries vis–a–vis politics, trade and commerce across the world. Part five identifies and critically examines the ways out of the contraption vis–a-vis good governance and its relevance for the citizenry particularly at this period of the global economy in which modern telecommunications through its supersonic transformation in information technology (explainable in Internet connectivity, e-governances, e-commerce, e-education etc) has brought about the end of geography in terms of physical distance and/or boundaries. The sixth part contains our conclusion.

**Politics: What it is and what it is not?**

The concept of politics can be multidimensionally analyzed. It can be looked at as an art and at the same time looked at as a discipline. But, whichever way one looks at it, politics is a concept which has not been free from disputations ranging from academic, ideological to philosophical. Thus, one can argue that one of the multifacet problems often encountered is the lack of consensus regarding the actual conception of politics.

This tendency has generated different typifications of politics (as an art and one of the central concerns of political science). These typifications range from “politics is a dirty game” “government by deceit” to its conception as the “process at work everywhere”. In short, the concepts of politics and its study (political science) have never been free
from both ignorant and intellectual disputations. Generally, the historical development of politics as an art and as a discipline can be retrospectively traced to the ancient Greek period of city-states during which Plato, Aristotle and some of their Greek Contemporaries deemed the affairs of the polis due to the then intricacies of human political relationship worthy of a master science – (Political Science). During this classical period, Aristotle claimed that human Self realization is dependent on political relationship. On the same token, he claimed that “man is a political animal” and that politics form the bases of human Social existence because the interaction of two or more people is synonymous to Political relationship. Various scholars of international repute have equally addressed the issue of politics vis-à-vis human existence in the Society. Thus the evolution of Politics as a discipline (Political science) has been perforated by asymmetrical quests for both theoretical and scientific epistemology regarding various political phenomena (One of which is the issue of industries and their location).

In spite of these disputations, it is an empirical fact that politics (as an art) structures our lives, explains man’s existence as a member of organized human society”, determines our socio-political, psycho-socio-economic, geopolitical and ethno-cultural positions and dictates our options due to its embracing syndromes. This being the case, it is the belief of this writer that politics is very embracing and that it involves competition for public goods, authoritative decisions, compliance and distribution and use of power over human activities (e.g. location of industries) in our societies. Hence, as afore elucidated, many Scholars have defined politics (as an art and as a discipline) in the attempt to provide understanding to our practical involvement in the art of governance and our regard for the institutional paraphernalia of democracy. For an example, Williams Crane and Bernard Moses have analytically and practically defined politics. To them, analytically, politics deals with the “State as an organism for the
concentration and distribution of political powers of the Nation” and, practically it deals with the “form and substance of actions”.

On his own Alfred de Grazia defined politics (as an art) as the events that happen around the decision-making centre of government while the study of these connotes his (De Grazia) own definition of Politics as a discipline. In addition to the foregoing, David Easton defined politics (as an art) as the authoritative allocations of scarce societal values for the society while Harold Lasswell defined it as the determination of who gets what? When? Where? and how? The materialists on the other hand viewed politics as the struggle between social classes for the control of the state or institutions of the state. The structure within which the struggle takes place is regarded as the political. This conception incorporates that of Easton and Lasswell except that it tends to emphasize the role of economic interest and class conflict in the practice of politics and in the actions of political actors. And this happens to be the perspective through which we are critically putting into focus the politics of Nigeria and the use of ability of same to influence positively economic policies within its territory. In Nigeria, Practical Politics, that is, the struggle for the control of the institutions of the state tends to assume new and politically myopic dimensions different from what obtains in developed polities. The reasons for this is that access to and control of the institutions of the state is a prerequisite for personal accumulation of wealth and, the generality of Nigerians particularly the practicing politicians and their henchmen have come to see such access and its accompanying control of political machinery of the state as God-given birthright that should permanently remain with their deep-seated political philosophy or pseudo-ideology. This is why issues are over politicized and democratic institutions are emotionally, savagely and inhumanly rendered ineffective in dealing with societal problems for which they have been established.
Put together, politics is empirical and it deals with the shaping and sharing of power hence, it is studied and analysed by political scientists. And, it is in this respect our expertise as political scientists cover the appraisal of socio-economic, psycho-cultural, geo-poetical phenomena of contemporaneous nature. Not minding the divergent views, politics is omnipresent and it is actually the relationship between the “rulers and the ruled” that ranges from conflict to compliance. It does not exist in a vacuum but within a political system. It is on this basis that political life is taken to mean a system of activities ranging from support and demands or feedback from the environment to policy outputs or governmental decisions. Regardless of the variations in the conception of politics and its theoretical constructs as afore elucidated, the concept of power is very crucial to the ordering of priorities involved in politics. This explains why David Apter claimed that “politics requires the learning of power because human lives take shape and meaning within authoritative boundaries.

Without doubt, these conceptions have variously permeated the existential syndromes of Nigeria and her citizenry. This assertion becomes obvious looking at the past and contemporaneous developments within the Nigerian polity that have culminated into the cyclistic civil-military-civil-rulership political syndrome and its resultant periodic planning transition. Our concern here is to assess the extent to which political activities in Nigeria have operated or made to operate in line with the conception of politics as an art and the orthodox or conventional mannerism of its practice vis-à-vis the nation’s economy. A retrospective analysis of the events in Nigeria shows that ignorance, indifference, parochialism, conservatism, political brigandage, myopic ideological persuasion, megalomania syndrome, parasitic political philosophy, intolerance, feelings of hereditary political supremacy and treatment of political opponents as malignant entities, and so on, have combined to consistently dictate the
pace of our political activities and their resultant developments or consequences which have been nothing but a combination of economic and democratic retrogression.

The concept of opposition and government that formed the core of systems of government practiced in Nigeria up to date has been ignorantly and detrimentally tied to regionalism, ethnicity, cultural heterogeneity, cultural polarization and tribal loyalties. Not only this, our politics and its accompanying activities have been riddled with political vendetta, corruption, son of the soil philosophy, politics of expediency, enthronement of regional loyalties, conferment of pseudo-legitimacy, institutionalized disrespect for economic and financial solvency of the state and the Nation at large, might-makes right rulership philosophy, liquidation of human lives without provocation, arson and wanton destruction of properties, contractor – controlled political machinery, political shenanigans, doctrine of ten-percent and election rigging (the anticipated eradication of which once led to the introduction of open balloting in the country).

The foregoing, which unabatedly existed in the first phase of our civil-democratic existence and reached its apogee between 1979 and 1983 have made militarism the catechism of our political existence up to the commencement in 1999 of the fourth republic. Even then, the apolitical politicking has not disappeared up till now. However, as a prelude to our identification of the linkage between these apolitical developments and the current economic woes in Nigeria, the next section synoptically discusses the concept of economy as we come to know of it today.

The Concept of Economy (ics)

Traditionally, economics means the careful management of scarce resources and planning of expenditure of a state. According to Oxford
Advanced Learner’s Dictionary, this control and management of money, resources, etc. of a community, society or household is known as economy. Adam Smith, one of the foremost Economists sees economics as a social science which studies human behaviour as a relationship between ends and scarce means which have alternative uses. Thus, by economy we meant those aspects of social interaction among individuals or groups, which pertain to the production and distribution of scarce goods and services.

In almost all the countries of the world Nigeria inclusive economy deals with three basic issues vis-à-vis.

(i) Determination of the kinds of goods or services that are needed in a society; how, where and in which manner they can be produced.

(ii) How to allocate the goods produced between private individual, consumers and consumption by the society in the form of governmental expenditures for public protection, national defence, provision of infrastructures such as roads, health, education etc., and

(iii) How to distribute total material benefits among the various members of society in the form of wages and salaries, rents and profits.

These functions have been carried out through institutional arrangement(s) in different forms by different societies. While some are capitalistic in nature, some are socialistic or otherwise. This institutional arrangement is known as economic system which has been accepted by members of the society with the purposes of performing the three basic functions of determining what to produce, how much to produce, where and how to share what is produced. For any economic system to be meaningful, it has to take cognizance of its political underpinnings. Both political and economic systems are allocative. They only differ in methodology applied to allocative function.
The economy is the subsystem which produces and allocates goods and services for a wide variety of purposes while the political system includes above all, the government who mobilizes goods and services for the attainment of specific goal. If it is possible to have a society without government, then all allocations would be made by the economic system and, conversely, if a society exists without economic system, the government would have to undertake all allocations through the political process. Fortunately, there is no known period when men had succeeded in co-existing without some forms of political and economic systems that are in constant state of interaction. In both primitive and modern societies, these two systems are intricately interwoven. They inseparable because economic decisions at that period of time were made almost exclusively by political leaders. And, most economic problems were solved through political decisions. The same thing still exists today in our world. This now leads us to the discussion of the term political economy.

**Political Economy (the Conceptual Hybrid of Politics and Economics) : A Synopsis**

It is appropriate to commence the analysis in this part of the paper by the assertion that, the ideological and scholastic disputations vis-à-vis the relational threads between politics and economy in terms of structural significance which dominated the works of earlier Economists like Ricardo. Adam Smith and political philosophers like Plato. Aristotle, Niccolo Machiavelli to mention only a few, can be identified as the real argumentative precursors of the constant squabbles among Scholars, Political Actors, Technocrats, public and private sectors Bureaucrats and Super-Bureaucrats, domestic and international Bourgeoisies over socio-political and economic matters.
Generally, political and economic objectives as the signposts of national development can be understood within the macro-parameters of politics and economy as the twin-pillars of governmental actions and inactions on both political and economic fronts. There is no doubt whatsoever, that the affinity between politics and economy vis-à-vis the actions or inactions of government has consistently been a subject – matter of intellectual discourses with deep-seated historical roots. Concretely put, the discourses as to which one (politics or economy) – determines the other remain contentious till today. While some scholars have not actually been really assertive for fear of being labelled or misunderstood, some have dared the consequences by insisting that “the economy is the substructure on which the social (and or political) system of a state is built (NES: 1994:V)” . This analytical boldness notwithstanding, the issue of pre-eminence between politics and economy in terms of sub-structural and super-structural relationship relative to the nature of the state in respect of policy focus and, its determinism for the “governed” remains hotly disputational till now. This disputation has equally been fertilized by the school of thought that believes in the position that the economic system is determined by the political system. Thus compounding the already complex nature of the relationship between economics and politics. There is no doubt that both phenomena mutually interpret and influence each other often in decided ways.

Specifically, the political order has, throughout history tended to influence the form of economic organisation of societies. Regardless of their process of development, every economy must perform three interrelated functions. First, is the determination of the kinds and quality of goods that are needed by the people; the best among the alternative methods of producing them, how much of the goods should be produced and; how to get them to the people in places where they are needed.
Second, is the determination of how to share the totality of all the goods produced in the society into the quantity that will be consumed directly by individuals, that will be used for promoting collective welfare of all members of the society in the forms of government expenditure and the proportion that will be devoted to replenishing resources that are used up in the course of production in order to ensure continuous satisfaction of demands for goods and services in the society in the future. And, thirdly, it must also determine how to remunerate the members (e.g. investors, employers, employees etc.) of the society who participate in production. This also includes determination of how those (such as aged or handicapped people) who cannot participate in production should be taken care of. It is more appropriate to say that economies are directed to achieve these functions rather than posit that they do so by themselves. The three broad functions can be accomplished in different ways. The choice of the most appropriate way to do so is a primary function not of the economy but of the political order. Political determination of economic condition is the key components implied in the definitions, which posit politics as the process of authoritative allocation of values and resources in a society.

Government exercises the power to: make and spend money, fix prices for all kinds of goods, regulate the conduct of business, determine working conditions including remuneration, issue and regulate currency, make fiscal policies, demand or abrogate tariffs, control flow of goods and humans into and out of their territories. These are important powers, which enable the state or government to structure the economy of the society over which it rules. How a government exercises these powers and, the ends that its policies, are directed to achieve are dependent basically on the kind of economic system to which it is committed. By economic system is meant the organisational and institutional arrangement, norms, values; nature of resources, ownership and control (i.e. private or public ownership),
behavioural patterns – that have become widely accepted by all the people participating in the economic relation.

The economic systems in different nations of the world vary a great deal. These range from capitalism which is based on decentralisation of economic decision making among private individuals through socialism or command economy where the power to make all or at least the most important economic decisions are exercised by governmental officials to some form of mixed economy (e.g. in Nigeria) in which both private individuals and public agencies participate in making and implementing economic decisions. However, and, in spite of the controversy it has generated, the end result of governance-economic benevolence and stable political system – continue to make manifest the need for healthy bridging of whatever gulf that has existed and that may still exist or continue to exist between the political and economic ends of the governmental process. This, we would opine, has been so in order to attain a balanced resources mix needed for coping with the administrative constraints caused by the continuously expanding purviews of government functions in relations to the systemic existence of the “governed” in most of our polities today.

The “state and its politics now more than ever before continue to affect the shape and performances of the economy”. While the latter has, on its own, continue to fundamentally influence the state itself (Lawal, 1997:21). Thus, increasingly, the citizens in most polities have now come to see and be aware that their economic – well being depends heavily on state’s activities (Ibid). Regardless of the arguments as to which one-politics or economy – dominates the other, it has become incontrovertible that both are reciprocally related:

*Economics and politics are closely intertwined aspect of international relations. Each is a part*
of and affects the other. This interrelationship has become even more important in recent history. Economics has become more important internationally because of dramatically increased trade levels, even-tightening economic interdependence between countries, and the growing impact of international economics on domestic economics. The stronger role played by international economics means that political relations between countries have increasingly been influenced by economic relations. Conversely, politics also significantly affects economic relations. Domestic political pressures are important determinants of tariff policies and other trade regulations. Trade can also be used as a diplomatic tool (Mothe & Paquet, 1996:511).

There is no organisation (e.g. social, political, economic, religious, cultural, etc) either in the private or public sector of the political system or political economy that can exist without objectives as the signposts of its development. This is particularly so, in that such objectives as stated missions constitute the determinants of such organisation’s directional paths and form the basis of its existence. The political and economic objectives of a nation are influenced and determined by a number of forces. These forces to some extent, account for, or, determine the interplay between both the political and economic dimensions of the nation’s political system. The political and economic squabbles which, as noted above, continue up to date in a country like Nigeria are equally the
by-products of such forces. These forces equally serve as the determining variables of a nation’s critical and scarce societal resources - (political and economic including other ones) - which need to be authoritatively allocated to the citizenry in the process of governance amidst constant multidimensional and multiplicities of interest(s) articulation and its accompanying aggregation within the nation’s political system. The political and economic objectives of any nation and, indeed, that of Nigeria, can actually be understood and examined within the context of its socio-economic and political history. It is within this context that one can appraise the effects of the country’s politics on its economy.

**History of National Objectives/Development Planning in Nigeria**

It has once been opined that “Nigeria’s principal objective (economic and social) at independence was that of rapid economic and social development and transformation” (Kayode, 1985:3). At that time emphasis was on the economy and education as well as on changing the economic structure which was predominantly agricultural in nature to an industrial one using a faster approach. Industrialization, based on the nation’s lesson from the history of advanced countries which indicate(d) the diminishing role of agriculture (Ibid), was seen as “the key to effecting the desired change in the economic structure” (ibid) of the Nigerian State. In fact, Nigeria as a nation has definitely had her own share of numerous plans.

**1946 – 1956 Development Plan**

The pedigree of Nigeria’s periodic development planning dates back to the colonial era starting from 1945 with the then ten year (1946 – 1956) development plan. This plan, according to Okigbo (1985:59) “was a
plan for the benefit of a British colony”. It gave way in 1955 for a new five year (1955 – 1960) development plan due to political developments - “approach of self government in the regions with new constitutions: the need for transfer of some responsibilities” - that made it impossible for the completion of the existing ten year (1945 – 1965) development plan.

1955 – 1960 Development Plan

The five-year (1955 – 1960) development plan was not different from its predecessor because both of them were nothing but colonial planning devices for the perpetration of their interest. This was particularly so in that:

Up to 1960, Nigeria was a colonial dependency of a metropolitan power that established a democratic socialist government at home and repressed socialist doctrines in the colonies. The planning adopted had some socialist-welfarist overtones but it was not democratic in terms of the participation of the people in either the formulation or discussion of the objectives. (ibid: 1)

1962 – 1968 First National Development Plan

The first national plan came in 1962 for the period 1962 – 1968. It was called a national plan because:

It was the first plan prepared for Nigeria after attaining independence in 1960. It has the backing or sponsorship of the State
and applied in a geographic sense only to the country as a whole (Ibid).

The national character of the first national plan suffered set backs due to the regionalised presentation of projects for implementation which were not amenable to centralised planning and execution. Okigbo (Ibid) articulated the reasons for the failure of the plan thus:

The planning in 1962 ran counter to the national utilization of resources that could be dictated by a truly national planning. Let it be understood that the procedure could not have been otherwise, given the environment of the time. The centre had remained relatively too weak to impose its will on the politically powerful regions. There were in fact, in 1962, four plans, one for the Federal and one each for the three-regions, put under the same outer jacket. The political rivalry between the heads of the Regional Government (each being run by a different political party) descended into the arena of economics which retarded the possibility of developing a truly national economy.

There was another sense in which the first National Plan was not national. Its coverage was partial as it related only to the public sector expenditures; the expected contribution by the private sector on capital formation was derived as residual. How the private sector could be
Not only this, the 1962 – 1966 political upheavals which created a general state of topsy-turvy in the country equally made the implementation of the National Plan for 1962 – 1968 impossible.


The next national Plan was not to be until 1970 when the Second National Development Plan (SNDP) was made for 1970 – 1974 period with the objectives of making Nigeria.

(iv) a united strong and self reliant nation;
(v) a great and dynamic economy;
(vi) a just and egalitarian society;
(vii) a land of bright and full opportunities for all its citizens; and a free and democratic society (SNDP, 1970:32).

These objectives were concretely translated according to Okigbo (op. cit., 68), into “actionable terms” thus:

(viii) a rapid economic growth set at a rate of a minimum of 6.6% per annum such that the national project can be doubled in fifteen years;
(ix) reduction in inequalities in inter-personal incomes;
(x) promotion of balanced development among communities in different geographical areas of Nigeria;
(xi) provision of full employment without inflation by deliberately creating employment opportunities.
To attain these objectives as translated, and in order to be able to take care of post-war reconstruction, priority was assigned to various sectors thus:

(xii) agriculture, industry, transportation and manpower development take the first priority

(xiii) utilities, electricity, water, communications take the second priority;

(xiv) other services take the last priority;

(xv) defence and security constitute a set *sui generis*;

(xvi) reconstruction of facilities damaged or in disuse and disrepair because of the war;

(xviii) rehabilitation and resettlement of persons displaced by war, and of the demobilised personnel of the armed forces (Ibid: 69).

### 1975 – 1980 Third National Development Plan

The Second National Development Plan was followed by the 1975 – 1980 Development Plan called the Third National Development Plan (TNDP) with the underlisted objectives:

(xvii) an increase in per capital income;

(xviii) a more even distribution of income;

(xix) a reduction in the level of unemployment;

(xx) an increase in the supply of high level manpower;

(xxi) diversification of the economy;

(xxii) balanced development;

(xxiii) indigenisation of economic activity.

### 1981 – 1985 Fourth National Development Plan

The third national development plan was followed by the Fourth National Development (FNDP) for the 1981 – 1985 period. The specific
objectives of this plan which included all the objectives of the third plan because of their relevance of the period include(d):

- increase in the income of the average citizen;
- more even distribution of income among individuals and socio-economic groups;
- reduction in the level of unemployment of the different sectors of the economy and its various geographical areas of the country; and
- increased dependence on our own resources in seeking to achieve the various objectives of society (FNDP 1985 – 1985:37).

This plan added the underlisted objectives to the ones it x-rayed from the third plan.

(xxiv) greater self reliance;
(xxv) development of technology;
(xxvi) increased productivity;
(xxvii) reduction in rural-urban migration;
(xxviii) promotion of new national orientation conducive to greater discipline, better attitude to work and cleaner environment (ibid and Okigbo op. cit., p. 72).

The Structural Adjustment Programme 1986 – 1989

There was a period of interregnum in the continuation of related periodic Annual Development Plan during which various reforms took place within the context of the Structural Adjustment Programme (SAP) and its objectives between 1986 and 1989. This period of interregnum during which SAP held sway led to the development and adoption of what was called a National Rolling Plan Strategy (NRPS) in the 1990s.
The First National Rolling Plan (FNRP) 1990 – 1992

The strategy of national rolling plan took its root from the structural adjustment programme. It dramatically deviated from the tradition of previous planning approach(es) in Nigeria. Specifically, the 1990 – 1996 National Rolling Plan document had the following objectives.

(i) attainment of higher levels of self sufficiency in the production of food and other raw materials;
(ii) laying a solid foundation for a self-reliant industrial development as a key to self-sustaining dynamic and non-inflationary growth, and promoting industrial peace and harmony;
(iii) creating ample employment opportunities as a means of containing unemployment problem;
(iv) enhancing the level of socio-political awareness of the people and further strengthening the base for a market oriented economy and mitigating the adverse impact of the economic downturn and the adjustment process on the most affected groups (FNRP 1990 – 1992:14).

There were various development plans though not in the same fashion within the context of periodic rolling plans throughout the military era until the commencement of the Fourth Republic in May, 1999. The pedigree of Development Planning in Nigeria showing the real Gross Domestic Product (GDP) growth rate since 1962 is synoptically depicted in table 1.
The pedigree of Development Planning in Nigeria as it affects her economy and its development has been summed up thus:

*The re-hashed colonial development policy era (1954-1996); the great age of central planning (1967-1975); the years of illusory development (1975-1985); the structural adjustment years (1981-1998), and the dawn of privatization and poverty reduction (1999 to date) (Mabogunje, 2000) and Nigeria common country Assessment (NCCA, 2001).*

Oladeji and Olusi’s (1996:9) analysis of the Planning process and its effects on Nigeria’s economy even though restricted to the period between the fourth National Development Plan and 1993 – 1995, was not different from the gloomy picture painted by other analysts and scholars. According to them:

*The period 1986-89, representing the interval between 1981-85 and 1990-92 planning periods was one of “planning recess”. It was no more than a period of experimentation with reforms which nevertheless*
culminated in the reform of the country’s planning system by the turn of the 1980s. Nigeria, as it were, resumed development planning in the 1990s when it formulated and executed the First National Rolling Plan 1990-92. As articulated in the plan document, the Plan’s philosophy took its hearing from the Structural Adjustment Programme (SAP). This was a novel departure from the traditional approach to planning in the country. In contrast to the Fourth National Development Plan (1981-85), the First National Rolling Plan (1990-1992) was prepared and executed under a military administration. But the expectation then was that the next cycle of the Rolling Plan (1993-95) would be executed by a democratic civilian administration which never was (ibid).

There is no gainsaying the fact that, in spite of these periodic Development Plans. Nigeria as a country is far from the promised land of economic benevolence or sustainable economic development. In fact, it is not out of place to opine that all the plans – (including the first four National Development Plans, the Structural Adjustment Programmes and the national rolling plan strategies and their Documents) – since independence have failed due to loss of focus and policy blindness to really launch Nigeria into economic and political prosperity. As Olaniyan et al (2001:59) rightly opined these plans have really failed to “launch the Nigerian economy into sustainable growth and development”. Given the foregoing, one needs to pause for a moment and ask the question: Why has this been so? Answers to this simple question are provided in the next section.
Why has this been so: Poor Practical Politicking and Policy Blindness

One does not have to search distractedly for answers to this simple question. The first answer has to do with poor practical politicking in Nigeria and its accompanying constant paucity of adequate, focused and well-implemented political and economic planning within her landscape. “Planning at virtually all levels of government in Nigeria (has been) basically done on ad-hoc basis with little regard to data and population variables as well as other (Political and Economic) variables” (Emphasis mine) (NCCA: 2001: xi). This among other reasons has led to the situation whereby:

Nigeria’s economic development still remains a paradox. The country is rich but the people are poor. The vast windfall from oil wealth has produced very minimal effect on the poverty situation, which has reached an alarming rate with about two-thirds of the population estimated to be poor. In short, the Nigerian economy, despite its vast resources, has not experienced the necessary institutional and structural changes that would guarantee rapid and sustainable growth and development, and acceptable minimum standard of living. The productive and technology bases, which form the prime movers of activities are weak, narrow, inflexible and largely dependent on oil, which earns over 97 per cent of Nigeria’s foreign exchange for
sustenance. Government as against the private sector still controls most of the non-oil economy and productive activities. Furthermore, the economy is still monocultural and dualistic with weak sectoral linkages. The informal sector, which constitutes a large segment of the Nigerian economy and has high potential for performance and growth, is largely neglected. For sustainable development to be achieved and poverty to be eradicated, government should focus its attention on providing consistent and appropriate macro-economic policy frameworks, strengthen coordination and providing basic infrastructure, while the private sector and civil society investing productive activities to propel the economy forward (Ibid: 74).

As a result of this, the Nigerian economy has remained under-developed and the quality of live of average citizen has worsened progressively with growing numbers of citizens below the critical poverty level (Ibid XV). Other factors/reasons for this include:

Poor and inconsistent macroeconomic policies, weak diversification of the economic base, gross macro-economic mismanagement, weak inter-sectoral linkages, persistence of structural
bottlenecks on the economy, high import dependence and heavy reliance on crude oil exports; long absence of democracy and the usurpation of political power by the military elite hopefully a thing of the past, lack of transparency and high level of corruption, declining productivity and low morale in the public service as well as implementation gap (Ibid).

Lack of consensus and/or unifocal perspective on National objectives, is another factor. This, in most cases, has caused decline in the nation’s economic growth rates and politically painful and sensitive trade-offs [“inherent in mixed economic systems”] like:

1. The choice between inflation or unsatisfied public demands for goods and services;
2. The choice between providing services through tax-supported bureaucracies or through market arrangements;
3. The choice between attempting to provide equal health, housing, and educational opportunities to all citizens or (in effect) rationing opportunities to those who can afford to pay for them; and
4. The choice between spending for national defence or spending to alleviate the hardship of the poor, the sick and the underprivileged (i.e. the dilemma of “guns vs. butter”) (Ibid).

A cursory look at Nigeria’s budgetary policies in recent times would reveal to liberated minds the state of the Nation’s economy vis-à-vis the foregoing trade-offs.
What are the Ways Out?

Given the foregoing, what are the ways out? What we perceive and can recommend as solutions to the problems currently rocking the Nigerian economy due to the faulty political agenda of the State are numerous. To start with, the major step to be taken because of its multiplier effects on the holistic politico-economic existence of Nigeria is the committed removal or avoidance of the defects in National planning. This has to be done in view of how such defects had made succeeding National Development plans to fail in the country even up to the era of rolling-plan perspective and now, in spite of the purported benefits of globalization.

Some of the defects which had occurred at various stages of Nigerian economic planning and, which had, in most cases, rendered them impotent as mechanisms for pursuing national agenda on economic and political fronts and, which have to be removed include:

(xxix) Target setting based on educated guesswork without detailed project studies

(xxx) Violation of planning rules by those who made them

(www) Inadequate/incomplete studies on plans

(xxxii) Erratic and non-coherent policies on the needed directive or policy focus of each plan.

(xxxiii) Payment of lip-service to plan discipline i.e. fiscal indiscipline, violation of sectoral allocations, Father Christmas spending philosophy.

(xxxiv) Corruption and its attendant capital flight which, combined, has consistently aided the truncation of the nation’s development of a self-reliant economy.

(xxxv) Non-recognition of higher-level management as an indispensable skill.
(xxxvi) Expansion of the public service without corresponding expansion of skills

(xxxvii) Paucity of statistical values that is, non recognition of statistical data as the indispensable basis of planning.

(xxxviii) Neglect of true Academics in the scheme of things based on their erroneous categorization as theorists.

(xxxix) Constant disarticulation in the progress reports of yearly or periodic national Development plans and, the need to constantly review existing plans.

(xl) Planning beginning and ending only on papers.

(xli) Lack of real commitment to free Nigeria from its status of a “trading-post economy” which president Obasanjo, as a Military Head of State, called it in 1977 during the launching of the first International Trade Fair in the country.

One of the things that need to be done to counter the multiplier effects of the problems already highlighted is a proper harmonization of the nation’s political and economic objectives. This is particularly necessary in view of the prevalence of government’s political and social ideologies which, in most cases depart from the premises of the citizenry. This call for unity of objective in line with the pulse of today’s international political economy and, its complexities, which, as a combination, compels the need for accelerated development and improvement of employment opportunities within the global village. Through this policy-determined hybrid of political and economic objectives, Nigerian economy can, and, would be put back on the path of equitable growth and, the nation, in addition to the avoidance of macro-political and macro-economic policy conflicts would be able to:
(xlii) Design sound development policies and ensure effective implementation.

(xliii) Design a sound and comprehensive poverty alleviation policy and programme for human poverty eradication.

(xlv) Identify the sectors that form the basis for sustainable economic growth and focus on them, for example agriculture, energy, mining and industry.

(xlv) Capacity enhancement for the informal sector which is plagued by low productivity and high poverty.

(xlvi) Appropriate debt management policy that will release foreign exchange for domestic investment.

(xlvii) Support the development of sectoral policies that will encourage capacity utilization, employment and increased productivity.

(xlviii) Support programmes that enhance national food security attainment, reduction in post harvest loss.

(xlix) Diversification of the economy.

Also,

(i) Promotion of small and medium scale enterprises and urban informal activities.

(li) Facilitate access to credit, productive resources and employment.

(lii) Promote the acquisition of appropriate technology.

(liii) Provide support for the acquisition of information technology.

(liv) Broaden the base for economic decision-making, involving the private sector. NGOs, CBOS and Civil Society.

(iv) Mobilise resources for priority development areas, and

(vi) Support the mainstreaming of gender into the development process.
Strengthen the coordination mechanism put in place by government at federal, state and LGA levels.

Support coordination among donors.

Support collection and analysis of poverty data.

Support programmes that guarantee fundamental human rights, protection of life and property; and

Support targeted poverty alleviation programmes (Ibid 73 – 74)

In addition to the foregoing, the unity of economic and political focus will aid the reformation of the public sector to become more effective, less wasteful, more transparent and accountable. This, in itself, will make it possible for the Nigerian Nation to identify and meaningfully pursue the underlisted challenges:

- Put in place appropriate macroeconomic policies and framework that will promote rapid industrial and technological development of Nigeria and support effective economic performance of all sectors.
- Increase participation of the poor in the economy through expanding employment, increasing their productivity and skills and widening their access to other productive assets.
- Empowerment and organisation of the poor to enable them participate effectively in social, political and economic processes.
- Targeting resources to programmes directed to the poorest localities and groups to improve their conditions.
- Devising appropriate social protection schemes to meet the basic needs of the poor, especially the handicapped, marginalized women and youth.
- Mobile and augment community, national and voluntary funds for anti-poverty programmes.
• Pay attention to the interlinkages of sustainable development and poverty reduction, emphasizing environmental protection and management.

• Strengthen collection of development indicators and gender-disaggregated statistics and consequent utilisation in socio-development planning.

• Strengthen the legal, political and institutional structure and coordination among government agencies, civil society and the business sector for poverty reduction; and

• Promote good governance and an efficient administrative and institutional support structure at both the national and local levels for the effective delivery and monitoring of social development programmes (NCCA, 2001:73).

Equally, “key political challenges of tension over the distribution of power and resources“, friction between legislative and executive branches of government”, “transparency in governance”, “religious contestations and regional groupings”, “sustainability of the democratic transformation” and “weak political party structure” (Ibid 50-51) among others, will become tactically manageable for effective governmental process and actions. There are varieties of things to be done in this regard as well. Our government must, to begin with, understand what the challenges of democracy are today in Africa, and, indeed, in Nigeria. As Kaunda (2003:1; 2) recently opined:

The challenges of democracy in African are great because of the nature of the continent, its people, and its history. Africa is a complex continent requiring complex solutions in order to enable a
democratic and fruitful life for its citizens to develop. Africa is not only the big continent it is, but has diverse cultures and experiences. At the same time, Africa has similarities.

Democracy and development are closely linked. We find that the ideal components of democracy, development, and peace are common in all these terms. Indeed, one is in the other. They are partial terms of the desired holistic state of human and world harmony.

Arguing further, Kaunda (ibid:2) claimed that:

Democracy is a living process. In general, all over the world, democracy is enhanced or constrained by systems and practices found in a society. Ideally, for progress, these systems and practices must also be working effectively, at all times, and in all areas of human endeavor. Democratic systems and practices should involve all institutions and sectors of society. Included are the legislature, the executive, judiciary, the media, business, and civil society. The more independent and thoughtful a sector is, the better for society. The quality of participation and
enjoyment of human rights in a society is affected by how integrated and active the members are with the systems and practices of that society. A measurement of democracy is also how a society responds to the view of its members who are trying to be involved in deciding the collective direction of their society in a critical point.

The government must consider many factors to be able to meet the challenges of democracy. These challenges according to Kaunda (Ibid: 3) include: “physical geography of the place”, “population and density”, “ethnic diversity”, “religion and spirituality”, “culture”, “language”, “colonial links”, “economic situation”, “political system”, and “people on the margins”. The issue of the “people on the margins” which is one of the factors identified in the immediate paragraph above is very important and relevant to the Nigerian political space and its administrative and economic landscape. Thus, our government must understand and continue to strive to do so because:

*Governance and democracy is affected by how many people on the margins become actively involved in society's affairs. People on the margins have gone onto those areas because social and governance systems have ejected them. They include women, the young, the elderly and people from ethnic groups not favored by others. The situation varies*
from culture to culture and from place to place. As in other parts of the world people on the margins are from various backgrounds, including those with disability and other special groups. Democratic practice requires the active involvement of all members of society (ibid: 4).

The essence of this position is that our government, to be seen as real and committed must, in the performance of their duties, recognize that democratic culture calls for the protection of the minority rights. This is particularly so, in that as Buendia (1994:373) once stated: “the outcome of economic vulnerabilities, induced by global integration, (usually becomes) a local economic conflict with ethnic color”. Kothari (1989:36), once advanced the reasons for this thus:

*Developmentalism as economism, has become a source of new economic vulnerabilities, and new inequalities. In multi-ethnic societies, where overlap has existed between religious and regional identities and economic functions, issues of economic insecurity and contradictions are very conveniently transformed by the elite into issues of ethnic, caste and religious issues.*

The problems of the Ogoni people and Niger Delta in the context of globalization can be understood within this perspective. Generally,
globalization has become a “threat to the poor rather than an opportunity for global action to eradicate poverty” (Obadina 1998:32). Arguing further, Obadina contends that the “concept of absolute freedom that underlies the rationale of globalization is the same notion” used to justify slavery and colonization. It is equally anchored on the “belief that the strong, however defined, should be free to exercise their strength without moral or legal limitations that protect the weak”. Thus, it is distinct from, positive freedom, which states that:

*People should be free as long as they do not deny the right and freedom of others.*
*People should not be at liberty to deny others freedom and basic rights. There must be limits on freedom otherwise the liberty of the powerful becomes the oppression of the weak (Obadina 1999:32).*

Given the foregoing, Obadina (Ibid) argued that the free-market undertone of globalization is anchored on “greed and ethos of winner takes all” and a “beggar their neighbor” philosophy irrespective of its seeming moral terms of freedom and, this, in itself, has increased the debt burden of most countries in Africa. He summed his position thus:

*Western relations with (the) undeveloped countries are not predicated on a desire to eradicate mass poverty but on the penchant to impose the free-market system founded on the notion of absolute freedom (Ibid).*
The foregoing is even more absurd given the fact that, these same western nations that are clamoring for respect for human rights and fundamental freedom are at the same time pushing for globalization and economic policies that encourage the abuse of these rights including the denial of the right to economic equality. The predicaments of the people of the Niger Delta (particularly Ogoni people) in Nigeria offer a case in point.

These predicaments are explicable within the context of the (deliberate) inability of the Nigerian government to equitably protect the interests and environment of the people of the Niger Delta particularly the oppressed Ogoni people from the rapaciousness of the forces of globalization (ably represented by the multinational oil companies). This is evident from the fact that oil exploration has negatively affected the environment of the Niger Delta and, the Ogoni people in particular, leading to a worsening socio-economic situation for the people. In fact, more than 2 million barrels of oil are explored from the Niger Delta daily (Human Rights Watch, 1999). Concretely put, despite the immense contributions of the Niger Delta capital, the area remains basically underdeveloped due to deliberate neglect and eclipsing from the rational policy agenda of the Nigerian state. The area continuously lacks basic infrastructural facilities such as good roads, schools, electricity, communications, hospitals and so on. In addition, oil spills have drastically affected the supply of portable water, leading to the high prevalence of water – borne diseases. Also, the impact of the exploratory and extractive activities of these global forces Shell whose operation in Nigeria alone accounts for 14% of its total global operations, Mobil, Agip, Cheveron, Texaco, Total, etc. have basically affected the social organization of the Ogoni people and the Niger Delta in general.
A manifestation of these negative impacts is the replacement of the traditional economy that was founded on fishing, farming and hunting for economic sustenance with a petrol-dollar economy. Thus, as the World Bank (1995) noted, the impact of oil exploration in the Niger Delta Area (particularly in the Ogoni Communities) by the force of globalization has decreased agricultural productivity and fishing in the areas, leading to the prevalence of poverty which was put above the national average. The attempts by the people of the Niger Delta and the Ogoni people to challenge the inhuman and mindless capitalistic wastage of their marine life and environment through series of mass protests and attacks on the forces of globalization have been smothered by the Nigerian State using the instruments of coercion, repression, intimidation and unjustifiable killing of the leaders of the oppressed. The unnecessary and avoidable supreme price through hanging which Kenule Saro-wiwa and eight other Ogoni environmentalists were made to pay in 1995 offers a useful explanation of the predicaments under reference here.

These inhuman measures were embarked upon ostensibly to continuously generate capital for developing needs, debts (re) negotiation and, to ensure that the process of capital accumulation is not altered against neo-colonial compradors (Turner, 1995). These developments have created renewed determination by the people to prevent further degradation of their eco-system hence, the constant conflicts between them and the Nigerian State on the one hand and, the multinational oil companies on the other hand. These conflicts and the predicaments of the Ogoni people continue to persist because the Niger Delta and its resources (oil) are significant to the existence of the Nigerian Nation and its economy. Oil has become and, largely remains the mainstay of the Nigerian economy, accounting for 25% of the Gross Domestic Product (GDP). 90% of foreign exchange earnings and more than 70% of budgetary expenditure (Ashton-Jones et al,
1998:135). It (oil) is the most strategic commodity on which Nigeria’s attempts at industrial capitalist development is dependent hence, the Nigerian State found it difficult to lose the resources to such agitations regardless of their rationality.

The determination of the Nigerian State to maintain the status quo in this regard, despite its accompanying problems of legitimation occasioned by domestic crises, depicts its rentier status and, relegation to the sphere of dependence on collection of – (externally realize) – oil rents for reproduction rather than engaging in productive service(s) (Obi, 1997). It equally depicts the continuous rapaciousness of the forces of globalization in their quest for the critical needs – (e.g. oil) – of the G8 Countries in the Ogoni area of the Nigerian polity. Indeed, the dominance of the forces of globalization in the midst of affluence.

Given the foregoing, to be able to deal with this kind of issue, the Nigerian government must understand the asymmetrical aspirations of the people in the democratic environment. This is particularly desirous of their understanding because:

Evidently, it is not simply diversity which is responsible for strives in view of the fact that divergent groups have existed had lived for centuries but conflicts did not reach the grandiose scale and intensity as it has attained in the age of post-industrialism. However, what is new in the current era of post-modernism are the processes involved which made cultural identity incompatible with diversity and made cultural identity a means to gain
economic survival and power. Ostensibly, the sharpened conflicts, not between classes as the Marxists expected but between ethnic grouping – one who holds political and economic power on one hand, and those marginalized who aspire to redeem their lost power on the other hand – are reactions against the centralism of the state which tries to homogenize the entire polytechnic society under a single dominant culture held by the power-wielders in order to effectively respond to the imperatives of world capitalism (Buendia: op cit 373-374).

Kothari (op cit: 16) further puts this into perspective thus:

Ethnicity is a response – including reaction – to the excesses of the modern project of shaping the whole humanity (and its natural resources base), around the three pivots of world capitalism, the State system and a ‘world culture’ based on modern technology, a pervasive communications and information order and a ‘universalizing’ educational system. The project of modernity entails a new mode of homogenizing and of straight jacketing the whole world.
The vehemence of the Ogoni people and others in the Niger Delta of Nigeria can, and should be understood by our professional public Administrators as the experts often used by the political Actors in dispensing public needs, from the “conception of the collective as a whole rather than a collection of individual” (ibid). This is particularly so, in that as Kothari (ibid: 41) further argued:

The regeneration of community, not as a collection of isolated individuals, but as interactive structures both internally and vis-à-vis each other, can become an important source of transformation by becoming the basis of collective reconstruction of the ‘whole’. It can become the source of alternative people’s security, where people derive protection, not from a militarized State but, through the creation of structures of mutual nurturance and protection within and across community spaces... (i) which the individual good derives its authenticity from a common good, and individual freedom is seen as freedom for all, not freedom at the cost of others.

More importantly, the Nigerian government, in our new democratic culture must understand that “the application of standards embodying the values of only one culture over the other cultures is indeed an affront to the latter” (Buendia, op cit). Thus, they should have at the back of their minds, the
need to redress some of the pitfalls of the fundamental assumptions of
democracy in the performance of their official duties because, as Clark
(1999:2) contends “democracies around the world are being swept by a
new form of politics guided more by issues than by traditional distinction
between liberal and conservative positions”. Concretely, there own
interpretation of democracy must understand the need, due to the increasing
complexities of our societies, to redefine the fundamental assumptions of
mass democracy. They should and must understand that democracy:

Must not only guarantee the democratic rights of
the majority but assure the minority of their
rights to differ from the majority. These are
without any obligation on the part of the former
to yield their rights and abide by the erosion of
identity and survival of ethnic groups. Otherwise,
the minority would simply be persecuted by the
majority The persistence of a mosaic of ethnic
groups who operate in accordance with their
own rules and perseveres in their legitimate
rights to self-governance either outside or within
the realm of the State is slowly giving rise to
“mosaic democracy” as distinguished from mass
democracy. Mosaic democracy appears to
correspond to the mosaics in the economy and
diversified or “de-massified” peoples needs and
political demands. (ibid: 382).

To be effective in the new democratic culture, our government
must, and, should do away with corruption and proclivities for it. It is
necessary for them to do this, because, corruption is a threat to democratic
culture. As Kukah (1995:96) once argued “corruption remains the most invidious obstacle to stability in Nigeria both under the military and civilians. Corruption is dangerous and inimical to the systemic existence of any polity. It is a socio-political, economic and moral malaise that may permeate and cripple, as a result of its contagiousness and malignancy, the nerves of any polity. It is “an intolerable characteristic” (Fullerton, 2000) that should be discouraged in governance because once it sets into any part, it automatically contaminates all the strata of that system’s multidimensional hierarchy in ways symmetrical to the spread of a bush fire (Akindele, 1995).

It has become severely endemic to public life in most, if not all the African States through its terminal contamination. Thus, as Odugbemi (2000) once opined: “corruption is a major problem in developing … countries”, a problem which diverts scarce resources away from development and eradication of poverty”. This has been largely so in African because the Continent has far too many “political dinosaurs”, tyrants” and “tropical gangsters” and, far too few states-men” as leaders (Goldsmith, 2000) whose proclivity for shabby political goings-on like the “bleeding of the national economies for personal benefits” is unequalled within the global political community. Its effects on Africa are, to say the least, incalculable. In fact, Africa, which President Clinton once described as “a continent with enormous potential”, is afflicted with the “devastating effects of corruption”.

These effects are detrimentally pronounced on her “social, cultural, economic and political foundations” as well as on her “economic and social development and efforts to eradicate poverty” (Kurata, 1999). This is particularly so, in that, as Afrigov (1995) once revealed “corruptions in countries like Nigeria, Sierra Leone, Ivory Coast, Zaire are legendary”. It should be stressed however, that, even though, as once opined, “African
countries have made significant progress in their fight against corruption” (Kurata, op cit), its hydra-headedness remains extremely problematic for effective and accountable governance in most African countries. This has largely remained so despite some African countries’ “public and firm stand against corruption at a global forum in Washington in 1999” (Kurata: ibid).

This trend will continue and Africa will never get far unless the problems of corruption which are manifestations of bad governance are addressed (Mule, 2000) and checkmated particularly at this point of the commencement of the twenty-first century because, as Wolfensohn (1999) once revealed, “Investors today… (prefer) to move their money to where the risks of corruption are less pronounced”. Not only this, corruption equally acts as blockade with severe consequences for aid assistance in that; perception in donor countries that corruption in the recipient countries sends their aid assistance down a black-hole is one of the greatest threats to future aid (ibid). The disturbing trend of corruption in Africa and, indeed, in Nigeria, is concretely reflected in the 1999 and 2000 corruption rankings by the Transparency International (TI) (Kurata, op cit). The rankings show that: Cameron remained at the bottom of the list as the country where government officials are perceived to be the readiest to accept bribes. Nigeria came close to receiving that dubious distinction (ibid). This, - (as it, specifically relates to the Nigerian case) – is corroborated by the USAID Report (2000) according to which Nigerians see corruption as very pervasive in the country. The report concretely showed that:

94% of those interviewed perceives some corruption, including 52% who believe that people “always bribe officials”. Almost three-fourth of respondents disagree with the statement that “bribery is not common among public officials in Nigeria”
Not only this, as once reported:

*Civil servants in Mozambique were (once) paid a total of $160 million in bribes, a sum amounting to 90% of (her) government’s budgets. Yet 98% of the country’s GNP comes from foreign aid* (Afrigov op. cit).

In fact, as a result of Corruption, and, its accompanying citizens perception of “state institution as systemically corrupt and unresponsive” (Charlick, 2000), coupled with the inability of most African leaders (particularly Nigeria) to see “good governance as central to development” and, flagrantly doing what they think is best for themselves rather than what is best for the masses (Goldsmith op cit) (7), many Nigerian have developed apathy to civic responsibilities. Consequently, the state in Nigeria (and, indeed,) in Africa) has: “failed to achieve (real) legitimacy in the eyes of majority of African citizens who are consequently forced to defend themselves by resorting to tribalism or clientilism” (Enemio, 1999).

This tends to confirm the “Gallup international 2000 Millennium Survey” (Kurata op. cit.) which showed that: “Where corruption is at its worst, disillusionment with democracy is (would be) at its best” (ibid). Through corruption, the “control of the state and access to it (in Nigeria), still ranks among the fastest avenues to private accumulation (of public capital and group betterment (PA-Net 2000). This bleeding of the nation’s economy for personal benefits had variously contributed to the leakage of capital from Nigeria for illegal deposit abroad. This, “misuse of executive official position to misappropriate public money (Afrigov op. cit) in itself, has created a virile political landscape for the “politicalisation of
corruption” which, as Vittal & Mahalingam (2000) once claimed; flourishes because of the need for ever increasing funds for political purposes”. In fact, as AAPS (2000) clearly articulated.

Corruption has become endemic to public life in most African countries where politicians and public servants at various levels of the state machinery have appropriated funds for private purposes.

This among other factors explains Wolfensolhn’s (op cit 16) claim that: Corruption is a severe problem in some poor … countries not because the people (as a whole) do not truly want integrity in public life rather, it (corruption) flourishes because conditions are ripe for it (ibid). One of such conditions, is “ethnic and financial loyalties” which according to BBC focus on Africa (2000) “have always dominated the Nigerian politics.” An example of this is readily found in the National Assembly – (during the first phase of Nigeria’s fourth Republic May 29, 1999 to May 29, 2003) – where the “members (in August, 1999) provoked (public outrage with their decision to award themselves US$30,000 each, just to furnish their houses which, they actually eventually did in flagrant disregard of the electorate to whom they were accountable and the need to “create transparency and accountability” in governance (Fullertion op cit). Generally, corruption has caused incalculable damage to “social and political development of Nigeria and, indeed, of most polities in Africa (Onoja, 2000). It has been particularly so in Nigeria because:

Corruption has a long pedigree and, as a Process, it has definitely threaten the existence of all governments ...
As a Phenomenon, (it) runs deep in the life-line of all previous governments and, is even prominent in the
present administration, - (referring to the first phase of the fourth (Republic) – whose functionaries played such key roles in the dark days of military dictatorship (ibid).

As a result of these and, the realization of its detrimental effects on the socio-political and economic growth and development of the Nigerian State, certain pedagogical, intellectual and research attentions had been paid to it in the past in ways symmetrical to a premonition of its holocaust effects on the fabric of the Nigerian society. These attentions, among others include(d) the annual conference of the Nigerian Anthropological and Sociological Association (NASA) of 1982, which chose as its theme “Nigeria: corruption in development”. “the 1989 United Nations International Conference on Corruption”, and the 1993 Centre for Advance Social Science (CASS) Seminar on Corruption” (Obadan, 19993, CASS, 1993; Yaqub, 1998).

It is sad, however to note that no concrete government policy outputs in Nigeria and other polities in Africa, had actually been realistically anchored on the recommendations of these various efforts relative to the reduction (if not total elimination) of this social cancer, its root causes, and, effects. Thus, its venomous potency is yet to relent in Africa and, particularly in Nigeria even at the commencement of this twenty-first century. In fact, its prevalence and fallouts had, in certain instances acted as trigger for political actions and challenges of the state by the civil society. The Nigerian government need to ask the question that; what can be done to free the nerves of Nigeria from the crippling manacle or shackles of corruption? Many schools of thought have attempted the provision of solutions to the problems of corruption in Africa and, indeed, in Nigeria. In the process, various approaches ranging from Religious, military, moral, patronizing and, minimalist to the materialist have been respectively identified as appropriate mechanisms for combating corruption in Nigeria
and indeed, in Africa. For instance, corruption, from the perspective of scholars of the materialist persuasion, is a criterion variable – (Olumhense, 1999, Akindele and Olaopa, 1997) – of the productive forces which among, other things include “the process of dealing with the multinationals (Moody-Stuart 1997). In other words, it gains vitality, and triumphs in a capitalist system even though, its demise too, also lies in the inherent internal contradictions of capitalism. In addition to this, it has equally been stated that the “right thing, whatever economic ideology one may uphold, is to “principally tackle corruption” and confront its devil locked in the engine of development”.

Given the above, and, the almost permanent elusiveness of appropriate mechanisms for combating corruption other than prescriptions that are yet to be really practically effected in Nigeria and, in Africa, it has been argued that “what is required in Nigeria and Africa to deal with the hydra-headedness of corruption is a development paradigm coupled with a democratic system of government based on good and accountable leadership that would be hardworking, responsive, responsible and unimpeachable (Martins, 1999), (Akindele & Obiyan, 1996), (Yaqub, op cit). And, that, this may be attained through the embracement and imbibing of the multi-dimensional syndromes of ethics ranging from that of honesty, hard work, service and knowledge to decorum in Nigeria (Awosika, 1999).

Not only this, the battle against corruption in Nigeria and Africa may achieve positive result, through: the cessation of seeing the “state as a primary source of private wealth” (Iseike-Jonah, 1995) and through visionary; accountable; and reconciliatory philosophy; encouragement of free expression; non-dissembled or feigned democracy; committed actions against autocracy and injustice; honesty of political actions; followership’s resistance of corruption and/or its temptations by learning to say no to
corrupt leaders(hip). In fact, the pursuit of the latter was once succinctly articulated thus:

*It is the people, the perennial victims of political predators, who must refuse cooptation and corruption and insist on justice – in (the) homes, communities. Local government areas, states, schools, colleges, universities, work places, etc* (the people must refuse to be carried away by the coated tongue or grease palm, and reject (the) perpetual assault on our common will and dignity as human beings and citizens of Nigeria. If we do not force those who rule us to tread the path of accountability and respect for the rule of law, we would continue in our present misery and sign a pact with eternal underdevelopment. Our fate is too precious to abandon to the whims of the (corrupt) politicians. Our rulers wasted the 20th century for Nigeria. We must not stagger into the next millennium with the same Sisyphean burden. (Osundare 1999) *(However, we have now staggered into the new millennium with the burden (emphasis mine).)*

Our government, to remain relevant cannot afford to discountenance corruption and its causal linkage or relationship with capital flight which as PA – Net (2000) noted involves:

*The leakage of capital from one economy to another in response to a number of factors, such*
as persistent corruption, lack of transparency and accountability and political instability. It could also be provoked by financial and fiscal distortions like high taxes, capital controls and exchange rate misalignment which operate as disincentives and make unattractive returns of investment in domestic economy.

In addition to our analysis of the contagious effect of corruption in this paper, it has been specifically articulated that

*Perhaps corruption, lack of transparency and accountability in the polity are the most important political factors accounting for the endemic nature of capital flight in many parts of the world. These factors thrive in non-democratic situations in which dictatorship holds sway. In Nigeria, the years of petro-dollars and military rule with their attendant lack of transparency and accountability multiplied the opportunities for graft. A lot of money, consequently, was siphoned abroad by the political leadership and corrupt officials who had access to foreign exchange and other plum perquisites of office (ibid).*

The need for caution on the part of the Nigerian government is further made more imperative in view of the fact that capital flight is caused by economic mismanagement and inefficiencies which PA-Net (ibid 3) claimed to have been very predominant in Nigeria because:
In Nigeria, the procurement procedures are loose leading to rather outrageously high project costs. This encourages the twin problems of over-invoicing of imports and under-invoicing of exports, and other corrupt practices like indefensible inflation of contract costs or termination and re-award of same contracts at will by public service officials. Policy inconsistency, high policy mortality and lack of policy credibility have also led to Nigerians not having confidence in their political and economic systems. The resulting inefficiency of the system in addition to the poor state of the country’s infrastructure make Nigeria a high cost economy. As a consequence, some wealthy Nigerians do not invest in the country and prefer to take their money outside.

For the Nigerian government to be able to do this, in our new democratic culture, good governance must be ensured because

Good governance involves minimization of corrupt practices, respect of contracts and the rule of law. The practice where government functionaries particularly political office holders revoke contracts at will without regard to due process tends to encourage corruption because such contracts are usually awarded to preferred clients often at higher cost. Making corruption uneasy by invoking the principles of inviolability of contracts
Fiscal stress should be managed in Nigeria for her to attain political, social and economic recovery. This recovery can be equally attained through a national road map that incorporates the already identified issues and strategies in addition to the following programmes which, in our view, are worth pursuing in the quest for fiscal stress-free public sector. These programmes include:

(i) Stakeholders forum/talk shop/conference where the over 374 nationalities that constitute Nigeria can come together and dialogue.

(ii) Transparency and accountability should form the basis of policy formulation and implementation in Nigeria.

(i) Issues of corruption (as earlier stressed) and poverty must be concretely addressed. The ICPC should be allowed to work instead of its current status of a mere political document. The two many loopholes in the statue books that allow crooks to escape prosecution should and must be blocked. Currently our judicial system is fashioned in such a way that it allows a camel to pass through the high of the needle with ease due to its porousness.

(ii) Government should provide enabling environment through workable basic infrastructural facilities for the smooth running of the private sector instead of its dabbling into such areas without the required expertise and needed painstaking commitment. The basic infrastructures in mind here, include good and motorable roads, energy supply (electricity and fuel), water, and, a clean environment. Government has no business owing shares in commercial banks.
(iii) Attempts should be made to recreate the middle class that was wiped out by the Structural Adjustment Programme. In other words, the gap between the rich and the poor must be bridged.

(iv) Job creation must/should be one of the priorities of the government. This will reduce the army of unemployed youths roaming our streets. In addition to this, government should assist those who can create jobs to do so.

(v) The secularism of the Nigerian Nation must be respected. That is, government must hands off religion because of its volatility.

(vi) Education as the greatest legacy that any nation can bequeath to her youths must be handled through holistically beneficial policy instead of the present half-hearted approaches. There is no gainsaying the fact that currently the Nigerian educational sector is in a state of coma. The concept of free education that has been bastardized in Nigeria to fool Nigerians due to their gullibility should be resisted. There is no doubt that free education is good only if government can afford to give it. The outcome of the stakeholders’ conference/meeting in Abuja in the year 2003 showed that the Government cannot afford to pay the bills alone. Our government can pay such bills if there is financial accountability and respect for sectoral allocations in the budgetary stipulations and if such sectoral allocations are done with the principle of free education in mind. In the alternative, good and living scholarship programmes should and must be put in place for brilliant students, loans can equally be made available for normal students who will normally pay back such loans. The establishment of private institutions at all levels as they presently exist is good but there must be adequate regulation and periodic review to regulate the fees payable from constantly becoming too exorbitant.
Budgetary recklessness and its accompanying fiscal indiscipline must be stopped.

Growth and development should be emphasized vis-à-vis the agriculture and manufacturing sectors of the economy.

The exchange rate of the Naira should be revisited with a view to propping up its value. Currently one British pound sterling is about N230 – N250. This is not good for an economy like that of Nigeria which is essentially import based to allow its currency to freely fall.

Health care delivery system in Nigeria is not good enough. This must be changed.

The issue of brain drain must be addressed. Even though, our succeeding regimes/government since the 1977 (the first regime of Obasanjo as the military head of state) through the second republic, the military leadership of Buhari/Idiagbon, Babangida, ING, Abacha, Abubakar and now Obasanjo, have all ignored this trend, it is a reality. The best brains, human resources are leaving this country for better living in properly focused and handled political economies all over the world. This continues to have its massive toll on the Nigerian labor market even though, it is a good exchange earner for those leaving the country.

Nigeria’s external debt must be reduced. Currently her external debt is in the region of about 30 – 33 billion US dollars. This high level of external debt is staggering. The debt was incurred due to political instability, civil-military-civil rulership cycle that has bedeviled Nigeria. For example, during the military era and, indeed, the second republic, most state governments became Island unto themselves or authorities on their own, taking external loans without the approval of the Central Bank or any Central authority. These unauthorized loans have been lumped on the federal
government. The only reason for these can be adduced to faulty political structure and apolitical politicking and, its usually accompanying slippery political landscape/political instability.

The issue of financial crimes should/must be painstakingly tackled by the government contrary to the current lip service being paid to it or the currency of chasing the shadow rather than the objects. The tendency in Nigeria is to scapegoat those who are not really the actors while leaving the financers to walk freely. This must stop to allow the existence of real nexus between politics bind economy in Nigeria.

**Conclusion**

The effects of politics on the Nigerian economy have been examined in this paper. As a point of departure the twin-concepts of politics and economy were analyzed. Using this as the signpost of our analytical focus, the concept of political economy as the conceptual hybrid of politics and economy was thoroughly discussed. In the process, the multiplier effects of the faulty practical politicking in Nigeria on her economy were identified. This was done within the context of its usually accompanying policy blindness and administrative ineptitude both of which as a combination, has wrecked havoc on the Nigerian economy to the extent that the latter, in spite of the currency of globalization, seemed to have been permanently boxed into a comatose state. Given this, we suggested possible ways out of the problems and their foisting of paralysis of will and permanence of hopelessness on the Nigerian state and her entire citizenry.
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CHAPTER V

NIGERIA’S ECONOMIC CRISIS UNDER THE MILITARY: THE PEDAGOGY AND ANATOMY OF MANAGEMENT MEASURES

E. J. C. Duru

Introduction

Our analysis is situated within the context of the country’s experience under military rule. The point is made that from 1967 to 1998, the various military regions which governed the country at one time or the other adopted a number of measures to resolve the economic crisis faced by the country, and that most of these measures were ineffective mainly because they failed to identify the root cause of the crisis, which may be traced to the perceived and/or real contradictions inherent in the capitalist system. For many decades, persistent and perennial albatross called economic crisis has beset successive Nigerian government’s (civilian and military). Various fiscal and monetary measures have been also instituted to contain it. However, what is routinely applied are stop-gap (cosmetic) emergency measures which, achieving some temporary statutory effect, do not address the root causes of the problem thereby leaving the country open to similar crisis in the future.

The root cause of the crisis is in the mode of production (economic system) which is interrelated with political, ideological, legal etc. systems (super structure). It is also dependent on the selfish interests of metropolitan manufacturers and consumers while totally neglecting even the basic needs of the Nigerian people. In the light of Nigeria’s present
democratic dispensation, any meaningful measure against the crisis should adopt a holistic posture and system approach management principles, in other words, a complete restructuring of all the systems tailored to the resources and the needs of the local populace. Nigeria’s economic crisis, defined by C. Nze (1987) as austere economic condition created by excessive selfishness, economic sabotage and lack of communal mindedness on the part of Nigerians and their allies has recently assumed an intractable posture, despite various government policies and programmes to ameliorate it. “The current crisis of the Nigerian political economy is not only pervasive but persistent. By all accounts and proportions, it is the most deep-seated and intractable crisis that has beset the country. For the first time, all sections of elite, public opinion, as well as the rulers and the ruled agree that the economy has failed not only to live-up to the popular expectations of improving the people’s quality of life, but also even to maintain existing standards of living” (Political Bureau Report of MAMSER Bulletin 1989, quoted in Nnoli 1993). “The economic system or mode of production is the material foundation of social life, particularly the legal system, the political system, the belief system and morality. Once the mode of production or the economic system is understood, we have fairly good idea of what the general character of other aspects of social system will be like” (Ake, 1981:13). It follows therefore, that any honest probe into what has become an incubus would definitely go beyond the recent vagaries of the crisis, which predates the post-independent Nigeria. Thus, it requires a comprehensive system approach to management in order to contain it.

According to Daniel Katz and Robert Kahn (1987) in their book, *The Social Psychology of Organization*, a system is characterized by different related and interdependent units which, when in interaction form a unitary whole. Since the economic system affects and is affected (directly
or indirectly) by other factors such as political system, belief system and morality etc, it follows therefore, that a holistic approach to the management of the Nigeria’s economy which incorporates all the interrelated units is inevitable. Within the purview of this exercise, is firstly, the definition of Nigeria’s economic crisis from the perspective of dependency theory. Secondly, is the history of Nigeria’s economic crisis under the military and the government management measures. Lastly, management, measure: shortfalls and suggestion for improvement. Nigeria’s economic crisis is a hydra-headed phenomenon fostered on the colonized and conquered people by contradictions of capitalism and perpetuated by the state and petty- bourgeois activities.

Dependency is “a situation in which a certain group of countries have their economy confined by the development and expansion of another economy to which their own is subject” (b) Dependency conditions a certain internal structure which redefines it as a function of the structural possibilities of the distinct national economies” (Dos Santos, 1970: 45, 48, quoted in Roxborough, 1979:66). In other words, Santos conceptualizes dependency as either a mode of production in dependent countries which is different from that of capitalism, or while the dependent countries have a capitalist mode of production, the articulation of the capitalist mode of production with other economies of advanced countries results in a different manner or function of that mode of production. This later view is corroborated by Uba, U. And Umezurike, C. (1993) who argue that though Nigeria had adopted a capitalist path to development, crisis has resulted by the continuous existence of pre-capitalist modes of production and bourgeoisie ideology including ethnicity, indiscipline, and other variables which distort the bourgeois ideology proper from operating and taking strong-hold in the society.
Moreso, “at different junctures in Nigeria’s history, the economy has been ravaged by crisis. This has already been the result of disruptions caused by either war, or the consequences of international economic depression; the later clearly emphasizing the dependent status of the Nigerian economy, which puts it at the mercy of the vagaries of business cycles in the West. The chief characteristic of these economic crises is the balance of payment disequilibria, brought about by a drastic reduction in the country’s export earning” (Aribisala, F in Ofomata and ikpeze, 1987:3).

Nigeria’s Economic Crisis under the Military

From, 1967 – 1970, Nigeria was embroiled in a civil war. There was the need to procure military weapons to prosecute the war. This put a lot of constraint on the government’s revenue, as the defence expenditure increased and a total of #300 million from the federal budget was used to prosecute the war without recourse to foreign loan. Although the federal government revenue from import duties increased from #57 million in 1967/68 to about #182 million in 1970, it was inadequate for defence spending, hence recurrent and capital expenditure on social and economic projects were drastically reduced. The federal government resorted to external borrowing from savings and cuts were made on social services and grant to states. All facets of economy were affected. There were substantial damages to the existing social and economic infrastructure. Roads, railways, airports were damaged and exports of agricultural products such as palm oil, palm kernel and groundnuts were severely affected. Petroleum prospecting and production, both on-shore and off-shore, were disrupted, as the Port Harcourt refinery was closed down due to the war.
The government management responses to these developments were (a) Treasury bills were raised from 40% to 50%, (b) Exportation of certain essential domestic products particularly food were put on licence. (c) Super-tax was imposed on company profits and exports licensing was extended to non-essential commodities; (d) Finally, there was an introduction of new currency note, designed to avert speculations on the embattled Nigerian pound/sterling. (e) Protection of the balance of payment position of the country through stringent imports controls, custom duties, and prohibition of repatriation of profits and dividends by manufacturers, (f) Wages were forced and held down, in order to control inflation and credits to private investors were scaled down. Between 1977/78, (Obansanjo’s military regime) the nation was once again in deep economic crisis owing to dwindling external finance and export revenues. Oil had been discovered in Alsaka, Mexico and the British North Sea, therefore, the United States, a principal buyer of Nigeria’s oil cut purchases, thus reducing the nation’s external finance. Oil production fell from “2 million barrel a day in 1977 to between 1.5 a day throughout 1978” (Barclays Bank, Overseas Review, March 1970, quoted in Ofomata and Ikpeze, 1987:89).

Moreso, food import increased because of the disruption during the civil war and increased reliance on oil rather than food production. Government response to this latest economic crisis was (a) Reduction in recurrent budget from 3.1 billion in 1977 to 2.8 billion in 1978. (b) It negotiated and obtained the first huge external loan in recent times, called Euro-dollar loan, totalling $1 billion for financing certain social and economic projects. (c) And in the later part of 1978, a second “jumbo loan” of $1 billion (which was later oversubscribed at $1.2 billion) was negotiated, bringing the total indebtedness of the country in the Euro-dollar market to about $2.2 billion (The Nigerian Chronicle editions/January 1,
1979:7, quoted in Afomata/Ikpeze p. 10). (d) More fiscal measures were introduced. Imports and excise duties were reviewed upwards; company taxes and development fares were increased. There was also a ban on certain ‘non – essential’ imports, such as textiles, foot-wares etc. In 1984 – Buhari’s regime was also caught up in the same quagmire of economic crisis. Being a military regime, it even took more drastic measures to correct the problem; namely:

(a). It dismantled the high cost of presidential system of government and retrenched public servants, in an effort to reduce the government’s monthly wage bill.

(b) It impose wage freeze on the nation’s emasculated work force, and abolished free education introduced by the U.P.N. (Unity Party of Nigeria) government in its sphere of influence.

(c) It proscribed the procurement of external loan by state governments.

(d) All items were place under import licence, basic travel allowance was pegged at N100 for both private and business visit abroad.

(e) A change in the colour of the naira was affected to check speculations on it, as well as to mop up excess currency in circulation

The economy was so battered by the politicians that Buhari’s stringent management measures could not help except external loan was procured. However, the inability to meet the IMF (International Monetary Fund) conditionalities of trade liberalization, removal of petroleum subsides and devaluation of the naira as well as strong domestic resistance to the loan made it impossible. The Babangida government which came on stream on August 27, 1987 adopted a Structural Adjustment Programme (SAP) in July 1988 to serve as a medium-term policy package for Nigeria’s
economic recovery. The programme was distinguished by its emphasis on the reduction of state controls and reliance on market mechanism.

“The Babangida regime was guided by the desire to promote efficiency and long-term growth within the context of stabilization and the country’s balance of payments.” The main objectives of SAP were:

1. To restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and on imports.
2. To achieve fiscal and balance of payments viability over the period of 1986 – 1988
3. To lay the basis for a sustainable, non-inflationary or minimal inflationary growth, and
4. To reduce the dominance of unproductive investment in the public, improve that sector’s efficiency and enhance the growth potentials of the private sector” (Okongwu Chu, S. P., 1987: 4-5).

To achieve these objectives, the following were government measures:

1. Further strengthening of the already stiff demand management policies in the economy.
2. The adoption of measures to stimulate domestic production and broaden the supply base of the economy.
3. The adoption of a realistic exchange rate policy through the establishment of a second-tier foreign exchange market (SFEM)
4. The rationalization and restructuring of the tariff regime in order to stimulate industrial output and promote industrial diversification.
5. The reduction of complex administrative controls and greater reliance on “market forces”
6. Progressive liberalization of trade and payments

7. The adoption of “appropriate” pricing policies for public enterprises.

8. The rationalization of public sector enterprises through a programme of commercialization and privatization.

9. Reducing the country’s external debt burden and attracting a net flow of foreign capital, while keeping a lid on foreign loans” (Olukoshin, 1990: 139).

SAP, heralded as much as it was derided brought temporary boom in the incomes of Cocoa farmers, as well as the number and profits of banks and other financial institutions. Hitherto poorly managed government- owned companies especially banks were passed on to private owners who would manage them better. But the monster created by the deregulation of trade, exchange and interest rates nearly choked the economy to death. Cost of funds became prohibited to investors, foreign inputs and equipment became unaffordable while inflation became untameable.

From 1993 – 1998 the late Abacha military junta insisted through then finance minister (Chief Ani) that the choice of the policy of guided deregulation was influenced by the history of economic management efforts in the country and the experience of some of the more successful countries. Moreover, he stated thus:

As people who have witnessed the several unsuccessful attempts to build a market economy in the country particularly the immediate post-independence (1962-1968) attempts to nurture private enterprise and the more recent (1986-1993) attempts at economic deregulation and structural adjustment, we believe that
a policy of guided deregulation is what we need to achieve our objectives of economic prosperity

Despite the aforesaid pronouncements, recent revelations on that defunct junta’s economic performance indicates perhaps the worse kind of hypocrisy and travesty of justice. In other words, while his failed bank tribunals were busy hauling mainly southern bank managers into jails, the head of the junta, his family and herdsmen were equally busy hauling their loots into foreign vaults. They preached prosperity and practiced pillage. Their idea of guided deregulation soon became guided economic dereliction and the Nigeria’s economy got worst for it. Ostensibly, under the Late Abacha’s regime, the picture painted particularly in 1993 was horrendous. The growth rate of the GDP slowed down to 2.9 from 3.6 percent in 1992 and 5.1 percent in 1991. The balance of payments which showed “surplus” amounting to 7.8 percent in 1990 recorded a deficit amounting to 1.8 percent of the GDP in 1991. The only small surplus recorded in 1993 was because the nation’s external debt obligations were not met. Industrial capacity utilization fell from 37 and 35.4 percent, respectively, in the first and second halves of 1993 to less than 25 percent in the first half of 1994, while inflation rate rose to nearly 60 percent in 1993. In other words, on virtually all the indices, the outlook was rather sobering.

In addition, it is noteworthy, that this ugly trend continued even during the erstwhile Abdulsalami Abubakar’s eleven month old military administration. In fact, it was during his last days in office that the nation’s foreign reserve suddenly dropped from $7 billion to about $4 billion. Moreso, his military administrators looted their states’ treasuries, oil exploration and lifting licenses were shared among top military brasshats, while clandestine attempt to hurriedly privatize government parastatals hit
a brick wall owing largely to the hues and cries of the public, media organizations and then in-coming PDP administration.

Management Measures: Shortfalls and Suggestions for Improvement

Nigeria’s economic crisis has its root in the mode of production imposed on the nation by capitalist-imperialist inspired colonialism. Since economic system or the mode of production is interrelated with other aspects of social life, such as political, legal, ideological system etc. (super structure), It affects and is affected by them directly or indirectly. “... the symptoms of the crisis indicated quite clearly that the root causes of the country’s economic problems could be traced to the contradictions inherent in the capitalist system” (Olukoshu, A. 1990: 135). Therefore, in the light of the present democratic experiment, any meaningful management measures should aim at attacking the root causes of the problem. In other words, there should be restructuring of the mode of production (economic system) as well as the super structure (political, ideological legal systems etc) to reflect linkage with the desires and aspirations of the indigenous population. In consonance with the views of Bangura, Y. (1984) corroborated by Nnoli, O. (1993), the following recommendation are advanced:

a. There should be linkage between local resources and the external raw materials in the nation’s manufacturing sector. This will help evolve life-transforming technological orientation for the populace.

b. Priority should be given to manufactured consumer goods and the basic needs of the Nigerian people, local manufacturing should be less dependent on external trade for machinery, technology, management skills and to a large degree raw material; with more input from internal interaction.
c. There should be change in outlook and behaviour of the Nigerian leadership. As role models to the local populace, they should prefer facilities within the country such as holiday resorts, business contacts, personnel, bank facilities and employment to those available abroad.

d. There should be vibrant economic exchanges between various areas of the nation. Instead of salient economic exchanges which presently exist between Nigeria and the advanced capitalist societies of Europe and America, more concrete exchanges should also be encouraged between Nigeria and other Africa countries particularly south Africa.

e. Organic link between agriculture and industry using indigenous science and technology is recommended. This will reduce influx of migrants from the rural Nigeria to the urban areas, unrelated to increased productivity in agriculture.

f. Finally, the legal system should be restructured to incorporate local belief (political, economic, religious etc.) in arbitration and/or adjudication processes. This should reduce the number and the duration of court cases. Laws should be enforceable regardless of the persons involved, and justice should not only be done, but seen to have been done, promptly.

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CHAPTER VI

WHAT DETERMINES THE CHOICE OF THE EXCHANGE RATE REGIMES IN NIGERIA?

Tokunbo Simbowale Osinubi and Lloyd Ahamefule Amaghionyeodiwe

Introduction

The formulation and conduct of Monetary and Exchange Rate Policy is an essential part of the macroeconomic policy framework in most developing countries. Low inflation and international competitiveness have become the desirable targets in these countries. The importance of monetary and exchange rate policies is renewed by the current reforms which entails among others the liberalization of the financial markets and ensuring positive balance of payments. The choice of the exchange rate regime to implement by an economy is determined by many objectives. However, once the choice is made, it is expected that the authorities concerned will adjust the fiscal and monetary macroeconomic policies to fit the chosen exchange rate policy. Furthermore, once the choice of exchange rate regime has been made, the flexibility or independence of monetary policy will consequently be determined.

The choice of an exchange rate regime is linked, to some extent, to the attainment of specific targets set by the monetary authority. Most times, these targets are related to internal and external imbalances. Hence, a correlation between the choice of the exchange rate regime and real output, prices, and balance of payments stabilization is expected. For instance, when the aim of the monetary and fiscal policy is to stabilize the balance of payments it is desirable to adopt a flexible exchange rate system. This will help overturn any current or capital account disequilibrium. This notwithstanding, the degree of capital mobility and foreign reserve
constraints has to be considered (that is, the Marshall-Lerner conditions). When the aim is to stabilize domestic prices, then financial discipline has to be adhered to. It is believed by many economists that the exchange rate can be used as an anchor for financial stability since it is one price of the economy. In respect to financial discipline, a fixed exchange rate imposes a degree of financial discipline by discouraging recourse to inflationary finance (León and Oliva, 1999). On the contrary, proponents of exchange rate flexibility argue that the choice of a fixed exchange rate would only cause financial crises and consequently continuous devaluations. Lastly, when the aim is real output stabilization, the role of the exchange rate regime is largely viewed as a shock absorber. That is, the variability of real output is affected by diverse economic instability and the choice of the exchange rate regime is used to spread these effects. Therefore, the choice of which exchange rate to adopt will depend on the nature of the shocks as well as the structural characteristics of the economy such as degree of openness, degree of capital mobility, degree of wage indexation, and degree of development. Using secondarily sourced data from 1960 to 2000, the study investigates the determinants of the choice the exchange rate regime in Nigeria using a time series approach. The use of this approach aims at overcoming the limitations of the cross-section approach. And like León and Oliva (1999) opined, the time series approach is based upon the assumption that the choice of a regime is better explained by the past and present evolution of the economy rather than by certain conditions at a given moment while the cross-section approach is based upon the assumption that policy makers would not change the regime until the long term benefits would exceed the cost of the switch. This would imply that there is some inertia in regimes that will be better captured by a time series analysis. By using a time series approach, we regard the regime choice as a medium term decision that marginally depends on short span indicators.
The study is divided into five sections. Section one is the introduction while the second section contains a brief review of the literature. Section three discusses the exchange rate policy in Nigeria while section four describes the methodology and empirical findings. Section Five concludes the study.

**Brief Review of the Literature**

The issue of exchange rate is has been prevalent in the literature. Real exchange rate is said to be a very important relative price in the economy. This is because changes in the real exchange rate influence foreign trade flows, the balance of payments, the level and structure of production and consumption and therefore employment, the allocation of resources in the economy and domestic prices (Khan and Lizondo, 1987). Real exchange rate is perceived as an important mechanism for transmitting trade shocks to changes in the current account.

Many economists have shown the important role played by real exchange in facilitating the adjustment process in low-income economies. Some of these studies include Edwards (1989, 1994), Elbadawi (1989), and Kiguel, (1992). Edwards (1989, 1994) argues that in the short run, real exchange rate responds to both real and monetary disturbances and that in the short run, inconsistently expansive macroeconomic policies will generate a situation of real exchange rate misalignment that is overvaluation. Likewise, Elbadawi and Soto (1994) illustrated that under a pegged nominal exchange rate; expansionary fiscal and monetary policy can be a cause of persistent real overvaluation. It was the conclusion of these studies that a proper alignment of the real exchange rate is a major determinant of economic performance. Conversely, severe macroeconomic disequilibria and balance of payment crises in the developing countries are
also often cited as the direct consequence of real exchange rate misalignment (Edwards, 1989 and Dornbush, 1982). A study by the World Bank (1984) concluded that overvalued exchange rates in African countries led to dramatic collapse of the agricultural sectors. This is because overvalued exchange rates undermine overall export and agricultural performance. Also, Fosu (1992) has shown that the dismal performance of agricultural exports in Ghana could be explained by the trend of the real exchange rate during the post 1960 era.

Kiguel (1992) argues that the exchange rate regime has limited effect on the real exchange rate and only affects it in the short run due to rigidities in domestic prices and wages. In his study, Calvo et al. (1995) argued that the steady state real exchange rate is independent of (permanent) changes in monetary policy. They opined that this result depends on the fact that there is no direct steady state link in theory between inflation and the real exchange rate so that monetary shocks are related to real exchange rate misalignment. In the long run, De Graauwe (1994) concluded that the correlation between money supply and the nominal exchange rate is relatively strong but tends to be lost in the short run.

Asea and Reinhart (1995) focused on the effects of capital inflows on the real exchange rate and interest rate differential and on monetary policy response. This is a phenomenon that has been common in Latin America and Asian countries, and studies in this area have been on the responses of exchange rate and monetary policy to increased capital inflows and what should be the optimal exchange rate management. Other studies in this area are Khan and Reinhart (1995) and Schadler et al. (1993). Despite the role exchange rate in an economy, Aghevli et al. (1991), stated that the choice of exchange rate regime, is however dependent on several other factors. These factors include the objectives
pursued by the policy makers, the sources of the shocks hitting the economy and the structural characteristics of the economy. The basic argument is that, whatever the objectives that determine the exchange rate regime, the authorities are presumed to adjust their domestic macroeconomic policies (especially monetary and fiscal policies) to fit the chosen exchange rate policy. The exchange rate regime consecutively determines the flexibility of the monetary policy pursued.

Various regimes have been reviewed in the literature. These include the extreme regimes, (the fixed exchange rates), complexity free float, intermediate regimes (adjustable or crawling peg and target zones/crawling bands). There are a number of theoretical arguments and experiences about the relative stability of the exchange rate under these regimes. However, the choice of regime has great implications for the monetary policy of a country. Most of the empirical studies advocate that small open economies are better served under a fixed exchange rate regime (Nnanna, 2000). In their separate studies, The World Bank (1997) and Flood et al (1989) suggested that the less diversified a country’s export and production structure and the better for that economy to adopt a flexible exchange rate. Consequently, policy makers adopt a fixed exchange rate regime in the hope of gaining credibility neither fight against inflation (Nnanna, 2000). He however, maintained that while fixed exchange rate regime may provide price stability, it undermines policy flexibility, which can have serious implications for internal and external balance. The effect of various random shocks on the domestic economy is another major concern with respect to the choice of an exchange rate regime. Hence, Nnanna (2000) opined that the optimal regime is that which ensures macroeconomic stability. Generally, it is believed that when the source of macroeconomic instability is primarily endogenous, an exchange regime has a
greater degree of fixity is ideal. But if the macro-economic instability is largely exogenous in nature, then a flexible regime is favored.

Precisely, a fixed exchange rate regime involves the pegging of the exchange rate of the domestic currency to a reference currency. By implication, there is the tendency that monetary discretion may be lost. Thus, Nnanna (2000) opined that a fixed exchange rate regime has become increasingly hard to defend in a globalized financial market as the recent Argentine experience demonstrates. For the floating exchange rate regime, it entails that the lazzes faire method (that is, forces of demand and supply) will be used to determine the exchange rate. A floating exchange rate regime do not only serves as a "shock absorber" for external shocks, it also allows monetary policy makers to full discretion in the manipulation of monetary aggregates. As a result Nnanna (2000) stated that the greatest benefit of the floating regime is monetary policy independence (defined in terms of a country’s ability to control its monetary aggregates and influence its domestic interest rate).

Exchange Rate Policy in Nigeria¹

Exchange rate regimes are different systems of managing the exchange rate of a nation’s currency in terms of other currencies. The major regimes are the freely floating, rigidly fixed exchange rate system and the hybrid systems. The Hybrid system is the resultant variants arising from the combination of the two extreme exchange rate regimes. This is because in real life, a freely floating or a rigidly fixed regime is impracticable. In general, the optimal management of the exchange rate depends on the policy makers’ economic objectives, the sources of shocks to the economy, and the movement in major macroeconomic aggregates.

¹ This section borrows substantially from the Central Bank of Nigeria Brief (1998).
As a result, it is difficult to define a system that might be effective and optimal at all times. When economic conditions change, the suitability of the existing system may be called to question, thereby necessitating the need for change.

While a fixed regime guarantees stability in decision-making process, a flexible system tends to be volatile and unstable, although it tends to transmit external shocks across borders. However, a floating rate does not on its own guarantee the prevention of external shock to the domestic economy. Also, floating exchange rate is not necessarily self-equilibrating, as recent experiences have shown that reserves are needed for desirable adjustments. Note that the problems associated with fixed and flexible exchange rate regimes usually prompt countries to adopt a combination of the two.

The hybrid system, which is a combination of the fixed and flexible regimes, is of different forms namely:

**Adjustable Peg System:** This system is based on an assumed par value that defines upper and lower limits of fluctuation from a central exchange rate. Although such upper and lower levels are defined, they can be altered as the balance of payments position changes. Destabilizing speculation may also affect exchange rate stability, necessitating the alteration of the limits.

**Crawling Peg System:** The crawling peg or the system of “sliding or gliding parities” was developed to avoid the problem of relatively large par value changes to correct external imbalances and destabilizing speculation. Under this system, the authorities can undertake programmed or step-devaluation instead of a once and for all approach to alter the par value so as to restore external balance.
**Managed Float:** The managed float involves some form of official intervention to smooth the path of exchange rate when it overshoots the desired level. This is contrary to the pure float that allows the market forces of demand and supply to dictate the movements in the exchange rate. For the managed float to operate the system successfully there must be a large pool of reserves to draw from, whenever necessary. Insufficiency of reserves is a major constraint to the successful operation of the managed float variant and has often resulted in the specification of bounds within which the managed float system should operate. The advantage is that it is relatively stable as in a fixed system.

Consequently, the main objectives of exchange rate policy in Nigeria are to preserve the international value of the domestic currency, maintain a favorable external reserves position, and ensure external balance without compromising the need for internal balance and the overall goal of macroeconomic stability (CBN, 1998). The exchange rate policy pursued at any particular point in time is positively correlated with the intended objectives to be achieved by the authorities. In a fixed exchange rate regime, the authorities, in many instances at an overvalued level, fix the rate. This is to attain some perceived objectives such as stabilizing the inflation rate through cheap imports. The rate could also be fixed at an undervalued level as part of policy mix of export drive.

However, since the authorities do not normally respond quickly enough to economic fundamentals, as would the market, the rate sooner than later becomes unrealistic. This usually happens when the expected tight stance of monetary and fiscal policies that should support the fixed exchange rate does not materialized. Invariably, the authorities end up exhausting all available reserves, inflation soars while a parallel market emerges and blossoms. Eventually, the rate is devalued to bring it in line with economic fundamentals. In a floating regime, the determination of the
exchange rate is left to market forces. The slippages in monetary and fiscal policies are reflected in exchange rate changes. Under a managed exchange rate regime, the exchange rate is adjusted to compensate, often belatedly, for changes in some fundamental such as inflation, the terms of trade and some other perceived factors.

**Structure of Nigeria’s Foreign Exchange Market**

The Nigerian foreign exchange market is made up of three major segments, the official, autonomous (made up of the inter-bank and bureaux de change) and the parallel markets. The various segments of the market evolved over time and emerged due to developments in the economy that warranted their debut. The official foreign exchange market, the largest and predominant segments of the market, has remained one and has been in place through the period of trade and exchange controls when the 1962 Exchange Control Act held sway: The official foreign exchange marker has also metamorphosized over the years. Since the institution of a regime of exchange and trade liberation in 1986, the market has witnessed tremendous changes. From the Second-tier Foreign Market (SFEM) in September 1986, the unified official market in 1987 when exchange rate for public sector transactions was aligned with the commercial exchange rate, up to 1995 when the Autonomous Foreign Exchange Market (AFEM) for the direct allocation of foreign exchange to end-users buy the CBN was established, the official market has evolved from a single to a dual exchange rate system. During this time, the market operates two exchange rate systems, a fixed exchange rate for priority public sector for priority sector transactions and a market-based exchange rate for private sector and other non-priority public sector transactions through the Autonomous Foreign Exchange Market segment.

The inter-bank market for free funds or privately sourced foreign exchange was not apparent when foreign exchange was centralized in the
CBN through the 1962 Exchange Control Act. However, the market came into life and became vibrant with the introduction of the Second-tier foreign Exchange Market and the permission granted to the banks by the CBN to affect foreign exchange dealings among themselves. The sharp practices that emanated from the system, in the form of round-tripping of funds leading to persistent instability in the exchange rate, informed the merger of the official Foreign Exchange Market and the Inter-bank market in 1989 into an enlarged inter-bank Foreign Exchange Market (IFEM). Thus, the inter-bank market was outlawed. The bureaux de change were established with the abolition of the inter-bank market in 1989 to accord access to small users of foreign exchange and enlarge the officially recognized foreign exchange market. Exchange rates in the bureaux de change are market determined. With the introduction of the AFEM in 1995, the banks were once more allowed to engage in inter-bank dealings with only privately sourced Foreign Exchange.

The parallel market for foreign exchange has been in existence from the exchange control era. The disparity in exchange rates was even greater in some of the periods before Nigeria’s economic reforms. The renewed interest in the market is found on the quest for windfall gains associated with the instability and upward pressures that the market generates occasionally. The parallel market is a residual market as it accommodates spillover demands from other sources. It has been established that scarcity in the official sector and bureaucratic procedures necessitates the growth and development of the parallel market. Although transactions through it are limited and small, its speculative tendencies when well monitored and built into the general framework for foreign exchange and exchange rate management world result in a more effective and efficient system. In any foreign exchange management framework, whether in developed or developing economies, speculation, arbitrage,
hedging, and portfolio switching are important elements in gauging the health and development of the foreign exchange market and, by extension the financial system.

**Exchange Rate Regimes in Nigeria**

Exchange rate regimes applied in Nigeria have traversed two main mechanisms namely: the fixed and flexible regimes. Between 1960 and 1986, the fixed exchange rate system was in operation. The inability of the system to achieve the major objectives of exchange rate policy led to the reversal of policy in September 1986 with the floatation of the Naira under the Structural Adjustment Programme (SAP). The flexible system continued until January 1994 when the fixed exchange rate system was reintroduced with the pegging of the naira relative to the US dollar. In 1995, the exchange rate mechanism was deregulated with the adoption of the Autonomous Foreign Exchange Market (AFEM).

**Fixed Exchanged Rate System Era**

From 1962 to 1973, the Nigerian currency was pegged to the pound sterling on a 1:1 ratio before the latter was devalued by 10%. Thereafter, the currency was allowed to move independently of the sterling. Also, the Naira was appreciated progressively to source imports cheaply to implement development projects. This enhanced the reliance on imports, which eventually led to the depletion of external reserves. By 1981, there was a gradual depreciation of the naira against the US dollar and/or the pound sterling based on whichever, was stronger. This gradual depreciation policy, however, could not sufficiently reverse the sustained pressure on the external sector. In 1978, the CBN applied the basket-of-currencies approach as a guide in determining the exchange rate movement. The exchange rare during this periods was determined by the relative
strengthen of the currencies of the country’s trading partners and the volume of trade with such countries. Weights were assigned to countries’ currencies with the dollar and sterling dominating in the exchange rate calculation.

The Dual Exchange Rate System Era

With the introduction of the Structural Adjustment Programme (SAP) in 1986, a flexible exchange rate mechanism was adopted with the floating of the naira in the Second-tier system; market forces largely determined the exchange rate. Although these forces were expected to produce a clearing price as the basis for the allocation of foreign exchange, the monetary authorities still had the power to intervene in the market when necessary. Such intervention depends on the state of the balance of payments, the rate of inflation, domestic liquidity, and the employment situation. Within the basic framework of market determination of the naira exchange rate, various methods have been applied and some adjustments carried out to fine-tune the system.

At the commencement of the SFEM, a dual exchange rate for the allocation of foreign exchange was adopted. Pre-SFEM or transitional transactions, debt service payments, contributions to international organizations, and expenses of Nigerian embassies were excluded from the SFEM and settled at the first-tier rate. The second-tier rate was determined by auction at the SFEM. At the first two sessions of the SFEM, the average of successful bids of authorized dealers was used to determine the exchange rate. Allocations were made to banks on pre-determined quota basis. Owing to the downward trend of the nominal exchange rate, the average pricing method was abandoned in the auction and the marginal rate was adopted.
Under this method, the last successful bid determined the clearing price, which was also the ruling rate. However, the method did not succeed in entrenching professional discipline in the system as the bindings appeared unrelated to market situations. As such, the Dutch Auction System (DAS) was adopted in April 1987, with an aim of introducing professionalism. Under the DAS individual bank bid rates were used to allocate foreign exchange. The system, however, created the problem of multiplicity of rates, which resulted in the further depreciation of the naira.

The Unified Exchange Rate System

In July 1987, the first and second-tier markets were merged into an enlarged Foreign Exchange Market (FEM). Under FEM all transactions were subjected to market forces. The merger increased demand pressures and contributed to the persistent depreciation of the naira between July and November 1987. In 1988, the inter-bank market where banks were allowed to transact official foreign exchange business among themselves was separated from the official market. Subsequently, an autonomous market for privately sourced foreign exchange emerged with its interdependent rates. The autonomous market rates depreciated continuously, necessitating its subsequent merger with the FEM to form the Inter-bank Foreign Exchange Market (IFEM) in January 1989. The exchange rate in this market premium was reduced substantially.

The exchange rate under IFEM was determined through one or more of the following methods: marginal rate pricing, average rate pricing, highest and lowest bids, weighted average pricing, average of successful bids and consideration of developments in the exchange rate of major international currencies. To further reduce exchange rate instability, the CBN modified the inter-bank procedures in December 1990 when the DAS
was re-introduced. In August 1991, the modal weighted average method of exchange rate determination was introduced. Under the new system, the rates tending towards the mode were applied to determine the market exchange rate. This method was designed to reduce wide fluctuations in the exchange rate.

**Completely Deregulated Exchange Rate System**

The parallel market premium was becoming increasingly high, reaching 79.2% in February 1992, compared with 20.0% in 1990 and 35.5% in 1991, as against the conventional limit of 5.0%. As a result of the persistent instability in the foreign exchange market, the CBN adopted a completely deregulated system of foreign exchange trading on March 5, 1992. Under the new arrangement, the CBN bought and sold foreign exchange actively in the market and was also expected to supply in full all requests for foreign exchange made by the authorized dealers. The aim of this new mechanism was to narrow the parallel market premium and enhance the operational and allocative efficiency of the foreign exchange market. In pursuance of these objectives, the CBN adjusted its effective rate upward on March 5, 1992. The upward adjustment of the official exchange rate reduced the parallel market premium. For a limited period, the parallel market premium declined gradually while effective demand by banks for foreign exchange fell short of the supply. However, as a result of renewed demand pressures and speculative activities, the parallel market premium started to widen again. In 1993, the naira exchange rate was administered at N21.9960 to the dollar throughout the latter part of the year. However, the rates in the parallel market and the bureaux de change almost doubled the rate at the official market.
Reintroduction of the Fixed Exchange Rate System

Given the ailing nature of the economy and the need for its recovery as well as the role of an appropriate exchange rate in the recovery bid, new broad policies to stabilize and shore-up the value of the Naira were delineated by the Federal Government in 1994. And among other policy measures, the naira exchange rate was retained at N21.9960 to the US dollar. The policy stance in 1994 was aimed at instilling sanity into the foreign exchange market and encouraging increased activities in the productive sectors of the economy. It was also expected that complementary monetary policy could reduce the cost of funds to the manufacturing sector, thereby enhancing domestic production and dampening inflation.

Apart from outlawing foreign exchange dealings in the parallel market, the bureaux de change operators became buying agents of the CBN. Designated banks acted as agents of the Central Bank in the remittance of foreign exchange. Agencies of government that earn foreign exchange in the course of their operations were mandated to surrender such funds to the Central Bank. A foreign exchange allocation committee, comprising representatives of the Central Bank, the Federal Government, and the organized private sector, was constituted early in 1994 to supervise the allocation of foreign exchange to designated sectors (agriculture, manufacturing, finished goods and services) on agreed percentages. Allocations were made to the beneficiaries through authorized dealers who bid on their behalf after making proper documentation and depositing the naira cover of such bids with the CBN.
The Dual Exchange Rate Regime

In 1995, the policy of dual exchange rates was introduced. This was response to the apparent adverse effects of the fixed exchange rate on non-oil exports, the productive sectors of the economy, and the bureaux de change. In 1994, the naira depreciated substantially in the parallel market. In order to stem these negative developments and to achieve efficient allocation and utilization of scarce resources, an Autonomous Foreign Exchange Market (AFEM) for trading in privately sourced foreign exchange was introduced in 1995, while the fixed exchange rate was reserved for selective public sector use. The exchange rates in AFEM were determined largely through market forces. The policy allows for Central Bank’s intervention in the market in order to stabilize the rate and ensure movement towards equilibrium. The Bank sells foreign exchange to end-users through designate banks. The designated banks are not expected to add margins to the intervention exchange rate in excess of the commission on turnover as indicated in the banker’s tariff. However, the utilization of funds is expected to be fully documented and unutilized funds returned to the Central Bank within a specified period. Official funds disbursed through AFEM are not eligible for inter-bank transactions. However, autonomous funds were freely traded in the inter-bank market under the AFEM.

The exchange rate system introduced in 1995 resulted in a fairly stable exchange rate leading to its retention in 1996. In 1997, the policy thrust of guided deregulation through the AFEM was retained with some adjustments. Current account transactions were further liberalized. Although the dual exchange rate system was retained in 1998, its operation was modified. Unlike in the past, all ministries and parastatals are to source their foreign exchange requirements from the AFEM. Thus, most of the transactions are now conducted at the AFEM. Consequently, the fixed
The model for this study flows closely from those of León and Oliva (1999). The model is a multinomial qualitative response model. This was used since the choice of the exchange rate regime is of a discrete form. The model also have a dependent variable $y_t$, such that:

$y_t = 0$ if the country has a fixed exchange rate regime at time $t$

$y_t = 1$ if the country has a managed exchange rate regime at time $t$

$y_t = 2$ if the country has a flexible exchange rate regime at time $t$

In line with the above definition, the study, using a time series approach, investigates the determinants of the choice of Exchange rate regime. From the literature, some of the variables that affect the decision of a specific exchange rate system include;

Monetary shocks (MS), defined as the 12-months-average standard deviation of the residuals from an ARMA (3-6, 1) specification for the seasonally adjusted percentage change of money (M1). To avoid simultaneity problems, the paper considered the one-period lagged MS as an explanatory variable. The fitted ARMA was obtained using an iterative cycle of identification, estimation, and diagnostic checking of the variable.

Real shocks (RS), defined as the 12-months-average standard deviation of the residuals from an ARMA (1, 1) specification for the percentage change in manufacturing production. The fitted ARMA was obtained using an
iterative cycle of identification, estimation, and diagnostic checking of the variable.

Inflation differential (ID), defined as the difference between domestic and international inflation. International inflation was based on the definition from the IFS, IMF. Foreign reserves constraints (FR), defined as the average change in international reserves during the previous 12 months. Openness (OPEN), defined as the ratio of trade (exports plus imports) divided by manufacturing production (The manufacturing production index is used as a proxy for total output).

The exchange rate regime equation thus, takes the form:

\[ y_t = f(ID_t, FR_t, OPEN_t, MS_{t-1}, RS_t) \quad (1) \]

From the specification above, the major rationale for considering a given exchange rate regime is related to the shocks that affect output variability and subsequently make the economy unstable, while the restrictions for a fixed exchange rate system comes from the balance of payments side. In addition, the purchasing power of parity and the fact that the nominal exchange rate can be used as an anchor are implicit with the incorporation of the inflation differential variable. A structural characteristic of the economy, common in the exchange rate regime literature, is captured by the openness variable.

The econometric estimation of equation (1) requires a definition of the probabilities of choosing any of the three alternatives in a binary form:

\[ \log \left( \frac{P_{jt}}{P_{2t}} \right) = \beta X_t + u_t \quad (2) \]

With: \( j = 0,1 \) and \( t = 1,...,N \). As usual, \( X_t \) represents a matrix of independent variables and \( \beta \), a vector of coefficients. Assuming a logistic cumulative distribution for the error term:

\[ P_{2t} = \frac{1}{1 + \exp (\beta'X_t) + \exp (\beta'X_t)} \quad (3) \]
\[ P_{jt} = \frac{\exp(\beta'X_t)}{1 + \exp(\beta'X_t) + \exp(\beta'X_t)} \quad (3.1) \]

The estimation requires the maximization, with respect to \( \beta \) of the likelihood function:

\[ L = \prod_{t \in \theta_0} P_{0t} \prod_{t \in \theta_1} P_{1t} \prod_{t \in \theta_2} P_{2t} \quad (4) \]

here \( \theta_j = \{ \text{the } j\text{-th response is observed} \} \) with \( j = 0,1,2 \). The results from the multinomial logit estimation are summarized in the Table 1.

The result shows that most of the variables were significant in explaining the choice of the exchange rate regime, given the value of their t-statistics. More so, the value of the Madalla’s pseudo-R square, which was 61, suggests that the regression has an apposite fit. With respect to the predicted outcomes, 71% of the cases are correctly predicted as a fixed exchange rate regime. The accuracy rate for the managed exchange rate regime was 68% while that of the flexible exchange rate regime was exactly 72% of the cases.
Furthermore, to recover the estimates and t-statistics for the fixed against the managed exchange rate regime choice, the variance-covariance
coefficient matrix was derived. This was done using the specification below:

\[
\log\left(\frac{P_{0t}}{P_{2t}}\right) - \log\left(\frac{P_{1t}}{P_{2t}}\right) = \log\left(\frac{P_{0t}}{P_{1t}}\right)
\]

From the table, inflation differential (ID) coefficient estimate was significant relative to the flexible exchange rate regime. Also, the slope of the estimates indicates that the bigger the inflation differential the greater the probability of using or operating a less flexible exchange rate regime. This implies that Nigeria tend to use the flexible exchange rate to stabilize prices especially when it was inherent that relative to international inflation, domestic inflation remains high.

Similar to the findings of Fischer (1976) and Aizenman and Frenkel (1982), the effect of the disturbances show clear-cut results which ever the choice is. This signifies the probability that the monetary authorities preferred a more flexible exchange rate regime when monetary shocks (MS) dominate. It is important to at this stage to note that a loss on the purchasing power of the domestic currency could be more obvious before the presence of monetary shocks, thus the regime tend to be less interfering. More so, inasmuch as the monetary shocks could be caused by changes in the flow of international reserves, there could be some degree of collinearity. In the face of domestic real shocks (RS), the choice of a fixed exchange rate regime becomes apparent. This is evident given the positive slope of the estimate as well as the fact that it was significant when all the three regimes are compared against each other. Consequently, it can also be argued that the probability of a less flexible exchange rate regime is greater when there are capital controls. Though this may be controversial, a further empirical test could be carried out to ascertain whether it is true or not.

It is important to point out that the effect of inflation differential and monetary shocks have the opposite sign on the exchange rate regime
when comparing both fixed and managed against flexible. This can be linked to the relationship between inflation differential, the monetary shock and the exchange rate regime in Nigeria. Over time as the inflation differential increases, the role of the exchange rate as a nominal anchor, moving the latter to a regime with higher degree of intervention in order to control balance of payments crises and shock variability due to capital flows, becomes essential. The occurrences in the 1980s partially confirms this, this is because in the early 1980s, despite the increase in inflation and the shocks that existed, Nigeria still maintained a fixed exchange rate regime, this was in existence until 1986 when the Structural Adjustment Programme (SAP) ushered in a flexible exchange rate regime.

With respect to foreign reserves (FR), the change was significant only when comparing managed and flexible exchange rate regimes. It also had a negative slope that implies that incessant change in foreign reserves demands a more flexible exchange rate regime to avoid balance of payments crisis or a severe monetization. But this also depends on whether the country loses or gains more reserves. For the fixed and managed regimes it was not significant. The degree of openness (OPEN), though had a vague estimate, was significant. In terms of comparison between fixed and flexible exchange rate regimes, the estimation shows evidence of a direct relationship between openness and a fixed regime. This means that the regime was used to aid the channeling abroad of domestic shocks. However, when the managed and flexible regimes are compared together, a more flexible system was opted for, this was to enhance the insulating properties of the exchange rate regime.

The Haussman test was also performed to verify whether the independence of irrelevant alternatives is a problem for the multinomial estimation. The Haussman’s $S$ statistic is defined as:

$$S = (\beta_d - \beta_c)^{	ext{T}}(V_d - V_c)^{-1}(\beta_d - \beta_c)$$  \hspace{1cm} (5)
with a Chi-squared distribution and \( V_c - V_d \) degrees of freedom. Where \( \beta_c \) is the vector of coefficients from the full choice set (that is, multinomial), \( \beta_d \) is the vector of coefficients from the restricted choice set (i.e. binomial) \( V_c \) and \( V_d \) are their respective variance-covariance matrices.

Based on regressions from Table 1, the value of the \( S \) statistic was equal to 235.18, allowing for the rejection of the null hypothesis of dependence of irrelevant alternatives.

The Simultaneous Equation Model

In our bid to avoid simultaneity between the exchange rate regimes and the monetary shocks, a simultaneous limited-dependent model was estimated. This assumes that a number of economic variables (including the monetary shocks) determine the exchange rate regime. Subsequently, this variable, in turn, acts as one of the determinants of the monetary shocks. However, given the nature of the variables involved, one of the endogenous variables (exchange rate regime) is limited, while the other (monetary shock) is continuous. Thus the estimation of the model differs from standard simultaneous models. Based on equation (1), the complete structural simultaneous equation model is specified, in line with the study of León and Oliva (1999), as:

\[
\log \left( \frac{P_{jt}}{P_{2t}} \right) = \gamma_1 MSt + \beta_1 X_{1t} + u_{1t} \tag{6}
\]

\[
MSt = \gamma_2 y_t + \beta_2 X_{2t} + v_{2t}
\]

The reduce form of the model is:

\[
\log \left( \frac{P_{jt}}{P_{2t}} \right) = \pi_1 X_t + u_{1t} \tag{7}
\]

\[
MSt = \pi_2 X_t + v_{2t}
\]
where $X_t$ includes all the exogenous variables in $X_{1t}$ and $X_{2t}$.

The two-stage least square estimation technique was adopted in estimating the model. This was in line with the method suggested by Nelson and Olson (1974) and applied to exchange rate regimes by Savvides (1990). Just like León and Oliva (1999), we first estimated the reduced form of the model by applying maximum likelihood to each equation in (7), from where we obtained the instruments $y_t^\wedge$ and $MS_t^\wedge$. Later the corresponding instrument replaced the endogenous variables on the right hand side of the structural model, and then the parameters of the model in equation 6 were estimated by applying maximum likelihood to each equation individually. The result is presented in table 2 and 3 below.

**Table 2: Simultaneous Equations Model: Fixed and Crawling versus Flexible**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Estimate</th>
<th>T-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-0.71</td>
<td>-2.06*</td>
</tr>
<tr>
<td>Inflation differential (ID)</td>
<td>0.04</td>
<td>1.02</td>
</tr>
<tr>
<td>Foreign reserves constraint (FR)</td>
<td>0.00</td>
<td>-1.41</td>
</tr>
<tr>
<td>Openness (OPEN)</td>
<td>0.68</td>
<td>2.11*</td>
</tr>
<tr>
<td>Monetary shock 1 lag (MS(-1))</td>
<td>1.03</td>
<td>5.15*</td>
</tr>
<tr>
<td>Predicted exchange rate regime (yE)</td>
<td>0.31</td>
<td>1.89***</td>
</tr>
<tr>
<td>Real shock (RS)</td>
<td>0.13</td>
<td>2.81*</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.89</td>
<td></td>
</tr>
<tr>
<td>Durbin Watson</td>
<td>1.97</td>
<td></td>
</tr>
<tr>
<td>F-Statistics</td>
<td>204.01</td>
<td></td>
</tr>
</tbody>
</table>

Note: * significant at 1% level, *** significant at 10% level
The table shows that on the overall, the model was significant. This is manifest given the value of the F-statistics, which were 204.01. Also, the value of the coefficient of determination ($R^2$), which is 0.89 shows that all the explanatory variables can explain 89% of the changes in the use of the various exchange rate regimes. Moreover, the value of the Durbin Watson statistics, which stood at 1.97, indicates the absence of autocorrelation in the model.

The forecasted exchange rate regime ($y_E$) in the MS equation had a positive slope and was significant at 10% level while the coefficient for the forecasted monetary shock (MSE) in the limited dependent variable equation had a negative slope for all the compared regimes but was only significant at 5% for the fixed versus flexible exchange rate regimes. This result was similar to those obtained earlier when the lag of MS was used to eliminate the problem of simultaneity.
The result, like our earlier findings in this paper, also shows that most of all of the variables help to explain the choice of the exchange rate regime. This can be seen from the value of their t-statistics. The model had an appropriate fit given the value of the Madalla’s pseudo-R square. Concerning the predicted outcomes, 78% of the cases are correctly predicted.
predicted as a fixed exchange rate regime. The prediction accuracy rate was 38% for the managed exchange rate regime while that of the flexible exchange rate regime was 63%.

The simultaneous equation approach seems to be more accurate in estimating the probability of alternative exchange rate regimes. But it has a main limitation in that the statistical properties of polychotomous simultaneous equations models are not well known, (León and Oliva, 1999). The standard deviation thus, obtained cannot be used to perform tests on the estimated coefficients because the asymptotic covariance matrix for the multinomial logit cannot be computed. Hence, León and Oliva, (1999) warned that the results obtained using the simultaneous equation model have to be taken with caution.

**Conclusion**

The study investigated the determinants of exchange rate regimes in Nigeria using a time series analysis. A set of variables that helped to explain the choice of the exchange rate regime was investigated. The empirical results showed that different variables ranging from characteristics of the economy (degree of openness) and macroeconomic performance (inflation differential, change in foreign reserves) to real and monetary shocks help to explain the choice of exchange rate regime at different periods of time. The result showed that fixed exchange rate regime could be chosen as an anchor when domestic inflation was relatively high with respect to world inflation.

Also, the empirical results indicates that domestic monetary disturbances appreciated the real exchange rate and favored a more flexible arrangement, while in the presence of real shocks the balance of payments acted as a shock absorber and a fixed regime was more likely. This was
evident in Nigeria in the early 1980s, though at that period the Naira seemed to be overvalued. However, it is necessary to recall that the estimates are in terms of probabilities and therefore interpretation of the results have to be done with caution. More so, the multinomial analysis was more relevant than the binary choice model as reflected in the result.

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Introduction

Economic growth is a powerful solvent for the problems that trouble government. Each increment of real growth in national income can enhance the take-home pay of citizens or can be used to create new public programs without accelerating the rate of inflation or forcing politically divisive trade-offs between old programs and new demand. Because economic growth allows government benefits to expand without depriving anyone, it helps solve the most fundamental political problem of democratic societies: it helps maintain national consensus by reinforcing citizens beliefs that their system of government works to their advantage and that their taxes are being well spent by a government that is equitable, stable, and efficient (Levine, 1980).

We do not need to endlessly search for a better premise than the above statement for the commencement of the analysis of the issue of fiscal stress and its management in the public sector of any nation particularly those of mixed-economies, including Nigeria. However, such an exercise can only be meaningfully attempted within the analytical appraisal of the raison d’etre of fiscal politics and its relevance to the day-to-day financing of public institutions which is one of the most fundamental functions of government within the public sector of the economy. The issue of finance is very paramount within the public sector of any economy. And, it has long remained so irrespective of the system of government, ideological beliefs or persuasion.
The Subject –Matter of Fiscal Politics/Policy: A Synopsis

This is particularly so, because, finance is the lifeblood that permeates the anatomy and physiological fibers of all institutions be it in the private or public sector of the political economy. It actually dictates the developmental trends, shapes or the real topography of the political landscape of all polities within the global community. Its operational tool-(money)- has been variously, in euphemistic context, described as the “root of all evils” on the one hand, and, as the “conqueror of all evils” on the other hand, meaning, that, whatever money could not do, will be permanently left undone. The eulogies of money as the principal components of finance are not mere flukes but real promoters of its indispensability to the economic survival of mankind and its multiplier effects on other aspects of man’s systemic existence, a combination of which calls for its proper sourcing and management particularly within the public sector of the political economy where Government as the employer and provider of public goods and services holds the sway in terms of the authoritative allocation(s) of the scarce societal values and determination of who gets what? When? Where? How? and why? Particularly, at the local level. Given the foregoing, and, the fact that, the goods and services that government provide are not costless, it is innocuous to argue that the issue of public finance, particularly, as it concerns the healthy relation of revenue with expenditure is crucial to the success or otherwise of any government and the prosecution of the raison-detre of its existence within any polity of the world.

This relation of revenue with expenditure, in economic parlance, connotes fiscal policy and, it refers to the use by government of tax and spending practice to influence economic activity aimed at avoiding fiscal stress or fiscal crisis through a balanced budget and its neutral effects on total spending. In fact, fiscal policy as the sociological foundation of
government or state finances is usually implemented by the government either through built-in stabilizers or through discretionary changes in taxes and/or expenditure. Its main concerns are “to discover the principles governing the volume and allocation of state finances and expenditures and, the distributions of the tax burden among various economic class” within the political system/economy. It should be stated at this juncture, that we are not unaware of the various disputations which the issue of fiscal politics had generated since the major work of the German Marxist Rudolph Goldshied, - (founder of the contemporary science of fiscal politics) - appeared in the second decade of the twentieth century and, since the work of Joseph Schumpter, Ralph Turvey, Richard Mustgrave and the Keynesian Ersey Domar to mention only a few (O’Connor, 1973). However, the disputations are not really germane to our focus in this paper. Instead, we are concerned with the analytical by-product of the disputations, which among others had shown that: As government expenditures come to constitute a larger and larger Share of total spending in … capitalist countries, economic theorists and, (Government or Government functionaries) who ignore the impact of the state budget do so at their own peril (Musgrave and Musgrave 1973). Public finance as a subject matter of inquiry and, its relevance to the provision of national and local public goods had, as could be discerned from the argument above gone through various intellectual metamorphoses over the years. In the period of the classical economists such as Adam Smith, J.S. Mill and Richardo, portion of write-ups on economic theory were dedicated to limited discussion on public expenditure, taxation and public debts. Some of these write-ups emphasized the effects of various taxes and in the case of Adam Smith, some principles of taxation, vis-à-vis the issue of public goods at all levels of the political system (ibid, and O’Connor op cit, 1973). In fact, as far as the classical economists were concerned, we can say that,
there was the recognition of the division of the subject matter of public finance into its revenue, expenditure and debt aspects although in a rudimentary form within most polities of the global community.

Neo-classical economists of the Alfred Marsshal era played down the discussion of public finance as part of the mainstream of economic theory thereby necessitating the development of an independent theory of public finance by the later generation of economists among whom were Bastable and Dalton who published the pioneering books on public finance in 1892 and 1922 respectively (Ibid; Lipsey and Sparks, 1976; Boreham and Leftwich, 1971). Dalton in his book defined public finance as a field of study which is concerned with the income and expenditure of public authorities and with the adjustment of one to the other in the course of the determination of who gets what? When? Where? Why? and How? The major difference between these books of public finance and the classical textbooks on economic theory is the increased recognition of the right of the expenditure as well as the revenue sides of public authorities to appear in any treatment of the subject of finance of, and by government. However, most of these textbooks concentrated mainly on knowing specifically the effect of various taxes and expenditures but, due to the advent of Lord Keynes general theory and Pigeon’s public finance, it has now been fairly recognized that the discussion of the effect of a particular taxes and government expenditure is only part of the subject matter of public finance and that any concrete treatment must include a full discussion of the influence of government and its fiscal operations on the level of overall activities and employment. This is why it has been noted that, government is a unit and must be considered as the subject matter of the public finance. It equally explains why it has been argued that public finance studies the economic activities of the government as a unit, and their effects. The public sector is that sector of national activities that represent the
government as against the private sector. This sector narrowly defined, may include only the executive, legislature and the judicial arms of the government at the horizontal level with the armed forces police, paramilitary and other administrative arm on one hand, and, at the vertical level on the other hand.

In modern times, there are many ways in which one can set out the contents of the subject matter of public finance. While it can be safely said that it involves both micro and macro aspects and that the micro element in turn involves both matters of resource allocation and of the distribution of income, consumption and wealth, one can also say that it embraces consideration of public expenditure, public revenue as well as the proper and efficient control of public funds. In fact, the proper control of public fund will be efficiently done through proper budgeting and implementation by the policy makers in formulating the appropriate policies in this regards. Using the foregoing as a premise, one will not be wrong to say and conclude that public policies formulated would not be meaningful, effective and efficient if the financial resources needed to transform them into concrete and practical realities are not available or made available to the respective tiers of government or, if the lower tiers are continuously made to be financially dependent in contemptuous disregard for the constitutional stipulations and allocation of functions among the three tiers or vertical organs of government.

The combination of the foregoing, show that, regardless of the geopolitical location of the country within the global political community, the issue of fiancé relative to its sourcing and prudent management vis-à-vis the functional performance of public institutions cannot be taken for granted because, as once noted: “whether it is private or public, no organization can function effectively without adequate finance (Aghayere, 1997). Thus, the issue of finance particularly as it concerns how
government/officials can find “less expensive ways to provide services continues to be problematic. This has been particularly so looking at the ever-increasing rate of demand on government amidst constant reduction in the payment of taxes by the citizenry coupled with cutbacks in financing by federal government and deliberate avoidance or evasion of such payments particularly in the developing polities of the world, Nigeria inclusive (Johnson and Walzer, 1996).

Antecedents And Meaning Of Fiscal Stress In The Public Sectors Of Mixe-Economy Nation-States

The increasingly declining economic growth rates of most industrial (and non-industrial states in recent years has brought about some sensitive trade-offs which were (usually) largely ignored during periods of rapid growth. These trade-offs include:

(1) The choice between inflation or unsatisfied public demand for goods and services;
(2) The choice between providing services through tax-supported bureaucracies or through market arrangements;
(3) The choice between attempting to provide equal health, housing, and educational opportunities to all citizens or (in effect) rationing opportunities to those who can afford to pay for them.
(4) The choice between spending for national defense or spending to alleviate the hardship of the poor, the sick and

These trade-offs which continue to shape national policies within today’s global political community, necessitate the need to understand that: Economic necessities and political realities are now colliding in many countries as political leaders are being forced to face up to these trade-offs
without the comfort of knowing that they can retain the support of the electorate while implementing austerity policies. Aside from wartime, there is no formula for success when elected officials are forced to ask their constituents to accept a lower standard of living or fewer public goods and services at the same time these official are seeking support for reelection. (ibid).

The foregoing has undoubtedly created avoidable gulf between citizens expectation/needs for government services/benefits and the latter’s ability to respond. Thus, the struggle by government to bridge the gulf by ways of responsive service delivery or policy outputs without putting extra burden on the citizens actually defines what is actually known as fiscal stress within the public sectors of most polities today. Fiscal stress is a state of budgetary stringency. It is the next stage to financial insolvency and/or fiscal crisis. It relates expenditure to revenue. Once the revenue and expenditure flanks are running neck and neck, a state of fiscal stress is automatically in existence. And, if this is not properly managed, it automatically breeds the next higher level of financial asphyxiation called fiscal crisis which, exists whenever revenue is outpaced by expenditure. There is no doubt whatsoever, that the symptoms of fiscal stress can be found almost everywhere (today) in our governmental system. The areas where these symptoms are easily identifiable in most polities of the mixed-economy traditions include: national health insurance programme; national housing scheme, defense spending, transportation, electricity, and the need for balanced budgetary process among others.

There symptoms, in themselves, have constantly and, increasingly too, created points of stress in the public sector. And, such points have been identified to include.
The methods used for setting priorities for government action and public programs.

The methods used for taxation and revenue generation.

The way public services are organized and public employees are compensated to produce services, and

The methods used for scaling down and terminating public programs that are no longer of high priority (Ibid).

The foregoing put together, should, in our perspective necessitate the need to alleviate fiscal stress through proper management within our public sector today. However, the struggle for this alleviation as once opined (Ibid) is more often than not usually conditioned by four fact of political life:

1. Most taxpayers believe that government programs are wasteful. As inflation and recession cause them to experience increased personal financial stress, citizens are more inclined to demand that their taxes be lowered, that government productivity be improved, and that waste in government be eliminated.

2. Few citizens and public employees are willing to voluntarily surrender government services and benefits they have come to expect and depend on.

3. Public officials are forced to make changes within a structure of laws, rules, procedures, and regulations (e.g., merit systems, line-budget items, and special boards, commissions and authorities) that limit alternatives, rigidify decision making and fragment authority. For the most part, these constraints were installed during periods of growth to control budget expansions and are limited tools for managing budget contractions.
Fine-tuning the finances and administration of public agencies and programs will not alone solve the larger problems of stimulating economic growth, but it may contribute-along with other government policies and private-sector initiatives-to restoring the economic growth rates of the (earlier periods).

From the discussion up to this point, it is clearly discernible that fiscal stress is a characteristic of the public sector particularly in the mixed economies that remains problematic. If this is so, there is the need to pose the questions that: How do we manage fiscal stress? What do we do in the process?

**How Do We Manage Fiscal Stress? What Do We Do?**

As variously stated in the proceeding sections of this paps, there is no doubt whatsoever that fiscal stress is a reality in today’s world. Hence, finding the optimal strategy for its management becomes imperative for a straight forward and right thinking nation-state like Nigeria. What should be done or to do in this regard include:

1. Identification of the causes of government’s fiscal problems and development a multi year forecast of revenue- yielding capacity as well as that of the demand for it services.

2. Development of a “list of priority rankings for all government programmes, projects, services and benefits so that high- priority items could be retained or augmented and low-priority items could be reduced or terminated.
Designing of an integrated strategy to generate new resources, improve productivity, and ration services so that both revenue and expenditure sides of the budget could be neatly balanced (Ibid).

The foregoing should be done or embarked upon in a country like Nigeria without the usual apolitical politicking which, hitherto, had permeated its approach to the problems of maintaining fiscal solvency in the past and, even, up till the present era of democratic governance of the fourth republic. Added to the foregoing, to be able to manage fiscal stress in a public sector like Nigeria, the government and its officials should and, must be prepared to clear the “underbrush of the ambiguity and/or habit” that may serve as obstacles to the making of tough decisions and designing of innovative solutions. The under listed questions (and provision of answers to them) are germane to the success of the government and its officials in their crusade against fiscal stress and its tension-soaked characteristics:

1. **What activities are mandated?** That is, **what services and benefits are required by law?** This question is intended to sort out activities that are “musts” from activities engaged in by habit or custom.

2. **What activities can be terminated?** This question focuses on activities that are non mandated and may have low public support.

3. **What additional revenues can be raised?** Where can user charges and fees be instituted and raised? Where can uncollected taxes be collected? What services can be sold to other government units? What
grants can be obtained from the federal government, the state, or private sources?

4. **What activities can be assigned to other service providers?** This question helps identify services that can be shifted to other units of government, contracted out at lower cost, shared with other governments, provided by the private sector, or “co-produced” with client participation at lower cost.

5. **What things can be done more effectively?** This question addressed the broad area of productivity improvement. It should help generate alternative approaches to delivering existing services, changing organizations and using technological improvements to reduce costs.

6. **Where can low-cost or no-cost labor be used?** Where can positions be reclassified and downgraded? Where can tasks be simplified, paramilitary jobs be manned by civilians, and paraprofessionals and volunteers be utilized?

7. **Where can capital investments be substituted for labor expenses?** At a time when labor expenses comprise 70 to 80 percent of many agencies’ budgets, labor-saving technologies can yield substantial savings; this question seeks to identify opportunities for such savings.

8. **Where can information gathering methods be installed and improved?** Good information can improve financial forecasts and account for the direct and indirect cost and the benefits of service alternatives.
9. **Where can demand be reduced and services rationed?** Because many public services are free, they are often squandered. This question addresses the possibility of using fees and other means (e.g., eliminating low-usage hours in some public services and smoothing out peak hours in others) to reduce demand and pare down the availability of some services.

10. **What policies can help strengthen the economic base and promote economic development?** This question addresses the link between economic development and government policies and underscores the importance of private-sector investment decisions for public-sector fiscal solvency.

11. **What arrangements can be made to identify and strengthen the leadership of this process?** This final question underlies all others. Without able leadership the process of guiding a government through a fiscal squeeze may turn out to be haphazard and self-defeating. Decision-making structures that facilitate interest aggregation and build consensus are likely to reinforce leadership and help ease the adjustment to constrained budgets (Ibid, 6-7).

These questions are without doubt the broad-management strategies required for effective coping with fiscal stress in our public sector. Thus, there is need for their development. Putting our analysis so far together, we found it innocuous at this juncture, to ask the question that: to what extent have the foregoing strategies of managing fiscal stress in the public sector taken place or adopted in Nigeria? A concrete probing into this question forms the core of the discussion and / or analysis in the next section.
The Nigerian Experience

There is no gainsaying the fact that the management of fiscal stress in the Nigeria public sector has not been properly done hence, the constant turbulence in her public sector and the whole political economy’s landscape over the years. The major antecedent of fiscal stress in the Nigerian public sector has to do with her paucity of national objectives and/or development planning and, its resultant disharmony between her political and economic perspectives vis-a-vis the pursuit of national goals and good governance.

1946-1956 Development Plan

The pedigree of Nigeria’s periodic development planning dates back to the colonial era starting from 1945 with the then ten year (1946 – 1956) development plan. This plan, according to Okigbo (1985:59) “was a plan for the benefit of a British colony”. It gave way in 1955 for a new five year (1955-1960) development plan due to political developments-“approach of self government in the three regions with new constitutions; the need for transfer of some responsibilities”-that made it impossible for the completion of the existing ten year (1945-1956) development plan

1955-1960 Development Plan

The five-year (1955-1960) development plan was not different from its predecessor because, both of them were nothing but colonial planning devices for the perpetration of their interest. This was particularly so in that:
Up to 1960, Nigeria was a colonial dependency of a metropolitan power that established a democratic socialist government at home and repressed socialist doctrines in the colonies. The planning adopted had some socialist-welfarist overtones but it was not democratic in terms of the participation of the people in either the formulation or discussion of the objectives. (ibi:1)

1962-1968 First National Development Plan

The first national plan came in 1962 for the period 1962-1968. It was called a national plan because:

It was the first Plan prepared for Nigeria after attaining independence in 1960. It had the backing or sponsorship of the State and applied, in a geographic sense only, to the country as a whole (Ibid).

The national character of the first national plan suffered setbacks due to the regionalized presentation of projects for implementation which were not amenable to centralized planning and execution. Okigbo (ibid) articulated the reasons for the failure of the plan thus:

The planning in 1962 ran counter to the national utilization of resources that could be dictated by a truly national planning.
Let it be understood that the procedure could not have been otherwise, given the environment of the time. The centre had remained relatively too weak to impose its will on the politically powerful regions. There were in fact, in 1962, four plans, one for the Federal and one each for the three-regions, put under the same outer jacket. The political rivalry between the heads of the Regional Government (each being run by a different political party) descended into the arena of economics which retarded the possibility of developing a truly national economy.

There was another sense in which the first National Plan was not national. Its coverage was partial as it related only to the public sector expenditures, the expected contribution by the private sector on capital formation was derived as residual. How the private sector could be guided to meet this objective was not specified nor was there any consultation with the private sector in the course of the formulation of the Plan.

Not only this, the 1962-1966 political upheavals which created a general state of topsy-turvy in the country equally made the implementation of the National Plan for 1962 – 1968 impossible.


The next national Plan was not to be until 1970 when the second national Development Plan (SNDP) was made for 1970-1974 period with the objectives of making Nigeria:

- a united, strong and self reliant nation;
- a great and dynamic economy;
- a just and egalitarian society;
- a land of bright and full opportunities for all its citizens and;
- a free and democratic society. (SNDP, 1970:32)

These objectives were concretely translated according to Okigbo (op cit: 68), into “actionable terms” thus:

- a rapid economic growth set at a rate of a minimum of 6.6% per annum such that the national project can be doubled in fifteen years;
- reduction in inequalities in inter-personal incomes;
- promotion of balanced development among communities in different geographic areas of Nigeria;
- provision of full employment without inflation by deliberately creating employment opportunities.

To attain these objectives/as translated, and, in order to be able take care of post-war reconstruction priority was assigned to various sectors thus:

- agriculture, industry, transportation and manpower development take the first priority;
- utilities, electricity, water, communications take the second priority;
- other services take the last priority;
- defense and security constitute a set *sui generis*.
- reconstruction of facilities damaged or in disuse and disrepair because of the war;
- rehabilitation and resettlement of persons displaced by war and of the demobilized personnel of the armed forces (Ibidi: 69).
1975-1980 Third National Development Plan

The Second National Development Plan was followed by the 1975 – 1980 Development Plan called the Third National Development Plan (TNDP) with the underlisted objectives:

- an increase in per capital income;
- a more even distribution of income;
- a reduction in the level of unemployment;
- an increase in the supply of high level manpower;
- diversification of the economy;
- balanced development;
- Indigenization of economic activity.

1981-1985 Fourth National Development Plan

The third national development plan was followed by the Fourth National Development (FNDP) for the 1981 – 1985 periods. The specific objectives of this plan which included all the objectives of the third plan because of their relevance for the period include (d);

- increase in the income of the average citizen;
- more even distribution of income among individuals and socio-economic groups;
- reduction in the level of unemployment and under-employment;
- the achievement of a balance in the development of the different sectors of the economy and its various geographical areas of the country; and,
- increased dependence on our own resources in seeking to achieve the various objectives of society. (FNDP 1985-1985:37)
This plan added the underlisted objectives to the ones it x-rayed from the third plan:

- greater self-reliance;
- development of technology;
- increased productivity;
- reduction in rural-urban migration;
- promotion of new national orientation conducive to greater discipline, better attitude to work and cleaner environment (Ibid and Okigbo op cit: 72).

**The Structural Adjustment Programme 1986 – 1989**

There was a period of interregnum in the continuation of related periodic Annual Development Plan during which various reforms took place within the context of the Structural Adjustment Programme (SAP) and its objectives between 1986 and 1989. This period of interregnum during which SAP held sway led to the development and adoption of what was called a National Rolling Plan Strategy (NRPS) in the 1990s.

**The First National Rolling Plan (FNRP) 1990 – 1992**

The strategy of national rolling plan took its root from the structural adjustment programme. It dramatically deviated from the tradition of previous planning approach(es) in Nigeria. Specifically, the 1990 – 1996 National Rolling Plan document had the following objectives.
(i) attainment of higher levels of self sufficiency in the production of food and other raw materials.

(ii) laying a solid foundation for a self-reliant industrial development as a key to self-sustaining dynamic and non-inflationary growth, and promoting industrial peace and harmony;

(iii) creating ample employment opportunities as a means of containing unemployment problem;

(iv) enhancing the level socio-political awareness of the people and further strengthening the base for a market oriented economy and mitigating the adverse impact of the economic downturn and the adjustment process on the most affected groups (FNRP 1990 – 1992:14).

There were various development plans though, not in the same fashion within the context of periodic rolling plans throughout the military era until the commencement of the Fourth Republic in May, 1999. The pedigree of Development Planning in Nigeria showing the real Gross Domestic Product (GDP) growth rate since 1962 is synoptically depicted in table I.
The pedigree of Development Planning in Nigeria as it affects her economy and its development has been summed up thus:

the rehashed colonial development policy era (1954-1996); the great age of central planning (1967-1975); the years of illusory development (1975-1985), the structural adjustment years (1981-1998), and the dawn of privatization and poverty reduction (1999 to date) (Mabogunje, 2000) and Nigeria common country Assessment (NCCA, 2001).

Oladeji and Olusi’s (1996:9) analysis of the Planning process and its effects on Nigeria’s economy even though, restricted to the period between the fourth National Development Plan and 1993 – 1995, was not different from the gloomy picture painted by other analysts and scholars. According to them:

<table>
<thead>
<tr>
<th>Plan Period</th>
<th>GDP 1985 factor cost millions</th>
<th>Average Annual growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962-70</td>
<td>32664.1</td>
<td>6.2</td>
</tr>
<tr>
<td>1971-74</td>
<td>77018.3</td>
<td>7.4</td>
</tr>
<tr>
<td>1975-80</td>
<td>106086.9</td>
<td>3.6</td>
</tr>
<tr>
<td>1981-85</td>
<td>82898.4</td>
<td>2.5</td>
</tr>
<tr>
<td>1986-89</td>
<td>80202.7</td>
<td>-0.4</td>
</tr>
<tr>
<td>1990-95</td>
<td>9350.6</td>
<td>1.8</td>
</tr>
<tr>
<td>1996-98</td>
<td>96220.0</td>
<td>0.3</td>
</tr>
</tbody>
</table>

The period 1986-89, representing the interval between 1981-85 and 1990-92 planning periods was one of “planning recess”. It was no more than a period of experimentation with reforms which nevertheless culminated in the reform of the country’s planning system by the turn of the 1980s. Nigeria, as it were, resumed development planning in the 1990s when it formulated and executed the First National Rolling Plan, 1990-92. As articulated in the plan document, the Plan’s philosophy took its bearing from the structural adjustment Programme (SAP). This was a novel departure from the traditional approach to planning in the country. In contrast to the Fourth National Development Plan (1981-85), the First National Rolling Plan (1990-1992) was prepared and executed under a military administration. But the expectation then was that the next cycle of the Rolling Plan (1993-95) would be executed by a democratic civilian administration which never was (ibid).

There is no gainsaying the fact that, in spite of these periodic Development Plans, Nigeria as a country is far from the promised land of economic benevolence or sustainable economic development. In fact, it is not out of place to opine that all the plans – (including the first four National Development plans, the Structural Adjustment Programmes and, the national rolling Plan strategies and their Documents) – since independence have failed due to loss of focus and policy blindness, to really launch Nigeria into economic and political prosperity. As Olaniyan, et al (2001:59), rightly opined these plans have really failed to “launch the
Nigerian economy into sustainable growth and development”. A synopsis of the nation’s history of development planning from 1946 clearly depicts the causes of her inability up till now to effectively manage her public sector’s fiscal stress. The constant languid attitude of the Nigerian state to her budgetary process and its provisions over the years remains one of the major causes of fiscal stress in the nation’s public sector. In Nigeria the budgetary process has been taken for granted by all its regimes and/or governments in power without regard for its indispensability to the attainment of national goals and good governance devoid of financial insolvency. This neglect can only be appreciated against a synopatic elucidation of what a budget is. This is the subject matter of discussion below:

**What is a Budget?**

The budget is a financial statement that sets out the estimate of expenditure and revenue of a government or an organization for the coming year. It is a political document that involves bargaining between various sectors of the political economy. It constitutes one of the policy-nerve centers of government’s response to the political environment in terms of authoritative allocations of scarce societal values. The political view of the budget sees it less as a tool of public management and much more as a part of the general social decision-making process in which various participants, clientele groups, agencies and the council of economic advisers combined to determine who gets what? Where? When and how? But, this has rarely been the case in Nigeria where unreasonable and sentimental extra-budgetary spending has become a way of life. This way of life as it relates to the budget as a whole is very disturbing. There is, the need to respect the budget as a tool of national fiscal control. It is our belief that, it is after the recognition of the budget as the only translator of financial resources into
human purposes that, its sectoral allocation could be specifically analyzed in terms of adequacy or otherwise, because once the whole is disregarded as we are now used to in Nigeria, it would be meaningless to dissipate energy on its components. Our contention here, is grounded on the fact that, in Nigeria, emotional extra budgetary spending by Nigerian leaders at national, state and local levels has made it impossible for the past budgets to perform their predictive functions for the Nigerian economy despite their typifications as “budget of hope” “budget of reconstruction”, “budget of determination” and “budget of consolidation” among other euphemistic terminologies. It is now a fact of history that most of our leaders in the past and even, up till now are internationally acclaimed as “father Christmas” in terms of emotional or primordial extra budgetary spending. In Nigeria, in most instances, donations have seen made by our leaders here and there even to questionable and dead organizations and person. Given these, there is the need for the respect of the fiscal requirements of the budget. The first thing the government should do in this respect is to imbibe the etiquette of fiscal process as it relates to budget’s implementation. It has to do this to survive economically because, whenever the budge is idiosyncratically tampered with by a way of disregard for fiscal requirements, it becomes impossible for it to serve its purposes of (i) a planning device for translating present scarce fiscal and human resources in the public sector into future government goals,, (ii) an economic document (iii) a tool for fiscal policy and (iv) a tool for internal co-ordination and efficiency in public administration. Not only this, such a spending orientation, usually take for granted the log rolling (competition or lobbying), compromise and bargaining involved in the determination of the current priorities of the nation. While doing this, the sectoral allocations of the budget should be respected and money should be disbursed in line with it rather than through a fire-brigade approach.
The subject-matter of budget as synopsized above has long been constantly, as stated above, misconceptualised in Nigeria by our leaders and/or public officials through their proclivities (among other things), for shabby political going-on and putrid conducts. This has to stop for her to resolve or be able to resolve the problems of her fiscal stress. Thus, there is need for her to make effort in this regard. The nitty-gritty of this need in the context of what Nigeria should do, is discussed below.

**What Should Nigeria Do?**

In addition to the issues raised and addressed in sections III, IV and V of this paper, Nigeria as a nation should further serve to manage the fiscal stress within her public sector by adopting some strategies that can effectively neutralize her domestic problems part of which has led to the situation whereby:

*The country is rich but the people are poor. The vast windfall from oil wealth has produced very minimal effect on the poverty situation, which has reached an alarming rate with about two-thirds of the population estimated to be poor. In short, the Nigerian economy, despite its vast resources, has not experienced the necessary institutional and structural changes that would guarantee rapid and sustainable growth and development, and acceptable minimum standard of living. The productive and technology bases, which form the prime movers of activities, are weak, narrow, inflexible and largely dependent on oil, which earns*
over 97 per cent of Nigeria’s foreign exchange for sustenance. Government as against the private sector still controls most of the non-oil economy and productive activities. Furthermore, the economy is still mono-cultural and dualistic with weak sectoral linkages. The informal sector, which constitutes a large segment of the Nigerian economy and has high potential for performance and growth, is largely neglected. For sustainable development to be achieved and poverty to be eradicated, government should focus its attention on providing consistent and appropriate macro-economic policy frameworks, strengthen coordination and providing basic social infrastructure, while the private sector and civil society investing productive/activities to propel the economy forward (NNCA, 2001: 74).

One of the strategies that should be adopted by the Nigerian state to manage its fiscal stress is setting of distinct policy objectives like:

1. The provision for social goods, or the process by which total resource use is divided between private and social goods and by which the mix of social goods is chosen. This provision may be termed the allocation function of budget policy. Regulatory policies, which may also be considered a part of the allocation function of budget policy. Regulatory policies, which may also be considered a part of the allocation function are not included here because they are not primarily a problem of budget policy.
2 Adjustment of the distribution of income and wealth to assure conformance with what society considers a “fair” or “just” state distribution, here referred to as the distribution.

3. The use of budget policy as a means of maintaining high employment, a reasonable degree of price level stability, and an appropriate rate of economic growth, with allowance for effects on trade and on the balance of payments. We refer to all these objectives as the stabilization function (Musgrave and Musgrave).

Given the foregoing, and, the “need to accelerate development” and “improve employment opportunities, and achieve a wider distribution” of the gains of government (Meier: 1984:1), the management of fiscal stress in the Nigerian public sector becomes more imperative in the context of “policy issues” constantly raised” within most developing polities by “the challenges to accelerate economic growth rates, eradicate absolute poverty, reduce inequality and create more productive employment “ within the developmental priority and policies of the international community (Ibid). It is equally imperative in view of the challenges of the expected and usual authoritative allocation of the scarce and critical societal values or, the determination of who gets what? when? Where? How? and why? among the various competing groups or interests within the polity. Within the context of this management philosophy, “the choice of policy instruments, methods of implementation” will be improved. Thus, it is important to pursue it, in an attempt to preliminarily examine or show how economic and non-economic forces interact in the process of a nation’s quest for balanced policy orientation vis-à-vis economic and political development in the context of fostering good governance. This is particularly so in that: economic development is not equivalent to the total developments of a society; it is only a part – or one dimension – of general
development. We usually focus on the nation – state as the unit of development, but “national development” is a term that encompasses, at a minimum, social and political development… as well as economic development, in the building of national identity (Ibid. 5). Management of fiscal stress in this way would make it possible for a flawless determination of “how socio-cultural and political development contribute to economic development and, are, in turn, determined by it” thus, allowing for a unifocal though, mutually useful pursuit of multidimensionally beneficial public policy for the citizenry. This is more so, in that as Meier (Ibid: 6), equally opined, “economic development involves something more than economic growth. Development is taken to mean growth plus change. Through this policy orientation, and economic objectives that a country like Nigeria can give concrete meaning to its existence and as contained in the second National Development Plan(1970-1974),create the avenue for” the quest for purposeful national development and provide the leadership and honest administration necessary for the attainment of a national sense of purpose”. The foregoing cannot be said to be out of place for today’s Nigeria, in spite of the apparent elephantic movement and/or policy focus of her government in terms of truly committed search for national pride through purposeful governance. The Nigerian state cannot but manage its fiscal stress in view of the expected role of the state in its own economy which Brown and Jackson(1990:11) once articulated thus:

First, the duty of protecting the society from the violence and invasion of other independent societies; second, duty of protecting, as far as possible, every member of society from the injustice or oppression of every other member of it, or
the duty of establishing an exact administration of justice; and third, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be in the interest of any individual, or a small number of individuals, to erect and maintain because the profit could never repay the expense of any individual or small number of individuals, though it may frequently do much more than repay it to a great society.

The necessity for the Nigerian state to avoid both macro-political and macro-economic policy conflicts that are likely to arise in the course of its functional performance further compels the management of its public sector’s fiscal stress because:

*It may be quite impossible, however, to fulfill all policy goals simultaneously. A policy measure that will bring the economy closer to some objectives may well take it further away from others. In such cases, policy objectives conflict with one another. Thus, it is not sufficient for governments merely to decide which objectives are worth pursuing; they must also decide on some rate of substitution between them. They must decide how much of one it is worth sacrificing in order to get more of the other. Many of today’s controversies over matters of*
economic policy concern the relative importance of different objectives, each objective being accepted as desirable, ceteris paribus. Practically everyone, for example, accepts both a high level of employment and the control of inflation as desirable goals of policy. Where there is real disagreement, however, is over the relative importance of these two goals. Some people would be prepared to accept an inflation of, say, 7 percent in return for full employment; other people would prefer to let unemployment rise to 6 or 7 percent of the labor force rather than have a creeping inflation of 4 or 5 percent in a year. One of the most serious sources of policy conflict in the real world stems from the fact that while aggregate expenditure is the only variable that significantly affects unemployment, at the same time it significantly affects other policy variables. Thus, while both fiscal and monetary policy can be used to increase aggregate demand, and while a rise in aggregate demand in turn lowers unemployment, it may also raise the price level and worsen the balance of payments. Its effect on the rate of growth is uncertain. (Lipsey et al, Op Cit: 805).

If the foregoing can be effectively done, policy objectives would be streamlined to enable government and its bureaucrats to recognize and make available needed legal and institutional framework for nationally beneficial goals which Shehu (1994:11), referred to as impetuses. These impetuses according to him include:
a. provision of a range of public goods and services, especially infrastructure, which will enable the economy to run smoothly;

b. establishment of clear and consistent economic policies which, in addition to eliminating bureaucratic inefficiencies, will also build private sector confidence. The greater the level of private sector’s trust and confidence in public policies, the greater the likelihood that the rules of economic behaviour will be honored;

c. establishment of public confidence through properly adhered guidelines, accountability and probity in the public and private sectors. The absence of public confidence in the government and its policies will lead to legitimacy and acceptability crises; and.

d. provision of a framework from which the intended and unintended outcomes of economic policies are backed up by welfare safety nets for the not-so-privileged members of the society.

This explains the indispensability of fiscal stress management to the success of any given government in any mixed political economy in view of the functional expectation and performance of its government perse and, what it actually entails as articulated below:

*Government deals with a wide range of issues. It extends to the rules and regulations by which a group of people govern themselves, the traditions and customary practices upon which those rules are based, the institutions and political structures and organizations set up to implement those rules, the culture and behaviour patterns of the people.... Similarly, the resources available to the agencies of government, whether these are internally generated or brought in from outside have their impact on how the
Fiscal stress should be managed in Nigeria for her to attain political, social and economic recovery. This recovery can be equally attained through a national road map that incorporates the already identified issues and strategies in addition to the following programmes which in our view are worth pursuing in the quest for fiscal stress-free public sector. These programmes include:

(i) Stakeholders forum/talkshop/conference where the over 374 nationalities that constitute Nigeria can come together and dialogue.

(ii) Transparency and accountability should form the basis of policy formulation and implementation in Nigeria.

(iii) Issues of corruption (as earlier stressed) and poverty must be concretely addressed. The ICPC should be allowed to work instead of its current status of a mere political document. The too many loopholes in the statue books that allow crooks to escape prosecution should and must be blocked. Currently our judicial system is fashioned in such a way that it allows a camel to pass through the eyes of the needle with ease due to its porousness.

(iv) Government should provide enabling environment through workable basic infrastructural facilities for the smooth running of the private sector instead of its dabbling into such areas without the required expertise and needed painstaking commitment. The basic infrastructures in mind here include good and motorable roads, energy supply (electricity and fuel), water, and, a clean environment. Government has no business owning shares in commercial banks.
(v) Attempt should be made to recreate the middle class that was wiped out by the structural adjustment programme. In other words, the gap between the rich and the poor must be bridged.

(vi) Job creation must/should be one of the priorities of the government. This will reduce the army of unemployed youths roaming our streets. In addition to this, government must assist those who can create jobs to do so.

(vii) The secularism of the Nigerian nation must be respected. That is, government must hands off religion because of its volatility.

(viii) Education as the greatest legacy that any nation can bequeath to her youths must be handled through holistically beneficial policy instead of the present half-hearted approach. There is no gainsaying the fact that, currently, the Nigerian educational sector is in a state of coma. The concept of free education that has been bastardized in Nigeria to fool Nigerians due to their gullibility should be revisited. There is no doubt that free education is good only if government can afford to give it. The outcome of the stakeholders’ conference/meeting in Abuja in the year 2003 showed that the government cannot afford to pay the bill alone. Our government can pay such bills if there is financial accountability and respect for sectoral allocations in the budgetary stipulations and if such sectoral allocations are done with the principle of free education in mind. On the alternative, good and living scholarship programme should and must be put in place for brilliant students. Loans can equally be made available for normal students who will normally pay back such loans. The establishment of private institutions at the levels they presently exist is good but there must be adequate regulation and periodic
review to regulate the fees payable from constantly becoming too exorbitant.

(ix) Budgetary recklessness and its accompanying fiscal indiscipline must be stopped.

(x) Growth and development should be emphasized Vis-a-Vis the agriculture and manufacturing sectors of the economy.

(xi) The exchange rate of the Naira should be revisited with a view to propping up its value. Currently one British pound sterling is about N230-250. It is not good for an economy like that of Nigeria which is essentially import based to allow her currency to freely fall.

(xii) Health care delivery system in Nigeria is not good enough. This must be changed.

(xiii) The issue of brain drain must be addressed. Even though our succeeding regimes/government since the 1977 (the first regime of Obasanjo as the military head of state) through the second republic, the military rulership of Buhari/Idiagbon, Babangida, ING, Abacha, Abubakar and now Obasanjo have all ignored the fact that this trend is a reality. The best brains, human resources are leaving this country for better living in properly focused and handled political economies all over the world. This continues to have its massive toll on the Nigerian labor market even though, it is a good exchange earner for those leaving the country.

(xiv) Nigeria’s external debt must be reduced. Currently her external debt is in the region of about 30-33 billion US dollars. This high level of external debt is staggering. The debt was incurred due to political instability, civil-military-civil rulership cycle that has bedeviled Nigeria. For example during the military era and, indeed, the second republic, most state governments became
Island unto themselves or authorities on their own, taking external loans without full approval of the central bank or any central authority. These unauthorized loans have been lumped on the Federal government. The only reason for these can be adduced to faulty political structure and apolitical politicking and, its usually accompanying slippery political landscape/ political instability.

(xv) The issue of financial crimes should/must be painstakingly tackled by the government contrary to the current lip-service being paid to it or the currency of chasing the shadow rather than the objects. The tendency in Nigeria is to scapegoat those who are not really the actors while leaving the financiers to walk freely. This must stop if fiscal stress is to be effectively tackled.

(xvi) The intergovernmental character of the Nigerian fiscal federalism must be reappraised. Through this reappraisal the many-faceted demand within the federation can be met. Equally, the capacity of component’ units to locally finance and provide in services in an efficient manner would be enhanced through the use of local resources and elimination off inhibition inherent in extreme centralization. Not only would this participatory democracy be enhanced through the strength of people residing in the local community. In addition, the tendency of the central government becoming “all powerful LEVIATHANS would be curtailed. Through the reappraised character, the prospect of a stable federation in Nigeria would be enhanced because, stable federalism is known to be anchored on a “fiscal arrangement rooted in equity, fairness and justice” (Bello-Imam and Agba, 2004). This process will help to remove the present trend in Nigeria by government to solve “otherwise political issues
through the law courts”, which as recently opined are mere sophistry completely anti national integration. No fiscal stress can be managed in the public sector of a disintegrated federation.

Benefits Of Effective Management Of Fiscal Stress To The Nigerian State

There is no doubt that a national like Nigeria or any national at all, stands to benefit from the effective management of her public sector’s fiscal stress. Even though, some of these benefits have been variously touched upon and analyzed to some extent, in the proceeding sections of this paper, relevant others are synoptically examined in this sector of the paper. Though effective management of her public sector’s fiscal stress, the Nigerian state will be able to meaningfully foster greater harmony among her political, economic and market choices and/or forces. This, in return will aid her capacity to reduce or clearly avoid political bankruptcy which as Guy Peters and Rose (1980:34) described thus:

*Political bankruptcy is an intermediate form of authority. It occurs when a government’s overloading of the economy is no longer confined to an issue of effectiveness, to be resolved within conventional electoral and administrative institutions. It sets of “double trouble, undermining content while making citizens increasingly indifferent to authority. A politically bankrupt government has not made citizens dissenters or rebels antagonizing them. Its ineffectuality limits the antagonism it can engender. Citizens withdraw their support from established authority without having confidence that any other regime would be*
better. Such a “broken backed regime” has its authority crippled rather than destroyed. Citizens may prefer the weakness of a bankrupt regime to the power of a coercive regime, but those who live under fully legitimate authority undoubtedly prefer government as they have known it to a political system in which government is ineffectual and incivisme the individual norm.

The need to avoid political bankruptcy as articulated here can only be appreciated against the pains of its consequences:

political bankruptcy can occur, for, the overloading of resources encourages civic indifference. As government increasingly appears ineffectual and also threatens conservative self-interest (i.e., the maintenance of take-home pay) individuals may be expected to adopt a (“Sauve Qui Peut” attitude. Instead of street demonstrations or television confrontations, indifference can be registered through inaction and avoidance (e.g., companies ignoring planning directives from governments or union leaders ignoring requests for wage restraints). Ordinary citizens can redefine their economic affairs to create a new “private” sector, which government does not know about or tax. In place of a black market in selling goods, a black market in labor can grow up. Untaxed wages are worth twice as much as
wages attracting direct taxes at a marginal rate of 50 percent, and half again as much as wages taxed at 33 percent. In (at a point in time) Italy, black work amounts to as much as one-sixth or more of the total effort in the economy, and the American GNP may be underestimated by at least 10 percent because of the “subterranean economy.” Even in Sweden, (at a time) surveys of public opinion show that a majority do not regard tax evasion as a serious offence: many justify it on grounds that it is a reasonable reaction to the country’s high rates of the ----- tax. Even something as legal as the growth of do-it yourself activities is ---- symptomatic of the demonetizations of labor, as individual find that unpaid work is more money that services that must be paid for from pay subject to tax (Ibid:- 44-45).

This reduction or avoidance of political bankruptcy from constituting a major politico –economic benefit will ability and capacity of the Nigeria state to find and maintain a balance between fiscal solvency and levels of services and benefits that are adequate, equitable and stable “ (Levine op cit, 12): as

adequacy can be defined as a level of public goods and services capable of sustaining civil society and promoting individual well-being. This means adequate public goods and services ranging from


national defense and law enforcement to housing and education. Equity can be defined as a system of service provision that guarantees citizens equal access and opportunities to use and benefit from public goods and services. Finally, stability refers to the maintenance of goods and services commensurate with the needs and expectations of citizens. Unstable service provision breeds uncertainty, cynicism, and alienation—all of which undermine consensus and support for government (Ibid).

Through effective management of the fiscal stress in the public sector of the Nigerian state, some of the defects which had occurred at various stages of her economic planning and, which had, in most cases, rendered them impotent as mechanisms for pursuing national agenda on economic and political fronts can be permanently removed. Such defects include:

(i) Target setting based on educated guesswork without detailed project studies.

(ii) Violation of planning rules by those who made them.

(iii) Inadequate/incomplete studies on plans.

(iv) Erratic and non-coherent policies on the needed directive or policy focus of each plan.

(v) Payment of lip-service to plan discipline i.e. fiscal indiscipline, violation of sectoral allocations, Father Christmas spending philosophy.

(vi) Corruption and its attendant capital flight which, combined, and has consistently aided the truncation of the nation’s development of a self-reliant economy.
(vii) Non-recognition of higher-level management as an indispensable skill.
(viii) Expansion of the public service without corresponding expansion of skills.
(ix) Paucity of statistical values that is, non recognition of statistical data as the indispensable basis of planning.
(x) Neglect of true Academics in the scheme of things based on their erroneous categorization as theorists.
(xi) Constant disarticulation in the progress reports of yearly or periodic national Development plans and, the need to constantly review existing plans.
(xii) Planning beginning and ending only on papers
(xiii) Lack of real commitment to free Nigeria from its status of a “trading-post economy” which president Obasanjo, as a Military Head of State, called it in 1977 during the launching of the first International Trade Fair in the country (NCCA, op cit: 73).

If the foregoing can be painstakingly done, the benefits that are inherent in the balanced management of the public sector’s fiscal stress can be infinitely and adequately tapped for the betterment of the citizenry. And the government will be able to identify and vigorously pursue for attainment some key national challenges stated below.

• Put in place appropriate macroeconomic policies and framework that will promote rapid industrial and technological development of Nigeria and support effective economic performance of all sectors;
• Increase participation of the poor in the economy through expanding employment, increasing their productivity and skills and widening their access to other productive assets;
• Empowerment and organization of the poor to enable them participate more effectively in social, political and economic processes;
• Targeting resources to programmes directed to the poorest localities and groups to improve their conditions;
• Devising appropriate social protection schemes to meet the basic needs of the poor, especially the handicapped, marginalized women ands youth;
• Mobile and augment community, national and voluntary funds for anti-poverty programmes;
• Pay attention to the interlinkages of sustainable development and poverty reduction, emphasizing environmental protection and management;
• Strengthen collection of development indicators and gender-disaggregated statistics and consequent utilization in socio-development planning;
• Strengthen the legal, political and institutional structure and coordination among government agencies, civil society and the business sector for poverty reduction and
• Promote good governance and an efficient administrative and institutional support structure at both the national local levels for the effective delivery and monitoring of social development programmes (Ibid).

Equally, key political challenges of tension over the distribution of power and resources” “friction between legislature and executive branches of government”, “transparency in governance”, “religious contestations and regional groupings”, “sustainability of the democratic transformation” and “weak political party structure” (Ibid: 50-51) among others, will become tactically manageable for effective governmental process and actions. This stage, if can be attained, Nigeria as a nation-state where government
remains the major player in the economy as against the private sector lead economy” will be able by means of authoritative process to put the “economy back on the path of equitable economic growth” (Ibid: 73) and equally be able to:

- Design sound development policies and ensure effective implementation;
- Design a sound and comprehensive poverty alleviation policy and programme for human poverty eradication;
- Identify the sectors that form the basis for sustainable economic growth and focus on them, for example agriculture, energy, mining and industry;
- Capacity enhancement for the informal sector which is plagued by low productivity and high poverty;
- Appropriate debt management policy that will release foreign exchange for domestic investment;
- Support the development of sectoral policies that will encourage capacity utilization, employment and increased productivity.
- Support programmes that enhance national food security attainment, reduction in post harvest loss;
- Diversification of the economy;
- Promotion of small and medium scale enterprises and urban informal activities;
- Facilitate access to credit, productive resources and employment;
- Promote the acquisition of appropriate technology;
- Provide support for the acquisition of information technology;
- Broaden the base for economic decision-making, involving the private sector, NGOs, CBOS and Civil society;
- Mobilize resources for priority development areas; and
- Support the mainstreaming of gender into the development process.
- Strengthen the coordination mechanism put in place by government at federal, state and LGA levels;
- Support coordination among donors;
- Support collection and analysis of poverty data;
- Support programmes that guarantee fundamental human rights, protection of life and property; and
- Support targeted poverty alleviation programmes (Ibid. 73-74).

**Conclusion**

We have examined the issue of fiscal stress and its management in the public sector zeroing-in on the Nigerian experience. In the process the subject–matter of fiscal politics as a concept that encapsulates the nitty-gritty of fiscal stress and its next higher stage of fiscal crisis was examined. In the course of our analysis, the symptoms of fiscal stress in the public sector were identified as does their antecedents within the Nigerian political economy. We identified and examined what Nigeria should do in her effort to manage the fiscal stress of her public sector as well as the benefits derivable from such efforts.
References


Special Publications


CHAPTER VIII

AN ECONOMIC ANALYSIS OF GROWTH, UNEMPLOYMENT AND POVERTY IN NIGERIA

Tokunbo Simbowale Osinubi

Introduction

In Africa, the incidence of poverty has been increasing significantly for many years. For instance, it is documented that the number of poor people increased by about two-thirds between 1970 and 1985, and rose from 180 million (47% of the population) in 1985 to 265 million by the year 2000 (Aluyor, 2000). Different groups of the poor in Africa are affected differently because they are faced with different constraints, needs, and roles in the society. In fact, virtually all-African countries are known to be in poverty, and their people experience very poor living conditions. It is true that there may be pockets of rich people in these countries, but vast majority of the people wallow in abject poverty (Ndekwu, 1998). If we use per capita income as a measure of poverty, African economies are generally poor. For instance, in 1998, the African country with the highest GNP per capita was South Africa with GNP per capita of US$2,290 when the world average was US$3,470. Out of the 10 poorest countries in the world in 1988, 7 of them were in Africa. This ratio improved to 6 out of 10 in 1990 but deteriorated to 8 out of 10 in 1995 (Ndekwu, 1998). Many African countries experienced deterioration in their GNP per capita in the 1990s (see World Development Reports 1990, 1995 and 1997). This suggests deterioration in living conditions and increased incidence of poverty. As a matter of fact, the sight of various groups of people looking desperately malnourished and in obvious want of every basic need of life is a common feature in Africa and other less developed regions of the world.
It is instructive to state, at this juncture, that poverty in extreme cases is a condition that dehumanizes people and reduces them to a sub-human level of destitution (Sagbamah, 1997).

In what seemed to be an overview of the incidence of poverty, Ogwumike (1998) observed that poverty is a world-wide problem that plagues over one billion people in the world. Of the about 6 billion people on earth, about 1.3 billion earn less than US$370 a year (that is about US$1 a day). Most of the poor live in the developing world – in Africa, Asia and Latin America. Over 200 million people in Africa are trapped in the net of abject poverty. In sub-Saharan Africa, the incidence of poverty is manifestly tremendous. On the average, 45 to 50% of sub-Saharan Africans live below the poverty line – this is much a higher proportion than in any other region except South Asia (World Bank, 1997, cited in Ogwumike, 1998). In West Africa, virtually all countries (including Nigeria) are classified as low-income countries by the World Bank and low human development countries by the United Nations Development Programme; in these countries, human poverty afflicts about half of the population (Ogwumike, 1998).

In Nigeria, there is very high level of poverty. A report by the World Bank in 1996 showed that in 1985, about 43% of the population was living below the poverty line of 395 naira a year in 1985 prices. The number declined to 34% by 1992. The World Bank report further noted that poverty increased between 1992 and 1995 mainly due to adverse policy changes (Ogwumike, 1998). In fact, according to 1999 report of Federal Office of Statistics (FOS) on Poverty Profile for Nigeria: 1980-1996, the incidence of poverty in Nigeria increased sharply both between 1980 and 1985 and between 1992 and 1996. The figures were 27.2%, 46.3%, 42.8% and 65.6% for 1980, 1985, 1992 and 1996 respectively. To further strengthen the assertion that there is very high level of poverty in Nigeria,
let us spotlight some other indicators of poverty in Nigeria. The percentage of household income spent on food from 1991 to 1997 is estimated to be 67 (World Bank, 1998). Following Engel’s law, this implies that there is high level of poverty in Nigeria. The percentage of children under 5 years who suffered from malnutrition from 1990-1996 was estimated to be 35 on the average; the number of people (per 1,000 people) who purchased daily newspapers in 1994 was estimated to be in 18, the number of people (per 1,000 people) who had television sets in 1996 was estimated to be 55; the number of people (per 1,000 people) who had telephone main lines in 1996 was estimated to be 4; the number of people (per 1,000 people) who had personal computers in 1996 was estimated to be 4 (World Bank, 1999). The percentage of the population with access to sanitation facilities from 1993 to 1995 was estimated to be 36 on the average; the percentage of the population with access to safe water from 1993 to 1995 was estimated to be 35 on the average; the population per physician from 1990 to 1994 was estimated to be 599 on the average (World Bank, 1998). Furthermore, the percentage of births attended by trained health personnel from 1990 to 1994 was estimated to be 45 on the average; and the number of pupils per teacher in primary schools in 1990 was estimated to be 39 on the average (World Bank, 1998). Also, Gini coefficient, which is a measure of income inequality, from 1991 to 1995 was estimated to be 44 for urban and 46 for rural – all on the average (World Bank, 1998).

Unemployment is another undesirable phenomenon afflicting all under-developed regions of the earth. In Nigeria, unemployment is well pronounced. Many secondary school leavers and even graduates cannot find jobs, and many engage in jobs in which their potentials are not fully utilized. Even though the official estimates of unemployment in Nigeria are not too robust, and they contradict the general opinion about the problem, however, they indicate that there have been steady fluctuations in
unemployment rate in Nigeria. Unemployment has been identified as one of the major causes of poverty in sub-Saharan Africa (Obadan, 1997). Indeed, unemployment is always expected to be highly and positively correlated with poverty. Ogwumike (1998) observed that productive employment is a basic need and is a way of escaping from poverty. Economic growth, which is one of the major macroeconomic objectives, is regarded as crucial – indeed, the driving force of conquering unemployment and poverty (Obadan, 1997). However, although economic growth is necessary for reduction in unemployment and poverty alleviation, it is not sufficient, because growth alone cannot overcome all the crucial factors that contribute to unemployment and poverty. The foregoing appears to be the case with Nigeria; economic growth in Nigeria appears not to have provided the expected panacea for unemployment and poverty.

Nigeria is a nation that is endowed with multifarious and multitudinous resources—both human and material. However, due to gross mismanagement, profligate spending, kleptomania and adverse policies of various governments of Nigeria, these resources have not been optimally utilized; these resources have not been adequately channeled to profitable investments to bring about maximum economic benefits. As a result of the foregoing, Nigeria has been bedeviled with unemployment and poverty. These have in some cases led to fall in national output in obedience to Okun’s law; these have led to very high dependency ratio and low standard of living – a great multitude of people in Nigeria live in abject misery. Furthermore, unemployment and poverty have led to tremendous increase in criminal activities and social vices in Nigeria. Also, unemployment and poverty are potential sources of political instability in Nigeria for disenchanted, disgruntled and revolutionary elements in the society (Anyanwu and Oaikhenan, 1995). Economic growth, which is supposed to be a solution to the problems of unemployment and poverty, appears not to
be so in Nigeria. Nigeria’s official statistics show that economic growth has not always been accompanied by decline in unemployment and poverty.

It is in this respect that this study finds it worthwhile to address the following questions using time series data for a 31-year period, 1970-2000: (a) what is the nature of relationship between poverty, unemployment and growth in Nigeria? (b) what steps should be taken to ensure that growth is such that brings about decrease in unemployment and poverty in Nigeria? The remainder of this study is divided into four sections. Section two reviews the literature and theoretical framework. Section three contains the methodology and section four is the empirical analysis. Section five concludes the study.

**Literature Review and Theoretical Framework**

**Concepts of Growth, Poverty and Unemployment**

The concept of growth is used in all fields of human endeavor. In economics, the concept refers to economic growth. Kuznets, cited in Todaro (1985), defined a country’s economic growth as “a long-term rise in capacity to supply increasingly diverse economic goods to its population; this growing capacity is based on advancing technology and the institutional and ideological adjustments that it demands.”

The foregoing definition implies that economic growth is synonymous with sustained rise in national output, provision of wide range of economic goods, presence of advancing technology, and institutional, attitudinal, and ideological adjustments. Anyanwu and Oaikhenan (1995) stated that economic growth, simply defined, refers to the increase, overtime, of a country’s or an economic capacity to produce those goods and services needed to improve the well-being of the citizens in increasing numbers and diversity. Many economics often make radical departure from
the foregoing definitions of economic growth; they do this in their empirical works; this is based on their belief that economic growth is not always a long term phenomenon, and it does not signify improvement in the well-being of the citizens of an economy (see Khan, 1990; Semboja, Likwelile and Rutasitara, 1999).

Growth is often interpreted by many economists to mean increase in the volume of output in a given current year compared to the output in a given previous year. Anyanwu and Oaikhenan (1995) identified three major definitions of economic growth namely: nominal, real value of output, and per capita value definitions. Under the nominal definition, economic growth is seen as an increase in current value prices of aggregate output. This definition is considered to be the crudest for it does not take into consideration vital issues such as whether or not the increased expenditure is accompanied by a corresponding increase in the real value of output in the reference period. Under the real value of output definition, the nominal value of output is deflated by an appropriate price index. Hence, using this definition, an economy is said to have grown (in real terms) when there is an increase in aggregate output at constant prices over time. The major advantage of this definition is that it takes care of inflation. In the per capita value definition, an economy is considered to have grown if there is an increase in per capita output at constant prices overtime. It is instructive to note that this definition does not take into consideration the disparity in real income distribution. If income distribution is highly skewed in favor of the rich this definition becomes grossly defective. On the other hand, the concept of unemployment may apply to any factor of production but in most cases it applies to labor as a factor of production. In a general sense, unemployment is defined as a state of “joblessness”. But this definition is too wide to be satisfactory because many categories of people who are without work should not be classified as “unemployed” in
any meaningful sense. For instance, various labor codes prescribe lower and upper age limits for the labor force (those who can be legitimately regarded as either working or available for work). This implies that those who are below the lower limit or above the upper limit are regarded as falling outside the labor force. And when such people are without work, even though they may be willing and able to work, they don’t feature in unemployment statistics. Even within the accepted age limits there are people who should not be regarded as “unemployed” even though they may be “idle”, these include those who are physically and/or mentally handicapped – such as cripples and lunatics or imbeciles – full time students and trainees, and housewives who devote all their time entirely to taking care of their homes. Another major problem encountered in the definition of unemployment is the determination of the minimum period of idleness that qualifies a person to be classified as “unemployed”. Usually, in labor force surveys, people who are without work during the reference period are classified as “unemployed”. The problem here is that the reference period varies from one to two days in some countries, to one week and even to three months in other countries. Indeed, the choice of the reference period can significantly affect the magnitude of unemployment as measured in Labor Force Surveys. However, the general requirement is that for people to be regarded as unemployed, they must be actively seeking for work (Falae, 1971).

Despite the foregoing problems associated with the definition of unemployment the concept has been given many but similar definitions by many economists. Jhingan (1996) defines unemployment as “involuntary idleness of a person willing to work at the prevailing rate of pay but unable to find it.” This implies that voluntarily unemployed people, who do not want to work, and those who are not prepared to work at the prevailing wage rate, are not to be regarded as unemployed. Anyanwu and Oaikhenan
(1995) observed that during the early days of the development of unemployment theory much controversy over the definition of unemployment and origin of unemployment revolved around the distinction between “voluntary” and “involuntary” unemployment. Even the conceptualization of these classes of unemployment has been a source of dispute. However, voluntary unemployment is said to exist when people choose not to work or accept job, for which they are qualified to do, at the prevailing wage rate and conditions perhaps because they have means of living other than employment. Involuntary unemployment, on the other hand, exists when people cannot get job even if they are willing to accept lower real wages or poorer conditions than workers of the same or similar qualification who are currently in employment. Despite the difficulties of measurement and the setting of standard with regard to the foregoing classification, the taxonomy of unemployment include a condition of “being out of job”, an activity of “searching for job”, an attitude of “desiring a job under certain conditions” and “the need for a job” (Thatcher, 1966, cited in Okigbo, 1986). However, the concept of poverty is by no means an easy task. In the words of Aboyade (1975), poverty, like an elephant, is more easily recognized than defined. However, it is important to define a concept no matter how crudely this is done, at least to provide a focus by which we can determine the limits of our understanding (Tella, 1997). Aboyade (1975) implicitly accepted this position when he said that it is not altogether a semantic escapism or academic obscurantism for economists to search for an objective means of identifying poverty and of separating it from its opposite phenomenon of non-poverty. Indeed, it is absolutely imperative to give definitions of poverty so that its meaning and scope may be identified.

Okojie et al (1999) observed that there is no general consensus on any meaningful definition of poverty in the literature. Due to the fact that
poverty affects many aspects of human condition – including physical, moral, and psychological – a concise and universally accepted definition is elusive. The literature is replete with multifarious conceptualizations of poverty. Ogwumike (1987), Ogwumike and Odubogun (1989), Odusola (1997) and Okojie et al (1999) observed that the most common practice is to conceptualize poverty as absolute that is, poverty is lack of adequate resources to obtain and consume a certain bundle of goods and services. Such a bundle of goods and services would contain an objective minimum of basic necessities such as food, shelter and clothing. There are two major problems associated with this definition. The first is: what do we include in the objective minimum? And the second is: how do we set minimum standards for basic necessities like clothing, food, transportation etc, which often depend on individual taste, cultural norms and values, and the prevailing socio-economic conditions within a given society or nation (Afonja and Ogwumike, 1996, cited in Odusola, 1997). Again absolute poverty is sometimes defined as the approximate maximum proportion of income that a family spends on certain subsistence commodities (Watts, 19967 cited in Odusola, 1997). In conformity with Engel’s law, any household that has to spend more than specified poor (Federal Office of Statistics, 1996; Obadan, 1997; and Odusola, 1997). An alternative approach is to define poverty as being relative poverty with respect to the living standards that prevail in a given society or nation. A major advantage of this approach is that it reflects the changing perceptions of acceptable minimum living standards. The reasonableness of the foregoing will be clearly seen when we consider the fact that certain goods and services, which are seen as necessities in the advanced countries, are seen as luxuries in developing countries.

The concepts of absolute poverty and relative poverty have been given alternative but similar definitions by many economists. Absolute
poverty is characterized by low calorie intake, poor housing conditions, inadequate health facilities, poor quality of educational facilities, low life expectancy, high infant mortality, low income, unemployment and underemployment (Olowononi, 1982, 1997). Ogwumike (1991) defined relative poverty in terms of the bottom 10 to 15 per cent of the income distribution. The World Bank (1977) defined relative poverty as existing where households have per capita income of less than one – third of the average per capita income of the country concerned. The World Bank defined absolute poverty in terms of a household’s command over resources, which are sufficient to obtain a basket of goods and services required to guarantee a minimum decent living standard; it is a condition of life degraded by disease, illiteracy, malnutrition and squalor.

Aku, Ibrahim and Bulus (1997) categorized poverty along five dimensions of deprivation namely: personal and physical deprivation, economic deprivation, social deprivation, cultural deprivation, and political deprivation. Personal and physical deprivation can be experienced in nutritional, educational, health and literacy deficiency and lack of self-confidence. Economic deprivation includes lack of access to property, income, assets, finance and factors of production. Social deprivation is manifested in impediments to full participation in social, political and economic life. Cultural deprivation is when people are deprived in terms of values, beliefs, attitudes, knowledge, orientation and information. Based on this, they are not able to take advantage of economic and political opportunities. Under political deprivation, we see that ignorance is a fundamental barrier to the elimination and deprivation. Ignorance, among other things, undermines access to legal institutions. The poor lack political voice. Those who are politically deprived occupy lowly positions and are subjected to humiliation through economic and/or physical threat.
Poverty can be made between temporary and chronic poverty. The transient poverty otherwise known as poverty of the hopeful is temporary. It may arise from theft, drought, war, flood and fire. The victims are poor in the short-run. The unemployed as a result of economic recession fall into this group. Chronic poverty on the other hand is long term and persistent. Its causes are largely structural. Chronic poverty may be so as to describe the average life in a society. This kind of poverty may be transmitted from one generation to another and it is very persistent (Ogwumike 1995).

Theoretical Correlations between Growth, Poverty and Unemployment

Obadan (1997) and Sagbamah (1997) observed that growth and employment move in the same direction. All things being equal, the higher the growth rate, the higher the employment rate. A corollary to the foregoing is that growth and unemployment move in opposite direction. If the growth rate increases, unemployment rate will fall, all things being equal. Output is, among other things, a function of employment. Increase in employment will, all things being equal, lead to increase in output and hence economic growth. On the other hand, reduction in employment (which is unemployment) will lead to decrease in output and hence in economic growth (all things being equal). The foregoing shows that there is a negative correlation between growth and unemployment. Therefore, to reduce unemployment, growth-boosting policies should be formulated and put in place. However, it is important to note that for growth to bring about reduction in unemployment; such growth must be associated with labor force participation. According to the classical school of thought this brings about increase in the demand for goods and services and such leads to increase in the demand for labor services which, in turn, leads to increase in employment and thus decrease in unemployment. However, it is important to reiterate that the growth that brings about increase in employment (or
decrease in unemployment) is that which is highly labor-intensive and goes
with increased labor force participation.

Many empirical evidences show a negative relationship between
growth and unemployment. For instance, in the Caribbean, countries that
have sustained high growth rates have decreasing unemployment rates;
these countries include Antigua and Barbuda, the Bahamas, Barbados, and
St. Kitts and Nevis (Baker, 1997). In Nigeria, the high rate of growth
between 1988 and 1992 was accompanied by decline in the rate of
unemployment (UNDP, 1997). A major strategy that can be used to bring
about rapid economic growth and reduction in unemployment is investment
in human capital. A recent World Bank study shows that the most
important factor that brought about rapid growth and reduction in
unemployment rate in East Asian countries was investment in human
capital (See Obadan, 1997). Meier (1989) asserted that whether absolute
poverty is measured by low income, low life expectancy or illiteracy, there
is a strong correlation between poverty and growth: the correlation is
negative. Meier (1989) stated that there is a great deal of truth in the
proposition that there is a strong inverse association between economic
growth and poverty but this needs to be carefully qualified. A comparison
of different countries shows that the relation between absolute poverty and
economic growth is far from perfect. This is due to differences in income
distribution. Looking at changes within particular countries, the connection
between growth and poverty reduction over periods of a decade or two
appears inexact. However, there is general agreement that growth in the
very long-term eliminates most absolute poverty (World bank 2001;
Obadan, 1997). The connection between economic growth and poverty
goes both ways. Health, education and well – being of the mass of people
in industrialized countries are a cause, as well as a result of national
prosperity. Similarly, people who are unskilled and sick make little contribution to a country’s economic growth Meier (1989).

Economic growth is very crucial in poverty reduction. Growth reduces poverty through rising employment, increased labor productivity and high real wages. Countries in the Caribbean that have sustained high growth rates and invested in human capital have relatively low levels of poverty; these countries include Antigua and Barbuda, and St. Kitts and Nevis. But poverty has increased in Caribbean countries that have had low or negative rates of growth for protracted periods; these countries include Guyana, Haiti, Jamaica, Suriname and Trinidad and Tobago (Baker, 1997). For growth to bring about reduction in poverty, among other things, it has to promote the productive use of the poor’s most abundant asset which is labor. Provision of employment that goes with living wages for the poor is very important in any poverty alleviation strategy; this is in line with the capitalist entrepreneurial theory of poverty. Job creation and generation of adequate income earning opportunities for the poor are made possible through high and sustainable economic growth.

As stated earlier, economic growth that is associated with huge investment in human capital leads to reduction in poverty. And such investment may be made possible by increase in savings. No wonder, in the classical theory of growth, in the Harrod-Domar growth model and in the Meade’s neo-classical model of growth, savings is positively correlated with growth. Indeed, when savings are adequately channeled to profitable investment it brings about growth. There is a very strong positive correlation between high levels of unemployment and widespread poverty. In most cases, those without regular employment or with only scattered part-time employment are among the very poor. Those with regular paid employment in the public and private sectors are typically among the middle to upper – income class; they are typically among the non-poor.
However, it would be wrong to assume that everyone who does not have a job is necessarily poor or that all those who work full time are among the non-poor. There may be some unemployed urban workers who are “voluntarily” unemployed in the sense that they are searching for a very specific kind of job, may be because of high expectation based on their presumed educational or skill qualifications. They refuse to accept jobs they consider to be inferior, and they able to do this because they have outside sources of finance (e.g. finance from friends and relatives). Such people are unemployed by definition but they may not be poor. On the other hand, some people work full-time in terms of hours per day but earn very little income are “fully employed” but often they are still very poor (Todaro, 1985). Despite the foregoing reservations about a too literal linkage between poverty and unemployment, it still remains true that a major mechanism for alleviating poverty, especially in less developed countries, is provision of adequate paying and productive employment opportunities for the very poor. Therefore, employment must be an essential ingredient in any poverty-focused development strategy (Todaro, 1985).

Empirical evidences show that poverty can be reduced through reduction of unemployment among the poor. For example, in Nigeria, there was a steady decline in unemployment rate between 1987 and 1991 and this was followed by reduction in poverty (Federal Office of Statistics, 1999; Central Bank of Nigeria, 1998). In Indonesia and Malaysia, reduction in unemployment among the poor brought about reduction in the level of poverty (World Bank, 1990). The foregoing supports the assertion that there is a strong positive correlation between unemployment and poverty.
Methodology

If we consider growth and unemployment we will see two-way causation in the functional relationship between them. Growth is a function of employment. This implies that growth depends on the rate of unemployment. If the rate of unemployment rises, all things being equal, growth rate will decline. If firms lay off many of their workers, this will, all things being equal, increase the rate of unemployment. If the rate of unemployment rises, all things being equal, it will lead to decline in aggregate output that is, it will impede growth. On the other hand, employment is a function of growth. This implies that unemployment depends on growth. If growth rate rises, this will bring about higher incomes and increased demand, and unemployment rate will reduce; all things being equal.

Let us consider growth and poverty at this stage. Poverty may be function of growth. Higher growth rates may reduce absolute poverty by providing higher incomes and living standards for poor households. When there is equitable distribution of income, increase in growth is expected to reduce the level of poverty; all things being equal. On the other hand, growth may be a function of poverty. Higher levels of poverty may lower overall productivity, and in turn, reduce growth rate. Indeed, poverty may be a disincentive to the labor force. Poverty may reduce overall efficiency in production and hence reduce growth. From the foregoing one can say that poverty is both a consequence of, and a constraint on, growth. Furthermore, let us look at unemployment and poverty. Unemployment may be a function of poverty. Higher levels of poverty may bring about reduction in income and demand, in turn; lead to increase in the rate of unemployment. On the other hand, poverty may be a function of unemployment. Indeed, in many cases, unemployment breeds poverty. When people are unemployed, they find it extremely difficult, or even
impossible, to afford the basic necessities of life. Indeed, higher rates of unemployment may lead to higher levels of poverty. Based on the foregoing, the choice of model for this study is a multi-equation model. This is appropriate because of the two-way causation that exists in the functional relationships among growth, unemployment and poverty. Multi-equation models have been used in many empirical works. Parikh and Starmer (1994) used multi-equation model in their study of the monetary sector of the Bangladesh economy. The equations of the model were estimated using the two-stage least squares technique (2SLS). Tests for serial correlation were carried out and, where necessary, equations were re-estimated employing a first-order autoregressive scheme. The estimates of the model were robust (as shown by the results of the various diagnostic tests conducted). In fact, the entire model proved to be reliable in a situation where there is two-way causation in the functional relationship that exists among variables. Also, Marzouk (1975) used multi-equation model in the stimulation of growth and employment prospects of Sudan. Furthermore, Barro and Lee (1993) used a multi-equation model to examine the relationship between growth and various factors affecting growth such as educational attainment, population growth, and revolutions; the 3-stage least squares technique was used to estimate the model.

Model Specification

The model to be estimated in this study is stated as follows:

POV = \alpha + \beta \text{GRWTH} + \xi \text{UNEMP} + \gamma \text{INFLA} + \delta \text{AGRI_PROD} + \varepsilon \text{MAN_PROD} + \zeta \text{PET_PROD} + \mu \quad (1)

\text{GRWTH} = \phi + \psi \text{POV} + \omega \text{UNEMP} + \varsigma \text{MONSUP} + \sigma \text{EXCHRATE} + \rho \text{SAVRATE} + \mu \quad (2)

\text{UNEMP} = \pi + \upsilon \text{POV} + \omega \text{GRWTH} + \theta \text{TRADISP} + \lambda \text{WORKSTOP} + \mu \quad (3)
where \( \text{POV} \) is the poverty index

\( \text{GRWTH} \) is growth measured by change in real gross domestic product

\( \text{UNEMP} \) is the unemployment rate

\( \text{INFLA} \) is the inflation rate

\( \text{AGRIPROD} \) is the index of agricultural production

\( \text{MANPROD} \) is the index of manufacturing production

\( \text{PETPROD} \) is the index of petroleum production

\( \text{MONSUP} \) is the broad money supply

\( \text{EXCHRATE} \) is the naira exchange rate to United States dollar

\( \text{SAVRATE} \) is the savings rate expressed as proportion of nominal gross domestic product

\( \text{TRADISP} \) is trade disputes

\( \text{WORKSTOP} \) is work stoppages

\( \mu \) is stochastic error term

\( \alpha, \beta, \xi, \gamma, \delta, \epsilon, \zeta, \varphi, \psi, \omega, \varsigma, \sigma, \rho, \pi, \bar{u}, \dot{w}, \theta, \lambda \) are the parameters of the model

**A Priori Expectation**

In equation 1 where poverty level is a function of growth, unemployment rate, inflation rate, agricultural production, manufacturing production and petroleum production; Poverty is expected to be inversely related to growth. Higher levels of growth will, all things being equal, bring about lower levels of poverty. Poverty is expected to be directly related to
unemployment rate. Higher rates of unemployment will, all other things remaining the same lead to higher levels of poverty. Agricultural, manufacturing and petroleum productions are major industrial activities in Nigeria. Increases in agriculture, manufacturing and petroleum productions are expected to bring about reduction in poverty in Nigeria through employment creation, income generation, provision of basic consumption needs and infrastructure. Poverty is expected to be positively related to inflation rate. High rates of inflation make it impossible for many people to afford basic necessities of life. Indeed, high rates of inflation bring about high levels of poverty. In equation 2 where growth is a function of poverty, unemployment rate, money supply, exchange rate and savings rate. Growth is expected to be inversely related to poverty. Growth is expected to be inversely related to unemployment rate. Higher rates of unemployment will, all things being equal, bring about lower levels of growth for economic theory postulates that growth is a positive function of employment. Growth and money supply are expected to be positively related (Ajayi and Ojo, 1979). Increases in money supply will, all things being equal; bring about growth through its effect on prices. Also, growth is expected to be positively related to exchange rate. Increase in exchange rate brings about increase in domestic prices through the multiplier process; this, in turn, brings about growth. Growth is also expected to be positively related to savings rate (see the Harrod-Domar growth model). Increases in savings rate will bring about higher levels of growth. Savings leads to investment and then to growth.

In equation 3 where unemployment rate is a function of poverty, growth, trade disputes and work stoppages. Unemployment rate is expected to be positively related to poverty and inversely related to growth. Trade disputes and work stoppages cause unemployment in Nigeria. For example, the disputes between university lectures in Nigeria and the federal
government and the consequent work stoppages by the lecturers in the 1990s, 2001 and 2003 led to the dismissal of many lecturers, and this adversely affected the unemployment situation in the country. Therefore, unemployment rate is expected to be positively related to trade disputes and work stoppages.

**Types and Sources of Data**

This study has to do with an economic analysis of growth, unemployment and poverty in Nigeria. The study used times series data for a 31-year period, 1970-2000. This period witnessed a lot of policy changes in Nigeria. The study considered, among other things, many conceptual issues relating to poverty, unemployment and growth. These data were secondarily sourced from World Bank Publications, IMF Publications, United Nations Publications, Nigeria’s Federal office of Statistics Publications and Central Bank of Nigeria Publications as well as other relevant publications.

**Empirical Analysis of Results**

*Three-Stage Least Square (3SLS) Estimates*
The overall significance of the regression result for each of the equations show that equation 1 is statistically significant at 5 percent level of significance while equation 2 is not statistically significant at 5 percent level of significance. However, equation 3 is statistically significant at 5 percent level of significance. More so, in equation 1 about 77 percent of the total variation in POV is explained by GRWTH, UNEMP, INFLA, AGRIPROD, MANPROD and PETPROD, while in equation only 21 percent of the total variation in GRWTH is explained by POV, UNEMP, MONSUP, EXCHRATE and SAVRATE. But in equation 3, about 34 percent of the total variation in UNEMP is explained by POV, GRWTH, TRADISP and WORKSTOP.

Equation 1 tells us that poverty index is negatively related to growth and agricultural production but it is positively related to unemployment rate, inflation rate, manufacturing production and petroleum production. This imply that higher growth levels in Nigeria go with decreases in poverty index and as stated earlier, decreases in poverty index...
means increase in level of poverty. Increase in growth level goes with increase in poverty level; increases in agricultural production go with increases in poverty level; and increases in unemployment rate, inflation rate, manufacturing production and petroleum production go with decreases in poverty level. The negative relationship between poverty index and growth, which is contrary to a priori expectation, suggests that growth in Nigeria does not trickle down to the poor; it also suggests that there is high level of income inequality in Nigeria. Also, the negative relationship between poverty index and agricultural production suggests that as more people go into agriculture in Nigeria, poverty level rises. This may be due to the fact that agriculture is not lucrative in Nigeria. More so, the positive relationship between poverty index and unemployment suggests that as more people become unemployed in relative terms, the general level of poverty falls. In Nigeria, nominal wages are frequently increased, this often lead to the laying-off of many workers. On the other hand, there is positive relationship between poverty index and inflation rate which means that increase in inflation rate goes with reduction in poverty level in Nigeria. This suggests further that increase in inflation rate serves as impetus for people to work hard and improve their economic conditions, and hence reduce their level of poverty. The experience of many developing nations shows that some degree of inflation is necessary for growth. Furthermore, there is a positive relationship between poverty index and manufacturing production; and also positive relationship between poverty index and petroleum production. These imply that increase in manufacturing production and petroleum production, reduce poverty in Nigeria. Increase in manufacturing and petroleum production lead to improvement in infrastructure and quality of life of people. However, equation 2 show that growth is negatively related to poverty index, positively related to unemployment rate, negatively related to money supply, positively related
to exchange rate and negatively related to saving rate. These imply that increase in poverty level leads to increase in growth in Nigeria, increase in unemployment rate leads to increase in growth, increase in money supply leads to decrease in growth in Nigeria, increase in exchange rate leads to increase in growth, increase in savings rate leads to decrease in growth in Nigeria, and, of course, the positive constant term shows that there will be growth even when poverty index, unemployment rate, money supply, exchange rate and savings rate are zero. The very low R2 in the equation may be responsible for the insignificance of the overall regression, and most of the parameter estimates are not statistically significant.

Unemployment rate is positively related to poverty index and growth, and negatively related to trade disputes and work stoppages as shown in equation 3. These imply that increase in level of poverty leads to reduction in unemployment rate in Nigeria. It is possible that poverty will make people accept jobs with very low wages. Increase in growth leads to increase in unemployment rate in Nigeria. This suggests that Nigeria uses capital-intensive techniques of production which often leads to technological and structural unemployment. Increase in trade disputes and work stoppages lead to decrease in unemployment rate in Nigeria. Trade disputes and work stoppages have often led to brain drain, and when such brain drain occurs, vacancies will exist and people who were hitherto unemployed or underemployed will be employed to fill the vacancies.

Consequently, the policy implications of the estimates of our model will be to set out appropriate macroeconomic policies to significantly reduce the high level of income inequality that is crucial for poverty alleviation. Growth policies should be people-centered. Huge capital should be made in human capital development. Policies are required to provide more employment opportunities for the poor. There is need for restrictive policies that will bring about moderate inflation. There should be
policies to adequately increase the real wages and quality of life of agriculturalists. There is need to increase investment in the manufacturing and petroleum sectors.

Conclusion

The study stated clearly that there is very high level of poverty in Nigeria. Majority of Nigerians live in abject poverty. Unemployment is also a major problem plaguing many Nigerians. Unemployment is highly correlated with poverty. The estimates of the model of the study, however, show an inverse relationship between poverty level and unemployment rate which implies that increase in unemployment rate reduces poverty in Nigeria, and increase in level of poverty reduces unemployment rate. This was due to the fact that when people become unemployed in the official sense in Nigeria, many still engage in various types of irregular jobs which are not officially regarded as employment. These irregular jobs make many of the workers better-off and increase their quality of life and bring them out of poverty. Also, some of the workers who become unemployed in Nigeria depend on their non-poor relatives for survival, and in many cases, their non-poor relatives make them to be better-off and bring them out of poverty. By implication, when people become very poor, they tend to accept jobs that go with very low wages, this reduces unemployment.

Economic growth on the other hand is not alleviating poverty and unemployment rate in Nigeria rather it exacerbates it. For poverty alleviation and unemployment reduction, economic growth is a necessary but not a sufficient condition. For growth to be an effective strategy, it has to be accompanied by a deliberate policy of redistribution. The pattern of growth in Nigeria needs to be changed so that the poor in rural and urban areas can adequately participate in the process. Nigeria needs broad-based
and labor intensive growth strategies. Adequate social services and infrastructure to reduce the depth and severity of poverty in Nigeria should be provided. Growth strategies should be targeted at the poor, more investment should be made in human capital. Agriculture should be adequately boosted and adequate emphasis should be placed on manufacturing and petroleum industries. Moreover, exports should be increased and imports reduced. Savings should be sufficiently channeled to profitable investment. Adequate and effective monetary policies should be used for rapid and sustainable growth; and finally, government should know that the efficacy of all the measures recommended depends to a great extent on the integrity of its officials and public servants.

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CHAPTER IX

FISCAL INDISCIPLINE, OFFICIAL CORRUPTION AND ECONOMIC GROWTH IN NIGERIA: AN EXAMINATION OF POSSIBLE NEXUS

A. G. Abiola

Introduction

One of the important issues at the center of most debates whether economic, social or political in the world today and particularly in the developing polities is no doubt the issue of official corruption. Many commentators, scholars and analysts from diverse fields have been actively involved in the debates. Most of the commentators have adjudged official corruption as undesirable and therefore have been proffering solutions to it. However, despite the numerous comments nothing significant has been achieved in the efforts to significantly reduce or remove official corruption and its consequences from our polity. Nigeria is still one of the most corrupt countries in the world. Recently, Transparency International, an international organisation recognised for monitoring official corruption in the world, in its 2004 ratings of countries rated Nigeria as the third most corrupt country in the world. Many people have been contesting the rating, including President Olusegun Obasanjo but nobody has been able to deny the fact that the country is very corrupt.

It should be noted that President Obasanjo in his maiden broadcast during his inauguration in 1999 identified high level corruption as one of the most pressing economic problems confronting the country. The regime has spent its first four years in office and it is in its second term. It is noteworthy that despite its preoccupation with addressing official
corruption, the country was put in a third position as the most corrupt nation. Before the recent rating, the country was the first most corrupt nation in the world. Thus, the fact that the country has not achieved success in significantly reducing or wiping out official corruption from our polity cannot be denied.

It is argued here that this seemingly failure has been due largely to the fact that the transmission mechanism by which official corruption is perpetrated (practiced and condoned) and by which the perpetration impairs economic growth has not been properly articulated and documented. The aim of this study is to fill the above gap by examining the relationship among fiscal indiscipline, official corruption and unimpressive economic growth. Apart from the above introductory section the rest of this study is sub-divided into four. In section two, clarification of the three concepts is presented with the theoretical relevance of government intervention in the economy. Section three presents the profile of Federal Government of Nigeria’s fiscal activities suggesting fiscal indiscipline between 1970 and 2002. In section four, the transmission mechanism among the three concepts: fiscal indiscipline, official corruption and unimpressive economic growth in Nigeria are presented with a diagram showing the links. The study is concluded in section five.

Clariﬁcation of Key Concepts

Fiscal Indiscipline

Every rational economic agent, especially government, at whatever level prepares a spending profile. This profile may be yearly, monthly, weekly, daily or even for any other specific period or occasion. The spending profile also specifies the expected revenue and expenditure of the government during the fiscal period. It may however happen, that
during the fiscal period, budgeted revenue cannot offset the budgeted expenditure. This may arise as a result of many factors. There may be a situation whereby government revenue is adequate to offset the expenditure of the government, but mismanagement of the available resources may pose serious problems to this possible perfect synchronisation. In other words, resource mismanagement may result into a situation whereby revenue becomes insufficient for budgeted expenditure, thereby giving rise to extra budgetary spending. Examples that readily come to mind here include the celebrated cases of rent seeking (inflated contracts) and outright embezzlements of public fund as well as the trials in different tribunals and courts of suspected looters of public treasury and their subsequent imprisonment. The results have been significant drain of government income. The immediate consequence of this would be that a lot of public projects would be waiting unattended to. To attend to such projects may compel government to engage in extra budgetary spending.

Although, high inflation growth rate may increase the prices of intended projects, or workers demanding for more wages. An unexpected shortfall in revenue sources (for example the celebrated oil glut in the world market during 1980/81 negatively affected the oil producing countries including Nigeria) may also be responsible for this kind of lagging behind of revenue relative to expenditure. In such situations the government may resort to extra budgetary spending to fill the resource gap. It should be noted that nature might even take its own toll on government revenue and expenditure. In other words, unforeseen circumstances such as wars, earthquakes, floods, droughts, outbreak of epidemics, amongst others may cause government to run extra budgetary spending.

However, the concept of fiscal indiscipline as used in this study refers to a situation whereby government fails to adhere strictly to a planned spending profile, as result of man-made abuses or recklessness by
public officials of budgetary stipulations or sectoral allocations. It is recognised as stated above that market distortions or natural phenomenon could make public expenditure to outstrip revenue but this could not be termed fiscal indiscipline because they are not man-made. Moreover, the non-man-made distortions especially those arising from price instability are usually made allowance for in the public budget estimates, while those arising from natural phenomenon are not very rampant. Usually the variables to measure fiscal indiscipline are the magnitude and trend of government fiscal deficits. Simply defined, fiscal deficit refers to the excess of the public sector’s spending over its revenue (The World Bank, 1988)

**Official Corruption**

One of the concepts that have been suffering from a seemingly universal definition is corruption. As argued by Akindele (2000) the conceptualisation of the term corruption has long been ideologically, morally, culturally, politically and intellectually elusive. Many scholars have attempted to provide some form of definition to the concept (see Dwivedi, 1967; Leff, 1970; Friedrich, 1972 Banfield, 1975; Gibbon, 1976; and Akindele, 2000). These scholars differed in their definitions of corruption. However, one thing that is common to all the definitions is that corruption is a socio-political, economic and moral malaise and therefore undesirable.

This study is not intended to engage in any controversy about the correctness, adequacy or otherwise of any of the definitions. The aim rather is to examine how the concept acts as a conduit pipe between fiscal indiscipline and unimpressive economic growth in Nigeria. Thus, for the purpose of this study corruption is sub-divided into two types: official and
un-official corruption. Official corruption refers to corruption in the organised sectors of the economy, either public or private. Public sector includes governments at all levels notably federal, states and local, while private sector includes profit and non-profit concerns. Whereas, un-official corruption refers to corruption in unorganised sectors of the economy. It should be noted that both official and un-official corruptions are complimentary and in fact, are two sides of the same coin. Thus, one not only reinforces the other, they move in the same direction.

Official corruption is further sub-divided into two: economic and non-economic related official corruption. The former involves the acceptance of money or financial equivalent (money’s worth) for doing something that an official is under duty to do, or not to do or simply exercise a legitimate discretion for improper reasons. Examples that readily come to mind here are the inflation of contract prices, bribery, financial/resource mismanagement and outright embezzlement of public funds. While non-economic official corruption refers to the use of official position to gain influence notably nepotism, favouritism, pervasion of course of justice, self-aggrandisments, among others. It should be noted that the concept of official corruption as presented above has not been amenable to any simplistic partitioning. Nevertheless, the concern of this study is the economic related official corruption in the public sector and with particular reference to the Federal Government of Nigeria.

**Economic Growth**

The concept of economy is simply defined as a set of activities, within a geographical region, which deals with generation and utilisation of resources (which are relatively scarce) for the satisfaction of human wants. It should be noted that the generation and utilisation of the resources could
be undertaking by both the public and private sectors. Put differently, economy may be described as an act of making a special effort to avoid waste or misuse of resources, controlling and managing of money and other resources of a community. The methodology of management varies from one country to the other and the ability of a government to seriously manage the resources determines whether such a country will be tagged developed or less developed.

An economy is regarded as having recorded economic growth or development if there are sustainedly significant improvements in quantitative and qualitative terms respectively. Thus, an economy may be growing without really developing. For instance, if there is a sustained increase in the level of national output or per capita income, the economy is described as having recorded economic growth. However, economic development would involve qualitative dimension such as modernising the economy, transforming the economy from basically an agricultural one to an industrial one, increasing the choices open to people in terms of goods and services, increasing people’s freedom, etc.

Consequent upon the above therefore, an economy is regarded as underdeveloped if all or some of the following indicators exist: low levels of living and productivity; high rates of population growth and dependency burdens; high and rising levels of unemployment and underemployment; significant dependence on agricultural production and primary products exports; and dominance / dependence and vulnerability in international relations, (Todaro, 1982).

Seer (1969) perhaps best posed the basic questions about the meaning of economic development by asserting that: “the questions to ask about a country’s development are therefore: What has been happening to poverty? What has been happening to inequality? What has been happening to unemployment? If all the three have declined from high levels, then
beyond doubts, this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result development, even if per capita income double”. However, dearth of reliable statistical data on the key variables highlighted above usually poses stumbling block on the use of the variables, especially in developing countries including Nigeria. Moreover, economic growth is much easier to measure by looking at the Gross Domestic Product (GDP). The concept economic growth refers to sustained increase in the per capita output or income of a country over a specific period of time. Economic growth is unimpressive if the sustainable increase is impaired.

The question that may readily come to mind is why is economic growth a widely held macroeconomic goal? The answer is not far fetched. The growth of total output relative to population means a higher standard of living. An expanding real output means greater material abundance and implies more satisfactorily answer to the economising problem. Thus, a growing economy is in a superior position to meet new needs and resolve socio-economic problems both domestically and internationally. A growing economy, by definition enjoys an increment in its annual real output, which it can use to satisfy existing needs more effectively or to undertake new projects. An expanding real wage or salary income makes new opportunities available to any given family, without the sacrifice of other opportunities and enjoyments.

Similarly, a growing economy can, for example undertake new programmes to alleviate poverty and clean up the environment without impairing existing levels of consumption. Economic growth lessens the burdens of scarcity. A growing economy unlike a static or deteriorating one can eat its cake and still have it too. By easing the burden of scarcity- by realising society’s production constraints- economic growth allows a nation
to realise existing economic goals more fully and to undertake new output-absorbing endeavours. If a country suffers from unimpressive economic growth, the inhabitants lose the above enumerated socio-economic benefits.

The Theoretical Nexus between Government and Economy

Perhaps an appropriate point to commence the examination of the theoretical need of government in any economy is to simply ask the question: why in a supposedly private economy, a substantial part of the economy is subject to some form of government direction, rather than being left to the invisible hands of market forces? Musgrave and Musgrave (1989) had argued that the prevalence of government might reflect the presence of political and social ideologies, which depart from the premises of consumer choice and decentralised decision-making. They also argued that the market mechanism alone cannot perform all economic functions. Thus, there is the need for public policy to guide, correct, and supplement the market mechanism in certain respects.

Furthermore, they argued that in a free enterprise economy the composition of output should be in line with the preferences of individual consumers, and that decisions concerning what to produce, the method of production, the quantity, etc, should be decentralised. The question that arises is what then is the role of the government sector under such a disposition? The answer to the above question can be found in the major traditional functions of government.

First, it should be noted that the price mechanism could lead to efficient resource allocation if and only if the assumptions of the system hold. In cases where they fail, as often the case, visible hands are needed to ensure efficient allocation. In fact, where they do not fail, government
regulations may still be needed to guarantee the sustenance of such conditions. Thus, government intervention is necessitated by the failure of the market system to guarantee efficient provision of certain goods referred to as public goods. A public good can be defined as a good, which is equally available to all members of a community (sharing group), but whose cost of provision is a function both of the level of provision and the size of the sharing group.

Second, the distribution of income and wealth based on free competition may lead to Pareto optimal situations, but which in normative terms considered unfair by the society. Thus, in the absence of government, income and wealth distribution would be determined strictly by factor endowments. The social status of each individual in a freely competitive situation would be determined by ownership of capital, land, physical and mental capabilities. Therefore, individuals would deserve whatever status achieved so long as factors are rewarded adequately under conditions of the market system. However, factor endowments are often lopsided, in as much as rewards may not be determined strictly by market forces, thus leading to unfair income distribution. Under such a situation less than 20 per cent of the population may be controlling over 70 per cent of national wealth. The implication from the above is that income distribution may therefore be seen as a task for a third party in the system or a matter of public policy.

Thirdly, full employment and price stability cannot be achieved automatically without the application of some fiscal measures. In fact, without such public policy guidance, the economy becomes subject to unemployment or inflation or both simultaneously. The overall level of employment and prices depend on the level of aggregate demand, relative to potential output valued at prevailing prices. The level of demand is in turn dependent on some factors. At any time, aggregate expenditures may not be adequate to guarantee full employment for some reasons, notably
wage rigidity. In such a situation, expansionary policy would be needed to increase aggregate demand. On the other hand, aggregate demand may exceed available output, and so long as full employment is not yet attained, public policy may be used to engage more resources in order to increase output.

However the World Bank (1995 and 1996) has re-defined the role of the state, through what it called modern roles. These role unlike those in earlier paragraphs are now limited to the central functions of providing for justice, law and order, and domestic security. It also includes formulation and implementation of broad macroeconomic policies, establishing the regulatory framework to support an enabling environment for sustainable development as well as providing public goods and services notably basic education, health care, and basic infrastructure.

The deduction from the foregoing is that government’s intervention had been and would continue to be very difficult to do without in any economy. The mechanism of government intervention in the economy operates through the public budget. The public budget contains the revenue estimates, expenditure decisions of the government and the fiscal actions of the government within a specified period usually twelve calendar months. Thus, anything that impairs the normal process of government budgeting (such as fiscal indispline and official corruption) would also impair the objectives of government intervention in the economy i.e. the promotion of the macroeconomic goals and especially impressive economic growth.
In Nigeria, Federal Government expenditures have consistently exceeded revenue most of the time since 1970. Nigeria’s persistent overall and current budget deficits have increased significantly over the years. The resultant public debt that has been accumulated has to be serviced from current or future budgets. In fact, in Nigeria about 30-40 per cent of total public expenditure is spent on servicing the country’s external debt. However, because the accumulated public debt has become so large and the servicing of such debt has escalated tremendously without an offsetting or even proportionate increase in revenues, the debt is approaching the point where it can be characterised as unviable and unsustainable.

From table 1, it shows that during the 33 years under study, fiscal operations of the Federal Government recorded overall fiscal surpluses in only 6 years while the remaining 27 years recorded overall fiscal deficits. The overall fiscal surpluses / GDP ratio stood at 1.5 per cent in 1973 and skyrocketed to 9.8 per cent in 1974 during the oil boom, it fell to 3.4 per cent in 1979. It stood at an all time low 0.1 per cent in 1995 and started to rise in 1996 when it stood at 1.2 per cent. This could be attributed to expenditure retrenchment and intensified revenue enhancement efforts.

In 1975, overall fiscal deficit was ₦427.9 million, representing 2.0 percent of overall fiscal deficit / GDP ratio and rose to ₦3902.1 million in 1981, representing 7.7 per cent of the ratio. Consequent upon the abolition of the fixed exchange rate system in 1986, value of fiscal deficits skyrocketed to ₦8254.3 million, representing 11.3 per cent of the fiscal deficit / GDP ratio. Between 1990 and 1994, the fiscal deficits have been large and increasing, accounting for significant proportions of the GDP.
The fiscal deficit / GDP ratio moved from 8.5 per cent in 1990 to 11.1 and 15.6 per cent in 1991 and 1993 respectively. The ratio fell to 4.8 per cent in 1998 and stood at 8.8 per cent in 1999. In year 2000, it recorded a 2.1 per cent! The fiscal operations recorded deficit of N301.4 billion or 5.1 per cent of GDP in 2002 compared with 4.0 per cent recorded in 2001.

The critical limit for the fiscal deficit / GDP ratio is 4.0 per cent. In fact, except for a few years, the ratio exceeded the critical limit throughout the period under review. The implication from the above is that fiscal deficits have become more or less a permanent feature of the Nigerian fiscal activities. However, as argued elsewhere, (see Abiola, 1997), there was nothing economically wrong with deficit financing, it has been the direction of expenditure, mostly on unproductive ventures (including official corruption) that has been posing serious economic problem in Nigeria.

<table>
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<tr>
<th>Year</th>
<th>Growth rate of GDP at 1984 factor Cost(%)</th>
<th>Inflation Rate (%)</th>
<th>Balance of Payment (N’million)</th>
<th>Interest Rates (%)</th>
<th>Overall Deficit (N’million)</th>
<th>Deficit/GDP %</th>
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<td>25.70</td>
<td>(301,400)</td>
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Source: Central Bank of Nigeria, Statistical Bulletin (2002);
Figures in parenthesis under Overall deficit/Surplus are negative.
Large and persistent budget deficits and the substantial amounts of government borrowings that are required to fund such fiscal deficits, can ‘crowd out’ private investment, since large government borrowing puts upward pressure on interest rates. The lending rates of interest in Nigeria are on the high side. The rate of interest was 7 per cent in 1971 and rose to 10.25 per cent in 1981, by 1991 it had skyrocketed to 29.80 per cent but had to be pegged at 23.76 per cent in 2001. As a result, smaller businesses may be unable to afford the higher interest rates to purchase loanable fund for investment. The resultant decline in economic activity leads to slower economic growth, which invariably leads to further lowering of government budgetary revenue (given that tax is a function of output / income), and thereby increases the possibility of future fiscal deficit spending.

The real growth of the economy has recorded unimpressive performance. In 1972 the year before the oil boom the real growth rate stood at 5.48 per cent, and collapsed to an all low level of negative 0.32 per cent in 1982 just after collapse of the world oil market, during 1980/81. It rose slightly to 2.98 per cent in 1992 and stood at 3.30 per cent in 2002. Furthermore the years when the overall fiscal deficit / GDP ratio exceeded the critical limit of 4 per cent, the real GDP performed significantly poorly. For example, in 1978, 1982, 1998 and 2002 the deficit / GDP ratio stood at 8.2, 11.8, 7.3 and 5.1 per cent, the real GDP stood at -7.37, -0.34, 2.31 and 3.3 per cent for the corresponding years. Specifically Nigeria’s persistent fiscal deficits and accumulated public debt have been incurred as a result of constant misplacement of economic priorities such as the expansion of public sector expenditure to the detriment of investments in capital projects and, bloated and inefficient civil service.
The Transmission Mechanism

In Nigeria between 1970 and 2002, a period of thirty-three years, five military and two civilian regimes had ruled the country. The military regimes had ruled for about twenty-five years while the civilians had been able to intervene in governance in only eight years. The budgeting procedure under the different regimes differed. In the case of the military regimes, it is not really easy to pinpoint the exact stages of budgetary procedure in the country. However, if piece-meal press reports are to be trusted, it seems as if the highest military authority in the country usually calls for ministerial budgets sometimes around the month of August. Upon receiving the departmental budgets, the highest military authority then proceeds to review them and make decisions on the proposals therein. The military Head of State makes the final budget known to the whole nation during the New Year broadcast. The provisions of the budget are executed in the relevant year. However, there is no clear indication of the existence of general auditing at the end of the fiscal year. This is a major abuse capable of stimulating official corruption, as it is not apparent whether the public fund is used for the intended purposes or not, given the absence of checks and balances.

During the second, third and fourth republics budgeting procedure at the Federal Government level consisted of four stages. They are the preparation, enactment of authority, execution and auditing stages. However, the budgeting procedure in Nigeria has largely been the traditional type. The traditional budgeting system is usually incremental in nature. This means that previous year’s allocations to sectors or certain programmes are merely reviewed upward or downward, depending on the fortunes of the national purse. Thus, in most cases, archaic programmes that have outgrown their usefulness often receive fund allocation at the
expense of new projects. This has been one of the loopholes through which ghost-worker syndrome thrives, as wage bills are usually reviewed upward or downward. Thus, retired or dead staff would still have their names on the pay roll, sometimes got promoted and paid salary arrears.

The traditional budgeting system emphasises funds allocation rather than sectoral performance, it is input oriented. It also fails to take into consideration the interdependent nature of ministries and parastatals resulting into overlapping and unnecessary duplication of responsibilities. In fact, despite its long usage in the country, the traditional budgeting system has continued to lack coordination, exceedingly cumbersome and backward. There are many leakages capable of frustrating the entire budgetary procedures. It no doubt serves as a veritable avenue to stimulate official corruption through siphoning of public fund. The probability of governments using the system to be backward is therefore high.

The foregoing explains why accountability and performance reporting in Nigeria have always been ruthlessly exterminated (see Soremekun and Ayeni, 1988; and Kawonishe, 1992). In fact, Kawonishe (1992) aptly puts it when he opined that:

accountability (as) the institutionalised mechanism by which the government makes the government both responsive and responsible (has lost its essence in Africa and indeed in Nigeria). The reality is that political leaders are rarely held accountable for their misdeeds.... In (most part of) Africa, particularly after independence (and since then) state offices are desperately competed for with the major goal of (corruptly) cornering state resources for self-aggrandisement of office holders and their immediate reference groups.
As argued by Akindele (op. cit) corruption has become the conduit pipe for draining the public funds and fostering irrational acts that are constantly asymmetrical to societal probity and norms of decency in Nigeria and Africa. The type of budgeting system Nigeria operates has no doubt contributed immensely to the promotion and perpetuation of official corruption. In fact, as long as the country operates the traditional budgeting system, it would be rather difficult to effectively address the problem of official corruption. This has been one of the reasons why there has been stiff opposition from government officials to the adoption of other system of budgeting, especially other system that would address the inherent weaknesses in the traditional budgeting system.

Fiscal indiscipline and its indicator: fiscal deficits have been at the forefront of macroeconomic adjustments since the 1980s both in the developed and developing countries, especially in Nigeria. As argued by Anyawu (1997) and Easterly and Schmidt-Hebbel (1992), this is because it is widely recognised that fiscal deficits- a key fiscal indicipline indicator and macroeconomic indicators (like economic growth, general price level, full employment and balance of payment equilibrium) influence each other in both directions. Easterly and Schmidt-Hebbel (1993) also postulated that the size of the public sector fiscal deficit- averaged over a period of, say, three years- is the most reliable indicator of overall macroeconomic stability or macroeconomic balance and growth. High fiscal deficits show up in at least one type of macroeconomic imbalance notably a foreign debt crisis, inflation, shortage of foreign exchange, a crowding out of the private sector capital formation and investment and consequently decline in economic growth. However, two relationships can be observed, notably in the short run and long run.
In the short run official corruption aided by fiscal indiscipline siphon funds from public treasury, reduces the public sector investment, retard economic growth and ultimately reduce standards of living of the people and therefore promotes poverty. It can also create potentially large burdens on future generations, as workers may be forced to finance unfunded social programmes for rapidly expanding elderly populations. Similarly it can trigger disruptive movements in interest and exchange rates, as highly indebted countries become increasingly vulnerable to global market forces (see Weiner, 1995). When government borrows from banks and non-bank public to finance its fiscal deficits, the rates of interest goes up and the private sector is crowded out from the investment market. In fact, Ball and Mankiw (1995) have reported that fiscal indiscipline reduces national savings and as a consequence, while lower national savings lead to reduced investment and reduced output.

In the long run, the fall in investment lowers the capital stock, reduce productive capacity and output. The crowding out of investment and capital also lowers productivity growth and hence real wages. Capital flight becomes exacerbated, leaving residents with less, and foreigners with more, of any interest, rents, and profits earned (Chirinko and Morris, 1994, and Anyawu, 1997). The sum total of the above would be that with fiscal indiscipline and official corruption, the cycle of poverty: low saving, low investment, low productivity and low output is not only set in motion, it becomes self-perpetuating.

The objective of official corruption is to accumulate personal wealth. The question is why does the government official wants to do so? The answer lies in the Nigerian polity, which encourages owning resources more than you need. The society accords value to such accumulation. The corruptly rich officials are more respected than the rather poor but honest ones, they are given several chieftaincy titles, they are the godfathers and
the special goats in our society. Other people not only admire them they try to join them. It is a situation of if you cannot beat them you join them. The material expectations from government officials are so high that, except the official is self-disciplined, hardly can he do without some form of official corruption to meet the demands from kin.

The resource ownership structure thrives on class and preaches affluence, competition, status symbol, and wealth accumulation. Therefore two classes of the haves and have-nots; masters and servants; exploiters and expolitees predominate. For the sustainability of the above relationships the haves, masters and exploiters must have to device some ways to outplay have-nots, servants and expolitees. One of these ways has been the entrenchment of official corruption. A cursory look at many of the very rich Nigerians today would clearly reveal that they are government officials either retired or serving, as well as their cronies who enjoyed government patronage. In fact, most of the rich farmers, kings, frontline politicians, big time business men and women, etc, are people who have had one thing or the other to do with government at one time or the other. It is on record that the major contenders in the presidential elections in 2003 in Nigeria were retired military officers.

it is the violation of rational budgetary provisions and the adoption of the traditional budgeting system that lead to fiscal indiscipline thereby setting the process in motion. The worsening problem of fiscal indiscipline leads to fiscal crisis. Lack of adequate budget tracking, inadequate monitoring and, poor auditing which are features of the traditional budgeting system stimulate official corruption, especially the economic related type. The consequences of the economic related corruption manifest itself in the forms of reduction in government income, national savings, public investment, productivity and national output. The predictable outcome of low output is unimpressive economic growth. It should be
noted that one of the macroeconomic objectives of every economy is the pursuit, achievement and sustainability of economic growth. To ameliorate the economic problem of poor growth, government may be compelled to spend more than it ordinarily have planned (fiscal indiscipline), by running fiscal deficit, the accumulation of which gives rise to public debt. As argued elsewhere, (see Abiola, 2002), in a situation of unimpressive economic growth there will be inadequate returns to service the existing public debt, neccesitating further fiscal deficit. This will no doubt encourage official corruption and impairs economic growth. The implication from the above is that fiscal indiscipline; official corruption and unimpressive economic growth are self-reinforcing and could become self-perpetuating. One thing that seems clear from the above presentation is that even if the Nigerian government operates a balanced budget using the traditional budgeting system there would still be official corruption. As argued elsewhere (see Abiola, 1997), the problem with Nigeria is really not fiscal deficit, but the direction to which the fund goes.

Conclusion

The study examined the relationship among fiscal indiscipline, official corruption and unimpressive economic growth. It found that one leads to the other in an endless cyclic manner. The years of high fiscal indiscipline as measured by fiscal deficit corresponded with years of more significant unimpressive economic growth. The need to reverse the trend cannot be overemphasised. The issues above involve the governments’ fiscal policies, it is evident therefore, and that addressing the problem of serious fiscal reform is not out of place. It will also require serious and radical reduction in wasteful spending.
Furthermore, and more importantly, the system of budgeting, which has been the traditional type needs to be reversed. The need to consider other system of budgeting cannot be overemphasised. If something is adjudged bad, there can be no way of doing it in a good way. The best option out of a journey of one thousand kilometers in a wrong direction is to turn back and take the correct route. Thus, given the fact that traditional budgeting system is beset with so many weaknesses it is imperative to consider dropping the system and embrace another system, which addresses the highlighted weaknesses.

In this regards, performance and programme budgeting system (PPBS), (see Bhatia, 1976 for detailed description of the system of budgeting), which addresses the shortcomings of the traditional system of budgeting becomes attractive. The PPBS emphasises laying down the sequence of steps for executing a project along with the expenditure of resources involved at each stage as well as estimate performance for comparison with expected results. In other words, it is a form of setting yardsticks/standards, which everybody works towards. It also offers a better quantitative basis for planning relative to other systems. This would no doubt plug many of the loopholes and inherent weaknesses of the traditional budgeting system. This may ameliorate the fiscal indiscipline and the resulting official corruption. If official corruption is reversed the path to economic growth will become relatively easier.
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270


CHAPTER X
Isola, Wakeel Atanda

Introduction

Industry, or manufacturing has long been recognized for its role as “leading sector” or “engine of growth in the development process (Kaldor, 1966). As a means of giving credence to this, throughout most of the post-independence era, Nigeria pursued an industrialization strategy based on import substitution. With the windfall from the crude oil sales during the commodity boom of the 1970s, successive governments, both at the Federal and state levels, dabbled into economic activities aside from their basic social responsibilities. Similarly, private sector investment in manufacturing grew too, taking advantage of an array of government incentives available as the Pioneer Status, Approved Users Scheme and Indigenisation Decree (for a detailed discussion see Ekundare, 1972: 40 – 48; Adejugbe, 1980: 225 – 242 and Egwaikhide, 1997).

By the late 1970s, a clear picture of the structure of the manufacturing sector had emerged. As stated in the Industrial Policy of Nigeria (FRN, 1988: 1), the sector was characterized by high geographical concentration, high production costs, low value-added, serious capacity under-utilization; high import content of industrial output and low level of foreign investment in manufacturing.

However, by the early 1980’s, as the country’s foreign exchange earnings declined significantly arising from the oil glut, the high import dependence of the manufacturing sector became a serious liability on the economy. The problem was even aggravated by the poor performance of the public enterprises as reflected in low returns on investment. In fact, many
industrial projects, in which huge amounts had been expended, remain largely uncompleted.

Consequently, it became clear that a restructuring of the manufacturing sector was required. To cope with the problems of this sector and the economy in general, Nigeria embarked on a Structural Adjustment Programme (SAP) in July 1986, which is a market driven reform.

But the problems confronting the manufacturing sector still linger. It is sad to observe that the situation has degenerated to such a deplorable level now that most of the manufacturing companies have been converted to warehouses for refilling and packaging of finished imported goods, symbolizing a virtual collapse of the manufacturing sector in Nigeria. It is against this backdrop, therefore, that we intend to examine the Market Reform and De-industrialization in Nigeria: 1986 –2003

The rest of the paper is organized as follows. In section two, the theoretical underpinning for de-industrialization process together with a review of extant literature shall be discussed. The structural characteristics of gainful employment in agriculture, industry and services are the focus of exposition in section three. In section four attempts shall be made to analyze how market reform in Nigeria has contributed to the deindustrialization hypothesis in Nigeria during the period under review in Nigeria; and, lastly, the conclusion.
Some Theoretical and Empirical Considerations

Essentially, a process of de-industrialisation can take different forms. Most commonly, it refers to output and employment losses of the industrial sector relative to the rest of the economy. According to Corden and Neary, (1982: 823 – 848), de-industrialization connotes a situation whereby the manufacturing sector is lagging as a result of a boom in another sector, usually an extractive one, like energy. In this section we shall discuss the Rowthorn-Well Model as the theoretical underpinning of the paper.

Based on Rowthorn and Wells’ work (1987) we define labour productivities in agriculture, industry and services as exogenous variables

\[ y_a = y_0 e^{\lambda a k}, \quad y_i = y_0 e^{\lambda i k}, \quad y_s = y_0 e^{\lambda s k} \] ……………………………(1)

where subscripts \(a\), \(i\) and \(s\) relate to agriculture, industry and services respectively. The level of productivity at the beginning of the development path is denoted by \(y_0\) (>0). Parameter \(k\) (>0) refers to accumulated human and physical capital, and the \(\lambda\) (>0) parameters to the differences in productivities among sectors.

Aggregate employment is given by:

\[ L = fN \] …………………………………………………………………………………………(2)

where, \(N\) represents population and \(f\) is the employment rate interpreted as a percentage of the total population (not of the working age population). This means that 0 < \(f\) < 1.
Output in agriculture is proportional to the size of the population. This simplification reflects the fact that the income elasticity for food is low. Therefore, agricultural output and employment are correspondingly given by:

\[ Z_a = \gamma N \] \hspace{1cm} (3a)

\[ L_a = \frac{Z_a}{y_a} \] \hspace{1cm} (3b)

where, \( \gamma \) is a coefficient of demand. Therefore: \( 0 < \gamma < y_0/f \)

Employment and output in services are determined by a second demand condition, which implies that the real output of services \( (Z_s, \) equivalent to real demand) is a constant fraction of total output, that is \( Z_s = cZ \). This puts a restriction on the corresponding demand coefficient: \( 0 < c < 1 \). More formally, employment and output in services can be expressed correspondingly as:

\[ L_s = c(L_a Y_a + L_i Y_i - L_a Y_d) \]

\[ Y_s + cy_i - cy_s \] \hspace{1cm} \text{(4a)}

\[ Z_a = L_s Y_s \] \hspace{1cm} \text{(4b)}

Finally, employment and output in industry will be determined according to the equations:

\[ L_i = L - L_a - L_s \] \hspace{1cm} \text{(5a)}
Z_i = L_i y_i  \hspace{1cm} \text{.................................(5b)}

It follows directly from the model specification that aggregate output $Z$ is

$$Z(f, \lambda_a, \lambda_i, \lambda_s, \gamma, c, k) = Z_a + Z_s + Z_i = Y_0(\gamma N + L_s (e_s^k - e_i^k) + (L - L_a) e_i^k) \hspace{0.5cm} \text{...(6)}$$

Without loss of generality, we can make several assumptions, which significantly simplify the calculations. First, we can standardise $y_0$ as equal to 1. Moreover, we can normalise labour productivity equations by putting $\lambda_s = 1$. Thus equation 1 transforms to

$$y_a = e_a^k, \hspace{0.5cm} y_i = ye_i^k, \hspace{0.5cm} y_s = e^k \hspace{1cm} \text{....................................(7)}$$

$$Z(f, \lambda_a, \lambda_i, \lambda_s, \gamma, c, k) = Z_a + Z_s + Z_i = \gamma N + L_s (e^k - e_i^k) + (L - L_a) e_i^k \hspace{0.5cm} \text{...(8)}$$

Thus the employment structure in agriculture, industry and services determine if there is de-industrialization or not. Essentially, when employment in industry is lagging relative to other sectors, obviously, there is de-industrialization. This study is therefore anchored on this theoretical framework.

De-industrialization has equally been explained in terms of the link between the exchange rate and traded goods sectors performance. This is premised on the hypothesis that there is an inverse linkage between a country’s exchange rate and its industrial performance, which treats
exchange rate movements as exogenous. When a country’s currency rises (falls) in value, or the exchange rate rise (falls), domestic prices of imported goods fall and foreign prices of domestic exports rise. As a result, domestic consumers switch from local, import-competing goods to foreign suppliers, and foreigners switch from imports to their own import-competing sector. The appreciating currency country loses production for export and its import-competing sector shrinks, so the traded goods sector contracts. At the same time, the traded goods sector abroad will expand; the demand for its import-competing sector rises, as well as for its exports. Some influential proponents of this deindustrialisation hypothesis include, Branson (1986) Branson and Love (1988) Cline (1986) Krugman and Baldwin (1967), Krugman and Baldwin (1987), Tatom (1994) among other scholars.

It must be appreciated at point that deindustrialisation is a worldwide phenomenon which has been subjected to profound discussion in literature. Rowthorn and Ramamy (1997) have analyzed the pace of deinstralisation in United State, Japan and 15 countries of the European Union. While deinstralisation started in the US with the share of manufacturing employment falling from a peak of 28 percent in 1965 to only 16 percent in 1994, in Japan, by contrast, the process started later and has been less dramatic, with manufacturing employment peaking at 27 percent of total employment in 1973 (eight years after the peak in the United States) and then slipping back to about 23 percent in 1994. In the 15 countries of the European Union, the share of manufacturing employment stood at a comparatively high level of more than 30 percent in 1970 but then fell steeply to only 20 percent by 1994.

The authors equally argued that on the other side of the coin, the share of employment accounted for by services in the advanced economies has increased fairly uniformly, with all advanced economies witnessing
growth in service employment since 1960. The United States has led the way here too, with about 56 percent of the workforce employed in services in 1960 and about 73 percent in 1994, a higher share of employment in services than in any other advanced economy. The rise in employment in services has been accompanied by a decline in employment in manufacturing in all advanced economies. It must be noted at this point that de-industrialization in the advanced countries appears to be a normal feature of structural transformation in the process of economic development. Mickiewicz and Zalewska (2002) have equally presented an over view of deindustrialization and lessons from the structural outcomes of Post-Communist Transition. They found that post-communist countries, while being only middle-income countries, have also experienced de-industrialization

However, the recent trend towards de-industrialization in most African countries, Nigeria inclusive, has been attributed to implementation of the various market driven reform programmes. Critics of the programme point to an anti-industrial bias in the policy package (Adejugbe, 1995: 488-496, Stein, 1992: 83-95). The policy package included: trade liberalisation; depreciation of currency; reduction in government expenditure; removal of government subsidies; and increase in interest rate. Such policies, they argued, not only cause industrial production to stagnate or decline in the short run, but also erode an important part of the industrial base for future growth. In other words, the market reform has been responsible for de-industrialization in Africa. One piece of evidence cited is that about half of the countries in Sub-Saharan Africa had declines in industrial output in the first part of the 1980, while the rest of the region had output growth of less than 2 percent (Stawart, Francies, Lall and Wangwe, 1992).

The World Bank Report (1994) admits that because of the paucity of data, it might be difficult to conclude whether market reform has
contributed to de-industrialization in Africa. However, with the available data at her disposal from national accounts and from survey of manufacturing firms, the bank has gone further to fault the hypothesis that market reforms have led to de-industrialization in Africa. The Bank has argued, that the picture of Ghana, the country with the most extensive adjustment, is not one of stagnation, and de-industrialization, instead, it shows much activity, particularly among smaller enterprises, not included in official statistics. According to its survey, aggregate employment and output have been increasing about 2 percent a year for a sample of manufacture firms in four sectors representing about 80 percent of manufacturing employment – food processing, metal working, woodworking and textile and garment manufacturing. While one cannot doubt the authenticity of the data, it must be admitted that Food processing, Metal working, Wood working and Textile and Garment manufacturing being mostly informal sector activities not normally covered by official statistics remain the temporary abode for retrenched workers from the formal sector. However, because of the poor or low level of production including traditional technologies within the informal sector mostly cottage and small-scale enterprises their efficiency (productivities) remain very low in comparison with the modern sector establishment. The recent emergence of the multinational enterprises like PZ, and Unilever Plc in the detergent industry has confirmed the superiority of the large firm over the small and the indigenous firm.

Jallian, Tribe, and Weiss, (2000: 320) survey on the state of industry in Sub-Saharan Africa confirmed that in all the contribution of manufacturing to GDP remained very low and in most cases less than 10%. Plant capacity utilization hovered around 25 to 30 per cent. The authors, therefore, focused on the challenge for economic policy to find ways of reversing the trend. The relevant question to ask at this point is to what
extent has the Market Reform been responsible for the deplorable conditions of manufacturing sectors in Nigeria. The answer to the question will be the focus of the exposition in the subsequent sections.

**Structural Characteristics of Gainful Employment in Nigeria (1960-2003)**

A panoramic discussion of the structure of employment in the three sectors – agriculture, services and industry in Nigeria might be necessary in order to gain an insight into de-industrialization in the country. Figure 1 displays structural distribution of total gainful employment (i.e. those in the labour force) in Nigeria for the period 1960-2003).

In 1960 about 70 per cent of the labour was engaged in agriculture. Since then, the proportion of the workforce in gainful occupation in the agricultural sector has declined gradually, reaching about 58.2 per cent in 1986. The relative neglect of the agriculture sector since 1970s partly explains the drop in the relative contribution of the sector to total employment. However, agriculture has marginally risen from a level of 58.20 per cent in 1986 to 59.8 percent in 1995. Although, the performance of the sector seems to be sluggish as employment figure stood as 60 per cent in the 2003.

The service sector, although very low has been rising since 1960s to date that is, from about 17.9 per cent in 1960 to about 22.2 per cent in 1964). The sector has improved marginally post structural adjustment period. The share of employment in the sector has increased from about 23.4 percent in 1986 to 30.0 percent in the year 2003. In spite of the dominant role of oil sector in the Nigerian economy, it has never accounted for more than 0.5 per cent of aggregate gainful employment. This reflects the capital-intensity of the sub-sector. The manufacturing sector was a
distant third in employment generation, being 9.6 percent in 1960. It was the manufacturing sector that gained most in the provision of employment during the 1970s and before the introduction of SAP in 1986. Thus the manufacturing sector's contribution rose from 12.2 percent in 1970 to 17 and 18.2 percent in 1980 and 1985 respectively and declined markedly thereafter, being only 10.5 percent in 1996. However, since the year 2000, the figure has remained constant at 10.5 percent up to 2003:

![Industrial Distribution of Nigeria's Total Gainful Employment 1960 - 1996 (Percentages)](image)

**Fig 1**

Obviously, the industrial sector has lagged relative to other sectors of the economy, reflecting a symptom of de-industrialization. The market-driven reform under the structural adjustment has put a lot of pressure on the industrial sector- (deregulation of the financial sector and opening up of the economy) leading to retrenchment of workers. From the various surveys conducted by Manufacturers Association of Nigeria (MAN) during the period under review, a general trend of decline in industrial
employment is noticeable. For instance, between 1987 and 1989, employment in the manufacturing sector dropped by 6% at the end of 1987 from 1986 level. A further marginal drop of 0.5 per cent was recorded in 1988. By 1989 the situation deteriorated with manufacturing employment registering a drop of 5 per cent. Ever since, employment in the sector has been lagging as more and more enterprises closed down and new industries are not springing up to close the void created. In 1996 alone, about 115 member – companies of the Manufacturing Association of Nigeria shut down operation (MAN, July – December, 1996). Similarly, over 130 member companies of the Association shut down operations between 1997 and 1999 due largely to lack of working capital and dumping in the economy. (MAN 1999 – July – December). The sectoral classification of this figure indicated that textiles sub-sector recorded the highest causalities of 43 companies followed by Ford sub-sector with 21 companies. Motor Vehicle sub-sector recorded the least figure of two companies. Similarly, in a survey conducted by NISER (2000) it has been observed that average retrenchment of firms by sub-sector was put at 550.8 in 1999. The sectoral distribution of this figure depicted that Electrical and Electronics recorded the highest figure of about 422 while Chemical and Pharmaceutical accounted for lowest. Furthermore the on-going survey of the existing small and medium scale enterprises in Lagos and Ogun State for instance, undertaking by Unilag Consult on behalf of the Central of Nigeria (CBN) tends to point towards similar trend.

Given the above scenario, one might be inclined to agree with Mkandawire (1988: 5 - 31) that the macroeconomic reform programmes in African countries, Nigeria inclusive, have engendered de-industrialization. The empirical investigation of this assertion is demonstrated in the subsequent sections.
Empirical Analysis

In this section, we are going to analyze the empirical evidence of the relationship between market driven reforms and the structural characteristics of employment after the implementation of market reforms in Nigeria in the late 1980s. Deregulation of interest and exchange rate are instruments of market reforms. Thus, they are included in our analysis. Also, we expect that the initial level of human and physical capital accumulation affect the structure of employment. Growth rate of per capita GDP is used as a proxy variable for initial level of human and capital development. In addition, two additional control factors that are consistent with the literature are used. These are Variation in current economic activity and Foreign Trade Intensity. The control variable for current level of economic activity is annual rate of change in investment (real capital formation). This is labeled ‘investment’. ‘Trade’ denotes the share of foreign trade in GDP. Following the theoretical framework, three simple time series models were designed to estimate the relative effects of the market reform variables, as identified, on the employment structure in agriculture, industry and services. Quarterly time series data on the relevant variables were used to estimate the models spanning the period 1986 to 2003. Simple ordinary least square is our tool of analysis.

Regression results can be found at the appendix. From table A1, interest rate and exchange rate are positively related to the share of agriculture in employment. However, of the two only exchange rate is statistically significant. Also, we note that the share of agriculture is strongly influenced by growth rate of per capita GDP (although it does not conform with a priori expectation). Current level of economic activity as represented by investment is not significant. However, share of foreign trade in GDP negatively influences share of agriculture in employment and it is also statistically significant. This shows that agriculture’s share in
foreign trade is declining over the years. The overall result as shown by F-statistic is significant. The R squared is 55.4 %.

Table A2 shows the results of determinant of post –adjustment share of services in employment. We should expect the results relating to services to match those described above for agriculture. This is because misdirected deindustrialisation leads to a higher share of agriculture in employment. Thus, we should expect that the results related to services should mirror those presented in table A1, but with opposite signs. But this is not the case. The signs of variables of table A2 is exactly the same with table A2. Thus, movement of labour force from agriculture does not swell employment in the service sector as predicted by deindustrialisation. Rather, labour finds employment in the Nigerian informal sectors. However, exchange rate is significant at 0.05 level while other variables remain insignificant at 0.05 level. The overall result is significant as shown by high value of f-statistic. The R squared adjusted is 30.5%. Turning our attention to industry, we have previously demonstrated that what matters is the direction of deindustrialisation, not the absolute changes in industry. The results for determinant of the industry in post structural adjustment is presented in table A3. The result is weaker than for the other two sectors. The result shows that the link between the share of industry in employment and market reform are important determinant of the structure of employment. All the variables show opposite signs relative to that of the other two sectors. Per capita growth rate of GDP, Trade/GDP and exchange rate are significant with negative signs. Thus, structure of employment in industry is not positively influenced by market reforms. There is continual decline of the sector as labour draws to the informal sector. However, services and agriculture sectors benefit marginally in terms of gains in employment as shown by results presented in tables A1 and A2.
Conclusion

The result of our investigation has revealed that the market reform in Nigeria has negatively impacted on the industrial sector contrary to expectation. The recent fine turning of industrial policy i.e., banning of some items like fruit juice and tight monetary policy to ensure reasonable exchange rate and interest rate tend to confirm this.

However, there is the need to consider the environment in which firm operates in the country. This becomes more relevant as a firm cannot operate outside of its social and cultural milieu. The social environment is still characterized by tension and frustration with religious and ethnic crises day in day out across the country. Even the political climate is still very cloudy. The political situations in Anambra State and Plateau State are still very fresh in our memories. The government should urgently address the issue of infrastructure decay particularly electricity constant outages which has become a bane of the industrial sector in Nigeria.
References


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## APPENDIX

**Table A1: Determinants of Post Structural Adjustment Share of Agriculture**

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>COEFFICIENTS</th>
<th>STANDARDIZED COEFFICIENT</th>
<th>T</th>
<th>Probability</th>
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<tr>
<td>(constant)</td>
<td>58.965</td>
<td></td>
<td>375.754</td>
<td>0.000</td>
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<tr>
<td>GDP Growth Rate</td>
<td>0.0110</td>
<td>0.374</td>
<td>3.874</td>
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<td>Investment</td>
<td>0.00509</td>
<td>0.190</td>
<td>1.829</td>
<td>0.072</td>
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<td>Trade/GDP</td>
<td>-0.0219</td>
<td>-0.455</td>
<td>-4.803</td>
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<td>Interest Rate</td>
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<td>0.0108</td>
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<tr>
<td>Exchange Rate</td>
<td>0.00405</td>
<td>0.213</td>
<td>2.169</td>
<td>0.034</td>
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R squared: 0.554

F- statistic: 15.430

R squared adjusted: 0.519

Significance level: 0.000
**Table A2:** DETERMINANTS OF POST STRUCTURAL ADJUSTMENT SHARE OF SERVICES

<table>
<thead>
<tr>
<th>VARIABLES</th>
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<th>Probability</th>
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<td>GDP Growth Rate</td>
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<td>-.0436</td>
<td>-.086</td>
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<td>.942</td>
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<td>Interest Rate</td>
<td>.00226</td>
<td>.12</td>
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<tr>
<td>Exchange Rate</td>
<td>.107</td>
<td>.576</td>
<td>4.506</td>
<td>.000</td>
</tr>
</tbody>
</table>

R squared: 0.354  
F-statistic: 6.831

R squared adjusted: 0.305  
Significance level: 0.000
### Table A3: Determinants of Post Structural Adjustment Share of Industry

<table>
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<th>Probability</th>
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</tbody>
</table>

R squared: 0.668  \[\text{F- statistic: 24.988}\]

R squared adjusted: 0.642  \[\text{Significance level: 0.000}\]
CHAPTER XI
PUBLIC ENTERPRISES AND PRIVATISATION POLICY: THE NIGERIAN EXPERIENCE
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Introduction

This paper focuses on Public Enterprises and Privatisation policy within the context of the Nigerian economy. It starts with a conceptual analysis of the term public enterprises and, an overview of Public Enterprises in Nigeria. This is followed by a careful analysis of the predicaments of the Nigerian economy and the identification of necessary panaceae to them.

With this as the background, the paper critically examines the actual Nigerian experience vis-à-vis the issues of Public Enterprises Management and Privatisation Policy. It choreographs the governmental and administrative pedigree of the Nigerian State. This tally with the actual commencement of the management of Public Enterprises and Privatisation policy within the anatomy of the Nigerian political economy. This is followed by the conclusion.

The Concept of Public Enterprises in Nigeria

The major goals of development planning comprise a variety of complex, inter-related and sometimes conflicting social, economic and political objectives. These objectives can simultaneously be attained under a perfect market system where the interaction of atomistic profit-maximizing producers and atomistic utility maximizing consumers is expected to produce a market price which reflects the real cost of goods and services. (Munasinghe, 1980).
Given the imperfections of the markets, the study of the production and allocation of “social goods and services,” with regard to these objectives, command a central place in public sector economics. The non-rival characteristic of social goods and services consumption bears important relation to the issue of resource allocation through their production, at least costs, to what consumers desire and the efficient manner in which they could be distributed. (Musgrave and Musgrave, 1984). Certainly what distinguishes social goods/services from others is that: “Their consumption is necessarily joint and equal; the more there is for one household, the more, not less, there is for any other.” (Blaug, 1986). Put differently, Musgrave and Musgrave (1984) noted that: “Households share in the consumption of the same supply whereas in the case of private goods, both (may) consume the same amount and each is assumed to offer a price equal to his/her true evaluation of the marginal unit.” That is, public goods and services are collectively consumed without exclusion while consumer’s consumption is not usually a function of what price he/she offers.

Traditionally, public enterprises supply these social goods and service which are institutionally affected with public interests. “Technically, public enterprises are those establishments which supply services that are of utility to the generality of the public, the services or outputs of these establishments enter as an argument into the utility function of the general public” (Ndekwu, 1987). The essential elements of public enterprises as outline by Frederick Vinscon are that:

If a business affected with public interest bears an intimate connection with the process of transportation and distribution; is under obligation to afford its facilities to the public generally, upon demand, at fair and
non-discriminatory rates; enjoys in large measure an interdependence and freedom from business competition brought about either by its acquisition of a monopolistic status or by the grant of a franchise or certificate from the state placing in this position, it is … a public enterprise.” (Britannica pp 835-826, cited from Ndekwu1987).

These elements tend more than anything else to delineate public enterprises with their products from private ventures with their associated products.

Various studies have demonstrated price and income elasticity of the demand for public goods for most consumers.(Ayodele, 1986). The implication of this is the increase which price increases will exert on consumer’s expenditure. It is recognition of this that prices of public goods are kept relatively low and even below their average and/or marginal costs of production. Besides the demand function for public goods and services is generally the same for all consumers alike. In this regard, “the joint demand for public goods has the implication… that the market mechanism will fail to induce consumers to reveal their preferences for such goods.” (Blaug, 1968).

This suggests that the provision of public goods and services is independent customary of the consumer’s ability to pay. Given the non-exclusiveness characteristics in terms of their consumption, their external effects on other sectors and the publicness of their production, public enterprises are theoretically not profit-oriented in spite of their monopolistic settings.
The spread and acceptance of the character and evolution of interpersonal relations of production and distribution in a society hinge crucially on the underlying conception of the social processes of its economic system. (Sheperd, 1976). For example, at one end of the global order (socialist end) is the genetic conception of social processes where social goals are mainly assumed to be the consequence of the actions and interactions of individuals. At the other extreme end is, of course, the “open market” economy whose assumption is based on the independent and self-interested actions of producers and consumers to ensure a socially optimum state of affairs. Whereas, the socialist ideology is predicated on the optimism that the unfettered operation of the market mechanism is unacceptable, market signals should be superseded by the establishment of social organs of control for the ensurance of the prevalence of societal interests over those of individuals.

Among the social organs of control is the public enterprise whose features in any economy depend partly on that economy’s location on the global spectrum. Sheperd (1976) had observed that the capitalist economies tend to have less use for public enterprises than the socialist economies. Apart from the ideological perception of public enterprises, their place in any economic system relates to the “fundamental” problem with which the system is confronted.

The roles of public enterprises depend on the underlying conception of social processes. In addition, within the developing economies, there is the inheritance of certain historical constraints on their development processes which probably lend credence to more role of public enterprises in their systems. Specifically, the openness, structural dependence and internal economic fragmentation of the economies of the developing countries seem to have combined to put pressures for the
establishment of relatively large public sector with relatively more active roles.

The evolution of public enterprises often takes one or two forms. Firstly, they could evolve from local responses and adjustments to ad-hoc economic crisis-specific shortages, flagrant abuse of monopoly or oligopoly powers by private producers, economic bottlenecks and scarcities, apparent market failures in resource allocation, etc. These economic crises create socioeconomic conditions which justify public intervention (e.g., the Soviet Union in 1919). In view of the process of evolution, Sherperd (1976) described this approach as being serial and successive/casual and empirical.

Secondly, the evolution can take the process of a carefully planned body of ideas. Issues involved – management, finance, control, pricing, etc., - are examined, studied and defined in advance. The primary interests of the society are pre-determined and postulated (for example, on welfarism). Philosophically, this proposition, theoretically, represents the utilitarian principle which makes for the satisfaction of societal wants at the expense of public authorities. (Sheperd, 1976). This synoptic approach is concerned with the question of resource allocation and use. A critical examination of the serial and synoptic approaches shows that both aim at correcting market imbalance, market failures and market imperfections.

Public Enterprises cover a very broad category of economic institutions whose activities cut across the entire economy. Although they are subject to different mechanism of government control and management and are also characterized by different degrees of public financial support, they, however, constitute one important segment of government economic control apparatus of the state.
By tradition, these enterprises cluster most closely in utility and social sectors of the economy. Their economic activities usually embrace the provision of social and economic infrastructures – energy, transport, telecommunication, health facilities, etc. These economic activities possess large external effects on the other sectors of the economy. One is the indispensability of their services to other sectors, for example, electricity supply.

In this regard, these enterprises operate with government approval as monopolies fashioned to maximize their benefits while unintended and undesirable repercussions are minimized. In Nigeria, such monopoly powers are usually conferred on these enterprises through legislative acts/ordinances/decrees. In spite of functional variabilities of these enterprises, they are highly capital intensive and also require huge investments in human and material resources.

An overview of Public Enterprises in Nigeria

The public enterprise sector is quite large in Nigeria. Besides, it spans over agriculture, mining, manufacturing, transport, commerce and other service activities. Total government investment in public enterprises, is about N23 billion with N8 billion in equity and N15 billion in loans. Besides, as much as about 40 per cent of the Federal Government non-salary recurrent expenditure and also 30 per cent of its capital investment budget have usually gone to support public enterprises (Nigeria, 1986).

Since independence in 1960 and particularly in the oil boom years of the seventies, the Nigerian government has directly invested heavily in banking and insurance, oil prospecting, exploration, refining and marketing; cement, paper and steel mills, hostels and tourism, fertilizer plants, motor assembly plants, rail, sea and air transportation, sugar estates, etc. The Technical Committee on Privatization and Commercialization
(TCPC), (now Bureau for Public Enterprises (BPE) said their replacement cost as at November 1990 was over N36 billion. By 1993, they were said to be worth about N500 billion. A TCPC survey then showed that there were about 600 public enterprises at the federal level alone and some 900 smaller ones at the state and local government levels. The estimated 1,500 public enterprises in Nigeria, the committee said, accounted for between 30 and 40 per cent of fixed capital investments and the same proportion of formal sector employment. (Newswatch, 5/10/98, page 55).

While the oil boom lasted, no one bothered about the inefficiencies of these public enterprises and a lot more of them continued to be established. It was only in the wake of the economic recession which started in 1981 that attention was directed at the activities of these public enterprises. In 1983, the Federal Government set up a presidential commission on parastatals which examined their operations.

The report of the commission revealed that the enterprises were plagued by problems such as “misuse of monopoly powers, defective capital structures resulting in heavy dependence on the treasury for funding, bureaucratic bottlenecks in their relations with supervising ministries, mismanagement, corruption and nepotism.” The problems of public enterprises such as ill-conceived investments, political interference indecision-making, costly and inefficient use of public resources, growing budgetary burden, over-extension of government’s managerial capacity, diversion of credit and other resources from the private sector, etc., are too well known, the TCPC said. (Newswatch, 5/10/98, page 55).

In spite of these huge investments the returns have been estimated to be less than N500 million annually, (Nigeria, 1986), while most of these public enterprises perform below expectation. Whereas, government had usually accused these enterprises of managerial inefficiency, the chief executives of these enterprises had usually held government instrusive and
obtrusive directives responsible. In spite of this controversy both parties have accepted the need for institutional reforms.

However, there are conflicting views on the processes of reformation. The first view sees public enterprises as non-profit oriented institutions. In recognition of this, the proponents argue that the issue of poor financial returns to investments in public enterprises is a misconception. They thus favour government subsidies which should attract strings and meticulous monitoring in order to make for efficiency (Ayodele and Ajakaiye, 1985).

The second view accepts the social structure of public enterprises with their associated implications on the process of development. However, the proponents argue that these services and utilities should be provided and allocated to consumers on the basis of consumer’s “ability to pay.” They, therefore, advocate a non-subsidy policy on the provision of public goods and services. (World Bank 1983, IMF, 1985). Subsidization, according to these proponents, is no more than encouraging the ineffective use of scarce resources.

In recognition of the precarious fiscal and monetary posture of government, the Structural Adjustment Programme (SAP) which was adopted in June 1986 did not merely accept the latter arguments, it had gone further to propose fundamental reforms within public enterprises. The reform is to take the forms of commercialization and or privatisation of these enterprises in order to allow for cost-consciousness in operations. Admittedly, SAP was adopted within a period of serious socio-economic crisis – unemployment, inflation, scarcity of foreign exchange, indebtedness, etc.

In Nigeria, the approaches to the evolution of public enterprises diverge with development plans. For instance, the First National
Development Plan, 1962-68, was geared towards a policy package which stimulated the development of a vibrant private sector while public participation in productive activities became marginal. This is not unexpected given the posture of Nigeria’s colonial government on the global spectrum and also the scarcity of capital.

The emergence and the inception of the crude oil industry into the Nigerian economy with its associated “windfall gains” in the 1970s reversed the initial reliance on the private sector as the prime mover of Nigeria’s socio-economic development. One major aim of government at that time was to convert, as much as possible, the growing oil revenue into social, physical and economic infrastructural investment. Consequently, an increasingly dominant public sector started emerging in Nigeria with the Second National Development Plan, 1970-1974 as the “engine of growth”. By the beginning of the Third National Development Plan, 1975-1980, the public sector had acquired a domineering economic role in Nigeria.

The Nigerian Enterprises Promotion Decree of 1972 with its subsequent modification in 1976 provided a concrete basis for public enterprise participation in the ownership and management of enterprises. Given these developments, public enterprises at the Federal level had exceeded 100 in number by 1985 and these had spread over agriculture, energy, mining, banking, insurance, manufacturing, transport, commerce and other service activities. With this coverage, the public sector had begun to play an increasingly dominant role in the Nigerian economy, accounting for about half of the GDP and two-thirds of modern –sector employment in Nigeria by the beginning of the 1980s. (Nigeria, 1986).

However, the Fourth National Development Plan Period, 1981-85, witnessed a down-turn in socio-economic development due to the global economic recession and the collapse of the oil market. The economy was ill-equipped to handle the emerging crisis hence the implications were very
grave. Thus, Nigeria’s precarious fiscal and monetary posture could no longer sustain the requirements of its public enterprises more so as they perform below expectation in terms of their returns to investments and quality of services.

It is in this regard the IMF (1985), the World Bank (1963) and SAP (1986) proposed the elimination of subsidies to these enterprises as well as designing policies towards commercialising/privatising them. Certainly, the evolution, maintenance and sustenance of public enterprises in Nigeria is to a large extent determined by government’s fiscal and monetary posture. While availability of investible funds paved way for large-scale government participation in economic activities via public enterprises in the 1970’s, socio-economic crisis from the global recession seems to be shifting effective participation to the private sector.

Ogunleye (1999) observed that many of the enterprises have a backlog of salary arrears and debt owed to sundry creditors. Others are only managing to produce at a very low capacity utilisation level while their output is only a small fraction of what they used to turn out. Besides, the bane of state-owned enterprises is in the sacrificing of merit for favouritism with the result that round pegs are often found in square holes. Tagging along are lackadaisical attitude, absence of budgeted goals and rudderless leadership. These negative developments expectedly leave the company bedraggled and weak. On the other hand, a privatised firm knows that there is no largesse that will fall from anywhere and that its destiny is in the hands of its workforce. To survive, it must have a motivated and adequately trained manpower with set targets and reward process. Such a firm will nurture and value its staff and ensure constant and unbroken two-way communication which will keep the workplace wholesome. It will have meritorious succession plan which, apart from being above individual’s caprice and dictates, will engender continuity, consistency and
strength. Here lies the success and prowess of UACN Plc, John Holt Plc, Cadbury Nigeria Plc, Nestle Foods Nigeria Plc, and others in this club of well-focussed and forward-looking companies. In like manner, a commercialised entity will swim or float based on its business sense and commercial orientation. It will be expected to operate profitably without government’s grant, but it can only be assisted when it is embarking on viable capital projects.

State corporation may have an advantage over private enterprise in risk taking because of the spread of risk over the economy as a whole rather than its concentration on one or a handful of individuals. It may have an advantage in risk taking, innovation, and decision-making because of better access to information, which enables it more effectively to calculate, but the real edge of government over private enterprise in underdeveloped countries comes from its advantage in recruiting persons of ability and energy needed to get growth under way. This advantage, where it exists, will differ in extent from country to country.

There are two sides to the question of risk bearing. The fact that the risks are not borne privately may make public servants – politicians and civil administrators – underestimate the risk of loss and may lead to waste. On the other hand, where productive projects are lumpy, i.e. involve substantial amount of capital, where private entrepreneurs are risk averters, or where they lack information to calculate properly the mean of the probability distribution of a project’s success, government may take desirable risks which private enterprise would ignore.

In innovation and decision-making, government is likely to have access to more and better information, to evaluate it more professionally and to scan a wider range of alternatives because it looks beyond even the sum of the narrow horizons of private enterprise. In addition, state enterprise maybe the only agent in less developed countries which
undertakes investments projects that are socially desirable but privately unprofitable. One might conjecture that the more rudimentary the economy, the more likely that specialized, professional services needed for effective organization on any substantial scale will be available only or primarily in government.

The conjecture, however, is clearly open to question. The major advantage of government is in recruitment. In most poor countries, government is associated with power and enjoys a degree of social approval not accorded to private enterprise. Government can attract intelligence, training, and energy in many countries in ways not available to private enterprise. In developed countries, the tradition is often otherwise, and so is the practice in some underdeveloped countries: vigour and drive are associated with private undertakings, and government is believed to be manned by the shiftless, not to mention the corrupt. Both can be true simultaneously, of course, with energy and idealism embodied in a portion of the government, but weighed down by masses of civil servants who hold sinecures.

The major weaknesses of state corporations in organizing economic development are their over-centralized decision-making, attempting too much, concern for monumental projects, and maximizing the “wrong” variable.

State-owned enterprises, while having very distinct social responsibilities, can be more commercially oriented. However commercially-oriented such state-owned enterprises may be, they can be commercialized only in the wider sense of being required to achieve economically optimum allocation of scarce human, financial, and sometimes, technological resources. There can be no question, therefore, of their being required to maximize profits since such a term of reference would not only be anti-social in itself but also could hardly be tolerated in
the monopoly situation in which the more important and the more controversial of our state-owned enterprises, namely, Nigeria Airways, NEPA, NCR and P & T operate. The fact that in other countries some of these services are provided either entirely by private sector organizations under the supervision of appropriate government regulatory authorities or partly by such private sector enterprises and state-owned enterprises is prima-facie evidence that they can be managed as private sector organizations.

Few would contest the assertion that NEPA’s essential responsibility is to deliver electric power all over the country in quantities and at prices that the public can afford and not primarily to provide its owners a defined financial return. If this is equally true of Nigeria Airways and several other such state-owned enterprises, it follows that the real question to be addressed is what constitutes failure or success on the part of these enterprises. It would be unhelpful to ask whether these enterprises are in politics or business. They must operate within the framework of active political intervention while seeking to achieve, in the most prudent commercial manner, the social and economic responsibility of providing service sometimes in areas and at prices that render them commercially unviable in the conventional financial sense. In this regard, criticism, of our public enterprises is of mixed validity. Some of it is patently unfair having been born of ignorance of the nature of the political and social constraints within which they function. Some of these criticisms should, in fact be directed at the machinery of government and the nature, extent and effectiveness of ministerial control over the operations and affairs of these enterprises. (Onosode, 1991).
Private Versus Public Decisions

Private decision by individuals and firms are the allocation mechanisms that are complementary to government actions. These decision, coordinated through a fully functioning competitive market, will guarantee an efficient outcome. Each individual in society will be at the maximum welfare level that is consistent with the levels achieved by others.

For two broad reasons, government action may be a desirable supplement to market behaviour. First, efficiency, the main accomplishment of competitive markets, is only one contributor to social welfare. A concern for equity, for the distribution of goods and services in society, may justify government action to redirect resources from the natural competitive outcome. Second, the market may fail to operate satisfactorily; many goods and services are not provided on competitive markets. Hence, an efficient outcome cannot be reached. The government may then find it desirable to promote efficiency.

Modes of market failure fall under six headings: imperfect information, transaction costs, the non-existence of markets, market power, externalities, and public goods. How might the government choose to deal with them? One possibility is to do nothing, recognizing that any action may create more problems than it would overcome, and that perhaps private organizations will deal with the issue. In a more interventionist vein, four classes of activities are available to the government. It can take measures that attempt to improve the workings of the market. Government intervention can be subtle, as when the flow of information is improved and private market decisions are thereby facilitated. It can be blunt and overt; citizens may be taxed so that the government can pay for the direct provision of public goods such as police services or money for the poor. In many circumstances the government will not wish to influence individual
actions. Here too, a continuum of possibilities is available. The government can order certain behaviour, as when it tells a firm how much smoke it can send up its stack or prevents consumers from purchasing unproven or unsafe products by keeping them off the market. Alternatively, the government can influence individual decisions by altering incentives, as when it sets an effluent charge on stack emissions or establishes a system of liability for unsafe products.

Making the appropriate choice among these various modes of intervention requires great skill and careful consideration. The government is often accused of bureaucratic bungling and ineptitude when it attempts to compensate for market failure. Frequently, the real difficulty is that an inappropriate mode of intervention has been chosen to deal with the problem at hand.

If we look at the matter from the prism and perspective of the private sector, the dismal performance of the public sector will be more frightening and the imperatives more compelling. In essence, we may say that much as it is true that the private sector has to contribute to the whole system through improvement in corporate governance, a contribution that becomes even more highlighted with privatization, certain concerns such as the provision of basic infrastructure, the creation of a level-playing field for competition, the achievement of a conducive climate for investment, and overall reduction on the cost of doing business in Nigeria will remain the primary duty of the public sector.

It is perhaps the above reasoning that accounts for the popular acknowledgement that the primary attraction of privatization lies with the fact that it drives investment generally and helps to realign the private sector by broadening markets and making them more efficient and competitive for the benefit of the people. But it bears repetition to reiterate that government must remain in the picture as an indispensable enabler.
This indispensable role may become an acceptable interpretation of how best it can “fire imagination” and “stimulate hopes.”

Recently, at the 2001 Nigerian Economic Summit, the msae line of thought was identified as the “Word Economic Game” for the 21st Century. The summit recognised that it is squarely the private sector that plays this game whereas the public sector merely sets the stage. It went ahead to set the action oriented priorities for making economic progress, we note that all the identified so-called growth drivers influence and/or are influenced by private sector activities and performance while the playground is prepared and maintained by government. These identified growth drivers are given as: job creation, security, infrastructure, sector reform/privatization – investment climate.

Now, no one would contend that the private sector has not responded to the challenges of our nation state given all the limitations. However, the view has been expressed that the private sector in Nigeria can do with more formalisation in order to bring most of the activities in the sector under control, predictability, and organized platform. Even in this, the role of government is also decisive. As observed by a foremost Nigerian periodical:

“A strategy for private sector-led growth will depend critically on the role of government and on its capacity to deliver needed services. It is easy to blame Nigerian entrepreneurs but there are obstacles all over, which are difficult to surmount. Those problems created the growing unofficial economy or informal sector.”

Although the market capitalisation of the Stock Exchange has increased appreciably since 1999 (N665 billion as at end November 2001), it only accounts for about 17 per cent of GDP at current factor-cost. So much still needed to be done to recreate the private sector in order to
position it to take full advantage of our growth potentials. The private sector itself must be positively involved in the desired transformation. (Duru, 2002).

Much as man out of necessity readily came to accept the need to work in concert with others to enhance production, what has rather been the major point of departure among economists is the ownership and control of the means of production. Advocates of free enterprise otherwise known as the classical economists represented by Adam Smith, believe that the best way to enhance production, development and well-being of man, is to recognise the selfish instinct in man, that is, to allow individuals own their means and produce what they want in a free, unfettered atmosphere of unbridled competition mediated only by demand or market forces. Yet, other economists represented by Karl Marx believe that the fulfillment of needs must be placed above the urge for profit. For them, private ownership of the means of production, and unfettered competition among owners of capital leads to chaos, to exploitation of hired wage earners who own only their labour, and to over production as low wages fixed to maximize profits undermine demand or purchasing power of vast majorities, leading to glut or depression.

The revolutionary catechism of the now defunct Soviet Union and the socialist bloc after Second World War enabled developing countries to watch the two systems in action, and to borrow edifying features from both. The result of this interface of two desperately opposing ideologies was mixed economy: own in common those things which only the community, represented by the state, can pull resources together and manage; leave those things in private hands that are best managed by individual investors. Depending on primary products, the state in the developing world became the main earner through the export of minerals and other related products. If it were to hands off the economy, the result would be the waste of its vast
earnings on white elephant projects. Hence, the state became the main investor and entrepreneur in the Third World, mediating between the needs of its people and those of overweening foreign business interests.

In fact, the economic stagnation of most “black” African states, including Nigeria which itself forms part of the background of their political instability, is also related to the reverse they have suffered at the hands of the major powers during the “cold war” era. But the emergence of Margaret Thatcher and Ronald Reagan on the global political scene, and the demise of the Soviet Union and decline of the socialist economy, changed all that. Suddenly, indebted Third World countries were corralled into swallowing International Monetary Fund and World Bank monetarist pills: if they wanted relief from the debt peonage, they must rip open their borders for a deluge of foreign goods whether needed by the domestic economy or not.

By that very fact, they must deregulate and float their currencies and allow their values to be determined by the supply of dollars, pounds, deutsche mark and the yen. The hardest blow as the harsh order handed down to developing countries by the IMF to hands off their vast investments, to auction them to willing “buyers”. The advent of the government of General Ibrahim Babangida in August 1985 coincided with the era of Thatcherism and Reaganomics, and the inauguration of the IMF-packaged Structural Adjustment programme (SAP) without a foreseeable alternative in 1986 turned Nigeria into a guinea pig for the experimentation of the IMF monetarist theories. But whereas Nigerians were told that privatisation, a key component of SAP would affect mostly unprofitable state enterprises, the very lucrative sectors of the economy such as oil companies, banks and hotels were among General Babangida’s first targets. This was to firmly etch Nigeria on the capitalist orbit.
The bogey of privatisation in the Nigerian context was to stimulate competition and fire the spirit of enterprise while deregulation was supposed to unleash the market forces in concert with classical economic theory of the Adam Smith variety.

In directing enquiry into the prospects for applying private sector style of management in public enterprises, that is statutory corporations and state-owned companies, there is assumption that all has not been well with the management of these state enterprises and, secondly, that it is desirable to attempt to apply to them private sector style of management. It is not possible to make an objective examination of these propositions without identifying the essential differences between these two sectors both as to the internal structure of enterprises in them and the total environment in which they operate. The principle of public acceptability operates very differently in these two sectors and there are problems peculiar to the public sector.

The typical private sector enterprise regardless of its size has fairly simple and straightforward corporate objectives designed to ensure its survival as well as induce optimum profitability in financial terms. The development of manpower and technology, the discharge of social obligations even when represented as ends in themselves are planned with a view to create for the corporate entity the most favourable public image and an environment most conducive to the pursuit and attainment of its essentially relatively narrow commercial objectives. Making charitable donations, even on a substantial scale, operating an open scholarship scheme not limited to its employees, the improvement of the physical environment including the repair of roads which is legitimate responsibility of the local authority (government), however patently altruistic are all part of a grand strategy, calculated to ensure, in the long term, the acceptability
of the enterprise and its product by its public and the optimization of profits.

Thus the private sector enterprise, regardless of how important to its public products or services may be, can and does retain initiative in the expansion of its production capacity within the limits of its management’s perception of the critical constraints within which the enterprise can operate. This it may do, sometimes at great inconvenience to the public or its publics, without being subjected to the public outcry and excreation to which a National Electric Power Authority in Nigeria Airways or a Nigerian Railway Corporation has become used to because they are already adjudged to have failed to live up to the continually rising expectations of the public as a whole.

As good citizens, the best of private sector enterprises submit to the laws of the land, operate within them and sometimes mount powerful lobbies which aim at procuring modification of these laws to the extent that they constitute unacceptable or grossly inconvenient constraint having regard to the distinctly commercial commitment of these enterprises. Within these constraints which would tend to apply generally to them although, of course, specific government regulations may be made to ensure that particular enterprises operate in a manner consistent with public policy. The success of private sector enterprises may be determined unapologetically by reference to purely financial criteria in the short, medium or long run.

State enterprises, on the other hand, even after allowing for the wide differences among them as individual corporate entities, are usually established to serve specific social objectives with varying degrees of amenability to commercial orientation. (Onosode, 1991).
Private-Public Partnerships

Public-Private Partnerships are based on involving different actors or stakeholders, who may be divided into the following four groups:

- the public sector, whose principal role should increasingly be to create competitive pressures for more effective and efficient service delivery and enable, facilitate, regulate, and monitor partnership arrangements;

- the formal private sector, which because of its access to financial resources and its potential ability to operate more efficiently, can play a role in financing and providing certain infrastructure services and in construction, operations, and maintenance;

- the informal private sector, which is actively involved in many aspects of services, particularly in low-income areas and whose potential role in partnerships should increasingly be recognized; and

- the community and its representatives who have direct interest as service users, but who can also be involved in awareness – raising, advocacy, decision-making and in actual provision of services, including operations and maintenance, and even in construction of facilities.

Options for partnerships are diverse and, overlapping in a number of cases

The Nigerian Economic Predicament

It is useful to start our discussion under this section with a brief overview of Nigerian economic predicament over the years prior to the commencement of the privatisation policy.
From the historical perspective, it is pertinent to ask: where is Nigeria coming from? Where are we now and how did we arrive at the present destination? Where do we go from here?

Nigeria at independence was a nation of hope and great expectation to both Nigerians themselves and the international community, particularly black Africa at home.

Present Nigerian economic objective are derived from the 1979 Constitution under the Fundamental Objectives and Directive Principles of State policy which stated categorically that the government shall control the national economy in such a manner as to secure the maximum welfare freedom and happiness of every citizen on the basis of social justice and quality of status and opportunity. The constitution further went on to explain that the state shall direct its economic policy towards ensuring:

(i) the provision of a planned and balanced economic development;
(ii) that the national resources of the community are harnessed and distributed as best as possible to serve the common good,
(iii) that the natural resources of the community are harnessed and distributed as best as possible to serve the common good,
(iv) that the economic system is not operated in such a manner as to permit the concentration of wealth or means of production and exchange in the hands of few individuals or of a group, and
(v) that suitable and adequate shelter, food, reasonable national minimum living wage, old age care and pensions and unemployment and sick benefits are provided for all citizens.

It is obvious that in spite of laudable efforts over the years, these constitutional provisions are yet to be met by any government in Nigeria. The implementation of the constitutional provisions plus the various economic programmes of past governments, over the years, have posed serious tasks to the extent that the national economy has nose dived and
various economic objectives have become difficult to attain. It is within the context of trying to redesign the national economy that efforts are now being put in place to speed up the implementation of an appropriate approach to move the economy forward.

In Nigeria, there was a time when it was considered sound economic policy for government to establish and invest in statutory corporations and state-owned companies the Nigerian Government is involved in utilities, energy, aviation and banking, etc.

Socialism seemed to have existed side by side with capitalism. It was argued that public-owned companies were better for stimulating and accelerating national economic development than private capital. It is estimated that successive Nigerian Governments have invested up to 800 billion naira. In public owned-enterprises (Ephraim-Oluwanuga, 2002). With declining revenue and escalating demand for effective and affordable social services, the general public has stepped up its yearning for state-owned enterprises to become more efficient.

The presence of the state in business has proved to be a failure. Sooner or later, SOEs exhibited the following characteristics: mismanagement and over staffing, inappropriate and costly investments, poor quality and coverage of services, high debt and fiscal losses, production ad profits that were below their potential

In many countries, decision-makers and senior officials in SOEs often used the enterprises to further their vested interests. Staff and managers were often appointed with little regard to their appropriateness for the positions. Prices for many goods and services were kept artificially low. Gross subsidies and pricing inefficiencies became wide spread with many prices bearing little relation to cost and a few interest groups benefiting from subsidies at the expense of the general public. Many
enterprises were kept afloat solely because of coerced lending from state-owned banks or government support via such means as equity injections, loans and bonds, budgetary subsidies and explicit or implicit government guarantees. Such forms of government support probably were paid for by higher taxes on the people, whether they use these goods and services.

The sharp depression in the Nigerian economy which occurred as a result of the 1982 crash of oil prices (the major determinant of Nigeria’s well-being) has had an diverse effect on the quantity and quality of public infrastructure. Also, poor maintenance (neglect) and mismanagement of public, infrastructure has led to private responses to these deficiencies. Despite the high cost incurred in the private provision of infrastructure, it has been embraced by majority of households in whole or in part.

The single biggest problem of Nigeria is infrastructural decay. Virtually all known indices of infrastructure are negative: electricity supply is erratic, taps are dry and the ones that run are sporadic, the level of security provided does not make one secure; most roads are barely motorable, etc.

Most people, therefore, resort to their own provision of infrastructural facilities so as to live a decent life. This might be in whole or in part such as employment of security guard, making use of a generator, sinking of wells or bore-holes, etc. Most people are not really aware of the cost incurred in the provision of these infrastructure. A knowledge of the cost of provision of infrastructure by individuals will also be enable one to ascertain the amount of money that would, otherwise, be used either for investment of some sorts or to improve the standard of living if the necessary or basic infrastructures were in place and as functional as they ought to be.
The situation was such that the structure of the Nigerian economy was unlikely to undergo fundamental shift if the parastatals that had gulped N23 billion by 1985 continue to expect subvention from government. The imperative of privatisation and commercialisation was, therefore, a logical derivative of economic reform. It is not surprising, therefore, that the 1986 SAP budget provided for the privatisation of parastatals and government-owned companies.

In his budget speech, the President remarked that parastatals had constituted a high burden on government resources and had been variously classified and reclassified for purpose of reform. Government’s first step was to state that all non-statutory transfer to economic and quasi-economic parastatals would from then constitute no more than 50 per cent of their levels as at the time of the budget speech. The parastatals were instructed to find the balance from increases in their prices charges, tariffs and rates. The President also announced government intention to divest its holdings in commercially-oriented enterprises beginning with agricultural production companies, hotels, food beverage, breweries, distilleries, distribution companies, electronic and electrical firms and all non-strategic industries. But the promise of privatisation was long in coming.

Numerous factors made privatisation rather difficult to handle. First there was the political resistance to privatisation. Certain groups with collectivist views on how society should be organised had an ideological preference for state ownership of the means of production. To them, privatisation was simply taking what belonged to all and handling it over to a few of the already wealthy ones so that they can exploit the masses further and make more money. To this group, charges of inefficiency and evidence that a few public officials found these parastatals as avenues for abuse and self-aggrandisement were nothing compared to the evil of privatisation.
A more formidable opposition to privatisation was the view of those seeking equitable distribution of the national wealth certain sections of the country have remained insistent that there are particular sections where individual wealth would more readily allow gains from privatisation than others. They argued therefore, that privatisation would benefit certain groups as indigenisation did in the 1970s. This disposition was not altogether flattering of the privatisation process and created a mood where, with the exception of a few agricultural companies, privatisation was to wait until 1988 when a Technical Committee to oversee it would be appointed.

As a prelude to privatisation, however, the government allowed for the issue of non-violating shares. Under this provision, the Nigerian Stock Exchange was to provide for foreign investors to hold shares up to N308 million in Nigerian Companies. The stock so acquired would not give the investors voting rights in the companies in which they were brought. This exercise was to be carried out without violating the Nigerian Enterprises Promotion Decree. This policy suggested that policy-makers hold the opinion that the level of profitability in Nigerian enterprises was such that people would be willing to invest without control or even input. This apparent bright idea was supposed to lead to a significant inflow of foreign exchange.

The Structural Adjustment Programme

One of the major objectives of the programme is to lessen the dominance of unproductive investments in the public sector, improve the sector’s efficiency and intensify the growth potential of the private sector. And, among the main strategies adopted to achieve these and other objectives were:
• the adoption of a realistic exchange rate policy, coupled with the liberalisation of the external trade and payment system; and
• adoption of appropriate pricing policies in all sectors with greater reliance on market forces and reduction in complex administrative controls (CBN Annual Report, 1986).

Consequent on these strategies, the following policies were undertaken between July 1986 when the programme started and June 1988 when it officially ended.

**Monetary Policy**

Initially, a tight monetary policy was adopted by the government as the credit ceiling imposed on banks was reduced from 10 per cent. However, the actual commercial bank loans and advances to the private sector expanded on 1986 by 29.0 per cent as against the imposed ceiling. One of the chief reasons for this was the introduction of the Second-Tier Foreign Exchange Market (SFEM) in September 1986 which increased substantially the working capital needs of many businesses and hence the demand for bank credit (CBN Annual Report, 1986).

The most remarkable monetary policy in 1987 was the deregulation of interest rate on savings and lending by banks in August that year. With the discount rate moving from 10 percent to 15 percent, the commercial rates shot up immediately after the deregulation and the CBN had to reduce the discount rate of 12.75 per cent in December same year, as a signal to banks to reduce their interest rates, particularly on lending, which has resulted in very high cost of borrowed funds to as high as 22.5 per cent. This, of course, did not reduce the interest rate drastically because it reached 19.5 per cent by the end of 1988 (CBN Annual Report) and it was
reported to have reached, in 1989, 30 per cent, due to credit squeeze policy of the CBN, such as withdrawal of deposits by government parastatals.

The monetary policy for 1988 was formulated to stimulate growth and create employment, amongst others, and it was thus easy money policy with 15 per cent growth in aggregate credit to private sector against 7.4 per cent in 1987; and reduction of the minimum liquidity ratio from 30.0 to 27.5 per cent and 20 per cent for commercial and merchant banks respectively. However, by August same year, when the economy was becoming overheated according to macroeconomic indicators, e.g., inflation, government had to resort back to mild tight money policy which was continued into 1989. In actual situation, the aggregate domestic credit rose by 26.1 per cent against 8.1 per cent given by policy. Credit by government and private sectors were 30 per cent and 21.6 per cent against 2.5 and 13.5 per cent prints respectively.

**Fiscal Policy**

At the commencement of SAP, some of the existing fiscal policy measures were reviewed with the intention to ameliorate the expected inflationary impact of SFEM. The 30 per cent import levy in existence was abolished. Import duties on basic industrial materials, agricultural inputs, tractors and commodities were reduced by various percentage points. Also, duties on some consumer/final goods and luxury items were reduced by 10 to 60 percentage points while some others were raised. The numbers of banned imports were reduced from 74 to 16. Most of these measures were retained in 1987. But a most remarkable measure was the removal of subsidy on fuel and petroleum products which has adverse effects on cost of production and consumption.
In 1988, however, the combination of existing monetary and fiscal policies have reflected increasing worsening standard of living among the populace, and capacity utilisation in the industries has not increased as expected, the fiscal measures were for reflating the economy. Thus an overall actual deficit was N12,160.00 million; a lower company tax rate of 20 per cent for 3 years for small and medium size companies was adopted; wage/salary freeze was removed and elongated salary structure was introduced in the public sector with encouragement for employees and employers in the private sector to do same; a comprehensive tariff structure designed to last seven years and with a view to protecting local industries was adopted, et cetera.

By the first half of 1989, privatisation and commercialisation of hitherto highly subsidised government business concerns have started in earnest. Agricultural enterprises, financial and other business have been privatised, while such public corporations like NEPA, NITEL, AIRWAYS and RAILWAYS, among others, have gone or about to go into commercialisation, making them adjusting their rates between 100 to 600 per cent upwards.

**External Sector Policies**

The first important step was the abandonment of the import licensing system and introduction of the Second-Tier Foreign Exchange Market (SFEM) where foreign exchange is sold and brought at a rate determined by the forces of demand and supply. The explicit objective of SFEM was to evolve a realistic and sustainable market determined exchange rate for the naira, so as to reduce demand for foreign exchange to available supply and reduce the pressure on the balance of payments. SFEM has undergone metamorphosis over time. Albeit, the objective
remains the same. At the beginning of 1987, three months after commencement of SFEM, the N/$ rate was N5.3530 (CBN Annual Report, 1988). At the autonomous and black markets, the $/N rate had gone up to 1:12.00 and for the British pound sterling which was officially at 9.8496 by December 1988, the unofficial £/N rate rose to as high as 1:20 at the beginning of 1989. Reports show that the currencies are more available at the unofficial sources than the banks which are equally interested in trading at the unofficial market.

One general implication of the above policies is increased cost of production. The high cost of borrowing due to high interest rate would naturally increase cost of production. New investment might be discouraged due to this high rate of interest but purchase of raw materials and spare parts, mostly from abroad and at depreciated naira, will always push the firms to borrow from the banks. Basu and Ghosh (1974) have found that investment expenditure in the less developed countries is generally interest inelastic. This may be due to underdeveloped nature of the money and capital markets with only few instruments to operate the market. In addition, availability of credit rather than cost mainly determines credit demand in these countries. The Nigerian situation clearly supports this position because despite the increased in interest rate, which rose to above 20 per cent in 1989, the demand for credit continued to rise.

The increase in fuel and petroleum products, the removal of subsidy to some parastatals and their resort to commercialisation which involved upward revision of their rates; the increase in wages, salaries and allowances of workers: and the massive depreciation of the naira by over 500 per cent, combined to add to the cost of production in the business sector. If the costs were largely transferred to the consumers (depending on the elasticity of the product), it would reflect in high prices, which
theoretically might reduce demand and consequently reduce business turnover and profit margin.

No doubt, these government policies and the consequent cost implications have made many businesses to fold up. This is particularly true to small and medium scale industries.

Privatisation Policy As a Panacea to The Problems of Public Enterprise: What is Privatisation?

Privatization is the transfer of shares ownership or sale of shares owned by the government in public enterprises to the private funds. Privatisation of shares makes the enterprises to become public companies and this facilitates easy transferability of the shares. Privatisation takes two forms namely: (i) Full privatisation, that is divestment by the government of all its ordinary shareholding in an enterprise and (ii) Partial privatisation that is, divestment by the government of part of its ordinary shareholding in an enterprise. (Ogunlalu, 1999).

“Privatisation” can be a means to overcome constraints facing the public sector. The term is frequently used to mean any process whereby the private sector is involved in the provision of public services. Privatisation involves a broad range of options for including the private sector in partnerships with the public sector. Privatisation means major assets or services are sold off by government (Schuttenbelt and Lorentzen, 1994).

The view toward privatisation is that the state should directly supply services only where necessary. It should ensure that essential goods and services are provided, but not aim to be the sole producer or deliverer. Where in the past government was seen as often squeezing out market suppliers, it is now expected to support their development and promote competition.
Few nowadays would deny that governments have often overextended themselves, suffocating private and community initiative. In many areas of public life, however, government cannot simply withdraw, leave matters to the private sector, and wash its hands of responsibility. A range of situations exist in which intervention is necessary. One way or the other, such circumstances apply to most urban services. The question is not whether the state should intervene but how the state should intervene.

As an economic policy, deregulation is often used synonymously with liberalisation to mean removal of official restrictions on consumer choice and the introduction or extension of competition on the supply side of the market. However, since the abolition of monopoly and the extension of consumer rights do not necessarily imply the transfer of state assets to the private sector, deregulation differs from the often substituted term – privatisation – which, like commercialisation, may be an instrument under a policy to deregulate. Usually, the primary aim of a deregulatory process is to reduce or eliminate distortions which drive a wedge between prices and marginal costs. Such distortions frequently include price control, taxes, subsidies, imperfect competition, exchange rate rigidities and trade restrictions. Thus a comprehensive policy of deregulation has implications for both the internal and the external economies. (Olashore, 1991).

Privatisation and commercialisation had become such popular elements in the process of de-regulation that some people take them as synonymous with deregulation. They are, however, much more specialized processes of government disengagement from those economic functions which it now undertakes but which can be more efficiently carried out by others, in the case of privatisation. With commercialisation, the disengagement takes cognisance of the difference between ownership and dependency because government retains ownership but severes the
umbilical cord of dependency so that the enterprises can operate commercially without any subvention from government.

Privatisation, as a concept in vogue is fairly new although the transfer of ownership of enterprises from the public to the private sector is not entirely novel. In the past, it was largely talked about as nationalisation and denationalisation. The swing in British politics from Labour to Conservative best characterizes the tendencies for nationalising and denationalising. It was Mrs. Margaret Thatcher, the former Prime Minister of Britain, who has made the term “Privatisation” a common usage in her determination to permanently crush socialism in Britain. (Olashore, 1991).

What has motivated this historic turn-around? Why do governments seek to privatize firms? Sometimes these are explicitly political reasons. New governments form the former Soviet Union and Eastern Europe, for example, wanted to create a new class of owners and reduce the power of the apartchiks that run the huge state firms.

More often the reasons are mundane: governments conclude, sometimes reluctantly, that state-owned firms just do not work. They do not provide the services they are intended to provide or do so at far too high cost. This will not be strange to people who rely on back-up generators, who have ever waited in line for fuel, or have tried to make a telephone call. Privatisation is also a way of stopping a continued drain of public resources, whether for subventions or for new investments. In India, Mexico, Tunisia, Turkey, and Senegal, subventions to state-owned enterprises (SOEs) were greater than government expenditures on health or education (Development Policy Centre, 1996).

Privatisation is recognition that when resources are scarce, as they always are, it is better for government to concentrate on doing those things that only government can do – providing an effective judicial system;
providing law and order, and national security; promoting public health; supporting primary and secondary education; building rural roads and keeping the streets repaired. Private enterprise can generate and distribute electric power, provide telephone services, refine petroleum, produce steel, operate ports, build and maintain toll roads, etc. Privatization is also a way of quickly burying dead firms and disposing of grand schemes that have failed.

Sometimes privatization reflects the realization that huge investment are needed, investments that are far beyond the scope of government to fund. For example, to bring Nigeria up even to the African average in the number of telephone lines per person would require billions of dollars that NITEL does not have. Rehabilitation of the refineries or the power sector will require billions more.

**Arguments for and Against Privatisation**

The case for privatisation rests first and foremost on the virtues of the free market, the appeal of which is seen as both political and economic. In a free market, it is argued, the consumer is King. If producers are unwilling to meet people’s needs, or if they do so inefficiently, then others will come to take their place. No producers have power as of right to do what they want: they must respond to the customer or perish. This way, the argument runs, free markets are much more efficient than any planned economy can be. They avoid the abuses of power and coercion inherent in any socialist or fascist economy. (Clarke, 1987).

The economic case for free markets rests on a set of economic propositions which is often associated with the eighteen century economist, Adam Smith. These ideas have been developed and articulated by economists such as Milton Friedman or F.A. Hayek. Given a number of
far-reaching assumptions, it can be demonstrated that a free market will lead to the most efficient allocation of resources in these sense that one can only implore the lot of some people by reducing the circumstances of others.

There are a number of economic criticisms of the free market philosophy. Firstly, economic efficiency may not be the sole or overriding goal. One important possible alternative aim may be the pursuit of equality or equity.

Secondly, there are several industries which appear to be natural monopolies. The economics of electricity supply, say, or domestic telephone services, dictate that there should only be one supplier, at least locally. Yet if the market is unregulated, the choice is either between many competing suppliers which would be inefficient, or a single privately-owned monopoly. Yet in keeping with the free-market philosophy of maximising profits, a private monopoly would be able to charge higher prices and offer poorer services than customers would wish, so a free market cannot automatically protect consumers against natural monopolies.

Opponents of privatization usually hinge their arguments on the fact that there are certain strategic industries such as defense and security, power and energy, health, public utilities, education and others, the privatisation of which will not only put the prices of goods and services produced by these sectors beyond the reach of the common man, but will also threaten such commonly shared values and ideals as national security and sovereignty. They argue that privatisation is mere transfer of economic (and by extension/political) power from state sovereigns to corporate sovereigns. Some go as far as expressing the fear that while the present millennium has been characterised by colonization of some countries by others, the next will witness the colonization of whole continents by multinational corporations. They cite the example of such super-rich
individuals like Bill Gates, and call to question the much-touted democratisation of capital under the privatisation programme.

Opponents of privatisation further hold that new international economic order is gradually being steered by western capitalist towards a situation where ownership and control over the natural resources of the earth will no longer be determined by the sovereignty of nations but by the economic interests of individuals and multinationals in the economies of nations. Thus, if Bill Gates so desires, for instance, he could have total control over the entire resources of Black Africa by simply investing heavily in the economies of these impoverished nations. This is capitalism’s answer to God’s paradox that the bulk of the world’s natural resources are to be found, not in the G7 countries, but in the less developed countries. The current hype about globalisation and privatisation is, therefore, seen by these critics as nothing other than this, since it seeks to diminish the significance of national boundaries and sovereignty; and to replace them with the reign of multinational corporations.

Another angle to the opposition to privatisation has to do with negative fallout from implementation, not with the policy per se. Such fallout include inevitable rise in unemployment levels due to lay-offs that occasioned by downsizing, unrealistic pricing of the enterprises, which are then sold to favoured bidders at ridiculously low prices; monopolization of choice enterprises by some few rich persons, and the domination of local economies by foreign interests, as earlier mentioned. (Dewan, 1999).

Examine this:

“When the going gets tough, sell off the kitchen utensils.”

“Look, she is even privatizing the rain which falls from the heaven.”

The above and similar remarks from members of the then opposition Labour Party greeted Prime Minister, Margaret Thatcher’s
unwavering determination to stamp the privatization culture on the national psyche and consciousness of Britons in the early and mid-1980s. Since then, the word “privatization” have remained one that breeds either die-hard adherents or critics, leaving virtually no room for middle-roaders or fence sitters.

In a way, the fury of the privatization debate should be understandable, for it dramatises the age-long controversy between Adam Smith and Karl Marx; between capitalism and marxism. Both camps would agree that privatization represents the most frontal offensive by capitalism on the communist jugular vein; and offensive which the communist survival instinct must counter with the very last drop of blood in it.

The post cold-war era, far from dampening the privatization polemics, has instead witnessed intensification of the debate, even within traditionally capitalist countries. This is because the debate goes much deeper than the superficial ideological considerations and calculations of the cold war. It touches directly on the critical question as to whether, in a world of humans whose strongest natural instinct is self-preservation and self-propagation, the collective good can be best realised by allowing the inmates to run the assylum, or by having a janitor. The question is basically this: is self-interest an asset to be harnessed or a liability that must be avoided like the plaque? This question appears poised to outlive both capitalism and communism, as witnessed by the ever-growing momentum of the privatization question around the globe, even in a post-cold war situation. Privatization has arisen from the ashes of the cold war as the most topical issue in the global political economy. It is indeed the new cold war, albeit with totally different battle lines from those of the old; for privatization draws opponents and proponents from both sides of the iron curtain.
A dispassionate consideration of arguments proffered by both the proponents and opponents of privatization leaves one with the strong conviction that each side has very profound and convincing facts which cannot be lightly swept aside. First, a look at arguments in favour of privatization; and in doing this, there maybe no better authority than the author and high priest of privatisation, the iron lady, Margaret Thatcher herself. When on March 22, 1998 she was asked to address the Joint Economic Council of Mauritius, as would be expected, she chose the topic: “Freedom, Privatization and Prosperity.” In this address, she sees privatization as a subset of thatcherism which has come to be accepted as the term describing the fundamental policy imperative of her years as the British Prime Minister.

According to her, thatcherism is the policy of “creating a framework which honours freedom within which individuals and firms can compete on fair terms, to the benefit of the customer and the nation. “Within this framework, the role of government should be limited to five key areas, namely: keeping the finances and currency of the nation sound and strong; upholding the rule of law; defending the territorial integrity and sovereignty of the state; providing a basic educational system which enables children to make the best of their abilities; and lastly, providing a safety net of services for those unable to look after themselves. Thatcher contends that if the state can perform these duties well, then a framework is established in which enterprise, initiative and diversity can flourish.

But all too often, Thatcher asserts, the state is tempted into activities to which it is ill-suited or which are beyond its capabilities; and chief among these is the temptation to acquire economic power by nationalisation. Too often, the state believes that it actually knows how to manage business, but the stark realities on ground clearly show that no state does. And herein lies the necessity for privatization.
According to Thatcher, poor performance in state-owned industries is inevitable for three key reasons. First, the priorities of elected politicians are necessarily different from the priorities of effective business managers, and cannot, therefore, be simultaneously pursued. Second, the huge subsidy expended on state industries are at the expense of the tax payer, and leave the manager of such enterprises with the plain and unpalatable illusion that a nationalized industry does not have to succeed in order to survive. Lastly, but perhaps the most important reason why nationalized industries perform poorly is that the basic philosophy of state ownership denies and therefore fails to harvest positively the power of self-interest.

Mrs. Thatcher is always quick at pointing to the glaring benefits of privatisation, especially as they relate to the United Kingdom. In the address under reference, for instance, she succinctly and forcefully showcased the British experience with privatization. In Britain, she reminds us, privatization has put a stop to the idea that inefficient management could always be subsidised by the taxpayer. With privatization, shareholders now provide the capital for investment that has hitherto been financed by the state, thus removing an enormous burden from tax payer. And once in the private sector, business has lowered its cost to keep its customers, thus availing the consuming public another advantage by way of highly competitive prices for goods and services.

Given arguments for and against it, it begins to appear clear that privatization as an economic policy holds a lot of promise, especially for cash-strapped developing nations of sub-Saharan Africa, provided the process itself is well planned, structured and implemented to minimize some of the negative effects that are constantly harped upon by its opponents. For one thing, a number of factors that hampered the privatisation process in Africa in the past have dramatically changed over the years. First, most of erstwhile Marxist regimes in Africa, with no
experience of liberty or law have been replaced by elected regimes that are laying the foundations for order and human rights. Second, the bureaucratic mind set that government knows all is gradually giving way to the concept of minimal government of tested business principles. And lastly, the World Bank has recently been moving from public to private-sector lending. Thus, even though there are still enormous problems of political instability in Africa, privatisation is going on steadily. (Dewan, 1999).

**Objectives of Privatization**

The general goals of privatising government enterprises include:

(i) to ensure positive returns on investments in public enterprises.
(ii) to permit efficient management of such enterprises and maximum utilization of resources which have been the features of the private sector of the economy;
(iii) to generate funds for financing socio-economic developments in education, health and improve the infrastructures;
(iv) to re-orientate the enterprises slated for privatization towards a new horizon of performance improvement, viability and overall efficiency;
(v) to reorganize and rationalize the public sector of the economy in order to reduce the impact of unproductive investments in the sector;
(vi) to reduce the financial dependency or reliance of the government enterprises on government for grants and inculcate the habits of accessing funds from the capital market for their operations;
(vii) to create new and more employment opportunities;
(viii) to serve as a means of gaining new knowledge and technical know-how and capabilities and expose a country to a competitive world. (Ogunlalu, 1999).

Professor Anya O. Anya, at the Nigerian Economic Summit at the Netherlands Congress Centre, The Hague (2001) stated the overall objectives of privatisation as:

- To improve on the operational efficiency and reliability for our public enterprises.
- To minimize their dependence on the national treasury for the funding of their operations.
- To roll back the frontiers of state capitalism and emphasize private sector initiative as the engine of growth.
- To encourage share ownership by Nigerian citizens in productive investments hitherto owned wholly or partially by the Nigerian government and, in the process, broaden and deepen the Nigerian market.

**Critical Issues of Privatisation**

Professor Anya also identified what he termed critical issues associated with the implementation of the privatisation exercise in so far as government policy is concerned:

- Whether to privatise as “is” or rehabilitate before privatisation.
- To relieve the enterprises managers of their duties before or after privatisation.
- The type of regulatory framework that will be in place.
- Whether the sale should be given to both foreigners and Nigerians.
- The valuation methods to be used.
• The role of foreign core investors in the ownership and management of the national economy.
• Loss of jobs resulting from the privatisation.
• Income inequality arising from the ownership of privatised assets.
• Whether to deregulate before or after privatisation.
• Utilization of the privatisation proceeds.
• Whether government should go ahead and own any “golden shares”.
• The level of transparency in the programme.

Outline of a Privatisation Process

Winful (2001) gave an outline of a privatisation process as follows:

• Decision to privatise taken by government.
• Government privatization agency mandated to commence privatisation.
• Education/Communication on the privatisation of the SOE. Depending on the industry sector of the SOE, communication and/or education may need more focus.
• Selection of consultants to undertake privatisation exercise.
• Prepare the SOE for privatisation including some due diligence to determine value of the business/assets and other attributes.
• Preparing sale documents, brochures, etc.
• Depending on the mode of privatisation whether outright sale, through stock exchange search for strategic investor, etc., to proceed with either the search or listing, etc.
• If bids were invited, to receive and evaluate bids, then negotiate, etc., etc.
Types of Privatisation

Privatisation may be accomplished in two major ways namely: load shedding and outstanding. (Kekere-Ekun, 2000).

Load Shedding

The government sells assets it owns to private buyers. This occurs when a society determines that it should no longer pay for a good or service with collective funds. It answers the question: should we pay for some good or service individually out of own resources or should we pay for it collectively with funds raised through one form or another of taxation?

Public budget cutting and deficit reduction, elimination of agencies or services, sale or lease of public assets to private parties, reducing regulation of business, all are strategies to reduce the size and influence of government in society, to change the fundamental balance between private and collective resources. These choices entail removing public services from collective payment or transferring ownership of enterprises.

Sale of commercial and industrial assets has been the most important element of privatisation in countries like ours where large portions of commercial and/or industrial activity had been government-owned.

Load-shedding of public services tends to generate new demands on government. For example, a state or local government may go out of waste collection and disposal business, enabling property owners or occupants to contract directly with vendors of their choice. In this example, however, the state or local government has increasing regulatory responsibilities. Property owners occupants cannot be allowed to have garbage piled upon their backyards, nor should they be subjected to monopoly contractors charging exhorbitant price. The state or local
government may remove itself from service(s) delivery, but it assumes responsibilities for the more difficult roles of inspection, licensing, price monitoring environmental regulations and law enforcement.

**Outstanding**

The second type of privatisation is illustrated by outsourcing or contracting-out services or delivery of goods. The government stops providing a service directly and relies instead on private sector to deliver the services. This arrangement utilises collective payment but provides delivery of goods and services by private persons or organisations rather than by government employees.

Contracting has been a central part of Nigerian government since independence, spanning social services and utilities. To illustrate only the tip of the iceberg, Nigerian governments procure from private sector suppliers pencils, pharmaceuticals, etc.

A major reason for outsourcing is to focus management on the core functions of the agency. This challenges each public agency to define its central mission and benchmarks for assessing result. Outsourcing support functions can then simplify the organisation to focus on the improvement of mission performance. A second reason combines the issue of scale and specialisation. There are services that a general-purpose organisation is not well suited to provide internationally, a third reason for outsourcing is to replace internal monopoly with external competition.

Outsourcing for these purposes, however, will not be successful if the result replaces internal monopoly with private monopoly because in the absence of competition, market incentives do not discipline cost and performance.
In summary, the two major means of achieving privatisation are load shedding and outsourcing. Load shedding impacts grand government strategy by changing what it does; outsourcing affects procedural reforms, changing how government undertakes its tasks. Both methods have substantial distributional implications, determining who gains and who loses.

**Characteristics and Patterns of Privatization**

The economic landscape has been significantly transformed in developed and developing countries world-wide since the early 1980s privatisation started as process that was tolerated with guarded qualifications, it seems to have become something that is now enthusiastically endorsed in many countries. This should not, however, be interpreted to mean that privatisation faces no resistance anywhere. Since it constitutes a key part of the reforms usually prescribed by international donor agencies for developing countries, it has attracted significant political opposition associated with the apparent lack of local “ownership” in some countries. In addition, because donor agencies typically focus on reforms at the level of the central government, privatisation has tended to involve the SOEs established by central governments primarily. Hence, in a federal government structure such as that of Nigeria, the SOEs that have been set up by lower-level government (i.e. state and local governments) have largely escaped being included in the privatization dragnet. Furthermore, constraints imposed by institutional weaknesses, particularly due to underdeveloped local capital markets, scarce financial resources and weak private sector, appear to have resulted in African privatisation programmes lagging behind those of other developing regions such as Asia and Latin America.
In many developing countries, there is a predominance of partial over full privatization programmes. In other words, many developing countries have attempted to complete their privatisation programmes in stages, with gradual, staggered sales. This process has two quite different dimensions. In one case, successive blocks of the shares of an SOE being privatised are sold in a staggered version until government ownership is fully transferred. A second dimension involves the staggered sale of successive SOEs. Obviously, a privatisation programme may be implemented using both of these dimensions. There are, at least, two reasons why the implementation of privatisation programme may be phased out as described above. One reason reflects considerations relating to limited local capital market capacity as well as limited financial resources of local investors. The second reason reflects concern with the need to maximize investor’s confidence over government policy risk. More specifically, phased implementation of a privatisation programme constitutes a strategy for establishing and/or strengthening the reputation of government. The willingness of such a government to retain a minority stake in an enterprise undergoing privatisation and thus bear some residual risk can be an indication of its commitment to the privatization policy. The close adherence of the government to the pre-announced timetable for the implementation of the programme provides another indication that the policy is credible and will not be reversed. Obviously, policy credibility is important for inducing positive response from private economic agents.

Which SOEs should be privatised and in what sequence? Experience provides an answer to both parts of this question. This experience suggests that in the typical staggered privatisation implementation process, competitive SOE that are small relative to both the product and factor markets should be privatized first. Their relative smallness helps to avoid the danger that they might exploit product or
factor market power, and it also makes competitive bidding feasible. Furthermore, this stage of the privatisation has the best chance of being successful and hence offers a strong basis for establishing investors’ confidence in the privatisation process.

Experience is mixed when it comes to the phase that follows this one. Most countries tend to regard public utilities and SOEs providing other public (essentially social) services as “strategic”. Hence, they are either excluded from privatisation entirely or private investors are allowed to become minority shareholders while government continues to retain voting control. The question of which SOEs to privatize and in what sequence is further complicated by the observation that in many African countries, privatisation is viewed as an opportunity to dispose of loss-making SOEs and generate revenue (or stop the fiscal drain) in the process. This behaviour pattern has three implications. First, privatisation may exclude the most profitable enterprises and sectors. Second, only the marginal or less politically significant SOEs are privatised. Third, small and medium-sized SOEs in manufacturing and services are the most likely candidates for privatisation.

The method used to transfer SOEs to the private sector tends to vary depending on the objectives meant to be achieved by the privatisation process and specific circumstances of the country. Sale through public offering tends to be used when the primary intention is to spread ownership and build up the capacity of the local capital market. Targeted sales to “core” investors focus more on the objective of ensuring the continued competent management of the enterprise after privatisation. This method tends to be used in the privatisation of fairly large and “strategic” enterprises. Mass privatisation through the use of vouchers is associated with the desire to spread ownership, particularly in “transition” countries that are in the process of establishing market-economy institutions and lack an
indigenous private sector. Finally, some developing countries have tried to reform their SOEs by privatising their management rather than transferring ownership. This option involves arrangements such as management contracts, leasing and concessions.

Benefits of Privatisation

Kekere-Ekun (2000) discussed the benefits of privatisation at four levels viz: the micro level, government revenue and expenditure impact, income distribution and the democratisation process. • At the micro level, privatisation will reinforce business efficiency and boost domestic and international competitiveness through the introduction of new technologies and promotion of innovation. It will also allow for upgrading of plant and equipment. In many cases, it is bound to bring about increased capacity utilisation, as well as improved productivity while introducing new management methods and teams. • Privatisation will maximize net receipts in order to fund government expenditures, trim budgetary deficits or even pay public debt. The financial drain of public enterprises on the government (in form of subsidies, unpaid taxes, loan arrears, guarantees) will be drastically reduced, while private sources of funding will be mobilised. In addition, new sources of tax revenue will be generated and all the above will consequently limit the future risk of demand on the budget inherent in government ownership of businesses, including the need to provide capital for expansion or rescue them when they are financially troubled. • Privatisation will foster broader capital ownership by further developing a national middle class that is the critical link in economic development. By encouraging employee ownership schemes, labour relations will be further improved since workers and management will begin to see themselves as partners in progress. • In the context of our democratisation process, there are number of political benefits of
privatisation. It will, in long run, reduce the size and scope of the public sector and its share in the economic activity. The cut-throat competition associated with the struggle for spoils of office will be minimized, engendering political stability. The redefinition of the field of activity of the public sector also means that government now focuses on its core functions including the creation of the environment favourable to private sector economic activity. Privatisation will also reduce or eliminate policy reversals in relation to measures taken by the present government to alter the role of the state in the economy.

Effects of Privatisation

In assessing the effects of privatisation, one should probably relate its achievements to its announced objectives. At the conceptual level, several channels through which privatisation influences private sector development can be identified. first, as the public sector reduces its participation in key economic activities through privatisation, the process creates room for the private sector to begin to emerge as the regime of economic growth. Thus, the private sector may be expected to grow through this “displacement” mechanism. Second when the public sector receives cash in exchange for public assets transferred to the private sector in the privatisation process, it may use the money to finance current or investment expenditures or to redeem the public debt. Typically, a bit of all three will probably occur. The pattern of the resulting expenditure should impact on the private sector which can be expected to respond to the increased public sector demand for goods and services. Third, when privatisation is part of a comprehensive policy and institutions reform programme of liberalisation and deregulation (as it usually is in the development countries), exchanges will occur in the incentive structure characterizing the road economic environment. This may have both
positive and negative effects on the industrial sector. Such changes are likely to penalize the previously heavily protected industrial activities and to encourage the more competitive economic enterprises. In the short to medium term, the overall effect is typically negative. Fourth, privatisation processes and capital market development are inter-connected. Divestiture of assets involves capital transactions. The privatisation process and the mode of assets transfer may stimulate the development and strengthening of the capital market. But specific characteristics of the capital market may either enhance or hinder the privatisation process. For instance, the privatisation of banks and industrial enterprises often go together with significant deepening and broadening of the capital market. This also involves a general positive feed-back effect: a depressed and broadened capital market facilitates the sourcing of investment finance for industrial enterprises and generate private sector development.

Fifth, privatisation may either stimulate or hinder aggregate private savings and investment that are key indicators of private sector development. The effect runs, essentially, through two channels. One is investment opportunity. Private saving is generally contigent on the availability of profitable investment opportunities, among other variables. The privatisation of SOEs generally increases opportunities for private sector investment. It also tends to attract the inflow of foreign savings.

The other channel is the mode of divestiture used to implement the privatisation programme. When this involves considerable diversification, it may help to raise private savings since it caters to a wide cross-section of savers, in terms of income and other socio-economic and demographic characteristics. The diversification of modes makes more information available and offers to savers a wider array of savings instruments.

Sixth, privatisation can have significant implications for the policy environment within which the manufacturing sector operates. The policy
environment is particularly crucial for the development of an efficient and export-oriented manufacturing sector because manufacturing is a transactions-intensive activity. It involves the purchase of a wide variety of inputs from multiple sources, their storage and sale of the output to a variety of customers in multiple destinations. As a result, the typical manufacturing enterprise has a high ratio of purchased non-factor inputs to value-added.

It can be argued, in this context, that Nigeria’s manufacturing sector is penalized because it is a transactions-intensive sector which is being forced to operate in an environment where transactions costs are quite high. Transactions cost are high in Nigeria for at least two reasons. One is that transport costs are high and transport is unreliable due to their domination by inefficient SOEs. Another reason why transaction costs are high is because of high cost of information, unreliability and low density of telecommunications. These problems have, in turn, been caused by the restriction of the provision of telecommunications services to public monopolies. If these public utility SOEs are privatized and their efficiency levels sufficiently raised, it can be expected that transactions cost will fall and hence the manufacturing industry will develop.

Key Lessons for Successful Privatisation

On the basis of considerable international experience there are some key lessons in making privatisation successful:

• *Privatisation works best when it is part of a larger programme to promote growth and reduce poverty*. In Argentina, New Zealand and Mexico, privatisation was accompanied by reforms opening markets to competition; removing exchange, price, and interest rate controls; and promoting foreign and domestic investment.
• The proper regulatory framework is needed to privatize monopolies. Where this is done, as with Chile Telecoms, everyone (consumers, workers and the government) can come out winners.

• Some benefits accrue to partial privatization or privatizing management without transfer of ownership. When it is difficult to attract private investors. In Cote d’Ivoire, for example, the leased water company improved efficiency, increased new connections, reduced losses from poor billing and collections, and reduced the number of high-priced expatriate employees by 70 per cent.

This lesson comes with a caveat, however. Seldom can the benefits of “commercialization” be preserved without change in ownership. Moreover, the countries that have been most successful with improving the performance of SOEs are the same countries which have moved most aggressively with full privatization. Partial privatization, therefore, should be seen as a prelude to bolder moves.

• Transparency is needed to ensure public support. This was seen in the case of Argentina where support for privatization increased as the process progressed. Conversely, a lack of transparency can cause a political backlash as in the early days of the Polish privatization or even bring it to a halt as in Guinea. (Development Policy Centre 1996).

Privatization as a global phenomenon

One of the greatest changes in recent decades is the reversal of the growth in state-owned enterprises worldwide. The 1970’s and 1980’s surely marked a highpoint in the belief that investment by the state was a golden road to rapid growth and technology change. From that earlier perspective, events in the first half of this decade are little less than shocking.
Between 1988 and 1993, 2,655 privatization transactions in 95 developing countries have been carried out, yielding $271 billion in revenue. The number of transactions grew year by year from less than 50 in 1988 to almost 800 in 1993. These figures, being cash sales, do not include privatization by voucher used in many former Communist countries in Russia alone, some 75,000 small scale businesses have been auctioned, 14,000 medium and large scale firms have been sold, and 30 to 40 million new shareholders have been created.

Starting with nationalization of the railroads and telephone company just after the Second world War, the Argentina State, by the late 1970’s had acquired vast holdings in activities too numerous to list here (petroleum production and refining, steel, electricity, railways, airlines, ports, shipping, grain handling – on and on). Although, some 120 firms were liquidated or sold in the 1980’s, in 1990 there were still almost 300 state-owned enterprises (SOEs). In 1989, the deficits of these firms summed around $4.0 billion on sales of $9.0 billion. Obviously, something had to be done. In just two years, the newly elected government of President Carlos Menem sold virtually all these firms, garnering around $22 billion in the process. Savings from eliminating transfers are around $1.5 billion per year and foreign investment into privatization firms reduced government’s foreign debt by $7.9 billion. Observers believed the main elements of success include: strong, committed and executive leadership; a growing strength and sophistication in the regulatory framework to create and maintain competition; the variety of instruments employed – leasing, joint ventures/negotiated sale, auction, sale of assets, sale of shares on the stock exchange; a wholly transparent process watched over by a skeptical press (Development Policy Centre, 1996).

In the United Kingdom, in almost two decade now, government has drawn away from the role of producer and deliverer of services and
assumed the role of enabler (through financing, subsidizing, advising, and contracting) and regulator (setting policy, legal frameworks and standards).

Paradoxically, state withdrawal (from producing and delivering services) raises the demand for highly skilled public administrators capable of performing more complex, technical difficult, and politically sensitive tasks. If states failed in the past to produce services, how much more likely are they to fail to intervene selectively and supportively in markets?

Even less attention has been given to government’s ability to perform as enablers and regulators in developing countries. Development agencies, governments and researchers have focused more on the transition process of withdrawal and privatization than on how governments are to perform, their new roles will contribute to the failure of private service deliverers.

From 1983 when privatization began in Britain, to March 1998, over 50 major businesses employing more than a million people have been privatized in Britain alone. While prior to the privatisation exercise, nationalised industries were losing $50 million every week, privatized companies now contribute $60 million every week to the Exchequer in corporation taxes alone. Furthermore, proceeds from the sale of nationalised industries have raised about $8 billion every year, since sales began in 1983, while the privatisation of utilities has contributed to the increase in the number of private shareholders from three million in 1979 to 10 million by March 1998. Today, privatisation is the policy the world over, with total cumulative sales now amounting to over one thousand billion dollars (Dewan, 1999).

From the inception of her privatisation policy, the opposition labour party was literally up in arms against the policy, which some dubbed as *Kitchen economics where: when he going gets tough, sell off the kitchen*
utensils. In another vein, when the utilities, including the water corporation were being privatised, the same opposing elements remarked derisively: *Look, she is even privatising the rain which falls from heaven.*

The impetus for privatisation comes largely from the negative experience of state-owned enterprises (SOEs). Since the early 1970s, as in most developing countries, Pakistan has relied on the public sector to operate virtually all infrastructure and financial services and many industrial units. The government nationalised many businesses and enlarged the areas where the private sector was prevented from competing. In addition to a number of important industrial enterprises, the government owned and operated services in banking, energy, communications, infrastructure, and transport.

In Pakistan, the government considered privatisation of The Karachi Electric Supply Corporation (KESC) because despite high power tariffs and army efforts to reduce theft, KESC was bankrupt and its customers suffered from frequent blackouts, sharp voltage fluctuations, and many billing problems. Losses averaged Rs. 1.2 billion monthly. These were picked up, directly or indirect by the Federal Government, which in turn, imposed every-increasing taxes to finance the losses. KESC’s poor financial condition made it difficult to allow much-needed investments to improve service or reduce losses. The high tariffs and unreliable service also discouraged new business investments and put existing businesses at a competitive disadvantage. As a result, less was produced and fewer people were employed than of reliable and affordable power were available. This situation is similar to the NEPA case in Nigeria. Not a few people neglect to pay their NEPA bills even though the tariff is low. Recently, the government had to make provision of several billions of Naira to supplement NEPA (Ephraim – Oluwanuga, 2002).
In Kenya, when President Arap Moi was informed that the real problem of Kenyan Airways was the ownership structure, and not the composition of the board, he went and sold it. (World Bank, cited in New Nigerian, 26/3/2000, page 20).

Not even Russia is exempted as the privatisation process began in 1990 with the housing sector. Privatisation has, no doubt, become a global phenomenon.

The Nigerian Experience

The Nigerian economy had since independence remained monocultural depending at various times on primary products for sustenance. Until the early 1970s, the economy depended solely on agricultural primary products, cocoa, groundnuts, palm-oil and kernels, timber, etc., until crude oil supplanted them. The collapse of crude petroleum in the international oil market in the early 1980s exposed the structural defects of the economy. The policy response was the adoption of demand management policies whose mix was modified from time to time. But this policy failed to produce expected positive results, especially between 1982 and 1985. The failure led to a search for better options resulting in the adoption of the Structural Adjustment Programme.

The Babangida Era

The Structural Adjustment Programme, as designed for Nigeria and some other developing nations, was envisaged to be capable of reducing the structural defects and distortions in the economy. The SAP was also expected to realign domestic demand and production patterns and set the economy back on the desirable path of steady and sustainable growth. The
Structural Adjustment Programme was, therefore, launched in July 1986 with the following objectives:

- restructure and diversify the productive base of the economy in order to reduce reliance on the oil sector and imports;
- achieve fiscal discipline and balance of payments viability over the medium term;
- lay the foundation for a sustainable non-inflationary growth over the medium to long-term periods; and
- lesson the dominance of unproductive investment in the public sector; improve the sector’s efficiency and intensify the growth potential of the private sector.

In order to achieve the objectives of the programme, some measures were introduced. These included the following:

- strengthening of the relevant demand management policies;
- adoption of measures to stimulate domestic production and broaden the supply base of the economy;
- adoption of a realistic exchange rate policy;
- further rationalization and restructuring of tariffs in order to aid industrial diversification;
- adoption of appropriate pricing policies especially for petroleum products and public enterprises; and
- encouragement of privatization and rationalization of public sector enterprises.

The core policies in the adjustment were three folds. These are:

- correcting the observed serious overvaluation of the Naira exchange rate through the setting up of a Second-Tier Foreign Exchange Market coupled with adjustment of the official rate in order to attain
convergence of the two exchange rates within the shortest possible time;

- overcoming the observed public sector inefficiencies through improved public expenditure control programme and the speedy rationalization of parastatals; and

- reliving the debt burden and attract a net inflow of foreign capital while keeping a cap on foreign loans.

Implementation later along with SAP were programme designed to cushion the adverse effects of the adjustment on the people. These included among others the following:

- The Directorate of Food, Roads and Rural Infrastructure.
- The National Directorate of Employment.
- The National Agricultural Land Development Authority.
- The Primary Health Care Programme.
- The National Urban Mass Transit Programme.
- The People’s Bank.
- The Community Banks.
- The National Economic Reconstruction Funds; and
- The Better Life Programme which was later called Family Support Programme.

The Structural Adjustment Programme, as can be seen from its basic features outline above, was market-friendly and favoured decentralized decision making which has been proved to be more efficient in most parts of the world. After all, every individual is believed to know his goals and how best to pursue them within set objectives. The programme aims to empower the people by transferring economic power to the private sector which was expected to play the leading role in economic growth and development while the public sector would restrict itself to creation of the enabling environment for private sector production. a critical objective of
SAP was expanding and strengthening the narrow, weak and inflexible productive base of the economy.

It is obvious that the objectives of SAP were not only laudable and desirable, but basic to the growth and development of the economy. The programme has sought to lay the basic foundation for the economy as indicated in the objectives. With the introduction of the SAP, there appeared to be a coordinated attempt (as opposed to what obtained in the past), at addressing all the major issues of development, especially as related to the demographic, industrial and agrarian transitions in Nigeria. In other words, the policies and programmes initiated during SAP were not inimical to growth and development per se. The problem was implementation.

In Nigeria, the programme of privatisation and commercialisation was first developed by the Shagari administration but was not implemented before it was overthrown in December 1983. The Buhari government which took over also examined the issue by a separate study group on parastatals in October 1984. The study group confirmed the findings of the 1983 presidential commission on parastatals but again, before any action could be taken, there was a change of guards in August, 1985. It was the Babangida government that eventually promulgated Decree 25 of 1988 to provide the legal framework for the programme of privatisation and commercialisation. The TCPC which implemented the programme privatised as at 1993, 89 of the 111 federal government enterprises slated for privatisation. It also worked out a package for the commercialisation of 35 other enterprises.

But hardly had this taken off than there was leadership change again and the Abacha government suspended the privatisation programme in 1994. His administration revisited the programme in 1996 through its lease and contract management offer which nobody responded to.
Thereafter, the administration began gradually to open up certain sectors to private investment and competition. Broadcasting, telecommunications and oil refining were the areas affected.

The Abacha Era

In the 1997 and 1998 budgets, the Abacha government promised to set up a committee to work out the framework for privatisation but nothing was done until Abacha died in June 1998. The Abdulsalam Abubakar government promised to pursue the privatisation policy. According to him, “This administration will licence private operators to provide additional competitive impetus to existing public enterprises in power, petroleum refining, telecommunications and transportation sectors. All the legal and regulatory framework to achieve this will be in place as soon as possible.” Abubakar also promised to extend the relative success of joint ventures with technical and financial partners in the oil industry to other sectors to solve the performance problems of public enterprises. He said: “government would explore the possibility of handing over the management control and disposal of 40 per cent of the ownership of NEPA, NITEL, NAFCON, federal super-phosphate company and the refineries to qualified technical and financial partners.”

Nigeria accepted the privatisation and commercialisation programme in the firm belief that it is necessary for the success of our economic reform programmes so that limited government resources normally allocated to these institutions as subventions could be released for the implementation of other viable projects that would benefit the entire society.

The Technical Committee on Privatisation and Commercialisation (TCPC) was inaugurated in July 1988 to implement the privatisation and
commercialisation programme. The membership of the committee was deliberately drawn from both private and private sectors so that the programme could benefit, as it were, from the experiences of both sectors of the economy.

In the programme, privatisation involves the divestment of government shareholding in some selected enterprises while commercialisation involves the reorganisation and restructuring of the affected enterprises in such a way as to make them more efficient, more commercially viable and more profit-oriented.

The programme was designed in 1986 as a critical element of Babangida government’s economic recovery and development strategy. In the short run, it would lead to reduction of government subventions to otherwise commercially unviable enterprises, increase the scope of the private sector activity, and through public sale of shares, contribute towards the deepening and broadening of the capital market. The shifting of greater responsibility for investment to individuals, encouraging public enterprises to self-finance their operations would relieve government of the necessity to be the all encompassing agent of development. This would allow government to focus attention on those areas where its intervention is critical and thus channel scarce public resources to priority areas of economic development such as infrastructure, where the general public’s interest cannot adequately be met by private capital. In the social sectors, public resources will be more readily available to enhance the quality of life, provide better education and health services which constitute the safety net necessarily for the upliftment of the weaker sectors of the society.

This shift in focus further recognised the growing sophistication of our citizens, who have accumulated wealth and entrepreneurial skill during the past 30 years of our independence, as evidenced by the response to the indigenisation programme of the mid-seventies and the current
privatisation programme. In both cases, evidence abounds that Nigerians are now better prepared and equipped to take the risks of productive investments.

In pursuing the privatisation programme, there was the conviction that the nation would, in the long run, benefit tremendously from the efforts. The institutional reforms being introduced under the commercialisation programme would promote managerial and financial autonomy, enhance operational efficiency, raise the quality of service rendered, and more importantly improve resource allocation in or public enterprises. It would also lay a solid foundation for sustained economic growth in the future.

In order to facilitate this programme, and as a manifestation of the commitment to undertaking a fundamental restructuring of our public enterprises, the Federal Military Government gave approval on some crucial issues affecting the operational autonomy of public enterprises to be privatised or commercialised. These issues include:

(a) The redefinition of the role of the supervising ministry to ensure that it no longer interferes in the day-to-day operations of public enterprises under it.
(b) The redefinition of the role of the Board of Directors to give them more powers to regulate and supervise public enterprises including the determination of their conditions of service and tariffs.
(c) The redefinition of the role of management to make them accountable for results.
(d) Changes in the procedure and criteria for the appointment and removal of members of Board of Directors to emphasize merit over patronage and to ensure continuity by staggering such appointments.
(e) Changes in the procedure for the appointment and removal of Chief Executives and Executive Directors to ensure that such appointees are accountable to their Board of Directors.

(f) Introduction of Executive Directors in all Boards to the extent of 40% where desirable.

In fashioning out specific reforms packages for affected enterprises, measures would be taken to expose the public enterprises to the stimuli of competition and to ensure that pricing policies particularly of public utilities reflect the economic values of the goods or services produced and also consistent with the following objectives:

(a) Affordability of basic services by the poorest segments of the citizenry.
(b) Financial autonomy as a foundation for enhanced operational efficiency.
(c) Higher quality of service; and
(d) Efficient resource allocation.

In Nigeria, the issue of privatisation and commercialisation did not actually begin with the introduction of the Structural Adjustment Programme (SAP) though it became effective with its introduction. In the early 80’s two major committees had earlier been instituted to evaluate the performance of parastatals. The first was the Onosode Commission of 1982 under Shagari’s Administration. The second being the Al-Hakim Committee of 1984 under the Buhari Military regime. Both Commissions had recommended the commercialisation and privatisation of some parastatals. This was because government investments in these public institutions were becoming too enormous. In fact, as at 1985, government was said to have invested a whooping ₦23 billion in the parastatals. Its over ₦11 billion equity investment in the parastatals is said to have yielded a meagre 1.39%
return on investment. (UBA, 1993). This appaling situation made the Military Government of former President Ibrahim Babangida to declare in the 1986 Budget Speech that a policy on privatisation and commercialisation would be actively pursued by his administration.

The policy was, therefore, introduced by the government in July 1988 with the promulgation of the Privatisation and Commercialisation Decree No. 25 of that year as an integral part of SAP. To this end, the Technical Committee on Privatisation and Commercialisation (TCPC) was established under the Presidency to supervise government’s divestment of interest in the selected government’s divestment of interest in the selected government’s enterprises as well as prepare for commercialisation of enterprises so slated. The full functions of the TCPC are stipulated in Section 4 of the Decree and it was composed of eleven members drawn from both private and public sectors of the Nigerian economy.

The various schedules of the decree outline the enterprises where government equity interest would be retained as either partially-privatised, fully privatised, partially commercialised, fully commercialised or as public institutions. In all, the programme of privatisation and commercialisation involved about 145 out of an estimated 600 public enterprises at the Federal level only. One hundred and ten of these enterprises were slated for full or partial privatisation and thirty-five for full or partial commercialisation. For the companies to be privatised, government was to withdraw its ownership fully in most of them except in those which are considered strategic or where government still has developmental roles to play. Example of such companies are in the Paper and Pulp Industry, Cement, Sugar Refining and Steel Mills amongst others.

For companies to be commercialised, government was to grant them enhanced operational autonomy and encourage them to be financially self-sufficient and less dependent on the government for funding of their
activities. The privatisation programme was to be implemented through Public Offer of shares, Private Placement, Sales of Assets by Public Tender, Management Buy-Out (MBO), and Willing Buyer, Willing Seller and Deferred Public Offer Schemes.

In its report on the first phase of the privatisation and commercialisation in 1993, the committee said its analysis of the activities of the enterprises indicated that only 58 of them could be privatised or commercialised. Out of these 6 could be partially while 13 could be fully commercialised. The report said, on the other hand, 22 enterprises could be partially privatised and 17 fully commercialised.

TCPC phased its commercialisation and privatisation programme. It recommended a pause in the programme until January 1995 when the second phase would begin.

In the four years of existence of the committee, it successfully privatised 88 out of the 111 enterprises listed in the decree. This involved the marketing of 1.5 billion shares to the Nigerian public resulting in the creation of over 800,000 new shareholders and realising privatisation proceeds of over 3.7 billion. The original investment in these privatised enterprises was ₦652 million. The committee, therefore, created a capital gain of nearly 600 per cent. The federal government, in the process, relinquished a total of 280 positions in the privatised enterprises.

In the second phase, all enterprises slated for partial privatisation in phase 1 were to move to full privatisation. All enterprises slated for full commercialisation in phase 1 were also due for partial privatisation, except NNPC. All enterprises due for partial commercialisation in phase 1 were to move to full commercialisation in phase II.

At the end of its exercise, TCPC said the federal government should not utilise the proceeds of the programme, to fill budget deficit,
repay public debts or reduce borrowing. It said the projects in which the fund will be invested should be identifiable and deemed fit to benefit the society at large. It said all the projects funded should bear the inscription “funded from privatisation revenue”. TCPC recommended that some enterprises like NTA, FRCN and NEPA should be assisted with funds to rehabilitate their equipment.

The committee recommended that spillover cases from the programme should continue under the aegis of the Bureau for Public Enterprises (BPE), until they are completed. The report said, that whoever heads BPE in a democratic setting should be of a status of a cabinet minister, and that because of the significance of the programme, it should continue to be located in the Presidency.

TCPC’s assignment was not without problems. It admitted that some government enterprises were uprivatisable. For instance, the three inland rolling mills at Jos, Osogbo and Katsina, the paper mills at Jebba and Oku Iboku, the Savannah Sugar Company and the Nigerian Shipping Line all required detailed machinery audit.

TCPC encountered setbacks in preparing PAN, VON and ANAMMCO for privatisation through public offer of their shares on the Nigerian capital market. For instance, the securities and Exchange Commission (SEC), offered a price of 75k per share of VON. TCPC said that, at this price, the federal government’s 35 per cent equity holding would be worth only N22.5 million. The price was considered to be less than the value of the assets of VON which had appreciated to N400 million.

The report further said some enterprises were privatisable but considerable preparatory work needed to be done on them. They are Calabar Cement Company, Nigeria Airways, South-East Romania Wood
Prior to 1996, a World Bank study concluded that the way privatisation was carried out in Nigeria was among the best on the continent, largely because of the skill and professionalism of the Bureau of Public Enterprises. Before the programme ran out of steam, 86 firms were privatised. Several others were said to have been commercialised, but the government never gave up effective control.

Unfortunately, none of the firms privatized were the large enterprises and the 1.6 billion naira realised on the sales was less than 5 per cent of the government’s holdings. Moreover, new money continued to be poured into the steel, aluminium, sugar and many other state-owned enterprises.

In 1992, the privatization of four large commercial banks seemed to breathe new life into the programme, but this proved to be a false dawn. The repeal of the Foreign Exchange Control Act and the Nigerian Enterprise Promotion Decree 1996 helped set the basis for a new beginning with privatisation, but the persistent rumours of the government seeking to require control of the previously privatized bank sends ambiguously chilling signals. (Hutcheson, 1996).
The Abubakar Era

When the federal government announced in October 1998 that it would pursue the programme with vigour throughout the remaining period of the administration, the decision was lauded. Nigerians, comprising members of the organised private sector, urged it to speed up the process. It was believed that an accelerated privatisation would raise enough money to finance the N54 billion deficits in the 1999 budget.

Later the tune changed as some pressure groups warned of a possible breakdown of law and order if government does not rescind its decision to rush the sale of government companies before a civilian government that was expected to take office in May 29, 1998. Leading the protest are the Maritime Workers Union of Nigeria, Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN), the People’s Democratic Party (PDP), the National Shareholders Solidarity Association (NSSA), Nigeria Labour Congress (NLC), National Union of Petroleum and Gas Workers (NUPENG), members of the organised private sector and human rights activists.

Each of these groups had similar but peculiar reasons for opposing privatisation. Some argue that it was being done in haste. Others said that the privatisation of some enterprises put the security of the nation at risk and that the interest of workers in the companies were not taken into consideration. The same argument that had trailed the privatisation and commercialisation of government-owned enterprises over the years were being rehashed all over again. An human rights activist was of the opinion that the programme was a breach of the Section 7 of the Privatisation and Commercialisation Decree of December 25, 1988 and the 1979 Constitution. The Decree states that “not less than 10 per cent and not more than 20 per cent of the total shares on offer shall be allotted to associations and interest groups such as, but not limited to, state investment agencies,
workers, trade unions, market women organisations, universities, friendly societies, local and community associations.” Also Section 16, 1C of the 1979 Constitution states that the economic system “is not operated in such a manner as to permit the concentration of wealth or the means of production and exchange in the hands of few individuals or a group.” The Maritime Workers Union, with about 200,000 workforce in the Nigeria Maritime Industry, including inland rivers and waterways services, also warned that privatising the Nigerian Ports Authority (NPA) was capable of eliciting unintended consequences of “highly injurious magnitude.” According to the Union: “In spite of the vigilance of our security network controlled solely by the state, evidences of dumping of toxic wastes, some loaded containers of animal waste still abound in the country’s sea port. What would be the fate of the nation with private/foreign control of our sea ports?” the Union said in a statement entitled: “Envisaged Privatisation of the Nigerian Ports Authority, We Say No”

The union said that privatisation of NPA would lead to a non-remittance or reduction to the barest minimum the billions of naira which NPA had constantly and patriotically paid to national treasury. It would also enrich the overseas private investors who would use Nigerians as fronts, and increase unemployment which would compound the internal security problem of the nation. It cited a comparative study carried out in the United Kingdom, which showed that when compared to the publicly owned ports, the financial and economic performance of the U.Ks privatised ports failed to live up to expectations. The study was conducted by Richard Saundry and Peter Turnbull of Leeds University and published in their book; Private profit, public loss: The financial economic performance of UK ports.

The maritime union noted that parastatals were privatised when it was obvious that they were drain pipes of government resources
conversely, they argued, where a parastatal under good management proves the pundits of privatisation wrong by succeeding wherever other previous management have failed, then that parastatal should not be privatised. The union cited the example of NPA where “transparent, accountable and prudent management has held way after its full commercialisation. It concluded that “it amounts to economic suicide for agitators to clamour for the privatisation of the NPA as this will be tantamount to killing the goose which lays the golden egg, instead of feeding the goose and allow it to lay more golden eggs to the benefit of every right thinking man and woman in the nation.

It is estimated that government investment in state-owned enterprises just before the commencement of the present Obasanjo civilian administration was well over N800 billion. The nation is said to have lost USDI billion through inefficient and unreliable services in the energy sector alone. Consequently, it becomes easy to see with the assertion “consensus has emerged on the imperative of privatisation.”

The Obasanjo Era

The administration of President Olusegun Obasanjo resolved to kick-start the privatisation process in line with its own vision on assumption of office. The administration’s vision of the role of government in the market place is that of a facilitator, adjudicator and provider of a supportive enabling environment for economic development. The private sector would be encouraged and supported to provide the principal driving force for economic activity. The government would concentrate on macro-economic management and improvement in the efficiency of spending. The government would, therefore, get out of areas where it should not be and concentrate on resolving those issues that impede economic development.
These are the pillars on which the government’s privatisation efforts are built.

Thus the current privatisation efforts under the National Council for privatisation (NCP) are envisaged to address some of the pitfalls identified with earlier privatisation exercises. The score is now widened to cover the full privatisation of 25 enterprises, partial privatisation of 36 enterprises (including public utilities and organisations in the petroleum and petroleum chemical sectors); the partial commercialisation of 24 enterprises; and full commercialisation of 9 enterprises.

The first stage of the exercise involves the full privatisation of enterprises in three sectoral groups (commercial and merchant banks; cement plants; and petroleum marketing companies) which already have their shares listed on the Lagos Stock Exchange and in which government wishes to divert the balance of its holdings ranging from 10 to 40 per cent.

This will be followed by full privatisation of hotels and vehicle assembly plants in which government has equity holding of between 35 and 100 per cent.

The final stage will be partial privatisation of enterprises on which the government currently has 100 per cent equity including public utilities, refineries, fertiliser plants and the Nigeria Airways. The International Finance Corporation (IFC) were appointed as the advisers for the privatisation of the Nigeria Airways.

The Public Enterprises (Privatisation and Commercialisation Act, 1999) is the major enactment governing privatisation in Nigeria. However, being always made by military fiat (although with the best of intentions), it contains inherent deficiencies which the National Assembly, through the House Committee on Privatisation and Commercialisation is presently addressing. In addition, the President of the Federal Republic of Nigeria
has taken advantage of the provisions of Section 315 (2) of the Constitution of the Federal Republic of Nigeria, 1999 to amend some outrightly obnoxious sections of the privatisation law to bring them in conformity with the constitution.

In spite of whatever limitations there may have been, the privatisation policy making and implementation agency, the NCP and the BPE respectively have enjoyed wide ranging powers and freedom to prosecute the programme untrammelled.

Draft bills for the anchorage of critical sector reforms in power and telecommunication sectors have been developed. The legal and regulatory framework envisages new policies that would ease the restructuring and unbundling of the relevant enterprises, licensing of the emergent private operators where necessary, and constitution of sector-specific regulatory bodies. Already we have in place the Nigerian Communications Commission, which midwife the successful liberalisation of the telecommunications sector through GSM licensing. For the power sector, a Nigerian Electricity Regulatory Commission is expected to emerge by the time the chips are down for NEPA privatisation. The same goes for a Ports Regulatory Commission (July 2002), a Petroleum Regulatory Commission (October 2002), a Railways Regulatory Commission (September 2002), and a Mining Regulatory Commission (September 2002).

Apart from sector-specific regulators, a lot of work has gone into a bill for an Act for the establishment of a Federal Competition Commission which will be the overall regulator in antitrust and fair trade practices in order to enhance and promote a healthy, a competitive post privatisation climate.

Some have wondered why it is necessary that new laws and regulatory policies be made to carry through the privatisation reform
agenda. The reasoning may be that liberalisation and deregulation as economic policy entails the freeing up of the economy or some of its critical sectors to that decision regarding price demand and production levels are market-determined. Such a market will be free of restrictions regarding entry and exit as well as possess protective antidote against domination and other distortions. If, therefore, our goal is to liberalise and deregulate, it must be somewhat paradoxical that we find ourselves talking about more regulations.

The answer lies with the need to protect the private sector from itself. Privatisation involves the transfer of control, management and/or ownership of public assets to the private sector. The primary motivation behind entrepreneurship is private profit and as everybody knows businesses may sometimes get blinded in the pursuit of their legitimate goals to the extent that wider societal interests are jeopardised or compromised. This being the case it is to be expected that the general public may sometimes view the privatisation and private sector dominance of the economy with thinly veiled suspicion and resentment. Government therefore, has a responsibility to put in place certain measures that will guarantee competitive and fair practices for the benefit of all players including the consumer and disadvantaged competitors.

Experience has shown that some social responsibilities left in the hands of private business may remain un-discharged unless they are procedurally called to account. Besides, no economy has been known to run full blast on laissez-faire. It is important to note that almost all the strategic sectors of the economy like power, oil and gas, telecommunication, and ports are characterised by one form of monopoly or the other. Thus while deregulation may connote some freeing up to encourage wider participation of the private sector in the economic affairs, we will require some regulations aimed at ensuring compliance with the
tenets, dictates, and rules of the game since the mind-set of dominant operators of the private sector can never be pre-determined. To this, however, we must emphatically add the very important ride that these regulations must not be antithetical to the primary objectives of a free and liberalised market economy. In other words, over regulation should be avoided.

The National Council on Privatisation (NCP) promised to provide a legal framework for the privatisation programme, but the Bureau of Public Enterprises (BPE), a body charged with the responsibilities of implementing the programmes of privatisation had earlier provided the following hints on the shares being privatized.

(i) that core investors with strong capacity to add value to these enterprises would be involved, that is, those who possess the required financial, management and technical know-how to make them profitable enterprises;

(ii) that minimum application for general buying of shares would be 100 shares of 50k each. That is, minimum investment values is N50.00.

(iii) that application is obtainable from the generally known receiving agents including designated government institutions;

(iv) that there should be strict compliance with the guidelines below:
    (a) multiple applications would be rejected;
    (b) only residents of the state are expected to buy the shares allotted to their state;
    (c) fictitious names used in applications will be rejected.

(v) that only Nigerian citizens aged 18 and above are qualified;

(vi) that nominal transfers post-privatization would be checked to prevent unfair accumulation of the privatized shares;

(vii) that commercial banks should give credit facility to their adjudged customers against the security of share certificates to be issued; and
(viii) that owners of converted debts can participate in the acquisition of the shares. (Ogunlalu, 1999).

The present state of affairs is that the Senate of the Federal Republic of Nigeria is set to repeal the decree establishing the privatisation process. The Senate Committee on Privatisation has consulted with the Presidency, the National Council on Privatisation (NCP) and sister committees in the House of Representatives to agree on changes that would make the decree suitable for operation in a democratic setting. The committee has proposed a Public Enterprises (Privatization and Commercialization) Amendment Bill 2000 which has reached an advanced stage in the Senate. The committee undertook a tour of Southern African States of Zambia, Tanzania, and South Africa, to better acquaint themselves on the privatization exercise.

To ensure transparency and fair play in the privatisation exercise the committee set out to monitor the exercise from the choice of consultants to the allotment of shares and also went as far as demanding to know how each federal constituency fared in the purchase of shares allotted it. The committee came face to face with the several problems. They include: the choice of strategic investors which became a highly political issue to the extent that the committee had to mediate on some of them. An example is the Benue Cement Company where the allotment of shares was based on equality of all federal constituencies. However, the forms for share applications never reached some areas before the subscriptions were closed.

It has also been discovered that shares allotted to some federal constituencies did not benefit the people of the areas who were told that they could not get them due to over-subscription.
Conclusion and Policy Recommendations

A number of pertinent questions can be posed from our discussion so far. There is no doubt that the research frontiers of public enterprises has been further broadened by the privatisation phenomenon. It will be instructive for future researchers to examine the following questions:

Which SOEs should be privatized and in what sequence? Is there a relationship, at the contextual level, between privatization and private sector development? To what extent has this relationship been substantiated by the privatization experience of developed and developing countries? How have the nature and extent of privatisation in Nigeria affected this relationship in the country? How can we recreate the private sector through privatisation? What are the challenges posed to professionals who are the operators of these organisations scheduled for privatisation? Is privatisation the path to an efficient and economically bright future? Is the answer social ownership or can efficiency be achieved no matter who is running a service or an industry, and should we therefore be looking for participation by workers? What are the particular difficulties of developing countries governments in setting and maintaining appropriate arrangements for managing privatized, or arms length service delivery? Do the governments have the administrative and political ability to undertake their new roles?

The sale of commercial and industrial assets has been the most important element of privatisation in Nigeria. This is generating new demands on government in the areas of regulation, price monitoring, law enforcement, etc.

Specifically, the challenges facing the public sector in the privatisation efforts are (Kekere-Ekun, 2000).
• How to develop the capacity to organise equitable transfer of assets, that is, how can we effect the privatisation process in an openly transparent manner to the satisfaction of all stakeholders.
• How to replace commercial revenues received from privatised firms or outsourced functions with tax, accounting and budgetary systems.
• How to develop “adequate” regulatory structures, including property and contract law. This involves the formulation of stable, clearly defined and legally enforceable property rights. Owners of property must be able to transfer their property freely to others unhindered. Owners should have the right to use control assets, to draw economic benefits from their ownership such as return on assets including rent, interest or dividends, and to transfer any of the above property rights to others.

Policy recommendations and Concluding Remarks

In spite of the government disposition, there appears to be some difficulties here and there which must be properly addressed if we are to get our privatisation process right. Put differently, it is not enough that government is well disposed to privatising or that is doing so. Certain preconditions are necessary for success. Among these, there must be relative peace and social political stability – there must be reasonable guarantee for life and property. Assurances concerning respect for individual freedoms and for the rule of law must also be given a meaning that is universally acceptable and not just claims to such. Democratic values and civil liberties have got to be in place, and ought to be a measure of certainty and predictability in the judicial system, in governance, and in public policy generally so that people can make plans wit confidence. In addition, of course, corruption must be tackled. These are necessary conditions that will not only sell privatisation to foreign and local inventors
alike but will also pave the way for increased investment activities in the private sector.

Having made the environment sufficiently enabling, the next task would be to prosecute the privatisation process itself in a manner roundly consistent with acceptable standards of transparency, openness, fairness, objectivity, accountability, and law. We are already familiar with some of these precepts in the Nigerian situation, but we must also be concerned with universal standards for their evaluation. On this account, we ought to resoundingly reject the declaration by Thulani Geabasche, the CEO of the South African energy giant, Esokom that “you never find the word African juxtaposed with world class.”

Despite the seeming appeal of the privatisation programme, it should be recognised that certain sectors of the society are still skeptical about the perceived benefits. For instance, it is posited that the programme will aggravate existing inequalities in income distribution in the country and may also lower living standards due to higher prices of goods and services. There are also fears regarding foreign control of the economy, as well as questions about the rationale for selling assets to those who mismanaged them in the first place.

The fact that there may be some truths in these assertions does not vitiate the benefits derived from the programme. On the contrary, many of these fears are unfounded, as they are not empirically supported. For example, the entry of private airline into the aviation industry in Nigeria did not result in higher prices beyond the customers’ ability to pay. As a matter of fact, it may even be argued that prices might have been higher without competition.

Our experience with privatisation up to 1993 showed that it has resulted in a wide diffusion of share ownership. It has also led to more
vibrant activities in the capital market which portends a better future for our economy. This is apart from the indirect benefits in developing entrepreneurial capability and associated high level of efficiency which it had injected in many sectors.

Privatisation raises high passions. It goes to the heart of many of the political differences which divide the country. It is political too, in a different sense, since it directly affects the distribution of power in the country. Privatisation greatly weakens the power of politicians, civil servants and trades unions in the nationalised industries and in the local authorities. By bringing in the force of the market. It adds to the power of those who already wield a great deal of it in industry and in the financial world. Nor is the argument of wider share-ownership entirely convincing, since the vast majority shares end up in institutional hands.

It is noteworthy that the Nigerian privatisation debate does not centre as much on whether or not key government establishments should be privatised, rather the focus is on the timing, speed and modalities of the privatisation exercise itself. In other words, it is reasonably well agreed amongst various interest groups in the country, that state owned enterprises should be privatised. What remains to be sorted out is how to proceed with the exercise.

“What is important to us is the content and quality of the exercise, especially the prospects for the primary goal, which is modernisation. Privatisation is, therefore, only a process. The product is modernisation and even in that process, there are several variants such as concessioning, franchising, corporatisation and outright sale.

In so far as it is possible, it is imperative to rehabilitate before privatising. This could involve restructuring, refitting, repairs to equipment, upgrading procedures and systems, etc. This will intend to make the
enterprise attractive. After all, we want it to be “a going concern” in order to ensure its continuity as a viable company. Not only will the sale generate more revenue, it will also minimise the possibility of a prospective buyer embarking on assets tripping of the enterprise for quick profits thus defeating the objective of broadening the Nigerian capital market and also creating jobs. Any investor, whether Nigerian or foreigner invests to make money. If the SOE is endowed with good immovable assets but with dilapidated machinery, poor workforce, outdated systems and procedures, etc., the attraction becomes focussed on those immovable assets rather than going through the pain and risk of re-building the enterprises as a going concern.

On the issue of whether current managers should be reliefe of their duties before or after privatisation, this will depend on the type of managers and the role they are expected to play during the privatisation exercise. There will be the need to examine the managers and find out which one have the capabilities and temperament to play a role in any of the processes. It is possible that some managers may also be resentful of one privatisation exercise for various reasons not excluding the fear of possible. Generally, the impression is created that the symptom (price distortions) rather than the root causes of economic dislocation is the motivation of Government’s policy of privatisation, commercialisation and deregulation. As along as these are pursued half-heartedly, government will continue to retain the control of the economy and its operators with a view to distributing rewards. These rewards take the forms of patronage to individuals by way of appointments privileges and allocations of politically motivated and inefficiently administered subsidy.

Policy objectives of government should aim at a bigger, more vibrant private sector and smaller, less obstructive government. But it does not mean the redundancy of government nor an abdication on its part of its
traditional role of guidance and direction of economy. Rather, it calls for a more subtle leadership role, providing the socio-economic infrastructure that can reduce production costs and promote production efficiency, identifying and encouraging economic sectors that will accentuate the attainment of macro-economic targets and objectives, and the transfer of some of the wealth accruing to it to the more disadvantaged social classes.

The experience of the Soviet Union and China, among others, clearly shows that the path to economic greatness lies with the innovativeness and entrepreneurship of the private sector, operating within a free market. While the necessary economic adjustment may be painful to the populace because of its inflationary effects and to the government as a result of the loss of its freedom to market forces, the profit motive of the new system will provide the impetus for economic recovery and consolidation into the next century and beyond.

One common error made by public analysts is to confuse government’s interference with the market mechanism with economic welfarism. In a true welfarist state, market-determined price and resource allocations are not interfered with by the government. Rather, the entire economy operates under the free market profit motive, including firms in which government has holdings. Government, thus earns revenue for its holdings (along with taxes and other fiscal revenue sources) to finance incentives and subsidies aimed at encouraging economic activity in priority areas and easing the effect of profit motivated price structures on the disadvantaged. Thus, production free of government interference ensures resource optimisation, which in turn, provides government with the resources to encourage priority sectors and fund its welfare programs. The practice in Nigeria of interfering with resource allocation stifles optimality and, therefore, government’s ability to finance incentives and infrastructure. If, for instance, government allowed exchange rates to
respond freely to market signals, higher Naira revenues from foreign exchange sales would provide government the wherewithal to promote private sector exports, through fiscal incentive schemes, and to finance programmes which would ease the burden of higher prices on low groups.

The desire to make our parastatals more effective has generated the debate on whether some of them should be privatized. By now, all shades of opinion have been heard and it is clear that it is not possible to treat all our parastatals same way when it comes to privatisation. Those of them that are not required to be in the public sector for compelling policy reasons ought to be allowed to move over into the private sector to face the sobering challenge of the market place.

It would, in fact, not be necessary to privatise a subsector by selling a parastatals or government-owned company. In some cases, it may be better to allow the government company to continue to operate but allow the private sector to form its own companies and compete with the government-owned ones. This is already happening in the airline industry where several private airlines are providing needed competition to Nigeria airways with salutory effect on the equality of service being enjoyed by the travelling public. The private airlines deserved to be encouraged. Their operations at the domestic level have patently brought relief to our long-suffering air travellers and our overcrowded road network. They have increased the productivity of the nation’s workforce who have to move from place to place in the course of their assignment.

Because of the structure of the economy, Nigeria cannot perform better than the efficiency of its parastatals permit. Making them more efficient and effective should be seen, therefore, not simply as a means of making more efficient use of government resources but as an essential strategy for enhancing the capacity for growth and development of the entire economy. With a view to optimizing efficiency and the mobilisation
of local resources parastatals should increasingly draw on the domestic capital market with those in a position to be so treated being privatized. Merely selling shares of a parastatal will not improve efficiency. The structure of management must be designed to enhance efficiency and effectiveness.

Any successful enterprise is built by careful appraisal of situation and circumstances, wise planning and dedicated implementation. Proper evaluation of projects, enterprises and concerns is very essential and pivotal in alternative decision and transaction situations relating to over projects, enterprises and concerns. This is at it should be especially when due account is taken of the primordial fact that alternative decisions and transactions over projects, enterprises and concerns very critically represent man’s eternal quest of trying to maximise and optimise his benefits and returns from the use of limited resources in the face of limitless needs and constraints.

Proper evaluation of individual projects, enterprises and concerns provides rational, objective and requisite pragmatic basic and framework upon which beneficial, reliable and dependable decisions and transactions over projects, enterprises and concerns could meaningfully, beneficially and rightly be predicated. In the absence of properly articulated and rationalised valuation antecedent alternative decisions and transactions over projects, enterprises and concerns suboptimal and regrettable results will unavoidable be the end product.

Valuation of SOE’s are best done by qualified and experienced consultants. Here again, it depends on the state of the SOE to be divested. If the SOE has stopped production and the assets left to sit idle, then it stands to reason that the state will be purely based on the value of the physical assets available.
As a going concern, the consultants will be mandated to conduct a due diligence exercise. This will include physical verification of assets, valuation of assets by certified valuers, review of the organisation, procedures and systems, performance, human resources, projections, etc. The valuation will, therefore, be based on assets values, earnings, market value of shares, projected performance or a combination of the above. The valuation basis should offer the best value for the exercise and the buyer is prepared to pay such amount.

It must be said that for any privatisation exercise to succeed technically, and to be seen to have been carried out judiciously with an acceptable degree of accountability and transparency, certain procedures and requirements must be put in place.

First, some pre-privatisation studies must be carried out to give a true picture of each sector, especially in areas such as strengths and weaknesses, position and chances in the competitive environment, attraction of local and foreign investors, environmental considerations, investment requirements; and future development prospects after privatisation. Such pre-privatisation studies are useful in orienting and planning the privatisation exercise, and in providing government with basic information that has hitherto been unavailable, incomplete or distorted under public ownership conditions.

Next is the setting out of privatisation policies and plans, which normally would include designing and planning the whole process, and choosing such alternative privatisation approaches as divestment (by sale, free transfer or liquidation); delegation (by contract, franchise, grant, voucher or mandate); or displacement (by withdrawal or deregulation). Indeed, it is at this stage that the programme can be so constructively designed as to address some of the genuine concerns raised by opponents of privatisation. In Britain, for instance, a number of such sweeteners were
introduced at various stages, and as circumstances warranted. Where redundancies had to be made because of overmanning, those who lost their jobs were given a capital sum in proportion to the length of their service; while those remaining in the newly privatised industries were given greater stakes in the companies, as a means of democratising ownership. In the case of companies that were not particularly attractive (like the ship yards) buyers were not asked to pay anything for the land or plant, and were even offered substantial capital sum of “dowries” to cover the necessary redundancies, and to help build a modern effective industry in the private sector.

There is the need to carry out a thorough professional valuation of each of the enterprises slated for privatisation, with a view to setting realistic market prices for them. Valuation is the kernel of privatisation, and all parties to the exercise are keenly interested in both the valuation method used (cash flow or net asset) and the offer price of the shares (undervalued, over-valued or properly valued). Closely related to the valuation imperative is the need for government to determine well ahead of time whether to privatise each company as a whole; to split them into smaller units; or to apply some various combinations of these approaches for purposes of valuation and privatisation.

Based on the appropriate privatisation strategy, the technical and strategic assessments, and the valuation of the individual enterprises for sale, an information memorandum will then be compiled, which will contain all important data, including financial information, products, programmes, staff and management, markets, customers, location and equipment, strategy, restructuring plans, and pre-privatization requirements. There is also the need to carry along the existing staff and management of the affected enterprises in the entire exercise.
Another important step is the search for investors and a careful marketing of each enterprise, using the information memorandum as the key marketing tool. This step is followed by negotiations between the two parties, and proper documentation of all points agreed upon such negotiations and documentation would normally cover price; plans by the prospective buyer for the continuation of the company (which normally include planned activities, investment, finance and employment); and any likely implications of the sale for the company’s existing suppliers and customers. Other issues touched upon in the negotiation and documentation process include warranties, the buyer’s business plan, purchased price and terms of payment, technology transfer, etc.

There is need to put in place an effective post-privatisation machinery for cooperation between the seller and the buyer, towards ensuring that the privatised enterprises do not only survive but thrive. In a privatised enterprise the transfer of ownership rights and the related organisational restructuring are not an end, but only the beginning of its total transformation. The ultimate objective is to develop an independent business that can survive and prosper in competition without state subsidies, based on its own vision of the future, entrepreneurial drive, and competent management. Of great importance is the need to effect the transition in organisational culture from the command orientation to the market economy culture, since the new owners would, in most cases have to work with the existing managers and staff of the privatised enterprises.

Any privatisation exercise to be thorough, professional, transparent and successful requires a lot of input in time and resources, which cannot be glossed over or wished away; and which can neither be manufactured by any wand of administrative or legislative fiat. The privatisation exercise should be carried out in accordance with the demands and requirements of decency, accountability and respect for the common good. We must also
not lose sight of the fact that there are no two economies or circumstances that are exactly identical, and that we can borrow the privatisation experiences of other countries only to the extent that they have direct relevance to our situation and circumstances. For instance, the United States government still owns extensive interests in areas that experts consider as attractive candidates for privatisation, such as federal energy projects, oil and gas reserves, drilling rights, urban buildings and properties, air traffic control systems, and many others; the privatisation of which could earn trillions of dollars. This is in addition to the ownership of over one-third of the land area of the United States, the value of which is simply staggering; why is the United States, which is the citadel of capitalism not privatising these enormous holdings? The answer to this question might set the tone for caution in our zeal for privatisation government should emphatically direct the windfall from the present oil revenue to finance the provision of infrastructural facilities.

Just like the Technical Committee on privatisation and Commercialisation (TCPC), the precursor of BPE, did between 1988 and 1992 when it used the privatisation exercise to deepen the capital market and push up market capitalisation, it is hoped that the current process will finally internationalise our market in terms of multiple listing of at least one or more of the enterprises on the Nigerian Stock Exchange (NSE) and elsewhere across the world.

The onus lies on the technical/financial advisers to carry out their mandate judiciously and ensure that the best option which is transparent and fruitful is adopted for the respective enterprise. The successful and efficient implementation of this privatisation and commercialisation exercise will block a loophole in our economy and free huge fund hitherto sunk without returns into the enterprises.
References


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**Appendix I**

**Privatisation and Commercialisation Decree**

**No. 25 of 1988**

Schedule 1

**Part 1:** Enterprises in which equity held shall be partially privatized

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Present Holding %</th>
<th>Maximum Federal Federal Government Participation as % of Equity Holding % (after privatisation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savannah Bank of Nigeria Limited</td>
<td>51.34</td>
<td>Present holding to be Maintained</td>
</tr>
<tr>
<td>Union Bank of Nigeria Limited</td>
<td>51.67</td>
<td>Present holding to be Maintained</td>
</tr>
<tr>
<td>United Bank for Africa Limited</td>
<td>45.76</td>
<td>Present holding to be Maintained</td>
</tr>
<tr>
<td>International Bank for West Africa Limited</td>
<td>50</td>
<td>Present holding to be Maintained</td>
</tr>
<tr>
<td>Allied Bank of Nigeria Limited</td>
<td>51</td>
<td>Present holding to be Maintained</td>
</tr>
<tr>
<td>Continental Merchant Bank Limited</td>
<td>51</td>
<td>Present holding to be Maintained</td>
</tr>
<tr>
<td>International Merchant Bank Limited</td>
<td>60</td>
<td>Present holding to be Maintained</td>
</tr>
<tr>
<td>Nigeria-Arab Bank Limited</td>
<td>60</td>
<td>Present holding to be Maintained</td>
</tr>
</tbody>
</table>
Nigeria merchant Bank Limited  60 Present holding to be Maintained
First Bank of Nigeria Limited  44.8 Present holding to be Maintained
NAL Merchant Bank Limited  20 Present holding to be Maintained
Merchant Bank of Africa  5 Present holding to be Maintained

Agricultural, Co-operative and Development Banks
Federal Mortgage Bank of Nigeria 100 Not more than 70% by the Federal Government and its agencies.

Fertilizer Companies
Nigeria Superphosphate Fertilizer Company  100 Not more than 40%
Nigeria Fertilizer Company Nigeria Limited  100 Not more than 40%

Paper Mills
Nigeria National Paper Manufacturing Company Limited  64.03 Not more than 40%
Nigeria News Print Manufacturing Company Limited  100 Not more than 40%
Nigeria Paper Mills Limited  100 Not more than 40%

Sugar Companies
Savannah Sugar Company Limited  75.4 Not more than 40%
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Percentage</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunti Sugar Company Limited</td>
<td>90</td>
<td>Not more than 40%</td>
</tr>
<tr>
<td>Lafiaji Sugar Company Limited</td>
<td>70</td>
<td>Not more than 40%</td>
</tr>
<tr>
<td>Cement Companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ashaka Cement Company Limited</td>
<td>72</td>
<td>30%</td>
</tr>
<tr>
<td>Benue Cement Company Limited</td>
<td>39</td>
<td>30%</td>
</tr>
<tr>
<td>Calabar Cement Company Limited</td>
<td>68</td>
<td>30%</td>
</tr>
<tr>
<td>Cement Company Limited</td>
<td>31.53</td>
<td>30%</td>
</tr>
<tr>
<td>Nigeria Cement Company Limited, Nkalagu</td>
<td>10.72</td>
<td>10%</td>
</tr>
<tr>
<td>Motor Vehicles and Truck Assembly Companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anambra Motor Manufacturing Company</td>
<td>35</td>
<td>Present holding to be maintained</td>
</tr>
<tr>
<td>Peugeot Automobile of Nigeria Limited</td>
<td>35</td>
<td>Present holding to be maintained</td>
</tr>
<tr>
<td>Volkswagen of Nigeria Limited</td>
<td>35</td>
<td>Present holding to be maintained</td>
</tr>
<tr>
<td>Steyr Nigeria Limited</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Steel Rolling Mills</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jos Steel Rolling Mill</td>
<td>100</td>
<td>Not more than 40%</td>
</tr>
<tr>
<td>Katsina Steel Rolling Mill</td>
<td>100</td>
<td>Not more than 40%</td>
</tr>
<tr>
<td>Osogbo Steel Rolling Mill</td>
<td>100</td>
<td>Not more than 40%</td>
</tr>
<tr>
<td>Air and Sea Travel Companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nigeria Airways Limited</td>
<td>100</td>
<td>Not more than 40%</td>
</tr>
</tbody>
</table>
Nigeria National Shipping Line Limited 100 Not more than 40%

Nigerian Industrial Development Bank Limited 100 Not more than 40%

Bank for Commerce and Nigerian Industry Limited 100 Not more than 70% by the Federal Government and its agencies

Federal Saving Bank 100 Not more than 70% by the Federal Government and its agencies

Oil Marketing Companies

Unipetrol 100 Not more than 40%

National Oil & Chemical Co. Ltd. 60 Not more than 40%

African Petrol Limited 80 Not more than 40%

Enterprises in which 100% of Equity held by the Federal Military Government shall be fully privatised

1. Nigeria Hotels Limited
2. Durbar Hotel Limited
3. Aba Textile mills
4. Central water transportation company limited
5. National cargo handling limited
6. Nigerian dairies company limited
7. Nigeria National Fish Company Limited
8. Nigeria Food Company Limited
9. National Grains Production Company Limited
10. National Poultry Production Company
11. Nigeria Root Crops Production Company Limited and other such food production companies
12. Nigeria National Shrimps Company Limited
13. New Nigerian Salt Company Limited
14. National Fruit Company Limited
15. National Salt Company Limited, Ijoko
16. Specomill Company Limited
17. South-East Rumanian Wood Industries Limited, Calabar
18. Nigeria-Rumanian Wood Industries Limited, Ondo
19. Niger Yeast And Alcohol Company Limited, Bacita
20. Nigerian Film Corporation
21. National Freight Company Limited
22. National Animal Feed Company Limited, Port-Harcourt
23. Opobo Boat Yard
24. Madara Dairy Company Limited, Vom
25. Ore/Irele Oil Palm Company Limited, Ondo
26. Okomu Oil Palm Company Limited, Bendel
27. National Livestock Production Limited
28. Road Construction Company of Nigeria Limited
29. National Film Distribution Company Limited
30. Nigerian Ranches Company Limited, Kaduna
31. Impresit Bakolori Nigeria Limited
32. North Breweries Limited, Kano
33. Nigerian Beverages Production Company Limited
34. West African Distilleries Company Limited
35. Nigeria Engineering Construction Company Limited
36. Tourist Company Of Nigeria Limited (Owners Of Federal Palace Hotel)
37. Electricity Meters Company Limited, Zaria.
38. American International Insurance Company Limited
39. Guinea Insurance Company Limited
40. Sun Insurance Limited
41. United Nigeria Insurance Company Limited
42. United Nigeria Life Insurance Limited
43. Niger Nigerian Insurance Company Limited
44. Mercury Assurance Company Limited
45. Crusader-Insurance Company Limited
46. Royal Exchange Company Limited
47. NEM Insurance Company Limited
48. Law Union and Rock Insurance Company Limited
49. Prestige Assurance Company Limited
50. British-American Insurance Company Limited
51. West African Insurance Provincial Company Limited
52. Manchok Cattle Ranch
53. Mokwa Cattle Ranch
54. Poultry Production Units in Jos, Ilorin and Kaduna
55. Kaduna Abattoir and Kaduna Cold Meat Market
56. Bauchi Meat Factory and Galambi Cattle Ranch
57. Minna Pig Farm
58. Kano Abattoir Company Limited
59. Umuahia Pig Farm
60. Giant Cold Store, Kano
61. Ayip-Eku Oil Palm Company Limited
62. Ilechiowu Oil Palm Company Limited
63. Sokoto Integrated Livestock Company Limited
64. Motor Engineering Services Company Limited
65. Flour Mills of Nigeria Limited
66. Nigerian Yeast Alcohol Manufacturing Company Limited
67. Nichemtex Industries Limited

Schedule 2: Part 1: Partial Commercialisation

1. Nigerian Railway Corporation
2. Nigerian Airport Authority
3. National Electric Power Authority
5. All The River Basins Development Authorities
6. National Provident Fund
7. Ajaokuta Steel Company Limited
8. Delta Steel Company Limited
10. Federal Housing Authority
11. Kainji Lake National Park
12. Federal Radio Corporation
13. Nigerian Television Authority
14. News Agency Of Nigeria

Appendix II

Investments Listed For Privatisation Under Abubakar Government

Some of the specific shares of the government in the following areas and institutions have been earmarked for sale to the general public through the Stock Exchange:

(i) Telecommunications
(ii) Electricity
(iii) Coal and Bitumen
(iv) National Fertilizer company limited
(v) Petroleum refineries
(vi) Petrochemical
(vii) Tourism
(viii) Banks

The implementation of the programme was scheduled to be in three phases:


Others

Nigeria Cement Limited, Calabar Cement Company limited, Nigeria Airways.

Second Phase: This phase covers shares interests in the following: Hotels, Motor Vehicle Assembly Plants.

Third Phase: This final phase covers divestments in (a) NITEL (b) NEPA (c) NAFCON (d) Petroleum Refineries.
CHAPTER XII

AN EMPIRICAL EXAMINATION OF THE NEXUS BETWEEN MILITARY SPENDING AND EVOLUTION OF NIGERIA’S EXTERNAL DEBT

Mete Feridun, S.T. Akindele

Introduction

At different points in its history, Nigeria has been ravaged by economic crises which have been the result of disruptions caused by either war, or the consequences of international economic depression. The chief characteristic of the crisis episodes has been the balance of payments disequilibria, brought about by a drastic reduction in the country’s export earning as well as an enormous burden of military spending particularly during the civil war and periods of military dictatorship. This has put a staggering constraint on the government’s revenue such that the Nigerian external debt is about 33 billion US dollars at the end of 2003. In the country, Federal Government expenditures have consistently exceeded revenue most of the time since 1970. The accumulated debt has become so large and the servicing of such debt has escalated tremendously without an offsetting or even proportionate increase in revenues, the debt is approaching the point where it can be characterized as unviable and unsustainable. An important contributor to the evolution and growth of external debt has been the military spending over the years. The focus of this study therefore, is to evaluate empirically the effect of military spending on the evolution and growth of debt in Nigeria.

There exists a poor literature on the impact of military spending on developing country debt. Benoit’s seminal study (1973, 1978) on the defence-growth relationship has been seen as the starting point for the
research in the area. This work involves a cross-section correlation analysis of 44 LDCs for the period 1950-1965 and reveals that there is a positive correlation between military burden and economic growth. Most of the empirical studies are cross-country analyses with individual case studies. Some prominent examples are (Ram, 1995), Brzoska (1983), Looney (1987, 1989, 1998), and Dunne et al. (2004). Results of these studies present a very mixed picture. Brzoska (1983) explains military expenditure as an important variable in explaining the rise of foreign debt in a number of developing countries, suggesting that this leads to reduced economic growth. Looney and Frederiksen (1986) suggest that the impact of high external borrowing due to defence on a country’s overall growth performance depends on the country’s capacity for international borrowing. Looney (1989) and Looney and Frederiksen (1986) suggest that unconstrained countries are able to support higher level of arms imports. Looney (1989, 1998) points out the significance of military expenditures, specifically arms imports, for the Third World indebtedness. Dunne et al. (2004) use panel data techniques to explore the effect of military expenditure on debt on a sample of industrializing economies around the world between 1960 and 2000. They find military burden to have a positive but insignificant effect on the debt burden. The rest of the paper is structured as follows. Next section introduces the data and explains the methodology followed and the last section will present the conclusions.

Data and Methodology

This study analyzes the impact of military expenditure on external debt in Nigeria. For this purpose, Granger-causality testing procedure is applied on yearly data between 1981 and 2003. The military expenditure series, denoted as MEXP were obtained from the Stockholm International Peace Research Institute (SIPRI), and from the IMF’s Government
Financial Statistics. External debt figures are obtained from World Development Indicators CD-ROM. In order to deal with the question of how to compare nominal values of debt and military expenditures across time, they are taken as shares of GDP, and were transformed into logarithmic returns in order to achieve mean-reverting relationships, and to make econometric testing procedures valid. GDP per capita, denoted by GDP, is calculated as gross domestic product divided by midyear population. Table 1 presents the descriptive statistics of the logarithmic transformations of time series data. The measures of skewness and kurtosis as well as the probabilities of the Jarque-Berra test statistic provide evidence in favor of the null hypothesis of a normal distribution for all data sets.

<table>
<thead>
<tr>
<th></th>
<th>MEXP</th>
<th>EDEBT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>85.55461</td>
<td>12.86562</td>
</tr>
<tr>
<td>Median</td>
<td>24.00472</td>
<td>19.45618</td>
</tr>
<tr>
<td>Maximum</td>
<td>42.25146</td>
<td>27.44899</td>
</tr>
<tr>
<td>Minimum</td>
<td>6.204944</td>
<td>8.133034</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>6.678202</td>
<td>0.946517</td>
</tr>
<tr>
<td>Skewness</td>
<td>0.052584</td>
<td>0.175281</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>2.610562</td>
<td>2.631798</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>1.50809</td>
<td>1.386876</td>
</tr>
<tr>
<td>Probability</td>
<td>1.419775</td>
<td>1.507416</td>
</tr>
<tr>
<td>Sum Sq. Dev.</td>
<td>35.59935</td>
<td>53.88135</td>
</tr>
</tbody>
</table>
The first necessary condition to perform Granger-causality tests is to study the stationary of the time series under consideration and to establish the order of integration present. The Augmented Dickey-Fuller (ADF) (1979) unit root test is used in examining the stationary nature of the data series. It consists of running a regression of the first difference of the series against the series lagged once, lagged difference terms, and optionally, a constant and a time trend. This can be expressed as:

$$∆y_t = β_1y_{t-1} + β_2∆y_{t-1} + β_3∆y_{t-2} + β_4 + β_5t$$  \hspace{1cm} (1)

The test for a unit root is conducted on the coefficient of $y_{t-1}$ in the regression. If the coefficient is significantly different from zero then the hypothesis that $y$ contains a unit root is rejected. Rejection of the null hypothesis implies stationarity. If the calculated ADF statistic is higher than McKinnon's critical value then the null hypothesis is not rejected and it is concluded that the considered variable is non-stationary, i.e. has at least one unit root. Then, the procedures are re-applied after transforming the series into first differenced form. If the null hypothesis of non-stationarity can be rejected, it can be concluded that the time series is integrated of order one, $I(1)$. 

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398
Table 2 summarizes the results of the ADF unit root tests on levels and in first differences of the data. Strong evidence emerges that all the time series are $I(1)$.

**Cointegration Tests**

Next, we perform co-integration analysis. Cointegration analysis helps to identify long-run economic relationships between two or several variables and to avoid the risk of spurious regression. Cointegration analysis is important because if two non-stationary variables are co-integrated, a VAR model in the first difference is misspecified due to the effect of a common trend. If co-integration relationship is identified, the model should include residuals from the vectors (lagged one period) in the dynamic Vector Error Correcting Mechanism (VECM) system. In this stage, Johansen co-integration test is used to identify co-integrating relationship among the variables. Within the Johansen multivariate co-integrating framework, the following system is estimated:

$$
\Delta z_t = \Pi_1 \Delta z_{t-1} + \ldots + \Pi_{k-1} \Delta z_{t-k-1} + \Pi z_{t-1} + \mu + \varepsilon_t: \quad t = 1, \ldots, T
$$

(2)
Where $\Delta$ is the first difference operator, $z$ denotes vector of variables, $\varepsilon_t \sim \text{niid} (0, \Sigma)$, $\mu$ is a drift parameter, and $\Pi$ is a ($p \times p$) matrix of the form $\Pi = \alpha \beta'$, where $\alpha$ and $\beta$ are both ($p \times r$) matrices of full rank, with $\beta$ containing the $r$ co-integrating relationships and $\alpha$ carrying the corresponding adjustment coefficients in each of the $r$ vectors. The Johansen approach can be used to carry out Granger causality tests as well. In the Johansen framework the first step is the estimation of an unrestricted, closed $p$th order VAR in $k$ variables. Johansen (1995) suggests two tests statistics to determine the co-integration rank. The first of these is known as the trace statistic

$$\text{trace}(r_0 / k) = -T \sum_{i=r_0+1}^{k} \ln(1 - \hat{\lambda}_i)$$  \hspace{1cm} (3)$$

where $\hat{\lambda}_i$ are the estimated eigenvalues $\lambda_1 > \lambda_2 > \lambda_3 > ... > \lambda_k$ and $r_0$ ranges from 0 to $k-1$ depending upon the stage in the sequence. This is the relevant test statistic for the null hypothesis $r \leq r_0$ against the alternative $r \geq r_0 + 1$. The second test statistic is the maximum eigenvalue test known as $\lambda_{\text{max}}$; we denote it as $\lambda_{\text{max}} (r_0)$. This is closely related to the trace statistic but arises from changing the alternative hypothesis from $r \geq r_0 + 1$ to $r = r_0 + 1$. The idea is to try and improve the power of the test by limiting the alternative to a co-integration rank which is just one more than under the null hypothesis. The $\lambda_{\text{max}}$ test statistic is

The null hypothesis is there are $r$ co-integrating vectors, against the $\lambda_{\text{max}} (r_0) = -T \ln(1 - \lambda_i)$ for $i = r_0 + 1$ \hspace{1cm} (4)

alternative of $r + 1$ co-integrating vectors. Johansen and Juselius (1990) indicated that the trace test might lack the power relative to the maximum eigenvalue test. Based on the power of the test, the maximum eigenvalue
test statistic is often preferred. Table 3 presents results from the Johansen co-integration test among the data sets. Neither maximum eigenvalue nor trace tests rejects the null hypothesis of no co-integration at the 5% level.

<table>
<thead>
<tr>
<th>Null Hypothesis</th>
<th>Trace Statistic</th>
<th>5% Critical Value</th>
<th>Maximum eigenvalue Statistic</th>
<th>5% Critical Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$r = 0$</td>
<td>41.98045</td>
<td>49.56337</td>
<td>24.03337</td>
<td>29.04708</td>
</tr>
<tr>
<td>$r \leq 1$</td>
<td>17.11146</td>
<td>30.20697</td>
<td>13.18281</td>
<td>26.75225</td>
</tr>
</tbody>
</table>

$r$ is the number of cointegrating vectors under the null hypothesis.

A linear deterministic trend is assumed.

**Granger-Causality Test**

According to Granger (1969), $Y$ is said to “Granger-cause” $X$ if and only if $X$ is better predicted by using the past values of $Y$ than by not doing so with the past values of $X$ being used in either case. In short, if a scalar $Y$ can help to forecast another scalar $X$, then we say that $Y$ Granger-causes $X$. If $Y$ causes $X$ and $X$ does not cause $Y$, it is said that unidirectional causality exists from $Y$ to $X$. If $Y$ does not cause $X$ and $X$ does not cause $Y$, then $X$ and $Y$ are statistically independent. If $Y$ causes $X$ and $X$ causes $Y$, it is said that feedback exists between $X$ and $Y$. Essentially, Granger’s definition of causality is framed in terms of predictability.

Granger (1969) originally suggested the Granger test, which was improved by Sargent (1976). To implement the Granger test, we assume a
particular autoregressive lag length \( k \) (or \( p \)) and estimate Equation (5) and (6) by OLS:

\[
X_t = \lambda_1 + \sum_{i=1}^{k} a_{1i} X_{t-i} + \sum_{j=1}^{k} b_{1j} Y_{t-j} + \mu_{1t} \tag{5}
\]

\[
Y_t = \lambda_2 + \sum_{i=1}^{p} a_{2i} X_{t-i} + \sum_{j=1}^{p} b_{2j} Y_{t-j} + \mu_{2t} \tag{6}
\]

\( F \) test is carried out for the null hypothesis of no Granger causality \( H_0 : b_{11} = b_{12} = \Lambda = b_{ik} = 0, i = 1,2 \). where \( F \) statistic is the Wald statistic for the null hypothesis. If the \( F \) statistic is greater than a certain critical value for an \( F \) distribution, then we reject the null hypothesis that \( Y \) does not Granger-cause \( X \) (equation (1)), which means \( Y \) Granger-causes \( X \).

A time series with stable mean value and standard deviation is called a stationary series. If \( d \) differences have to be made to produce a stationary process, then it can be defined as integrated of order \( d \). Granger (1983, 1983) proposed the concept of co-integration, and Engle and Granger (1987) made further analysis. If several variables are all I(\( d \)) series, their linear combination may be co-integrated, that is, their linear combination may be stationary. Although the variables may drift away from equilibrium for a while, economic forces may be expected to act so as to restore equilibrium, thus, they tend to move together in the long run irrespective of short run dynamics. The definition of the Granger causality is based on the hypothesis that \( X \) and \( Y \) are stationary or I(0) time series. Therefore, we can not apply the fundamental Granger method for variables of I(1).
The classical approach to deal with integrated variables is to difference them to make them stationary. Hassapis et al. (1999) show that in the absence of co-integration, the direction of causality can be decided upon via standard $F$-tests in the first differenced VAR. The VAR in the first difference can be written as:

\[
\Delta X_t = \lambda_1 + \sum_{i=1}^{k} a_{1i} \Delta X_{t-i} + \sum_{j=1}^{k} b_{1j} \Delta Y_{t-j} + \mu_{1t} \tag{7}
\]

\[
\Delta Y_t = \lambda_2 + \sum_{i=1}^{p} a_{2i} \Delta X_{t-i} + \sum_{j=1}^{p} b_{2j} \Delta Y_{t-j} + \mu_{2t} \tag{8}
\]

Since, maximum eigenvalue and trace tests do not reject the null hypothesis of no co-integration at the 5% level, aforementioned VAR method can be used. Table 4 shows the results of these regressions.

<table>
<thead>
<tr>
<th>Table 4: Granger-Causality Test Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Null Hypothesis</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Military expenditure does not granger cause external debt per capita</td>
</tr>
<tr>
<td>External debt per capita does not granger cause military expenditure</td>
</tr>
</tbody>
</table>

* Reject the null hypothesis at the 10% level.
** Reject the null hypothesis at the 5% level.
*** Reject the null hypothesis at the 1% level.

Results of Granger-causality test show that the null hypotheses of military expenditure does not granger cause external debt is rejected in 1 year lag, at the 5% level. Results show no evidence of reverse causality.
Conclusion

One potentially important contributor to the evolution and growth of external debt in Nigeria has been the nation’s military spending since the period of her civil war. This study has empirically evaluated empirically the nexus between military spending and the nation’s debt burden. As a result of the Granger-causality testing procedure, strong evidence emerges that military burden has an impact on the evolution of debt in Nigeria. This finding suggests that military burden may be important factor in determining debt burden and its accompanying problems in LDCs.

References


CHAPTER XIII

THE RELATIVE IMPORTANCE OF DOMESTIC AND EXTERNAL SHOCKS TO OUTPUT AND PRICES IN NIGERIA

Philip A. Olomola

Introduction

A recent development in the Nigerian economy is the issue of which of the external and domestic shocks are deeply responsible for prevailing macroeconomic crisis in the country. Three issues are crucial for this study. First, Nigeria as an oil exporting country with about 90 per cent of its revenue generated from oil exports, the frequent shocks in the price of crude oil in the international market can pose a great challenge for macroeconomic management. For instance, the price oil oscillated between $17 and $26 at different times in 2002 and hovered around $53 per barrel by October 2004. In fact, the fluctuations in the price of oil have been a recurrent event since 1970. Persistent oil shocks have been an important source of economic fluctuation in both the oil exporting and oil importing countries over the past three decades (Kim and Loughani, 1992; Taton, 1988; Mork, 1994; Hooker, 1996; Caruth, Hooker and Oswald, 1996; Daniel, 1997; Hamilton, 1996; and Cashin et al 2000). Some of these studies suggest rising oil prices reduced output and increased inflation in the 1970s and early 1980s and falling oil prices boosted output and lowered inflation particularly, in the U.S in the mid-to late 1980s. There is paucity of empirical evidence on this with particular reference to Nigeria.

Second, Nigeria is a heavily indebted economy, with an external debt hovering around $38 billion. Thus, shocks to foreign interest rates could have pervasive effects on the Nigerian economy. For instance, an increase in foreign interest payments taxes the domestic economy more
channeling away vital resources from the productive sector. Over time, the size of Nigeria’s external debt has grown owing to frequent shocks to foreign interest rates and debt rescheduling. Few studies exist yet on the effect of foreign interest rates shock on the domestic economy, particularly output and prices in Nigeria. This study intends to bridge this gap.

Finally, there is the issue that is posing interesting reading in the literature. This can be recapitulated as follows: Is it foreign or domestic shocks that pose threat to economic performance or the monetary policy’s response of the domestic economy to these shocks? The present study is motivated by the findings that it was not the oil price shocks or foreign interest rate shocks themselves but domestic monetary policy’s response to them that caused fluctuations in aggregate economic activity. In a recent study, Bohi (1989), Bernanke, Gertler, and Watson, (1997) analyzed the possibility that the 1974 economic recession in the United States may have been the consequence of the Federal Reserve’s policy response to the inflation triggered by an oil price shock. The studies found out that changes in domestic output arose due to the Federal Reserve’s policy of monetary tightening induced inflation sparked off by the oil price shock. However, most of the empirical studies carried out have focused on the oil importing economies, particularly the developed economies. We intend to examine this crucial policy issues with particular reference to Nigeria.

Thus the specific objectives of this study are to determine and estimate output and prices fluctuations, analyze the impacts of external shocks, mainly, oil price shock and foreign interest rate shock, and domestic shocks, on output and prices in Nigeria, and measure the magnitude of such impacts. Furthermore, the study shall estimate which of the domestic and external shocks contribute more to output and prices fluctuations in Nigeria over the period covered by the study. Quarterly data from 1970 to 2003 are used for estimation. Therefore, for this paper, a
vector autoregressive (VAR) model of the Nigerian economy is constructed to test whether external and domestic shocks affect economic activities on the one hand, and to examine whether monetary policy’s response to oil price shocks accounts for the fluctuations in output and prices.

**Some Stylized Facts**

Over the years, the Nigerian economy have witnessed ethos of economic fluctuations. On the average, the real GDP growth between 1974 and 1979 was about 10.1 percent, declining to about –3.8 percent between the period 1980 and 1985. The average real GDP growth rate rose, however, to about 5.3 percent during the post adjustment era, 1995 and 1999. Inflation rate followed the same pattern, rising from 17.8 percent in 1974-1979 periods through 16 percent in the period 1980-1985, before rising to about 22.8 percent during the period 1995-1998. Many studies have not really modeled the pattern of economic fluctuations in Nigeria. This is the objective of this section. The question to be answered is: Can output growth in Nigeria be described as volatile?

To answer this question, we need to construct a volatility model. Here, we estimate the Autoregressive Conditional Heteroscedasticity (ARCH) component of a univariate output growth forecast equation and test for the significance of the derived conditional standard deviation which can be interpreted as expected output growth volatility. To begin with, I identified and estimated a univariate forecast equation for output growth rate. Applying the general-to specific approach, the estimated model becomes:

\[ \Delta y = -0.01 + 0.51 \Delta y_{t-1} + 0.79 \Delta y_{t-4} + \hat{\epsilon}_t \]

\[ (-1.42) \quad (6.09) \quad (5.02) \]
Ljung-Box statistics computed from the residuals indicate that the results obtained definitely accounts for the serial correlation in output growth rates. The test statistics ARCH (2) against conditional heteroscedasticity, however, provides strong evidence for the second-order ARCH effects in the residuals.

The ARCH model has been applied to model the volatility of many economic time series (Bollerslev et al. 1992). The Engle (1982) ARCH model assumes that the forecast errors $\varepsilon_t$ are conditionally normal, that is:

$$\varepsilon_t | \theta_{t-1} \sim N(0, \sigma_t^2)$$

where

$$\sigma^2 = \alpha_0 + \alpha_1 \varepsilon_{t-1}^2 + \ldots + \alpha_q \varepsilon_{t-q}^2$$

with $\alpha_0 > 0$ and $\alpha_i \geq 0$, for $i=1\ldots q$ to ensure that the conditional variance $\sigma^2$ is positive. Therefore, estimated $\sigma^2$ is the expected volatility of output growth in period $t$ given the information available in $t-1$.

In the ARCH model, the variance of the current error conditional on the realized values of the lagged errors is an increasing function of the magnitude of the lagged errors, irrespective of their signs. Hence large errors of either sign tend to be followed by a large error of sign. This captures the phenomenon that episodes of high volatility are generally described as the clustering of large shocks (Bruggemann and Nantz, 1997). By specifying the residuals of the estimated results above as an ARCH (2) process, the resulting estimate for the expected volatility of output growth is displayed in figure 1 below. As evidenced from figure 1, the volatility of output rose sharply in the 1970s and 1980s. Output growth was still volatile.
in the 1990s but not as much as the earlier periods. However, it tends to rise again around 1999.

Similarly, domestic prices exhibited volatility during the periods. It was more volatile between 1985 and 1995. Incidentally, this period coincided with the era of structural adjustment program and post adjustment era. Thus, the general conclusion that can be derived from the analysis so far is that both domestic prices and output have been volatile over the years. This accentuates the claim of macroeconomic fluctuations in Nigeria. But the next problem is to address the role of external and domestic shocks in output and prices fluctuations in Nigeria. The next section attempts to model the VAR model of the Nigerian economy to account for the role of domestic and external shocks in output and prices fluctuations.
The Structural VAR Model

The empirical exercise is now to estimate the effect of oil price shock on the macroeconomic variables in a VAR and decompose the forecast error variance to analyze how a unit shock is transmitted to the variables in the system. The SVAR model is composed of eight variables, namely: broad monetary aggregate (m); domestic output, represented by the Industrial Production Index (y); and the domestic price level, measured by the Consumer Price Index (p). The real exchange rate (rer), defined as the product of the domestic currency value of the dollar and the ratio of the U.S and the domestic Wholesale Price Indexes (WPI), is also included. The price of crude oil (poil) is measured by the domestic price of crude oil deflated by the CPI.

We consider the following vector autoregression model of order (p);
\[ y_t = c + \sum_{i=1}^{p} \phi_i y_{t-i} + \varepsilon_t \]  

(1)

where \( y_t \) is a \((n \times 1)\) vector of endogenous variables, \( c = (c_1, \ldots, c_5)' \) is the \((5 \times 1)\) intercept vector of VAR, \( \phi_i \) is the \(i\)th \((5 \times 5)\) matrix of autoregressive coefficients for \(i=1,2,\ldots,p\), and \( \varepsilon_t = (\varepsilon_{1t}, \ldots, \varepsilon_{5t}) \) the \((5 \times 1)\) generalization of a white noise process.

The VAR system can be transformed into its moving average representation in order to analyze the system’s response to a real oil price shock, that is:

\[ y_t = \mu + \sum_{i=0}^{\infty} \gamma_i \varepsilon_{t-i} \]  

(2)

where \( \gamma_0 \) is the identity matrix, \( \mu \) is the mean of the process. The MA representation is used to obtain the forecast error variance decomposition and the impulse-response function. The variance decomposition shows the proportion of the unanticipated change of a variable that is attributable to its own innovations and shocks to other variables in the system.

Two specific sets of structural restrictions have been examined in different studies in order to allow us to examine the different channels of transmission between the external sector and the domestic sector, and to test the sensitivity of the results to the choice of restrictions. There is a significant amount of disagreement over the relative importance of monetary and real factors in generating business cycles, thus, our restrictions in this study is based on monetary business cycle models (Friedman and Hahn 1990; Jones and Kenen 1985; McCallum 1989; Ahmad 1993) and real business cycle models.

Simple theory can help predict how an oil price shock will affect the variables in either model. Lower oil rents resulting from an oil price shock cause a temporary shift in the production function, leading to
decrease in real output. The decrease in output, ceteris paribus, results in an excess demand for goods and an increase in the interest rate. This decrease in output and interest rate, in turn reduces the demand for real cash balances, and given a nominal quantity of money, the price level rises. Therefore, we would expect an oil price shock to lower GDP and increase the price level (Gordon, 1998).

Thus, the restrictions based on the monetarist business cycles are specified as follows:

\[
\begin{align*}
p_{\text{oil}} &= v^1 \\
r^* &= v^2 \\
\text{reer} &= \alpha_{31}\mu_{\text{oil}} + \alpha_{34}m + v^3 \\
m &= \alpha_{41}\mu_{\text{oil}} + \alpha_{42}r^* + \alpha_{43}\mu_{\text{reer}} + v^4 \\
y &= \alpha_{51}\mu_{\text{oil}} + \alpha_{52}r^* + \alpha_{53}\mu_{\text{reer}} + \alpha_{54}\mu_m + v^5 \\
p &= \alpha_{61}\mu_{\text{oil}} + \alpha_{63}\mu_{\text{reer}} + \alpha_{64}\mu_m + \alpha_{65}\mu_y + v^6
\end{align*}
\]

In this model, the real exchange rate (equation 5) is influenced by shocks to both the price of oil and the money supply. In the money supply equation, the price of oil and the real exchange rate affects the money supply through the balance-of-payment effects on reserves. However, domestic output and prices do not affect money within a quarter, while foreign interest rates affects money supply. In the aggregate demand equation, output depends on domestic money shocks, while net exports depend on the relative price of oil, the real exchange rate and foreign interest rates. In equation (8), domestic prices respond to shocks to the price of oil, the real exchange rate, money supply and domestic output. The real exchange rate captures the cost-push effects of rising prices of imported impute to production, while the quantity of money appears due to its effect on the cost of working capital (Joyce and Kamas, 1997).
The restrictions based on the real business cycles are specified as follows:

\[ p_{oil} = v^1 \]  \hspace{1cm} (3)
\[ r^* = v^2 \]  \hspace{1cm} (4)
\[ reer = \alpha_{31}p_{oil} + v^3 \]  \hspace{1cm} (5)
\[ m = \alpha_{41}p_{oil} + \alpha_{42}rer + \alpha_{45}y + \alpha_{56}p + v^4 \]  \hspace{1cm} (6)
\[ y = \alpha_{51}p_{oil} + \alpha_{52}rer + v^5 \]  \hspace{1cm} (7)
\[ p = \alpha_{61}p_{oil} + \alpha_{62}rer + \alpha_{64}y + v^6 \]  \hspace{1cm} (8)

In this approach, the structural shocks originate from oil price shock and foreign interest rate shock. The real exchange rate depends on the price of oil in (4'), while money supply depends on foreign and domestic variables. Output is determined by real variables (7'), while domestic price level is affected by external and domestic supply shocks (8').

**Empirical Results**

**Unit Roots Test**

We proceed by determining the underlying properties of the process that generate our time series variables that is whether the variables in our model were stationary or non-stationary. Macroeconomic data often appear to possess stochastic trend that can be removed by differencing the variables. We employed the Augmented Dickey Fuller (ADF) and Phillip-Perron- \(z\) test (PP), to test the order of integration of the variables. The results of the ADF and PP test are presented in Table 1 below.
From Table 1 above, it is obvious that all the variables are I(1) series, whether with or without trend. The finding was that all the variables are stationary after their first differences.

**Cointegration**

A vector of variables integrated of order one is cointegrated if there exists linear combination of the variables, which are stationary. Following the approach of Johansen and Juselius (1990) two likelihood ratio test statistics, the maximal eigenvalue and the trace statistic, were utilized to determine the number of cointegrating vectors. The cointegration tests were performed allowing for both the presence and absence of linear trends.

The results of the maximal eigenvalues and trace test statistics for the two models were presented in Table 2 below. The procedure followed to determine the number of cointegrating vectors began at the top of the table with the hypothesis that there are no cointegrating vectors and with trends, $H^+$. A rejection of the hypothesis would lead to testing the
alternative hypothesis of no cointegrating vectors, and no trend, H. The testing procedure continues until the hypothesis cannot be rejected.

Table 2: Tests for Cointegration

<table>
<thead>
<tr>
<th>Maximal eigenvalue statistic</th>
<th>Trace statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rank</td>
<td>H$^+$</td>
</tr>
<tr>
<td>R=0</td>
<td>110.3**</td>
</tr>
<tr>
<td>r=1</td>
<td>66.81**</td>
</tr>
<tr>
<td>r=2</td>
<td>44.5</td>
</tr>
<tr>
<td>r=3</td>
<td>24.1</td>
</tr>
<tr>
<td>r=4</td>
<td>7.2</td>
</tr>
</tbody>
</table>


The test statistics indicate that the there is evidence of cointegration as the hypothesis of no cointegration is rejected for Nigeria. The results reveal that at least two cointegrating vectors exist among the variables of interest. Since the variables are cointegrated, the equations of the VARs also include lagged values of the variables in levels to capture their long-run relationships.

Variance Decomposition

The variance decomposition measures the proportion of forecast error variance in one variable explained by innovations in itself and the other variables. But it should be noted that the VAR was estimated with the sets of contemporaneous structural restrictions specified in the equations. First,
the results of the likelihood ratio test on the adequacy of the identifying restrictions on the model showed that the model is well behaved. The likelihood ratio test for the model was 26.44. Generally, the VAR decomposition suggests that oil price shocks are not a major source of volatility for most of the variables in the model. This finding is similar to the previous studies carried out for other economies (Brown and Yueel, 1999). The results of the VAR decompositions are summarized in Table 3 below.
The results in Table 3 above suggest that external variables did not have significant impact on output in Nigeria. External shocks contributed an average of about 3 percent to output changes in after 2 years. This implies that most of the variations in output were due to domestic shocks. In fact, most of the changes in output were explained by its own past

<table>
<thead>
<tr>
<th>Model</th>
<th>p,q</th>
<th>r</th>
<th>r-reer</th>
<th>M</th>
<th>Y</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBC/IQ</td>
<td>0.58</td>
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<td>0.62</td>
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<td>95.6</td>
<td>0.00</td>
</tr>
<tr>
<td>2Q</td>
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<td>0.08</td>
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</tr>
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<td>8Q</td>
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<td>1.62</td>
<td>23.3</td>
<td>65.1</td>
<td>7.44</td>
</tr>
<tr>
<td>RBC/IQ</td>
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<td>94.9</td>
<td>0.72</td>
</tr>
<tr>
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<td>1.62</td>
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<td>6.31</td>
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<td>8Q</td>
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<td>1.55</td>
<td>24.1</td>
<td>64.3</td>
<td>7.40</td>
</tr>
<tr>
<td>10Q</td>
<td>1.77</td>
<td>26.3</td>
<td>62.1</td>
<td>7.33</td>
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<table>
<thead>
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<th>Model</th>
<th>External</th>
<th>r-reer</th>
<th>Domestic</th>
</tr>
</thead>
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<tr>
<td>MBC/IQ</td>
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<td>0.62</td>
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</tr>
<tr>
<td>2Q</td>
<td>1.31</td>
<td>1.53</td>
<td>97.16</td>
</tr>
<tr>
<td>4Q</td>
<td>2.39</td>
<td>0.90</td>
<td>96.71</td>
</tr>
<tr>
<td>8Q</td>
<td>2.75</td>
<td>1.40</td>
<td>95.85</td>
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<td>10Q</td>
<td>2.54</td>
<td>1.62</td>
<td>95.84</td>
</tr>
<tr>
<td>RBC/IQ</td>
<td>0.62</td>
<td>0.54</td>
<td>98.12</td>
</tr>
<tr>
<td>2Q</td>
<td>1.33</td>
<td>1.62</td>
<td>97.05</td>
</tr>
<tr>
<td>4Q</td>
<td>2.39</td>
<td>1.20</td>
<td>95.87</td>
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<tr>
<td>8Q</td>
<td>2.74</td>
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<td>10Q</td>
<td>2.50</td>
<td>1.77</td>
<td>95.73</td>
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</tbody>
</table>

Note: External = p,q + r, while Domestic = m + y + p

Output

The results in Table 3 above suggest that external variables did not have significant impact on output in Nigeria. External shocks contributed an average of about 3 percent to output changes in after 2 years. This implies that most of the variations in output were due to domestic shocks. In fact, most of the changes in output were explained by its own past
values. This may be due to persistence in output growth or shocks to output not modeled here. This finding is similar to that of Joyce and Kamas (1997) for Colombia.

For output, the largest source of shocks was changes in money supply, which contributed about 3.2 percent in the first quarter, rising to about 11 percent in the second quarter, 23 percent in the eight quarter and about 23.3 percent in the 10th quarter in the MBC model and about 26 percent in the 10th quarter in the RBC model. On the other hand, oil price and foreign interest rates do not significantly influence output growth in Nigeria. The contribution of oil price shock to real output violability was an average of 2 percent in the second quarter and declined steadily thereafter. In both the MBC and RBC model, the contribution of foreign interest rate was less about 1 percent on the average. This implies that the inclusion of the foreign interest rate in the MBC model did not significantly differ from the RBC model. The contribution of inflation rate shocks rose from about 3 percent in the second quarter through an average of 7 percent from the fourth quarter to the tenth quarter. In both the MBC and RBC models, the real exchange rate did not significantly influence output growth. For the entire 10-quarter period, the real exchange rate contribution to output growth averaged about 1.2 percent. This finding supports Kamas (1995) study of Colombia that the exchange rate had little impact on output growth, while monetary base was important in explaining output variation. The implication of this finding is that oil price shock and foreign interest rate shock does not significantly affect output in Nigeria. This contradicts expectations that oil price shocks tend to lower GDP (Gordon, 1998) and reinforces the fact that oil price shocks are neither necessary nor sufficient to explain downturn in GDP (Barsky and Kilian 2004). Moreover, the findings on insignificance of foreign interest rates contradicted similar findings for Mexico by Fernandez-Arias (1996).
Prices

The results presented in Table 4 shows that external variables account for only about 4 percent on the average over the longer horizon in both the MBC and RBC models. This implies that oil prices and foreign interest rates did not significantly influence domestic price level. This finding supports the results obtained for Colombia by Joyce and Kamas (1997). The reason for the low effect of oil price on domestic price level could be due to the fact that over the years before the deregulation of the petroleum industry since 2000, government have been subsidizing the price of fuel. Thus, increases in the international price of crude oil do not filter into the domestic price level as the government subsidizes it to prevent inflation. As in the case of Colombia, Nigeria’s domestic prices show more inertia, with past prices accounting for a relatively large proportion of price variation. Its own past values explained an average of about 40 percent to changes in domestic price level.

The pattern of shocks of both domestic and foreign variables on prices reveals an interesting development. In the first quarter, output changes accounts for the largest share of shock to inflation rate, contributing about 36 percent, while oil price shock and foreign interest rate explained relatively little, both less than 1 percent. However, the real exchange rate contributed to about 9 percent to price changes, while domestic money supply explained about 4 percent. By the second quarter, however, domestic money supply contribution increased to about 14 percent to domestic price changes while the contribution of output declined to about 31 percent. Real exchange rate contribution declined to about 7 percent. But by the fourth through to the tenth quarter, domestic money supply contributed about 27 percent to changes in the price level, while output’s contribution averaged 23 percent through the period. The same pattern exists for the RBC model.
Table 4: Variance Decomposition of Prices

<table>
<thead>
<tr>
<th>Model</th>
<th>$p_{\text{will}}$</th>
<th>$r$</th>
<th>rer</th>
<th>$m$</th>
<th>$Y$</th>
<th>$p$</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBC/1Q</td>
<td>0.57</td>
<td>0.09</td>
<td>9.18</td>
<td>3.60</td>
<td>36.08</td>
<td>50.48</td>
</tr>
<tr>
<td>2Q</td>
<td>0.43</td>
<td>0.14</td>
<td>6.60</td>
<td>13.86</td>
<td>31.07</td>
<td>47.90</td>
</tr>
<tr>
<td>4Q</td>
<td>1.15</td>
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<td>4.07</td>
<td>26.00</td>
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<td>42.42</td>
</tr>
<tr>
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<td>0.85</td>
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<td>5.43</td>
<td>27.21</td>
<td>23.22</td>
<td>40.21</td>
</tr>
<tr>
<td>10Q</td>
<td>0.68</td>
<td>3.26</td>
<td>5.94</td>
<td>27.12</td>
<td>22.94</td>
<td>40.06</td>
</tr>
<tr>
<td>RBC/1Q</td>
<td>0.60</td>
<td>0.10</td>
<td>9.18</td>
<td>4.70</td>
<td>34.18</td>
<td>51.24</td>
</tr>
<tr>
<td>2Q</td>
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<td>0.18</td>
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<td>15.44</td>
<td>29.37</td>
<td>46.90</td>
</tr>
<tr>
<td>4Q</td>
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<td>0.60</td>
<td>4.07</td>
<td>25.50</td>
<td>25.83</td>
<td>42.70</td>
</tr>
<tr>
<td>8Q</td>
<td>0.99</td>
<td>3.31</td>
<td>5.43</td>
<td>26.20</td>
<td>23.82</td>
<td>40.25</td>
</tr>
<tr>
<td>10Q</td>
<td>0.66</td>
<td>3.39</td>
<td>5.94</td>
<td>27.00</td>
<td>24.00</td>
<td>39.01</td>
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</table>

<table>
<thead>
<tr>
<th>Model</th>
<th>External</th>
<th>rer</th>
<th>Domestic</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBC/1Q</td>
<td>0.66</td>
<td>9.18</td>
<td>90.16</td>
</tr>
<tr>
<td>2Q</td>
<td>0.57</td>
<td>6.60</td>
<td>92.80</td>
</tr>
<tr>
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<td>2.68</td>
<td>4.07</td>
<td>93.25</td>
</tr>
<tr>
<td>8Q</td>
<td>3.93</td>
<td>5.43</td>
<td>90.64</td>
</tr>
<tr>
<td>10Q</td>
<td>3.94</td>
<td>5.94</td>
<td>90.12</td>
</tr>
<tr>
<td>RBC/1Q</td>
<td>0.70</td>
<td>9.18</td>
<td>90.12</td>
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<tr>
<td>10Q</td>
<td>4.05</td>
<td>5.94</td>
<td>90.01</td>
</tr>
</tbody>
</table>

Note: External = $p_{\text{will}} + r$. Domestic = $m + y + p$
By the forth quarter to the tenth quarter, the real exchange rates contributed an average of 6 percent to price changes, while foreign interest rates contributed only about 3 percent. This finding confirms that oil price may not be necessarily inflationary contrary to findings by Barsky and Kilian (2002) and Rotemberg and Woodford (1996). Moreover, the findings on the real exchange rate contradicted similar findings for Mexico by Dornbusch et al. (1990) and Rogers and Wang (1995), who found that the real exchange rate accounted for 40 and 15 percent of the variation in prices in Mexico over the late 1970s and the 1980s respectively (Joyce and Kamas, 1997). Also, the significance of domestic money in explaining price changes contradicted the findings by Lizondo (1992) who found out that domestic money accounted for only 8 percent of price variation in Mexico over the period 1988 and 1991, but is supported by other studies by Reinhart and Reinhart (1991) and Leiderman (1984).

Conclusion

The econometric findings presented in this study demonstrate that external shocks (oil price and foreign interest rate shocks) do not have substantial effects on output and inflation rate in Nigeria over the period covered by the study. Shocks to output and inflation arise from shocks to domestic variables. Inflation rate depend on shocks to output, domestic money supply and the real exchange rates. Also, the it was found out that it is not the oil price itself but rather its manifestation in real exchange rates and money supply that affects the fluctuations of aggregate output. Thus, we conclude that external shock (oil price shock and foreign interest rate shock) is not an important determinant of output and domestic price level in Nigeria. Rather, it is money supply and price shocks that affect output growth in Nigeria.
References


Appendix

Sources of Data

- International Monetary Fund, *International Financial Statistics CD-ROM, 2003*

Description and Measurements of Variables

\( y \) = output (measured by the industrial production index to proxy for real GDP)

\( m \) = domestic money supply (measured by M2). The result was not significantly different when M1 was used.

\( \text{reer} \) = the real exchange rate (measured as \((\text{exchange rate} \times \text{U.S CPI}) / \text{CPI NIGERIA})\)

\( p \) = Inflation rate (measured as changes in the consumer price index)

\( P_{\text{OIL}} \) = oil price shock.

\( r^* \) = foreign interest rate, measured by LIBOR (The United States interest rates was used. The results was not significantly different from the ones reported)
CHAPTER XIV

RE-ENGINEERING THE ECONOMIC PROCESS OF AN ECONOMY EXPERIENCING SLUGGISH GROWTH*.

J. Balouga

Quotation

“The overall economic goal for Nigeria is to achieve an average of 10 percent annual GDP growth rate and inflation rate of not more than 5 percent through the period to 2010. This may appear to be an ambitious goal, considering that between 1976 and 1996 the average annual growth rate was only 1.6 percent per annum.”

VISION 2010 MAIN REPORT (SEPT. 1997, p.79)

Introduction

The central concern of macroeconomics is the business cycle-- that is alternating periods of economic expansion and contraction. These upswings and downswings of the economy are gauged in terms of changes in total output. Whereas an economic upswing, or expansion, refers to an increase in the volume of goods and services produced an economic downswing, or contraction, occurs when the total volume of production declines (Schiller, 1996, p. 209). Both swings, but particularly downswings, are fluctuations apt to cause havoc to the economy if left unattended to. Thus, the need for government intervention. The question of government’s role in the management of the economy is, however, one that has always evoked controversies and consequently strong emotional responses the world over. The role of government in the management of the political and economic system refers to the process by which government coordinates and integrates the disorganized human, material and monetary resources in a
total system for the purpose of accomplishing political and economic objectives (Etuk, 1985, p. 305). The extent to which government involves itself in the economic affairs of the nation depends on the type of economic system in operation in that nation: the command, mixed or free–market economy. In the command type economy government literally controls all the facets of the economy. In the free market economy, on the other hand, government intervenes (or should intervene) as “least as possible”, meaning government comes in only when intervention is absolutely necessary. However, in a mixed economy the private sector and the public sector share in the management of the economy. Economic growth and development are every nation’s desire. Their achievement is a function of carefully planned and implemented policies and strategies. (Udabah, 2000, p.9). In this paper we focus on the implementation of solutions to an economy experiencing sluggish growth.

Assuming that, (i) the problems facing the economy have been identified and (ii) that there is a strong desire by the nation’s leadership to steer the ship of the economy aright in order that the desired or planned economic growth be realized. Our goal is to highlight the difficulties likely to be encountered in the course of the implementation of the said solutions and suggest the remedies thereto. Section Two of this paper discusses the theory of leadership. In Section Three we analyze implementation and then we conclude the paper in Section Four.

The Theory of Leadership

Countries may be likened to organizations. Organizations are groups of agents linked up by a common purpose. An organization will be more successful at achieving a common goal, the better its members can
coordinate their actions (Blume and Franco, 2002. p. 5). This task of coordination falls on the shoulders of the leadership of the said organization.

**Concepts of Leadership**

A key ingredient for the success of any organization is leadership. Great organizations are often the result of great leadership. On the other hand, many organizations have been known to fail or disappear completely due to leadership failure or lack of a strong leader. An effective leadership requires inducing others to take action toward a common goal or vision, supposedly better or more attractive than the present state (Rahman, 1996). Leadership may be looked at from many perspectives: (i) as a group phenomenon; (ii) in terms of behaviour modelling (iii) in terms of goal achievement and (iv) as a social process. Mumford, Brigham, Tead and Murson are among those who view leadership as a group phenomenon. Brigham (1927, as cited in Ekpenyong, 1985, p.138) defines a leader as a person who possesses the greatest number of desirable traits of personality and character. According to Tead (1929, as cited in Ekpenyong, 1985, p.138), leadership is a combination of traits which enable an individual to induce others to accomplish a given task. For Murson (1921, as cited in Ekpenyong, 1985, p.138), leadership is the ability to handle men so as to achieve the most with the least friction and the greatest cooperation. Mumford (1907) sees leadership as the pre-eminence of one or a few individuals in a group versed with the control of societal phenomena. Many experts have tended to place the leader in a position of helplessness at the mercy of the group.

Heaphill, Fielder, Cheeton, and Mason and Capeland view leadership in terms of behaviour modelling. Heaphill, for example, views leadership as the behaviour of an individual while he/she is involved in directing a group’s activities. Capeland, 1942, (as cited in Ekpenyong,
1985), however, warns that leadership should not be confused with “drivership”, which he defines as the art of compelling a body of people, by intimidation or force, to follow a line of action. Leadership may also be viewed in terms of goal achievement. While Cowley (1928) defines a leader as a person who has a program and is moving toward an objective with his group in a definite manner, for Bellows (1959, as cited in Epkenyong, 1985, p.138) leadership means a process of arranging a situation so that various members of a group, including the leader, can achieve common goals with maximum economy and a minimum of time and work. Davies (1942, as cited in Ekpenyong,1985, p.138)) assesses leadership as the principal dynamic force that stimulates, motivates and coordinates the organization in the accomplishment of its objectives.

Bagardus (1929) and Morton (1969, as cited in Bloom and Franco, 2002) are among those who consider leadership as a social process. Here social estimation causes a number of people to set out toward an old goal with new zest or new goal with hopeful courage (Bloom and Franco, 2002). Those earlier definitions of leadership have formed the basis of modern–day leadership concepts. Burns (1978) points out that there is no school of leadership intellectual or practical; what are needed for assessing leaders are some philosophical tradition, theoretical and empirical cumulation, guiding concepts, and considered and proven experiences. According to Stodgill (1974, as cited in Ekpenyong, 1985) a person does not become a leader by virtue of the possession of some combinations of traits, but the pattern of personal characteristics of the leaders must bear some relevant relationship to the characteristics, activities and goals of the followers (Ekpenyong, 1985).
Theories of Leadership

The theories of leadership have centered mainly around the great man theories, the environmental theories, personal situational theories, interaction–expectation theories, the humanistic theories and the exchange theories (Ekpenyong, 1985). Aside from the foregoing, however, studies of leadership from the perspective of traditional approaches have been carried out. The situation approach, autocratic leadership, laissez-faire leadership and democratic leadership are some of the traditional approaches (Oni, 1985).

The Great – Man theories developed around the argument that if a leader is endowed with superior qualities that differentiate him from his followers, then it should be possible to identify such qualities. The main argument in the Environmental theories is that the emergence of a great leader is the result of time, place, and circumstances. For example Mumford (1909, as cited in Oni, 1985) argues that the leader emerges by virtue of stress, change, and adaptation.

The personality traits of the leader, the nature of the group and of its members, the event confronting the group and the specific conditions under which the leader operates are some of the factors singled out in Personal Situational theories. Stodgill and Shorthe (1995, as cited in Oni, 1985) examined leadership in terms of status, interactions, perceptions and behaviour of an individual in relation to other members of the organizational group. According to them, leadership is a relationship between persons and it represents the structural and functional dimensions of organization. The Humanistic Theories centre on certain conclusions that the human being is by nature a motivational organizer. In other words, the function of leadership is to modify the organization in order to provide freedom for the individual to realize his own motivational potential for fulfillment of his
own needs and at the same time contribute toward the accomplishment of organizational goals (Stodgill, 1974, as cited in Ekpenyong, 1985). The Exchange Theories are based on the assumptions that social interaction represents a form of exchange in which group members make contributions, at a cost, of themselves and receive returns, at a cost, to the group and that interaction continues because members find social exchange mentally rewarding. According to Jacobs (1971, as cited in Ekpenyong, 1985) the group provides status and esteem satisfaction to the leader in exchange for his unique contributions to goal attainment (Ekpenyong, 1985).

**Types of Leadership**

In this sub-section, transitional, pragmatic, reformed, intellectual, moral revolutionary and opinion leadership (Ekpenyong, 1985) and autocratic, laissez-faire and democratic leadership (Oni, 1985) are some of the types of leadership that are reviewed.

Transitional Leaders approach followers with an eye on exchanging one thing for another (Burns, 1978, as cited in Ekpenyong, 1985). Pragmatic Leadership deals with what can be done right. By virtue of its nature pragmatic leadership generates a new mentality but this brand of leadership sometimes leads to a new bureaucratic order, be it in government or in business. Meanwhile reformed leadership wants certain changes within the system. Sometimes attainment of power under reformed leadership is not the motivating factor. Because leadership goes with responsibilities, making the exercise of power imperative, a reformed leader soon becomes pragmatic in the process of the exercise of responsibilities. Intellectual leadership creates and designs steps and measures to fulfill those visions. Intellectual leadership features when there is a transactional rise in expectations that control the entire system. The
role of intellectual leadership does not lie in the followers being led by the leader but instead it is the ideas that lead the followers. The instrument for the exercise of intellectual leadership is the court.

Moral leadership entails the type of leadership that can produce social change that satisfies the basic and real needs of the followers. Under moral leadership leaders and followers have a relationship of power, mutual needs, aspirations and values. Moral leadership also entails the process of transformation which creates a relationship of mutual stimulation and elevation that converts followers into leaders and can even convert them into moral agents. This brand of leadership eventually raises the level of human conduct and ethical aspiration of leader and follower, which has a transforming effect on both.

Revolutionary Leadership has a world vision and seeks to change the entire system to conform to the vision. Revolutionary leadership though, does not seem to understand how things work in real life and how they should be improved upon and, in the process, it may confuse them.

Opinion Leadership is leadership created by public opinion generated by the media or in personal relationships. An opinion leader is restricted by the opinion of his followers and also physically since it involves mainly a group- base phenomenon. Opinion leadership touches all aspects of activities including politics, economics, religion, finance and so on. The better organized the organs of a society’s media the greater their contributions in shaping up leaders. (Ekpenyong). Autocratic leaders are those leaders who, all alone, determine policy and assign tasks to members without consulting with them. The followers have to carry out these directives without question. The autocratic leader views the world essentially as friendless and, therefore, strives for power and toughness and becomes rigid in dealing with people. The Democratic type of leadership rests on the idea that members of the group or their proxies shall be
involved in the making of policies; it is the direct opposite of autocracy. Decisions about organizational matters are, therefore, arrived at after consultation and communication with various people in the organization. The leader derives his power and authority from his followers to some of whom he may delegate responsibilities. Democratic leadership promotes greater group productivity and personalities shaped by this type of leadership are more matured, more capable of objectivity, and less aggressive. Democratic leadership features group discussion and decision – making through bargaining.

For Laissez–faire leadership there are practically no rules in the organization. The leadership grants complete freedom to the group or individual decision without the leader’s participation or direction. This suggests that subordinates are free to do what they want. The danger with this type of situation is that anarchy or chaos may ensue because people’s activities are not guided by the leadership (Oni, 1985).

From the brief review of the concepts and theories and types of leadership certain issues associated with leadership can be identified. Such variables are responsibility, interaction, change, motive, resource, etc. Another issue that comes to mind is that leadership exists only in relation to followers. In the conventional “superior-subordinate” concept, a leader uses formal authority to induce his followers to take actions. A good and strong leader, therefore, is something of a visionary, who is certain of his roles and has the will to use power and influence when the situation demands it to bring about the desired vision.
Roles of Leadership

Rahman (1996) identifies five crucial areas on which leaders have to focus to ensure successful realization of the desired goal or vision. These are (i) defining and communicating the vision, (ii) formulating effective strategy, (iii) managing the organizational boundaries, (iv) motivating followers and (v) managing conflict.

Defining and Communicating the Vision

A key function of a leader is to establish a clear vision for the organization and to communicate it in a compelling way to the followers. A well defined vision serves to provide focus and direction to present programme formulation and this, in turn, links current action to the achievement of the future goal. A clear vision also inspires and helps to establish common organizational aspirations. Inspiring and motivating visions share certain essential elements, viz: future-oriented, focusing on the long term perspective of the organization and its environment; desirable and attractive, that is worth working towards; inherently challenging, thus motivating people to attain them; precise and clear, though representing a global ideal as opposed to a specific achievement, and stable, that is not easily affected by most of the changes in the operating environment. In formulating a clear vision, a leader should possess the necessary ability to secure different sources of information both inside and outside the organization; cognitive skills in analyzing and synthesizing all the information obtained; and conceptual skills in generating ways to express his vision.

Examples of well formulated visions are: One vision 2020, which envisages Malaysia as a fully developed nation by the year 2020; vision
2010 in Nigeria and The Philippines Vision 2000. The leader’s next challenge is to instill the vision in others. This involves a process of dissemination to clarify the vision to the followers and build their commitment to it. Without this commitment nothing is accomplished. An important leadership skill, therefore, is the ability to effectively communicate this vision of betterment to the others in the organization. Such a message, communicated clearly, can inspire and motivate his followers to mentally visualise the same goal or objective and muster the same enthusiasm to want to achieve that goal. The followers must be made to find that goal desirable. It is therefore imperative that the goal set must be seen as realistic and achievable. Effective communication thus promotes consensus and support from within the organization, such that there is common identification with the vision.

Having set, defined and communicated the vision, the leader’s next task is to translate it into reality, that is, to implement it. An effective leader must be able to pull resources together and to avoid conflict which hinders the achievement of the vision. For this he must develop an effective strategy or plan of action which will lead to the realization of the vision.

**Formulating Effective Strategy**

The concept of strategy and strategic thinking is crucial for a leader to ensure the survival of his organization. In the reality of competition, a strategy comprises the policies, plans, programmes, tactics, actions and efforts that an organisation undertakes to upgrade its strength, so that it can compete with and overcome its rivals. As an example in business, the goal is to attract customers so that the firm can increase its sales volume, its market share, compared to its rival firms.
Based on the mission or goal leaders, as strategists, would have to formulate an effective strategy. Essentially strategists need to have a number of alternative options that have to be identified, examined and selected. Eventually though a leader may be satisfied with the strategy selected, this does not necessarily ensure success. Success depends on several other factors, which include the capability, efficiency and discipline with which the organization executes the selected strategy as well as accurate, reliable information or feedback. There is always the possibility of changes in the environment to render it other than what was expected.

Managing the Organisational Boundaries

As a living system, an organization has its own boundaries, both internal and external. A strategic leader must be sensitive to these parameters. Since boundaries often overlap, it is important that they should be managed and consistently redefined according to the needs of the circumstances. Internally, the main task of a leader is to ensure that his organization functions as a whole towards set goals. He must be able to integrate various components of specialized functions within his organization to achieve wholeness. Clear goals, motivated followers with clear functions and norms, make it easier for the leader to manage the interdependence of his internal environment. At the same time he must be able to take advantage of opportunities identified within the external environment.

The external environment has two components: the task environment (which includes supplies, markets, competitors, etc.) and the wider environment (consisting of public attitudes, political systems, demographics, laws and regulations). The role of a leader, therefore, is to
build a strong network. The more network a leader establishes the longer will be his organization. In addition a leader needs the ability and skills to sense and analyze changes in the environment especially when the latter is complex, turbulent and/or unpredictable.

In order for a leader to make effective decisions in response to changes in the environment, he has to do a lot of gathering and processing of information, reviewing and monitoring feedback. A leader, therefore, has to create an environment where listening is cherished. He can also facilitate information gathering by making informal contacts with various members of the organization. With his external environment such contact is through networking. By developing and maintaining contact through networking, he can also become aware of the changes in the environment and of how he can expect his organization to be affected by them. A test of a strong and effective leader is how he handles the above challenges and makes correct decisions based on information gathered from within and outside his organization.

**Motivating**

Because leaders cannot achieve their vision on their own, they must motivate others to work toward it as well. Motivating people, therefore, becomes the leader’s main concern. As motivation involves basic psychological process, a leader first and foremost, has to understand the dynamics of human behaviour, particularly the question of what really motivates people. He has to identify what is the inner state of a human being that energises, activates or moves and that which directs or channels behaviour towards a goal. Not forgetting that leaders are also human beings, the process of motivation unavoidably applies to leaders
themselves. A strong leader has to have the heightened desire to lead others and a powerful competitive drive to attain and hold the position of authority, in order to be recognised as a man of influence in the course of achieving his aims or vision. Such drive, to a great extent, has to be reinforced by his followers (Rahman, 1996, p. 54).

Managing Conflict

Having a clear vision, motivated followers and a strategic plan of action, is not sufficient for sustaining energetic and/or prolonged effort on a continuing basis if the leader cannot withstand the test of obstacles and problems that undermine harmonious relationship between individuals and groups in his organization. One such problem which is common in any organization is unmanaged conflict.

Conflict occurs when there is objective incompatibility between values or goals. Conflict is a natural phenomenon as within any individual there are usually a number of competing needs and roles; a variety of different ways that drive and roles can be expressed; many obstacles which can occur between the drive and the goal; and both positive and negative aspects attached to such desired goals. Today, conflict is seen as integral to the nature of change. Conflict in an organization is inevitable and necessary no matter how the organization is designed and operated. The task of the leader, therefore, is not to suppress the conflict but to manage it so as to minimize its harmful effect and maximize its beneficial aspects.

In the next section, we shall discuss some of the problems associated with the implementation process before turning to implementation proper.
Implementation

The development process is built around the following cycle: planning, programming, budgeting, implementation monitoring and evaluation.

Planning or plan formulation involves analysis of the situation, determination of goals, defining objectives and selecting targets, formulating policies/strategies and identifying programmes/projects. Programming involves the formulation and prioritization of investment programmes designed to put into operation the development plans. These investment programmes should be able to specify their target beneficiaries, locations, implementation schedules and financing sources. Budgeting is the translation of investment programmes into their financial requirements. The financing of prioritized programmes and projects in the investment programmes may come from the national government budget, local government and/or foreign financial assistance.

Implementation refers to the actual execution of projects or delivery of services in support of development plans. Undertaking monitoring and evaluation enables the planning and implementing agencies to compare the actual performance of programmes and projects against development plans; to identify the problems and issues encountered by programmes and projects; and identify solutions to improve programme and project implementation. The feedback mechanism allows revisions or updates in the output on earlier activities, undertaken. Evaluation is a process which addresses the questions of what has happened and why. It involves the identification and measurement of the overall economic and social impact of development programmes and projects on their goals or
concerns like income, employment health, and productivity (Sobaepena, 1996). Implementation is not without problems, though.

**Implementation problems**

A good idea is of little value unless someone puts it to use. Accordingly, in order to understand why things go wrong we must also consider the difficulties of implementing a well designed policy initiative.

**Congressional Deliberations**

Deficits are recorded in sluggish years. Now suppose that there is need to stimulate the economy through a tax cut. Obviously, in a democratic dispensation, the president and his aides cannot go ahead to implement the tax cut; because all tax variations must be legislated by congress (the law makers). The latter must give the president authority to take the required action. This means a delay in implementing and possibly no policy at all.

The tax cut proposal must work its way through separate committees, get on the congressional calendar and be approved in each chamber. If there are any major differences in Senate and House versions of the tax cut legislation, these differences must be compromised in a joint conference. The modified proposal must then be returned to each chamber for approval.

The same kind of process applies to the outlay size of the budget. Once the president has submitted his budget proposals (in January, for example), congress reviews them, then sets its own spending goals. After that, the budget is broken down into different categories, and a separate Appropriation Bill is written for each one. These bills spell out in detail
how much can be spent and for what purposes. Once congress passes them, they go to the president for acceptance or veto.

All this is to show that “even if the right policy is formulated to solve an emerging economic problem, there is no assurance that it will be implemented. And if it is implemented, there is no assurance that it will take effect at the right time”. One of the most frightening prospects for economic policy is that a policy design intended to serve a specific problem will be implemented much later, when economic conditions have changed. The policy’s effect on the economy may then be the opposite of what was intended. There are always delays between the time a problem emerges and the time it is recognized. There are additional delays between recognition and response design, between design and implementation, and finally between implementation and impact. Not only may mistakes be made at each juncture, but even correct decisions may be overcome by changing economic conditions (Schiller, 1996, p.339).

**Politics and Economics**

We must confront the politics of economic policy. Tax hikes and budget cuts rarely win votes. On the other hand, tax cuts and pork-barrel spending tend to make voters happy. Accordingly, serving politicians tend to stimulate the economy before elections, then tighten the fiscal restraints afterward. The conflict between the urgent need to get reelected and the necessity to manage the economy results in a seesaw kind of instability.

To illustrate: the political content of fiscal policy was very visible in 1995 in the USA. The Republican party had scored stunning victories in the 1994 congressional elections by promising tax cuts and spending reductions. Shortly after the election results were in, President Clinton jumped on the tax cut band wagon, too. The Democrats and Republicans
then competed to see who could promise the largest tax cut. Meanwhile the economy was closing in on full employment, and economists were wondering how much fiscal restraint might be needed to keep price levels from rising. The politicians would hear nothing of fiscal restraint, however, when voters had responded so eagerly to the lure of tax cuts. (Schiller, 1996, p. 341).

**Lack of Will**

We must also recognize that policy design is obstructed by a certain lack of (political) will. Policy makers are apt to become complacent about economic policy as long as economic performance is within a tolerable range of desired outcomes. With the above problems at the back of our minds, how do we go about implementing solutions, that is getting the economy working again?

**Communicating the plan and Monitoring its Implementation**

The preparation of the implementation plan should be the responsibility of a group of people. The implementation plan is envisioned to link plan formulation and plan implementation. Generally there is a weak relationship between these two (Sobaepena, 1996, p.209). This is probably one of the reasons for the inability of development plans in achieving their targets. The implementation plan is, therefore, a serious attempt at ensuring that the plans are translated into concrete measures and activities supportive of the goals, objectives and priority thrusts embodied in the current development plan. The implementation plan also serves as the guide or tool for the allocation of government resources. It will serve as a basis for monitoring and assessing success and failure as well as to single out accountability for it, since entities responsible for carrying out specific activities are identified in the document.
Procedures for Formulation of Plan

All executive departments including government-owned and controlled corporations prepare their respective agency action programmes that will help operationalize the various policies and strategies of the medium-term development plan, MTDP, during the first 3 years of its implementation. Agencies identify specific implementing measures in support of specific policies and strategies of the plan which includes regular, new or on-going activities of the agency and the agency’s legislative agenda. Likewise identified are the cooperating agencies for each activity together with the targets and time-table thereof. These agencies’ implementation plans are then submitted to the National Economic Development Authority, NEDA secretariat which, in turn, consolidates all agency submissions and integrates them into sectoral implementation plans. NEDA likewise conducts consistency checking of these to ensure that these are not in conflict with each other but rather reinforce each other. The implementation plans are then presented to appropriate planning sub-committees and the coordinating and steering committees for review prior to submission to the NEDA Board.

As soon as the implementation plan is finalized it is submitted to the NEDA Board for approval. The president, as chairman of the NEDA Board, then endorses the implementation plan and sends it to congress as a companion document to the MTDP.

The following items may be contained in the implementation plan (IP):

- Development goals/objectives
- Policies and strategies that will achieve these goals

- Brief description of the various implementation measures to carry out the said policies and strategies.

- Load/cooperating entities which will participate in implementing earlier stated measures/activities.

- Total targets/indicators of said measures/activities

- Time frame for these measures/activities.

The general rule is that targets, to the extent possible, are expressed in quantifiable terms. Also, to the extent possible, time-tables for the activities are broken down on an annual or even quarterly basis to clearly show “start” and “completion” dates of the said activities. Continuing activities during the three-year period covered by the IP are indicated by broken lines in these columns.

Communication and Advocacy Programme (CAP)

The CAP aims to communicate to all sectors of society and the international community the PTDP and its components. More specifically, its desired outcomes are: to ensure increased public and international awareness and understanding of the country’s development vision and goal of development over the next year, as well as the specific policies, programs and activities that will be carried out under the MTDP and to generate wide public support and international cooperation in the implementation of the MTDP.

The CAP has four components: (i) advocacy and educational component, whose responsibility it is to inform, educate, organize
conferences and seminars, visit dignitaries and foreign missions, media, private organizations, etc. (ii) print and electronics media component (iii) trade and investment promotion component and (iv) network and institutional linkages component.

Regional Project Monitoring and Evaluation System (RPMES)

To facilitate project implementation, monitoring and evaluation at the regional and sub-regional levels, a regional project monitoring system has to be established. The system provides a scheme for monitoring and evaluating projects at the national, regional, provincial/city, municipal level, with the extensive and active participation of various government agencies, local government units and non-governmental organizations at all levels.

Through the system, generation of information on the overall status of project implementation will be facilitated, so that remedial action can be readily undertaken at the level nearest the project sites, and at the earliest possible time.

Objectives

The RPMES primarily aims to facilitate project implementation and devolve project facilitation, problem – solving monitoring and evaluation to the regional, provincial/city and municipal levels. Specifically, the system aims to achieve the following objectives:

- To provide up-to-date information on the overall status of project implementation at each level from planning and budget allocation, to include employment generation of the various programmes/projects expressed in man-days;
- To identify problems/issues which impede project implementation for remedial actions of the regional and sub-regional levels and to elevate unresolved issues and problems at these levels to the cabinet or the president for resolution and final action;

- To provide information or lessons learned in project implementation for planning and implementation of future similar projects;

- To provide a venue for greater participation of non-government organizations in the development planning process;

- To provide a system for the integration, coordination and linkage of all monitoring activities in the region; and

- To assess and ascertain whether projects implemented are supportive of regional development goals and plans as well as national development thrusts and priorities. (Sobaepena, 1996, pp. 232-233).

Organizational Framework

The operationalization of the RPMES will be undertaken by a number of units/entities acting as coordinators, monitors and project implementers.

Coordination Activities

To ensure that the RPMES activities are coordinated in terms of information dissemination, submission of reports, monitoring and evaluation of project implementation, feedback and problem-solving, coordinative mechanism of the system will be provided at the various
levels. The NEDA Board will oversee the implementation of the RPMES at all levels.

Coordination of Project Monitoring Committees’ (PMCs) activities at the sub-national levels will be the responsibility of the various development councils. Region – wide and inter-regional coordination will be handled by the Regional Development Councils and other similar bodies which may be established. Coordination at the provincial and municipal levels will be undertaken by the Provincial Development Councils, the City Development Councils and the Municipal Development Councils.

**Planning, Programming, Scheduling and Monitoring**

Operationalization of the RPMES will be undertaken through the (PMCs) created in each region, province, city and municipality. These PMCs will be responsible for planning, programming and scheduling/monitoring activities and for monitoring and evaluating the implementation of development projects at their respective levels.

The RPMES provides for the extensive and active participation of the Non-Governmental Organizations (NGOs), private volunteer organizations and concerned citizens.

**Project Implementation Activities**

The implementation of development projects at various levels will be undertaken by regular government agencies, non-financial government owned or controlled corporations, and local government units. They will provide monitors with their respective annual work and financial plans, and status reports on project implementation.

**System Framework**
The underlying principle of the monitoring and evaluation of the system framework is its usefulness in enhancing the efficiency of project implementation at the various levels. Hence, the monitoring and evaluation system at any level is primarily for the purpose of expediting project implementation at that level and to determine whether the objectives of the projects are accomplished. Providing the next higher level development council with reports on the status of project implementation is only a secondary function.

For each level, the project implementation links are the basic source of project information. The PMCs act as coordinators/monitors, authorized NGOs as the project monitors, and the development councils at various levels as the decision- making and problem – solving bodies.

**Expected Outputs**

To come up with the desired results, the RPMES suggested three input forms regarding initial project reports (IPC form –1); physical and financial accomplishment report for capital outlay projects (PMC form 1-2), and project exception report (PMC form 1-3) to be filled by implementing agencies. These forms are used in monitoring and reporting the status of project implementation for a single year.

The project monitoring committee has to come up with these types of reports, such as report on the status of projects encountering problems in implementation (PMC form 0-1); financial and physical status of capital investment projects (PMC form 0-2); summary of financial and physical accomplishment by agency (PMC form 0-4); and summary of financial and physical accomplishment by sector (PMC form 0-5).
These reports will be submitted to the development councils at the next level PMCs for use in their assessment of project implementation and in the identification of appropriate remedial action that can be taken at their level. Issues/problems which cannot be resolved at a particular level will be elevated to higher level councils/committees.

**Thirteen Pointers on Regional Development Planning**

Here are some lessons useful on the regional development planning:

1. Ensure that there is clear institutional responsibility.
2. Provide the legal framework for planning
3. Manualise the development planning
4. Ensure adequate and qualified staffing
5. Tap the talents of the younger professionals
6. Strengthen the coordinative authority of the central planning authority.
7. Improve the theoretical foundations of the planning system.
8. Upgrade the database of areas being subjected to planning.
9. Provide sufficient authority for planners in the local level.
10. Link with the academy and other specialized research institutions.
11. Ensure the active involvement of local government units.
12. Encourage participation of the private sector and non-governmental organizations.
Concluding Remarks

Ineffectiveness, divergence between policy formulation and implementation, role conflicts and inability to demarcate the role of various players in the policy process and poor commitment of government to the social contract with the people are the four major problems plaguing implementation in Nigeria. There seems to be no other explanation to give for Nigeria’s present economic problems except the men and women whom government appointed (Etuk, 1987, p. 134). Ani (1987, p.7) goes a step further. He points out that one of the reasons for failure in the past was the absence of “economic macro – management”, adding that plans were easily made but there was no modus operandi for the management of the Nigerian economy. For instance there were no monthly appraisals, no reports prepared, no review of macro indices, etc. He then challenges the Ministry of Finance to produce, akin to the MTDP, a detailed plan as to how Nigerian economic policies are to be implemented. This plan should be well detailed, articulated, and should assign responsibilities to the different ministries and officials who must meet on regular basis to appraise that plan and manage the economy.

The Gowon–Obasanjo regime was characterised by keynesianism or government intervention. During this period the second National Development plan was drafted, there was the indigenization of some foreign companies in order to help the SMEs survive the dearth of credit; there was also the realization of an agriculturally–driven economy, the construction of the kaduna refinery as well as the Murtala Mohammed International Airport in Ikeja, Lagos, among other projects. In sum, the federal government had a hand in almost every pie (Nzenwa, 2000, pp. 71-72). The Buhari regime was characterized by import restriction and the rationing of essential commodities and foreign exchange (Toyo, 1997, p.67). This regime fought corruption and drug peddling; it reduced illegal bunkering of oil and continued with a strong Naira through a policy of direct monetary control (Nzenwa, 2000, p. 76). However, this regime “gagged the press substantially “and “did not convincingly produce an economic blue print to turn the economy around” (Nzenwa, 2000, p.77). Then entered the Babangida regime which was characterized by a return to laissez-faire with the Structural Adjustment Programme (SAP) as the regime’s neo-classical answer to stagflation (Toyo, 1997, p. 67). General Babangida liberalised the economy and started its deregulation. He established the technical committee for privatization and commercialization (TCPC) now Bureau for public Enterprises (BPE). Also, he extensively pursued poverty reduction and rural development programmes through the establishment of the People’s Bank and the Directorate For Food, Roads and Rural Infrastructure (DFRRI) among other projects. However, some of General Babangida’s low points are the introduction of the Second–Tier Foreign Exchange Market (SFEM) that reportedly left Nigeria’s currency comparatively weak, high interest rates, the lack of capacity to check inflation and political instability (Nzenwa 2000, p.78). General Abacha’s regime succeeded Chief Shonekan’s, whose tenure, as Head of
Government, lasted only about 3 months. General Abacha pegged the interest rate at 21 percent, returned to a regime of direct monetary control, reduced inflation to a single digit, reduced corruption, created the Petroleum Trust Fund (PTF) and gave the single largest vote yet to poverty eradication in the 1997 budget (Nzenwa, 2000, p. 79). However, he “abused the rights of his citizens” and crippled the petroleum industry, and the economy at large, through delays in the payments of cash calls and the importation of petroleum products (Nzenwa, 2000 p. 80). General Abubakar’s regime was brief (June 9, 1998 – 1999). He was succeeded by Chief Obasanjo who is currently running a second – term in office as Executive President of Nigeria. Now, the question is: Has Nigeria experienced any sustainable economic growth yet? The answer is simply NO.

It appears that there is readiness of economists and politicians to blame each other for the continuing gap between economic goals and performance. We can distinguish four general constraints on successful policy–making, which are goal conflict, measurement problems, design problems and implementation problems. The first factor to note is potential conflicts in policy priorities. The measurement problems that plague economic policy have little to do with economic theory. Although economic theoretical perspectives are by no means complete they are adequately developed to deal with major economic problems. As long as we can diagnose the major dimensions of a problem, economic theory is equipped to provide a fairly reliable set of policy guidelines (Schiller, 1996, pp. 335 – 366) which must be implemented by a good and strong leader, someone of a visionary who is certain of his role and has the will to use power and influence when the situation demands it to bring about the desired vision. This may be done through defining and communicating the vision, formulating an effective strategy, managing the organizational
boundaries, monitoring followers, managing conflicts and most importantly, in the event of a democratic change of government, continuity.

The sluggish economy of an underdeveloped state in this era of globalization may be likened to a grave situation which cannot be managed by weak and short–sighted leaders for it demands real statesmanship and a far-reaching vision.
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* This paper was presented at the one-day seminar of the Institute of Certified Economists of Nigeria (ICEN), Lagos on 19 July, 2003.

** Unfortunately corruption is one of the major challenges facing sluggish economies now, particularly African economies.
CHAPTER XV

THE NEW REVENUE FORMULA AND THE STATE/LOCAL GOVERNMENT JOINT ACCOUNT: CONTENTS, DIMENSIONS AND IMPLICATIONS FOR THE NIGERIAN STATE AND ITS ECONOMY

S.T. Akindele. Femi Omotoso

Introduction

Federal systems, by their nature, are complex administrative designs because they involve multiple levels of government. Federations also vary in many ways such as the character and significance of the underlying economic and social diversities and the number of constituent units and the degree of symmetry or asymmetry in their size and related characteristics (Akindele, 1995, 1998; Watts. 1999:1).

Federal systems in developing countries face additional challenges arising from the socio-economic underdevelopment and ethnic pluralism of these countries. The Nigerian federal system, like those of other developing countries, is beset by a lot of complex and protracted issues, which combine to affect its survival as a united geo-political entity. One of such issues is the revenue allocation formula. Rather than making genuine efforts to resolve this problem, the Nigerian federal government had always resorted to legal sophistry on issue of revenue allocation and its attendant struggle for resource control, which in the real sense of it require political solutions (Bello-Imam and Agba, 2004:52). Baker (1984: 10) notes that the revenue allocation issue is not a secondary matter but a primary issue that is fundamental to the political stability of the country as a whole. There is no doubt, that the revenue allocation formula is not a secondary issue in a federal system because it dictates what accrues to each tier of government.
This issue has been a major one in the Nigerian political system even from the pre-independence era. There were so many fiscal review commissions set up before independence to fashion an acceptable revenue allocation formula. Also in post-independence Nigeria, there have been many fiscal review commissions put in place by different governments at the centre to work out an acceptable revenue allocation formula for all tiers of government.

This paper therefore is to explore and examine the new revenue allocation formula vis-à-vis the state—local government joint account concept and procedure under the Obasanjo administration.

Revenue sharing is a particularly sensitive issue in Nigeria because all the states and local governments are predominately funded from the federation account. Central funding of states and local governments has never adequately catered for the needs and developmental objectives of these sub-federal units. In view of this, states and local governments are often faced with severe resource constraints, which pose enormous, administrative challenges and which also undermine their putative roles as agents for development. A noticeable factor in the country is over dependency of state and local government on the federation account. This is not only unhealthy, but it is equally dangerous for the survival of these tiers of government.

A Review of State and Local Government Dependency in Nigeria

Nigeria has a long history of mutual dependency among tiers of government. Apart from this, government at different levels at one time or the other have depended on one another for the derivation of revenue. For example, agriculture was the mainstay of the nation’s economy prior to the discovery of oil in the 1970s. Because of this, substantial chunks of the...
nation’s foreign exchange earnings during this period came from the sales of cash crops such as cocoa, groundnut, rubber, cotton and other farm produce. During this period, the various regions in the country were very powerful and self-reliant (Omotoso, 2003; 133).

The viability and buoyancy of these regions were as a result of the retention of the principal ratio of revenue accruable to them from the exportation of agricultural products.

With the discovery of crude oil the state and local governments became so dependent on federal government for revenue. This is as a result of the concentration of the fiscal resources of the country at the federal level. *Fiscal laws* in the country allocate more power an authority to the federal government than the state and local government put together. The resultant effect of this is the decrease in internally generated revenue of these sub-federal units. Allocation of statutory revenue to the state and local governments is the major factor that has weakened the internal revenues base of these levels of governments. Also, the various military regimes we had in the country contributed substantially to the weakening of the sub-federal units through their political penchant for state and local government creation, which led to the reduction in the land space of these entities and, by implication, a reduction in their tax base. Akpan (1999: 218 – 219) corroborate this. According to him,

> *Fiscal dependency has been entrenched by the military government to enhance the command of their regimented government and compel adherence of the weak states (and local governments) to their directives and dictates. Since only a strong economic base at the state (and local) level in particular fiscal) can generate the*
political will required to check the excesses of the federal government (Ibid)

The point being emphasized here, is that the unending re-organization of state and local governments has reduced their size and capacity to mobilize resources internally, and they are inherently weak and excessively dependent on fiscal subventions from the federation account. One other noticeable problem inducing the dependency of state and local government and their dwindling resources is over-dependence on a single tradable sector as a major source of revenue for the country. This is over dependency on revenue from the petroleum sub-sector. This is affecting the statutory allocation to the state and local governments in that, international crude oil price is fluctuating, and whenever there is a problem with the price all other things will be affected. Thus, Eme Ekekwe (1982:50) once warned that over-dependency on petroleum and the relative lack of manufacturing in the economy of the country are unhealthy. It needs to be emphasized that, a fact, common to all tiers of government is the major reliance on statutory allocations (Akindele, 1990; Akindele, Olaopa, Obiyan, 2002). Internally generated revenue (IGR) constitutes a small proportion of their total revenue. The over-dependence of the country on the sales from crude oil can be counter-productive, suicidal and very risky.

A Review of Revenue Allocation in Nigeria

Fiscal federalism is one of the most discussed issues in Nigeria because of its effects on the stability of the country. What accrues to each tier or unit of government is of major concern to every individual. There is
no doubt that, in a federal system, there must be an arrangement on how the revenue of the state will be shared among the component parts (Akindele, Olaopa & Obiyan, 2002 opcit). Watts (1970: 115), observes that federal finance is a controversial subject because, first, it affects the allocation of administrative responsibilities. Second, it affects the political balance within a nation as the level of government with the major financial resources has political control and, third, the assignment of fiscal and expenditure powers will determine which governments are able to use these instruments to control the economy.

The percentage of revenue allocated to a tier of government will definitely affect or influence its performance. The nature of fiscal federalism and revenue allocation formula in Nigeria places the federal government at a vantage position and thereby controls the economy. All existing fiscal laws in Nigeria tend to give more power to federal government than the other sub-federal units combined. There is an increased dependence of these sub-federal units on the federal government particularly for their finances. State and local governments are neither given nor encouraged to generate revenue naturally. As a result they are very weak financially whereas the weak financial base of state and local governments cannot strengthen or guarantee federalism.

As a result of the above, there are discontentment, conflicts and agitations by the two tiers against the federal government for self reliance. For any federal system to survive, there must be fiscal decentralization and financial autonomy (Alade, 1999: 146; Akindele, Olaopa & Obiyan, 2002 opcit). In the case of Nigeria, there is fiscal centralization, which is a result of a combination of factors, viz: the growing importance of crude oil; the civil war; military incursion into politics; the centralizing tendencies of the military and state/local government creation exercises.
In a pluralistic society like Nigeria, the issue of acceptable revenue allocation formula tends to naturally assume political, religious and social dimensions. The use of revenue allocation formula for the sharing of revenue from the Federation Account among the tiers of government originated from the recommendations of Raisman Revenue Allocation Commission in 1957 (CBN; 2000: 160). This commission also recommended the establishment of a Distributable Pool Account (DPA) into which certain percentage of federally collected revenue would be paid for sharing among the federal, regional/state and local governments (Ibid).

Drawing from the recommendations above, the 1999 Nigerian Constitution, Section 162, sub-section (1) notes that:

*The Federal Government shall maintain a special account to be called “the Federation Account” into which shall be paid all revenues collected by the Government of the Federation...”* (FRN, 1999:66).

Also Section 192 (3) of the 1999 constitution establishes the need for distribution of the revenues in the Federation Account among the tiers of government. According to this sub-section:

*Any amount standing to the credit of the Federation Account shall be distributed among the Federal and State Governments and the local government councils in each state on such terms and in such manner as may be prescribed by the National Assembly (Ibid).*
The above forms the basis of sharing of revenue in the Federation Account among the various tiers of government in the country as stated in table 1:

**Table 1**

STATUTORY REVENUE ALLOCATION FORMULA IN NIGERIA 1960 – 1999 (PERCENT)

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<tbody>
<tr>
<td>1. Federal Government</td>
<td>70</td>
<td>65</td>
<td>55.0</td>
<td>55.0</td>
<td>55.0</td>
<td>55.0</td>
<td>48.5</td>
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<td>48.5</td>
<td>48.5</td>
<td>47.19</td>
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<tr>
<td>2. Regional/State Government</td>
<td>30</td>
<td>35</td>
<td>34.5</td>
<td>34.5</td>
<td>32.5</td>
<td>30.0</td>
<td>24.0</td>
<td>24.0</td>
<td>24.0</td>
<td>24.0</td>
<td>31.10</td>
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<tr>
<td>3. Local Governments</td>
<td>-</td>
<td>-</td>
<td>8.0</td>
<td>10.0</td>
<td>10.0</td>
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<td>20.0</td>
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<td>15.21</td>
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<tr>
<td>4. Special Funds</td>
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<td>-</td>
<td>2.5</td>
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<td>5.0</td>
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<td>6.3</td>
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<tr>
<td>i. Federal Capital Territory</td>
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<td>-</td>
<td>2.5</td>
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<td>-</td>
<td>1.0</td>
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<td>iii. Derivation</td>
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<td>1.0</td>
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<td>iii. Development of Mineral Producing Areas</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>3.5</td>
<td>1.5</td>
<td>1.5</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
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<td>iv. General Ecology</td>
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<td>-</td>
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<td>-</td>
<td>1.0</td>
<td>1.0</td>
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<tr>
<td>v. Statutory Stabilization</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.5</td>
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<tr>
<td>TOTAL</td>
<td>100</td>
<td>100</td>
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</table>

Source: Various Nigerian Constitutions and Government Genres on Revenue Allocation Formula

A noticeable feature in all the revenue allocations adopted and percentages allocated to each tier of government as indicated above is that the Federal Government is mostly favoured. This accounted for high turnover in revenue allocation principles and formula because each level of government particular the sub-federal government will be agitating for review of government, particularly the sub-federal governments, is always agitating for a review of the formula, so that more money can be allocated
to them. For example, all the thirty-six state governors in Nigeria collectively and jointly condemned the percentage allocated to the Federal Government and proposed 30% of the statutory allocation to this tier of government (The Guardian, June 23, 2000).

The general opinion in the country is that the Federal Government is having more than enough resources to the detriment of the sub-federal governments. There is flagrant violation of revenue allocation laws by the Federal Government to its advantage. Not all federally collected revenues are paid to the Federation Account for redistribution among the tiers of government. Large amounts of federally collected revenues are diverted into extra-constitutional items like the ‘Dedication’ or ‘Reserve’ accounts, ‘priority’ project and Federal external debt service obligations’. In the real sense of it, both the state and local governments are short-changed, as they receive about half of their constitutional entitlements from the Federation Account because of Federal Government’s subterfuge.

The Nigeria Revenue Allocation Formula is based on two major principles: equity and efficiency. But the revenue sharing practices emphasize equity over efficiency. However, despite the fact that all Revenue Allocation Commissions in the country adopted both principles, no revenue allocation formula in the country has been acceptable to all levels of government at any point in time. The contentious revenue sharing problem in the country according to Baker (Op. cit.) is compounded by:

*Lack of consensus on the criteria of distribution the absence of reliable socio-economic data, the rapid rate of constitutional change and the extent to which revenue distribution is tied to perceptions of regional dominance.*
Since independence, each region or state in the country has argued for those revenue sharing principles that support its particular interest. A new revenue allocation formula has been submitted to President Olusegun Obasanjo, by the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC) for consideration and adoption by the government.

The Chairman Non-oil Committee of the Commission, Alhaji Ahmed Iliyasu, noted that steps that would solve the problems associated with the issue in Nigeria have been taken. According to him, “the Commission took proper recognition of the demand of stakeholders and re-examined the assigned weights to controversial responsibilities of tiers of government using net effect analysis” (Ahmed cited in The Comet, Sept. 6, 2004:3). He spoke further that the formula “will be fair and just, without emotion and sentiments” (Ibid). These reassuring words notwithstanding, however, the governors are already kicking against the proposed revenue formula, particularly as it relates to the formula for local governments and the financing of primary education (The Comet, September 24, 2004: 1 & 4). The nation should, therefore, be prepared for the battle ahead as soon as the new revenue formula is adopted, as the contents and context will never be acceptable to all tiers of government.

State/Local Government Joint Account in Nigeria: Implications for Development

Undoubtedly, there is the constitutional provision for state-local joint account. According to the 1999 Nigerian Constitution Section 162 (6):

Each state shall maintain a special account to be called “State/Local Government Joint Account” into which shall be paid all
allocations to the local government councils of
the state from the Federation Account and
cit).

Since the inclusion of the local governments in the national revenue scheme in the late 1970s, the accepted arrangement for allocating revenue to this tier of government, according to Suberu (2001: 75), has been to divide the allocation among the states on the basis of the interstate revenue sharing formula. The states had since then been expected to transfer the allocation, along with 10% of their internal revenues, to local governments on the basis of a formula devised by individual State Assemblies. This position is also supported by the 1999 constitution, section 162 (7)

Each state shall pay to local government councils
in its area of jurisdiction such proportion of its
total revenue on such terms and in such manner as
may be prescribed by the National Assembly.

Section 162 (8) of the same constitution also states that:

that amount standing to the credit of local
government councils of a state shall be distributed
among the local government councils of that state
on such terms and in such manner as may be
prescribed by the House of Assembly of the State
(FRNC ibid: 66 – 67).
During the military administration of General Ibrahim Babangida, there was large evidence of diversion of local government revenues by the state governments. Because of this, the administration later decided on the direct transfer of central revenues to the localities.

Between 1999 – 2003 local governments across the country enjoyed cordial relationship with the states as regards state – Local Joint Account, in that, there were no reports or outcry against the diversion of local government revenues by the state. This era is seen as the ‘golden era’ in state local government fiscal interaction.

The situation from June, 2003 till date is a direct opposite of the trend referred to above, the various state governments have transformed the state-Local Joint Account into an instrument for the “financial suffocation” of the localities. There is brazen and unbridled diversion of local government funds by the state government to the extent that hardly can any local government impact positively on its people after payment of staff salaries and other personnel emoluments. Under this arrangement, the state government is serving as the “clearing house” for the local government share of central revenues. Instead for the state governments to add the mandatory 10% of their internally generated revenue to the local governments’ revenue, they are not; they are just siphoning what is allocated to this important tier of government from the Federation Account. This situation worries the ruling Peoples’ Democratic Party (PDP), that its former chairman, Chief Audu Ogbeh, threatened to deal with those governors with the penchant for deducting council funds and passing pittance to the localities (*The Comet*, August 6, 2004: 1). Despite this threat, the situation is unabated. The worrisome aspect of the issue is the continued denial by Council Chairmen of this fact in the face of obvious evidence. This can only be attributed to the fact that most of these State
Governors’ need from the Chairmen total ‘loyalty’ to the governors who helped to ‘put’ them in position. This is so in that the last local government election was everything but credible. To say the least, the diversion of local government funds has had serious negative effects on the developmental objectives of the grassroots governments within the landscape of the Nigerian political economy.

Conclusion

It is established in this paper that the Revenue Allocation Formula is always a touchy and contentious issue in Nigeria because of the nature of our federation. It is equally noted that the constitution guarantees state-local Government Joint growth and development in the localities. The experience in the country is such that states’ are hiding under this to defraud and divert the localities. This is hampering development at the grassroots level. The solution to this problem lies in what Suberu (1998: 292), calls the creation of institutional and fiscal incentives that can promote the efficient mobilization and utilization of resources and thus the expansion of the national cake by all governments and segments, while discouraging the current pre-occupation with sharing a shrinking national cake. Indeed, national cake is really shrinking without any attempt to bake new ones, thus making us a nation of consumers and not producers.

In view of this, state governments should look inward and find ways of augmenting their finances rather than diverting and siphoning local government revenues by way of the State /Local Government Joint Account. Doing otherwise would continue to compound the problems and make the Nigerian intergovernmental fiscal relations an exception to the acceptable etiquette of true federalism needed for effective and efficient democratic governance.
References


Chapter XVI

Psychology of Productivity and Economic Growth in Nigeria

Chris Ajila

Introduction

Productivity is a relationship (usually a ratio or an index) between quantities of outputs (good or services) produced by a given organizational system and quantities of inputs (resources) utilized by that organizational system to produce some outputs.

Simply put; productivity is the ratio of what is produced to what is required to produce it. It is reaching the highest level of performance with the least expenditure of resources (Aderinto, 1981; Lippitt and Lippit, 1978; Sutermeister, 1976, Sanda 1989; Akerele 1991). In a sense therefore, productivity is the end result of a complex social process of production. If the results are more than double the resources, there is high productivity. This is using less to produce more. On the other hand, if the output or results are less than the resources applied, this is using more to make less, the situation of low productivity. Once input and output measures are defined, productivity indices can be accurately obtained.

The productivity of an organisation may not increase if the employee is not offering the desired quality of service promptly. Negative attitude and behaviour therefore may cause friction between employee and customer to the detriment of productivity and of course, the growth of the economy.
It is generally believed that increasing productivity is an essential goal to ensure a high standard of living for all citizens. Like per capita income which crudely measures the standard of living, a country’s productivity depends on the total value of goods and services produced and the total working population.

The Concept of Productivity

Productivity should not only be in terms of how many products or services are accomplished by some given input, but how qualitative are these products and services. Hence Drucker (1979) defined productivity as:

\[
\text{That balance between all factors of production that gives the greatest returns for the small effort.}
\]

Along this direction, Kull (1978) defined productivity as efficiency in producing goods and services provided by an organizational unit during a specified period of time. Conceivably therefore, it is possible to speak of productivity of labour, of capital, or of raw material depending on whether output is related to the input of labour, capital and raw material. Often, the definition varies in accordance with the level at which productivity is analyzed. Hence, we talk of productivity at the plant or industry level or within a sector of the economy.

Two of the methods of calculating productivity in an organisation are as follows:
**Manpower productivity:**

Output of goods or services per unit of time / Persons employed

Or

Output of goods or services / Man-hours used

**Material productivity:**

Output of goods and services / Unit (or cost) of material used

In general term, an increase in the productivity of labour is largely due to better planning by management or to the introduction of new machinery. Efficient supervision, job satisfaction, improved incentives and staff motivation also play key roles in promoting higher productivity.

The four significant categories of performance values, which are now generally applied as the 4c productivity factors are:

(a) Commitment

(b) Consistency

(c) Creativity

(d) Culturalization

**Commitment** is the pledge to entrust one’s feelings and will of action to a definite cause in line with the individual values and preferences. It is the factor that manifests itself through compliance, identification and acceptance of a cause.
**Consistency** is the steady continuity of behaviour or systematic prosecution of work. It is usually seen from a firmness of character to attain planned and desirable results. It is total commitment to task achievement through regularity of effort.

**Creativity** is the ability to bring about something unique or different from the conventional. It is noticeable under specific behaviour situations like problem solving, innovative approach to work, developing new and improved ideas or products. **Culturalization or changeability** is the process of learning novel or superior values so as to use them to chart new and more productive behaviour which is different from the present or the past. This is personality adjustment when faced with situational challenges.

**Factors that affect productivity in Nigeria**

When we talk about productivity, we tend to focus our attention on the performance of the individual employees who make up the organisation. We tend to assume that productivities solely a function of the performance of the individuals. But it is not so, there are other factors at work which operate on the individual and affect his performances. These factors include the environment in which the individual works, the leadership demonstrated and the supervision given, the skills and knowledge of the individual and even his personal attributes. All these factors bear on individual performance. The management of an organization should therefore recognize these and hardens such knowledge in the overall running of the organization, so that the productive capacities of the individuals may not be impaired. Moreover, there are the other factors which affect productivity in respect of which the individual employee or employer may have no direct control. In Nigeria these factors
are many and varied but can be grouped into five, namely infrastructural, economic, sociological, technological and managerial.

**Infrastructural factor**

Great harm has been done and continues to be done to the productive capacities of this nation’s workforce by poor infrastructural facilities. Electric power supplies, on which the economic activities of any nation depend, are inadequate and uncertain. Constant power cuts demoralize workers and lead to idleness, indiscipline and lay-out of labour. Those enterprises that can afford them, buy diesel generators with the concomitant rise in production costs, which must inevitably be passed on to the consumer.

Water, like power, is a valuable commodity for industries that use a lot of it, like the beer-brewing companies. Consequently most of these companies rely on their own boreholes. Once again there are problems with such alternative because of the failure of pumps and the costs involved, especially with regard to the small companies. The failure of the telephone system has contributed greatly to the traffic jams in our cities with constant irritation and frustration. The traffic jams in the big cities, especially in Lagos and Ibadan, are so frustrating that the working man, on reaching his destination, is really not in a good frame of mind to do a good day’s work. Public transport, including air transport, has always been and continues to be inadequate. Good living accommodation is scare and landlords have not been slow in exploiting the situation, again to the disadvantage of the workingman. All these frustration take their toll of the workingman’s confidence in himself and thereby of his productive capacity.

**Economic Factors**
Productivity can be enhanced where hard work and commitment are singled out and remunerated accordingly. There is no doubt that the immediate problem facing the Nigeria worker, whatever his level is how he can earn money to be able to look after and his family. In the connection, we must recognize the large family responsibility, which belongs to a wage or salary earner in this country. Unless the basic needs are satisfied, and unless effort is recognized and adequately rewarded, the worker will not be inclined to increase in productivity.

**Sociological factors**

Human beings come to their work place with their individual needs. A need is accompanied by a state or drive or tension that results in behaviour being directed toward a goal that will satisfy the need as thus reduce the drive or tension. In the first category of needs are the physiological needs which every human being wants to satisfy primarily. These needs include hunger, thirst and rest. But the satisfaction of these low level needs gives rise to a struggle to achieve higher needs. It is the satisfaction of these higher needs that will determine how much energy a particular individual employee will be prepared to expand on his job.

**Technological Factors**

For any organization to be successful it must have suitable machinery and equipment for the persecution of his business. Otherwise, a situation can arise where those employed are committed and highly motivated but the lack of suitable machinery and equipment required to do
the job may dampen their enthusiasm and hamper efficiency. More importantly, when the right type of machinery is available, the personnel to operate it must be properly trained. Of further importance is the availability of adequate materials for work or production as in the case of machine, availability of adequate materials is a key factor in productivity.

Managerial Factors

Poor management is a major contributory factor to low productivity. The success of an organisation depends on the ability of those who manage it. That ability will stem from the knowledge the management possesses and the training it has received. If the management exercise the right leadership, it will create an atmosphere in which the individual in the organisation will feel that he has a role to play.

The way an organisation is set up has a major effect on the attitude and therefore on the productivity of those who work there. A good structure must therefore ensure that the senior managers in the organisation are involved in the decision making process, and the others where appropriate are briefed after such decisions have been taken and before they are implemented. There must be machinery for communications and consultations at all levels, clear lines of authority to act and therefore of accountability. The aim is to secure involvement and commitment. When people are committed they give of their best.

Conclusion

Productivity is the attitude of mind. It is the mentality of progress and of constant improvement of that which exist (Ajila, 1997). It is the
certainty of being able to do better today than yesterday. It is the will to improve on the present situation no matter how good it may look.

Based on the foregoing, productivity is relevant to any kind of organisation regardless of the type of production. The need to measure and improve productivity is found in every work activity and organisation. Thus, comparing past and present productivity levels is a way for organisations to determine progress, decline and lack of change.

Any attempt to increase productivity should be geared towards the improvement of the living conditions of the workers. Unless workers are adequately catered for, the maintenance of productivity at a low level could be a deliberate act of sabotage where workers regard a system as exploitative.

Nigeria’s economy will not grow and productivity will always remain at the low level unless adequate attention is paid to all the factors (infrastructural, economic, sociological, technological and managerial) that have been highlighted in this paper.
References


CHAPTER XVII

IS FREER TRADE ALWAYS DETRIMENTAL TO THE ENVIRONMENT?

Ayadi, Folorunso Sunday, Balouga, Jean

Introduction

Trade openness especially import liberalization has been hailed for its beneficial effects on productivity, the adoption and use of better technology and, investment promotion which are channels for stimulating economic growth. In addition, liberalization has been advocated to be a necessary condition for poverty reduction. Other positive roles of globalization include, increased mobility of capital, increased ease of movement of goods and services and information across national borders in addition to the diffusion of global norms and values, the spread of democracy and treaties including international environmental and human rights agreements. Critics of trade liberalization vis-à-vis the protectionists argued that these much-acclaimed advantages of globalization often underrate the possible impact of globalization in widening the economic gap between the North and the South, it creates enabling environment for the movement of money between countries with the possibility of leading to frequent balance-of-payments crises and unstable domestic performance. It produces more domestic losers than gainers among others. Over the years, attention has been given to the advantages of globalization to the detriment of its disadvantages. The major disadvantage that is always swept under the rug is the environmental problem resulting from globalization. In other words, ‘openness’ to international markets affects pollution levels in developing nations especially in Africa and the magnitude of this impact
can be enormous in view of the lax in environmental regulations in these countries vis-à-vis the rest of the world (pollution haven hypothesis). The new dynamics of trade have increasingly created global and unfettered markets for trade and investment which has significantly increased the destructive impact of economic activity upon the Earth, exhausting the world’s natural resource endowment and ecological carrying capacity at such a deleterious rate thus jeopardizing the planet’s ability to support future generations.

This problem demands further analysis because governments of African countries only see and recognize other disadvantages of globalization which they promptly incorporate into their trade policies and wider development context, excluding the environmental problem in this situation therefore can result into policy failure and further environmental decadence in developing economy. Another major fear with trade liberalization is the competitive pressures that accompany the continuing process of international economic integration which may lead each government to lower environmental standards (in a “race to the bottom”) in order to enhance the competitive position of local producers in the charged international market place. Moreover, from the developed countries’ perspective and from the published research outcomes, the effects of trade reforms tend to be positive, especially in the medium and long-term. To them, if trade’s impact on scale and composition is real, the technical effect will more than compensate for losses resulting from the two former effects thus making trade automatically beneficial. For Africa, which happens to be a dumping ground for old technologies, there is every reason to believe that trade liberalization’s effect on pollution via the scale, composition and technique effects is a disaster. There is enough reason to believe that trade liberalization which raises the GDP per person may lead to the discharge of
higher pollution concentration and depletion of natural resources in African Countries if necessary measures are not taken.

Taking measures, however, involves problem identification. This study, therefore, is meant to pinpoint the problem. That is; is scale, composition and technique effects of trade liberalization on pollution real in Nigeria? If yes, to what extent? How can we minimize the trade-induced environmental problems? After determining all these, the result can then be calibrated into Nigeria’s trade policies and wider developmental context.

In doing these, the second part of this paper will be a review of literature then a brief review of Nigeria’s external trade structure will be the third part followed by the theoretical issues of trade liberalization and the environment, the fifth part will be on methodology, part six will be result presentation and the way forward.

**Literature Review**

Trade is an essential catalyst for economic growth. Trade is important for developed as well as developing countries because the developed countries source for their raw materials that are crucial to their abundant capital from the developing countries while the developing countries source for their capital goods and technical know-how from the industrialized countries of the world. If trade is seen as a catalyst for economic growth, then the ideology behind trade liberalization should be simple. Governments must remove all barriers that hinder the full and free operation and movement of goods and services, firms and financial Institutions and, capital across national borders and the result would be further expansion of economic growth. One school of thought considered free trade as most relevant for economic development because it maximizes the output of social product.
Counter argument about free trade posits that the derivable benefits of free trade are laudable and they are in most cases hypothetical, effective under the conditions of full employment, full allocation of resources and free competition in the economy. Singh (1985) argued that the application of free trade is limited for the developing countries since a vast segment of their productive resources are still unexploited and there is massive unemployment. A free trade regime therefore compounds further their problems by weakening the domestic industries especially those with inadequate competitive powers. In addition, the terms of trade for the developing non-oil exporting countries have deteriorated over the years, Prebisch- Singer thesis therefore explored the implication of this in the 1950s. They contended that there would continue to be a secular decline in the terms of trade of primary-commodity exports due to a combination of low income and price elasticities’ of demand which resulted into a long-term transfer of income from poor to rich countries through import-substitution strategies.

Import-substitution strategies of the developing countries anchored on diversification into manufacturing exports. The result is a slow and costly start leading to a dramatic shift in the composition of developing country’s exports especially among middle-income LDCs. The unfortunate aspect of this import-substitution strategy is that the benefits of the strategy have dwindled because relative prices within manufactures have also diverged. In other words, the prices of basic manufactured goods exported by poor countries have fallen relative to the advanced products exported by rich countries. Another and of course a recent school of thought tries to examine the benefits of free trade vis-à-vis the environment. Some believe that economic growth can, if managed properly, support environmental improvement. Even environmentalists who believe in the potency of free trade as an engine of sustainable development worry that in practice,
environmental policy tools are not up to the pressure of globalization especially in developing countries.

Trade and environment linkage can be explained via the impact of economic growth on environment since the main reason for trade liberalization is to increase economic growth. The growth and environment nexus however, can be explained by the environmental ‘Kuznet Curve. The inverted-U relationship indicates that environmental conditions initially decline in the early stages of development or industrialization, then improve as nations reach the middle-income level and then improve greatly as countries graduate into a higher income bracket. Based on the foregoing, therefore, trade inevitably affects the level of environmental protection through its impact on the Kuznet’s curve. Based on the above information therefore, one can say basically that no country has gotten to the downward-sloping part of the Kuznet’s curve for some spatially or temporally spread pollutants like the GHG emissions. In addition, many developing countries like Nigeria are living through the part of the Kuznet’s curve in which environmental condition deteriorates with economic growth (the World bank, 1990 study provides an assessment of the risks and costs of eight of priority environmental problems of Nigeria as US $5110 million) meaning that freer trade or trade liberalization will further degrade its environment depending on the part of the Kuznet’s curve it is located but based on Nigeria’s per capita GDP which is less than $400, we doubt if Nigeria is anywhere near the middle-income bracket of the Kuznet’s curve estimated by Grossman and Krueger, 1993, 1995; Shafik and Bandyo-Padhyay, 1992; Seldon and Song, 1994 (they estimated the middle income levels where environmental improvement will be achieved at $5,000 to 48,000 per capita income).

Grossman and Krueger (1993); Lopez (1994); Antweiler, Copeland and Taylor (2001) have an explicit explanation of the effects of economic
growth, trade liberalization and foreign direct investment on environment via the three effects. According to them, technique effects arise from the tendency toward cleaner technology or cleaner production processes as wealth increases and trade expands access to better technologies and environmental “best practices”. Composition effects mean a shift in preferences towards cleaner goods while the scale effects refer to increased pollution due to expanded economic activity and greater consumption made possible by more wealth. According to these researchers, trade can affect the environment negatively only through the scale effects. Relating to the inverted U or Kuznets curve the effects, it means that above a certain level of per capita income, technique and composition effects of trade (as defined by Grossman and Krueger 1993; and Lopez 1994) will outweigh scale effects, thus making expanded trade more beneficial to the environment.

Globalization or trade liberalization could affect pollution in three ways- technique effects, scale effects and composition effects. Scale effect means that since pollution or emission is the by-product of production and consumption, increases in scale of economic activity may definitely affect pollution. The technique or method effect implies that different methods of production have different environmental impacts due to the possibility of substitution between different inputs while the composition effect arises from the fact that each good has its polluting tendency, composition of traded goods therefore can determine the extent of pollution.

Empirical evidence on the relative sizes of these effects as well as the gross effects of trade liberalization on environment is rare and almost limited to developed countries. Chua (1999) summarized work on the impact of trade liberalization (under various trade reforms) on pollution and obtained mixed results. Grossman and Krueger (1993) analyzed emission changes for hazardous waste under the North American Free
Trade Agreement (NAFTA) with investment liberalization clause involving Mexico, the United States and Canada. He concluded that scale and composition effects of trade on the environment are negative and trade liberalization will increase total pollution for United States, Canada and Mexico. Their results of trade liberalization under NAFTA not involving investment liberalization too produced similar results except that composition effect for Mexico is positive on the environment indicating that trade liberalization has led to a small decrease in total pollution for Mexico.

Strutt and Anderson (1998) tested the impact of trade reform on various pollutants in Indonesia under the Uruguay Round reforms (2010) and under the Asia-Pacific Economic Cooperation (APEC) and concluded that the scale effects of trade is negative on the environment in both cases, however the composition effects of trade liberalization override the scale effect making the total effect of liberalization on the environment positive. Beghin et al. (1995) analyzed the impacts of trade liberalization with better terms of trade (TOT) with the U.S., Canada and Mexico on various pollutants and was able to find a positive scale effect of liberalization on pollution whereas other effects (composition and technique) are negative and the overall pollution effect of liberalization is negative thus making trade openness beneficial for the environment. In another study, Beghin et al. (1998) analyzed the impact of trade reform (in Chile’s unilateral liberalization) on various pollutants without decomposing between scale, composition and technique effects and concluded that trade liberalization can lead to between 2.8% to 19.9 percent increase in pollution.

Madrid-Aris (1998) analyzed the implication of trade liberalization under NAFTA on hazardous wastes for Mexico, California and the rest of the United States. In this study, he did not distinguish between scale and composition effect, neither did he estimate the technique effect. He,
however, concluded that total effect of trade liberalization on pollution is positive thus making trade liberalization detrimental to the environment. In this same study, he still went further by analyzing trade liberalization under NAFTA with investment liberalization clause on the above-mentioned countries without decomposing between scale and composition effects. He found out a slightly higher positive impact of trade liberalization on total pollution emission. Antweiler, Copeland and Taylor (2001) investigate, how openness to International goods markets affects pollution concentrations. They utilized first theoretical model to divide trade’s impact on pollution into scale effect, technique and composition effects. They further examined their theory using data on sulfur dioxide concentrations. They concluded that freer International trade creates relatively small changes in sulfur dioxide concentrations when it alters the composition and hence the pollution intensity of national output. Estimates of their trade-induced technique and scale-effects imply a net reduction in pollution from these two sources.

Combining all the three trade effects yields a somewhat surprising conclusion: if trade liberalization raises GDP per capita by 1 percent, then pollution concentrations fall by about 1 percent thus making free trade good for the environment. Most of these studies though provide insights into the trade-environment issue but failed to properly measure the three effects. Even those who could estimate the scale and composition effects only were able to conclude on the directional impact of trade liberalization on the environment as if it is the compositional and scale effects only that matter. For some authors that estimated the trade-induced change in technique, it is doubtful if their methodologies are adequate to capture this complex variable. Another major issue tactically excluded in the trade-environment linkage is the impact of trade on natural resource depletion. The famous shrimp-turtle controversy of 1996 in which shrimp fishing
operation for exports involves the killing of turtles in Asia and Caribbean led to the U.S.’ banning shrimp imports from producers that did not use turtle-excluding devices (TEDs) in fishing operations, thus contravening the GATT /WTO convention. Another similar case was the tuna-dolphin case of 1991 in which the United States banned Mexico tuna imports again because the fishing method resulted in the incidental dolphin death.

Our study therefore will, incorporate this problem by analyzing the impact of trade-intensity on natural resource depletion using deforestation as our variable. This method is justifiable since trade exerts much pressure on Nigerian forests and based on the World Bank study of 1990 cited by UNEP GEO (2000) an estimate of annual cost of inaction of eight priority environmental problems confronting Nigeria is estimated as U.S.$ 5110 million of which deforestation occupies the third position with an annual cost of 750 million U.S. dollars.

**Review of Nigeria’s Trade Policies**

Nigeria’s trade policies have been short-term in nature (it is a fiscal yearly reviewed activity). It is aimed at securing balance of payments viability and export promotion. Other intended uses include industrialization policy, employment creation and self-sufficiency policies among others. The trade policies can be categorized under pre-SAP era and post-SAP era (Analogbei, 2000). The Nigerian economy was agrarian at independence with a very narrow industrial base. Development plan was then conceived as a means of expanding industrial base (especially for local consumables). To realize this, intensive export of cash crop was embarked upon so as to finance the import implied by the expansion of industrial base. Marketing boards were created so as to guarantee the farmers’ ready external markets for their cash crops of cocoa, palm produce, ginger,
rubber, groundnuts, etc. Other components of exports include some solid minerals, coal and tin. The urge to quicken industrial growth led to higher demands for imports which gave rise to balance of payments problem. Measures put in place to reduce pressure on BOP include exchange control measure, import tariff, import licensing to effect the import substitution industrialization policy, discriminatory custom tariff structure, import prohibition.

The second national development plan (1970-74) which seeks for economic growth via the replacement of destroyed assets (through the Civil War) and the restoration of productive capacity as well as securing equitable distribution of gains of development was initiated. This development plan was also designed to incorporate and enhance the priority areas of the 1962-68 plan. However, due to continued pressures on Nigeria’s BOP, restrictive trade policies of the earlier periods were still retained and strengthened. Midway into the execution of the Second National Development Plan, international price for crude oil increased and there was surplus funds for which Nigeria has no immediate internal investment outlet due to the country’s low absorptive capacity in 1973. This led to the liberalization of exchange control regulations (CBN, 1979). The National Development Plan (1975-1980) was introduced amid the oil boom but with ambitious plan of enhanced earnings from oil. Trade policies were therefore relaxed (Analogbei, 2000). The fourth National Development Plan (1981-1985) however came when Nigeria was experiencing decline in foreign exchange earnings and the oil shock but due to the upward trend in imports demand the external reserves fell and the BOP position worsened and stricter trade restrictions were introduced but the efficacy of this measure was in doubt as import demand still maintained its upward trend while exports kept declining leading to payments imbalance.
Trade policies during the SAP era was characterized by trade liberalization and the liberalization of the pricing system— with emphasis on the use of appropriate price mechanism for foreign exchange allocation. Second-Tier foreign exchange regime in which market forces determine exchange rate as against the administrative discretion was put in place. Import and export licenses were abolished, export was encouraged and bottleneck such as the requirement that exporters must surrender their proceeds to the CBN were scrapped. Domiciliary accounts for exporters were encouraged. Revised duty drawback/suspension scheme was introduced. Also introduced were the Export Incentive and Miscellaneous Provisions Decree of 1986, Nigerian Export Credit Guarantee and Insurance Corporation of 1988 (now Nigerian Export-Import Bank-NEXIM). The post-SAP policies also liberalized trade by removing import licensing requirement and instead used customs tariff. The list of items under the prohibition list was drastically reduced. In general, trade policy regimes in Nigeria were well classified based on strategies employed from 1970 to date. 1970-73, 1974-79, 1980-85, 1986-93, 1994-99 (for classification, see Okuneye et al. 2001).

Theoretical Issues of Trade Liberalization and the Environment

The traditional theory of international trade or the classical comparative advantage theory of free trade or classical labour cost model proposed that diverse preferences as well as varied physical and financial endowments open up the possibility of profitable trade. For instance, countries engage in activities for which they are best suited or have a comparative advantage in terms of their natural abilities or resource endowments. Adam Smith, and later other economists have tried to answer what determines which goods are traded by which country in terms of international differences in costs of production (relative costs) and prices of
different products. That is, the principle of comparative advantage (which asserts that a country should, and under competitive conditions, specialize in the export of the products that it can produce at the lowest relative cost) – as opposed to absolute advantage. It is therefore the phenomenon of differences in comparative advantage that gives rise to beneficial trade among the most unequal trading partners.

The traditional theory of David Ricardo and John Stuart Mill was simply flawed on the ground of a strictly one-variable-factor (labour cost) approach. The two Swedish Neo-Classical Economists Eli Hecksher and Bertil Ohlin later incorporate the differences in factor supplies (mainly land, labour and capital) into international specialization.

The neo-classical factor endowment model, known as the Hecksher–Ohlin theory of trade postulates that trade arises because of the differences in labour productivity – which they assume to be fixed – for different commodities in different countries. According to this theory, the basis for trade arises not because of inherent technological differences in labour productivity for different commodities between different countries but because countries are endowed with different factor supplies. Given relative factor endowments, relative factor prices will differ (for instance, labour will be relatively cheap in labour-abundant countries) and so too will domestic commodity price ratios and factor combinations. The above theory therefore explains why resource abundant (for instance labour abundant) LDCs are into the production and export of labour-intensive commodities in returns for imports of capital-intensive goods because of their relative cost and price advantage enhanced by international specialization. Trade therefore serves as an engine for a nation to capitalize on its abundant resources through more intensive production. This can be demonstrated graphically thus:
The above graph depicts a country relatively well endowed with land and labour, and can produce and consume labour-intensive cocoa and capital-intensive good computer in the amounts depicted in its production possibility curve at point A (without international trade) and the country achieves its greatest utility where her indifference curve I is tangential to its production possibility curve. The slope at A therefore determines the domestic price ratio which is the domestic relative price of cocoa in terms of computer. After international trade, the country can realize the enormous potential benefits to be had from free trade with the other countries of the world in the following way. The world terms of trade is higher than that of this Developing country’s domestic price ratio, so she can produce more of its abundant commodity (cocoa) and less of computer thereby selling at point B where world price is tangential to the production frontier – meaning that it can consume more of the two goods at C (where
indifference curve II is greater than I). In essence, the country can export BD of cocoa and import DC of computer in the triangle BDC.

What this theory suggests is nothing short of free trade which was equally elicited in the Hecksher – Ohlin – Samuelson (HOS) model, which is a development of the H – O principle and it shows how an increase in the price of a commodity can raise income of the factors of production which is used most intensively in producing it. Samuelson’s factor price equalization theorem states therefore conditions under which free trade in commodities narrows differences in commodity prices between countries, in doing so, the incomes of factors of production are also brought in line. In other words, free trade is a substitute for free mobility of factors of production. Based on the H-O-S model therefore, free mobility of factors can lead to national resource movement from places of excess to places of relative scarcity and again the movement of polluting industry from their home countries to developing countries where environmental regulation is a matter of formality (pollution haven hypothesis).

Antweiler et al (2001) made a much clearer extrapolation to the original H-O model of trade. They decomposed the full impact of openness or trade liberalization on environment into composition, scale and technique effects. Their approaches involve both mathematical and geometrical illustrations. In their geometrical exposition, they derived the condition under which trade liberalization for a dirty good leads to less pollution as, if the technique effect (which to them is always beneficial to the environment) can overwhelm the combined scale and composition effects (which to them is always harmful to the environment) as can be seen from the diagram below.
In the above diagram, trade liberalization (or reduction in trade frictions) produces the three trade-induced effects which interact to determine the environmental effects of trade. The top panel of figure 2 depicts the production frontier of a dirty good exporter while the bottom panel of figure 2 shows the equilibrium pollution effects of trade liberalization. Without reduction in trade friction, the country settles at point A of his frontier where it achieves its greatest utility and his domestic price ratio or his net price $P^N$ is tangential to his production possibility
curve. Since this country is an exporter of the dirty good X, his consumption is less than at point A and is Northwest of A. The economic scale is therefore measured as the value in world prices of domestic output at point A. The pollution level corresponding to dirty good X at point A is $Z_1$, which is given by the emissions intensity curve $Z = e(\theta^A)X$.

When there is a decline in trade frictions, the H-O-S model that prices are brought in line due to reduction in friction applies. The effect of this is that domestic price ($P^N$) approaches the world price ($P^W$) and production is enhanced as it moves to point C where revenue increases and real income rises and there is a change in the production techniques. However, due to the increase in wealth brought about by a shift from point A to C, a technique effect in which a fall in pollution will be the result (validation of inverted Kuznet’s hypothesis) because producers can afford better and cleaner techniques with lower emissions intensity. This is depicted in the lower panel in which pollution has declined from $Z_1$ to $Z_2$. The movement from $Z_1$ pollution level to $Z_2$ pollution level can be broken down into three parts. Holding constant both scale of the economy and the production techniques, composition effect of output caused by a movement from A to B in the top panel will produce an increase in pollution of $Z_1$ to $Z_B$ (that is, trade-induced composition effect). The movement from B to C in the top panel is the scale effect and this gives rise to a pollution of $Z_B$ to $Z_C$ in the lower panel. Lastly, the movement from points A to C means that the value of output measured at the world prices due to trade openness has risen and created real income gain indirectly. This real income gain thus creates the technique effect causing pollution to fall to $Z_2$ (which is lower than the equilibrium pollution level before trade openness (i.e $Z_1$). Based on the foregoing, trade openness seems to be beneficial to the environment (Antweiler et al. 2001).
As interesting as the geometric exposition of the trade and environment issue seems, it is clear that a unique solution cannot be readily gotten on the trade and environment argument. This issue too is recognized by Antweiler et al (2001) in their formal results in proposition 2. However, it is necessary to turn back to figure 2 and superimpose another steeply shaped emission intensity due to a wealth-induced technique change \([z' = e^{(\theta^C) X^*}]\). Combining this and the earlier composition and scale effects’ outcomes with it produces a different result – trade openness is seriously detrimental to the environment. This can be proved as follows: Composition effect on pollution is positive and given by \(Z_1\) to \(Z_B\). Scale effect too is positive and given by \(Z_B\) to \(Z_C\). Composition + Scale = \(+ (Z_1\) to \(Z_C)\), while technique effect is negative and given by \(Z_{21}\) to \(Z_C\). Combining our results gives a net increase in pollution level of \(Z_1\) to \(Z_{21}\). The issues raised by most theories of trade and environment include: trade openness improves income level, and developing economies will have ready access to less polluting cleaner techniques thus creating overwhelming negative impact of trade on pollution. What is the extent of this technique effect of trade in each economy and is it only determined by income growth? If the technique effect of trade openness on environment is real, then how do we explain the concept of dumping especially of old and obsolete technology on developing economies? Another issue is: what determines the sizes and direction of composition and scale effects of trade? Must their outcomes on pollution always be positive irrespective of whether it is a developing economy or a developed economy that is being viewed? Lastly, what is the impact of trade liberalization on resource exhaustability? Is the current wave of excessive trade openness good for optimal non-renewable resources utilization?

We believe that this analysis involves which is more realistic of the Porter Hypothesis and the Pollution Haven Hypothesis. The pollution
Haven Hypothesis argued that trade and capital movements (FDI) will cause the more polluting industries to relocate to the Southern countries with lax environmental regulations under the wave of globalization which they held could worsen environmental degradation in the Southern countries. The Porter Hypothesis on the other hand states that tighter environmental regulation in the Western economies might lead to research and development, leading to innovation and efficiency, and consequently, cleaner products/technology exports to developing countries making trade beneficial and sustainable. Generally, most of the issues that cannot be resolved theoretically we hope to shed more light on in our empirical estimate.

**Data and Methodology**

The model to be employed in this analysis is similar to the one utilized by Antweiler et al. (2001). Trade intensity or “openness” is equal to imports plus exports in year t divided by GDP in year t (Antweiler et al., 2000), thus: \((\text{IMP}_t + \text{EXP}_t) / \text{GDP}_t = \text{Trade intensity}\). The composition effect is captured by \(\frac{\text{K}_t}{\text{L}_t}\) where \(\text{K}_t\) is capital in year t and \(\text{L}_t\) is labour in year t. Capital is measured as the fixed capital formation, while labour is derived as the product of total labour force and the deflated average minimum wage for all sectors of the Nigerian economy between 1992 and 1999 (this approach is similar to the one utilized by Fabayo, 1987 in which labour is derived as the production and non-production workers. The only difference in our analysis is that for uniformity with capital we went a step ahead to compute their real monetary values.

Scale of economic activity is captured by Real Gross Domestic Product per square kilometer (i.e. \(\text{GDP}/\text{Km}^2\)). In theory the effects of capital accumulation on pollution depends on the techniques of production
in place. However, we do not agree with the utilization of income per capita as a good indicator of technique effect, as postulated by Antweiler et al. (2001) that when countries differ in their income per capita, they will also differ in producer prices and hence their techniques of production. We believe that total income gain due to trade may be marred by population figure which may not be reliable. Therefore, we are capturing the technique effect by the real gross national product (real GNP). Our models are specified as:

Model 1:

\[ \text{POL}_t = \alpha + \theta (\text{EXP}_t + \frac{\text{IMP}_t}{\text{GDP}_t}) + \psi(K_t / L_t) + \left( \frac{\text{RGDP}_t}{K} \right) + \lambda(\text{RGNP}_t) + \mu_t. \]

Model 2:

\[ \text{ENVDG}_t = \alpha + \theta (\text{EXP}_t + \frac{\text{IMP}_t}{\text{GDP}_t}) + \psi(K_t / L_t) + \Phi \left( \frac{\text{RGDP}_t}{K} \right) + \lambda(\text{RGNP}_t) + \mu_t. \]

Where POL\(_t\) is the yearly quantity of carbon dioxide emission due to flaring and combustion processes in Nigeria only and ENVDG\(_t\) is the level of deforestation in hectares in year \(t\). The data series for estimating models 1 and 2 are gotten as follows: GDP, Import, Export, fixed capital formation, GNP, price indexes and Nigeria land area of 923,768 km\(^2\) are extracted from the Central Bank of Nigeria (CBN) statistical bulletin (2001), deforestation figures (ha/yr) are gotten from CBN annual report and statement of account 2002. Total labour force figures for the years 1980, 1990, 1995 and 2000 are extracted from the World Bank (http://devdata.worldbank.org). Other data points were generated linearly.
We utilized ordinary least squares (OLS) and generalized least squares (GLS) in this analysis.

**Results and the Way Forward**

The OLS regression for model 1 indicates that pollution is positively related to trade intensity and real GDP per square kilometre, while capital to labour ratio and GNP are negatively related to pollution thus making trade intensity scale effect negatively related to the environment. However, only trade intensity is significantly related to pollution. The model 2 result indicates that trade intensity, real GDP per square kilometer and the GNP are positively related to environmental degradation making the technique, scale and total effects of liberalization on the environment detrimental. Composition effect of trade liberalization on natural resource utilization is however beneficial. Trade intensity and technique effect of liberalization however significantly explain resource utilization. The Durbin-Watson result for model 1 therefore shows a first-order autocorrelation. The Durbin-Watson result for model 2 is inconclusive and we employed the Lagrange multiplier test, and the LM result ruled it out. However, we still proceeded by applying the generalized least squares (GLS) on model 1 and 2.
The GLS method revealed the non-stationary status of our variables for model 1. The rule of thumb criterion states that if ‘rho’ in a GLS estimate is greater than one, then we should suspect a spurious regression. Based on this, we do not see any need for interpreting the GLS estimates for model 1. The GLS estimates for model 2 however showed
that all the independent variables are significant factors explaining environmental degradation. The R-squared and the adjusted R-squared are higher than that of model 1, the joint contributions of the variables in our model is justified by higher and significant F-statistics and the stationarity of the process is again confirmed by our ‘rho’ value which is less than one. The signs of our independent variables however showed that the composition and the scale effects of trade liberalization is beneficial to the natural resource utilization. However, the technique effect of trade more than offset the joint benefits of scale and composition effects thus making freer trade detrimental to natural resource utilization hence the environment. Comparing our results for model 2 using OLS (table 1) and GLS (table 2) indicate that apart from higher R-squared, adjusted R-Squared and F-statistics, the Akaike information and Schwarz criteria confirmed that estimates of model 2 using GLS is more robust than model 2 estimates utilizing OLS. Based on the non-stationarity of model 1 in table 1 and 2, we therefore presents our Phillip Perron stationary test result and the Augmented Dickey-Fuller unit root test results as follows.

Table 3A. Results of the Phillip Perron stationary test

<table>
<thead>
<tr>
<th>Variables</th>
<th>Lag truncation</th>
<th>coefficent</th>
<th>No of roots</th>
<th>Phillip Perron test statistics</th>
<th>Mackirmon Critical @ 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross national product</td>
<td>2</td>
<td>-1.2339</td>
<td>1</td>
<td>-6.1711</td>
<td>-3.8304</td>
</tr>
<tr>
<td>Capital-labour ratio</td>
<td>2</td>
<td>-1.0411</td>
<td>2</td>
<td>-4.5258</td>
<td>-3.8304</td>
</tr>
<tr>
<td>Trade intensity</td>
<td>2</td>
<td>-1.4176</td>
<td>1</td>
<td>-6.8399</td>
<td>-3.8067</td>
</tr>
<tr>
<td>GDP/KM</td>
<td>2</td>
<td>-0.8522</td>
<td>1</td>
<td>-9.2989</td>
<td>-3.8067</td>
</tr>
<tr>
<td>Pollution</td>
<td>2</td>
<td>-1.2428</td>
<td>2</td>
<td>-6.0242</td>
<td>-3.8304</td>
</tr>
</tbody>
</table>
Applying the differencing needed to achieve stationarity on the variables in model 1, we then re-estimated the OLS multiple regression on model 1 alone because based on Granger and Newbold’s (1974) rule of thumb for detecting spurious regression, model 2 of table 1 and 2 passed the acid test despite the fact that model 1 and 2 have the same independent variables in common. Our understanding of this phenomenon is that the presence of a unit root in model 1 can bias our estimates even though the baseness vanishes as the sample size grows but in the sample that we analyzed, the size of the biasness is sizeable and reliance on its estimates can lead to poor forecast. For model 2 however, the least squares estimator of a unit root is superconsistent and as such, sampling uncertainty in our parameter estimates vanishes unusually quickly as sample size grows (Dieblod, 1998). Our model 2 size therefore is good enough for the sampling uncertainty of our parameter estimates to have vanished. The re-estimated regression result for model 1 having taken the first differences of all our variables is as follows:

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>No of roots</th>
<th>Phillip Perron test statistics</th>
<th>Mackinmon critical @ 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross national product</td>
<td>-1.8008</td>
<td>1</td>
<td>-5.2347</td>
<td>-3.8572</td>
</tr>
<tr>
<td>Capital-labour ratio</td>
<td>-0.3339</td>
<td>1</td>
<td>-4.5301</td>
<td>-3.8067</td>
</tr>
<tr>
<td>Trade intensity</td>
<td>-2.3834</td>
<td>1</td>
<td>-5.5686</td>
<td>-3.8572</td>
</tr>
<tr>
<td>GDP/KM</td>
<td>-1.6596</td>
<td>1</td>
<td>-5.4925</td>
<td>-3.8572</td>
</tr>
<tr>
<td>Pollution</td>
<td>-1.5505</td>
<td>1</td>
<td>-4.0086</td>
<td>-3.8572</td>
</tr>
</tbody>
</table>
Our results indicate that all the independent variables except the first difference (changes) of the Gross National Product have significantly explained changes in pollution level. The composition impact of freer trade is positive on the environment contrary to what the theory states. The scale
effect is very strong but negative on the environment. This is similar to the theoretical result. The technique effect of trade liberalization is so small but negative on the environment (a confirmation of pollution haven hypothesis) as against the theoretical result of a stereotyped positive impact on the environment. On the overall, the impact of freer trade on the environment is negative. Looking at other results in table 4, we discovered that stationarity has been achieved even though our R-squared and the adjusted R-Squared have reduced drastically. The F-statistics is significant even though the Durbin-Watson result is inconclusive. Based on this reason, we adopted a Lagrange Multiplier test to investigate first and second-order autocorrelation (see table 5A). Our results indicate that there is no first and second-order autocorrelation thus confirming the appropriateness of ‘differencing’ method for model 1.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>t-statistics</th>
<th>probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.387</td>
<td>0.547</td>
<td>0.593</td>
</tr>
<tr>
<td>Δ Trade intensity</td>
<td>-1.393</td>
<td>-0.553</td>
<td>0.589</td>
</tr>
<tr>
<td>Δ Capital-labour ratio</td>
<td>1.900</td>
<td>0.432</td>
<td>0.672</td>
</tr>
<tr>
<td>(composition effect)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Δ Real GDP/km</td>
<td>-6.703</td>
<td>-0.132</td>
<td>0.897</td>
</tr>
<tr>
<td>(Scale effect)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Δ Gross National Product</td>
<td>-0.0001</td>
<td>-0.589</td>
<td>0.566</td>
</tr>
<tr>
<td>(Technique effect)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Residual_{1}</td>
<td>0.395</td>
<td>1.473</td>
<td>0.163</td>
</tr>
<tr>
<td>Residual_{2}</td>
<td>0.229</td>
<td>0.883</td>
<td>0.392</td>
</tr>
<tr>
<td>F-statistics</td>
<td>2.304</td>
<td>-</td>
<td>0.136</td>
</tr>
<tr>
<td>Observed R-Squared</td>
<td>5.200</td>
<td>-</td>
<td>0.074</td>
</tr>
</tbody>
</table>
Based on the foregoing, we proposed the followings: Nigeria should examine the challenges, opportunities and constraints they will face in participating in any trade liberalization. In other words, she should be ready to participate actively in future negotiations so as to ensure that decisions on areas where Nigeria exhibits comparative advantage are not compromised. In addition, she should ensure that any trade Act that will jeopardize its environment is not compromised. Trade liberalization must also encourage governments to invest in education and skills, research and development so as to equip people to take advantage of new employment opportunities, and to create adequate safety nets to protect the poor and their environment during the period of trade liberalization.

The Nigerian government must also encourage the conduct of natural resource census so as to ascertain their inventories and enhance effective management. For instance, taking the census will enhance tree harvesting to be done responsibly and sustainably, with minimal damage to the forest and its wildlife through appointed professional foresters. In addition, there is an urgent need for partnerships between citizens, governments and businesses. For instance, in the area of agriculture, organic agriculture can be encouraged – switching to organic practices. It has been shown that the most important type of modification of the environment in Nigeria is agricultural practices, urbanization and hydrological development, fuel-wood cutting, intensification of land use, habitat fragmentation and desertification. Government’s major role in this direction includes conservation measures through conservation education of resource users and wider community. There is also an urgent need for the involvement of all stakeholders in the design, implementation, monitoring and evaluation of projects and programmes that are bound to affect their lives.
Moreover, since environmental degradation has wider implications for agriculture, the soil, water and ground-water which are essential for food production and export, food security become severely affected if the environment is not protected. The import of this is that government should enforce environmental laws at all levels of governance so as to halt indiscriminate deforestation, burning of farmlands as well as over-exploitation of flora, fauna, and marine resources since most natural resources are non-renewable. Government needs to review the current trade policies with a view to strengthening the positive aspects of trade and minimizing the concomitant environmental impact of trade. Managed wisely, the new wealth being created by globalisation creates the opportunity to lift millions of the world’s poorest people out of their poverty. Managed badly, it could lead to their further marginalisation and impoverishment. Neither outcome is predetermined: it depends on the policy choices by governments, international institutions, the private sector and the civil society. Whatever choice they make should be the one that will be favourable to the environment. Globalisation should be managed in such a way that the new environmental challenges are met through improved access to new, less resource-intensive and less polluting technologies. It is our feeling that it is the government duty to clearly define property rights since well-defined property rights are central to the selection of the optimal pricing of bio-diverse natural resources. Decision makers too must recognize the fact that efficient pricing of bio-diverse renewable natural resources depends on several factors such as: intrinsic rates of biological growth, the carrying capacity of a habitat, interdependence of species, existing market prices, property rights and the underlying timeframe. All these are important in the derivation of an optimal solution on utilization.
Decision makers must also follow strictly the Hartwich- Solow approach to sustainability which revolves around re-investing all Hotelling rents from non-renewable resource (such as crude oil in Nigeria) extraction in man-made capital and that the rent must be as a result of inter-temporally efficient programme. Then the price used in calculating the rents must be “sustainable price”. In addition, they should be able to classify certain non-renewable resources as untradeable even under the most liberal trade policy. The main lesson of globalization is that Nigeria must carefully choose a combination of policies that enables her to take opportunities while avoiding pitfalls. Therefore, she must view the pros and cons of complete integration as it may make her more vulnerable. Based on this, it is wiser for Nigeria to engage in a selective and strategic integration with the world market, and she should decide on the way and degree it wants to open up, the timing and sequence of opening up, the form of cooperation and competition between its local firms and foreign firms, the particular sector it wants to liberalize and those sectors that need some protection for the good of the country. Above all, Nigeria must ensure that before liberalization, she has the right and space to review the impact of globalization from time to time.
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CHAPTER XVIII

STATE CREATION AND THE POLITICAL ECONOMY OF THE NIGERIAN STATE

Femi Omotoso

Introduction

State creation has become more or less a perennial feature of Nigerian federation. Nigerian attained independence on October 1, 1960 between this period and now, the country’s structure has been altered six times through the process of state creation. The frequency of the exercise simply reflects the instability of the Nigerian polity. It is also a reflection of the political economy of the Nigerian federation.

The character of the Nigerian federation tends to make agitation for creation of states and local government attractive. Apart from the general belief in the country that development is horizontally induced, issues of corruption, the rentier nature of the Nigerian economy and the behavioral pattern of the elite in the use, misuse and abuse of public office aggregate to make the demand for fractionalization of the nation inevitable. Despite the fact that the country has been so far restructured six times, pressures for the creations of new states have persisted and have even become intensified.

State reorganization in Nigeria have tended to be cyclical or self perpetuating with each restructuring merely provoking agitation for further reorganizations. This is ironical because a process that is supposed to engender stability and mitigate conflicts has become one of the most explosive and one of the most constantly and intensively discussed issues in the country. In essence, the structure, adequate number and size of the constituent states in the Nigeria federation have become the focal point of
national debate and discourse. This is understandable since the Nigerian state evolved through a method of internal fragmentation rather than the strategy of aggregation.

The paper examines state creation and the political economy of the Nigerian state. It specifically focuses at the attraction for state creation in the country. It argues that the elite continue to agitate for more state for accumulation purposes; to protect and provide for the members of the class in terms of appointments, contract awards etc.

**Some Reflections on State Creation in Nigeria**

State creation has been one of the dominant issues of national debate since 1914 i.e. since the amalgamation of the southern and northern protectorates. British colonial masters did not address this issue favorably before independence in 1960. Despite the fact that the colonial masters were myopic in their refusal to create additional states as demanded by Nigerians, they were foresighted enough to put in place a federal system of government for the country in 1954. This was noteworthy in that, the heterogeneity of the country coupled with the constitutional complexes, wrangling and ethnic disunity had made unitarian model unattractive and potentially unworkable. It was believed that federation would allow each ethnic group to develop at its own pace while cooperating with others within the federation.

The original impetus for state creation in Nigeria according to (Suberu; 1998: 280) was derived from minority opposition to the three region federal structure which secured autonomy and hegemony for the Hausa-Fulani, Yoruba and Igbo majority nationalities in the Northern, Western, and Eastern regions. Larry Diamond (1983:475) has realized this
long time ago. He located the demand for states by minority ethnic groups to a way of sharing from the resources of the states. According to him:

Ethnic minority fears and grievances centered around obtaining a fair share of the rewards and resources on an expanding economy and states; contracts, loan, scholarships, processing plants, water supplies, street lights, schools hydro-electric projects. Minority demand for separate states were based on the belief actively promoted by their leaders that minorities were being cheated in the distribution of these resources by the majority dominated regional government (ibid.)

The agitation for the creation of more states in the country is not just a recent phenomenon or a post independence political problem. The restructuring of the nation state is very old indeed. Between 1900 and 1945, new administrative units were carved out of existing ones either by splitting them (as was the case of Ibadan Oyo, Rivers, Owerri, Zaria and Kastina Province) or by merging parts of others (as was the case with Plateau Province which was excised from part of old Bauchi, Muri and Nassarawa Provinces). Political leaders from the southern region started the issue of increasing the number of state in Nigeria. For example, in 1943, Naomi Azikiwe argued that Nigeria be split into eight protectorates, while Obafemi Awolowo argued for a federal constitution in which each ethnic group would be autonomous (Oyediran; 1979:10). The ethnic polarization in Nigeria led to growing demands for states among minority groups.
particularly before independence. Sam Oyovbaire (1982:1) notes that the ethnic minorities concerned themselves with the development and progress of their areas. They were also concerned with achieving self-determination within the Nigerian federal state. For these reasons the issue of the state creation has always been a highly volatile and contentious one in the country. Larry Diamond (*Op. cit*) traces the volatility and contentiousness of the issue to the competition for the distribution of the state largesse among the various ethnic minority groups in the country.

The first state creation exercise was in 1963 when the Mid-Western Region was excised from the Western Region. Incidentally, this exercise has been the only one under a civilian regime. The 1967 state reorganization under General Yakubu Gowon was the second attempt and the first in a series of military – inspired territorial restructuring of the country. Aaron Gana (1987: 3) attributed the 1967 exercise to the need to redress some of the anomalies in Nigeria federalism. It was designed to undermine Ojukwu’s secessionist agenda. To Isawa Elaigwu (1986: 102), the exercise was aimed at diluting support for secession. One interesting thing about the 1967 exercise is that it marked the beginning of military federalism in Nigeria. Military federalism in this context resembles the Soviet democratic centralism under Stalin. Specifically, in the Nigerian situation, power was centralized under the usual military command structure. Yet, the country was supposedly federal. The unrelenting agitation for more states by Nigerians necessitated another territorial reconfiguration by the Mohammed/Obasanjo administration in 1976. The regime replaced the nation’s twelve states with a nineteen-state structure. General Mohammed in announcing the states hinged the creation on three basic considerations; the need to ensure even development within a federal structure of government, the need to bring government nearer to the people;
and the need to make the creation of new states a one time operation that would minimize future agitation for new states (Mohammed; 1976: 218)

The fourth and fifth state creation exercises were carried out by the regime of General Ibrahim Babangida in 1987 and 1991 respectively. The Igbo and ethnic minorities were bitter about the 1976 exercise. To them, the exercise dealt a fatal blow on them and put them at the disadvantage in Nigerian federal structure. In fact, Professor Chinua Achebe echoed the bitterness of his Igbo people by seeing the exercise as a conspiracy against the Igbos by the other ‘big two’ – Hausa and Yoruba ethnic groups. This according to him, was promoted by the ‘sons’ of the ‘big twos’ Murtala Mohammed – Hausa/Fulani and Olusegun Obasanjo – Yoruba (Achebe; 1983: 4.9). He noted that while Igbos were dominant in two states, five states were created for the Yoruba who is the Igbo competitor in Nigerian federal system. All these were put together by Babangida regime and coupled with his populist stand, he created two states in 1987 – Kastina and Akwa Ibom. This exercise by Babangida regime simply sought to complete the unfinished 1976 state creation business. In 1976, the Justice Ayo Irikefe panel recommended the creation of Akwa Ibom State but unfortunately this was not done by Mohammed/Obasanjo regime. The creation of these two states rather than resolve the struggle and agitation for more states in the country renewed it. In fact, the Babangida regime while creating these states warned that “… no further comments or petition either by self seeking political aspirants” … or ethnic groups will be tolerated (Babangida; 1987: 21). This timely warning felt on deaf ears.

Nigerians from all walks of life and from different ethnic groups were mounting pressures on the administration of Babangida to further restructure the polity. Due to its populist motive, the desire to satisfy the sectional elite and the desire to get legitimacy from the people for his elongated rule, the regime on the occasion of its sixth anniversary on
August 27 1991 announced the creation of additional nine states. This made the total number of states in the federation thirty. General Babangida anchored the creation of the states on the principle of social justice principle of development and the principle of balanced federation (*Ibid*).

General Ibrahim Babangida was forced to step aside after annulling the June 12, 1993 presidential election allegedly won by late M.K.O Abiola. He handed over power to an interim National Government (ING) headed by Chief Ernest Shonekan. Shortly after this, General Sani Abacha who was Secretary of Defence in the ING overthrew the government. General Sani Abacha took over the affairs of the country at a time the general morale of the nation was low (Agagu; 1998: 37-50). During the period, the nation was moving towards a state of anarchy and was almost at the brink of collapse.

As a means of dousing the heat generated by the annulment and as a means of buying legitimacy for the regime; the new regime of Abacha inaugurated a National Constitutional Conference (NCC). One of the issues that dominated the debates of the members at the conference was the state creation. The NCC set up a state creation sub-committee. Unfortunately, the committee failed in the onerous assignment of producing an acceptable solution on the issue which was due mainly to members’ conflicting interests as regards the issue. NCC later transferred the responsibility for the creation of state to Abacha government (*Newswatch* December 19 1994: 17-19). The regime took up the challenge and set up a committee on the creation of the state and local governments on December 13, 1995 (*The Guardian* December 14 1995: 1-2). The committee was headed by Chief Arthur Mbanefo. The recommendation of the committee guided the Abacha administration in creating six additional states on the occasion of the country’s thirty-sixth anniversary on October 1, 1960
The Political Economy of State Creation in Nigeria

The political economy approach looks at the consequences of the process of state creation of the nation’s political economy. It also focuses on how problems of politics and administration interact with the issue of resources distribution, elite competition and accumulation and economic development.

The desirable number and size of the constituent state in the country can be linked to the struggle for an even greater share in the state power by individuals and groups and for access to the important resources controlled by the state. The agitations for creation of state by the sectional elite are to promote their own private political and economic interests. Developments in the new states are associated with individual personal aggrandizement and accumulation of wealth. To this end, Solomon Akhere Benjamin noted that.

*The creation of states like anything else in Nigeria was used by the Nigerian elite as another avenue for self-serving agitation’s... It was of course, also an avenue for more opportunities for the elite; better prospects for influence and influential positions, for easier and more lucrative contracts for the rich elite merchants, and better prospects for the restoration of glamour and high esteem for the traditional elite... all the different elite groups saw in the creation of their own state an opportunity to grab and exploit opportunities for themselves (Benjamin 1999).*
Benjamin is of the opinion that state creation is simply use by the elite to promote their accumulation and to seek more influence, power and prestige. Eme Ekekwe view is synonymous to the above. According to him “The issue of new states falls in the realm of distribution and consumption not production and meaningful development” (Ekekwe; 1986:179) He further noted that:

State creation promotes class interest;
the proliferation of state capital and
bureaucracies provide seats
of political power for the petty
bourgeoisie. Such power is mostly turned to purposes of accumulation through corruption and booty capitalism (Ibid: 167)

The sharing of ‘national cake” has been adduced for the reason for the agitation and problem of state creation in Nigeria. Creation of separation states would ensure the accessibility of the sectional elite to national cake. In view of this, Ogunna observes that, most of the state agitators are motivated by the amount of the ‘national cake’ which they expect to grab when their separate empires are carved out for them (Ogunna 1983). Also Omolade Adejuyigbe noted that:

… it is felt that a way of attracting more federal grants to an areas is to have more states there. There is also the fact that the creation of more states in an area give it more of those resources in which states are treated
equally such as elections to the Senate, appointments into some federal establishments and the location of some federal projects such as educational institutions and so on (Adejuyigbe; 1982: 11).

The demands for new states in Nigeria are primarily fuelled by petty-bourgeois elements seeking access to the economic resources and political offices of the states. The ways in which the elite pursue class interests involve emphasizing ethnic symbols and boundaries in the struggle for wealth and powers. Ethnicity in this sense according to Abner Cohen (1974:96-97) is “fundamentally a political phenomenon …” occasioned by the “intensive struggle between groups over new strategic positions within the structure of the new state” Ethnicity as an informal group according to Richard Joseph (1991: 7) “Owes its continued vitality to the keen nature of the struggle for power and resources in a context of scarcity, insecurity and a lack of confidence in official norms and regulations”. The general belief in the country is that state has ‘strategic offices and positions’ which can be occupied or captured through competitive process. In view of this, individuals that are desirous of these positions hide under their ethnic groups. This is what Crawford Young refers to as “instrumentalities of survival” (Young; 1982: 92).

What is more, the agitations for states is seen as a sort of ethnic political strategy in which the number of states from each ethnic group allows such group to share more from the national resources. The manner of sharing valued public goods and resource in the Nigeria federal system made it quite clear that “ownership of state” is the greatest amenity a tribe or area can have in the competition for national resources with other areas or communities (Ellah; 1983: 86) The fact is, individuals particularly elite
or those at the top of the social hierarchy benefit handsomely through ethnic mobilization. For Crawford Young (*Op. cit*), there is a “tendency in Nigeria for individuals to seek support from their … kinfold in the pursuit of the most basic economic and political goods”. Also to William Reno (1998:67), “men use their privileged positions to build formidable links to … view state office as a valuable instrument in their pursuits of private wealth”.

The struggles over creation of states simply reflect one of the manifestations of patrimonial state – society, relations or what Richard Joseph refers to as prebendal politics (*Joseph Op. cit*). Prebendalism in this sense refers to patterns of political behavior which justified the notions that the offices of the existing state may be competed for and used for the personal benefits of the office holders and other support groups (*Ibid*). Peter Ekeh’s ‘two public thesis’ put this into perspective. According to him (*Ekeh; 1980: 23-24*) individuals in Africa operate within ‘two publics’: primordial and civic public. Primordial public operates on societal morality and bound to the private realm, whereas, civic public is amoral and devoid of any claims to morality. Individuals therefore use their positions in civic public to benefit their support groups in primordial public. To William Reno (*Op. cit: 68*), “Corruption in Nigeria is widely linked to the close association of elite networks and officials use of office for private gain”. In the opinion of Richard Joseph:

> When individuals feel that they and consequently their solidarity groups have not received their fair share of social goods or other equitable treatment in governmental affairs, they often portray themselves as subordinate members of a defacto
plural society. The tendency for such feelings to lead to challenges to prevailing “law, order and authority” is therefore great. (Joseph *Op. cit*: 46).

The instigation of ethnic identities and animosities are emanating from class formation. In view of this, Richard Sklar (1967) sees ethnicity as “a mask for class privilege”. For Rotimi Suberu (*Op. cit*: 280) “the actual processes and outcomes of territorial reorganizations usually reflect the interest perceptions, calculations and manipulations of national governing elites”. The point is, competition for positions, appointments, advancement and the control of the government apparatus of the Nigerian state influence and accelerate the ethnicising of the country. The stock in trade of elite in ensuring benefits for themselves and ethnic groups is to encourage communal solidarity and mobilization of their people – the masses against any group that seems to make their accumulation difficult and impossible. They are concerned lest their ethnic group fall behind others in the struggle for wealth, status and power (Young *Op cit*).

The struggle for rewards is the underlying factor for “ethnic missionaries” for mobilizing their ethnic and support groups. Ethnic mobilization is therefore synonymous to more resources for the elite through the control and ownership of strategic state apparatuses and offices. On the other hand, ethnic mobilization only enables the masses to feel what Richard Joseph refers to as “the real hope of socio economic betterment” (Joseph; 1979: 90). The masses are so conditioned to believe that their socio economic betterment lies in the success of their relatives or other sons of the soil, in getting access to public purse. This simply reinforces Peter Ekeh’s two public thesis earlier discussed. The competition for access to resources in the country is taking place predominantly
between ethnically defined constituencies. Nigeria’s has the legacy of domination of corrupt elite over the economy and politics. To this end, William Reno (Op. cit: 69) notes that “elite struggle for resources lies in strengthening state manipulation of private economic interest”. The ruling elite in an attempt to protect its class encourages elite accumulation.

**Conclusion**

The periods of military rule have been central to the experience of federalism in Nigeria. Military intervention in the nation’s politics influenced the rapidity of state creation exercises. It is established in this paper that the states so far created are open to individuals and communal appropriation. The more states are created the more individuals are occupying governmental positions for the benefits of their ethnic groups. It can be argued that, despite the incessant state re-organizations by the military regimes, the exercise has failed to solve the country’s problems. Instead each exercise merely provoked agitation for more states. The resultant effect of this is the creation of small and unviable states without necessary resources to bear the burden and responsibility of statehood. Despite the embarrassing financial conditions of some states in Nigeria, people are still agitating for additional states because of the benefits they were deriving in the new states.

The solution to the problem lies in what Suberu (Op. cit: 292) calls the creation of institutional and fiscal incentives that can promote the efficient mobilization and utilization of resources and thus the expansion of the national cake by all governments and segment, while discouraging the current pre-occupation of sharing a shrinking national cake. Indeed, the national cake is really shrinking without any attempt to bake new ones making us a nation of consumers and not producers.
Also, the strength, stability and cohesion of the Nigerian state lie more in the essential democratization of the polity beyond the issue of ordinary civil rule which will tend to mistake for democracy. There is the need for accountability, transparency and honesty. The argument here is that democracy itself is self-enlightening. It is capable of breaking down the frontiers of ignorance. In this respect, there is the need for empowerment and tactical re-invigoration of the civil society. This will enable them to challenge the misuse of the public resources by the elite and sectional elite.

References


CHAPTER XIX

THE EFFECT OF PRIVATISATION ON CAPITAL MARKET DEVELOPMENT IN NIGERIA

Ajisafe R.O., Saibu M.O., Adedokun S.A

Introduction

The Nigerian economy has been characteristically public sector oriented economy. The economic management orientation as laid down by the colonial administration before independence was to have an economy in which the central government play significant role in the productive economic activity. The economic orientation was based on the then extant Keynesian theoretical prescription, that the government had roles to play in ensuring that the inadequacy of market forces does not derail the welfare maximizing developmental objective of the government. In view of these, several parastatals were established to provide some basic services that the government believes are better provided at center than being left to the private individual whose objective of profit maximization and rent seeking may jeopardize the overall socially desirable objective of the people in general.

The dominance of Government in the productive sectors of the economy is reflected in the large number of public enterprises. A survey of enterprises ownership in Nigeria by the Technical Committee on Privatization and Commercialization, TCPC (1990) indicated that there were about 1500 public enterprises in Nigeria of which about 600 were owned by the Federal government. However, the returns from 25% of annual government subvention and capital projects on these enterprises at both Federal and State levels never exceeded 2% per annum. Privatization of these enterprises provides opportunity to revitalize and, reorganizes into
a more efficient and productively competitive sector. In 1986, the Nigeria Government embarked on the Structural Adjustment Programme (SAP) in order to address the prevailing economic recession. An integral part of the SAP was the privatization and commercialization programme. The enterprises to be privatized had to be prepared to meet certain requirements among which are: (i) the shares of enterprises designated to be privatized would be offer for sale by means of public offer through Nigeria Stock Exchange (NSE). (ii) Those enterprises that are not suitable for sale through public offer may be disposed off by means of private placement on public tender for sale of specific assets. (iii) Enterprises to be privatized should be duly incorporated or converted to public liability companies where necessary to facilitate the reception of their shares in the Stock Exchange. It is obvious from the above requirements that the Nigerian Capital Market has a significant role to play in the privatization process. Utilizing the Stock Exchange enhances the credibility of a privatization programme as the procedure for divestment is often seen as transparent, being subjected to the disclosure and listing requirements of the market (Ndanusa, 2000).

According to Freckleton (1995), some developing countries have attempted to use privatization to promote the development of the capital market. In the case of Jamaica, development of the capital market is an important objective of the Government’s privatization programme. Freckleton posited that capital market has the potential to contribute to economic development by improving the efficiency of the financial sector. His study of the Jamaican case led to his conclusion that privatization boosted the Jamaican capital market in several ways. In the Nigerian case, development of the capital market is not expressly mentioned as one of the objectives of the programme but going by the references to the NSE above and the advantages a virile capital market has for the economy,
development of the capital market is a desirable objective of the privatization programme. It therefore becomes necessary to assess the capacity of the Stock Exchange to play the role expected of it. Also, it is necessary to know how privatization has, in turn contributed to the development of the Exchange.

The objective of this paper is to examine the impact of privatization exercise on capital market development in Nigeria. Though some studies have attempted to appraise the privatization and commercialization programme in Nigeria, but none has deem it fit to examine the implication of the privatization process on the development in the capital market. The government bonds before the privatization exercise dominated the capital market in Nigeria and even little was heard about the activities of the market. The Nigeria economy was dominated by short term financing provided by the banking sector. The recent privatization places the capital market in vantage position to serve as a source of investment and financing to the public and entrepreneurs respectively. More importantly, the success or failure of the privatization exercise depends therefore on the potential capability of the stock market to adequately cope with upsurge in its activities due to privatization. Similarly, the development of the stock market invariably depends on the extent to which the private investors who are interested in investing in the government enterprises patronise the stock market. This study therefore examines the nature and the magnitude of the impact of the privatization process on the stock market in Nigeria.

The paper is structured in four sections. Section two reviews the Nigerian privatization programme and the Stock Exchange Market in Nigeria Section three carefully analyses the data through the use of simple descriptive statistical methods. Section four summaries the results and conclude with policy implication drawn from the findings.
Overview of the Privatization Programme and Capital market in Nigeria.

Antecedents to Privatization Programme

There is ample evidence to show that although privatization was an integral part of the structural adjustment programme, the exercise evolved from the normal course of national economic planning. During the 1970’s the Nigerian economy witnessed two separate programmes of indigenization, which sought to transfer ownership of entrepreneurship and to lessen the dominance of foreigners in the ownership and operation of the national economy. To many people, privatization was seen as a logical development. In 1980, a call was made on the Federal Government to divest itself of some of its securities (portfolio) as a means of encouraging the growth of the Nigerian capital market. Stark economic realities resulting from the significant decline in government revenue has led to the realization that government could no longer afford to continue investing, or even keep existing investments in loss making enterprises (Zayyad 1988).

In 1983, a Presidential commission set up on Parastatals to examine the operation of government owned enterprises with a view to determining the basis for a new funding scheme, appropriate capital structure and incentive measures to enhance productivity and efficiency and came up with reports with the following revelations common to most of these Parastatals:

- Misuse of monopoly powers.
- Defective capital structures resulting in heavy dependence on Government treasury.
- Mismanagement, corruption and nepotism.
- Bureaucratic bottleneck in relations with supervising ministries (TCPC, 1993).
In view of dwindling resources, government could no longer continue to support the wastes and efficiencies of the public enterprises; the programme of privatization was therefore developed to address the peculiar socio-economic and political conditions of Nigeria. In 1984 another body was set up to carry out a thorough assessment of the enterprises, the reports were the same with 1983 submissions.

However, because of political and economic turmoil of earlier 1980s, the programme was delayed for over five years. After which, Decree No. 25 of 1988 was promulgated to provide a legal framework for a twin programme of privatization and commercialization.

The commercialization part of the programme focuses on the reorganization of enterprises, wholly or partially owned by the government whereby such enterprises shall operate as profit-making commercial ventures without subvention from the government. Unlike in privatization, transfer of government shareholding in designated enterprises to private shareholders is not involved. The focus of this study is however on the privatization part of the programme. It started in 1988 but the tempo reduced drastically in 1994 when no new privatization cases were embarked upon. The programme was thus suspended for four years until 1998 when it was revived.

The Scope and Implementation of the Programme

Government investments in Nigeria cut across all sectors of the national economy. The privatization and commercialization exercise touches every industry except defence. In the first phase, a total of one hundred and eleven (111) enterprises were to be privatized either partially or wholly, see table 2.1 in appendix 3. Allotment of shares in privatized enterprise was guided by the government policy of “wide geographical
spread of ownership.” Preferential allotment was made such that minimum of 10% and maximum of shares on offer was made to associations and interested groups. A maximum of 10% was reserved for staff of the enterprise and no individual was to be allowed to own more than 1% equity in any enterprise whose shares were offered for sale.

The 1988 Decree established the Technical Committee on Privatization and Commercialization (TCPC) as the implementation agency for the programme. Among the preparatory tasks performed by the TCPC after inauguration in 1988 was the compilation of a register of professional advisers, accountants, solicitors, issuing houses, brokers, estates valuers and so on, to form the pool of technical resources to be used in running the programme. The TCPC went further to select technical advisory groups (TAG) and financial advisers (FA) consisting of reputable financial institutions and accounting firms to undertake diagnostic studies and prepare detailed briefs on the capital restructuring of specific enterprises. In some other cases sub-committees were appointed to do similar diagnostic studies. Other professionals such as issuing house, estate valuers and Lawyers were appointed to deal with different aspects of the programme implementation.

The TAG and FA approaches were used for most cases of privatization while the sub-committee approach was used in a few cases where the enterprise is of the type, which is of strategic importance, multi-faceted or not slimly organized. The rationale for the TAG and FA approaches were first, to enhance the timely execution of the privatization exercise and secondly to encourage the development of financial consultancy market in Nigeria. In all cases the TCPC developed guidelines to ensure uniformity and comprehensiveness in the work of the sub-committees, the TAGs and FAs. Once they completed their work the stage was set for implementation of their various recommendations. According to
the TCPC final report on the first phase, some 600 highly qualified Nigerians and over 200 professional advisers were involved in the implementation of the programme in one way or the other. All the advisers were Nigerians because as a deliberate policy the TCPC had decided that the programme should be used to train local consultants. In the course of its work, the TCPC evolved five methods of privatization as follows:-

**Public offer:** The public offering of the sale of shares of affected enterprises through the Nigerian capital market provided the enterprise that qualifies for listing on the Nigerian Stock Exchange. To qualify for listing on the Stock Exchange, the Enterprise must have a track record of profitable operation for five years and history of dividend payment not less than 5% for consecutive three years. A total of 34 public enterprises have been privatized through this method. In the event, over billion shares were sold to Nigerian citizens and associations in all the 593 local government area across the country.

**Private placement** of shares of affected enterprises was adopted in cases where government holding is so small that TCPC cannot persuade the majority shareholders to make a public offer of shares where the enterprise fulfils the listing requirements of the Stock Exchange. This method has also been used in cases where the full potentials of the enterprises were yet to be exploited and need to be nurtured for a few more years.

**The sale of assets method** was adopted in cases where the affected enterprises could not be sold either by public offer of shares or by private placement of shares, because such enterprises had poor track records and their future outlooks considered hopeless. Such enterprises were liquidated and their assets sold piece-meal to the public through public tender.
Management Buy Out (MBO) Under this method, the entire or substantial part of the equity capital of the enterprise was sold to the workers. It is then entirely up to them to organize and manage the enterprise.

Deferred Public Office This method has been used for enterprises which although considered viable, if sold by shares they would realize revenue which would be less than the real values of the underlying assets of the enterprises. A willing buyer/willing seller price is negotiated based on a revaluation of the underlying assets of the affected enterprises. All enterprises privatized this way were on the condition that the new owners would sell not less than 0 of the equity to Nigerian public within 5 years of the take over.

Appraisal of the Privatization Programme

In the five years of the implementation of the first phase privatization programme, the following results were achieved according to the TCPC final report (1993). See table2. in appendix 2. In terms of the overall benefit of the programme of privatization to the national economy, the following are the most obvious according to the TCPC report:-The programme has relieved the Federal Government of what was the huge and growing burden of financing the investment needs and operating deficits of the public enterprises. The performance of privatized enterprises so far meant considerable improvement in the volume of corporate taxes accruing to the national treasury. Over N3.3 billion was realized as privatization proceeds from the privatization of 55 enterprises by TCPC whose total original investment according to the records of Ministry of Finance Incorporated, (MOFI) was N652 million;. Privatization has massively expanded personal share ownership in Nigeria. Over 800,000 shareholders have been created as at 1993, almost twice as many as there were in 1988.
when the programme started. By reducing the reliance of public enterprises on the government for finance, the programme has encouraged new investment in the enterprises concerned. The new operational autonomy of public enterprises and freedom from interference in day-to-day management has improved the internal efficiency of these enterprises allowing them to liberalize purchasing, rationalize labour practices, and so increase massively their profitability. An improvement in the overall allocative efficiency of the economy has therefore resulted. Privatization flotation of shares of privatized enterprises has greatly stimulated the rapid growth of the Nigerian Capital Market. Such floatation has helped to deepen and broaden the capital market.

Second Phase of Privatization Programme

After a lull of over four years the Federal Military Government in 1998 revived the privatization programme with the promulgation of Decree 28 of 1999, which created a new National Council on privatization (NCP) to implement the programme. The decree provides that an offer for sale of the shares of a public enterprise shall be by public issue or private placement as the case may be. An offer for sale of shares of public issue to Nigerians may be made at the capital market. Furthermore, the Decree provides that shares on offer to Nigerians shall be sold on the bases of equality of states and the residents of the Federal Capital Territory, Abuja. Not less than 1% of the share on offer shall be reserved for the staff of the enterprise and where there is an over subscription, no subscriber shall be entitled to hold more than 0.1% equity in the privatized public enterprise. The 1999 Decree provides for 6 enterprises to be partially privatized on the basis of 40% maximum shareholding to strategic core investors, 40% maximum to government and 20% to individual Nigerians. Another 25 enterprises have been slated for full privatization. See appendix 4. The
National Council on privatization (NCP) may from time to time, by order published the Gazette, alter, add, delete or amend the provisions of the Decree regarding the list of enterprises to be privatized. It is in line with this power that the NCP has added 44 enterprises to the list of enterprises provided for privatization. See appendix 4.

It is to be noted that enterprises that were partially privatized in the first phase in the oil marketing and cement sectors are now to be fully privatized. Those earlier listed but not actually privatized have again been listed along with ones for privatization in the second phase. Some enterprises earlier listed for commercialization are now to be privatized. In this group are big utilities such as: National Electric Power Authority (NEPA) and Nigeria Telecommunication Limited (NITEL). The successful privatization of such utilities is expected to have a profound effect on the national economy because of the influence their services exert on other business activities. Two years into the second phase of the programme, the remaining shares held by government in some quoted cement companies, oil marketing companies and banks have been floated. The allotment of the shares is in progress. Preparatory tasks are being done on enterprises that are not quoted or have bad track records. New regulatory framework is being designed for those of the enterprises that operate in monopoly sectors to prepare their markets for competitive environment in which privatization can thrive. Further restructuring tasks will be done before they are ready for privatization. One concept that is being emphasized in the second phase is that of core group investors. President Obasanjo, while inaugurating the NCP in July 1999, said that core group investors with requisite experience, capabilities and financial capacity would be involved in the second phase. This is reflected in the list of companies to be privatized in appendix 4 and the sizeable percentage holding sold to core investors in cement and oil marketing companies recently floated.
Evolution Of The Nigerian Stock Exchange

Capital market development in Nigeria was traced to 1946 with the floatation of N600,000 (then 300,000 pound sterling) 3.2% Government stock in 1961 as part of a 10-year plan Local Loans Ordinance (Onosode, 1990). However, an organized market was absent for the secondary trading of the issue. In 1959, federation the establishment of the Central Bank of Nigeria a year earlier, a N4 million federation of Nigeria development loan stock was issued by the bank, the first ever in its history. Since no stock exchange existed at the time, the Central Bank of course, had to provide some form of secondary market facility to ensure easy transferability of the security. However, realizing the importance of an organized market in promoting the economic growth and development of the country, many prominent Nigerians expressed the need for its establishment.

The Nigerian Stock Exchange was first registered as a business name “The Lagos Stock Exchange” in March 1960. It was later incorporated as a company limited by guarantee under section 2, cap. 37 on 15th September 1960. This was through the collaborative efforts of the Central Bank of Nigeria, the Nigerian Industrial Development Bank “at that time known as the Investment Company of Nigeria Limited – ICON” and the business community.

After a period of nurturing including subvention, the government ceded off the Exchange to private institutions. To make it national, the name was changed to “The Nigerian Stock Exchange” (NSE) in 1977. The Exchange opened with one office in Lagos in 1961. It has since opened six branches in the following order:-

Kaduna branch ...........................1978
Port Harcourt branch .....................1980
Kano branch .................................1989
At inception, the Exchange set out with the following objectives:

(i) To mobilize savings for economic growth
(ii) To ensure diversion of capital from less productive sectors to more productive sectors to more productive industrial sector.
(iii) To augment the banking system and ensure the dependence of Government on taxation for economic development
(iv) To ensure decentralization of ownership of assets and creation of a healthy private sector.
(v) To avoid or minimize excessive concentration of economic power in government hands.
(vi) To avoid or minimize excessive concentration of economic power in the hands of a small private group.
(vii) To encourage more even distribution of wealth
(viii) To facilitate co-operation between indigenous and foreign investors in fostering economic development. (Shala 1998)

Osaze (2000) however summarized the functions of capital market thus:

- Financial intermediation from funds surplus to funds deficit institutions.
- Offering enterprises new and wider opportunities to obtain funds.
- Acting as a means of exchanging securities at mutually satisfactory prices, thereby creating liquidity through its pricing mechanism.
- Allocating and rationing funds among competing uses.

Since 1960 the Exchange has been carrying out the above functions, thus serving the Nigerian economy and giving it a direction by
mobilizing and allocating resources. In addition to the above functions the Exchange is a self-regulatory organization (SRO). Ekiran (1999) likened it to a club, which has members who are subjected to the constitution and byelaws of the club. Brokers and dealers are members of the Exchange. In Nigeria, the registration of a broker/dealer by the Securities and Exchange Commission (SEC) is predicated on the registrant obtaining the Exchange dealers license if it is to trade on the Exchange floor. Many market operators have been trained and membership has expanded. The membership of the NSE has grown to 308 in 2000.

**Structure of Operation**

Typical stock markets have their operations segmented into primary and secondary markets. The NSE has its primary market where funds are sourced and the issuer or offeror of the instrument gets funds direct from investors. All initial and subsequent capital issues or offers are made in the primary market. The secondary market of the NSE is where holders of existing securities or instruments exchange them for funds. The NSE has put in place rules, regulations and procedures for buying and selling securities like shares, stocks and bonds on its floor by stockbrokers on behalf of their clients or principals. The brokers meet at a location at they agreed time to transact their business. The NSE used manual call-over procedure on its trading floors till April 1999 when it adopted automated trading system (ATS) where most transactions are done through computer screens.

Ekiran (1999) identified the ‘primsec’ market, which is not as distinct as the other two segments. It is a mixed grill where a secondary offer is made in a way similar to primary offer. This occurs when there is the sale of substantial equity holding s of a company as in privatization
offers. Before the securities of an organization are traded in, they must formally listed or quoted on the Exchange. The NSE has listing requirements, which is a public company or a government issuer must meet. The security issuer submits its application for quotation through a stockbroker to the issue and listing is granted once the requirements are met. Again the NSE has provided for two types of market listing the main market and the second tier securities market (SSM). The main market listing is for equities and bonds of big companies, which are expected to meet the established requirements of the market. The SSM was created in 1986 to encourage small companies to obtain listing and thus boost the supply of securities in the local market. Listing requirements are more relaxed than those of the main market.

The NSE has embarked on computerization of its entire system in order to enhance its efficiency and quality of service. One of the major changes is the introduction in 1997 of the central securities clearing system (CSCS). This is a computerized clearinghouse, which speeds up the delivery, and settlement period after a transaction has taken place. According to Okerede-Onyuike (1998) when settlement and delivery were being done manually it could take up to nine months to complete a transaction. However, with the CSCS and automated trading system (ATS) one can buy shares and in six days, sell them again. Shares ownership under the CSCS does not need to be evidenced by the issue of certificate. Many electronic media at national and regional levels now report the activities of the NSE. The Market prices of securities and the All-shale index are published daily in the newspapers. These have improved the public awareness of the Exchange.

On 18th May, 1998, “This Day” reported that the United Bank for Africa Plc (UBA) had secured a cross-border quotation on the London Stock Exchange. This made the bank the first Nigerian company to secure
quotation outside the NSE. The 1999 annual report of SEC also stated that 282,990,000 linked shares of M-NET and SUPER SPORT, two South African Companies, were listed on the NSE, making them the first foreign shares to be listed on the Exchange. These developments, market operators believe, have signaled the beginning of the internationalization of the Nigerian Stock market. Consequent upon the abrogation of the Exchange control Act of 1962 and the Nigerian Enterprises Promotion Decree 1989, foreigners now participate in the Nigerian capital market both as operators and investors. This has further boosted the internationalization of the market.

The recommendations of the Dennis Odife panel on capital market review in Nigeria led to the approval in 1998, by government, that another Exchange be floated. The new Exchange was named “Abuja Stock Exchange” (ASE) while the NSE was instructed to revert to its former name of “Lagos Stock Exchange” (LES). Most recently in 2001 when Abuja Stock Exchange opened its doors for listing and trading, the Federal government changed it to Abuja Commodity Exchange. In order to foster cooperation in the capital market, the SEC and LSE started quarterly meeting with representatives of market operators under the forum of capital market committee. This has given rise to the formation of National Association Securities Dealers (NASD). This association is expected to establish and regulate the over the –counter market (OTC) which is expected to boost the liquidity of the shares of public unquoted companies.

Role Of The Nigerian Stock Exchange In The Implementation Of Privatization

When one considers the objectives of the NSE it would be seen that, to a large extent, they mirror the objectives of the privatization
programme. NSE objectives (ii), (iv), and (v) as enumerated by Shala (1998), in particular, address the privatization goals of reducing dependency on the treasury for funding and that of increasing the participation of Nigerians in economic activities. The NSE, with its quotation requirements, is a useful and readily available vehicle by which public floatation of privatization shares are sold. No wonder therefore, that NSE was chosen as the reference point for the public offers. Nwankwo (1990) actually rated the NSE along with the CBN, the SEC and Ministry of finance as the institutions expected to set Policy and ground rules for the Nigerian privatization exercise. He further saw the NSE as creating a system, which facilitates smooth transfer of titles to securities in the capital market. An improvement on this system is seen in the recent creation of CSCS. Other specific roles of the NSE include:

- Approval of vending documents and publications
- Approval of the memorandum and Article of Association of the companies
- Monitoring the performance of the company and the activities of its principal officers as outlined in the listing requirements.
- Approval of the board as well as clearance of board nominees.

Stockbrokers, being members of the Exchange, have important role when privatization offers are to be listed on the Exchange. They prepare applications to the SEC and the Exchange to obtain registration and quotation of the shares respectively. It is through their transactional activities that the market prices of the shares are determined on the Exchange after quotation. Ndunusa (2000) wrote that a more accurate valuation of the assets of the enterprises is thus derived after privatization. Ndunusa (2000) went further to highlight the general benefits of offering privatization shares through the Exchange to include among others: First,
the capital market gives the programme credibility as the procedure for divestment is often seen as transparent, as the process is subjected to disclosure requirement of the market. The populace whose interests are aroused by the publicity that accompanies such divestment method usually keenly observes the procedure. Hence, the populace getting more involved in the ownership of the corporate sector blocks the possibility of future nationalization of the privatized enterprises. Shareholders give them closer scrutiny and thus keep management on their toes.

Secondly, privatization through the capital market could provide an important means of attracting foreign portfolio capital into a country. Countries with well-developed market have privatized through international capital market usually by way of global offering of the shares of the enterprises involves, thus providing enterprises so privatized greater visibility. The benefits derived above would in turn, expose the privatized enterprises to improved corporate governance and easier access to additional fund for further expansion and developmental needs. This may lead the enterprises to perform so well that the Stock Exchange on which they are quoted also exhibits certain positive performance indicators.

Data Presentation and Analysis

This study adopts simple descriptive statistics for the privatization impact on the development of capital market in Nigeria. The study covered both the first and second phases of the privatization that is between 1988 and 2003. The data on capital market indicators such as market capitalization; total companies listed volume and value traded and absorptive capacity was collected from Security and Exchange Commission and Bureau of Public Enterprises. Supplementary data were collected from the Statistical bulletin of Central bank of Nigeria.
Data Analysis

In analysing the performance indicators of the NSE, data supporting each indicator for the nine years under review were presented in table 3 showing clearly those relating to post and pre privatization periods. Since privatization programme involved the equities alone, the analysis has been focused mainly on the performance of the equities on the NSE.

Depth and Breadth of the NSE

Dept refers to the total capitalization of the NSE at a point in time. This was obtained by adding up the market values of the individual securities listed on the NSE. The breadth is simply the number of different securities listed thereon. The percentages attributable to privatization issues in both cases are presented below.

<table>
<thead>
<tr>
<th>Year</th>
<th>(1) Cum Equity Listings</th>
<th>(2) Privatization offers</th>
<th>(3) Yearly listings increase</th>
<th>(4) 2 as % of 3</th>
<th>(5) Cum Equity Capitalization N’m</th>
<th>(6) Yearly capitalization increase N’m</th>
<th>(7) Market Value of privatization offers N’m</th>
<th>(8) 7 as % of 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>99</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,687.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1987</td>
<td>100</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>4,031.6</td>
<td>343.8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1988</td>
<td>102</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>5,089.0</td>
<td>1057.4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1989</td>
<td>111</td>
<td>3</td>
<td>9</td>
<td>33.33</td>
<td>8,034.7</td>
<td>2945.7</td>
<td>384.1</td>
<td>13</td>
</tr>
<tr>
<td>1990</td>
<td>131</td>
<td>13</td>
<td>20</td>
<td>65</td>
<td>12,134.8</td>
<td>4100.1</td>
<td>142.8</td>
<td>3.48</td>
</tr>
<tr>
<td>1991</td>
<td>142</td>
<td>4</td>
<td>11</td>
<td>36.36</td>
<td>18,447.5</td>
<td>6312.7</td>
<td>421.4</td>
<td>0.67</td>
</tr>
<tr>
<td>1992</td>
<td>153</td>
<td>2</td>
<td>11</td>
<td>18.18</td>
<td>26,245.8</td>
<td>7798.3</td>
<td>169.9</td>
<td>2.18</td>
</tr>
<tr>
<td>1993</td>
<td>174</td>
<td>10</td>
<td>21</td>
<td>47.62</td>
<td>41,830.9</td>
<td>15,585.1</td>
<td>2264.6</td>
<td>14.53</td>
</tr>
<tr>
<td>1994</td>
<td>177</td>
<td>2</td>
<td>3</td>
<td>66.66</td>
<td>61,023.9</td>
<td>19,193.0</td>
<td>450.0</td>
<td>2.34</td>
</tr>
<tr>
<td>1995</td>
<td>181</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>71,100</td>
<td>10,076.1</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Equities listings grew from 99 at the beginning of the period under review to 177 at the end. Privatization offers accounted for 34 out of the additional 78 during the period. This means that privatization offers contributed 43.59 percent to the breadth of the equities segment of the NSE in the period. However if the six privatized enterprises that were listed before the programme are left out, privatization contribution is 35.89 percent. Total capitalization grew from N3.6 billion to N61 billion with privatization offers accounting for only N3.8 billion out of the increase of N57 billion, this amount to 6.68 percent of the entire increase. This contribution comes down to 4.38 percent when the 1.3 billion Naira capitalization attributable to the six earlier listed enterprises is ignored. It also means that even though privatization offers contributed significantly to the breadth of the segment of the NSE, the contribution to its depth was insignificant at the early years of privatization.

However, subsequent trading activities increased the capitalization of enterprises significantly. The privatized enterprises had by 31st December 1995 collectively registered a post privatization capitalization of N42.2 billion up from the initial N4 billion Naira according to SEC (1996). However, in the second phase 1998-2002, no new listing was made of privatized enterprises and as such there was no significant increase in the yearly listing of companies. There was an increase of 18 listings from 1994 until 2002, which is small compared to the increase recorded within 1986-1994 of 99 listings. It is noticed that in the first phase of privatization, there was a large increase in listings on the NSE but in the second phase, increase was primarily in the market capitalization. See Appendix 5.
Average Yearly Performance of NSE

A good measure of the performance of a Stock Exchange is the all shares index. It shows the aggregate value of the securities listed on the Exchange, in relative term at a point in time, say daily. When a number of these values are recorded over time, a trend is shown about the performance of the Exchange. The combination of the index and the total capitalization of the Exchange is also said to mirror the state of the economy. The index is calculated by summing up the market values of the listed securities and finding the average by dividing by the number of such securities in a base period or year. There is an element of weighting in finding the average in that listed enterprises contributed varying quantity of shares to the denominator according to their listed share capital. A value of 100 is given to this base year. Dividing the new value by the base value and multiplying the result by 100 converts subsequent computation. The yearly indices for the period are presented below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Index</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>1985</td>
<td>127.3</td>
<td>27.3</td>
</tr>
<tr>
<td>1986</td>
<td>163.8</td>
<td>38.7</td>
</tr>
<tr>
<td>1987</td>
<td>190.9</td>
<td>16.5</td>
</tr>
<tr>
<td>1988</td>
<td>233.6</td>
<td>22.4</td>
</tr>
<tr>
<td>1989</td>
<td>325.3</td>
<td>89.3</td>
</tr>
<tr>
<td>1990</td>
<td>513.8</td>
<td>57.9</td>
</tr>
<tr>
<td>1991</td>
<td>783</td>
<td>52.4</td>
</tr>
<tr>
<td>1992</td>
<td>1107.6</td>
<td>41.5</td>
</tr>
<tr>
<td>1993</td>
<td>1543.8</td>
<td>39.4</td>
</tr>
<tr>
<td>1994</td>
<td>2205</td>
<td>42.8</td>
</tr>
<tr>
<td>2000</td>
<td>8111.01</td>
<td>2844.58</td>
</tr>
<tr>
<td>2001</td>
<td>10,963.11</td>
<td>2852.1</td>
</tr>
<tr>
<td>2002</td>
<td>12,137.72</td>
<td>1174.61</td>
</tr>
</tbody>
</table>
Using 1984 as the base year, the all shares index improved from 163.8 in 1986 to 2205 in 1994. There was no decline in any of the years. The increases were larger in the privatization years. The percentage changes were also slightly greater. It was seen earlier that privatized shares did not contribute much initially to NSE capitalization. Market value of shares is the major determinant of the level of the index. Along with size of share capital, it plays a role in the determination of capitalization. It follows therefore that privatized shares contributed but not significantly to the improving trend of the index. However, flowing from the improved market capitalization of the privatized shares in 1995, largely due to value appreciation, through trading, they contributed significantly to the 1995 index of 5092.2 as displaced in appendix 5. There were also tremendous increases in the indexes due to the privatization of public companies already listed in the stock market during the second phase of the privatization. This occurred between 2000 and 2002.

**Equities Trading on the NSE**

The level of transactions in listed securities of an Exchange measures how liquid it is. The more actively transactions are done in appreciable volumes on the Exchange the more liquid it is. Trading volume refers to the quantity of shares traded and these when compared with the total shares listed must be appreciable. The value of shares sold measured against value of shares listed gives turnover ratio that is an indicator of liquidity. Presented below is the trend of the liquidity of the equities segment of the NSE for the period.

Volume of shares traded increased significantly in 1990, a year into the privatization exercise. The value of traded shares correspondingly increased. This trend continued till the end of the review period except for 1991 when volume traded decreased slightly to 47.20 million shares. It is to
be noted too that market capitalization maintained increasing trend in the period but more significantly in the privatization years. The turnover ratio however shows that value of shares traded was very low compared with market capitalization even during the privatization years. The NSE was thus not very liquid at the time. The period of the second phase from 1999-2002 also had reflected a consistent increase in the trading volume and value, in addition to this is the increase in market capitalization. The public were sensitized to go for the shares of former public companies now privatization. The turn over ratio shows an increase in the value of shares traded in the second phase more than in the first phase, we see an increase from 5.15-7.90. This leads to the question of the absorptive capacity of the NSE.

Table 5: Performance Of Trading In Equities on NSE

<table>
<thead>
<tr>
<th>Year</th>
<th>Trading Volume N’m</th>
<th>Trading Value N’m</th>
<th>Market Capitalization N’m</th>
<th>Turnover Ratio %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>19.19</td>
<td>22</td>
<td>3687.8</td>
<td>0.6</td>
</tr>
<tr>
<td>1987</td>
<td>23.5</td>
<td>27.22</td>
<td>4031.6</td>
<td>0.68</td>
</tr>
<tr>
<td>1988</td>
<td>18.84</td>
<td>22.43</td>
<td>5089</td>
<td>0.44</td>
</tr>
<tr>
<td>1989</td>
<td>19.5</td>
<td>22.86</td>
<td>8034.7</td>
<td>0.28</td>
</tr>
<tr>
<td>1990</td>
<td>52.6</td>
<td>87.78</td>
<td>12134.8</td>
<td>0.72</td>
</tr>
<tr>
<td>1991</td>
<td>47.2</td>
<td>89.95</td>
<td>18447.5</td>
<td>0.49</td>
</tr>
<tr>
<td>1992</td>
<td>105.7</td>
<td>237.13</td>
<td>26245.8</td>
<td>0.9</td>
</tr>
<tr>
<td>1993</td>
<td>186.7</td>
<td>287.6</td>
<td>41830.9</td>
<td>0.69</td>
</tr>
<tr>
<td>1994</td>
<td>190.8</td>
<td>401.3</td>
<td>61023.9</td>
<td>0.66</td>
</tr>
<tr>
<td>1999</td>
<td>3954</td>
<td>14082</td>
<td>299979</td>
<td>4.69</td>
</tr>
<tr>
<td>2000</td>
<td>4998</td>
<td>28154</td>
<td>478600</td>
<td>5.88</td>
</tr>
<tr>
<td>2001</td>
<td>5918</td>
<td>57637</td>
<td>662851</td>
<td>8.7</td>
</tr>
<tr>
<td>2002</td>
<td>6620</td>
<td>60320</td>
<td>763900</td>
<td>7.9</td>
</tr>
</tbody>
</table>
Absorptive Capacity of the Market

The NSE is a major subset of the capital market. The players on the NSE are actors in the capital market. The absorptive capacity of the market can therefore be said to reflect the capacity of the NSE. The absorptive capacity of a market can be simply defined as the extent to which it takes in issues at any given point in time. The capacity is not static, but changes with time owing to several factors. Such factors include state of the economy, saving culture, inflation, and alternative investment, issue quality, investor's perception, and awareness, number of issues in the market at a time, liquidity and delivery system. The question is whether the privatization programme brought about some of the factors and whether investors’ response to privatization offers reflected market capacity.

Summary, Conclusion and Policy Implications

Summary

The Nigerian government and those of other countries, through their public enterprise, became deeply involved in productive ventures deliberately for popular reasons since independent era. As time went on
these public enterprises constituted sources of heavy financial drain without commensurate returns on investment. The world over, the concern for welfare propelling growth encouraged governments to seek solution to the problems of waste and inefficiency in the public enterprises through privatization.

It has been seen that even though different countries embarked on privatization programme with slightly different objectives and approaches, the same basics objectives run through the idea of privatization. Different circumstances of the countries have necessitated the need to emphasize one objective more than the other. Even though the need to use privatization to develop the capital market was the clearly expressed by some countries, especially the developing economies, such a need is a necessary objective of the programme. It has been found out that privatization can impact positively on the capital market and indeed the Stock Exchange. The existence of a Stock Exchange has been found to also assist the implementation of the programme.

Seven years after the first phase of the Nigerian privatization programme, the question being asked is how well has the programme impacted on the Nigerian Stock Exchange? This study has examined the statistics of the 34 enterprises whose shares were publicly offered for sale through the instrumentality of the NSE. The statistics were analysed in relation with the popular Stock Exchange performance indicators over nine years to 1994 and the performance of newly privatized enterprises from 1999-2002. The period includes three years before active privatization, six privatization years and the second phase of privatization.

Trends, percentages, ratio and averages were employed in evaluating the performance of the NSE during the two periods. The areas of analysis include depth, breadth, turnover ratio and the absorption capacity of the NSE. The first part provided the background information and the
scope of the study. Part two contains briefs on the privatization and an three consists of the analysis of data from the stock exchange that show the performance of market values on the exchange before and after the privatization era.

A summary of the findings from this study is that the introduction and implementation of privatization programme in Nigeria has had significant impact in the development of the stock exchange market. More that 40% of the increase in the market capitalization indices was found to be attributable to trading in the shares of the privatized public enterprises. The public awareness for investment and financing increased substantially in the period of privatization. It was also observed that the stock market was adequately accommodative of the monumental increase in the trading activities in shares of equities of these privatized firms. Therefore, privatization has impacted positively on the development of capital market in Nigeria.

Policy Implications

It can be seen that, in general terms, the privatization program has impacted positively on the NSE. The NSE has of recent, embarked on some projects to improve its operations to meet international standards and serve as a vehicle for attracting foreign investment. Efforts to internationalize the NSE should continue. Thus, it will be able to cope with the foreign investment expected in the current phase of the privatization programme. The current privatization programme has a lot of room for foreign core investors in the affected enterprises. Since these enterprises are not yet listed on the NSE, the eventual listing of such enterprises should be made a condition of sale to the core investors. The portions of these enterprises
reserves for the public, should wherever practicable, be offered publicly through the NSE.

The NSE should set up more branches in state capitals. With adequate publicity, functions of the NSE will be better known at the grass root level. Response of local investors to public share offers will thus improve in a situation where the policy of widespread share ownership should be maintained as in privatization offers. There should be constant interaction between the Securities and Exchange Commission and the Bureau of Public Enterprises while seeking ways to make the NSE and capital market at large to benefit from the privatization programme. The Bureau of Public Enterprises should be given the authority to access data from already privatized companies without restrictions or barriers, this will enable them ascertain the individual performances of already privatized firms.

Conclusion

Securities on the NSE pre privatization comprise 102 equities, 52 industrial loans and 99 government bonds. By 1994, these increased to 1777, 64 and 35 respectively. Apart from non-privatization issues, the privatization exercise contributed 28 new equities to the NSE list. The holdings of government in six enterprises that were listed before privatization became available for trading. Prior to privatization government was not known to trade its holdings on the NSE. Privatization thus served to broaden the areas of choice for investors. Market capitalization of securities on the NSE increased significantly in the privatization years but privatization offers contributed only 6.68% to this increase. It would appear that it was too early to expect privatized shares to
contribute much NSE capitalization. This is evident in the fact that, through trading, the shares gained value immensely in 1995.

The trend in all shares index for the period shows the same pattern of performance as in the case of market capitalization. However, in terms of percentage change, 1989 and 1990 show appreciable rise but the index went down in subsequent years to 42.8 in 1994 from 57 in 1990. Generally, the indices of the privatization years were higher than pre-privatization indices. The privatization programme has thus contributed to the rising profile of the index. This is further confirmed by the September 1996 quarterly journal of SEC, which reported that 28 of the 34 privatized enterprises, increased their capital through one equity issue or the other, post privatization. Most of them had witnessed at least two-fold increase in their market prices. The volume and value of shares transacted rose significantly in the privatization years compared with the pre-privatization period. However, the ratios of shares transacted to market capitalization were very low, the highest being 0.9%. The “buy and hold” attitude of investors persisted throughout the period thus rendering the NSE illiquid.

The liquidity of the NSE notwithstanding, most privatization offers recorded over subscription. 1.28 billion shares were offered but 1.67 billion shares were applied for, reflecting 30% over subscription. This indicates that other factors were at play. Such factors include improved awareness through publicity and public perception. They indicate that the capacity of the market is elastic, depending on the factors facilitating. To ensure that no state in Nigeria felt short-changed in the programme provisional allotment was done to states on equal basis towards the end of the period. While some states oversubscribed their portions others under subscribed theirs. This meant that even though the shares were generally oversubscribed some applicants did not get all they asked for. This had the tendency of minimizing the interest of such applicants in subsequent offers.
References


## APPENDIX

### TABLE 2.1: FIRST PHASE PRIVATIZATION LIST.

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<tr>
<th>SECTOR</th>
<th>NO OF COMPANIES</th>
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<td>Full privatization</td>
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<td>Others</td>
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<td>Enterprises privatized through public offer of shares method</td>
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<td>Enterprises privatized through the deferred public offer method</td>
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<tr>
<td>Enterprises privatized through sale of assets by public tender</td>
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<td>Enterprises privatized through private placement method</td>
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<td>Enterprises stepped down to commercialization</td>
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<td>Enterprises privatized by FMOA and FMOT before the TCPC in 1988</td>
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<td>Enterprises in which no further privatization action was necessary</td>
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<td>Total number of affected enterprises</td>
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### APPENDIX 3

#### TABLE 3: LISTENING AND CAPITALIZATION OF NSE

<table>
<thead>
<tr>
<th>Year</th>
<th>(1) Cumulative Equity Listings</th>
<th>(2) Privatization Offers</th>
<th>(3) Yearly Listings Increase</th>
<th>(4) (5) Cumulative Equity Capitalization N’m</th>
<th>(6) Yearly Capitalization Increase N’m</th>
<th>(7) Market value of Privatization offers N’m</th>
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562
## APPENDIX 4

### TABLE 4: NSE’s ALL SHARES INDEX

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### APPENDIX 5

**TABLE 5: PERFORMANCE OF TRADING IN EQUITIES ON NSE**

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<tr>
<th>Year</th>
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Introduction

The Nigerian State has been bedeviled with political and economic crises since independence in 1960. These crises have had very significant and far-reaching effects on the various sectors and segments of the Nigerian political economy. The business environment is very unstable and insecure. Many Nigerians particularly the poor, are constantly assaulted by the fallouts of these crises. This study focuses on the Nigerian economic crises since independence.

It adopts the political economy approach, which treats social life and material existence in their relatedness (Ake, 1988:20). Political economy underscores the central importance of the mode of production and relations of production as a major casual factor in all social phenomena (Onimade, 1985:27). Thus an examination of the socio-economic and political development processes in Nigeria provides a useful background for the analysis of the Nigerian economic crisis.

It is our contention that the Nigerian economic crises are rooted in colonialism, and have been sustained by the governance crises that characterized the post-independent political economy of Nigeria. Unless good governance is achieved in the context of the democratisation process, the Nigerian crises would remain intractable.
The Nigerian Economy in Perspective

The survival of the people within the Nigerian region prior to colonialism was ensured through a variety of production processes that assured the normal satisfaction of the needs of the people. These were economic processes that were internally articulated and therefore self-propelling in that production was essentially related to the internal consumption of the different groups (Oyomvbere 1984: 138). It was these economic production processes that colonialism sought to transform to satisfy its basic impetus of opening up the Nigerian economy for imperial exploitation. The essence of this development was the monetization of the Nigerian economy and the creation of social relations of exchange. Unfortunately, the stage had been set for a Nigerian economy that would be shy of manufactures, and this made the economy a peripheral one responding to the impetus and impulses of the metropolis (Olaitan, 1995: 124-137).

The Nigerian economy (since then) according to Olaitan (1995: 124-137) has remained mercantilist, with buying and selling of produce/products rather than manufacturing being dominant. Theresa Turner (1978: 67) calls it a ‘commercial capitalist economy’. The implication of all these is that an entrepreneurial class nurtured on commerce has dominated the Nigerian political economy (Dike 1990: 86) since independence in 1960.

The general pattern of growth and development in Nigeria between independence and 1970 conform with the general pattern of growth in developing countries (Falae, 1992: 219-234); being marked by constant shifts in focus and orientation (Mimiko 1995: 513-532).

At independence for instance, agriculture played a dominant role as the engine of growth. It provided employment for about 70 percent of the
population and accounted for 80 per cent of government revenue. Agriculture contributed 63.4 per cent of the Gross Domestic Product (GDP) and National Income was estimated at N2, 244.6 million in 1962 prices. The average growth per annum between 1960 and 1968 was 3.2 per cent in 1962 prices. Gross National Product (GDP) rose from N2, 244.6 million in 1960 to N 3,140.8 million in 1968 (Kayode and Usman, 1993).

By 1970, the economy had experienced gradual but steady structural shift. Agriculture’s contribution to Gross Domestic Product (GDP) dropped from 63 per cent to less than half, mining had risen to over 10 per cent, and manufacturing had also risen from the initial 1960 figure of 3.6 per cent to over 7 per cent. Social services had moved up several notches to nearly 6 per cent. And in terms of government revenue, the oil sector accounted for 26.5 per cent of government revenue in 1970. The immediate post – Civil War years of the 1970s were more or less devoted to reconstruction and rehabilitation of the war-torn economy so as to engender nation building.

The oil crisis of 1973/74, occasioned by the Yom Ki Pur war in the Middle East brought a temporary boost to the Nigerian economy. Petroleum accounted for over 33 per cent of the GDP in 1973 and 1974 (Central Bank, 1980). Oil revenue also substantially improved Nigeria’s imbalance of payments by not reducing the deficit but actually wiping it off. Deficit was replaced with surpluses that reached N 3,056.6 million in 1974. The country’s reserve assets also showed marked improvement. From N780 million in 1970, the reserve expanded to N 3.7 billion in 1975 (Central Bank 1980). However, reckless spending, corruption, continuing stagnation and neglect of the agricultural sector with increasing importation of food, all associated with this age of oil, caused severe distortion, which became manifest in the economy at a not too distant period.
The Nigerian Economy in Crisis

Over-dependence of a nation’s economy on a single source of revenue and foreign exchange assets is always fraught with great danger. For instance, the third National Development plan 1975- so expected that the petroleum sector would generate virtually all the resources required to implement the Plan. However, when the price of petroleum dropped and production also declined from an average of 2.15 million barrels per day in 1974/75 to 1.94 million barrels per day in 1977/78, the GDP, government revenue, and foreign assets also fell accordingly and Nigeria resorted to foreign borrowing from the Euro-dollar market in order to meet its development requirements (Anyaye 1991:16). It was therefore, not surprising when in 1978, export value fell by 20 per cent, leading to a trade deficit of N 2.16 billion. Meanwhile the export bill reached an unprecedented N 8.2 billion in 1978 paving the way for future difficulties.

Thus, in October 1979, when President Shehu Shagari came into office, Federal deficit stood at N 1.4 billion, and external debts had risen to N 60 million. The rate of inflation was well above 30 per cent. Import bill stood at about N 60 million per month and food import for 1979 to a whopping N 818.8 million, out of a total imports bills was an N 1.8 billion between the months of October and December.

Before this time, a subsidy system was introduced around the public expenditure programme of the State to ensure that various utility and social services were delivered relatively cheaper. The strong exchange rate of the Naira also enabled importation of cheap food and consumer items for the populace. Thus, by the time the economy slid into crisis in the early 1980s, numerous groups had developed a stake in the public spending programme of the State (Olukoshi 1995). The crisis was triggered off by the collapse in the early 1980s of the world oil market, in a context in which the country had come to depend on oil exports for over 90 per cent
of its foreign exchange earnings and at a time when oil had become Nigeria’s primary export, agriculture and non-oil mineral exports having declined onto virtual insignificance. The collapse of the world oil market exposed the structural imbalances which underlay the post-colonial pattern of accumulation and which the petro-dollar boom of the 1970s had helped both to conceal and deepen.

Once it started, the crisis quickly engulfed various sectors of the economy. It is reckoned that approximately 50 percent of the country’s manufacturing capacity was lost in the first few years of the crisis. Thousands of workers from both the private and public sectors were retrenched. From the peak of N 15.2 billion in 1980, revenue accruing to the State from oil exports fell sharply to N 5.1 billion in 1982, at a time when import requirements stood at an average of N 1 billion a month. The GDP recorded negative growth of −2.6 percent in 1981 and −10.7 percent in 1983. The balance of payment situation of the country became very precarious. 1981 deficit was N 3 billion and 1984’s N 3.5 billion. Debt service ratio as a percentage of export earning had moved from 8 percent in 1980 to 33.2 percent in 1985. And the debt itself was growing in a geometric progression; N 1.9 billion in 1982 and 9.1 billion in 1985. Government’s fiscal deficit became a core deficit; it was 18.3 percent of GDP in 1981 and 23.93 percent in 1982.

The need to come to grips with the problem made government to embark on economic stabilization measures (mainly administrative measures), introduced between 1981 and 1986. These austerity measures were not without their attendant social cost. For instance, drastic reduction in the supply of raw materials and spare parts to the imports-dependant industrial sector, led to constant plant closure, substantial decline in capacity utilization and mass lay-off of workers. Severe market shortages
led to very high prices of many essential commodities. Investment as a portion of GDP fell from 28 percent in 1981 to 14 percent in 1985.

By July 1986, the Babangida regime (1985-1993) introduced the Structural Adjustment Programme (SAP), which represented the farthest-reaching effort yet to stabilize the economy. It however also resulted in the highest distortion of the Nigerian economy ever witnessed (Ajene 1990).

It was obvious to many perceptive observers as soon as the adjustment programme took off that the economic programme could not work, given the country’s fundamental specialties, which contradicted the basic frameworks of the adjustment programme. (Mimiko, 1995: 513-532).

During the initial two-year period of the introduction of SAP, inflationary pressures rose precipitously from 5.4 percent in 1985 to 16.2 percent in 1987, and 38.3 percent in 1988 (Ojo 1987). The greatest increase in prices resulting from the policies introduced under SAP were noticeable in food, which increased by about 52.2 percent in 1988 compared to the pre-SAP average inflation rate of 4.2 percent.


Worst still, the devaluation of the national currency continued to assault real income. And per capital income which gives, albeit hazily, an idea of the quality of life of a people, was as low as $310 in 1992, from a high $886 in 1983. The substantial withdrawal by government of subsidies from many goods and services, including petroleum products, introduced many high users fees in education and health amongst others; Privatization and commercialization combined with the above made the larger part of the
Nigerian population, especially the low salary earners, and the horde of the unemployed, being completely shut off, such services and goods whose prices have in all intent and purposes became astronomical.

The Abacha government (1993-1998) which effectively succeeded Babangida’s embarked upon a programme of regulation, encapsulated in a SAP-bursting 1994 Budget. The main framework of this new economic programme included a fixed exchange and interest rate regime, the location of all foreign exchange transactions in the Central Bank of Nigeria (CBN) and a tight rein on virtually all categories of imports (Mimiko, 1998:81). These attempts at neo-regulation failed because they, among others placed too much emphasis on administrative control, “thereby assuming a level of efficiency for the Nigerian State which it does not possess” (Mimiko, 1995:513-532).

The centralization of all foreign exchange transactions in the CBN caused acute red-tape, encouraged capital flights and thus reduced the space for foreign investment in Nigeria. The fixed foreign exchange rate system in the context of a general acute shortage of foreign exchange “encouraged parallel market and made nonsense of planning”. The fixed interest rate regime closed the flow of funds to prospective borrowers and by implication, reduced the scope for new investments (Mimiko, 1998:81).

By 1995, the Abacha Administration changed from regulation and embarked on a liberalization programme dubbed ‘Guided Deregulation’ (GD). It was a private sector driven economic arrangement in which government plays the role of a catalyst. Foreign exchange and interest rate were to be guardedly deregulated. Government also set up an autonomous market and directed CBN’s intervention, and interest rate was a maximum spread of $1/2\%$ between deposit and lending rates of 21%. The above yielded a little gain to Nigeria in terms of growth. Even so the GDP growth rate 1.3% in 1994, 2.2% 1995, 3.25% in 1996, and 3.77% in 1997, is still
far too sluggish to generate the type of enhancement needed in the standard of living of most Nigerians after more than a decade of material demobilization.

**Nigerian Economy in the Fourth Republic**

In April of 2000, the government published what was to be its main economic blueprint, titled Obasanjo’s Economic Direction, 1999-2003. The then Chief Economic Adviser to the President (Soludo) spoke about a new National Economic Empowerment Development (NEEDS). The key economic programmes of the Obasanjo regime include: revitalization of decayed infrastructures; monetization of workers’ fringe benefits; privatization; debt management; attraction of foreign direct investment and anti-corruption crusade.

The loudest testimonial on the nature of the post-May 1999 economic dispensation is that poverty is on the increase in Nigeria. While it may be true that the middle class which was once wiped off the socio-economic landscape in Nigeria is making a significant comeback, it has been a story of growing poverty for most Nigerians. With this level of poverty and the continuing attenuation of hope, there obviously is a threat to the democracy project.

Good as deregulation is, it cannot be appropriately delivered in the context of political centralism. For as long as we want to continue to administer a plural country on the crutches of unitarism, for so long shall we continue to have a malfunctioning economy and polity paralyzed by corruption. Deregulation must proceed apace at both the economic and political fronts. The current National Political Reforms Dialogue may perhaps provide a workable political framework that will enhance the gains of economic liberalization.
Conclusion

The Nigerian economic crisis has its roots in the colonial experience. The quality of political leadership after independence has been very poor. Worse still, economic policies since May 1960 amount to a mere re-cycling of failed policies of the past by largely the same elements who midwived the same old policies. And social development has not accompanied these policy measures at any point. Nigeria is therefore, a classic example of a failed State.

References


CHAPTER XXI

IMPACT OF THE AGRICULTURAL SECTOR ON THE NIGERIAN ECONOMY

Adeleke Salami

Introduction

There is no doubt that Nigeria is an agrarian country. Based on climatic and agro-ecological conditions, Nigeria has potentials to produce wide varieties of crops. While the Northern part can guarantee the production of cereals such as sorghum, maize, millet, groundnut, cowpea and cotton; the middle belt and the South have the potentials to produce root tubers such as cassava, yam, cocoyam and other crops like plantain as well as maize Abdullahi (2003). A look at tables (1 and 2) reveals some of the agricultural crops and the quantities produced in Nigeria. In addition to crops, the country also involve in production of livestock, fisheries, forestry and wildlife.

In spite of the current dominance of crude petroleum in the basket of exports, agriculture is still a major sector of the Nigeria economy. This is because Nigeria is generally endowed with abundant natural resources, numerous all season rivers and a favorable tropical climate. Rainfall is generally adequate and fairly well distributed throughout the country. (Ukpong et al 1995). Out of the 98.321 million hectares of land available in Nigeria, about 75.30 per cent may be regarded as arable land, which 10.00 per cent is under forest reserves and the remaining 14.70 per cent is assumed to be made up of permanent pastures, built-up areas and un cultivatable waste. (Olajide (1980). With the oil wealth, Nigeria has the potential to become one of the strongest agricultural economies in Africa
(Shuaib et al 1997). In Nigeria small-scale holdings covered 81 per cent of total area and 95 per cent of agricultural output.

For a very long while, agriculture has dominated the economics of most developing countries and by virtue of its pre-eminent position, it has been playing a number of critical roles in the economy of these countries (Adunbi, 1996).

In fact, the history of development economics supports the thesis that developments in agricultural sector induce productivity in the economy. Adunbi (1996) and Olashore (1991) emphasized the contribution of Ricardo in his principle of Political Economy and Taxation, which underscore the contribution of agriculture to capital formation. That a limitation on the growth of agricultural output, sets the upper limit to the growth of non-agricultural sector, and capital formation for economic expansion.

Development theorist over time has placed the role played by agriculture differently. While emphasis was given to agriculture as the stimulant for economic growth and development before 1950’s, the sector was seen to have ceased to play such role thereafter. However, recently, the sector was seen to play a major role in the growth and development of the economy and therefore factored into growth models.
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CBN Annual Report and Statement of Account, Various issues
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Johnston and Mellor (1961) argued that agricultural sector serve as a market for the produce of modern sector and that the sector is likely to serve as the main source of savings necessary to finance the expansion of the modern sector. Timmer (1995), Martins and Mitra (2001) testified to the important role agriculture played in economic development.

The general principle however, is that agriculture’s role in starting economic development is critical, but its role in sustaining it is declining. As the economy grows, the role of agriculture in the economy shrinks. No country has developed successfully through agriculture alone; all have had to develop strong, growing non-farm sector (Mc Rae, 2003).

Theoretically, the agricultural sector in developing countries including Nigeria as highlighted by Ihimodu (1993) is often credited with the potential of contributing substantially to the overall growth and development of the economy in the following areas.

i. The growth of the non-agricultural sector is heavily dependent on the domestic agriculture for a sustained increase in food supply and also for the raw materials consumed in the agro-allied manufacturing sector. This is referred to as the product contribution of agriculture.

ii. During the early stage of economic growth, the agrarian population constitutes a large proportion of the home market for both producer as well as consumer goods. This is known as the market contribution.

iii. Since the relative importance of agriculture declines over the years, following the process of economic growth and development, the sector often serves as the main source of capital for investment in the other sectors of the economy. Therefore the development process involves the transfer of surplus capital from the agriculture sector to the non-agriculture sectors. Also the process of growth implies a transfer of surplus labour from agriculture to non-agricultural activities especially over a long period. This is referred to as the factor contribution.
iv. Agriculture is also capable of contributing to the balance of payments by increasing the country’s export earnings and by expanding the production of agricultural import substitutes. Either of these would lead to an improvement in the balance of payments. This is called foreign exchange contribution of the agricultural sector.

The main aim of this chapter is to highlight the contributions of the agricultural sector on the economy of Nigeria in particular and also to call attention to the problems confronting this important sector while proffering ways of improving and increasing agricultural production in the country.

This chapter is divided into five sections. Section one contains the introduction; section two discussed the agricultural sector policies in Nigeria. The contributions made by the agricultural sector to the Nigerian economy are discussed in section three. Section four enumerates the problems facing agricultural development in Nigeria, while section five is on the conclusion and recommendations.

**Agricultural Sector Policies and Programmes**

Agricultural Policy is a plan of actions based on aims ideas and belief of government or a political party in respect of effecting a positive change in the structure, conduct and performance of the nation’s agriculture. Adunbi (1996)

**The specific objectives of the agriculture sector policies are:**

i. The attainment of self sufficiency in basic food commodities with particular reference to those food items which consume
considerable share of Nigerian’s foreign exchange and which can be produced locally within the country.

ii Increase production of agricultural raw material to meet the growing needs of an expanding industrial sector.

iii Increase production and processing of export crops with a view to increase their foreign exchange earnings capacity and further diversifying the country’s export base and sources of foreign exchange earnings.

iv Modernization of agricultural production, processing, storage and distribution through the infusion of improved technology and management so that the sector can be responsive to the developments in other sectors of the Nigerian economic.

v Creation of increased rural employment opportunities through improvements in infrastructural facilities so as to productively absorb and increase labour force.

vi Improvement in the quality of life of rural dwellers through the provision of social amenities like potable water, land, improved health and educational facilities.

vii Improved protection of agriculture land resources from drought, desert encroachment, soil erosion and flood.

The first and the only agricultural policy document for Nigeria was published in January 1987 by the Federal Ministry of Agriculture, Water Resource and Rural Development (FMAWR&RD). Before the document was published successive governments were only formulating and implementing ad – hoc policies, programmes and projects.
The publication of the Agriculture policy in 1987 coincided with the period when the Federal Government launched the Structural Adjustment Programme (SAP). Therefore, the agricultural policies of 1987 were in line with the principles and objectives of SAP.

The Structural Adjustment Programme (SAP) was launched in July 1986. The programme was geared towards removing several administrative controls, and adopting a free market oriented economy that would encourage private enterprises and a more efficient use of resources. SAP relies on agriculture to achieve most of its objectives. The objectives of agricultural sector policies under SAP are as follows:

i. To increase domestic food production and raise nutritional status and standard.

ii. To increase domestic supply of agriculture raw materials and thereby reduce dependence on importation.

iii. To increase the production of exportable cash crops thereby diversifying the export base of the economy.

iv. To raise rural employment and income

v. To achieve regional optional crop production mix in a way to reflect the comparative advantage of each agro-ecological zone.

The following policy instruments of SAP were designed to influence the agriculture sector directly or indirectly. The policies are:

1. Fiscal Policies: - Fiscal policies were to reduce persistent government deficits and rationalize public expenditure in order to reduce deficits.
2. Monetary Policies: - Monetary Policies were aimed at reducing inflationary pressure and allocating more resource into the productive sectors, especially, agriculture.

3. Trade and foreign exchange rate policies: - These policies were to enhance greater efficiency in the use of foreign exchange and encourage competitiveness in the production for exports. Specifically, the policy was to induce positive agricultural price that will command higher incomes for farmers as well as guarantee them a comparable standard of living.

Before the introduction of SAP in 1986 and the implementation of agricultural policy in 1987, Nigerian Government has implemented several agricultural policies and programmes. Some of the programme are defunct or abandoned, some restructured, while the other are still in place. Some of these policies and programmes are:

(i) Farm Settlement Scheme
(ii) National Accelerated Food Production Programme (NAFPP)
(iii) Agriculture Development Projects (ADPs)
(iv) River Basin Development Authorities (RBDAs)
(v) National Seeds Service (NSS)
(vi) National Center for Agricultural Mechanization (NCAM)
(vii) Agricultural and Rural Management Training Institute (ARMTI)
(viii) Agricultural Credit Guarantee Scheme Fund (ACGSF)
(ix) Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB)
(x) Operation Feed the Nation (OFN)
(xi) Green Revolution Programme
(xii) Directorate of Foods, Roads and Rural Infrastructures (DFFRI)
(xiii) Nigerian Agricultural Insurance Company (NAIC)
Despite all the above policies and programmes the performance of the sector has not feared better than it was before independence. However, the Federal Government in year 2004 launched another economic reform called National Economic Empowerment and Development Strategies (NEEDS). The National Economic Empowerment and Development Strategy (NEEDS) programmes try to encourage a private sector economy rather than government direct involvement in Business. The National Economic Empowerment and Development Strategies are developed to promote growth and reduce poverty through a participatory process involving civil society and developed partners. These strategies are welcome initiatives because they are means to address poverty reduction, wealth creation, employment generation and value re-orientation. In Agricultural sector, NEEDS were directed to influence the improvement in the production, processing and distribution of agricultural commodities. Not much can be written on the impacts of NEEDS now because it implementation is less than a year. However, it is expected that NEEDS would transform not only the agricultural sector for better performance but also the whole economy of the country in general.
The Contributions of Agriculture to Nigeria’s Economic Development

Agriculture as mentioned earlier is the mainstay of the Nigerian economy especially before the oil boom of the 1970s. The agriculture sector plays many roles in the process of development of the economy. These roles are discussed below:

(i) Food Supply.

The agricultural sector supply most of the needs of the economy and the essential nutrients required for growth, repair of damaged cells and provision of energy are obtained from food. The contribution of agriculture to food supply could be measured indirectly by the output of agricultural commodities in the country.

Tables 1 and 2 show the trend of output of agricultural commodities in Nigeria between 1970-2002. It shows a tremendous increase in production. However, a decrease in production was noticed in 1983, as a result of bad weather. For the two tables it is this obvious that the agricultural sector had successfully played its role of food supplier in the economy. In fact, Nigeria is presently the highest producer of cassava and yam worldwide. As at 2002, Nigeria produces 39,410,000 tonnes of cassava and 28,979,000 tonnes of yam respectively.

(ii) Contributions to National Income

Agricultural sector can be described as an engine of growth as a result of its predominant share in the GDP. Table 3 shows the share of agriculture in the GDP between 1965 and 2002. As may be observed from the table, agriculture maintained a share of 63 percent in the early 60s, it however declined to 23 per cent in the 1970s. Between 1985 and 1998, the share increased to about 38 per cent and declined to 28.3 per cent in 2002. The share of agriculture to National income was mush
higher in the 1960s but has declined partly because of its slow growth rate as compared to other sector. Furthermore, from the table, it can be seen that between 1960 and 2002, at least in any given year, agriculture alone contributed not less than 23 per cent to the National’s GDP.

(iii) Provision of raw materials

The agriculture sector remains the major source of raw materials for the industrial sector of the economy. Textile mills make use of cotton; Canning factories make use of fruits such as pineapples, oranges, and lime e.t.c. for making fruit drinks, timbers are used as plywood for domestic and industrial uses, the Oil Mill at Kano makes use of groundnut oil. Hides and skins serve as raw material in the production of local shoes and handbags. Cocoa and coffee are used as raw materials for beverages etc.

(iv) Employment

Agriculture provides job opportunities for the populaces since a lot of people are engaged in the storage, distribution, marketing and sales of agricultural products. From the farmer who tills the land to the workers in the industry that use agricultural raw materials for production, the traders, transporters, retailers, and all that are engaged in the marketing of agricultural products. Scientists who investigate agricultural problems, workers who are employed in the Ministry of Agriculture and Forest Resources and also Lecturers of agriculture in the tertiary institutions are all gainfully employed through agriculture. It is therefore clear that the decline in agricultural contribution to GDP notwithstanding, the sector remains the greatest employment-offering sector. According to Olashore (1991), the sector accounted for 90 per cent of employment in Nigeria.
Foreign exchange:

The exportation of agricultural products such as cocoa, rubber, coffee, groundnut e.t.c serves as a source of foreign earning for Nigeria since the purchasing power of any country depend largely on what it sells in order to pay for import.

Before the oil boom, agriculture was the sole earner of Nigeria’s foreign exchange earnings. Agriculture accounted for a large proportion of total foreign exchange earnings in the country. By 1970, the proportion fell to 26 per cent and it further declined to 3 per cent.

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\begin{array}{|c|c|}
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\text{Year Average} & \text{Share of Agriculture in GDP (%)} \\
\hline
1965-1969 & 62.5 \\
1970-1974 & 54.3 \\
1975-1979 & 39.1 \\
1980-1984 & 23.1 \\
1985-1989 & 23.1 \\
1990-1994 & 37.9 \\
1995 & 31.6 \\
1996 & 32.0 \\
1997 & 31.0 \\
1998 & 34.0 \\
1999 & 38.2 \\
2000 & 35.3 \\
2001 & 25.0 \\
2002 & 29.0 \\
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\end{array}
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Source: CBN Annual Reports and Statement of Account. Various Issues
CBN Statistical Bulletin. Various issues

(v) Foreign exchange:
by early 1980. Adunbi (1966). If all the resources and potentials in the sector are harnessed, the country will still achieve the pre 1970 record.

(vi) Personal income

The sale of agricultural products serves as a source of personal income to the farmers.

(vii) Trade and industry

Agriculture provides an avenue for the use of industrial products such as cutlasses, axes, spades, bulldozers, Ploughs, harrows, planters, weeders, sprayers, fertilizer applicators are all used in the different stages of land cultivation.

**Other importances of agriculture to the nations economy include.**

(i) Medicine: Agricultural plants serves as a source of medicinal herbs since the leaves, barks and roots contain medicinal substances such as neems used for curing malaria.

(ii) Tourism: Some forests in Nigeria have been turned into game reserves and now serves as a tourist attraction centres for the people and visitors alike. Examples are the Yankari game reserve, Ikogosi warm spring, Borgu game reserves and the Oyo.

(iii) Wind break: The planting of trees is encouraged in Nigeria to prevent construction and buildings damage due to winds, which might occur during heavy rainfalls.

(iv) Religious purposes: Some animals like goats, ram and dogs are kept mainly for religious activities. For example, rams are used during Muslim festivals and dogs are used for making sacrifices to the God of iron in Yoruba land.
Problems Facing Agricultural Development in Nigeria

Nigeria has a great potential to be a leading country in agricultural production. Some of the important contributions of agriculture to the economy have been discussed earlier. However, the sector could have performed better if not for certain problems. These problems have earlier been documented by Fakorede (1978), Olomola (1998), Ayoola (2001), and Akinsanmi (2003). Some of which are:

(i) Land tenure system

The land for agricultural purposes is usually inherited in Nigeria. Farmers who are willing to go into large-scale farming are unable to do so. This has had its influence on Agricultural Development. The intervention of government through Directorate of Foods, Roads and Rural infrastructures (DFRRI) and National Land Development Authority (NALDA) could not ameliorate the problem.

(ii) Inadequate capital/Poor funding

Farmers in the country are poor; as a result they find it difficult to provide the necessary requirements such as collateral for obtaining loans. However, the Nigerian Agricultural Cooperative and Rural Development Bank (NACRBD) encourage farmers by giving out small, short-term loans. Most farmers used this loan for non-farm activities. This habit, therefore, reduced the flow of fund from the bank to farmers. Furthermore, the interest rate charged by informal source e.g moneylender is too high sometimes up to 45 percent.

The budgetary allocation (capital or recurrent) to the agricultural and natural resources sector is relatively low. Tables 4 and 5 show the percentage of the Federal Government budget (capital and recurrent expenditure) to the agricultural sector. The allocation does not following a given pattern as shown by the tables. In table 4
between 1977 and 1980, capital allocation to the sector was below 5 percent and in 1983—it rose to 17.4 per cent. Under the recurrent expenditure in table 5, it could also be observed that the percentage given to agriculture is also low. It was below 1 per cent in 1977 to 1992. However, a sharp increase to 14.2 per cent was experienced in 1999, it thereafter fell drastically to 1.8 per cent in 2002. The percentage of the Federal Government budget given to agriculture sector is inadequate; this should be increased in order to boost agricultural production.

Table 6 also shows how the agricultural sector is being starved of funds. The table shows the percentage of loan and advances given to the agricultural sector by commercial banks in Nigeria. The percentage was below 10 per cent in the 80s, it increased and peaked at 27 per cent in 1994. It reduced thereafter and by 2002 it reduced to 6.3 per cent. This shows that the provision of loans and advances to the agricultural sector is small.
<table>
<thead>
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<th>Federal Govt. Own</th>
<th>% of Activity sector</th>
</tr>
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<tr>
<td>1978</td>
<td>19.7</td>
<td>6815.2</td>
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<tr>
<td>1979</td>
<td>34.3</td>
<td>1181.1</td>
<td>-</td>
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<tr>
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<td>0.6</td>
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<td>0.3</td>
</tr>
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<td>1985</td>
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<tr>
<td>1986</td>
<td>32.9</td>
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<tr>
<td>1987</td>
<td>29.2</td>
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<td>0.3</td>
</tr>
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<td>1988</td>
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<td>-</td>
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<tr>
<td>2002</td>
<td>12,439.4</td>
<td>-</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Source: CBN Statistical Bulletin, Various Issues
CBN Annual Report and Statement of Account, Various issues
(iii) Inadequate technological progress:

The traditional use of hoes, cutlasses and other crude implements for farming still operates in most part of the country. The evidenced lack of technological progress has constrained the expansion of agricultural output directly.
<table>
<thead>
<tr>
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<td>22.0</td>
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<tr>
<td>1996</td>
<td>33,264.1</td>
<td>19.8</td>
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</tr>
</tbody>
</table>
(iv) Inadequate agricultural education

Education for agricultural development is a universal theme for generating and sustaining the knowledge base required to guarantee the continued supply of food to the population. Some operations on the farm need experience and high level of literacy. Unfortunately, most farmers in Nigeria are illiterate. The extension services are inadequate in many areas because there is often only one extension agent for every 1,000 farmers. The few extension agents were not given incentives or motivated. This leads to poor performance.

(v) Conservatism

As highlighted above most of the farmers in Nigeria are illiterate, they are also conservative. That is, they are reluctant to adopt new farm practices

(vi) Storage facilities

Lack of good storage facilities can result in great waste of agricultural products. It has been observed that food is cheap at certain times of the year but expensive at other time. The period of plenty is usually at the harvest time and food thereafter becomes scarce as the next harvest
approaches. This is due to very poor storage facilities, which makes farmers to sell their produce cheap rather than lose it during storage.

(vii) Level of rural development

Lack of rural development encourages able bodied men and women to migrate from villages to the cities where there are better amenities such as good roads, water, electricity, health services etc. Majority of farmers in Nigeria are in the rural areas.

It is believed that the provision of rural infrastructure is the essential foundation for sustained increases in food production. It is difficult for the rural sector to contribute significantly to economic and industrial progress if there is lack of basic facilities that will enhance their production activities.

(viii) Sociological and psychological effects of being called a farmer

In Nigeria, farmers are considered to occupy the lowest rank of society, their skills does not receive the public recognition given to those of other professions. Farming appears to be the job for those who are not educated or who have failed in other activities.

These influences tend to discourage youths from pursuing agriculture. However, this is beginning to change because of the present move towards self-employment and the realignment of profitability of many agricultural enterprises. The involvement of many retired military personnel and retired civil servant is gradually changing people perception to farming.

(ix) Oil Boom

As a result of increased earnings from oil revenue in the seventies, government and farmers neglected agricultural sector in terms of
funding and attention. This led to the beginning of decline in agricultural production and the fall in contribution to foreign earning.

**Conclusion and Recommendations**

This chapter has shown clearly that agriculture has been contributing tremendously to Nigeria economy. These roles have been clearly discussed earlier. However, it is expected that by now, Nigeria should have been self sufficient in production of most food crops, if not for the constraints listed in section four. Secondly, it is also expected that Nigeria agriculture should have taken it rightful position as the highest contributor to GDP and foreign exchange earning as it was in the sixties and seventies.

There is need for the effective take off of the Commodity Exchange Market (COMEX). Following the scrapping of the commodity boards and the introduction of SAP, there is a need for an agency to fill the vacuum created by the exit of the defunct commodity board. The COMEX will be entirely a private initiative with government providing support services such as regulation, control and monitoring.

Adequate infrastructure such as electricity potable water, good roads will go a long way in reducing the problems facing the agriculture sector. While the concept such as liberalization, deregulation, privatization, and commercialisation are desirable in the sector. It is recommended that where it is absolutely necessary government can provide grants and subsidies on input to assist farmer and other stakeholder in the sector. These inputs should however be provided timely.

In addition to above, the following recommendations are given to reduce problems of agriculture in Nigeria
i  Purchase of surplus farm produce by government.

ii  Adequate training and retraining farmers. Research and development, and extension services should be given adequate attention.

iii  Restructuring of National Agricultural and Rural Development Bank (NACRBD) for better performance and adequate funding.

iv  Budgetary allocation to agriculture must be revived up to 10.0 percent as from 2006 budget.
References


Ihimodu I.I (1993). The Structural Adjustment Programme and Nigeria’s Agricultural Development. NCEMA Monograph series No.2,


CHAPTER XXII

A POLITICO-ECONOMIC ANALYSIS OF THE RISE IN THE PHENOMENON OF RELIGION IN NIGERIA

Yunusa Kehinde Salami

Introduction

The aim of this paper is to examine the rise in the number of religious institutions, leadership and followership in Nigeria. Given the factual evidence of the record of proliferation of religious institutions and religious denominations in Nigeria, it is of interest to identify the root causes of this sudden change in many Nigerians that move them towards religious sanctuaries. The paper concentrates on national trends rather than on the tendencies of particular persons or individual religious sects. This paper situates this astronomical rise in the phenomenon of religion within the politico-economic context of the Nigerian nation-state.

Defining Religion

Many people all over the world are religious. Many of these human beings who are religious are, in most cases, prepared to lay their lives for their faith and their religions. Nonetheless, most of these human beings who are religiously inclined cannot define religion. In fact, most of the time, the religious people have not bothered themselves about such definitions. Even, those relatively few who care to define religion have not been able to agree on how it should be defined. There is no consensus on what religion is, and so, quite often, scholars define it according to what aspect of the entire religious enterprise they find most appealing.

Most commonly, the term religion is associated with the kind of devotion based on the helplessness of human beings and their total
dependence on some kinds of supernatural or extra-natural beings. The religious belief of a people is often assumed to be such that it is based on an ever living God, a divine being who rules the universe. In this case, religion can be seen as recognition that all things are manifestations of an absolute power which transcends human knowledge\(^2\).

On the other hand, there are attempts to define religion without making it an affair solely about any supernatural, eternal, or timeless being. Here, religion may be seen as one of the ideological reflections of the current state of economic relations in a society, a projection of the structure of society, or a phenomenon which arises from projections designed to alleviate certain kinds of unconscious conflict\(^3\). Common to scholars in this latter category is the attempt to situate and explain religion within the natural, empirical world.

Given these two broad conceptions of religion, the question may be raised concerning which of both is more plausible. Is it the definition that ties religion to the spiritual necessity for the worship of the omnipotent, omni benevolent, and omnipresent God, or the definition based on socio-economic and psychological explanation of religion? My attitude to this question is just that neither of the two approaches exhausts the elements of religion. They both broadly state very important but not sufficient properties of religion. Nevertheless, my analysis in this paper will rest heavily on the socio-economic and psychological explanations as offered by scholars such as Durkheim, Weber, Marxists and Freudian theorists\(^4\).
Socio-Economic and Psychological Explanation of the Origin of Religion

For the purpose of this analysis, the socio-economic and psychological explanations would be regarded as being sociological for basing their classification of religion on such grounds as the economic interrelations of a society or as a projection of the structure of society. If this reading is correct, then, the substance of religion can be tested using the method of social sciences.

For example, Freud is of the opinion that people tend to be more immersed in religious beliefs under some circumstances than others. Freud’s explanation is that people tend to become more religious when they are confronted with more severe condition of existence. Freudian psychoanalytic theory explains that neuroses might explain the origins of religion. Much of this has been built around instances of phobias or compulsive behaviour.

So, anytime human beings are confronted with problems, the instinct is to fall psychologically on something which is expected to serve as refuge. Freud sees the tendency in individuals to believe in a supernatural deity and accept religious beliefs and practices as products of the human propensity to resolve certain kinds of unconscious conflict.

For Freud:

…… Religious ideals have arisen from the same need as have all the other achievements of civilization: from the necessity of defending oneself against the crushingly superior force of nature, the urge to rectify the shortcomings of civilization which made themselves painfully felt.
Freud sees religion as “…..the projection of Primitive man’s emotional impulses”\(^8\). For Freud, human beings personified the things they endowed with effects, populated the world with them, and then rediscovered their inner psychic process in the religions and God which they invented. In other words when individuals find that they are under perpetual possibilities of fear and insecurity in which they can never do without protection, they create the gods whom they dread, seek to propitiate and entrust with their own protection\(^9\).

In this sense, religion seems "to represent a safe place of refuge where the soul is deposited in order to avoid the dangers which threaten it"\(^10\). Freud maintains that religion is a refuge to its adherents and it "gives an explicit assurance that no sparrow falls from the roof without God’s special will"\(^11\). Freud wants us to accept that this is the primary drive for religion. Thus, the search for safety and protection motivated the human drive for religion and religious activities.

For Emile Durkheim, religious beliefs constitute a projection of the structure of society. Using religion such as Jainism, Brahmanism, and Buddhism as examples, Durkheim argues that; "Religion is more than the idea of gods, or spirits, and consequently, cannot be defined exclusively in relation to these"\(^12\). He sees religion as an outward, and a visible expression of God as well as the symbol of the determined society or clan\(^13\). He thinks that the society possesses an equal amount of power over the people in just the same way that God is regarded as having power over those who are his worshippers. Durkheim’s opinion is that the idea of both human society and God gave us the sensation of a perpetual dependence\(^14\).

The point from this is that most often, religion is a product of the fact that society poses some problems and hindrances on the way of human beings. In their search for a way out of the problem posed by society,
human beings resort to external influences, forces or power, which they assume can set them free.¹⁵.

For Durkheim:

The first religious conceptions have often been attributed to feelings of weakness and dependence, of fear and anguish which seized men when they came into contact with the world. Being the victims of nightmares of which they were themselves the creators, they believed themselves surrounded by hostile and redoubtable powers which their rites sought to appease¹⁶.

The upshot of Durkheim’s thesis is that religion, philosophy, and morals can be understood only as products of the social condition of man. For him, the source of religion and morality is in the collective mind of society and not inherent in the isolated minds of individuals.

In his own account, Max Weber treats religious orientation as an independent variable of economic organization¹⁷. He expresses the opinion that human beings are motivated into religious activities because of the general tendency to believe that many concrete events of experience are attributed, in part at least, to the agency of the supernatural. Consequently, at least so he claims, human beings devote an important part of their time and resources to regulating their relations with this order as they conceive it.

The aid of the supernatural is sought …entirely in the interest of mundane, worldly concerns: health, long life, defeat of enemies, good relation with one’s own people and the like….¹⁸

Based on Weber’s view, the kind of religion that reigns in a society, the strength of various kinds of religion, the status ascribe to the
forces behind various kinds of religion, is socially, politically, and economically determined. He stresses an evolutionary understanding of the relations between religion and society. Weber observes that; "religious or magical behavior or thinking must not be set apart from the range of every day purposive conduct, particularly since even the ends of the religious and magical actions are predominantly economic."^{19}

Max Weber, as his major works on sociology of religion reflect, makes valuable contributions to both speculative and practical discussion of the fundamental relationships between specific religions or phases of the same religion, and the ethical, economic, political and general social life of peoples and nations.\(^{20}\)

Another trend in the socio-economic origin of religion and religious activities is the Marxist account. The commonly remembered portion of the Marxist thesis on religion is the phrase; "Religion is the opium of the masses". This phrase is strongly attributed to Marx and other Marxists. However, Charles Kingsley, a canon of the Church of England, once observed that the Bible was used as an "Opium dose for keeping beasts of burden patient while they were being overloaded."\(^{21}\)

In *Anti-Duhring*, Engels observed that; "All religion….is nothing but the fantastic reflection in men’s mind of those forces which control their daily life."\(^{22}\). The "religious world", for Marx, is never anything "but the reflection of the real world". It is on this that Marx claimed that religion makes the whole intercourse of man with man, and of man with nature, depend on the activity of some unseen and mysterious powers. For Marx, religion, like other forms of ideology, is an inversion of reality.\(^{23}\)

There are several portions of Marxist literature which take religion as one of the ideological reflections of the current state of economic interrelations in a society. Religion in this account is regarded as a many-
faceted reflection of the real world, including deep-seated human needs for security, consolation, and beauty. So, the oppressed masses, in their bid to escape from their drudgery existence, seek solace in religion.

On the other hand, coming from Marxist class analysis of events and society, religion equally serves as an instrument used by the exploiting classes as an "Opium dose" to make working masses accept their condition as what was supernaturally ordained for them. With this, Marx and Engels considered religion as an element of struggles going on among the opposing classes.

Given the views of the scholars so far discussed in this section, it can be inferred that religion and religious activities are motivated by the fact that human beings are constantly confronted with various pressures in society. This pressure, as we can gather from the views of the scholars, makes it imperative that the human beings seek succour in some supernatural powers or other powers outside human control. Human beings of different categories share some common patronages to some sort of forces; they form groups, this time, religious groups. On the other hand, especially following the Marxist approach, religion can also be an instrument for enhancing and rationalizing the economic exploitation of the ruled by their rulers. It is in these perspectives that the analysis in the next section will be conducted.

A Critique of the Rise in Phenomenon of Religion in Nigeria

Looking at Nigeria nation-state within the past one decade, one cannot but conclude that religious institutions and religious activities have been in increase. In Nigeria of today, there are many types of religion. Christianity and Islam are the most popular and most populated. Even at
this, Christianity, because of its ever growing form and content, is the most rapidly proliferating.

The question may be asked concerning the rise in the phenomenon of religion in the geo-political setting called Nigeria. Can we, it may be asked, attribute this rise to a sudden revelation from God urging everyone to come nearer God? Are Nigerians just mysteriously convinced about the truth of religion and so made such a quick switch to religion? The answer to these questions is No!

It can be rightly argued that the rise in the phenomenon of religion in Nigeria is a product of what is dictated by the kind of economic relations existing between those who have and those who do not have, between those who own tools and implements of production and those who are merely hired to work on the tools and implements of production.

Nigeria nation-state is neo-colonial in structure. This has some politico-economic effects on both the rulers and the ruled. People in the country are battered by all kinds of problems ranging from economic, social, educational, to political problems. The standard of living is less than bare minimum. People are daily emaciating in the midst of plenty. There is a high level of unemployment among graduates and professionals. Those employed are under constant fear of possible and actual retrenchment. The gap between those who have and those who do not have is widened. This poor level of existence provides ground for religion to flourish.

Given the social, economic, and political burdens engendered by the politico-economic structure of Nigeria, both the rulers and the ruled are confronted with some difficulties. These difficulties and the instinct to surmount such difficulties, motivate both classes to approach religion for solutions. While the rulers can use religion to enslave the minds and the
intellectual faculties of the ruled and make them amenable to easy control, the ruled also approach religion as a sanctuary to shield them from their harsh social, economic, and political environments.

For example, the ruling class in Nigeria has already tilted the masses to a point very close to the Biblical city which was said to consume its own inhabitants\textsuperscript{26}. People are already pushed to a point where they may be forced to confront those who rule them\textsuperscript{27}. In order to make it difficult for the masses to realize their true positions, those who rule need something to engage the minds of those they rule. Religion, as an instrument in the hands of those who govern, encourages the ruled to despise the worldly things and urges them to concentrate on the life after. So, while those who rule are ready to donate huge sums of money to different religious sects, the same government hunts or discourages those who gather to embark on political enlightenments of the suffering masses on their true conditions of existence.

The reasoning here is that since most religions would discourage people against worldly things, it means that to be keenly religious would, most of the time, presuppose that believers shun material things, which unfortunately they are already denied by those who govern them. So, while the masses, in their pitiable postures, grow in their spiritual attachments to their religions, those who rule are provided with enough time and space to perfect their methods of exploitation and suppression. Thus, in a society such as Nigeria where the masses are endlessly oppressed and stultified, religion is a requisite element to make people obsessed with the hereafter at the expense of the immediate social, economic and political environment\textsuperscript{28}.

On the other hand, the growth in religious activities and institutions can be seen from its relation to the status ascribed to the masses in a neo-colonial state. Given the fact that a large proportion of Nigerians are immersed in abject poverty, unemployment, homelessness, and oppression
of man by man – a stage very close to the hobbesian state of nature in which life is considered, brutish, nasty and short\textsuperscript{29} – people are bound to look for ways out of their predicaments.

In an economically oppressive and hostile environment, people tend to look for succour either in other more powerful individuals or community of individuals. If this seems infeasible, people concerned may search for a place of security in supernatural beings. Since religion, most of the time, expresses links between the natural and the supernatural, and since it seems that no help is likely to come from any group of power holders, people are easily persuaded to seek help in the supernatural through religion.

The upshot of this is that the movement of people into religion is not based on the thought that God is holy and so, deserves worship and respect. Rather, the places of God are densely populated with refugees who are merely looking for a place to rest. This explains why the poor urban masses are greater in number as religious participants than those whose material resources can sustain them\textsuperscript{30}.

For example, while those who make their profits in thousands of Naira and who are relatively self-sufficient would hardly find it convenient to spend four hours of prayer services within a week, the unemployed, the impoverished, and the wretched of the earth would spend all nights on vigils and, many other weekly hours on revivals. All of these are expected by the masses to serve as mechanisms or as levers to move them away from the immediate environment which itself is dehumanizing\textsuperscript{31}.

This economic motivation of the rise in the phenomenon of religion in Nigeria is more apparent in both Islam and Christianity, although, it is most conspicuous in case of the Pentecostal Churches. Nigerians now witness what can be called a Pentecostal boom\textsuperscript{32}. The
Pentecostal Churches are daily increasing in number as well as in followership. As the churches are winning more souls through their self-arrogated power of prophecy and miracle, so are the churches making more money. In actual fact, religion has become a viable means of generating economic strength.

Based on the spate of unemployment, retrenchment, and other economic hardships in the country, the common practice now is the frequent split of religious groups to establish more groups. These days, a lot of competition and rivalry mount among the leaders of the houses of God. As soon as a religious leader discovers that there are others preventing him or her from obtaining a direct economic control of the ministry of God, the tendency is to establish another denomination with little modification on some of the elements of the old. The rate at which people do this raises some suspicion about the genuineness of their spiritual commitments.

Nigerians now witness a rapid proliferation of Christian and Islamic sects and multiplications of denominations. While it may be granted that some of the religious institutions might have been established with honesty of purpose and purely religious intentions, majority of them seem mainly economically motivated.

There are cases of some unemployed graduates who formed religious groups which later turned out to be multi-million naira outfits. There are cases of supposed clergymen who now control millions of Naira in their private accounts merely by leading houses of God. Some of these clergymen even often time dole out top class cars to members of their congregations.

The point is not that men of God should be poor, nor is it assumed that holiness is the same as poverty. In fact, the wealth of some of these
clergymen may be explained by the fact that some of them are professionals or top career officers. Nevertheless, it is appalling when one sees, hears, or reads about the kind of means used by some of these men of God to extort money from the followership. In doing this, there are attempts to play on the psychology of the followership and also heighten their emotions. People now read the scriptures with perversions depending on the interest of the self-assigned men of God.

As once noted:

Tithes and offerings, an integral part of the church from the beginning of times had been abused to a great extent. And an unquestioning congregation would give and give, not because they had been hypnotized into doing so, but because of the emotional phenomenon religion had been reduced to34.

One most awe-inspiring or reward-yielding element expected of any charismatic shepherd in the contemporary Nigerian context is the art of prophecy and the ability to speak in tongues. Most of the Pentecostal Churches these days resort to these in order to appeal to more money bags, who want to know about things that are yet to happen. Before embarking on a venture, most people want to know of its economic prospect through prophecy. For one reason or the other, rich or poor wants to gain spiritual insight into future fortune or calamity. Since some religions promise this spiritual access to future, people tend to move more towards religion. In this process, the art of prophecy is one of the major techniques for extorting money from the worshippers who, mostly, have become gullible in their search for spiritual refuge from the agonizing economic environment.
Too much emphasis is now placed on money than faith. The structures of some religious institutions already alienate some group of individuals. As the institutions sprout, they grow variously according to the tastes of members of different economic classes. There is no doubt that a poor believer cannot attend such religious assemblies where daily collections always run into hundreds of thousands or millions of Naira. For instance, there are churches in which members are told that common cars cannot be blessings from God. Churches, in which God’s blessings are only determined by state-of-art cars and architectural designs, cannot be meant for poor folks.

The Pentecostal churches are most prominent and most conspicuous in the problem of commercialization of religion. However, many of the orthodox churches are now trying to change with the tide of time in their competition with the Pentecostal churches. While the flexibility of the form and content of Christianity makes it most susceptible to most of the charges raised in this paper, the rigidity of Islam has not made it easy for Islam to compete comfortably with Christianity in the sales of the gospel. There is no doubt that Islam is also making serious efforts to break the Christian domination of the religious market. Because traditional religion is mostly accepted by the rural peasants and very few middle class citizens, it has not been easy for it to partake in the struggle for proliferation and spiritual exploitation. It is noteworthy, however, that if this social, political, and economic trend continues, the country will witness worse spectacles in the realm of religion.
Conclusion

This analysis acknowledges that there is a great rise today, in the number of various religious sects in Nigeria. The paper acknowledges that various sects and denominations are daily multiplying among the two most prominent religions in Nigeria. The rapid growth in religious proliferation is acknowledged to be in two major ways. There is a rapid sprouting of different religious groups. So also, there is a rise in the number of denominations of different religions. The denominational proliferation is most noticed among the Pentecostal Churches.

The problem, as this paper tried to show, is that the religious proliferations do not come as a result of more devotion or commitment to God. The fact is that the dependency nature of Nigerian economy with its attendant social, political, and economic unrest; which is commonly expressed in poverty, homelessness, unemployment, and lack of adequate security, is found to be responsible for the sudden explosion in religious growth.

While more and more citizens run to the religions as a way to escape from the environmental hostilities, they are found to fall into the waiting hands of many who establish religious assemblies primarily as means to secure daily bread and other good things of life. Since the motivation to priesthood is mostly economic, the religious leaders will, no doubt, strive to maximize their economic gains by exploiting those who go to them for security. Thus, with religion "we are perhaps still defenseless but no longer helplessly paralyzed"35.
References


This, if you like, may be credited to my metaphysical bias in favor of materialism. My preference for materialist and empirical method of explanation is clearly stated in Yunusa Kehinde Salami 'Anomalous Monism and the Mind-Body Problem' In Quest: Philosophical Discussions


Freud Sigmund; Totem and Taboo pp. 130 – 207.


Freud Sigmund; Totem and Taboo p. 114

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Durkheim Emile; p. 237

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Durkheim Emile; p. 255.

Weber Max; The Sociology of Religion pp. XXI - XXII

Weber Max; p. XXVIII
Weber Max; p. 1.


This idea was read from Selsam Howard and Martel Harry (eds.) *Reader in Marxist Philosophy* (New York: International Publishers, 1977) p. 224.

Engels F; Anti-Duhring p. 344.


Engels F; *Ludwig Feuerbach and The end of Classical German Philosophy* p. 57, Marx Karl & Engels F; 'On Religion' p. 41, Marx Karl; 'German Ideology' in Marx Karl and Engels F; *Collected works* Vol. 5.


Selsam Howard *et al* (eds.) *Reader in Marxist Philosophy* pp. 246 - 247.


Introduction/Historical Background

Since her political independence in 1960, the political entity called Nigeria has been battling with a lot of constitutional and political problems because of her ethnic diversity. The struggle for power and the issue of ethnic rivalry were among other compelling problems and which led to the fall of the republics put in place after independence. While some ethnic nationals complain of unjust neglect and discrimination by the federal government, some others complain of marginalisation in the areas of appointment of people into federal positions, distribution of political institutions, location of basic infrastructures, exploitation of natural resources, the practice of non-true federalism denying ethnic groups (or states) enough political space to feel free, unique and important in the evolution of truly cooperative federalism, and lastly the share of central pool account (popularly called Federation Account) and tax jurisdiction to mention a few. All these and some others summed together led to the calls for a fundamental restructuring of Nigeria and the restoration of true federal principles to curb the attendant conflicts, and of recent the agitation for Resource Control right.

Natural Resource Distribution in Nigeria

The word “resource” can simply be interpreted to mean the wealth, supplies of goods, raw materials, minerals, e.t.c., which a person or a
country has or can use for development or production (Advanced Learner’s Dictionary of Current English, 1962:838). Resources can be classified broadly into Human and Natural Resources. Going by the areas of interest, our concern shall be in the latter. In a narrower sense, natural resources can be defined as all those things available to man as “gifts of nature”. Natural resources are either renewable or non-renewable but include mineral resources, water resources, agricultural resources, forest resources, and atmospheric resources. According to Barlowe (1978:228) resources, or what he referred to as land resources, can be classified based on the relative renewability of the resource, and thereby obtaining three principal resources: fund resources, flow resources, and a composite group of resources that has some characteristics of both fund and flow resources. The fund (or stock) resources which Barlowe described as including resources like metals, mineral fuels, coal, stone, and so on, are the most relevant to this work. The total supply of these resources is relatively fixed and non-renewable/non-replaceable, he added. The concept of flow resources applies to resources such as precipitation, the water in streams and lakes, sunlight, wind, tides, and climate, the flow of which continues whether or not the resources are used. These are said to be renewable, but must be used as they become available; and failure to do so amounts to permanent loss of the value they could have had. Under the composite group of resources are subclasses like biological resources, soil resources and manmade improvements such as buildings, reservoirs, or highways, he added. All the links between economic activity and the natural environment involve the use of natural resources. At another instance Barlowe described Natural resources as productive assets which support economic development and sustain human populations.
## STATE BY STATE ASSESSMENT OF NIGERIA’S NATURAL RESOURCES

<table>
<thead>
<tr>
<th>State</th>
<th>Solid Minerals</th>
<th>Agric./Agro Allied</th>
<th>Oil &amp; Gas</th>
<th>Industrial Potentials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abia</td>
<td>Gold, Salt, Limestone, Lead/Zinc</td>
<td>Cowpeas, SoyabeanS, Rice, Maize, Cassava, Oil Palm, Cocoa, Rubber, Fruits</td>
<td>Petroleum &amp; Gas</td>
<td>Ceramic, Cosmetic, Plastic, Petroleum &amp; Gas Industries, Mining</td>
</tr>
<tr>
<td>Abuja</td>
<td>Marble, Tantalite</td>
<td>Yam, Cassava, Maize, Beans and Fruits</td>
<td>-</td>
<td>Food Processing and manufact. Industries</td>
</tr>
<tr>
<td>Adamawa</td>
<td>Kaolin, Bentonite, Barytes, Gypsum, Magnesite, Bauxite</td>
<td>Guinea-Corn, Sugarcane, Yam, Cassava, Maize, Millet, rice, Milk, Cheese, Cotton, Groundnuts</td>
<td>-</td>
<td>Agricultural processing industries, Mining industries</td>
</tr>
<tr>
<td>Akwa Ibom</td>
<td>Clay, Limestone, Lignite</td>
<td>Coconut, Cocoa, Rubber,</td>
<td>Crude oil and Natural</td>
<td>Agricultural processing, Oil &amp; Gas</td>
</tr>
</tbody>
</table>

623
<table>
<thead>
<tr>
<th>State</th>
<th>Resources</th>
<th>Products</th>
<th>Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anambra</td>
<td>Lead/Zinc, Uranium, Salt, Raffia palm, Coffee, Oil Palm gas industries</td>
<td>Rice, Yam, Cassava Crude oil reserve</td>
<td>Oil &amp; Gas industries, Mining industries</td>
</tr>
<tr>
<td>Bauchi</td>
<td>Amethyst (violet), Gypsum, Lead/Zinc, Uranium (partially investigated)</td>
<td>Sugarcane, Maize Groundnuts, Millet, Guinea corn, Cotton, Rice Crude oil (under survey)</td>
<td>Limestone, Ceramic industry</td>
</tr>
<tr>
<td>Bayelsa</td>
<td>Clay, Limestone, Uranium, Lead/Zinc (traces), Manganese, Lignite (partially investigated)</td>
<td>Plantain, Banana, Cassava, Yam, Cocoyam Crude oil and gas</td>
<td>Oil &amp; Petrochemical</td>
</tr>
<tr>
<td>Benue</td>
<td>Clay, Diatomite, Yam, Rice, Maize, -</td>
<td>-</td>
<td>Food canning/cement,</td>
</tr>
<tr>
<td>State</td>
<td>Resources</td>
<td>Industries</td>
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<tr>
<td>Borno</td>
<td>Bentonite, Limestone, Gypsum, Kaolin</td>
<td>Mining industries</td>
<td></td>
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<tr>
<td></td>
<td>Sorghum, Millet and Fruits</td>
<td></td>
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</tr>
<tr>
<td>Cross River</td>
<td>Gypsum, Iron ore, Feldspar, Limestone, Clay</td>
<td>Oil and Gas (partially investigated)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Millet, Wheat, Arabic gum, Hides &amp; Skins</td>
<td>Soda ash, leather industries</td>
<td></td>
</tr>
<tr>
<td>Delta</td>
<td>Limestone, Uranium, Manganese, Salt, Lead/Zinc, Lignite</td>
<td>Oil and Gas</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rubber, Cocoa, Oil Palm, Cassava, Rice, Fruits</td>
<td>Agric &amp; Fishing, oil and gas industries</td>
<td></td>
</tr>
<tr>
<td>Ebonyi</td>
<td>Marble, Glass-sand, Clay, Gypsum, Lignite, Iron-ore, Kaolin</td>
<td>Crude Oil and Gas</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Palm oil/Kernel, Cassava, Rubber and Timber</td>
<td>Petrochemical, Oil &amp; Gas, Wood processing, mining</td>
<td></td>
</tr>
<tr>
<td>Edo</td>
<td>Lead/Zinc, Gold, Salt</td>
<td>Oil &amp; Gas reserve</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yam, Rice, Cassava, Maize, Soyabeans</td>
<td>Mining, Food processing</td>
<td></td>
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<tr>
<td></td>
<td>Oil &amp; Gas Industries, Cement, Food</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location</td>
<td>Minerals/Commodities</td>
<td>Other Industries/Processing</td>
<td>Additional Notes</td>
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</tr>
<tr>
<td>Ekiti</td>
<td>Gold, Phosphate, Bitumen</td>
<td>Rubber &amp; Rubber processing, mining</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Kaolin, Feldspar, Tantium, Granite, Syenites</td>
<td>Cocoa, Timber, Palm produce</td>
<td>Food &amp; canning, cocoa/wood processing, ceramic</td>
</tr>
<tr>
<td>Enugu</td>
<td>Coal, Limestone, Lead/Zinc</td>
<td>Oil Palm, Cassava, Rice, Maize, Yam</td>
<td>Ceramic, Pottery, Mining</td>
</tr>
<tr>
<td>Gombe</td>
<td>Gemstone, Gypsum</td>
<td>Maize, Beans, Groundnuts, Millet, Cotton, Rice, Sugarcane</td>
<td>Cotton, cement industries</td>
</tr>
<tr>
<td>Imo</td>
<td>Lead/Zinc, Limestone, Lignite, Phosphate, Salt Marcasite, Gypsum,</td>
<td>Oil palm, Cassava, Cashew</td>
<td>Crude oil and gas</td>
</tr>
<tr>
<td>Jigawa</td>
<td>Kaolin, Tourmaline, Copper, Iron</td>
<td>Groundnut, Cassava, Wheat,</td>
<td>-</td>
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<tr>
<td>State</td>
<td>Commodities</td>
<td>Industries</td>
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<tr>
<td>Kaduna</td>
<td>Gold, Gemstone, Clay, Sapphire, Asbestos, Tourmaline, Tantalite</td>
<td>Wheat, Millet, Rice, Beans, Potatoes</td>
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<tr>
<td></td>
<td></td>
<td>Food processing, mining, Fertilizer industries</td>
<td></td>
</tr>
<tr>
<td>Kano</td>
<td>Lead/Zinc, Copper, Gemstone, Tantalite, Glass-sand, Pyrochlore</td>
<td>Onions, Groundnut, Rice, Maize, Wheat</td>
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<td></td>
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<td></td>
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<tr>
<td></td>
<td></td>
<td>Food processing work</td>
<td></td>
</tr>
<tr>
<td>Katsina</td>
<td>Marble, Kaolin, Salt</td>
<td>Guinea Corn, Groundnut, Millet, Wheat, Maize, Rice, Cotton</td>
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<td></td>
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<tr>
<td></td>
<td></td>
<td>Flourmill, meat processing</td>
<td></td>
</tr>
<tr>
<td>Kebbi</td>
<td>Gold</td>
<td>Millet, Guinea corn, Maize, Ginger, Bears fruits</td>
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<td>-</td>
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<tr>
<td></td>
<td></td>
<td>Groundnut mills, leather industries.</td>
<td></td>
</tr>
<tr>
<td>Kogi</td>
<td>Iron ore, Coal, Marble, Kaolin,</td>
<td>Yam, Cassava, Rice, Maize,</td>
<td></td>
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<tr>
<td></td>
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<td>-</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Mining, Cement industries.</td>
<td></td>
</tr>
</tbody>
</table>

627
<table>
<thead>
<tr>
<th>State</th>
<th>Major Resources</th>
<th>Major Products &amp; Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kwara</td>
<td>Iron ore, Marble, Gold, Colombite, Tantalite, Feldspar (traces), Mica (traces)</td>
<td>Yam, Cassava, Maize - Mining, Food processing</td>
</tr>
<tr>
<td>Lagos</td>
<td>Glass-sand, Clay, Bitumen, Sand tar</td>
<td>Fish, Coconut Oil and Gas Food processing, oil &amp; gas, paper mill</td>
</tr>
<tr>
<td>Nasarawa</td>
<td>Iron ore, Barytes, Clay, Limestone, Mica, Salt, Columbite, Tantalite, Toumaline, Quartz, Coal</td>
<td>Rice, Yam, Maize, Cotton - Agro Allied industries, mining</td>
</tr>
<tr>
<td>Niger</td>
<td>Gold, Talc, Lead/Zinc</td>
<td>Corn, Rice, Yam - Energy, Mining</td>
</tr>
<tr>
<td></td>
<td>Iron-Ore</td>
<td>Food processing, Mining</td>
</tr>
<tr>
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<td>----------------------------------------------</td>
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</tr>
<tr>
<td>Ogun</td>
<td>Limestone, Clay, Phosphate, Feldspar (traces)</td>
<td>Rice, Maize, Beans, Palm produce, Cocoa, Rubber</td>
</tr>
<tr>
<td>Osun</td>
<td>Gold, Talc, Tantalite, Tourmaline, Columbite, Granite</td>
<td>Cocoa, Kolanut, Rice, Maize</td>
</tr>
<tr>
<td>Oyo</td>
<td>Dolomite, Kaolin, Talc, Marble, Clay, Gold, Gemstone, Tantalite</td>
<td>Cocoa, Palm produce, Kolanut, Cashew, Maize, Cassava</td>
</tr>
<tr>
<td>Plateau</td>
<td>Tin, Marble, Granite, Lead/Zinc, Barytes, Iron-Potato, Yam, Fruits, Wheats</td>
<td>-</td>
</tr>
<tr>
<td>State</td>
<td>Resources</td>
<td>Products</td>
</tr>
<tr>
<td>-------------</td>
<td>-------------------------------------</td>
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</tr>
<tr>
<td>Rivers</td>
<td>Ore, Kaolin, Salt, Dolomite, Clay, Coal, Gemstone, Bauxite, Bentonite</td>
<td>Palm oil, Fish, Cassava, Fruits</td>
</tr>
<tr>
<td>Sokoto</td>
<td>Glass-sand, Clay, Marble, Lignite (traces)</td>
<td>Rice, Wheat, Millet, Groundnut</td>
</tr>
<tr>
<td>Taraba</td>
<td>Kaolin, Gypsum, Salt, Limestone, Gold, Phosphate, Clay, Potash, Granite, Lead/Zinc</td>
<td>Rice, Guinea Corn, Yam, Cassava, Fruits</td>
</tr>
<tr>
<td>Yobe</td>
<td>Diatomite, Soda ash (partially investigated)</td>
<td>Cotton, Groundnut, Millet, Maize</td>
</tr>
</tbody>
</table>
In terms of mineral resources potential, Nigeria is one of the richest countries in Africa with known deposits of tin, columbite, tantalite, wolfram, gold, lead-zinc, limestone, kaolin, clay, shale, marble, radioactive minerals, bartyles, cassiterite, coal, lignite, petroleum, natural gas and hydro-electric power (Aluko, 1971). Many of these are classified and assessed state-by-state as presented on the above table.

The abundance of these and many others, especially petroleum, has become a double-edged sword being the mainstay of the Nigerian economy on one hand, and source of ethnic conflicts as well as environmental problems on the other hand. No doubt, on the one hand, it provides the necessary resources for the country, while on the other hand it is creating social, political and environmental problems. As it is causing environmental problems for the oil producing communities, the country has not witnessed peace for decades especially in the struggle for economic power among the constituent units derivable from the control of petroleum resources between the producing communities on the one hand and the state/federal (government) and the non-producing areas on the other hand. These and many others have led to the agitation for resource control right by the southern states, as spearheaded by their governors.

Source: Adapted from The Week, April 30, 2001 (Page 13). The Solid Minerals Column was as sourced from the Federal Ministry of Solid Minerals, Abuja (see TELL, July 11, 2005).
The Issue of Resource Control

In Nigerian context, the term “Resource Control” means the right of a community to a measure of control of its natural resources, the usage relating more to crude oil. Resource control is all about the demand by the littoral states and other southern states of Nigeria (where the nation’s resources are derived) to be allowed to be controlling/managing the revenue accruing from the oil and other natural resources in line with the tenets of true federalism. But this, each state would have a full control of its resources and contribute an agreed percentage towards the maintenance of common services of the government at the centre as the case was in the first republic and as it is being practised in the places like Canada, Switzerland, France, and even United States of America where Nigeria copied her system of governance.

The agitation has become a major subject of debate today, especially since the Supreme Court’s judgment on the politicised on-shore/off-shore dichotomy. The standing points of the Northern and Southern regions on the subject of resource control have been different. While the southerners, as represented by their seventeen (17) governors are agitating for its enforcement, the Northerners, also as represented by their governors, have strongly opposed the move. While the southerners’ agitation is guided by their realization of the need to practise true federalism (granting autonomy to constituent units, fiscal inclusive), they are also of the view that the practice of a highly centralised fiscal federalism is a feature of the military that has been enforced over the years by military coercion which is not relevant in a democratic set-up. That the core oil producing areas are the least developed part of the country is yet another reason. On the other hand, the Northerners believe it will be a move towards disintegrating Nigeria. By this, they differ in their definition of true federalism. They are of the belief that the two regions are
interdependent and complementary, more so that they have also contributed immensely to the economic base of the country when the economy was agrarian in nature. On the whole, the move was described as unconstitutional as it could result in breaking up the county as some federating units could become so powerful as to declaring independence for themselves, thereby threatening the peace and stability of the country.

Using Dunmoye (2002:31) as guide, the clamour for resource control can be said to be traceable to

(a) the injustice and inequality that characterize the distribution of natural resources, particularly oil revenue;
(b) the jettisoning of derivation as a fundamental principle of revenue allocation which reduced the amount of funds going to the pauperized oil producing areas as of right;
(c) the lack of infrastructural development in Nigeria at large, but in the oil producing areas in particular;
(d) the introduction of Sharia judicial system by a few Northern states which was seen by the Southern states as a major test for the federal constitution. Demand for resource control is therefore an indirect constitutional cum economic response to the introduction of Sharia judicial system;
(e) the systematic destruction of the ecosystem in the oil producing areas which led to environmental degradation, pollution, acid rain and the attendant unemployment and mass poverty;
(f) failure of the multinational oil companies to contribute to the social and economic development of the oil producing states;
(g) the activities of ethnic militants made up of unemployed youths in the oil producing communities who are exerting pressure on their political and traditional leaders, thus necessitating political actions;
(h) the new democratic dispensation which allows for overt airing of grievances which were violently suppressed under military rule; and

(i) the impending election of 2003, with the demand for resource control as an instrument of political mobilization in the oil producing South-South geo-political zone.

All these factors above (combined) were said to have made the agitation controversial and constitutional. The neglect of the oil mineral producing areas as well as the near jettisoning of the derivation principle in revenue sharing are said to be tantamount to acute injustice.

The Resource Control Suit of Year 2000

These standing points have put the federal government in a state of dilemma. The agitation for resource control right created dangerous dimensions to the survival of the nation, more so that the division is primarily along geo-ethnic lines. This led the federal government to institute a suit at the Supreme Court, joining all the states of the federation as defendants for the interpretation of section 162 of the 1999 Constitution of the Federal Republic of Nigeria. Several issues were raised both by the plaintiff and the defendants, especially the eight (8) Littoral states (i.e. states bounded by the sea) of Akwa-Ibom, Bayelsa, Cross River, Delta, Lagos, Ogun, Ondo and Rivers as to the southern (or seaward) boundary of each of these states. Counter-claims were also raised by some states which led to the following among other issues:

- whether it is lawful for federal government to first make first charges before sharing the balance;
- whether it is lawful for the federal government to appropriate 1% of the federation account to the Federal Capital Territory (FCT);
• whether it is lawful for the allocation intended for local governments or for purpose of primary education be paid to any person or authority other than the state government; and

• what the procedure is for making provision for the formula for distributing the amount standing to the credit of the Federation Account in pursuance of section 162 of the constitution.

The 2001 judgment of the Supreme Court further complicated the problems of the Nigerian federation. Though the Federal government was the plaintiff in the Resource Control suit, its prayers were granted by the Supreme Court declaring it as the rightful owner of the resources in littoral waters, through its on-shore/off-shore dichotomy, the federal government on the whole was the greatest looser. The two other areas that come to mind here include outlawing of the 1% it has been unilaterally allocating to the FCT and the power to make first charges from the federation account. Apart from these, the judgment with respect to the on-shore/off-shore dichotomy further worsen the fragile relationship between the oil producing states and the federal government/non-oil producing states. The danger of the judgment on the Nigerian Federation was thereafter realised and political solution to the problem was conceived by the federal government. This was followed by sponsoring a bill to the legislative houses to abrogate the on-shore/off-shore dichotomy. The bill was speedily passed by the houses abrogating the dichotomy and became operational after the President’s assent.

Resource Control Issue: Aftermath of Political Solution

The abrogation of the dichotomy did not go down well with non-oil producing states, especially all of the northern zones and others like Osun, Oyo and Ekiti in the South and which eventually led to the mid-2004 Oil
suit challenging the abrogation. The suit was said to be a red signal as some southwestern states are now in an unusual agreement with some others from the northern zones to fight the fellow southern states for the first time.

The Oil suit was yet to be determined when the long awaited Constitutional Conference, named National Political Reform Conference (NPRC), was convocated on 21st February, 2005. One of the naughty issues that almost brought the conference to an abrupt end was that of resource control right. The south-south delegates, and supported by other zones in the south, pressurized for increase of the current 13 per cent derivation rate to a minimum of 25 per cent to adequately compensate the zone. The Fiscal Mobilisation and Revenue Committee of the conference recommended 17 per cent as the new rate and which the larger house adopted during the plenary session. This adoption caused an impasse that resulted in its adjournment for weeks to allow tempers to cool down and to allow for amicable resolution of the problem, especially with the leaders of the geopolitical zones. The conference at the end of the day approved the 17 per cent as recommended by the fiscal committee.

The positions of both the northern and southern delegates were clear. To northern zones delegates, the demand of the south-south delegates was simply described as gross self-centredness and not in the general interest of the country and more importantly the demand that will impoverish the north and other non-oil producing states. Further to this, they were of the opinion that other zones in the country should not pay for inadequacies on the part of the south-south governors for not using the 13 per cent derivation fund they have been collecting since 1999 to better the lives of their people. On the other hand, the south-south delegates were of the opinion that it was unfortunate that the north is portraying itself as being incapable of surviving without crude oil, whereas there are nations surviving on sugarcane, tobacco and groundnut. Explaining further, they
were of the belief that granting such right would be to the advantage of all as it will be extended to all natural resources and fortunately no part of the country that is not richly endowed with one exploitable resource or the other. To crown it all, the history of Nigeria was traced by saying that it was the late Sardauna of Sokoto, Sir Ahmadu Bello, that started such agitation when he said he would want to use the resources of the Northern Nigeria to develop Northern Nigeria. That was the time when Nigeria was living on groundnut, cotton, etc mainly grown in the north. It was added that he backed out of the agitation when he had the opportunity to be the President of Nigeria (Tell, 2005a:27).

The fact now is that the NPRC has recommended 17 per cent derivation and which did not go down well with the delegates from the southern zones, especially south-south geopolitical zone.

**Federalism Vs Full Resource Control Right**

The concern of this work is to support the granting of full resource control right to the constituent units within the Nigerian federation.

The Nigerian federation is made up of over 400 ethnic groups (Kirk-Greene) and as at the time when Nigerian federation was designed via 1954 Constitution, it was a baby of necessity. This is so because a federation is usually viewed as a form of government structure deliberately designed to cope with twin, but difficult task of maintaining unity while also preserving diversity (Jinadu, 1979:15). The federal model is particularly appropriate to countries with diverse cultures, (and religions, ethnic traits, vision, resource-endowment, character and so on) (like Nigeria), and one of its essential elements is that it institutionalises social divisions by creating mechanisms for the articulation of such diversity in the hope of forging unity through diversity (Olowu, 1995).
Simply given, federalism is the method of dividing powers so that the general and regional governments are each, with a sphere, coordinate and independent (Wheare, 1963:10). He then listed the following as attributes of federalism: the division of powers among the levels of government; written constitution showing this division; each component government must be independent within its own sphere of competence; the constitution not amendable by one level of government alone, and lastly, the existence of a supreme court to act as an umpire. Although out of about twenty-two (22) federations in the world, none can be said to have conformed completely to Kenneth Wheare’s model, one can deduce from the foregoing that non-centralisation of powers, be it political, administrative or fiscal, goes with a federal system of government. Political federalism is concerned with the division of powers among the tiers of government where the tiers are each within a sphere, coordinate and interdependent (Oates, 1972: 16; Asobie, 1998:15). On the other hand, administrative federalism has to do with the delegation of functions to lower levels of government. The third form, which is the most relevant to this work, is fiscal federalism, also referred to as intergovernmental fiscal relations between and among the units of government in a federal system. In the words of Oates (1972: 16-20) and Tanzi (1995:297), fiscal federalism is about the allocation of government spending and resources to the tiers of government. It is all about fiscal decentralisation which occurs when lower levels of government have statutory powers to raise (some) taxes and carry out spending activities within specified legal criteria, to prevent vitiating a viable federation.

If this non-centralisation feature of federalism is anything to go by, the posture of Nigerian government(s) by which powers, including its fiscal allies cum the control of natural resources (situated in the states/communities), are centralised to the federal level needs a rethink.
This centralisation, which began on January 15, 1966 at the termination of the first republic, resulted in excess liquidity at the center and which has in turn kindled being keen for power and influence among the regional blocs and power caucuses.

**Decentralising the Control of Natural Resources: The Gains**

To this point, we have successfully introduced the theme of this work. Attempt shall be made from this point to justify the need to grant the control of natural resources to the constituent units where they are located. As Dunmoye (2002) has rightly said, there is no gainsaying the fact that the oil producing states have the constitutional right to demand for resource control. It is a political as well as a constitutional issue, he added. It is also a kind of situation whereby the Nigerian fragile federation is finding itself in a level field for re-examination. Since that 1966, the kind of federalism we have been practising in Nigeria has been unitary in nature; with the federal government holding other units as mere vassals with virtually no power for self-determination. The decentralisation of control over natural resources will solve this problem.

The Nigerian economy has been monolithic in nature despite the varieties of natural resources that are found across the country (see above table). The sustainability of Nigeria is in danger by depending on one product (oil) to sustain her economy as this oil is not inexhaustible. Even, that it is now being depended upon solely is because of its importance in the world economy. Also, that it is assuming such a position in the world economy today does not mean it will continue to be so more so that the developed countries improve upon their technology almost every day. This reminds us of a point in the history of Nigeria when it was tin, cotton, cocoa, groundnut, oil palm and rubber, today it is crude oil, and only God
knows what it will be tomorrow upon which Nigeria will depend. Granting full control of resources to the constituent units will mean encouraging each unit to exploit and develop the resources in each area. It will mean diversifying the economy, which the international bodies like World Bank, have been suggesting to Nigeria as a solution to her economic problem. The present arrangement under which the future of the country is tied to the “petrodollar” revenue is not healthy.

Apart from this, the very day the control of resources is granted to the constituent units means the beginning of true federalism in Nigeria. The present control pattern is not a feature of federalism as the federal government is arrogating too much power to itself. In a nutshell, federalism will be one of the principal winners the very day such control is granted. The impasse towards the end of the aforementioned NPRC was a revolt against the Nigerian federalism. The constituent units are no longer having confidence in the central government and the best step is to grant such a right. The Nigeria’s bastardized federalism has worsened its affliction with the “Dutch disease” –a condition in which a country that is rich resource-wise has continued to be lazy and imprudent.

Granting the right to control resources to the constituent units is a move towards ensuring economic viability of most of the units under the two lower tiers. The present intergovernmental fiscal relations, otherwise known as fiscal federalism, have always been in favour of the federal government, especially since 1970 when Decree number 13 was promulgated. In other words, the lower tiers of government have been experiencing both vertical and horizontal fiscal imbalances as well as fiscal mismatch between their expenditure responsibilities and their revenue raising capabilities (Ashwe, 1986:2). These combined together have been threatening the economic viability of the states and local governments which only decentralised right to control resources can solve. The present
arrangement whereby the two lower levels of government are almost
depending only on the revenue allocated to them from the Federation
Account is unhealthy. This is apart from the fact that what they even
receive from the said account is grossly inadequate to match their
constitutionally assigned responsibilities.

The growth of the activities of ethnic militants and ethnic conflicts
is prominent in the news today in Nigeria. The growth is traceable to their
disaffection with the practice of federalism and its corollary fiscal
federalism in Nigeria as well as the systematic destruction of the ecosystem
in the oil producing areas which led to environmental degradation,
pollution, and such other related problems. The present democratic
government of president Olusegun Obasanjo was shaken to its marrow by
the militants’ activities on assumption of office in 1999 which led to
passing into law the Niger Delta Development Commission (NDDC) Bill
sometimes in year 2000. The multi-national oil companies also bear their
own brunt of the militants’ activities, meaning a threat to the Nigerian
economy. The agitation, by implication, concerns financial autonomy,
which can only be tackled by granting control right of resources to the
constituent units. This is more so that the federal government has failed as
a state in addressing infrastructural development in Nigeria at large and in
the oil producing communities in particular.

In the political sphere, the stability of our political entity called
Nigeria is being threatened because of the centre that is too powerful
politically and economically. This is so because of the ethnic groups that
are always desperate to enthrone their kinsmen as President. This situation
is understandable, the direction of the flow of national wealth is often
dictated by the way of political power. In order to enjoy the national cake
often depends on the power base. Granting resource control rights to the
units is a step towards reducing the ‘mad rush’ as it will mean a weaker
centre, granting the units freedom to develop at their pace rather than existing at the mercy of the federal government. This will be a way out more so that a section of the country is working towards jettisoning the rotational system (agreed upon) along the six (6) geo-political zones.

So far, we have been able to justify the need to permit the constituent (lower) units to exploit and develop the natural resources in their areas and contribute an agreed percentage of the revenue so generated to the federal government.

In the alternative, the federal government must take the following steps:

(a) The pre-military era of 1966 when derivation principle was prominent in the revenue sharing must be returned to. This is necessary as the agitation for resource control right is an indirect way of demanding for enhanced derivation principle. This should not be controversial at all as it seems to be the best of all the principles for now because there is no region that is not blessed with at least one natural resource or the other if only the units will be willing to exploit them.

(b) The agitation for resource control right is in response to the failure of the state or federal government in providing and developing social infrastructures. The state should wake up to its legitimate social roles by embarking on infrastructural development (fairly distributed) and people-oriented policies and programmes.

(c) There is need to re-examine the fiscal relations among the tiers of government. The present arrangement is lopsided and is likely to threaten the viability of many states. The revenue formula must be revised to give the deserved attention to the oil producing states. A situation whereby everything is being done by a section of the country to eliminate “Derivation” as a factor for sharing revenue only to
encourage the use of more controversial factors like population and
land mass is highly disheartening and unhealthy.

(d) From (c) above, there is need to stop forthwith the practice of
deducting “First Charges” which the military introduced in 1989 by
which the federal military government unilaterally allocated a
substantial portion of it to itself for purposes described as national
projects before the rest of the revenues are paid into the distributable
pool (Federation Account). Such deductions have been described in
many quarters as abuse of office in a federation. The 2001 Supreme
Court judgement on resource control suit also outlawed the practice.

(e) Also, from (c) above, buying the ideas of Osagie in one of his
presentations in 1992 the content of the federation account needs be
reviewed because there are still many leakages. For example, (i) the
gas production and export should be accounted for separately from the
sale of crude oil, (ii) the surpluses recorded by the CBN and other
parastatals like NNPC, NITEL, NEPA, etc, and dividends accruing
from public sector investments should be paid into the Federation
Account and lastly (iii) the Federation Account should be properly
credited when the federal government uses crude oil to pay for capital
projects executed by the foreign contractors (as practiced during the
past military regimes).

(f) Also from (c) above, there is need to revisit the horizontal revenue
sharing principles like the present equality (40%), population (30%),
landmass (10%), social development factor (10%) and internal revenue
effort (10%). The principle of equality of states is often said to be
meaning-less except as a political or legal concept. This is so because
the states are not equal in any economic sense (Philips, 1975 & 1980).
To use a principle that does not have any sound economic jurisdiction
and to attach a weight of 40 per cent to it seems to be the greatest flaw
of the existing revenue sharing scheme (Ashwe, 1986). The emphasis on population is the most important and controversial issue resulting from complaints that population census figures were manipulated in favour of some states. In the case of landmass and terrain principle the complaints is that the principle undermines the interest of the states with small landmass. The thinking in many quarters is that this criterion makes no sense and politically motivated. The main complaint as per the use of social development effort as a factor is that the weight assigned to it is on the low side. Apart from this, the suggestion is that the criterion should be taken as proxy for direct enrolment in educational institutions. It was added that other proxies for social development factor such as health and water should not be entertained as states are normally expected to provide for these amenities from all their revenue sources including internally generated revenue. Lastly, the weight of 10 per cent attached to internal revenue effort is said to be on the low side if the government is serious about encouraging the lower levels of government to improve on their revenue drive.

(g) There is the need for the federal government to provide financial support to the lower levels in the area of education. It is well known that education (primary and secondary) is one of the largest areas of expenditure by both the state and local governments, especially in the southern part of the country. Federal support for education is a way of reducing the expenditure responsibilities of the lower levels of government, which will mean a healthier fiscal arrangement. Apart from the fact that the present poor quality of our education will be reserved, the lower levels of government will be opportuned to provide other essential services.
(h) The federal government must mandate the multi-national oil companies to be playing their social responsibilities and include the disclosure of such social undertakings during the year in their annual reports (Adesopo, 2001:197). This will encourage them to contribute to the social and economic development of the oil producing states/communities, which in a way will pacify the militants agitating for resource control right. This step will also cause the companies to be concerned about the environmental implications of their operations. More often than not, the regular oil spillages being experienced in the oil communities are due to carelessness on the part of the companies which have resulted in the destruction of crops, economic trees and fish, and the attendant mass poverty. There is need for the oil producing companies to adopt the safest means of exploiting and producing oil and gas. This may have to be enforced by entrenching it in the Constitution or the Companies and Allied Matters Act (CAMA) be amended accordingly as it is being practised in many other countries like Denmark, The Netherlands and Scandinavian countries (Gray et al, 1996:169). In addition, the oil producing companies must form the habit of ploughing back a certain percentage of their earnings for development of the areas of operation for peace and growth of their business. Due to mass poverty among the hosting communities, the companies must float Fund Credit Schemes to encourage and provide support for financing indigenous entrepreneurs operating in the area.

(i) There is need for the federal government to outlaw the existence of the Sharia judicial system alongside the Nigerian constitution. This is necessary as the demand of the Southern Governors for resource control right was (partly) developed in their quest to balance the demand and subsequent introduction of Sharia judicial system in some Northern States.
Conclusion

From both economic and political points of view, it is evident that in order to save the Nigerian federation, there is need to fully grant to the constituent units the much agitated resource control right. To say the least, apart from the fact that such a step will guarantee a diversified economy, it will also mean that the Nigerian federation is a true one. Now that the NPRC had submitted its recommendations, it is left for the National Assemblies to make decisions that will be in favour of the Nigerian economy as well as her political system.

References


CHAPTER XXIV

ECONOMIC ANALYSIS OF CASHEW NUT MARKETING IN NIGERIA: A CASE STUDY OF ONDO STATE

Osotimehin K.O., Adedokun O.A. and Tijani A.A.

Introduction

In the early years of independence, Nigeria enjoyed steady economic growth and a healthy balance of payment position through the export of cash crops. However, since the early 1970s, crude oil has remained the country’s main foreign exchange earner while other non-oil products have been neglected and untapped. With the advent of the oil boom, agriculture’s share in the GDP has been falling consistently. Unfortunately in the late 1970s and early 1980s, the prices of oil and its derivatives began to fall in the global market, while those of manufactured goods and agricultural commodities began to increase considerably. Since Nigeria is more or less operating a mono-sectoral economy by its large dependence on oil, the fall in the price of oil led the country into a series of problems including chronic balance of payment difficulties, sharp reduction in foreign exchange earnings, mounting internal debt and low international credit rating (Oni et al, 1992).

With the economic difficulty, it became imperative for the country to revitalize its export sector with a view to diversifying the range of items that could attract buyers from outside the country’s shores. Particular attention was paid to increasing Nigeria’s non-oil exports, of which agricultural exports constitute a large percentage. This step of diversification was necessary because unless the export earning is increased and diversified, the drive to build a prosperous nation will remain a dream.
It was expected that the promotion and diversification of agricultural exports would assist Nigeria in resolving some of her economic problems. It was in the realization of this, that the Federal Government of Nigeria introduced the Structural Adjustment Programme (SAP) in 1986. The objective of SAP among other things was to restructure and diversify the productive base of the economy in order to reduce dependence on oil. The programme placed a high priority on the stimulation of the agricultural sector through substantial improved incentives. The primary focus of Agriculture under SAP was to restore and enhance agricultural incentives by removing distortions along its path (Oni et al, 1992). On the export side, non-oil exporters were granted unrestricted access to the foreign exchange market and the right to retain 100 percent of their export earnings. Likewise, the six existing agricultural commodity boards were abolished in December, 1986, thereby opening up internal and external marketing as well as ensuring free market determination of the prices of all agricultural commodities (Oyejide, 1990; CBN, 1986).

Other measures or incentives provided by the Federal Government to increase and promote the export of agricultural commodities include the re-organization of the Nigerian Export Promotion Council (NEPC), establishment of the Nigerian Export-Import Bank (NEXIM), and the Nigerian Export Guarantee Scheme (NEGS). All these were intended to support farmers and prospective exporters, with the aim of boosting the export of non-oil products.

The above stated efforts of the government have had positive effects on the production of agricultural exports. This is reflected by the contents of Table 1. A careful examination of the table however, shows that most of the increases witnessed in the production of export crops were in the traditional export crops such as cocoa, rubber, and palm products. The non-traditional exports were shown to constitute a little share or component
of the total agricultural exports (See Table 2). A huge dependence on the traditional agricultural crops as the major source of foreign exchange from the sector is quite detrimental to the Nigerian economy. The country should learn from her experience of over-dependence on oil as the major foreign exchange earner. For instance, if the price of cocoa, coffee, and rubber decline substantially in the global market, there is bound to be a drastic reduction in what the country will earn. In addition, if pests and diseases attack these crops, or there is a glut in the international markets for these traditional crops, the agricultural sector will not contribute much to the foreign exchange earning, and the Nigerian economy may be adversely affected.

The situation as presented above is not healthy for the agricultural sub-sector; hence promotion of non-traditional exports should be encouraged. It has been observed by Valdes (1990) that a significant expansion of the export of only a few crops could reduce world prices and perhaps marginal export revenue. Valves therefore believes that the excessive emphasis on two or three export crops could be misleading. He reasons that countries following open trade regimes such as Brazil, Chile, Thailand, and Turkey have usually succeeded in diversifying their agricultural exports over time.
<table>
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<th>YEAR</th>
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<th>Coffee</th>
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Source: CBN Annual Reports and Statement of Accounts, various issues
Table 2: Components of Nigerian Agricultural Crop Export

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<th>Total Agricultural Export ('000 tones)</th>
<th>Traditional Export</th>
<th>Non-Traditional Export</th>
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<td>Relative Share (%)</td>
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<td>263.2</td>
<td>239.6</td>
<td>91.03</td>
</tr>
<tr>
<td>1995</td>
<td>304.1</td>
<td>240.3</td>
<td>79.02</td>
</tr>
<tr>
<td>1996</td>
<td>174.8</td>
<td>133.4</td>
<td>76.37</td>
</tr>
<tr>
<td>1997</td>
<td>691.4</td>
<td>210.8</td>
<td>30.49</td>
</tr>
<tr>
<td>1998</td>
<td>295.1</td>
<td>274.9</td>
<td>93.15</td>
</tr>
</tbody>
</table>

Source: CBN Annual Reports and Statements of Accounts, various issues.
The development of cashew nut production appears to be one of the most important searches for diversification of agricultural exports, and additional sources of revenue for the rural population. Cashew nut is delicious and highly nutritious. It is known to contain a fair amount of moisture, food energy, fat-soluble vitamins and considerable amount of calcium, phosphorous, and iron in organic complexes. The protein content of the nut varies from 20% to 22%, and the quality approximates that of soya beans, while distinctly ranking more superior to that of groundnut. It has also been discovered that there is no risk of aflatoxin poison in cashew nuts (Opeke, 1982).

Cashew is an important crop in many respects. For instance, the nut when roasted can be served as snacks. The kernel of the nut is also used as a cocktail delicacy, and in the food industry for the manufacture of nougat, biscuits, ice-cream, etc. Aside from domestic food uses, cashew nut has industrial importance. The shell of the nut is a good source of cashew nut shell liquid (CNSL). This is a sticky brown liquid extracted from the honey comb structure of fresh shells. It contains natural phenols with 90% anarcardic acid and 10% cardol. The juicy sweet cashew apple has nine times vitamin C than orange, and the pulped fruit can be used for fruit juice, alcohol, sweets or fruit pies (Spore, 1997). The cashew nut shell liquid. The distilled and polymerized oil from CNSL is used in products like paints, typewriter rollers, automobile brake and clutch linings, floor tiles, insulating materials, and cold setting cement (Spore, 1997). The pulp of the apple is an admirable animal feed (Opeke, 1982), hence, could be a veritable source of livestock feed.

In other producing countries where due recognition has been given to it, the cashew industry is a valuable source of foreign exchange, and provides employment for thousands of growers, processors, and traders. For example, it is the second largest provider of hard currency to the
Cashew nut is one of the most traded nuts in the world. According to Nyberg (2000), world cashew production increased rapidly from the 1950s through the early 1970s, when African countries accounted for the larger share of the global cashew production (approximately 70% of the average annual total). Table 3 shows the world production statistics between 1995 and 2000. It can be inferred from the table that global production of cashew nuts averages about 949,913 metric tones per year for the period under review. India accounted for more than 38% of the production. Other producing nations are Vietnam, Brazil, Mozambique, Tanzania, and Nigeria. Currently, West African export of cashew is principally from Nigeria (Jaeger, 1999).

| Table 3: World Production Statistics of Cashew Nuts, 1995-2000 |
|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| **Country**           | **2000**        | **1999**        | **1998**        | **1997**        | **1996**        | **1995**        |
| India                 | 440,000         | 440,000         | 440,000         | 430,000         | 417,830         | 321,640         |
| Nigeria               | 176,000         | 175,000         | 152,000         | 125,000         | 110,000         | 95,000          |
| Brazil                | 153,921         | 139,841         | 54,124          | 125,396         | 167,211         | 185,229         |
| Tanzania              | 106,500         | 106,500         | 93,200          | 63,000          | 82,000          | 63,400          |
| Indonesia             | 69,027          | 69,027          | 69,027          | 69,878          | 67,676          | 74,995          |
| Vietnam               | 41,200          | 41,200          | 54,000          | 66,900          | 59,100          | 52,800          |
| Mozambique            | 35,000          | 51,894          | 51,716          | 43,325          | 65,000          | 33,423          |
| Ghana                 | 7,500           | 7,500           | 7,500           | 7,500           | 1,500           | 1,000           |
| **TOTAL**             | 1,029,148       | 1,022,962       | 921,567         | 927,999         | 970,317         | 827,487         |

*Source: Olenwuenyi, 2001*

**Statement of the Problem**

As already mentioned in the preceding section, Nigeria has been recognized as a major producer of cashew nut, and was in fact, rated the second largest producer with an annual output of 176,000 tones in the year
2000. In spite of this achievement however, the country’s impact in the international cashew nut market is insignificant (Olenwuenyi, 2001). It has also been observed by Osagie (2001) that the cashew nut industry continues to experience a high level of unsold stock. This view is supported by the contents of Table 4. For example, though 110,000 tones of cashew were produced in 1995, only 13,800 tones or 12.5% were presented at the global market. It was also claimed that less than one-third of the remaining was processed locally, while the rest were wasted in various warehouses. Researchers and other stakeholders in the industry have offered possible explanations for this occurrence. Some are of the opinion that it was due to the problem of poor quality [Osagie, 2001; Jaeger, 1999; and Quenum, 2001], while others suggest that it was due to the low capacity of the processing plants (Anjorin, 2001). The losses arising from this problem have been estimated to vary between $57 million and $133 million each year from unsold stock (Anjorin, 2001). One notable feature of Nigeria’s export crops is the general complaints of poor quality of her produce in the international market. The immediate consequence of this is to be found in the poor prices being offered cashew the crop in the international markets. For instance, the Hong Kong trade statistics quoted by Quenum (2001) indicated that cashew of Nigerian origin commands the lowest price of $0.63 per kilogram or between $600 and $800 per tone for the 1997 production season. Figures for 2002 also showed a pattern (See Table 5).
## Table 4: Trends in Raw Cashew Nut Production and Export in Nigeria (Tones)

<table>
<thead>
<tr>
<th>Year</th>
<th>Quantity Produced</th>
<th>Quantity Exported</th>
<th>Export as % of Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>30,000</td>
<td>2,000</td>
<td>6.67</td>
</tr>
<tr>
<td>1991</td>
<td>45,000</td>
<td>4,000</td>
<td>8.89</td>
</tr>
<tr>
<td>1992</td>
<td>55,000</td>
<td>2,600</td>
<td>4.72</td>
</tr>
<tr>
<td>1993</td>
<td>75,000</td>
<td>9,100</td>
<td>12.13</td>
</tr>
<tr>
<td>1994</td>
<td>85,000</td>
<td>8,000</td>
<td>9.41</td>
</tr>
<tr>
<td>1995</td>
<td>95,000</td>
<td>13,800</td>
<td>14.53</td>
</tr>
<tr>
<td>1996</td>
<td>110,000</td>
<td>2,900</td>
<td>2.64</td>
</tr>
<tr>
<td>1997</td>
<td>125,000</td>
<td>18,300</td>
<td>14.64</td>
</tr>
<tr>
<td>1998</td>
<td>152,000</td>
<td>7,400</td>
<td>4.87</td>
</tr>
<tr>
<td>1999</td>
<td>175,000</td>
<td>n.a</td>
<td>n.a</td>
</tr>
<tr>
<td>2000</td>
<td>176,000</td>
<td>n.a</td>
<td>n.a</td>
</tr>
</tbody>
</table>

**Sources:**
Agricultural Export and the Nigerian Economy

There is a widespread agreement that agriculture is central to economic growth in the counties of Sub-Saharan Africa, since it is thought to account on the average for about 70% of total employment, 40% of total merchandized exports and one-third of GDP (Delgado, 1995). Between one-third and two-thirds of value added in manufacturing depends on the supply of agricultural raw material (Jaffee, 1992). Furthermore, exports accounted for roughly one-fifth to one quarter of the estimated value of African agricultural production on the average in the late 1980s (World Bank, 1992).

The belief that rapid growth of exports accelerates economic growth in developing countries has been analyzed in great detail and the direction of casualty discussed. A positive relationship between exports and economic growth has been found (Ram, 1985; Bhagwati, 1988). However, Valdes (1990) in his study argues that the development strategies after World War II in most developing countries, including those of sub-Saharan Africa grossly under valued the potential contribution to economic development of agriculture in general and agricultural exports in particular.
Onafowora et al (1998) in a study on “The Effect of Trade Liberalization on the Stimulation of Economic Growth in Africa” examine changes in economic growth that are likely to result from changes in trade policies, exports and investment. They found that in Nigeria, the coefficients of export growth are positive and statistically significant. This finding suggests that agricultural export led growth is a feasible strategy for Nigeria.

It is frequently suggested that export diversification or the progression from ‘traditional’ to ‘non-traditional’ export is an important component of export led growth. Scholars have argued that diversifying the agricultural export base and diversifying the economic across sectors are central to long run growth strategies in Africa as in elsewhere (Delgado, 1995).

Ferrantino et al (1997) reflect that, along side the hypothesis that outward-oriented countries grow more rapidly, there is another hypothesis that the pattern of economic development is associated with structural change in exports and increased export diversification. They stated further that the hypothesis of diversification - led development is not necessarily tied to the outward-orientation hypothesis. They argued that diversification in production eventually leads to diversification in exports and an escape from the ‘primary product trap’. They concluded that to some degree, export diversification has been a response to economic crises.

From the view of Kaul (1997), diversification in favour of horticultural crops is driven by hard economic factors. These crops are characterized by high productivity per unit area, much higher returns, and higher potential for employment generation and exports, comparative lower requirement of water and easily adaptable to adverse soil and wasteland situations. According to him, major commodities in the export basket are
cashew nuts, spices, mango, etc. Out of all these, cashew leads with an overall share of about 41% of the total value of horticultural crops.

Several constraints have been found to militate against the increased production of cashew nuts in Nigeria. Three of these have been identified by Nwabuisi (2001). These are poor attitude of government, poor quality of raw cashew nuts and smallness of farms. Concerning government attitude, he explained that in the late 1950s for instance, Nigerian exports were largely dominated by agricultural products (both raw and processed forms). At that time, as much as 80% of the total earning came from cash crops. However, with the discovery of oil, a downward trend was recorded and agro-commodities as a foreign exchange earner were no longer emphasized, and eventually neglected. He added that the government, compelled by the vagaries of the oil market has taken steps to reverse the declining trend in agro-commodity exports. Such steps include the adoption of a Structural Adjustment Programme, the revitalization of export promotion institutions, and the encouragement given for the establishment of commodity associations.

On the issue of poor quality, Nwabuisi notes that the lack of high quality raw nuts is often a major constraint for exporters. In such situations, exporters are left with no option that to present the low quality produce at the international markets. With regard to smallness of farms, Nwabuisi reasons that the cashew nut industry in Nigeria is yet to witness large scale commercial cultivation since most of the cashew farms in Nigeria are owned by peasant farmers. In the same vein, Ezeagu (2002) identifies several factors that tend to influence the Nigerian cashew nut national processing performance. First is the problem of competition from exporters of raw nuts. He explained this as a major factor affecting the processing performance. When export prices are high, there is always a stiff competition between processors and exporters of raw nuts, thereby
resulting in higher prices of inputs for processors and the non-respect of obligations by buying agents. In this situation, exporters of raw nuts tend to pay more to farmers, (in order to buy raw cashew nuts from them) leaving the processors with insufficient input nuts for processing.

Second is the demand situation in the international market. Here, Ezeagu reiterates that the higher the demand in the export market, the higher the prices. The domestic market also reflects this pattern, necessitating at times the processors to draw from the old stock and to make more efforts to secure raw cashew. He added that when export market demand is low, processing performance would be low as well. The third problem according to Ezeagu, is the infrastructure constraints. He stresses that a large number of processing factories are located in the semi-urban areas where power supply is erratic, road access is difficult, and access to communication facilities is problematic, which invariably result in increased production costs. Lastly, he wrote that shortage of nuts poises as another problem. He explained that processing plants in Nigeria were installed on the assumption that raw nuts were not always available when needed. It is only when export prices are low and exporters of raw nuts are left with unsold stocks that domestic processors can secure sufficient supplies of raw nuts.

In spite of these problems however, Anjorin (2001) believes that there are advantages in processing cashew nuts into cashew kernels locally. In the first place, raw cashew nut is widely grown and readily available in Nigeria and, the current installed processing capacity according to him, is less than 10% of the raw nut output is the country. He added that most of the output is sold in its raw form mainly to India and Vietnam. Secondly, the processing plants have the capacity to generate employment for a significant number of people. According to him, the semi manual Indian processing technology which is predominant in Nigeria today will
need about 250 employees per 1000 M.T of raw nuts processed. In the third place, larger market exists for cashew kernels across several nations, unlike the trade in raw nuts, which is mainly with India, Vietnam and to a lesser extent Brazil. In the fourth place, the market for cashew kernels is characterized by less turbulent pricing with a demand that is more predictable compared to the market for raw nuts, where output levels in the buyers countries determine whether they buy from Nigeria or not.

**Importance of Quality in Agricultural Trade Flows**

In a report discussing the background of project INT/3/69 – “Trade expansion in cashew in cashew nuts from Africa” sponsored by the International Trade Centre and the Common Fund for Commodities, it was stated that the development of exports of cashew nuts is considered of special interest to African countries. This is because exports from the sector contribute to increase national foreign exchange income and rural population revenues, and that better quality can be fetched for cashew nuts if their quality responds better to the demand and quality requirements of the end users. The report added that the major obstacles to the development of exports of cashew nuts from Africa are the insufficient domestic processing to higher value-added products, as well as the short comings related to the organization and networking of the sector; and export quality control and quality assurance systems at both national and regional levels. Moreover, most Africa exporters of cashew nuts do not access the international markets directly, but supply foreign processors and re-exporters. It was therefore concluded that the organization of the cashew nut sector and a strong local institutional support are required in order to upgrade the offer of African cashew on international markets. This, according to the report involves in particular the development of specific varieties and export products adapted to the international market.
demand and the expansion of local processing, in cases where it is economically viable. In additional, the networking between stakeholders of the sector in concerned countries is critical in order to strengthen the effectiveness of export development efforts (ITC/CFC 2002).

From the view of Suresh (2001), cashew nut is a very “dubious” product whose quality must be given proper attention. For instance, the physical appearance of the crop may not reflect the true quality of the product. The author therefore believes that it might be disastrous to buy cashew on the basis of the outer appearance of the nut. He opined that the quality of the nut can only be assessed when the nut is cut open and the kernel inside is checked for its acceptability. This is because the end processor is paying the price for the kernel which is inside and not for the physical nut outside.

Quality and price have always been important in the agricultural produce trade, but it is particularly relevant to consider the topic of quality assurance at this time because business perspectives have today shifted from price to product safety, reliability, shelf life and acceptability to the consumer. Quality has emerged as the prime factor determining products which are welcomed into the International markets and those which are left in the cold (Cashew Bulleting, 1997).

Competition for a share in both export and domestic trade of agro produce is high and only those suppliers who can consistently provide the quality required by the customers at a competitive price will succeed. Suresh (2001) explains further that every quality has its own price, therefore quality goods attract premium prices and vice versa. He therefore advised that in a buying decision, every cashew buyer needs to alter or differentiate his price for the cashew nuts he is buying. For a good nut he may pay a price into which he must have factored a premium, while he may reduce the price for lesser quality nuts. Furthermore, Suresh noted that
quality management is one of the main factors that determine profit margin in cashew trade.

Cashew as an export-oriented food product needs to have quality built into it at every stage of production such as harvesting, post-harvesting operations, processing and packaging. It was further stated that the modernization of cashew processing and plants in order to bring them into conformity with international standards of quality, sanitation and hygiene is an absolute necessity. Equally noted as of importance are proper warehousing facilities and transportation infrastructure.

From the view of Malins and Woodhead (1996), the implementation of a recognized quality management system is likely to be regarded as the best possible demonstration that all reasonably precaution (due diligence) have been taken. The authors reason further that a quality management system can also help an agro-exporter to gain competitive advantage through inspiring customer confidence in their ability to meet the specifications required.

Quality differences and product differentiation have been identified as determinants of trade flow in an imperfectly competitive world market setting (Helpman, 1985). Generally, agro-exporters use a variety of policy tools such as location advantages and quality differences to promote the sales of their products. Webb et al (1995) identify the increasing importance of quality as a source of competition in agricultural marketing. The superior product quality, robust delivery performance advantage (Singh, 1996). This idea had earlier been suggested by Chandra et al (1994) in the statement that, “even if macro policy changes encourage competition, the ability to compete depends on the dynamism of the individual firms”.

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664
Interests in quality differentiation in trade models is increasing as agricultural trade economists have come to realize that even for the so-called "bulk commodities", quality is becoming more important in the world market. It is therefore reasonable to suggest that price differentials in agro-exports are the consequences of quality differentiation, as different grades of agricultural products attract different prices.

Singh (1996) identifies problems of quality and product design as major pre-shipment problems faced by individual firms operating in the international market. He argued that these problems originate to a large extent in the agricultural marketing sectors which are quite inefficient in terms of costs and deliveries. The problems of quality demand solutions of individual firms, such as contract farming, marketing and procurement arrangement etc. Pre-shipment problems in cashew nut marketing have been identified as reasons for poor quality. These include: wrong harvesting techniques, improper drying after collection of raw nuts, improper storage of dried nuts, and prolonged storage of raw nuts after collection and exposure of raw cashew nuts to moisture during storage and transit.

Shomari (2002) observes that the marketing of cashew nut has been a problem, particularly to the producers of the crop. He explained that the problem associated with marketing has often been the main factors for the fluctuation of the production volume of the product, especially in Africa. The author identified the following marketing problems: insufficient market and price information, low farm–gate raw nut quality, low kernel quality, lack of institutional frameworks such as legal frameworks, dialogue between stakeholders, stakeholders analysis, existing rules and regulations and trade restrictions, inefficient marketing channels for raw nuts and sub-optimal consumption levels of cashew kernels.
Lall (1991) refers to the problems above as “marketing barriers” and he is of the view that internalizing the functions of the various marketing channels in the agro-industry can yield sufficient advantages to the firms in the long run. Choi (1992) recognized that when there is a high rate of seller turnover and relatively low exogenous entry costs, the agribusiness firms in developing countries and have no incentives to maintain good quality. He also notes that most developing countries face a major problem which he tagged “country of origin bias”. In fact, product differentiation has been applied to agricultural trade flows on the basis of country of origin. In this situation, even if the product design and quality of an agricultural product is internationally comparable, the overall negative image of the country in the international market may create problems for the efficient and competitive firms from the developing country. The environment of negative image will have adverse effects on the pre-shipment quality of the products as well. Choi (1992) therefore suggests that certain institutional mechanisms be brought in to encourage quality and competitiveness among firms. For example, the government of a country can impose certain penalty on the firms that are found to have exported low quality products or whose operations in international markets are not desirable.

**Methodology of the Study**

**Area of Study**

The study was carried out in Ondo State, South Western Nigeria. The state was carved out of the former Western State on 3rd February 1976. The State took off formally on 1st April, 1976, with nine administrative divisions of the former Western State. The State covers the total area of the former Ondo Province, created in 1915 with Akure as the
provincial headquarters. The nine divisions then were Akoko, Akure, Ekiti Central, Ekiti North, Ekiti South, Ekiti West, Okitipupa, Ondo and Owo. Akure township was retained as the state capital.

On 1st October 1996 however, the four Ekiti divisions were taken out of Ondo State for the creation of Ekiti State. The present Ondo State is made up of Akoko, Akure, Okitipupa, Ondo and Owo Divisions. The state consists of 18 local government areas (LGAs), and traverses the rain forest and the derived savannah belt of Nigeria. Agriculture is the main source of livelihood. Tree crops grown in the state include rubber, palm tree, and cashew.

Cashew nut production and marketing activities are predominant in the northern part of the state, comprising of Ose, Owo, Akoko North East, Akoko South West, Akoko North West and Akoko South East LGAs. These LGAs were the localities where this study was carried out.

Data and Method of Collection

Both primary and secondary data were employed in this study. Primary data were generated through a cross sectional survey of cashew farmers and cashew seed gatherers in five out of the six notable cashew growing LGAs above. Owo LGA was left out because of the communal crisis going on there at time the study was undertaken. The simple random sampling technique was used in selecting 15 farmers and 5 gatherers from each of the LGAs, thereby making a total of 100 respondents. In addition, the two cashew processing firms in the state were purposively selected.

A visit was made to the national headquarters of the National Cashew Association of Nigeria (NCAN) to elicit information on the involvement and operation of the body in the Nigerian cashew industry. Secondary data were also collected from the Federal Produce Inspection
Services, as well as the research reports and statistical publications of the Central Bank of Nigeria.

**Analytical Technique**

After collation, the completed copies of the questionnaire were edited for errors of omission, conflict and duplication. This was followed by the preparation of spreadsheets, coding and computer processing. In order to achieve the objectives of this study, descriptive statistics were found appropriate. For the analysis of the structure of the processing industry, the following indices were used: brief history of the firms in the industry, size and number of the firms, product differentiation, and conditions of entry. The conduct of the industry was measured by the marketing outlets and various quality grades and storage patterns. The performance of the industry was measured by assessing the operational efficiencies of the firms within the industry.

**Results and Discussion**

**Socio Economic Characteristics of the Respondents’ Age Distribution**

The age distribution of the respondents is presented in Table 6. It can be observed from the table that the majority of the farmers (74.6 %) have their ages between 50 and 69 years. The youngest and oldest of these farmers were 38 and 75 years old respectively. The mean age was calculated to be 57.21 years. In the case of cashew seed gatherers, Table 6 shows that a larger proportion of them (92.0%) have their ages between 20 and 49 years. The youngest respondent here was aged 20, while the oldest 54 years. The average age was 36.40 years. The age pattern exhibited by the gatherers is expected, since younger people are generally involved in the business of seed gathering.
Level of Education of Respondents

Table 7 shows the level of formal education attained by the respondents. The table indicates that the literacy level among the two groups of respondents is generally high. For instance, over 70 percent of the farmers have at least the primary school education, while the corresponding figure for the gatherers is 80 percent. This is not surprising as the state is generally recognized to rank high in literacy level in Nigeria.

Table 6: Age Distribution of Respondents

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Farmers [n=75]</th>
<th>Gatherers [n=25]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Absolute</td>
<td>Relative (%)</td>
</tr>
<tr>
<td>20 - 29</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>30 - 39</td>
<td>1</td>
<td>1.33</td>
</tr>
<tr>
<td>40 - 49</td>
<td>8</td>
<td>10.67</td>
</tr>
<tr>
<td>50 - 59</td>
<td>37</td>
<td>49.33</td>
</tr>
<tr>
<td>60 - 69</td>
<td>23</td>
<td>30.67</td>
</tr>
<tr>
<td>≥70</td>
<td>6</td>
<td>8.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>75</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2002
Gender Distribution of the Respondents

The distribution of the respondents on the basis of sex is presented in Table 8. It can be seen from the table that cashew farming in the study area is dominated by the male gender. The reverse is however the situation with gatherers, where over 70 percent of them are female. The prevalence of female respondents among the gatherers could be due to the fact that cashew seed gathering is less tedious than farming. It could also be attributed to the close similarity between gathering and hawking, which is assumed to be dominated by women.

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Farmers [n=75]</th>
<th>Gatherers [n=25]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Absolute</td>
<td>Relative (%)</td>
</tr>
<tr>
<td>None</td>
<td>19</td>
<td>25.30</td>
</tr>
<tr>
<td>Primary</td>
<td>20</td>
<td>26.70</td>
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<tr>
<td>Secondary</td>
<td>13</td>
<td>17.20</td>
</tr>
<tr>
<td>Post Secondary</td>
<td>323</td>
<td>30.80</td>
</tr>
<tr>
<td>TOTAL</td>
<td>75</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2002
Characteristics of Cashew Farming in the Area

Although cashew has been a traditional fruit crop in the area of study, its importance as an economic crop is just emerging. For instance, in spite of the fact that a large number of the respondents (about 89%) have been involved in general farm business activities for over 20 years; the corresponding figure for those with experience in cashew cultivation was 12 percent. This information is contained in Table 9.

Table 8: Gender Distribution of the Respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Farmers [n=75]</th>
<th>Gatherers [n=25]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Absolute</td>
<td>Relative (%)</td>
</tr>
<tr>
<td>Male</td>
<td>69</td>
<td>92.00</td>
</tr>
<tr>
<td>Female</td>
<td>6</td>
<td>8.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>75</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2002

Table 9: Pattern of Farming Experience

<table>
<thead>
<tr>
<th>Years of Experience</th>
<th>General Farming</th>
<th>Cashew Farming</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Absolute</td>
<td>Relative (%)</td>
</tr>
<tr>
<td>1 – 9</td>
<td>-</td>
<td>0.00</td>
</tr>
<tr>
<td>10 – 19</td>
<td>11</td>
<td>14.70</td>
</tr>
<tr>
<td>≥ 20</td>
<td>64</td>
<td>85.30</td>
</tr>
<tr>
<td>TOTAL</td>
<td>75</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2002

About 96 percent of the responding farmers inter-planted their cashew crop with other cash “crops” such as cocoa, coffee, and kola nut, as well as other
food crops like cassava, yam, plantain, and vegetables. The remaining 4 percent of them planted cashew as a sole crop. This is an indication that cashew cultivation in form of plantations is not common in the area. Field observation showed that the usual regimented cultural practices accorded cocoa has not been extended to cashew farming. This is demonstrated by the general lack of treating the cashew plant with agrochemicals.

The respondents gave many reasons for cultivating the crop. As shown in Table 10, the major attractive points were in the benefits derivable from both the crop’s apple and nuts. This factor was claimed by 64 percent of the responding farmers as being directly responsible for their decision to go into the cultivation of the crop. Only about 5 percent of the respondents planted the crop for environmental purposes, especially for its esthetic values. Discussions with the farmers showed that a large number of them did not plant the crop purposely as an export or “cash” crop. The current attraction being enjoyed by the crop can therefore be said to be a derived one. For instance, the cashew apple alongside its nut is usually sold to consumers. The apple is often sucked or eaten, while the nut is thrown away. This situation gives opportunity to some youths and adult gatherers to collect the discarded nuts. Cashew nuts handled this way may later exhibit poor characteristics. This poor handling is unlike the processing of cocoa beans, which are meticulously treated.

About 29 percent of the responding farmers obtained their cashew seedlings solely from the Ondo State Agricultural Development Programme (OSADEP). The remaining farmers claimed to have raised seedlings from own farms, friends, and cashew seeds bought from the market. Considering the fact that cashew farming is a relatively new agro-enterprise in the area, it could be safely inferred that OSADEP is making some good efforts in providing improved seedlings to the farmers.
Field observation shows that enough attention has not been accorded cashew farming, as is the case with cocoa. For instance, the cashew trees are not given intensive management regimes, such as periodic weeding and programmed spraying with chemicals for the prevention of insect pests and other attacks. None adherence to this cultural practice may, in fact, contribute to the poor quality of harvested nut. Not much could also be reported of the role of extension agents in cashew farming.

Cashew nut settings begin in the middle of the dry season, while harvesting takes place mainly between the months of December and March. On the average, the entire period of harvesting takes about 16 weeks. The different harvesting methods adopted by the respondents are presented in Table 11. In order to obtain good quality cashew nut, it has been recommended that the fruits be allowed to ripe and drop naturally to the ground before the fruits are detached (Ezeagu, 2002). This practice ensures that only the ripe and matured nuts are collected. As shown in Table 11., about 60 percent of the responding farmers followed this natural harvesting method, while about 9 percent of them forced-harvested through the method of ‘go to hell’. Another 16 percent of the farmers claimed to have used the combination of natural harvesting and ‘go to hell’ methods. This implies that a sizable amount of immature nuts might be collected, thus impairing the quality of the nuts. This observation supports Anjorin’s (2000) assertion that cashew nuts of Nigerian origin are considered poor, not because the nuts are poor or from unimproved species, but due to poor harvest and post–harvest handling techniques.
The study also observed that different storage methods were employed by the farmers. On the whole, about 64 percent of them employed the appropriate method of storing the nuts in jute bags, which allows for aeration, and also prevents the nuts from growing moulds. Storing the nuts on the bare floor allows for regular drying of the nuts in storage, as well as provides the opportunity of turning the nuts over. In addition, it allows for aeration. However, impurities such as stones, leaves,

Table 10: Reasons Given by Responding Farmers for Growing Cashew

<table>
<thead>
<tr>
<th>Reasons</th>
<th>Frequency</th>
<th>Relative (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the Apple</td>
<td>10</td>
<td>13.00</td>
</tr>
<tr>
<td>For the Nuts</td>
<td>13</td>
<td>14.40</td>
</tr>
<tr>
<td>For both Apple and Nuts</td>
<td>48</td>
<td>64.00</td>
</tr>
<tr>
<td>As a shade plant</td>
<td>4</td>
<td>5.30</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>75</td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey, 2002

Table 11: Harvesting Methods Used by Responding Farmers

<table>
<thead>
<tr>
<th>Method</th>
<th>Frequency</th>
<th>Relative (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘Go to Hell only’</td>
<td>7</td>
<td>9.40</td>
</tr>
<tr>
<td>Natural Harvesting only</td>
<td>46</td>
<td>61.30</td>
</tr>
<tr>
<td>‘Go to Hell and Natural Harvesting’</td>
<td>12</td>
<td>16.00</td>
</tr>
<tr>
<td>Never Harvested</td>
<td>10</td>
<td>13.30</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>75</td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey, 2002

The study also observed that different storage methods were employed by the farmers. On the whole, about 64 percent of them employed the appropriate method of storing the nuts in jute bags, which allows for aeration, and also prevents the nuts from growing moulds. Storing the nuts on the bare floor allows for regular drying of the nuts in storage, as well as provides the opportunity of turning the nuts over. In addition, it allows for aeration. However, impurities such as stones, leaves,
etc, often mix with the cashew nut, especially if the surrounding area is not kept clean. About 10 percent of the respondents adopted this storage method.

**Awareness of the Grading System**

It is important that participants in the cashew marketing business have full consciousness of the quality of the nuts required in the international market. This knowledge is expected to guide them in the conduct their business activities. One way of determining this is to explore the participant’s level of awareness of the official grading system for exportable cashew nuts.

Results from the field survey indicate that all the local gatherers were fully aware of the existence of the grading system (See Table 12). This is not surprising; as they are often in direct contact with produce buyers who might have informed them of the quality of the nuts expected in the international markets. However, not all of the gatherers have been able to put the awareness into practice. For instance, about 40 percent of them were unmindful of the quality of the nuts they collect. Neither do they sort the nuts for the purposes of removing immature or defective nuts from their collection.

In the case of farmers 60 percent of them were full aware of the existence of a grading system. However, only about 43 percent of the whole lot makes efforts to conform to the required standard. It should be noted that many of the farmers did not have the objective of trading in cashew nuts, *ab initio*.

**Membership of NCAN by the Respondents**

Faced with the mounting glut that often resulted in huge unsold stocks, the major stakeholders in the cashew industry formed the National
Cashew Association of Nigeria (NCAN) in May 1999. The aim of the association was to seek lasting solution to the problems militating against the growth of the industry. Such problems include those relating to local and international pricing, production and processing methods, as well as the maintenance of high quality standards that will be attractive to international buyers. NCAN offers assistance to its members in form of establishing contacts, supply of information on importers’ addresses, telephone and fax numbers, supply of information on local buying agents in producing states, as well as the provision of information on financial institutions and shipping and warehousing agencies, etc.

In spite of the lofty objectives for which NCAN was set up, and the numerous benefits derivable from its membership, field observation shows that the association is not popular among the downstream participants in the area of study. Table 13 reveals respondents status of awareness and membership of NCAN. Among the farmers, for instance, about 48 percent are aware of the existence of the association and its activities, while only about 17 percent of them are members of the association. Corresponding figures for the local gatherers are 32 percent and 8 percent respectively. This simple analysis shows that a lot needs to be done to popularize the activities of NCAN in Ondo State. It is by so doing that the improvements being sough can be realizable.

**Cashew Nut Processing in the Area of Study**

Two cashew nut processing firms are in operation in the area of study. These are JOF Ideal Farms and ACET Nigeria Limited, both strategically located in Owo. The processing plant at JOF Ideal farms was established in 1991, while ACET Nigeria joined the industry in 1999. At inception, the plant at JOF Ideal farms was run by Indians, but presently, both the management and operations of the plant are now being handled by
Nigerians. The plant was the largest in Nigeria until recently when its operations were disrupted by civil disturbances in the town. A section of the firm was indeed touched by rioters.

There are no strict barriers to entry into the industry, and in particular, there is the absence of any local cashew processing association that could put any barrier in place. The only perceived entry barriers are the enormous costs of establishing the processing plant and the strong possibility of insufficient labour.

<table>
<thead>
<tr>
<th>Level of Awareness and Adoption</th>
<th>Farmers [n=75]</th>
<th>Gatherers [n=25]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Absolute</td>
<td>Relative (%)</td>
</tr>
<tr>
<td>Fully Aware</td>
<td>45</td>
<td>60</td>
</tr>
<tr>
<td>Fully Aware &amp; Adopting</td>
<td>32</td>
<td>42.67</td>
</tr>
<tr>
<td>Fully Aware, but not Adopting</td>
<td>13</td>
<td>17.33</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2002
The conduct of the firms was assessed by considering the pricing, advertisement, and packaging practices. On the issue of pricing, the study found that both firms are price takers, since they are not involved in setting prices. They produce solely for the export market where prices are dictated by the international buyers. The export markets for the processed cashew kernels are England, Spain, and the USA. The firms also demonstrate traits with respect to packaging. The standard packaging for bulk export of cashew kernels consists of two cans of 11.35 kg and 22.70 Kg (Net weight) respectively. The tins are infused with carbon dioxide and then vacuum-sealed to safeguard the kernels against contamination and deterioration during shipment. Aside from this common practice, JOF also uses 1.20 kg nylon packages for retail sales in the importing nations. On the contrary, the firms differ with respect to advertisement. For instance, ACET Nigeria Limited often advertises its products on the Internet as well as in international magazines. JOF Ideal farms however do not advertise its products.

<table>
<thead>
<tr>
<th>Level of Awareness and Adoption</th>
<th>Farmers [n=75]</th>
<th>Gatherers [n=25]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Absolute</td>
<td>Relative (%)</td>
</tr>
<tr>
<td>Aware of NCAN Existence</td>
<td>36</td>
<td>48.00</td>
</tr>
<tr>
<td>Membership of NCAN</td>
<td>13</td>
<td>17.33</td>
</tr>
<tr>
<td>Non-Membership of NCAN</td>
<td>62</td>
<td>82.67</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2002
Among other things, the performance of the cashew nut processing industry was evaluated by giving consideration to the levels of output the two firms operating in the area of study. The outputs of cashew nuts processed by the firms are presented in Table 14. The table reveals that between 1998 and 2002, JOF Ideal farms had an average of 79.80 metric tons, while ACET Nigeria Limited had an average of 65.80 metric tons during the same period under review. The study found that both firms do not experience problems of unsold stock. This supports the findings of Anjorin (2001) that the problem of unsold stock is experienced mainly in the raw cashew nut market. Rather, one of the major complaints in the cashew nut processing industry is that of insufficient nut to process.

Another measure of the performance of any industry is a consideration of how effective the firms are in enhancing employment and economic growth. Table 15 shows that a total of 564 people are being employed by the two firms in the industry. This figure is significant when compared with the total employment generated by the National Rural Employment Promotion Programme.
Summary and Conclusion

This study was designed to examine the economics of cashew nut marketing in Ondo State. The study was conducted in five LGAs, namely Ose, Akoko North East, Akoko South West, Akoko North West, and Akoko South East. These are the areas with the prevalence of cashew nut marketing activities in Ondo State.

The data used for the study were from both primary and secondary sources. The primary data were collected using a structured questionnaire to elicit information from respondents. One hundred respondents, made up of 75 cashew farmers and 25 local cashew nut

<table>
<thead>
<tr>
<th>Year</th>
<th>JOF Farms</th>
<th>ACET Nigeria Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>100</td>
<td>30</td>
</tr>
<tr>
<td>1999</td>
<td>87</td>
<td>60</td>
</tr>
<tr>
<td>2000</td>
<td>73</td>
<td>120</td>
</tr>
<tr>
<td>2001</td>
<td>85</td>
<td>45</td>
</tr>
<tr>
<td>2002</td>
<td>54</td>
<td>75</td>
</tr>
<tr>
<td>TOTAL</td>
<td>399</td>
<td>329</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2002

<table>
<thead>
<tr>
<th>Type of Labour</th>
<th>JOF Farms</th>
<th>ACET Nigeria Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skilled</td>
<td>30</td>
<td>42</td>
</tr>
<tr>
<td>Unskilled</td>
<td>250</td>
<td>242</td>
</tr>
<tr>
<td>TOTAL</td>
<td>280</td>
<td>284</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2002

<table>
<thead>
<tr>
<th>Year</th>
<th>JOF Farms</th>
<th>ACET Nigeria Ltd</th>
</tr>
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<tbody>
<tr>
<td>1998</td>
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<tr>
<td>TOTAL</td>
<td>399</td>
<td>329</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2002

Table 14: Level of Output in the Cashew Processing Industry
(Metric Tonnes)

Table 15: Level of Employment in the Cashew Processing Firms

Summary and Conclusion

This study was designed to examine the economics of cashew nut marketing in Ondo State. The study was conducted in five LGAs, namely Ose, Akoko North East, Akoko South West, Akoko North West, and Akoko South East. These are the areas with the prevalence of cashew nut marketing activities in Ondo State.

The data used for the study were from both primary and secondary sources. The primary data were collected using a structured questionnaire to elicit information from respondents. One hundred respondents, made up of 75 cashew farmers and 25 local cashew nut
gatherers were selected through the simple random sampling procedure. The two processors in the state were purposively chosen for the study.

Even though cashew has always been a traditional fruit crop in the area of study, the study discovered that its farming is just evolving, and does not really have a foothold as 88 percent of the farmers just been involved in cashew farming for at most, 19 years. In spite of the relatively high level of education of the respondents, most of them do not fully understand the importance of quality in the marketing of agro produce. This is reflected in the fact that not all of the farmers adopt the correct harvesting practice. A lot of them often harvest unripe or immature cashew nuts, and this affects the quality of the nuts negatively.

The study also discovered that as high as 40 percent of the responding farmers are not aware of the existence of any official grading pattern for cashew nuts. This implies that such farmers will be definitely unaware of the expectations of buyers regarding the quality of the produce. Though all the gatherers claimed to be fully aware of the existence of the grading pattern, about 40 percent of them failed to put this into practice in the conduct of their business. They often rely on mere visual observation of the nuts. This is not appropriate since the physical appearance of cashew nut can be grossly inadequate to judge the quality of the kernel. Storage pattern among the respondents is impressive, as all of them usually dry the produce for at least 2 days. This is done in order to achieve the desired moisture content value of 12%.

It was found that NCAN is not well known in the area of study. For example, only 48 percent of the farmers were aware of its existence, while 36 percent belonged to the association. The study revealed that the association is not involved in the process of price setting. The examination of the structure-conduct-performance of the cashew processing industry indicates that the two firms operating in the state employ a total of 562
workers. The size of the processing plant of JOF Ideal Farms reduced from 8 metric tones per day at inception to a current capacity of 2 tones per day. ACET Nigeria Limited on the other hand witnessed an increase in capacity from 4 metric tones per day at inception to its current capacity of 8 tones per day. The two processing firms are price takers as they sell their produce at the prices dictated by the international buyers.

**Recommendations**

Based on the findings of this study, the following recommendations are suggested to encourage and motivate the various stakeholders in the cashew industry, as well as to improve the overall performance of the sector. There is the need to organize awareness programme for the various participants in the industry, especially farmers, extension workers, and other relevant ministry of agriculture officials. Such a programme could include training activities on the best cultural management and agronomic practices, harvesting and post-harvest handling, marketing as well as quality control management. It is also necessary to enlighten the general public on the economic importance and potential of cashew in the Nigerian economy. There is also the need to encourage the establishment of more cashew processing plants in Nigeria. Apart from increasing the value added in the industry, this will go a long way in reducing the problem of unsold stock usually encountered in the industry.
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Preamble

Prior to this time, philosophers, scholars and writers have made efforts to throw light on the affinity or otherwise between economics and politics. In the process, they have focused their attention on the interplay of economic and political forces within various polities of the world including Nigeria. This collection on the Nigerian economy focusing on issues relating to economic and political development, is no doubt provocative vis-à-vis this argumentative interplay. This selected bibliography tries to bring together various scholastic efforts in this area for easy reference.

We have divided the bibliography into four sections viz: official publications, Books, Journal Articles and unpublished works/Theses and Dissertations. We hope that readers will find the compilation useful as a supplement to those provided by each of the contributors in this book.

Official Publications


Nigerian National Petroleum Corporation, National oil policy (Lagos) NNPC

Books


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**Journal Articles**


**Dissertations and Unpublished Works**


