NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCE

COURSE TITLE: STATE AND ECONOMY

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UNIT 1: AGRICULTURE AND ECONOMIC DEVELOPMENT IN NIGERIA

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1.0 Introduction

Agriculture is considered the backbone of economic activity in Nigeria and Africa. This is because agriculture has some links with some other sectors, for instance industrial sectors, thus, the development of this sector could be expected to lead to development in the other sectors and consequently, to economic development and growth. However, agriculture involves the cultivation of land, raising and rearing of animals for purpose of food for man, feed for animals and raw materials for industries. It involves cropping, livestock, and forestry, fishing, processing and marketing of these agricultural products. You can say that agriculture can be classified as crop production livestock, forestry and fishing. Furthermore, you can observe that the importance of agriculture in our society cuts across being a source of food and raw materials for industries to provision of job opportunities and the source of foreign exchange earnings. This is why the government places more emphasis on developing the agricultural sector than other sectors.

2.0 Objectives

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

- Explain role of government in managing the economy via agricultural, its development and important in our society
- Identify the organization of agricultural activities
- Outline the problems that inhibit the development of agricultural activities
- List the different strategies and policy measures that the government has adopted over the years to improve this sector.

3.0 Main Content

3.1 Significance of Agricultural Development

Five main areas of agricultural sector contributions include:

a. Provision of food needs of the populace,

b. Export production to increase farm incomes and to provide foreign exchange,

c. Expansion of Domestic market for the growing industrial sector through rising net farm incomes of the farm population,

d. Provision of manpower for industries and other non-farm activities,
e. Provision of capital for infrastructural development and the expansion of secondary, industries,

In Nigeria, we witness a case where agricultural sector contributions, however, have been less than adequate in the five (5) main areas. We can now link these reasons for the underdevelopment of Nigerian economy. However, lets now discuss its contributions to economy.

(I) Food Provision: Food provides the basic human need and energy. Before 1970, food supply in Nigeria was quantitatively adequate. The problem by this time was poor quality. e.g. much of carbohydrate and little or no protein. The abundance of food by this time was due to low food prices. From then (1970 onwards) food shortage has been a permanent problem reflected in high food prices and growing expenditure on food imports.
You could imagine how importation of food since 1970 has had negative implications. This could be seen in relation to:

- Waste of foreign exchange, the foreign exchange spent on food ought to have been used for capital importation.
- Destruction of local production capacity. This is as a result of imported food tends to displace locally produced ones in terms of quality.

(II) Export Production: Exports could be considered as a means of increasing savings and investment level. Through sales, farmers have normal incomes and can thus save. The essence of purchasing capital goods is to raise productive capacity. In the colonial days, agricultural export earnings did account for the growth of investment within and outside the agricultural sector. But from 1970 to date, earnings from agricultural exports have dropped because of:

- Poor performance of the export crops sub sector.
- Increased local demands for export crops. Local industries now require same crops we formerly exported.

(III) Expansion of Domestic Market: The size of the market often determines the optimum level for industrial production where market is small industrial production is restricted and vice versa. As of the present, owing to the poor performance of the agricultural sector it is not a source for effective demand for industrial goods. Most goods produced in the industrial sector don't fit into the needs of farmers.

(IV) Manpower Provision: It is supposed that the agricultural sector provides manpower for other sectors. In this connection, it is expected that labor will be transferred from the agricultural to nonagricultural sector. The labor transfer could only take place if we have a high production in the agricultural sector. In Nigeria, movements have been registered but largely into the urban areas. This is, however, not good enough to bring about development. The movement has been but for economic, social, and even religious reasons. These kinds of movements have both negative and positive effects on both areas of original site and destinations.

(V) Capital Provision: The agricultural sector is often looked up to for providing funds for development because; considerable funds exist in agricultural sector.

This surplus in the agricultural sector is to be extracted through taxation by the government and the revenue from this source is used to provide public goods and services e.g. in the Old Western regions and Northern regions, infrastructures were provided through agricultural sector. In those days, marketing board was used for such purposes.

As of now, the poor performance of agricultural sector doesn't guarantee (show) a good government policy.

Self-Assessment Exercise

Do you think that agricultural development is necessary for the economy development of Nigeria?

3.1 Reasons for Agricultural Development in Nigeria

In Nigeria, like in most developing countries, the agricultural sector is of primary importance. This is because the sector has some links with some other sectors of the economy. Thus, development in the sector could be rightly expected to lead to development in the other sectors and, consequently, to economic development and growth.

One of the means by which agriculture can contribute to the development effort, is through the provision of an adequate and well-balanced food supply for the increasing Nigerian population. The availability of an adequate food supply is vital because food shortages will lead to higher prices, which in turn, may lead to demand for higher wages. This could have some adverse effects on the level of investment and therefore on the rate of economic growth. Additionally, an inadequate local food supply means that massive importation of food may have to take place. This, again, could be a drag on economic growth as the nation's foreign exchange will be used to finance food importation rather than for buying capital equipment which is necessary

3.2 Export Potential

It is important to note that the products of the agricultural sector are not only food crops but also primary products that could serve as raw material for many industries both at home and abroad, especially the agro-allied industries. In these connections, products such as cotton, rubber cocoa, coffees, timber, are processed by home industries and serve as exports for the country. However, industries based on the processing of these agricultural crops cannot thrive unless the crops are adequately produced and this can only occur if the agricultural sector is very well developed. It is, therefore, essential especially for a developing country like Nigeria, that the sector be given very close attention.

3.3 Increases in Volume of Output

Developments in the agricultural sector would make it possible for the farmers to increase their volume of production, which would increase the amount of surpluses that they have for sale. In this regard, the end result of this is likely to be an increase in the income of the farmers. This will also give them greater purchasing power for the products of the industrial sector. In this end, this will lead to increased industrial products and, hence, to the growth of the industrial sector.

3.4 Employment Opportunity

Development in the agricultural sector would provide more employment opportunities for people. Some of the people would be directly engaged in the production of the agricultural products and some others employed in the industries that are based on the products of the expanding agricultural sector.

3.5 Organization of Agriculture Activities

Nigerian agriculture is traditional in nature. This is because it is dependent on very low techniques reflected in the tools used. In addition, the average farm size of about 1.2 hectares is very low. In the developed world, the average is about 10 hectares. So, the small size, combined with low technical methods makes it-traditional. To understand the backwardness of the agricultural sector you have to look at it from the angle of resource, utilization.

Three different pattern of resources utilization exist viz:

a) Land -Surplus Economy
b) Labor-Surplus Economy
c) Mixed Variable Proportion Economy

a. Land-Surplus Economy

This refers to low man-land ratio areas. That is areas of low population densities. Specific example of such areas are; Borno State, Taraba, Bauchi States etc. The farming techniques applicable in these areas include shifting cultivation and bush fallowing. These practices are appropriate because they reflect sound economic reasoning, as land is abundant.

b. Labor-Surplus Economy

This refers to areas of high man-land ratio. Such areas include; Onitsha, Owerri and Southern part of Cross River State. Population density in these areas is about 1000 person/sq.km. Kano also exhibits such characteristics. Farming technique in these areas is labour intensive. In other words, an attempt to increase yields means employing more labour.

c. Mixed Variable Proportion Economy

This refers to areas where both land and labor are variable proportion for example, Benue and Anambra States. In this category, to increase production will require increment in both land and labor simultaneously. The other features of the agricultural sector will include.

Communal Land Ownership

Under this, titles to land are invested to groups and families but not individuals. Individuals only have the right to use land but they cannot claim ownership of it. Consequently, one cannot sell land. In some parts of the country, particularly the North, land belongs to the government. The Nigerian government has however been making moves to control land in all parts of the country in order to enhance the availability of land to everybody. In essence, communal land owner-ship retards productivity. Gradually, the situation (communal land ownership) is changing.

Efficient Utilization of Resources

Nigerian farmers are efficient in the utilization of scarce resources. Whenever it is necessary, farmers have been known to reallocate land and labour in order to maximize profit, for instance, during the colonial era and Structural Adjustment Programme (S.A.P.) farmers shifted to cocoa production. Farmers respond timely to changes. When new crops are available, farmers embraced it, provided it is profitable. For instance, crops like groundnuts and cocoa were brought from outside and farmers embraced it because they were found to be profitable. The use of fertilizer is another good example of positive reaction by the farmers.

In other instances, they reject changes in the introduction of single cropping system. Farmers found that this was not profitable and it was risky to put all eggs in one basket.

Regional Diversity in Production

Agricultural production in Nigeria exhibits great diversity in terms of production and regional specialization. These include:

- Roots crops e.g. Yams, Cassava etc.
- Grains e.g Rice, beans. Etc.

There is the grain economy of the North, and, the root crops economy of the South. This variation is linked to variation in climatic conditions in the country.

The implication of this variation is that, the potential for internal trade and the possibility of famine in Nigerian is reduced because the failure of one crop in one part of the country is supplemented by the other part of the country.

Organization of Production

The organization of agricultural production in Nigeria reflects a shift from unimodal to bimodal. Bimodal is a situation of large mechanized farms existing side by side with small farms. The small farms don't enjoy much government support.

The ultimate intention is to porch out the small-scale farmers. In the unimodal system, the emphasis is on the small-scale farmers. And government usually provides essential facilities.

Studies have shown that unimodal is more important because it generates a fair distribution of income and high level of employment. Even in terms of output the unimodal proves to be more important.

The Plantation Agriculture

This type of agricultural activities makes use of modern techniques. But it's accountable for a relatively small proportion of the Nigerian agricultural output.

Activity 2: What are the factors responsible for the poor performance of the agricultural sector?

3.6 Factors Responsible for the Poor Performance of Agricultural Sector

3.6.1 Lack of Appropriate Technology

Local (primitive) technology e.g. hoes and cutlasses do not support agricultural production to a great extent. For the past years, the growth rate of the agricultural sector has been deteriorating. This problem could be solved using invention of new tools. The alternative is for importation of these tools.

3.6.2 Inadequate Supply of Agricultural Inputs

Some reasons could be advanced for the inadequate supply of inputs.

- Poor distribution network, which prevents distribution of goods manifest in poor road infrastructure.
- A bias distribution policy in which case the big farmer is favored.

However, the government is trying to address this situation through Agricultural Development Projects (ADP) and other agricultural programs.

3.6.3 Inadequate Extension Services

These are designed to teach farmers how to manage input. The services of the extension workers in Nigeria are inadequate because of:

- Low extension ratio between the farmers and the extension workers. The ratio of agent to farmers is about 1:20.
- The extension agents themselves are poorly trained and motivated.

In consequence, that there is lack of enough knowledge by farmers to improve output. This problem of extension services is being address through establishment of agriculture institutions throughout the country.

3.6.4 Poor Marketing Facilities

Staple food crops have always been marketed by the traditional methods of marketing and distribution, the characteristics feature of which is the need for a large number of middlemen between the producer and the consumer. This method of marketing is, of course, beset with problems, there is a dearth of storage and processing facilities; pricing is often done by haggling, grades and measures are not uniform.

3.6.5 Diseases, Pests and Evasion

The effect of all these is the reduction in output. Measures to address this problem include: a forestation programs and introduction of pesticides.

3.6.6 Labor Shortage

The rural urban migration experienced in the country has greatly affected the agricultural activities in the rural areas. Hence, farmers in rural areas have tended to pay highly for labour hired.

3.7 Strategies to Revamp the Agriculture Sector

As earlier indicated, given the relevance of this sector to the development of Nigeria the federal and state government have as their objectives to:

1. **Increase Production of Food**

The major objective of the government is to increase production of food and other raw materials to meet the demands of the growing population and the rising industrial sector. However, it is the intention of the government to achieve self-sufficiency in food and to increase the local contents of domestically manufactured goods, especially those that utilize agricultural products as inputs.

2. **Diversify Foreign Exchange Earnings**

The government's intention here is to make efforts to achieve increased production and processing of export crops with a view to expanding and diversifying the country's foreign exchange earnings. This is to avoid the danger of relying on crude oil as the only source of foreign exchange earnings.

3. **Employment Opportunities**

The governments intend to expand the employment opportunities of the sector in order to absorb the increased labor force of the economy.

Self-Assessment Exercise

What policy measures can be adopted to enhance the productivity of this sector?

To achieve these objectives the following policy measure should be adopted in order to address the problems constraining the development of the agricultural sector.

4. **Price Incentives**

The government should give some price incentives by way of guaranteed minimum prices to producers. Such prices should be kept under constant review and the administration would be improved to ensure that the desired purpose is achieved. A new marketing arrangement is expected to address itself to this since under the new arrangement the two - tier system of produce taxation (export duty plus produce sales tax) has been cancelled and prices are now fixed with no trading surpluses" in view.

5. **Government Direct Involvement**

Government should be involved directly in the production of agricultural products. This is to be done through the establishment of food production companies, through equity holding in purely commercial joint ventures with the private sector and by commodity Boards, Grain Production Company and State Agricultural Development Corporation going into partnership with foreign investors.

6. **Fiscal Incentives**

The governments should also give fiscal incentive to companies wanting to go into large-scale agricultural production. Such incentives would include income tax relief for pioneer enterprises, duty free importation to farm machinery and provision for carrying forward losses. Agricultural production and processing have been transferred from schedule II of the Nigerian Enterprises Promotion Act (NEPA) to schedule III. The effect is that foreigners can now own up to 60 percent of the capital of any of the companies engaged in this activity.

7. **Credit Facilities**

Efforts should be made to expand credit facilities to the fanners. Short and medium-capital would be made available to farmers through the Agricultural and Cooperative Banks and the Agricultural Credit Guarantee Scheme. Furthermore, the state Agricultural Corporations would be strengthened to enable them to perform their functions more efficiently and effectively.

8. **Agro-Allied Industries**

The setting up of agro-allied industries would intensify agricultural processing. Farmers would obtain higher and steady prices for their products since middlemen would be eliminated.

Other Policy Measures

These will include subsidizing of essential inputs like fertilizers, pesticide and improved seeds, intensifying mechanization of agricultural production and providing wider extension services. If the governments are able to implement these policy measures one would rightly expect that agriculture would begin to play the key role in the development ofthe nation.

4.0 Conclusion

In spite of the importance of agriculture in the developmental process of the Nigerian economy, the contribution of the sector to the Gross Domestic Product has been on the downward trend. This situation has been partly due to the emergence of oil as an important commodity and partly due to the inadequate government support for the sector.

5.0 Summary

The customary approach to the role of agriculture in economic development is formulated in terms of the contributions the agricultural sector can make or the functions it can perform during the process of economic development in a country. Therefore agricultural development can promote economic development of the country through:

i. Provision of food needs of the population
ii. Export production to increase farm incomes and to provide foreign exchange
iii. Expansion of domestic market for growing industrial sector through rising net farm incomes of the farm populations.
iv. To achieve these, the government has to put in place certain policy measures and programs.

6.0 TUTOR-MARKED ASSIGNMENT

The agricultural sector in Nigeria has not made significance impact on the economic developmental process of the country.

i. State the reasons

ii. Outline the government policies and strategies to restructure and transform this vital sector.

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UNIT 2: INDUSTRIAL DEVELOPMENT IN NIGERIA

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1.0 Introduction

An industry refers to a number of firms producing broadly similar commodities. Industrialization is the process of building up a nation's capacity to convert raw materials and other inputs to finished goods and to manufacture goods for other production or for final consumption. There are four types of industries, which include processing, manufacturing, craft and mining industries. Modern industrialization in Nigeria started in 1957 and the general goals of the industrialization development in Nigeria are:

- To ensure an increase in the gross domestic product.
- To increase employment
- To conserve foreign exchange
- To foster linkage with other sectors of the economy
- To ensure an adequate supply of goods to the population.
- To help in minimizing the risk of over dependence on foreign trade and ensure full utilization of available resources.

2.0 Objectives

Industrial development is a necessity for the economy development of Nigeria.

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

- The industrial production and structure in Nigeria
- The industrialization strategies and the problems faced by this sector.

3.0 Main Content

3.1 Industrial Production

The relatively high growth in the index of industrial output in the 1970's was traceable to the promotion of industries through high trade barriers and incentive which offered protection and concession to the infant industries. However, in the early 1980's, when Nigeria's economic crisis deepened, the light on the industrial sector became more a parent. It thus became obvious that the so-called big industrial base was built on a very weak foundation. Structurally, most of the industries were planned for the assembly of foreign products for the Nigerian market, while the domestic resource content of the products of these industries was very low. Moreover, due to the capital-intensive nature of these industries, little scope existed for them to explore and efficiently utilize the abundant labor and other local resources in the country. What was observed rather was the establishment of large plants with huge installed capacities and an import dependent raw material requirement. The foreign exchange scarcity of the 1980's worsened the problem of the sector. Thus, the key features of the Nigerian industrial sector include: loss of competitiveness, low rate of capacity utilization due to foreign exchange scarcity, obsolete machinery and equipment, high production costs, failure to utilize to advantage the strength of labor intensive indigenous manufactures coupled with outright neglect of manufactured exports in spite of the incentives provided by the government under the comprehensive industrial promotion schemes. The sector's fortune was further jeopardized by stiff competition with imported products from parent companies in America, Europe and Asia.

Self-Assessment Exercise

State the objectives of industrialization in Nigeria.

3.2 The Objectives of Industrialization in Nigeria

The objectives, as stated clearly in the industrial policy of 1970-74, are:

1. To promote even development and fair distribution of industries in all parts of the country.
2. To ensure a rapid expansion and diversification of the industrial sector of the economy.
3. To increase the incomes realized from manufacturing activities.
4. To create more employment opportunities all over the country.
5. To promote the establishment of industries which cater for overseas markets in order to earn foreign exchange.
6. To continue the program of import substitution, as well as raise the level of intermediate and capital goods production.
7. To initiate schemes designed to promote indigenous manpower development in the industrial sector.
8. To raise the proportion of indigenous ownership of industrial investments.

Therefore, the overall focal point of the industrial policy plan of 1970-74 was how to maximize value added to gross domestic product rather than mere increase in the range of products manufactured locally.

The drive for Nigerian participation was to proceed simultaneously with attracting foreign investments on mutually beneficial terms. The main argument being that local and foreign investors can only work together when the interest of the nation is assumed at all times. Thus, as a matter of fact a number of industries were reserved for effective direct public sector control and the industries concerned were Iron and Steel Basic Complex, Petrol-Chemical industries, fertilizer production and petroleum products. More specifically, the government intended to hold at least 5% equities. Other large and medium scale participation were to be as mixed ventures with government and private indigenous participation at a minimum level or 35% of their equities and the industries were plantation production of traditional cash crops and of basic raw materials for propensity industry e.g. Wheat and Sugar; food industries; forest product industries, building materials and construction industries. In Nigeria, we have to look at the various stages of industrialization.

3.3 Stages in the Nigerian Industrialization

For anyone to understand better the industrialization process the organization of industrialization in Nigeria had passed through four clear stages of development have been identified. The first stage is the pre-independence era when manufacturing was limited to primary processing of raw materials for exports and the production of simple
consumer items by foreign multinational corporations anxious to gain a foot hold in the growing market. During this period, industrialization was mainly resource-based but you could also find some elements of import substitution and therefore, imported raw- materials based type of industrialization has been established from this period.

The second stage was the immediate post-colonial era of the 1960's. More vigorous import substitution and the beginning of decline for the export-oriented processing of raw materials characterized this. Policy of import substitution which was introduced was meant initially to reduce over-independence on foreign trade and save foreign exchange, turned out to be a mere assemblage of those items rather than manufacturing them domestically. This negated the original aim since, at most, every item needed by the so-called manufacturing industries were imported. At the same time, foreign ownership of manufacturing facilities reached its peak.

The third stage was the decade of the 1970's. This was remarkable because the advent of oil and the enormous resources it provided for direct government investment in manufacturing made the government to exercise almost a complete monopoly in the following sub sectors: Basic steel production, petroleum refining petrol-chemical, liquidities natural gas, edible salt, flat steel plants, machine tools pulp and paper (basic), yeast and alcohol, and fertilizer (nitrogenous phosphoric). The period was marked by the infraction of the indigenous program and hence intensive economic activity but poor results. Government's attempts at diversification into non-traditional products such as steel, petrochemicals, fertilizers and vehicle assembly yielded little success.

The last stage was the decade of the 1980's marked by dwindling government revenue consequent upon he nose-diving of oil prices at the world market hence many adhoc attempts at tinkering the economy were made. These attempts include the adoption of export promotion strategy. The SAP era beginning from July 1986 even emphasized this strategy especially as it relates to non-oil exports, hence extension of export promotion incentives ofvarious descriptions.

In addition, due to dwindling oil revenues and foreign exchange (following Naira depreciation at the SFEM/FEM/IFEM) for importation of raw materials and spare parts, the government decided to lay emphasis on the strategy of industrialization by local sourcing of raw materials hence, the manufacturers were encouraged to find local substitutes/alternatives of their raw materials. Apart from helping to maximize local resource utilization, it will also help in saving foreign exchange earnings. It was partly because of this that a new industrial policy was enunciated in 1989 aimed at providing greater employment opportunities to stem the social and political consequence of unemployment; to increase export of manufactured goods; to improve the nation's technological capacity, increase local content of industrial output so as to promote greater linkages and backward integration in order to raise the general level of economic activity, attractable foreign investment for local industrial development, and increasing private sector participation aimed at accelerated pace of industrial development.

3.4 The Structure of Nigerian Industrial Expansion

The structure has been largely biased in terms of low technology and non-durable consumer goods such as agricultural products, shoes, clothes, drinks, tobacco, jewelry, toiletries etc., against intermediate and capital goods. However, the structure has been changing anyhow, sometimes high and at times low. For example, the second half of 1970's showed a rapid expansion and high technology in area of consumer goods such as vehicles, machines, refrigerators and radio assemblies industries.

During the 1957 to 1973 period, the food, beverage and tobacco industries were responsible for at least 32% of total manufacturing value added in each year at this period. Indeed in 1973, this growth contributed 42% of total value added generated by the Nigerian manufacturing industry. In contrast, the share of machinery and metal products (i.e. intermediate and capital products) in total value added increased slightly from 4% in 1962 to barely 7% in 1973. This structural trend can be compared to those of other developing nations to understand the relative backwardness of the Nigerian manufacturing industry. For example, the food, beverage and tobacco industries contributed 18.6% in the total manufacturing value added in Brazil n 1963 and the same Proportion was contributed in Pakistan in 1962-63. In the same year, 1963 machineries and other capital products contributed 32% and 23% of total manufacturing value added in Brazil and Pakistan, respectively.

3.5 Industrial Sector Contribution to Nigeria's GDP

The table below shows the industrial sectors contribution to GDP. The industrial sector's contribution stood at 11.10% in 1960, rising to 17.23% in 1965 to 22.40% in 1970 and to a peak of 40-80% in 1980. Thereafter, it declined such that by 1986 it was only 25.70%. This however rose to 33.30% in 1987 before falling again to 30.8% in 1988.

Year	% Contribution
1960	11.10
1961	12.50
1965	17.23
1970	22.40
1975	35.60
1980	40.80
1985	29.20
1986	25.70
1987	33.30
1988	30.80

3.6 Changes & Growth in Nigeria's Manufacturing Sector

Manufacturing shares in Nigeria's GDP rose to 6.9% in 1965 and to 7.2% in 1970. This however, fell to only 5.6% in 1975. This rose to 8.3% in 1980 and 8.6% in 1985. In 1991 it rose to 8.5% from where it maintained a continuous annual decline, such that in 1995 it stood at 6.88%. This poor manufacturing performance has been attributed to high production costs as a result of high cost of foreign exchange, poor demand, incessant power disruption, insufficient raw materials supply, inadequate working capital and frequent machine breakdown. Manufacturing capacity utilization turned from 75% in 1980 to 42.7% in 1985 and 39.6% in 1990. By 1995, this had collapsed to 29.3%. In the same view, growth rate of manufacturing rose from 23.6% in 1965 to 77% in 1975 but falling drastically to only 6.6% in 1980. The only rise exceeding 10% since then was 20.5% growth rate of 1985. By 1993 it had fallen to 4.2% and in 1994, it recorded 5.0%. Indeed, the industrial sector as a whole grew by 5.2% in 1980-86 period and by 4.5% during 1986-97 period.

Self-Assessment Exercise

Highlight the problems that inhibit industrial development in Nigeria.

3.7 Problems of Nigeria's Industrial Sector

1. Inadequate basic infrastructure e.g. good roads, electricity water and so on.

2. Weak raw material base (i.e. raw materials are imported).

3. Shortages of technological and managerial know how i.e. little innovations and inventions in Nigeria's industry.

4. Strong competition from import i.e. goods produced abroad under superior technology at low cost.

5. Excessive reliance on the external sector for capital goods and raw materials i.e. total dependence on external source of capital goods with partial dependence on raw material

6. Competition of resources from other high yielding sectors i.e. diversification of resources of industries to other sectors.

7. Institutional and administrative bottlenecks in areas of processing of application for licenses, expatriate's quota, and exchange control measure etc.

8. Lack of developed industrial framework for managing the individual sector.

9. Abandoned industrial projects that would have led to industrial revolution in Nigeria, e.g., the Ajaokuta steel company.

3.8 Nigeria’s Industrialization Strategies

The success or failure of industrialization in a country is based on the strategies adopted. It is the strategies that allocate right resources in terms of quality and quantity to the right industrial activity. The strategies of industrialization depend on costs and benefits analysis of deploying resources for industrial production or among various sectors of the industry. In Nigeria, the following industrialization strategies had been adopted.

1. Import substitution strategy
2. Export promotion strategy
3. Balanced Development strategy
4. Local resource-based strategy.

3.8.1 Import Substitution Strategy

The first national development plan 1962-68 adopted this strategy; it involves channeling of resources into consumer goods production. Nigeria changed from the policy of producing primary products introduced by the colonial masters to that of producing those items originally imported. The main aim was to lessen over-dependence on foreign trade and to save foreign exchange. However, what turned out was mere assemblage of those items rather than manufacturing them. This negated the original aim since almost every item needed by the so-called industries was imported.

Problems Faced by this Strategy:

- Structure of production emerged with impossible operation at full-scale capacity without enough capital input.
- High tariff on the imported raw materials led to high. The local industries also faced high competition with foreign industries because of the imported capital goods and raw materials.
- Dependence on foreign technology that was not available here. And the products of the local industry didn't lead to any technological advancement in the country.

3.8.2 Export Promotion Strategy

Realizing the obvious pitfalls of the import substitution strategy, Nigeria added the strategy of export promotion in the 3rd national development plan, 1975-1980. This involved the production and exportation of new products and those originally imported. To encourage and implement this policy the Nigerian Export promotion Board (NEPB) was established. This strategy could not succeed because of lack of incentives and raw materials. However, there have been renewed emphases on this strategy since 1986 by the export promotion incentives.

3.8.3 Balanced Development Strategy

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

3.8.4 Local Resource-based Strategy

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

3.9 Government Incentives To Industrialization

The government has encouraged industrialization and the strategies through a number of incentives. The aim is to protect domestic industries from international competition and enable them build up enough funds for expansion purposes.

The incentive includes:

1. **Tariff Protection**

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

2. **Import Duty Relief**

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

3. **Total Ban on Certain Foreign Goods**

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

4. **Provision of Supportive Activities**

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

5. **Provision of Loans**

In Nigeria, there are guidelines on credit allocation by financial institutions such as commercial banks, merchant's banks and industrial development banks to the industrial sector. Special industrial development financial institutions like the Bank of Industries (BOI) and Nl3CI have been established to aid industrialization management.

6. **Provision of Accelerated Depreciation Allowance**

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

7. **Direct Government Participation**

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

8. **Approved User Scheme**

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

9. **Export Incentives**

In Nigeria export promotion incentives include the return of import duty on raw materials for production of export goods, refund exercise duty paid on export manufactures, exception from import levy of 30% of raw materials imported for export production, generous import license for importing raw materials for export production, exporters retaining 25% of their proceeds of foreign exchange earnings from export in their foreign currency account with Nigerian banks, assistance on export in costing and pricing, liberalized export license, and the establishment of an export credit Guarantee and insurance scheme.

4.0 CONCLUSION

The industrial sector is the heart of economic development; the success determines the economic growth and development of any nation. A healthy industrialization contains a web of relationships between owners (interested in profit /dividend), consumers (interested in reasonably-priced quality goods), the workers, foreign interest and the public. Government therefore is expected to formulate policies relating to this web of relationship while ensuring the attainment of societal objectives.

5.0 SUMMARY

Industrialization, which is the process of building up the country's capacity to convert raw materials and other inputs to finished goods, and to manufactured goods for other production or for final consumption, has passed through four clear stages of development. Each stage has been punctured with it's own peculiarity. However, in spite of the shortcoming of the industrialization in Nigeria, the government has continuously made considerable efforts to improve the performance of this sector. The next unit shall focus on mining and quarrying sector as economic management instrument in Nigeria.

6.0 TUTOR-MARKED ASSIGNMENT

The underdevelopment of the Nigerian economy could be attributed to the poor performance of this sector in spite considerable governmental effort. Discuss.

7.0 REFERENCES/FURTHER READING

- Anyanwu. J.C., A. Oyefusi, H.O. Oaikhenan, F.A. Dimowo (1997). Structure of the Nigerian Economy (1960-1997), Joanee Education Publisher Ltd.
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UNIT 3: MINING AND QUARRYING IN NIGERIA

TABLE OF CONTENT

1.0 Introduction

Natural resources form the base of the economic and social progress of any country. You should be happy to note that Nigeria is richly endowed with vast natural resources. Although these natural resources including such mineral as petroleum, limestone, tin, columbites kaolin, gold and silver, coal, zinc, etc are largely untapped. In this regard, you can say that mining and quarrying are very central to the development process of the Nigerian economy. Modern mining activities have involved crude petroleum, solid minerals and associated gas production.

It is interesting at this juncture to realize that the mining and quarrying sector has since become the dominant sector in our economy, followed by agriculture in terms of its contribution to the Gross Domestic Product (G.D.P). The impressive performance of the mining and quarrying sub-sector in the share of the G.D.P. and its total monopoly of foreign exchange earnings especially in the 1970's is however accounted for by a major mineral product: crude petroleum.

2.0 Objectives

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

- Identify the various mineral resources available in the country examine the role of various minerals in the economic development of Nigeria
- Outline various constraints faced by this sector
- Enumerate some government policy measures aimed at overcoming these constraints.

The economic and social Development of a nation depends strongly on the availability of natural resources. The natural resources include various mineral and energy resources. Fortunately for Nigeria, it is blessed with different natural resources. These natural resources play fundamental role in the development of the nation. The natural resources available in a country could be classified into three broad categories: Mineral fuel such as coal, oil and natural gas: firewood and peat, and other sources of energy like waterpower and the thermal power from the sun. The fundamental problem in the Nigeria society is the efficient utilization of these natural resources. The intention here is to look at the role and characteristics of the sector in the Nigerian economy.

Self-Assessment Exercise

Mention the various minerals in the Nigeria Economy?

3.0 Main Content

3.1 The Role of Various Minerals In The Economy

1. **Coal**:

Coal deposits were discovered for the first time in Nigeria in the early 19th century near Yeli in Anambra state. This discovery created further incentives that intensified the search for coal, bearing in mind the increasing level of local consumption and the possibility of establishing markets on other West African countries. As a result of these investigations, several deposits of coal were discovered around Enugu in Enugu state, and Kabba in Kogi state. The Enugu coal deposit has been the only ones mined until the Nigerian civil war when mining was closed down temporarily. To meet local demand, the Kabba mine had to be exploited for the first time. The actual reserves are in the order of 360 million tons and all of these are located around Enugu in Enugu state and Kabba in Kogi state.

Nigerian coal is of sub-bituminous class, which has high ash content but is suitable for the production of tar and synthetic fertilizer. It can also be used for ordinary steam raising purposes including the generation of electricity, and also for the manufacture of chemicals and liquid fuels. As a result of its richness in hydrocarbons, waxes and resins, for over a decade, Nigeria coal was considered as non-coking, but in 1961 Simon-carves Ltd. Of Britain disproved this by showing that blending about 15 percent of pitch with the Enugu Coal, a high temperature coke suitable for metallurgical purposes could be obtained.

The two major consumers of coal are the Nigerian Railway Corporation (NRC) and the National Electric Power Authority (NEPA). Coal is now being consumed mainly by the Nigerian cement companies, particularly in cement factory at Nkalagu in Enugu state, which found that coal is still a cheaper source of fuel and energy because of its proximity to the mines. The iron and steel complex, which is under construction provides a potential market also. It is estimated that about 200.000-270,000 tons of it would be needed annually at the initial production period to produce black and galvanized sheets by the iron and steel company.

2. Petroleum

Petroleum in all its forms, crude oil or natural gas, appears to every one especially in developing countries to be a decisive factor in economic expansion. It is for the producer an easily negotiable source of wealth, an efficient source of power to be utilized and a good base for industrialization because of the processing chain and variety of products that result from petrol-chemical industries.

Nigerian has large reserves of crude oil fields and natural gas, its oilfield are located in a territory, south of a line that can be drawn through Benin City, Owerri in Imo State and Calabar in Cross-river state. The oil wells are all located in the tropical rain forest and mangrove swamps in southern states.

Self-Assessment Exercise

Mention at least three effects of Petroleum Development on the Nigerian Economy.

1. Petroleum development in Nigeria has three effects on the economy.
2. It has had a stabilizing effect on the revenue of the federal government.
3. It has improved the negotiating position of the government with the oil companies, placing the former in a position where it can more or less dictate its terms.
4. The participation of big international oil companies such as Shell. B.P Mobil oil, Elf oil, and Agip oil, reduces the danger of oligopolistic arrangements and oligopolistic behavior.

3. Natural Gas

Apart from crude oil, considerable reserves of natural gas have been discovered. The present largest production sites of oil fields are the production sites for natural gas largely because the latter is often found with petroleum. Its production started in 1957 with an output of 2.014million cubic feet and has since increased to about 800.000 million cubic feet. All the natural gas produced is consumed locally by industries as fuel and by the National Electric Power Authority for electricity generation.

4. Tins and Metal

Various outliving deposits of tinstone, as it is sometimes called, have been reported in Oyo, Plateau, Bauchi and parts of Kaduna, Kano and Benue States. However, the most important deposit lie in an area centered on the Jos Plateau in Plateau state. A thicker belt of volcanic basalt, which renders the deposits beneath it almost inaccessible, covers a larger area of this tin field. The first deposits to be worked in the early 19thcentury were those in riverbeds. These have long been exhausted and the companies have since turned their attention to the older deposits, which lie under a layer of earth many meters deep.

Initially, the mining of tin was mainly for domestic consumption until the advent of the British. With increasing foreign participation in the industry, tin has been mined both for export and domestic use.

Within the mining and quarrying sector, tin is an important earner of foreign exchange, second only to crude oil, although its contribution to the sector's total foreign earnings fell from about 60 percent in 1950 to 7.5 percent in 1974. Domestically it had also been source of revenue to the government, although its contribution in the period under review had been marked with fluctuations as a result of changes in output and reduction in rents and royalties. Unlike royalties from other minerals, the royalty on it is progressively calculated by a sliding scale based on the price of tin metal. The tin industries, like any other industry, had suffered from lack of personnel and transportation facilities, especially before 1963. Lack of good roads hampered the opening up of new deposits because both machinery and labour could not be transported easily to the new mining fields. And when new roads were built to connect potential tin fields, they were never opened up because of the inelastic demand and unstable world market price for tin. These factors, in addition to the existence of good investment opportunities in the oil industry, discouraged further investment in the new tin fields. It seems that Nigeria's tin output in the future will continues to decline, given the pattern it has taken since the last decade.

5. Columbite

This is a mineral, which was formerly regarded as an impurity occurring with tinstone from which it had to be removed by means of magnetic separators. Its deposits are located at the tin fields, being a by-product of tin ore. The most important deposits lie in an area around the Jos Plateau, which is the most important location of tin mining. The dumps of certain tin mines in Nigeria have proved remunerative sources of Columbite.

6. Limestone

There are several deposits of limestone scattered all over the country. The known deposits of significance are located in Ogun, Olo, Ondo, Anambra, Imo, Edo, Kwara and all the northern states of the country. This mineral became of importance only in 1960 when 240,000 tons were produced for domestic use. Its production rose as a result of its requirement as a raw material for cement plants which were established in the country; the local demand for this mineral increased sharply, and by 1974 its output was about 1.8 million tons.

7. Gold

Gold deposits are widespread in the country especially in Niger and Sokoto States where the established fields lie today. Other locations, though not as important as the Niger and Sokoto gold fields are the ones around Ilorin, Kabba and Ilesha in Kwara, Kogi and Oyo State respectively. Although lodes are known to exist, most of the output has been won from alluvial and detritus deposits.

4.0 CONCLUSION

The gold industry in Nigeria developed rapidly as a result of the rise in the price of gold in the World market and the sudden appearance of a large well-trained labor force from the tin mines. Gold has been produced both for export and domestic consumption.

5.0 SUMMARY

Nigeria is blessed with natural resources. These natural resources are yet to be fully utilized. However, Nigeria has been mining minerals such as petroleum, limestone, tin, columbine, kaolin, gold, and silver, etc. The contribution of the mining and quarrying sub-sector to the economic development process of the country only became significant after about five years of independence. The impressive performance of the mining and quarrying sub-sector in the share of the GDP and its total monopoly of foreign exchange earnings especially since 1970s is however accounted for by a major mineral product: crude petroleum. Crude petroleum, the dominant mineral in the mining and quarrying sector of the Nigerian Economy accounted for 91.8% of the output of the sector in 1981. 96.7% in 1985, 97.6% in 1985, 97.6% in 1987, 97.8% in 1990, 28 97.9%, 97.6% and 97.6% in 1992, 1994, and 1995 respectively. The exploitation and sale of other mineral products in Nigeria remain very low.

6.0 TUTOR-MARKED ASSIGNMENT

State the various minerals that are found in the country and discuss the importance of the mining and quarrying sub-sector in the development ofNigerian economy.

7.0 REFERENCES/FURTHER READING

- Anyanwu J.C., Oyefusi A., Oaikhenan H.O., Dimowo F.A. Structure of the Nigerian Economy (1960-1997). Joanee Education Publisher Ltd.
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UNIT 4: GOVERNMENT EXPENDITURE IN NIGERIA

TABLE OF CONTENTS

1.0 Introduction

Government expenditure policy represents an overall aspect of fiscal policies towards expenditure programs to meet the goals of stable long-term growth, economic efficiency and poverty alleviation.

Government expenditure affects aggregate resource use and, together with monetary and exchange rate policies, influences the balance of payments, the accumulation of external debt, and the inflation, interest and exchange rates. Government spending, taxes, user charges, and borrowing also affect the behavior of producers and consumers, and influence the distribution of income and wealth in any economy. Government thus, assumes a major role in promoting investment and growth throughout the country.

2.0 OBJECTIVES

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

- Find out why the government should spend
- Classify government expenditure
- Look at the effects of government expenditure in Nigeria.

3.0 Main Content

3.1 The Need for Government Expenditure

Governments have the major functions of serving the citizens of the country. By means of appropriate economic policies, a government is expected to promote the economic well-being and the general welfare of the citizens. In addition to maintaining law and order, the government is also expected to play an important role in economic affairs.

Governments intervene in the economy in a number of ways and for a number of reasons. First of all, doing so, governments are able to produce goods and services. Government expenditure represents the cost of carrying out these activities. Thus, government expenditure refers to the value of goods and services provided through the public sectors. The expenses are incurred in the production and/or provision of governmental goods and services.

Self-Assessment Exercise

Outline the things you think the government should spend on.

There are number of items of government expenditure. The major ones are with regards to the following:

- Defense in order to ensure internal and external security and maintain law and order;
- General administration, i.e. managing and planning the running of official administrative offices, ministries and parastatal;

- Provision of social infrastructures and services like roads, harbors, hospitals, schools, transport, water, electricity supply, education housing etc;
- Participating directly in economic enterprise, either by organizing production or marketing itself or providing finance to help private enterprise or combining with some private enterprises in some way
- Implementation of development plans, and
- Payment of interest on national debt.

Self-Assessment Exercise

Classify the forms of government expenditure?

Government expenditure takes two major forms i.e. recurrent and capital. Recurrent expenditure refers to all running costs of government. They involve all expenditures by the government for the maintenance of existing or new institutions and services. Recurrent operating costs of government include salaries and wages of public officers and their fringe benefits and other expenses for servicing activities which involve administration, defense and other social services like education, health and pension schemes.

Capital expenditure, on the other hand, it the cost of bringing into existence new institutions, services and projects. It refers to all government expenses on new buildings, roads, factories or schools and the equipment required for providing social and economic services.

3.2 Classification of Government Expenditures

For you to appreciate how the government expenditure is being made you can easily classify them into four groups. These are: administration, economic services, social and community services and transfers. The major item under administration' is general administration and internal security. The items under economic services' are agriculture, construction, transport and communications and other economic services. Education, health and other social and community services belong to the social and community services' category. Transfers' include public debt servicing (internal and external), statutory appropriation to states, non-statutory appropriation to states, pensions and gratuities and transfers to Development Funds.

The administration aspect of government expenditure is really meant to keep the governmental agencies going and also to ensure internal security and also to protect the country against external aggression. Allocation to this group is usually regarded as non-productive and ideally, its proportion of total expenditure should be minimal. Economic services are required to act as 'organs' for achieving economic growth and development. Thus, for a country that thinks seriously about economic growth and development, the allocation of total expenditure made to economic services should be larger and should continue to grow over the years. Expenditure on social and community services is really meant to raise the quality of life of people in a country as well as the standard of living of the people. Transfers are, among other things, usually necessary in a country like Nigeria where the Federal government is regarded as 'Father Christmas'. The states are dependent on it for the execution of their programs. If states spend the transfers made to them wisely, a good part of the transfer group of expenditure could either be regarded as productive or contributory to raising the standard of living of people. To this extent, therefore, a high proportion of government expenditure in form of transfers would be beneficial.

3.3 Determination of Government Expenditure

There are a number of factors that might be expected to affect the extent of government expenditure. One of such is the amount of revenue available to the government. Although deficit financing is possible and is adopted by a government, it could be said that usually the more the revenue available to a government, the higher its aggregate level of expenditure is likely to be. This is analogous to the usual expectation that the higher the income of a person, the greater is his expenditure likely to be.

Since one of the major groups of government expenditure is social and community services, the more populous a country, the greater would be the amount of money to be allocated to this group. More schools and colleges would need to be built, more health institutions to be provided, and so on. Thus, there should be a positive correlation between population growth and the rate of increase in total 'government expenditure.

Government expenditure should also be expected to be related to national income (which is different from revenue). The greater the national income of a country, the more the government expenditure is expected to be. Economic growth, which is only narrowly defined as growth of national income, affects government expenditure. The growth of modern industries contributes immensely to the growth of national income as we have discussed in an earlier chapter. However, accompanying the growth of industries are certain requirements and results. For example, there will be need for improved infrastructural facilities such as roads, port development, post and telecommunications, electricity and water. The efforts of the government to meet these concurrent requirements would consequently lead to increased government expenditure.

The ideology of the government and its economic plan objectives will also affect both the volume and the pattern of its expenditure. If the stated objectives of the government is in the Plan, for example, include such things as promotion of economic growth and raising standard of living of the people, then it would be expected that this be reflected in not only government's total expenditure but also in the sectoral allocations.

Self-Assessment Exercise

Has the expenditure made by the Nigerian government had any effects on the economic development of Nigeria?

3.4 Effects of Government Expenditure In Nigeria

A number of observations can be made about the effects of federal government expenditure in Nigeria over the last three decades.

On the positive side, it can be said that federal expenditure has led to the following:

- Infrastructural Development: The most remarkable of the infrastructural facilities is road network. Nigerian now has fairly good road network when compared with some other

African countries. Developments have also occurred with respect to seaports, airports and railways.

- Establishment of Industries: As a result of government revenue, it has been possible to establish a number of industries, a typical example of which is the iron and steel industry.
- Establishment of More Institutions of Higher Learning: Within the last decade, the number of Universities and other institutions of higher learning has increased as a result of increase in government expenditure.
- Provision of Better Health Facilities: As a result of increase in government expenditure, it has been possible to provide better health facilities. The Basic Health Services Scheme currently embarked upon by the Government and which is expected to take health care to the doorsteps of every Nigerian would not have been possible without increase in government expenditure.
- Successful Prosecution of the Civil War: Without the increase in government expenditure, it would not have been possible to successfully prosecute the Civil War as a result of which the country is still one today.
- Development of New States: The allocation made to the state governments has played a key role in enhancing development in the newly created states.
- Increase in Standard of Living of Nigerians: All told, there has been appreciable improvement in the standard of living of Nigerians. This has been primarily due to increased government expenditure over the years.
- Increase in Capital Formation: The increase in government expenditure as well as the reversal of the bias in government spending from current to capital expenditure has helped to raise the extent of capital formation in the country.

On the negative side, however, there are at least three effects of government expenditure worth mentioning. First, the government has put up so many 'white elephants'. The expenditure on such things is, no doubt, wasteful and is a gross violation of the rules of optimal allocation of resources for a developing country like Nigeria. Secondly, increase in government expenditure has played a key role in making some Nigerians 'over-night millionaires'. This would not have been a disadvantage if such people had been spending their money wisely. But they have not.

They engage, rather, in wasteful spending and conspicuous consumption. It is even alleged that some of them spend more of their over-night acquired wealth outside than inside this country. This acts as a 'leakage' from the economy. Thirdly, it is generally believed that increase in government spending has been a major contributory factor to inflation in Nigeria.

4.0 Conclusion

There is a degree of consensus in the public finance literature on desirable criteria for government expenditure that will enable it achieve it's developmental objective. However, in Nigeria there is strong violation of the rules of optimal allocation of resources. Over the years federal government of Nigeria has been engaged in wasteful spending on projects that has no bearing in the economic development of the country. This mis-allocation of the limited resources in countries is alleged to be responsible for the slow pace of the economy development of Nigeria.

5.0 Summary

The government of Nigeria has as its major function, the promotion of the economic well-being and the general welfare of the citizens. To effectively achieve this, government makes certain expenditure on major issues, such as defense, general administration, provision of social infrastructures and service, participating directly in economic enterprise, etc. These expenditures could be categorized into recurrent and capital expenditure. Furthermore there are quiet a good number of factors that determine government expenditure. The most important factor is the amount of revenue available to the government. Also you have seen that, the effect of government expenditure on the development of infrastructural facilities, establishment of industrial provision of better health facilities and soon on.

6.0 TUTOR MARKED ASSIGNMENT

Discuss the functional determinants of patterns of government expenditure in Nigeria.

7.0 REFERENCES/FURTHER READING

- Anyanwu J.C., OyefusiA., Oaikhenan H.O., Dimowo F.A. Structure of the Nigerian Economy (1960-1997), Joanee Education Publisher Ltd.
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MODULE 2:

Unit 1: Capital Formation in Nigeria

Unit 2: Nigeria’s Economic Policy

Unit 3: Aids and Technology

Unit 4: Development Planning

UNIT 1: CAPITAL FORMATION IN NIGERIA

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1.0 Introduction

Classical Economists interested in the development problems of their age perceived capital accumulation as a crucial variable in the development process.

This view is in line with a general agreement that a decline in the rate of growth of capital formation will, all things being equal, lead to a decline in aggregate output, since increase in output is a function of capital productivity and the extent of its utilization. Adam Smith was quoted by J .U. Umo to have argued that:

"As the accumulation of stock (of capital) must in the nature of things be previous to the division of labor, so labor can be more and more divided in proportion only as the stock is previously more and more accumulated ". He opined that greater specialization on which high productivity depends could be achieved only if more tools and machinery were made available for production.

Thus, the role of capital formation in economic development cannot be over emphasized.

According to Professor R.Nurkse adopted from M. J. Hinghan, capital formation means that "Society does not apply the whole of its current productive activity to the needs and desires of immediate consumption, but directs a part of it to the making of capital goods: - tools and instruments, machines and transport facilities, plants and equipment all the various forms of real capital that can so greatly increase the efficiency of productive efforts. The essence of the process then, is the diversion of a part of a society's currently available resources to the purpose of increasing the stock of capital goods as to make possible an expansion of consumable output in the future".

Above definition sees capital formation as encompassing only all real and tangible assets instrumental to increasing productivity in the production process.

2.0 Objectives

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

- Explain role government in the management of Nigeria export sector its and important in our society
- Identify the agencies link with export promotion
- Outline the problems that inhibit the development of agricultural activities
- List the different strategies and policy measures that the government has adopted over the years to improve this sector.

3.0 Main Content

3.1 Capital Formations

"M.A. Danmole's" Define capital formation as all forms of government expenditure on education, research institute mud management training centers health facilities, roads and telecommunications facilities etc. that is regarded as essential stimulus to increasing productivity at all facets. This perception of capital formation is more encompassing than the earlier definition because, capital formation will by this perception include at the macro level, all form of tangible and intangible investment provisions on human and non-human productive factors, essential for ensuring productivity, this includes: - tools, machines, plants, equipment, transport facilities, education, research and personnel training, health facilities, communication facilities etc. "Agrawal" Defined capital formation as the Sum of **physical capital** and **human capital**.

Physical capital includes all those durable goods except land, which help in production. Thus, plant and equipment e.g. factory buildings, tools, machines etc are physical capital. Human capital or skill formation, on the other hand, refers to investment in human being e.g. education, training etc to make them more productive".

3.2Process of Capital Formation In Nigeria

It needs be noted that savings and investment are essential for capital formation. Saving has been described as the result of waiting or abstinence from present consumption (Marshall). When a person post pones his consumption to the future, he saves his wealth which he utilizes for further production, if the generality of the people save like this, the aggregate saving increases and are invested on real assets like machines, tools, plants, roads, etc.

It needs be that hoarding of money is not the same with saving. A civil servant who decides to safe-keep an average of ₦10, 000 per month underneath his bed for instance, is involved in hoarding money. Such money can't be easily mobilized for investment purpose. In fact, it's regarded as a financial leakage. This is because, had the money been deposited with financial institutions it would have added to the volume of loan able fund for investment purpose while the depositor also enjoys some interest on his depending on the duration of savings.

For savings to be utilized for investment purposes it must be mobilized in banks and financial institutions. Businessmen, entrepreneurs and the farmers invest these communities saving on capital goods by taking loans from these banks and financial institutions. This is capital formation.

Since capital formation entails how to accumulate stock of wealth on features that can ease the production of further utilities, then the process of capital formation involves three steps, namely:

(a) Increasing savings

(b) Mobilization of savings through financial institutions.

(c) Investment of savings.

a. Increasing Savings

Saving is a function of the POWER and WILL to save, all other things being equal.

The power to save of a community depends on the size of the average income, average size of the family and the chosen standard of living.

It is expected that a family with a relatively smaller size has a better saving power or opportunity than another family on the same income but with a larger size.

Thus, families with relatively large size has little or no power to save, while the family with a smaller size has a relatively higher propensity to save assuming that their income is the same

All things being equal, it is expected that family with higher average income stand a better chance to save (if it maintain a moderate life style) than a similar family with a relatively lower average income.

The will to save in an economy is also influenced by conducive political and economic atmosphere, interest rate, government financial regulations on taxes etc. The will to save of an individual is personal conviction and commitment of an individual to save in order to achieve a set goal. It is possible for someone on a relatively higher income not to save probably because the WILL to save is missing. Thus, it’s possible for someone to have power to save and save not because the WILL to save is not in him (low rate of propensity to save).

In a similar vein, it’s possible for an individual to have the WILL (personal conviction and commitment) to save and couldn’t save because he lacks the POWER to save as a result of large family size, low income rate etc.

It needs be noted however that, people are likely to save more is politically stable economy and an impressive interest rate on different term deposits. Saving habit of the people is negatively influenced by progressive tax income, and property tax, which means a reduction in the incentive to save.

b. Mobilization of Savings

Establishment of well-developed capital and money market are essential for effective mobilization of savings for investment purposes. The save-keep of money in the room can’t be regarded as saving; as such fund can’t be mobilized for investment purpose. Apart from the fact that a depositor of fund with financial institutions earns interest on various term deposits, they also help in the money creation process of financial institutions thereby partly solving the problems of potential credit worthy investors with the banks.

c. Investment of Savings

This is the final and most fundamental step in capital formation process. Having mobilized or increased the propensity to save of the people in the tower income groups, the problem of how to utilize current savings for capital formation now arises, the financial institutions are the major agent for mobilizing savings for investment purposes. These banks however do a lot of screening exercise on the viability or otherwise of the proposed investment and the creditworthiness of the creditor.

A lot of project evaluation techniques ranging from undiscounted techniques (payback period), to discounted techniques (NPV, IRR, Cost-Benefit Analysis are often applied to decide on the economic viability of the project. Much as the various discounted techniques are highly applauded and more suitable in advanced countries, it needs that the undiscounted pay back technique for project evaluation seems more popular and pronounced in most underdeveloped and politically unstable economies. This popularity may be attributed to the technique preference for "shortest possible recoupment of fund" principle.

No reasonable investor would want to commit great investment in an economy that is bedeviled with unstable economic conditions and incessant change of government that characterized less developed countries, Nigeria is no exception. Above submission is the more reason for low rate of capital formation in developing countries.

3.3Forms of Capital Formation

3.3.1 Physical Forms

As earlier discussed, capital formation can be tangible and intangible productive resources meant to ease and increase productivity in the production process. Thus, physical forms of capital formation entails, tools, machines, plants, transport facilities, etc. According to Nurkse, the vicious circle of poverty in underdeveloped can be broken through capital formation. A brief look into the manufacturing industry in Nigeria will point to the fact that Nigeria is regarded as a consuming country rather than being productive as a result of low rate of capital formation depicted by unstable power supply, lack of good road and communication facilitates efficient and effective skilled resources persons etc.

Nigeria has not been able to stamp her authority in Africa talk less, the world at large. For instance, the establishment of Ajaokuta steel plant has not been positively felt owning to successive government "unseriouseness" and poor vision for capital formation at the level of industrialization and technological advancement. Hence, Nigeria market is flooded with virtually consumer goods that could be produced in this country. For instance, Nigeria was rated, as the highest importer of generator and the market is flooded with second hand cars, popularly known as "tokunbo".

3.3.2 Human Forms

Nigeria's capital formation can be viewed from the human resource point of view. Human capital formation refers to the "process of acquiring and increasing the number of persons who has the skills, education and experience which are critical for the economic and the political development of the country. Human capital is thus associated with investment in man and his development as a creative resource Aggarwal and Singh, adopted from M.L. Jhingan. According to Schultz, there are five ways of developing human resources.

a. Health facilities and services, broadly conceived to include all expenditures that affect the life expectancy, strength, stamina, and the vigor and vitality of the people.

b. On-the job training, including old type apprenticeships organized by firms.

c. Formally organized education at the elementary secondary and higher levels.

d. Study programs for adults that are not organized by firms, including extension programs notably in agriculture

e. Migration of individuals and families to adjust to changing job opportunities.

Above description of human capital formation entails expenditure on education and social services in general. In Nigeria's context, Nigeria lack the potentials for technological drive and as a result spend a lot of money in the turnaround maintenance of her refineries, for instance. Also, Nigeria's inability to introduce indigenous technological apparatus for development of some sectors of the economy has been responsible for the low level of capital formation in the country.

The education sector which serve, as the bedrock of the contribution of human resources towards capital formation has been bedridden with incessant strikes by ASUU, poor educational amenities in universities, secondary schools as well as primary schools. Most government policies on education (e.g. Universal Basic Education Scheme) are often laudable but lack proper implementation. As a result system only succeed in producing half-baked students who are not educationally fit for the tasking and highly demanding business environment.

3.4Importance of Capital Formation In Nigeria

1. According to Nurkse, the vicious cycle of poverty in underdeveloped countries can be broken through capital formation. A country like Nigeria characterized by low level of income resulting in deficient demand and investment is bound to experience low rate of capital formation. This has resulted in deficiency of capital goods in Nigeria which can only be corrected by good level of capital formation if good and adequate social and economic over heads are created, the resultant effect will be increased output, income and employment thereby solving the inflation, deficient demand, balance of payment deficit etc which is prevalent in Nigeria.

2. A rapid capital formation gradually makes a country self sufficient as her level of dependence on foreign aid will be Capital formation benefits labor, as it will increase reduced, and ease the burden of foreign debt.

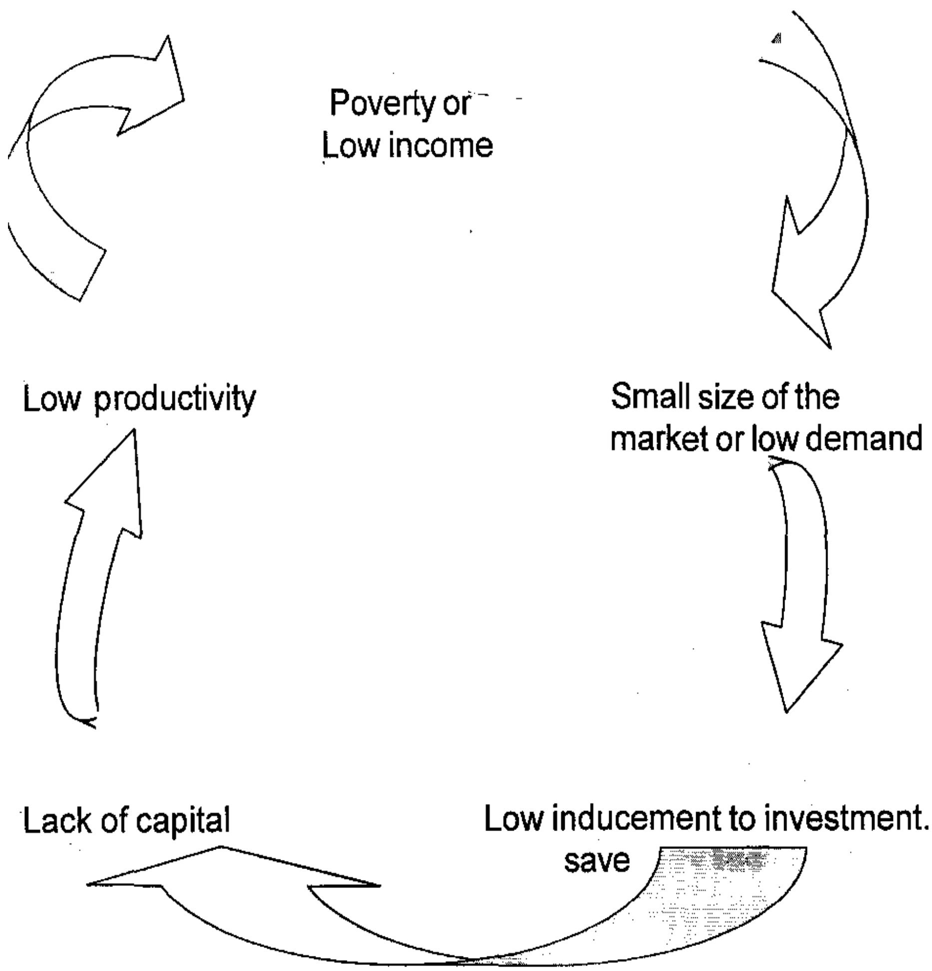
3. Production and also employment opportunities that will result to technical progress and enjoyment of the benefits of large-scale production.

4. When improved, capital formation leads to proper exploitation of natural resources and the establishment of different industries, income increases while varieties of wants are easily available for consumers. Availability of varieties of goods at affordable prices will translate into better standard of living and economic welfare. This increase in economic activities will result increase in the national income.

Furthermore, the strains of inflation on underdeveloped economies like Nigeria may be reduced to a considerable level by high rate of capital formation. Agricultural produce and manufactured consumer goods tend to increase with a rise in the rate of capital formation. This is often the case because; the average cost of production reduces as capital formation rate increases.

3.5 Reasons for Low Rate of Capital Formation in Africa (Nigeria)

The level of population growth in Nigeria as it affects the level of capital formation. This rapid population growth serves as an impediment towards capital formation as well as the development of the country. With a population adjudged by World Bank report asl2O million and a per capita income of $200, an average Nigerian is very poor relative to citizen of Japan, USA, and UK etc. These low incomes translate to low savings and resultant low rate of investment; Thus, a clear manifestation of vicious cycle of poverty.



1. Rapidly Growing Population

A sporadic population growth is an impediment to meaningful increase in the rate of capital formation as the marginal propensity to consume (MPC) becomes very high, so almost the entire income is spent on consumption. How can capital formation be stepped-up when the per capita income increases slowly on account of a rapid rise in population? A rapidly growing population increases the number of consumers in the country and hence consumption expenditure increases. It becomes difficult to increase the rate of saving and investment, which is essential for capital formation economic development. Thus, a rapidly growing population retards economic growth by retarding the growth of capital formation.

2. **Lack Of Entrepreneurial Capacity**

The lack of real business promoters and entrepreneurs is responsible for the low level of capital formation in Nigeria. Economists believe that the bedrock of a standard capital formation is the potentiality of entrepreneurial capacity. But unfortunately, Nigeria economy is characterized by more commerce oriented businessmen than real entrepreneurs. These set of "entrepreneurs "are more interested in making quick but short- lived fortune (profit) than investing on more positive projects with longer gestation period. This mere act of buying and selling will definitely retard the rate of meaningful capital formation.

3. **Demonstration Effect**

Demonstration effect can be described as a situation where a person imitates the lifestyle, consumption habit of his neighbors, friends or relations even at the expense of his earlier and/or present savings. When a man sees that some of his friends and relations have refrigerator, radio, television set, good furniture, cars etc he likes to imitate them and is desirous of possessing and using these things as soon as he can afford it or when his income increases. This means that because of the influence of other people's consumption pattern, instead of increasing his savings, when his income increases, he increase his consumption

4. Low Income

As earlier noted, ability to save depends on the level of income, family size and standard of income. In most under developed countries; the low rate of savings and investment is also attributable to low per capita income that characterized these economies. Most income earners in such economies live on subsistence income with little or nothing left to save, so saving is not positive and the rate of capital formation becomes low.

5. Technological Backwardness

This refers to obsolete or outdated methods/tools of operation in almost all the facets of the economy. Technological backwardness adversely affects the per unit output of factor inputs (Labor/ Capital). This negative feature is reflected in the primary mono- product based nature of Nigeria country. Perhaps, for few instances (India, China) seldom can a country that is primary product based experience increasingly high rate of capital formation because of low productivity and uncreative nature of primary products relative to finished goods and services.

6. Low Productivity

Since the rate of productivity is low in Nigeria with relevant references to the agriculture sector and manufacturing sectors the growth rate of the national income and savings, as well as capital formation are low. The natural resources in Nigeria are either unutilized or under-utilized due to lack of efficient skill labor and technological know-how. These factors stand in between Nigeria industrialists and their foreign counterparts, who are better disposed to international market competition. Most Nigerian entrepreneurs have to bear the addition burden of providing most economic infrastructures (e.g. water, electricity), which ordinarily should be provided by the government. This additional investment on these infrastructures adds to the average cost of production of the output and makes infrastructures adds to average cost of production of the output and makes their products relatively more expensive.

7. Distress of Financial Institutions

Most Nigerians had faced the problem of losing their huge savings to failed and distressed banks (National Bank, Allied Bank, Commerce Bank etc) especially in the late 1980s and early 1990s. This problem of the Nigeria Financial sector led to the low rate of financial investment as well as the exchange and flow of money in circulation. This adversely affected the public and industrialist' confidence on commercial banks and thus the volume of savings available for investment purposes was greatly reduced.

8. Backward Social Structure

Not only have the economic factor handicapped the progress in capital formation of the underdeveloped countries but social factors too have played their part to keep them economically backward. Irrational attitude to having children, wasteful social ceremonies, conservative religious belief are few among social cog in the will of progress of capital formation developing countries. Much of the resources that could have been better utilized are wasted in unnecessary social ceremonies and activities.

9**. Political Instability and Corrupt Leadership**

Most developing countries are devoid of purposeful and futuristic leadership. Favoritism, nepotism and corruption are the order of the day in developing countries. The people lack sense of duty and patriotism and most often they are busy looting the public fund. This unsecured social act and incessant political crisis adversely affected the savings and investment habit of the citizen, as people are not encouraged to save and / or invest in a politically unstable economy. The June 12 1993 crisis and the resultant lost of lives and properties are examples of what operate in most under developed countries.

3.6 Financing Capital Formation in Nigeria

Capital formation in Nigeria is financed through the following sources:

i. Increase in National Income:

The first step is to increase the national output or income, which will tend to raise the income of the people. This can be done by utilizing the existing techniques and employing untapped resources efficiently, and by increased division of labour.

ii. Savings Drives.

This can be achieved by cutting down on conspicuous consumption. Conspicuous consumption is a common phenomenon in LDC's in which Nigeria value from. At the stage of LDC's development, people should concentrate on needs rather than wants. The old adage of "saving for the rainy day" should be re-encouraged. Also saving drive will help 10 solve the problem to saving. This can be achieved through propaganda and social education. Thus, people should be persuaded to save in their own interest or that of their children.

iii. Creation of Finance And Credit Institutions

The major lubricant of the whole economy lies in the efficiency of the banking sector, which ensures that business activities are count without unnecessary delay. Thus, the role of the banking sector in capital formation cannot be undermined; as a result, the government should change the technique of borrowing by the business community, in order that risks are minimized on capital loss. Synch was the case in Nigeria during the early 90s when the financial system was deregulated. While it need be noted that Nigeria has not a host of specialized banks, their performance and operation have been disappointing, due to gross inefficiency, misappropriation of funds, embezzlement and other financial vices. Thus, the government should ensure efficiency and qualitative banking operation.

(iv) Fiscal Measures

In the Less Developed Countries (especially Nigeria) voluntary savings are not usually forth coming for capital formation to be possible. Since this is the situation, the .government is the only source of making voluntary saving possible. This is usually made possible through legislation. Such is the case with the decree on savings on housing and the old National Provident Fund. It is also possible to achieve this through various fiscal and monetary policies highlighted below: -

a. *Taxation* is also an effective means of mobilizing funds. When applied, it has the effect of reducing consumption and making resources available to government for productive investment, it helps capital formation by transferring private to state for desired projects and by providing incentives to the private sector in the form of infrastructures such as electricity, water and good roads which assist in production and increasing production.

b. *Public borrowing* is also an effective tool for mobilizing funds from unproductive individual activities to productive ventures by the government. This is achieved by the sale of government securities in the form of treasury bills and certificate and other money markets instruments.

v. Foreign Aids and Investment:

This is another source of capital formation. It is normally in the form of grants from developed countries to ameliorate the burden of its citizenry. This is a situation where both countries involved in the venture sign to be bounded by certain agreement, which will not be of disadvantages to both countries. For instance, the memorandum of understanding signed between Nigeria and South Africa as well as foreign aid promised Nigeria by Japan, which has been designated to six (6) states in Nigeria from the six (6) geo-political zones. Similarly, government and individual (Nigerians) proceeds from their investment outside the country is also a good source of financing capital. The indigenization decree of 1972 ensures that most profit hitherto repatriated to foreign partners respective countries are largely retained in Nigeria and this is a good source of finance capital formation.

4.0 Conclusion

Capital formation means that “Society does not apply the whole of its current productive activity to the needs and desires of immediate consumption, but directs a part of it to the making of capital goods: - tools and instruments, machines and transport facilities, plants and equipment all the various forms of real capital that can so greatly increase the efficiency of productive efforts. It is the Sum of physical capital and human capital. Since capital formation entails how to accumulate stock of wealth on features that can ease the production of further utilities, then the process of capital formation involves three steps, namely: - Increasing savings, Mobilization of savings through financial institutions and Investment of savings.

5.0 Summary

In this Unit, we have learnt on the management of the economy with reference to Capital Formation, which entails means of accumulating stock of wealth on features that can ease the production of further utilities. The various techniques in dealing with capital formation includes process of capital formation, form of capital formation, its importance, reasons and means of financing capital formation.

6.0 Tutor-Marked Assignment

i. Discuss sources of Capital formation in Nigeria

ii. What are the importance of capital formation in Nigeria

7.0 References/Further Reading

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UNIT 2: NIGERIA’S ECONOMIC POLICY

TABLE OF CONTENTS

1.0 Introduction

Economic policy of any nation is the bedrock upon which all other development related policies rest, be it the industrial, production or the trade policies. Thus, a sound economic policy will form a good foundation that will enhance good performance of other policies and vise versa and by extension the entire economy. That is why the government at any point time always ensures that they put in place a good economic policy (at least to the best of their knowledge).

2.0 Objectives

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

- Explain role government in the management of Nigeria, a focus on Nigeria Economy Policy
- Identify the agencies link with economic policies in Nigeria
- Explain the impact of structural adjustment program and its main elements, in Nigeria
- List the various objectives of SAP and macro economy policies.

3.0 Main Content

3.1 Nigeria's Economic Policy

Economic policy involves measures put in place by the government to ensure the achievement of set macroeconomic goals (Ani, 2002). The macro-economic goals include price stability, full employment, economic growth and external payment balance. Economic policy, therefore, gives a defined course of action on identified economic problems and the process is usually multifaceted. Before setting up economic policies, there is need to identify the problems of the economy itself. Having identified a particular economic problem, alternative courses of action are formulated on the basis of economic research from which objectives are defined and selected policies are chosen and strategies put in place to achieve them. The major economic policies component instruments include the fiscal and monetary policies, trade and exchange rate policies and sectoral policies. We shall endeavour to discuss these instruments or components one by one issues relating to why economic policies have been failing to achieve its goals and objectives in Nigeria shall equally be discussed. We shall start by discussing first the monetary and fiscal policy in Nigeria. It has to be noted that the CBN is saddled with the responsibility of formulating the major economic policy of the country.

3.1.1 Monetary Policy

The first two and half decades of the establishment of the Central Bank of Nigeria, its efforts in the formulation of economic policy for the country was directed towards promotion and development of money and capital markets as the fundamental requirements for the conduct of monetary policy and domestic resource mobilization for investments, growth and development (Sanusi, 2000). From 1986, however, emphases have shifted to the establishment of monetary conditions conducive to price stability. The technique has also given way to the use of market-based instrument given the global trend in vogue.

The CBN conducts the day to day management of monetary policy under the guidance of the Monetary Policy Committee (MPC), made up of the Governor, as the Chairman, the Deputy Governors and Director of Research, Governors Office, Banking Operations, Banking Supervision, Bank Examination and Foreign Operations Department. The MPC meets weekly to review monetary and banking system conditions and take necessary measures to ensure the smooth running of the economy. The moment monetary policy is formulated; it is implemented with the use of open market operation (OMO), conducted by the Banking Operation Department and complemented by changes in the rediscount rate, reserve requirement and liquidity ratio. The CBN could also use direct policy measures like changes in the maximum interest rates on bank deposits and loans, direct credit and imposition of ceilings on bank credits in period of excessive monetary expansion to curb liquidity in the economy. These direct measures are however rarely used because of the market-based measures adopted in the recent past. For detailed discussion on monetary and fiscal policy, see page 12 to 14 of chapter 2.

3.2 Overview of Nigeria Economic Policy: Initial Attempt to Resolve the Economic Crises

The initial reaction of the Babangida Government which came into power on August 27, 1985, to the deteriorating economic situation was to reinforce and strengthen the existing fiscal, monetary and exchange control measures, while effort were made to explore alternatives. In October, 1983 the Government declared a 15-month Economic Emergency under an enabling Decree which gave the president extensive powers to take actions deemed necessary to stem the deep and persistence recession. In the exercise of these new powers, the President introduced graduated levies of 2 to 15 per cent on all dividends, rental incomes, wages and salaries and established an Economic Recovery Fund for the management of the receipts from the levies and their investment in the provision of public infrastructures. Non-essential public projects were suspended in order to moderate public expenditure, while the importation of food items like maize, wheat and rice was banned in order to encourage domestic production and conserve foreign exchange.

The succession of austere fiscal measures, tight monetary policies and increasingly stringent trade and foreign exchange controls, helped the authorities to re-establish a measure of control over the economy. Moreover, the pressure on the balance of payments remained intense in the face of the mounting debts service obligations and continued weakness in the price of crude oil. Furthermore, owing to the high degree of dependence of production on imported inputs, the compression in imports was accompanied by a sharp contraction in capacity utilization in industry, resulting in plant closures, sharp declines in output and investment and a surge in unemployment. The reserve cut back in output resulted in widespread shortages of basic commodities including food, further fuelling inflationary pressure.

The economic problems continued to mount during the 2nd republic and ended the time a new government came in 1983 December, there was controversy as to whether the country should accept a loan from the International Monetary Fund (IMF) and therefore comply with the conditionality attached to such facilities or whether it should fashion out its own reform program and seek funds from mainly internal sources. Underlying the difference in views was concern that further foreign borrowing would intensify the existing debt burden. In addition, there were differences of opinion over the efficacy of the devaluation of the Naira as an instrument for inducing a turn-around in the balance of payments, given the structure of the country's exports and imports.

In order to resolve the impasse and carry the population along with it which is a difficult decision, the new administration set up a Presidential Committee on the IMF loan. The objective was to evaluate "both the negative and positive implications of reaching a mutual agreement with the Fund". The committee, which was set up in l986 hearings on refinancing Nigeria's accumulated trade arrears, assessed the attitude of creditors and napped out strategies for reducing the debt service burden. In its report, the committee came to conclusion that the general opinion favored self-reliant solutions to the county's economic problems as a against the solution based on the IMF terms. The committee also recommended a phase withdrawer of the subsidy on petroleum products and the allocation of the proceeds to the productive sectors of the economy. Finally, it recommended that foreign exchange regulations governing foreign trade and investment in the country should be review while the adjusting the exchange rate gradually downwards should continue. In July, 986, the program of economic recovery contained in the budget for fiscal year 1986 was developed into a formal of Structural Adjustment Programme.

3.3 The Structural Adjustment Programme (SAP)

The SAP was designed to deal with the underlying imbalances in the economy and thus pave way for growth and development. It had two broad interrelated and mutually reinforcing components. The first emphasized short to medium-term macroeconomic stabilization aimed at the bringing down inflationary tendencies and achieving a viable balance of payments position. The second had as its focus, the elimination of imbalances in the country's structure of production and expenditure.

The SAP, as a specific package of economic adjustment, was designed to last for two years (1986-1988) during which necessary measures would have been taken to ensure that the adjustment process would become self-reinforcing. The time frame on the program was not meant to indicate that the deep rooted problems of the economy would be resolved entirely in two years. Rather, it was designed to show that during the period, a solid foundation would have been laid for the adjustment of the production and expenditure patterns in the economy.

3.3.1 Objectives and Strategies of the SAP

The ultimate goals of SAP are the attainment of structural transformation and stability of the economy. The programme was designed to change and re-align the production and expenditure patterns of the government and people in such a way as to minimize dependence on imports and encourage non-oil exports. This was expected to eliminate over dependence on the crude oil and thereby stimulate steady and balanced growth.

The specific objects of SAP were to:

1. Restructure and diversify the productive base of the economy in order to lesson the dependence on the oil sector and on imports
2. Achieve fiscal and balance of payments viability over time.
3. Lay the basis for sustainable, non-inflationary or minimum inflationary growth; and
4. Lessen the dominance of unproductive investments in the public sector, improve the sector's inefficiency and intensify the growth potential of the private sector.

To achieve these objectives, it becomes necessary to adopt a new economic management posture, which would, depart substantially from the excessive control mechanism of the past. Consequently, the main strategy of the adjustment programme was designed to include:

1. The adoption of a realistic exchange rate policy couple with liberalization of the external trade and payments system.
2. Adoption of appropriate pricing policies in all sectors with greater reliance on market forces and. reduction in complex administration controls; and
3. Further rationalization and restructuring of public expenditures and custom tariffs.

3.3.2 Main Elements of the Adjustment Programme

The SAP had eight primary elements, which together constituted its main features and distinguished it from the previous economic measures. These features which were the planed to achieve the objectives of SAP were: the strengthening of demand management policies; adoption of measures to stimulate domestic production; adoption of a realistic exchange rate policy; further rationalization and restructuring of customs tariffs; moving towards ii proved trade and payments systems; reduction of complex administrative controls; adoption of appropriate pricing policies; and encouragement of the rationalization and privatization of public sector enterprises. These elements or features of SAP are further explained below, before highlighting the policy measures employed to translate them into viable planes to achieve the cardinal objectives of the SAP.

(a) Strengthening Demand Management

The SAP emphasized demand management through restrictive monetary and fiscal policies to ensure that the growth of aggregate demand was compatible with a low and stable inflation and a sustainable balance of payments position. The key to success lay in steadily reducing fiscal deficit through better control of expenditure, as well as the generation of much higher levels of revenue from non-oil sources. Since a substantial proportion of the expenditures of the Federal Government comprised grants or subventions to a large number of unprofitable and inefficient public enterprises, the elimination of such subventions through privatization or commercialization became a major aspect of public sector reform. On the revenue side, the low level of non-oil tax efforts underscored the need for revenue diversification through tax reform in order to boost non-oil revenue. Thus, since the SAP, the declared stance of monetary policy has been one of moderate restrain marked by moderate credit growth targets.

(b) Adoption of a Realistic Exchange Rate

Another central element under SAP was the adoption of a realistic exchange rate determined by market forces. Such a system would be expected to load a depreciated Naira exchange rate which would in turn influence both demand and supply of foreign exchange. On the demand side, excessive demand for foreign exchange for imports would be curbed since they would be more expensive. Indeed, it was believed that the rate realignment would help to curtain demand for imports and encourage a shift to domestic substitutes, thereby relieving some of the pressures on the balance-of payments. On the supply side, the emerging rare would eliminate the distortions formerly caused by exchange controls and stimulate exports particularly non-oil, and other things being equal. Other supply side benefits include inflow of foreign capital and repatriation of capital by Nigerians abroad since the depreciation of Naira exchange rate would make it cheaper to invest in Nigeria. Policy makers held the view that the closer the exchange rate is to the realistic exchange level, the less it will be necessary to continue with import licensing system and other trade controls. It was also their view that the grater the efficiency in the use of foreign exchanges the higher the level of export earnings in the medium to long-term and the smaller the leakage of foreign exchange through smuggling of goods and parallel market operations in currencies. To achieve the perceived benefits of a realistic exchange rate, several policy measures were adopted as examined in the section under SAP implementation policies.

(c) Adoption of Measure to Stimulate Domestic Production and Ensure Allocative Efficiency

In order to enhance domestic production, the SAP was designed to embrace the deregulation of the market for goods, financial services, and labour. The lifting of previous controls on those markets was to allow prices to clear the markets, reward efficiency, penalize waste and consequently raise overall productivity. These were to be combined with other incentives to be examined later, in order to stimulate domestic output.

(d) Further Rationalization/Restructuring of Customs Tariff In order to create a- more competitive and efficient industrial sector and thereby enhance the success of the SAP, policy focused attention on reducing the high levels of protection while tax incentives were introduced to encourage the development for local inputs. These measures include tariff reform, meant to lower nominal tariff rates substantially and ensure their uniformity across sectors and minimize the use of specific as opposed to ad valorem import and excise du ties. Other measures were the abolition of import license requirements drastic reduction in the list of goods as importation was prohibited. The revised customs and excise tariff had been in force since 1988.

(e) Moving Towards Improved Trade and Payments System

An important aspect of the change in foreign trade regime under the SAP was the liberalization of trade. The central element for liberalizing trade payments system was the set of policies pertaining to the price and allocation of foreign exchange. The medium-term policy target in this determination of the exchange rate through the market forces, this was expected to lead to realistic exchange rate, which would match the demand of foreign exchange with the supply. Since the Naira was believed to be over-valued, it was expected that the naira exchange rate would depreciate, thereby making imports more expensive and exports cheaper.

(f) Reduction of Complex Administrative Controls

One of the fundamental elements to achieve the objective of the SAP has been the control of the economic system. This involves the deregulation of both the commodity and financial markets. Under the SAP, price controls on commodities were expected to be lifted from the inception of the programe along with this dismantling of the commodity board system. Another policy focus under the SAP was the deregulation of the system including the reliance on markets forces as far as is practicable determines the interest rate. As in the case of the exchange rate reform, these de-control measures were designed to eliminate the price disincentives in the previous system.

(g) Adoption of Appropriate Pricing Policies

The dismantling of administrative controls under the SAP implies the replacement of the existing system with the market mechanism, which has been adjudged to be effective in promoting competition and enhancing efficient allocation of resources. Thus, the adoption of appropriate pricing policies under the SAP meant the subjection of economic activities as much as possible to the forces of demand and supply. It included the withdrawal of subsidies. However, since the market mechanism has its own defects, the policy stance in this respect has tended to be a cautious, sometimes phased implementation of the process of dismantling of controls.

(i) Rationalization of Public Sector Enterprises

Since regular government subventions and loan to unprofitable parastatals formed a significant part of the expenditures, which had contributed to its excessive deficits, the SAP embraced the policy of privatization and commercialization. The aim was to make public enterprises autonomous and self-supporting and to curtail government involvement in their management. This approach was expected to help in reducing its perennials deficits. On the other hand, commercialized enterprises were expected to at least cover their costs if they cannot make profit. Either way, government resources will be spared to tackle high priority national commitment.

3.4Policy Implementation

This section reviews the policy measures, which were implemented in an attempt to make the adjustment programme functional. There was no specific sequencing of the measures, except that some of the measures were applied from the inception of the program while others came up later as deemed necessary. They consisted of fiscal, monetary, exchange rate and trade policies, as well as the specific measures for boosting non-oil production and the financing of the program.

(a) Fiscal Policy Measures

For success of the SAP, the fiscal operations of the government were expected to be viable over time and to play an important role in bringing the much-needed macroeconomics and price stability to enhance output, especially in the non-oil sector. To this end, a number of reforms were carried out to influence those factors, which affected the revenue and expenditure programs of the government, given the background of dwindling revenue, a growing debt service burden, and an array of uncompleted projects. In the main, the reforms were designed to improve the revenue of the government, reduce its expenditure and keep fiscal operations at the levels that would not disrupt the adjustment program.

In order to keep its expenditure within the available resources, the government took a number of decisions, which initially included:

1. Holding down the level of public sector employment through freeze on hiring of the most critical skills;

2. Giving maintenance culture priority over new projects;

3. Reducing non-statutory financial transfer to all economic and non-economic parastals to not more than half of their 1985 levels and planning to eliminate such transfer to fully commercial-oriented parastatals by the end of the initial adjustment period;

4. According priority only to those uncompleted projects with high completion economic viability and ratios;

5. Adjusting spending with viable resources on quarterly basis and using any revenue in excess of the estimated level for reducing mainly budget deficit which was initially allowed within 3 per cent of the GDP; and

6. Establishing the Budget Monitoring Unit to control and monitor adjustments in budget.

Some of these initial actions were, however, reversed later. For example, in 1988, the government adopted reflationary measure when it was felt that policy measures had become too restrictive with adverse implications for output, employment and people's welfare. Some of the measures employed to relate the economy included tax exemptions, reduction of the company income tax rate, and increase in capital tax allowance and revocation of wage/salary freeze and restoration of the right to collective bargaining and adoption of enhanced wage/salary and fringe benefits in the public sector.

In addition to these policy reviews, the government articulated other reforms and innovations in an attempt to strengthen its fiscal operations. These included the civil service reforms, rationalization of public enterprises, innovative external debt management, and review of customs and excise tariff and tax system. These are discussed in details below:

The civil service, being the organ of government at the center of fiscal operations, attracted substantial reforms, which were initially incorporated into the President's 1988 Budget Address to the nation. The purpose of the reforms was to create an effective civil service that would make them functional. The Minister replaced Permanent Secretary as the Chief Executive and Accounting Officer of each ministry. The post of the Permanent Secretary (later renamed Director General) became a political post implying that the holder would retire with the government that appointed them unless re-appointed by the incoming regime. The staffs of each ministry were to be given the opportunity to, specialize in the ministry or department of their choice, thus, professionalizing the civil service while each ministry would undertake the appointment, promotion and discipline of its staff. Other changes announced in the President's Budget Address of 1988 included the merger of the Ministry of Finance and National Planning into a Ministry of Finance and Economic Development, removing the Central Bank of Nigeria from the civil service structure and granting autonomy so that it could have direct access to the President instead of operating through the Ministry of Finance. Also, announced were the establishment of a National Planning Commission and the restructuring of the Presidency. Some of these changes did not get legal backing until much later. For example, the announced civil service reforms and the subsequent details of the reforms were ratified by the Civil Service Re-organization Decree of April 1988. Similarly, the Central Bank's autonomy had the stamp of law only in June l999 the Central Bank of Nigeria and Other Financial Institutions Decrees were promulgated.

3.5. Privatization and Commercialization

In pursuance of its plan to curtail its involvement in public enterprises, the government identified public enterprises that were suitable for privatization and those that should not be put in private hands but could be commercialized. This exercise, which was later backed by the Decree on Privatization Programme of 1988, selected 25 public enterprises for partial privatization, 67 for full privatization, 14 for partial commercialization and 11 for full commercialization. The enterprises for partial privatization included those in oil marketing, steel production, air and sea travel fertilizer production and paper mills. Others were manufacturing enterprises engaged in the production of sugar, cement and motor vehicle assembly. In this case, the equity interest of the Federal Government would be reduced to less than 50 per cent. Those for full privatization were in a wide range of activities including hotels, textiles, power, telephone, and telegraph, the Nigeria National Petroleum Corporation, Nigerian Railway Corporation and Nigerian Re-Insurance, Corporation. As at the term of writing this book on June, 201)9, [Federal Government announced that NNPC will be fully privatized and no clear direction got in the case of Nigeria Railway Corporation].

In response to the mounting external debt, several measures were taken to minimize the adverse effect of the debt burden on economic growth and social welfare.

(1) To avoid committing too much of the economy’s dwindling resources to debt services, debt rescheduling, with enhanced grace periods and concessional interest rates, was embarked upon. Debt servicing was kept within 30 per cent of total export earnings.

(2) Further external borrowing was restricted to viable and growth-oriented projects, which could pay their way and services their loans.

(3) Preference was given to sources, which provide loans at concessionary rates such as the multi-lateral institutions, for example, the World Bank and the African Development Bank.

(4) The strategy of reducing the stock of external debt, among other objectives, was embarked upon through the .Debt Conversion Programme. Thus, a Debt Conversion Programme was established February 1988 with the objectives of reducing the stock of Nigeria's debt, attracting foreign investors, repatriating flight capital and promoting investment in industries. As a starting point, only Promissory Notes issued by the Central Bank of Nigeria were eligible for debt conversion.

(b) Monetary Policy

Monetary policy could be simply described as the guideline rules about money; how much of it is issued, how the value maintained and that of the financial system.

Monetary policy under the SAP was expected, like fiscal p to keep the program on course by promoting a viable, stable and productive economic system with emphasis 1 reduction in imports and substantially increasing exports non-oil exports. To play this delicate role, the stance of monetary policy from the inception of the SAP to date has been restrictive except in 1988 when it was expansionary. The objectives of policy remained the same since the commencement of the program. Although, there were occasional minor shift in emphasis on the objectives of police as a result of the perceived performance over the years, the following objectives upon more or less since the SAP:

i. Moderation of inflation;

ii. Increased domestic savings and efficient resources allocation;

iii. Improved inflow of foreign capital;

iv. Increased local production of goods and services;

v. Increased export earnings from non-oil sources;

vi. Improved balance of payments;

vii. Increased employment;

viii. Enhanced external reserves and a stable naira exchange rate.

Table 8.1 Sectoral Breakdown of Application for Conversion with Approval in Principles, 1988-1992

Sector	Number and Value Application Received										Cumulative figure as at 31 Dec. 1992	
	1988 (Jan-Dec)		1989(Jan-Dec)		1990(Jan-Dec)		1991(Jan-Dec)		1992(Jan-Dec)			
	No of Applications (1)	Value in U.S $' million (2)	No of Applications (3)	Value in U.S $' million (4)	No of Applications (5)	Value in U.S $' million (6)	No of Applications (7)	Value in U.S $' million (8)	No of Applications (9)	Value in U.S $' million (10)	No of Applications (11)	Value in U.S $' million (12)
Agriculture	31	1,164.7	8	48.3	4	21.3	-	-	5	18.0	48	1,352.3
Manufacturing	35	224.5	32	156.9	44	295.9	12	86.8	19	179.2	142	943.3
Mining & Exploration	2	10.6	1	8.0	2	30.3	-	20.0	-	-	5	68.9
Building & Construction	-	-	3	10.4	3	39.1	1	10	4	62.4	11	121.9
Hotel & Tourism	4	181.7	1	50.0	1	85.0	1	5.0	-	-	7	321.7
Gift & Grants	8	40.0	4	47.2	6	149.8	1	25.0	2	80.3	21	342.3
Services	-	-	-	-	-	-	1	0.3	1	5.9	2	6.2
Others	1	93.7	3	12.5	13	567.5	-	-	2	2.0	19	6765.7
TOTAL	81	1,715.2	52	333.3	73	1,188.9	16	147.1	33	347.8	255	3,732.3

Supplementary Application

Sources: Debt Conversion Secretariat, CBN, Lagos

At the inception of SAP and up to 1987, the thrust of policy was the maintenance of internal and external equilibrium after the initial dismantling of controls which formed the basis of the previous economic policies and the introduction of the Second-tier Foreign Market. Initially, policy focused attention on non-inflationary growth with emphasis on increased local production of goods and services, improved capital inflow, increased export earnings from non-oil, higher financial savings and efficient resources allocation.

The observed rise in unemployment, led subsequently in 1988, to the recognition of the need to stimulate employment as one of the major targets of policy. In 1988, the focus of policy was on reflection of the economy in order to stem recessionary trends. Following the pressure on both the domestic and external sectors as a result of the reflationary measures of 1988, policy switched to moderating inflation, improving the balance of payments and stabilizing the exchange rate, if output and employment were to grow. In order to achieve the broad objectives explained above, and bearing in mind the largely restrictive stance of monetary policy since the SAP, a number of policy instruments or measures were adopted, subsequently reviewed and supplemented. These measures embraced credit, interest rate and other financial sector policies;

1. To maintain an appropriate monetary growth which would ensure stability in both the domestic and external sectors of the economy, and in particular to promote a smooth operation of the foreign exchange market, it became necessary o curb, from the inception of the SAP, excessive bank credit expansion to the economy. In line with this policy, the 1 rate of increase of commercial banks loans and advances which was reduced from 10 to 8 per cent in October 986 was remained in January 1987.However, the restriction on merchant banks leading lending was considered too tight, hence the production of their total assets in loans and advance .vas increased from 50 to 55 per cent in January 1989. The ability of banks to grant credit was further curtailed by reducing commercial banks credit expansion from 8 to 7.4 per cent while the ratio of merchant banks loans and advances to local assets was reduced from 45per cent to 37.5 per cent.

The need to stimulate growth and reduce mounting unemployment prompted an increase in the permissible credit expansion of banks in 1988. Commercial banks credit expansion was increased to 12.5 per cent. In order ensure an effective control on merchant banks credit growth, it was decided that the ceiling on their credit and advance would be as a percentage of their total eligible assets it standing at the end of the preceding year (instead of the existing practice of using the current period as the base).

However, from August 1988, the ceiling on merchant banks hints and advances was imposed on the same basis (growth from the preceding December) as commercial banks. The inflationary pressures of the expand credit policy of 1988 led to the reduction in the perini55i credit expansion rates of banks 12.5 to 10 per cent in i9 However, since 1990, this has been revised upwards in order to promote growth in output of goods and services.

In addition to direct credit control through credit ceilings, indirect measures to reduced the ability of banks to extend new loan included the recall of naira value of outstanding payment arrears from the banks to the CBN in 1987, mopping up of excess liquidity through the issuance of stabilization securities since October 1990, increase m commercial banks cash ratio in 1989 and 1990 and intro of cash ratio for merchant banks in 1990. To enhance the effectiveness of cash reserve requirement, the base for calculating the cash ratio was expanded: As from 1990 it includes all deposits instead of limiting it to demand deposits as was the Case prior to 1990.

Another indirect measure of reducing the ability of banks to grant credit was the raising of the liquidity ratio for commercial banks from 25 to 30 per cent in August 1987. This fluctuated downwards subsequently and later stabilized at 30 per cent. Up to January 1983, the liquidity ratio of merchant banks remained at 30 per cent of deposits and call held for other banks. This stance of policy ignored the need to give protection to fund raise from another sources. Consequently, the minimum liquidity ratio of mere banks was put at 20 per cent of their total deposit liabilities in 1 988 and raised to 22.5 per cent from April 1989 to 30 per cent in 1991.

Another major constrain on banks' lending was the Federal Government directive requiring its agencies in 1989 to transfer their accounts merchant and corn commercial banks to the CBN. Also designed to restrict credit was the Policy, which in 1989 prohibited commercial and merchant banks from accepting foreign guarantees and/or foreign currency deposits as collaterals for domestic loans dominated in naira.

The measures described above for reducing the ability of banks to expand credit were sometimes reserved until when expansion of credit was considered desirable. For example, the permissible credit expansion rate of banks was raised from 7.4 to 12.5 per cent in 1988 in order to deflate the economy for enhanced growth. Another measure designe4 to stimulate bank credit was the promulgation of the Export Incentive and Miscellaneous Provision Decree in 1986 to enable the CBN provides refinancing facilities to commercial and merchant banks and thus encourages them to provide the necessary export financing, following the abolition of the commodity board.

Apart from measure aimed at reducing or expanding total bank credit, there were other measures designed to redirect credit to particular sectors. These include the directive to:

a. Allocate 15 and 35 per cent of community banks total credit to agriculture and manufacturing, respectively;

b. Allocate 10 to 40 per cent of merchant banks total credit to agriculture and manufacturing, respectively;

c. Lend to rural branch customers a minimum of 50 per cent of total deposit mobilized from %such areas to finance economic activities based in such areas;

d. Increase from 16 to 20 per cent the ratio banks loans to small-scale industries wholly owned by Nigeria as a percentage of total loans.

e. Allocate 10% of gross profit of all commercial banks to Small and Medium Enterprises investment Scheme (SMEIS). Ensure the small entrepreneurs have access to fund through Microfinance Institutions.

2. The introduction of SFEM in 1986 and the posture of government to deregulate the economy also necessitated that interest rates were fully deregulated in August 1987, giving banks free hand in determining their deposit and lending rates according to market conditions. However, the CBN continued to fix the Minimum Rediscount Rate (MRR), which was raised to 15 per cent in August 1987. Also, the interest rate on treasury bills was raised from 10 to 14 per cent per annum, while a comparable upward adjustment was made for treasury certificates rate.

In order to stimulate investment and growth in the economy, the CBN reduced the MRR to 12.5 per cent in December 1987. This was raised to 13.5 per cent in 1989 in line with the perceived moderate expansionary tendencies. In a bid to remove distortions in the interest rate structure, the CBN also reached accord with the banks on certain margins in their deposit and leading rates. Following this, the spread between the savings deposit rate prime lending rate for each bank was left at 7 percentage points. While the inter-bank rates were to be at least 1 percentage point below the minimum lending rate.

Realizing that the structure of deposit and lending rates had been largely unresponsive to the observed decline in inflation in 1990 and the increase in domestic liquidity, the monetary policy for 1991 fixed minimum spread of 4 percentage points between their cost of funds and their maximum lending" rates. This directive was subsequently modified in January 1991, requiring banks to observe maximum lending rates not exceeding 21 per cent and minimum deposit rates of 13.5 per cent. These ceilings on interest rates were later removed in January 1992. However, banks were directed to observe a minimum spread of 5 percentage points between their average cost of funds and their lending rates.

3. The development of an efficient financial sector considered central to the SAP. The existence of a competitive and an efficient banking system was necessary for the success of the adjustment programme. To strengthen the financial sector and banking sub-sector in particular, a number of other measures became necessary. Consequently, steps were taken to reorganize the financial sector so that it could play its role under the SAP. Among the initial efforts was the reduction of the existing several economic sectors into two broad categories "priority" and "other" sectors for the purpose of bank credit allocation. Also, measures were taken to create an appropriate environment for the eventual introduction of the indirect control which would replace the credit ceiling imposed on each individual bank, with a system that would depend largely on influencing bank reserves through open market operations. This led to the introduction of an auction system for Treasury bill and certificates in November 1989 in order to create a market for these instruments popularize them with the public and reduce their holding by the Central Bank.

Another major policy thrust was dedicated at the expansion of the financial sector. There was a deliberate effort to encourage the emergence of new institutions and expansion of the existing ones. In the banking sub-sector, the procedure for licensing new banks was eased. As a result, commercial banks rose rapidly from 28 in 1985 to 66 at the end of 1992 with over 2,269 branches in Nigeria. The number of merchant banks even rose faster, from only 12 in 1985 to 54 at the end of 1992. There were, however, only 116 branches of this class of banks throughout the country by 1992.

In the bid to provide banking services for the poor and others who have no access to the conventional banks, two innovative banks the People's Bank and Community Banks were introduced in 1989 and 1990. Another institution Nigeria Deposit Insurance Corporation (MDC) was set up in 1988 hut started operation in 1989 to deposit insurance and related services to the banks.

In capital market, the Second-tier Securities Market (SSM) was established in 1985 to cater for the capital needs of small medium-size companies which otherwise would not have qualified for listing on the Nigeria Stock Exchange. Also the Unit Trust Scheme was introduced in the capital market following its authorization in the Federal Mortgage Bank of Nigeria (FMBN), it was observed that there were gaps in the financing of housing projects, namely, the absence of mortgage institutions. This led eventually to the arrangement whereby the Federal Ministry in charge of housing got the permission to license mortgage institutions with the FMBN as the regulator.

In addition to these institutions that were deliberately set up to perform defined functions, a large number of development finance institutions, mainly finance companies sprang up on their own and operated secretly. As a result, they remained unregulated until the CBN Decree, and the Banks and Other Financial Institutions (BOFI) Decree 1991 came up to set the modalities to identify and regulate the institutions.

Finally, new and far-reaching supervisory and regulatory arrangements aimed at strengthening the banking system and promoting safe and sound banking activities were introduced. The reforms were prompted by among others, the rapid expansion of the banking industry and the increased risk of failure, the problem of liquidity and insolvency all resulting from unprofessional management of banks. Consequently, the following measures were adopted:

a) Effective from March 1990, commercial and merchant banks were required to maintained capital funds which must not be less than 7.25 per cent of total risk weighted assets in 1990, 7.50 per cent in 1991 and 8.0 per cent in line with the new international standards set by I Basic Committee.

b) In April 1900, a Joint CBN/NDIC Committee u Problem Banks was set up to study and recommend ways of handling banks problems of insolvency, liquidity, non-performing loans, poor earning assets and bad management.

c) In November 1990, the CBN introduced a set of prudential guidelines, for licensed banks, which were essentially complementary to the both capital adequacy regulations and the statement for accounting standards, for banks and non-bank financial institutions. The prudential guidelines and the accounting standards spelt out the criteria for classifying non-performing loans, the minimum amount of provision to be made for each category of such loans, the rules for classifying banks “other” assets and the treatment of off-balance sheet managements.

These measures combined with the enhanced power of the CBN under the new CBN and BOFI Decree, were expected to revitalize not only the banking sector but also the non banking financial institutions and lay a solid foundation for the ultimate introduction of open market operation and other tools of indirect monetary control.

Instruments of monetary policy can be conveniently classified into two broad categories, the indirect and direct instruments of monetary control X^1.

X^1 the direct instruments otherwise called quantitative instrument have direct and general effect on the cost, volume and availability of bank RESERVES. Once they are put in place, they have effects on all economic activities; therefore they cannot be used t6influence the activities of one particular sector.

The use of the indirect instrument is the strategy in a market- based economy, and they operate by taking advantage of the relationship between the money supply and reserve money and the ability of the monetary authorities to influence the creation of reserve money.

There are three ways in which the monetary authorities influence reserves of the banks to control the monetary supply through the direct instrument.

First, it may engage in open operations with a view to influencing the banks credit operations through causing changes in the cost and availability of credit. Open market operations involve the exercise of the discretionary power of the CBN to purchase or to sell in the financial markets, government or other eligible securities, from to the private sector. However, the effective use of this technique requires the existence of well-developed financial markets in which the amount of government and other securities held by the banks and non-bank private sector is large arid sensitive to interest rates.

Second, the monetary authorities can influence the reserve of the banks and money supply by manipulating its discount rate which is the rate at which it lends to the banks as a lender of last resort. This action is at the initiative of the banks. Other interest rates tend to change with the change in the discount rate. Indeed, in well-developed financial markets, changes in discount rate produce an announcement effect on the credit markets which may influence the cost and availability of credit. But for this to be effective, the banks must come forward to borrow from the monetary authorities, while interest rates must the free of controls. In addition, investment decision must he influenced to a great extent by interest rate movements which may not be the case in restitutions of high returns on investment,

Third, the monetary authority can influence the reserves the banks through a change in the reserve ratio. Usually it requires banks to keep within reserves which are determined as a proportion of deposit liabilities. A change in the reserves requirement will tend to influence the reserves of the bar i and hence their ability to create money through their credit operations. Even in a developed financial system this instrument is used only discretely as a change in the reserves requirement signifies a major shift in monetary policy.

4.0 Conclusion

Nigeria's revenue sources have always been heavily skewed, concentrated as they are on just one or two taxes, over the years. Though the focus of concentration has changed over time from foreign trade taxation, especially import duties to oil-based taxes, but the heavily skewed nature remains.

In addition, the tax revenue sources have always been largely based on foreign activity-in the past three decades. Tax revenues are based principally on imports, and since the mid 1970s, they have been based largely on crude oil activity, the bulk of which (annually over 90%) is export oriented. This means that the effective incidence of Nigeria's tax system is largely external rather than internal. In this regard, a tax system with such an external incidence patterns is hardly one to compel fiscal responsibility and prudence on the part of government, nor encourage the citizens to keep a watchful eye on the level andpattern of government expenditure

5.0Summary

The federal, state, and local governments are obliged to carry out certain functions which range from the provision of tradable goods to that of non-tradable goods and services such as infrastructures like schools, hospitals, roads etc. For the government to provide these goods and services it needs to collect revenue. The basic sources of revenue are taxes, loans, fees statutory allocations and grants, rents and royalties etc. As pointed out, these are over dependence of the government on the oil sector for its revenue generation.

6.0 Tutor-Marked Assignment

a. Discuss the relative importance of the various sources of revenue
b. Over the years the federal governments have been depending solely on the crude oil for revenue generation. State other means by which the Government can diversity its revenue base.

7.0 References/Further Reading

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UNIT 3: AIDS AND TECHNOLOGY

TABLE OF CONTENTS

1.0 Introduction

The word 'aid' is often misunderstood or misused. For our purpose it is taken to mean the flow of resources (both of capital and of technical assistance in the form of people with their skills) from the more developed countries to the less developed or developing ones.

2.0 Objectives

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

- Explain role government in the management of Nigeria, a focus on aids and technology
- Identify the various type of economic aid
- Explain the impact of aids on recovery on economy in LDC's.
- Understand the argument in support and against aids.

3.0 Main Content

3.1Types of Aid and Technology

Aid can be classified under different headings. It could be in the form of finance (grants and loans): technical assistance (the provision of expert personnel and training), or food aid and Emergency assistance or military aid. It could come as both bilateral and multilateral assistance.

a. Finance Aid:

This can come in several forms. It is used to pay for project and aid and technical assistance. The cost of the technical assistance program may be shared between the donor and the recipient. The donor's contribution will be in the form of overall financial aid to the country concerned while that of the recipient is called counter- part funding.

Financial aid ranges from straight grants, which are made to the poorest nations, soft loans (provided on easy terms below the 'market' rate of interest), to hard loans at the full market rate of interest. It is debatable whether the hard loan is an aid at all. A grant may be provided to finance a project. It is normal that grants are made as a supplement to the budget and used for general purposes.

The bulk of financial aid however, is in the form of loans, which have to be such loans have various degrees of concessionality. A loan which is to be repaid over say 15 years and is charged a rate of 20 per cent is a hard loan, but if the repayment period is over 20 years and the interest rate is less than say 7 per cent the loan becomes a soft loan. There are many degrees of softness and this range between a grant at one end and a hard loan at another. Granting of either soft or hard loan will depend upon the economic stale of the recipient and the generosity of the donor. A loan of say N50 million which is to be repaid over 40 years but with a moratorium (grace) period of 10 years and at only 3 per cent rate of interests is considered as soft loan.

b. Project Aid:

This is provided for a specific development: for the construction of a road or university block of building or for agricultural purpose. Project aids is popular with donors since they can personally supervise the aid inputs, and where necessary reassess the project periodically. It provides a political leverage for the donor as there is something left behind to be pointed to by the donor. Most World Bank aid is tied to projects and it is the highest' of all other aid.

A major disadvantage of this is that the project may become something which is less beneficial to the local people. Donors may also become more anxious to show what they have achieved rather than the people they are supposed to assist.

On the other side of the divide is the attitude 'of the recipient governments who are busy making political mileage out of what they have provided for their people rather than more fundamental needs: Project aid makes it look so easy for both donors and recipients to appear to be doing some tangible.

c. Programme Aid:

This consists of more general assistance for a country's on-going development efforts without the aid being tied to a specific project Such aid provides foreign exchange which allows the recipient to purchase foreign inputs and sustain its development speed Supervision here 'is difficult because the donor provides the finance and leaves it to the recipient's discretion. Programme aid is politically less popular with donors than project aid and only more useful at the end to d recipient.

d. Technical Aid:

This covers three areas. Firstly it provides experts and advisers to do a precise job for which no local person has the requisite training. They may act as advisers to the government on specific project: In most cases this should include the training of local people while the job is undertaken.

Secondly, technical assistance concerns training in the rather different sense when they are sent to train local people at training institutions (college, university etc). Training may alternatively take place in donor country institutions.

Thirdly, technical aid may include the supply of equipment and machines associated with a particular training. As part of the package the donor may construct a laboratory, equip it and staff it for a period.

e. Food Aid:

Food aid consists mainly of food items. A major criticism of this is that it is a cheap way for donors to load' their surplus foods and keep their own farmers happy. Since the farmers are paid in local currency by (he donor. The majority of food aid goes to low-income nations with food production deficits.

f. Emergency Assistance:

This is given in response to wars, floods, droughts, earthquakes or other natural disasters and to provide for the refugees created by such disasters. Emergency aids include those for feeding and clothing.

g. Others:

The other kinds of aid include military assistance. In some cases, the recipient is paying this for.

Bilateral Versus Multilateral Aid

Bilateral aid is direct country-to-country aid, For example, Nigeria responding to Sierra Leone's request for assistance. The source of bilateral aid is one, country 111(1 whatever arrangement that is made is between the donor and the recipient. As a result the donor controls the way it is given and spent. It takes political credit for whatever is achieved.

Whereas multilateral aid consists of aid channeled through an international agency such as the Red Cross or the World Bank or the World Health Organisation. The advantages of this form of aid are that it is free of politics and so is likely to be more 'objective.

We can obtain a good idea of how aid is divided into different categories by examining the figures of a particular donor. The following is a typical breakdown of figures

	₦ million	
Bilateral	546.	5.4%
Multilateral	454	45.2%

Bilateral aid is broken down as follows:		**₦ million**	**₦ million**
Project aid		270	
Programme aid,		180	
Debt Cancellation		49	
Other non-project aid	6	**505**	
Technical co-operation broken down as follows:			
Personnel overseas		8	
Education and training		12	
Research and development		9	
Consultancy		7	
Others		5	**41**
Multilateral aid is divided among the following:			
World, Bank Group		225	
UN Agencies		95	
ADB		110	
Others		24	**454**
Total			**1000**

There have been several arguments for the desirability of aids or otherwise.

These arguments are significant to be looked into to enable us make an informed judgment on whether foreign aid 'is good or not.

3.2 Arguments for Aid.

The argument for aid can be divided into three groups: political, economic and moral.There are many political reasons for giving aid. But in the broadest sense there is one political argument which transcends all others: that aid may bring us closer to a single "world' philosophy. The concept of one world society is an appealing one, especially if set against the background of the endless disputes which trouble mankind. This is an idealistic argument.

There are more precise reasons for giving aid, which provides a regular means of contact between governments as well as individuals from either side of the rich-poor, divide. In turn, this process pettish each side to bring influence to bear upon the other. Such contacts have been especially important for the ex-colonial powers. It is no accident that a high proportion of all British and all French aid goes to countries, which formerly were colonies. Fifty percent of all Belgium's aids, for example, go to the three African territories, which were her colonies: Burundi. Rwanda and Zaire.

Aid is frequently provided to maintain existing political structures in the world. From the point of view donor this is. As rule, a question of strategy: supporting an ally or persuading a wavered not to change alignment On the part of the recipient however aid is more likely to be seen as support for a particular regime. Whatever the reason the bargain enshrined in the deal is the maintenance of the status quo.

The two clearest political-arguments, then, are: to help friends and to safeguard interests. Both aims are regularly sustained by means of aid.

The second group of arguments in support of aids is economic. The simplest, all-embracing argument is that aid assists LDCs achieve their development targets: it provides capital and makes available know-how and technology through technical assistance personnel or private investment. Aid, in other words, allows developing "countries to improve their standards of living, build: p. their infrastructure, create industrial sectors and establish social services more quickly than otherwise would be possible for them. If indeed -this is the case the economic argument are overwhelming. Then came an economic consideration of mafia advantage: as poor countries become well off so they will emerge as new and stronger trading partners to the benefit of both sides.

The idea that the developed economies should supply capital goes back to the Marshall Plan for the recovery of Europe after the Second World War. Economists have worked out various ratios: for, a give input of capital so there should be generated a given rate of growth. The rich countries possess surplus capital which may be supplied as we have seen in a number of ways - as grants, soft or hard loans or in the form of private investment – but the end result should be development that otherwise would not take place. Capital is the means to enable a developing country to reach the point of take off or self-sustaining growth.

There are certain basic assumptions behind most capital assistance, which bring us back to political considerations. In his book The Stages of all developing countries. This assumption held by most donors, is that a recipient will follow the development path of the donor, and wants to achieve the same level of development. Both capitalist and communist donors act as though they believe this will be the case.

Most of the arguments, which apply to capital, also apply to technical assistance. Skilled people from the developed countries should pass on know- how and train local counterparts. This process must continue until the developing country can produce sufficient trained people of its own to med its needs.

Then there is the aid as a ‘catalyst’ approach. This was examined in Taniania’sArusha Declaration of 1967. The catalyst argument is simple: that a small amount of aid whether capital or technical assistance, is accept able provided that it is used only as the starting point to spark off development and the recipient does, not bone to rely upon it. The main effort must come from within the country itself

There is a further economic argument: that aid should be employed to combat absolute poverty. Certain countries and regions are so poor that they will only be able to rise’ out of their poverty with assistance front the world community. Since these people represent one-fifth of the world’s population mutual sell would suggest they should be helped. Once they enter the world economic system they will provide a series of new markets for the exports of the developed world.

The third argument is on moral considerations. There is the Christian, Islamic and Humanist argument: that the better off have an obligation to help their less fortunate brothers in other pads of the world. Charity has always played a part in human affairs. So also it sometimes plays a part in government decisions. According to the Brandt Report; there is a moral imperative; if we 'accept that such an imperative exists we should act upon it in order to improve the conditions of the poorest members of the world community'.

There is another moral argument. Just as countries assume responsibility for helping their own least able citizens or poorest groups with social welfare assistance so the idea ought to be extended to the world community. If social services are justified within Britain or the USA why not also between rich and poor? This argument is a logical one.

There is broad consensus that the rich have certain obligations towards the poor but how this should be translated into aid is a delicate issue.

Aid is often given for the wrong reasons. Moreover, however disguised, there is almost always an element of charity in the donor-recipient relationship. This' must lead us to a consideration of the nature of any bar- gal ii: it should not be one-sided. When the donor is too obviously, doing the recipient a favour rather than simply fulfilling his part in a two-way bargain then the relationship is bound to sour.

Two-way self-interest is the best guarantee that an aid relationship will work. The donors have the capital and the technical know-how: that is their contribution to the bargain. The developing countries represent markets or have other resources, which the donors seek. Aid must be seen to be a bargain for both sides.

Global sell-interest may be served by helping developing countries reach the point of economic take-off: first by creating new trading partners for the rest of the world community: and second by removing potentially explosive trouble spots that otherwise could affect an entire region.

There are other reasons for providing aid: those who believe in a one-world philosophy will regard the tin as the key to the North-South dialogue. In this connection, the Brandt Report insists upon the need for a global strategy for world's development.

Certain aims are widely accepted: interdependence: one-world community: greater world prosperity: eliminate causes of injustice poverty and conflict. The justifications for aid will be the mater the more it can be shown to assist the achievement of such objective if aid helps to secure a more stable, equitable world it would be foolish to argue against it. But the question we must now this precisely that does aid help achieve these aims?

Of course the administration of aid is imperfect and mans' objections to it are about the way it is given, not about the concept as such. But there are quite other objections which suggest aid does not achieve such ends at all: rather, it is used (or misused) for quite different purposes.

3.3 Arguments against Aid

Perhaps the best argument in favour of aid is the fact that the donors continue to offer it despite criticisms and the recipients go on taking it. In other worth both sides are doing what they want to do: They could stop; they do not choose to do so. Of course the argument is. The political involved are a sub part of the process and provide the clearest reason for arguing aid. And yet it would insult to act as though recipients do not understand this. They do. They choose to be manipulated. Why? It is far from easy to answer that question.

The value of a policy must lie in its achievements: does the policy provide answers for their problems it was designed to solve? If we return to the Marshall Plan of the l940s the idea was simple: that a massive injection of American capital into the economies of Europe would enable them to get back on their feet again. It worked although there were many other factors to take into account. The success of Marshall Aid undoubtedly had an influence upon the wider application of aid that was... to follow. Built into the growing flow of resources from rich to poor was the assumption that aid would allow developing countries to reach a point of take-off so that it could be phased out. It was never envisaged that aid would become a permanent feature of international dealings between states. Rather, aid represented once only fort whose provision might last somewhat longer than did Marshall aid but none-the-less was only expected to continue for a limited period of time. Transferred resources were to be injected intake sectors of a developing economy until it became a self-generating one while technical assistance was seen in a similar light. Skilled personnel from the advice economies were expected it, to train counterparts who would then take on the jobs, which these foreign technical exports were only supposed to have performance for a strictly limited period of time. More than thirty years have passed since the early days of aid when such assumptions were fairly generally held. What has gone wrong?

How many countries have reached the stage when they no lower need aid? An effective aid policy ought to p itself out of business. This has not happened; further, the need for aid appears to grow greater rather than to diminish. How many countries, for example have actually been able to say:

We needed did to get our development moving, now we can manage on our own. Thank you very much for your past help? Of course there are: grey areas, and part successes. At independence in 1964 Malawi relied upon Britain for about half her annual budget requirements just to keep the country running Since then the country has made significant advances and meets their own current expenditure but she does take aid for development purposes.

Much more disturbing is the fact that despite years of aid injections many developing countries appear no better off today than when the process began. In some eases there seems to have then an actual deterioration of the economy despite aid and few developing roundness have broken free of aid dependence. The habit of aid to have set in for good: it has become dependence.

The main objections to aid are of two kinds. The first sets of objections are not to the principles but its practice. These suggest that aid is poorly administered, is given for the wrong reasons and is targeted at the wrong group the point here is that the administration of aid should be reformed, not that the process should cease. The second set of objections are more fundamental: that the idea of aid is ill-conceived, that it is incapable of doing the job which is claimed for it, that little or no development results from it and that it would be better to end the practice altogether. Aid in any ease is a much-nixed affair as we have already seen. Some programs are gifted, some are poor. Some governments put it to reasonable use, other regencies are corrupt and soon. In any case we are looking at a wide range of resource transfers: official aid, private investment, technical assistance, loans, grants, and help in the case of disasters of refugees so that circumstances change from case to case.

Those who support aid argue that what goes wrong is not in itself a reason for abandoning the concept - and they may be correct. They plead instead for better programmes and greater use of multilateral as opposed to bilateral channels so as to remove politics from aid giving. Yet those who object to aid can point to the fact that the principal western donors effectively control the major multilateral organizations anyway. The USA for example, often finds that for even dollar, which it provides through multilateral organizations it obtains orders for ten dollars worth of procurements. At the very least, then the multilateral argument is suspect.

Rather than look to reforms we should ask the following question: since aid is both given and received for the political reasons which we have already discussed is there any point in attempting to reform the process? In other words reformers would eliminate from the bargain the only reasons that ensure aid is given at all.

The most compelling argument against aid is that it saps self-reliance to produce a mentality dependence upon the part of the recipient. Nyerere as a danger back in the l960s recognized this. The Arusha Declaration made plain that aid, which induces dependence is counter-productive. Tanzania has failed live up to the precepts about aid, which it set for itself in that Declaration. But the fact of its failure is no reason for arguing that the principle was wrong

Aid creates dependence and undermines self-reliance. When rich and poor meet together at our increasingly frequent international gatherings, aid or other concessions always come high on the agenda. The world has fallen into the habit of rating member states: the least developed, the most seriously affected, the poorest just as the IMF has got into the habit of rating them for loan worthiness. The result is that poor countries parade their poverty: we are a poor country and deserve more aid or greater concessions. Rarely does a Third World country say: ‘I can manage, give me less aid, I will do it on my own.’ A pattern of arguments for aid has been evolved: ‘We were exploited in the past by the advanced economies (the imperial powers) who are, therefore, responsible for our present conditions; as a result these same advanced economies ought to supply the means for our present development. They remain responsible’. The argument thus presented is a form of colonialism in reverse.

The most important objection to aid, then, is that it creates an ultimately destructive sense of dependence and undermines genuine attempts to achieve self-reliance.

The next criticism of aid embracing all the manipulations, which we have already discussed, is that it is used as an instrument of neo-colonialism. In this sense aid becomes a weapon to influence the policies of small states to ensure that they remain economically and politically within the sphere of control of the donor. Aid thus used prolongs the client relationship of the recipient. The third objection to aid is economic. (The first two objections have been theoretical and political). The economic objection is basically an argument for private enterprise: that development will be best served by giving free rein to the forces of the market rather than by a system of handouts.

There are other arguments. One concerns 'displacement'. IT is best illustrated by examining the effect of food aid. A country experiences a famine, a drought or heavy pressures from the urban unemployed for cheap food. One such cause persuades the government to ask for food aid. This is supplied by donor country but in the form of food, which is not produced or normally available locally. It may be wheat, when country X can only grow maize or rice. Later, when the crisis, which led to the demand for food aid, has passed two consequences ensue. The section of the community, which has become accustomed to wheat, insists that it should continue to get it. The donor is now willing to sell wheat to the country and so opens up a new market for its own wheat surplus. The second consequence affects the local farming community. They find that the traditional market for their main staple, say rice has been diminished: they can no longer sell their Full harvest, so produce less and become poorer. And foreign exchange, formally used to purchase inputs required for development is now used to buy wheat. An entire consumption pattern has been changed to the disadvantage of the recipient country and in favour of the food exports of the donor.

Perhaps the greatest objection to aid is that it is provided for political reasons rather than to promote development: the end results, therefore, are also likely to be political. It is often suggested that donors should be more selective in their choice of sound develop projects to support. In fact donors are selective: they support governments and protects because it suits their interest to do so.

Powerful vested interests on both sides ensure that aid continues; Whether or not it promotes sound development. Donors use aid to protect or foster their interest: strategic investment, trade or cultural. And at home in the donor countries substantial group have emerged whose careers depend upon the process continuing: these include technical assistance personnel who go round the world from one assignment to another: NGO personnel who do the same: University Departments which study the problems of aid, pronounce upon them and supply experts: and government ministries.

There are equally powerful vested interests in the recipient countries, which also depend upon the process continuing. These are headed by governments but joined by members of local elites whose careers are often fostered by the external relationship. It simply becomes unrealistic to suggest that aid ought to be provided for governments, which use it only for development and ensure that it effects are passed on to the neediest.

Professor Bauer who takes a hard critical line on almost all aspects of aids says: ‘The concept of the Third World or the South and the policy of official aid are inseparable. They are two sides of the same coin. The Third World is the creation of foreign aid: without foreign aid there is no Third World is the creation of foreign aid: without foreign aid there is no Third World.’

Those who defend aid change their tactics depending upon the audience they address: when speaking to conservatives they claim that aid is given in support of national interests; when speaking to liberals they argue for a global redistribution of wealth and power: and when speaking to business they suggest that aid assists trade. There are variations upon these themes.

Arguments against aid came from right and left asking whether a relationship of dependence can ever be a healthy one or lead to real development best sums them up. Many would claim that it cannot.

4.0 Conclusion

Many people have participated in the aid debate. Very strong arguments can be marshaled against the concept of aid; equally, compelling arguments have been advanced on its behalf. If aid is about development then a case can be made for radical reforms in the ways in which it is given and administered. The subject is also capable of rousing high emotions: there is a school,which argues that the rich have an absolute duty to redistribute a proportion of their wealth; and there are those who condemn aid as a waste. A pouring way of resources into the bottomless sink of the LDCs where there appear to be few returns except ingratitude. One may pick the language and arguments of one's choice.

The rich-poor debate has also highlighted a number of philosophies. The first of these is the idea that we now belong to a single-world community. This has appealed for idealists.

Second came the hard-headed philosophy which would allow free rein to market forces. In essence this approach consists in the belief that man does best by his own efforts, that development is most likely to be achieved under a free enterprise system and that aid does little to help this process and much to create permanent and destructive dependence in the attitudes of the recipients.

Third comes the humanitarian justification for aid: The arguments are often confused but the basic reasoning suggests that the economically better off have a moral obligation quite distinct from anything to do with policy or self-interest to help those who are less well off or in dire poverty. This approach traces its origins from the ethical teachings of the world's great religions. It is closely allied to the one-world philosophy.

Whatever the arguments put forward by both sides of the divide foreign aids have gone a long way to ameliorate the living conditions of a great majority of the people of the LDCs.

What, then, are the prospects for the North-South dialogue? The aim of interdependence or an eventual one-world community may be in time of disasters. To this end aid is an international instrument of promoting brotherhood and one-world philosophy.

5.0 Summary

Aid is said to be assistance in form of money, equipment, or services that are provided for people, organistions and countries in need for them. The unit explains types of aid and their impact on the economy development. It also considers various scholars' view on arguments for and against aid. It concluded by describing aid as interaction instrument of promoting brotherhood and one world philosophy.

6.0 TUTOR MARK ASSIGNMENT

1) Discuss the arguments against aid

2) Discuss the various types of aid.

7.0 REFFERENCES

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UNIT 4: DEVELOPMENT PLANNING

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1.0 Introduction

Economic planning is process by which a society mobilizes, organizes and programmes the use of its resources, so as to attain specific objectives. However, in a country likeNigeria, there is the general belief that planning is an institutional mechanism, which is capable of overcoming all the obstacles of development, and it helps to ensure a sustained and balance economic growth.

Development planning in Nigeria is necessary because it makes it easier to get people's support for government policies. This is because; plan is usually based on a number of objectives. If these objectives are clearly stated and they represent what the people want, then it would be relatively easy to win people's support, in order to execute the plan that would ensure achievement of the objectives

However, planning exercises in Nigeria bear strong relationship to change in political structure of the country, and consequential change in the planning machinery.

You will better appreciate the history of planning in Nigeria, when you phase out the planning exercises in the country.

2.0 OBJECTIVES

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

- Identify the major objectives of development plans
- Examine its success and weaknesses of each development plan.

Self-Assessment Exercise

What is development planning?

Planning exercises in Nigeria bear strong relationship to changes in political structure of the country, and to consequential changes in the planning machinery.

3.0 Main Content

3.1 The Ten-year Plan of Development and Welfare (1945-1955)

The first attempt at development planning for the country was the 'ten-year plan of development and welfare for Nigeria', introduced at the instance of the colonial office in London in 1945, and contained in the government's seasonal paper No. 24 of 1945. It was prepared and co-ordinate under the general direction of a small central development board, consisting exclusively of senior colonial government officials. Moreover, area development commissions were set up in each province, to be assisted by advisory bodies. Considerable effort was made to obtain inter-department and central provincial consultation and co-ordination. In this regard, the plan was an example of a coordinated and integrated plan at the local level, rather than of sectoral planning, as subsequent development plans in Nigeria were. However, the conception, formulation, and implementation of the plan were done entirely by colonial civil servants. In 1951, the plan was revised to cover the period 1951-56. In the revision contained in the colonial government's seasonal paper No.6 of 1951, 'new and unrelated projects were substituted for earlier ones'. The constitutional development of 1954, however, brought the plan to a premature end.

The plan has been criticized as being no plan at all, in the sense of being a combination of projects, rather than a single-valued objective oriented plan. Indeed, it was more of a 'regulatory' plan with welfare ingredients than a development oriented plan. The plan concentrated mainly on social and physical infrastructures such as construction of rail-roads, motor-roads, seaports etc. as these were to facilitate the much unbalanced trade between Britain and the colony. Generally, the plan suffered from the following drawbacks.

1. Its objectives were not relevant and meaningful to the needs of the citizens. Emphasis was rather on the maintenance of law and order. In other worlds, the plan did not identify the aspirations of the people.

2. Absence of articulate press to monitor opinion and development in different parts of the country. As a result, the plan did not satisfy the fundamental requirement of good planning by falling to involve the people for which it was being made.

3. It was difficult to reconcile the execution of the plan in the three groups that constituted the country then, where different systems of administration, with varying objectives were in vogue. Despite the centralized nature of the planning process, there was no national direction and aspiration. The plan suffered greatly from a lack of consistency and coherence.

4. Paucity of essential data for planning, and acute post-war shortage of high level administrative personnel for plan implementation, constituted the major bottleneck for the planning exercise and implementation.

Despite the above however, 'the ten-year plan, together with its revised edition, made possible the expansion of public health, education services, and building of some public facilities as road, ports, and water supplies... That private sector of the economy also participated in, and benefitted from the expansion; and productive capacity of the economy rose to a higher level'. Additionally, the plan laid the foundation for the pre-independence economy. The production and expansion of export crops were promoted. Ambitious agricultural programmes, such as the National Agricultural Projects, the irrigation projects on rivers Niger and Benue, were embarked upon.

Finally, many feasibility studies of projects carried out in subsequent development plans were also undertaken.

The Second Plan (1955-1960)

With the introduction of the Richardson constitution in 1954, Nigeria was divided into four regions: North, East, West and the Cameroon's. The second development plans was introduced as a consequence of the visit and advise of the World Bank officials to Nigeria in 1954. Each region was to prepare its own development plan, and there was to be the 'federal plan'. No effort was, however, made at coordinating, integrating, or aligning the regional plans with the federal plan. Many of the individual schemes proposed under the plans were no more than an expansion of existing normal development activities, and the main emphasis were confined to the building of economic and social services in the country. Moreover, there was competition between the regions such that there was enormous duplication of projects and programmes. Entirely new and unrelated projects were readily substituted for the original programmes, without proper analysis and co-ordination with other projects under the guise of flexibility, since no rigid targets were fixed during the plan period. In sum, the plans "fell short of the standard of true perspective planning. No conscious attempt seems to have been made to accelerate economic growth by laying down national goals and objectives". Despite the above, however, the economy witnessed some growth during the plan period.

3.2 Post-Independence Development Planning Efforts the First National Development Plan (1962-1968)

In spite of social, political and economic constraints inherent in the formulation of a national plan, both the regional and federal governments in the newly independent Nigeria, recognized the need for one as an ideal way of setting out the nation's development objectives, and also 'to demonstrate initiative in tackling the country's economic problems'.

3.2.1 Implementation of the Plan

The implementation of the plan however revealed a case of serious under fulfillment of target. Public sector capital expenditure under fulfillment stood at an average of 20.7% at the end of the plan period. More disturbing, however, is the fact that underfulfilment in capital expenditure was more pronounced in those sectors that have more direct bearing on the welfare of the citizens. While in areas of public administration such as information. Judiciary and general administration, for example, recorded over fulfillment. Under-fulfillment was 32.6% in education, 63.3% in communication, 42.8% in primary production, and 56.3% in health. For the Federal Government under-fulfillment in water supply was 63.1% (compared to a 31.8% over-fulfillment in the Northern region, and in health, a staggering 71.1%

Self-Assessment Exercise

What factors accounted for failure of the plan?

There are many factors that accounted for the measurable 'failure' of the plan vis-à-vis the objective(s). First and most importantly, the dependence of the plan on the foreign allies for 50% its capital expenditure, was both a misnomer and contrary to its stated objectives.

The attainment of political independence in 1960 did not, in the Nigerian case, imply an immediate or sudden change in the management of the country's economy despite the expectations created by the nationalism of the colonial era. The extension of the 1955-60 plan to 1962, the dependence on Britain for advisers, consultants, management, capital etc, the surveillance of Nigerian monetary management, consequent upon the link between the Nigerian pound and British sterling; and the dependence on Nigerian import and export trade ,which was skewed in Britain's favour. All these were indicative of the degree to which Britain's influence and control prevailed over economic decision-making and policy formation in the early post independence phase. The country's submissive economic dependency beyond 1960 was a function of the absence of effective and acceptable leadership committed to internal reforms, capable of ameliorating the foreign control. The economic reforms necessary in order to loosen the imperialist economic ties, was undoubtedly enormous, if a national economy was to be evolved. Reforms in civil administration, the monetary system, law, education, economic management etc., were all an integral part of laying a new foundation for national economic progress. Such revolutionary changes would mean a radical departure from colonial economic policies, but the country's leadership was either unwilling or unprepared to undertake such changes. Instead, it was content to let sleeping dogs lie, while concentrating attention on the 'the distribution of economic power and public patronage among individuals, ethnic and racial groups' in an attempt to avert possible social conflict. Consequently, the issue of equitable allocation of federal resources, and class conflict between the 'haves' and 'have-nots', became the pre-occupation of the early post-independence leadership.

Closely associated with the above is what Yesufu (1996), described as; the continuous and most unedifying wrangling between the regional governments' on the one hand, and them and the federal government, on the other. It was such adventures that eventually led to the coup of 1966, and to the civil war. Other factors that constituted drawbacks to the accomplishment of the plan objectives include the fact that:

- The different ministries hardly acknowledge the coordinating role of the ministry of economic development.
- In the conception and implementation of the plan, the local authorities were not sufficiently brought into the process, in spite of their importance and activities as development agencies in various parts of the country.
- There was limited opportunity for public debate and participation in the process of development planning. Hence, the plan failed to fire the national imagination of the average Nigerian.

However, considering the limitations in terms of resources, planning experience, and administrative capacity, as well as the diversionary nature of the national crisis, the plan was on balance, measurably successful, and a number of important projects such as the Kainji dam, the Niger bridge, the first oil refinery, and a number of roads and industries, were completed during the plan period. More importantly, is its "recognition and acceptance of a common objective, as well as in laying the administrative and institutional framework essential for future growth". Thus, 'the acceptance of a national economic objective by the Federal, East, West and Northern governments, facilitated planning for a common national development target, and made possible the reorganization of the federal public sector administration into such ministries as finance, development, industry, trade etc., and the establishment of a National Economic Council'... 'In addition, the establishment of such private sector-oriented development institutions as the Nigerian Industrial Development Bank (NIDB), the Nigerian Institute of Management (NIM), the Lagos Stock Exchange, and the various chambers of commerce, assumed a national character' (Usoro, 1983).

In sum, the first National Development Plan (NDP) provided a lot of lessons to be learnt in the conception, organization and implementation of development planning in Nigeria.

3.3 The Second National Development Plan (1970-1974)

The plan had five principal long-term objectives, which were to establish Nigeria as:

1. a united, strong and self-reliant nation
2. a great dynamic economy
3. a just and egalitarian society
4. a land of bright and full opportunity for all citizens and
5. a free and democratic society

Even though the objectives were not operational guidelines, against which success of a plan can unambiguously be measured, the designers of the plan stressed the need for both government and the people to seek to give concrete meaning to the objective, and ensure their full realization at all times. The plan further stressed the need for promotion of balanced development between one part of the country and another, and especially between the urban and rural areas. It was indeed an era of state-regulated economy. On the monetary side, the credit guidelines of the Central Bank of Nigeria (CBN) led to the achievement of the following:

a. Maintenance of confidence in the Nigerian currency
b. Support for increasing level of agricultural and industrial output. The support was given, but increasing productivity was not really achieved.
c. Supplementing government's revenues and provision of deficit financing.

In February 1972, the Nigerian Enterprise Promotion Decree (NEPD), came into being. This was aimed at indigenizing most sectors of the economy by providing for Nigerians to assume greater control of enterprises within the country. The establishment of the Nigerian Enterprise Promotion Board (NEPB), Capital Issues Commission, and The Bank for Commerce and Industry, led to the achievement of reasonable success in the implementation of the decree.

It is worth noticing the basic three areas of social and economic reforms, viz:

1. The improvement of knowledge about the economy's resource endowment through the establishment of schemes for resource inventory.

2. The reorganization, strengthening and establishment of new institutions aimed at improving the quality of planning and optimum utilization of human and material resources. Twenty-three such institutions, established during the plan period are:

The Central Planning Office
The Joint Planning Board
National Economic Advisory Council
Federal Administrative Staff College
Nigerian Agricultural Bank
Nigerian National Oil Corporation
National Electric Power Authority
Road Construction Company of Nigeria
Nigerian Engineering and Construction Company
Agricultural Planning Unit
Industrial Training Fund
Nigerian Standard Organization,
Industrial Development Consultancy Services
National Supply Company
Centre for Management Development
Sokoto Rima Basin Development Authority
Lake Chad Basin Development Authority
Nigerian Mining Corporation

Nigerian Population Council
National Coordinating Committee on the Environment
Nigerian Enterprise Promotion Board
Capital Issue Commission,
Nigerian Bank for Commerce and Industry

3. The reduction in inequalities in inter-personal incomes, and promotion of balanced development among the various communities in the different geographical regions in the country.

The plan was said to be 'guided by a well-articulated system of national accounts. The planners were able to determine the most appropriate measures for achieving those objectives within certain constraints'.

In sum, the second National Development Plan was 'a watershed' in the economic planning history of the country. It was both 'radical and revolutionary', and opened the nation to 'the first tides of industrial revolution and the attendant growth of modern capitalism.

3.4 The Third National Development Plan (1975 -1980)

The Third National Development Plan 'was essentially a continuation of the development process and policies begun in the preceding plan.

Noticeable changes were largely the result of experience gained in the planning and implementation process, rather than in objective. The Central Planning Office, with a professional planning body, assumed responsibility for a continuous planning exercise. Its emphasis was the achievement of rapid increase in the nation's productive capacity. And with the experience gained about the importance of the private sector in the development process, the planners effort centered on directing the private sector, though appropriate policies, towards the attainment of national objectives' (Usoro,1983).

In the light of the above, it is evident that the third NDP ushered in the era of greater scientific planning in Nigeria. Development plan was prepared for the first time by a professionalized planning body (the central planning office), in conjunction with the National Economic Advisory

Council (NEAC), which included members drawn from the private sector. In order to foster greater efficiency in the implementation of the plan, the planning studies programme of the University of Ibadan, in alliance with the Economic Development Institute of the World Bank, went further to organize intensive course for civil servants. 'Comprehensive list of approved projects, highlighting the physical targets as well. as associated financial allocations, was prepared and efforts were made to identify sectors with direct effect on welfare of the citizens, i.e. he housing, water supplies, health facilities, education, rural electrification and community development. The aim was that by the end of the plan period, every Nigerian should experience a definite improvement in his overall welfare.

Apart from the objectives contained in the Second National Development Plan, other specific short-term objectives of the Third National Development plan were to achieve:

- increase in per capita income;
- more even distribution of income;
- Reduction in the level of unemployment;
- increase in the supply of high level manpower;
- diversification of the economy;
- balanced development; and
- Indigenization of economic activity.

Thus, unlike the preceding plan, the first four additional objectives of the third NDP reveal goals that are measurable and quantifiable. The estimated capital expenditure under the plan was an ambitious 30 billion (over thirteen times the actual expenditure under the preceding plan).

Shortly after the launching of the plan however, certain events of considerable national importance made a review of the plan inevitable. These included the change of government in July 1975, the creation of new states in February, 1976, and the decline in the level of oil production and its price, during the 1975/76 fiscal years. With the change of government in July, 1975 came also re-appraisal of the nation's 'priorities, so as to make them reflect more adequately the philosophy of the new military administration. Greater emphasis was placed on water supply, health, agriculture and co-operatives. These by their very nature, have a direct bearing on the welfare of the common man, as against prestigious projects of doubtful social relevance. Specifically, the government decided to increase the target number of hospital beds from the 87,000 originally approved for the plan period, to a new level of 120,000 by 1980. The housing program was also increased from 60,000 to 200,000.

The creation of seven new states in February 1976, and the decision to move the federal capital to Abuja, made the original plan grossly inadequate. To be able to function, the new states needed infrastructural facilities such as administrative and residential buildings, increased water and electrical supplies, etc. These meant increase in capital expenditure to accommodate the essential requirements of the new states and capitals. The federal capital, Abuja, was voted 500 million during the plan implementation period.

The major source of finance for the plan was based on oil earnings. The industry, however, began to suffer substantial decline in production and posted price. The crude oil output fell from a peak of 2.3 million bpd in October. 1974, to 1.5m bpd in May, 1975,While the posted price also fell from $14.661 to $12.633 in April, 1975. This unexpected sudden development, coming just after the launching of the plan, had serious implications for plan implementation and invariably, called for a realistic review.

Self-Assessment Exercise:
What are the factors that militated against the achievement of the objectives of the plan?

Generally, factors that militated against the fuller realization of the objectives of the plan included:

1. Unexpected fall in oil prices;
2. Rapid increase in recurrent expenditure due to state creation and local government reform;
3. The inflation rate of 24%, occasioned by the Udoji award, meant a corresponding 24% reduction in the size of the budget surplus of the various governments;
4. Shortage of materials and manpower.

Self-Assessment Exercise

Outline the major achievements of the plan.

The immediate achievements of the plan however include the following:

1. The establishment of over 147 farm centers' in the country

2. Many projects were completed, while new ones were commenced. These included the cement works at Calabar, Ukpilla, Nkalagu, Shagamu, Vander and Ashaka; the pulp and paper projects at Jebba, Calabar and Iwopin; four commercial vehicle assembly plants; two passenger car assembly plants; two petroleum refineries at Warri and Kaduna, two iron and steel plants at Ajaokuta and Aladja and three steel rolling mills at Katsina, Jos and Oshogbo.;

3. Over 10,000 km of roads were built or rehabilitated, e.g. the Lagos-Ibadan express way, Lagos-Badagry express road, Enugu-Port and Benin-Sagamu expressways. New airports were built in most state capitals. New seaports were also developed in Lagos, Warn, Calabar and Port-Harcourt. Telephone lines increased from 52,000 to 200,000.

4. The Universal Primary Education (UPE) was launched in September, 1976, during which period, school enrolment increased. The number of universities was also increased from 6 to 13 during the plan period.

3.5 The Fourth National Development Plan (1981-1985)

The objectives of the Fourth National Development Plan were to promote economic growth and development, price stability and social equity. Appropriate fiscal and monetary policies were to be combined under the plan to attain rapid economic growth, and structural changes with relative stability ofprices. The general rate of increase in the price level was to be kept below 10%, while the plan was to induce an economic growth rate of 7.2% per annum, and a 25% increase in per capital GDP from 427 to N535.

Estimated public capital expenditure under the plan was 70.5 billion (an increase of over 230% over the actual expenditure in the proceeding plan). 56.74% (40 billion) of this was to be borne by the federal government, 39.72% (28 billion) by the state governments, and 3.5% (2.5 billion) was to be fulfilled by Federal Development Authority. 24.2% of the estimated public expenditure was to come from loans. Private sector expenditure was estimated to be 11.5 billion.

The plan accorded priority status to agriculture, education, manpower development, infrastructures, housing and health.

It is not very clear to what extent the provisions of the fourth national development plan was implemented. Yesufu (1996), has observed that there is no evidence that systematic effort was ever made to implement the plan. However, on November 30, 1983, the government set up a five Man committee headed by G. Onosode, to review the plan as a result dwindling resources, consequent upon the global oil glut, and falling prices.

In assessing the Fourth National Development Plan, Yesufu (1996) has observed the issue of using the 1991 census population figure of 88.5 million in 1990, as opposed to the projected 120 million, for the same year. This gives a very significant difference of 35.6%, and determines not merely the rate of economic growth, but the path of development in real terms'. He concluded, however, judging by the actual performances of the economy, the period 1981-85 proved to be relatively the most dismal in the economic history of the country, at least since planning as a strategy of growth and development was introduced in 1945'. The growth rate of GDP p.a. was only 1.25% (compared to 5.3%, 13.2% and 1.6% under the first three National Development Plans). The situation is even more severe when it is calculated in U.S. dollar terms. Only agriculture, government services, real estate business, and housing sectors recorded positive growth rate per annum. All other sectors, including mining, recorded negative growths. The devaluation of the naira increased the imbalance in the external trade, and the external reserves stagnated and declined. While money income was falling, the cost of living was escalating, corroding further the welfare of the citizens. The composite consumer index rose by 95.5%, an average increase of 23.8%. It was only in agriculture that the plan recorded some success (average annual growth rate of 3.4%). This, however, fell below the plan target of 4%. Moreover, the growth rate of agriculture barely matches the population growth rate, such that the dream of turning the economy into a self-reliant and self-sustaining growth oriented economy never materialized. Over N300m was spent on food importation alone in 1981-1984, in spite of the much-celebrated Green Revolution Programme. Agriculture, however, came in to dominance viz-a-viz mining as a contributor to Government

The achievement of more even distribution of income also remained a mirage. Some government workers (eg. in Imo State) were even owed up to eight months salary during the period. Primary per capital consumption that was expected to rise from N27.5 in 1980, and maintain a steady growth rate of 6% per annum, shot up to N257.8 in 1983. This made savings and investment difficult. Moreover, it was not possible to reduce unemployment level, as many enterprises operated below capacity, and some had to lay off some of their staff because lack of raw materials. Compounding the problem was the increase in the availability of skilled labour as a result of increase in the number of universities under the Third National Development Plan. Graduate unemployment thus became a common phenomenon in the society. Finally, even development remained an illusion, as development projects were considered, to a large extent, on ethnic and political grounds. Neither was it possible to attain better attitude to work, greater discipline, cleaner environment or a new national orientation.

3.5.1 Causes of Failure of the Plan

Some of the factors that militated against the implementation of the plan were:

1. Large-scale corruption, even in high quarters, during the civilian regime. Corruption, abuse of office, nepotism, political chicanery and clannishness, reigned supreme and grew into a culture, robbing the society at large the moral fibre to stand up for the development of self-reliant economy. Strategies designed to check corruption and re-awaken national consciousness, like the 'ethical revolution' and the WAI, failed to make the required impact or only scratched the surface of the problem.
2. High level inflation made a mess of cost projection
3. Non-evolution of coherent policies designed to give the plan the direction it requires. Rather, there were erratic and ad hoc policies and programmes designed to meet one political or ethnic demand or the other.
4. Feedback and progress report came late.

5. Effective database was lacking in the plan formulation.
6. Financial projections were too optimistic and simplistic, and therefore the revenue targets were easily frustrated by external shocks in the world oil market. By the end of 1984, the nation was indebted to the tune of 21,384.5 million in external debts alone. By August 1987, it stood at about 78.8 billion.
7. Over-invoicing, over-valuation of contracts and indiscipline inhibited effective implementation.

3.6 Rolling of National Plan in Nigeria

Development plans in Nigeria before 1986 have been medium term in nature. By 1986 however, it was 'realized' that adopting a five-year planning model has become unrealistic in the Nigerian situation, and the government decided to adopt a three-tier planning system for better economic management. This included:

1. A 15 to 20-year perspective plan, which will provide a clear vision of where the economy should be at the end of the period. The plan was to also address the key policies and actions that will be required to translate this 'vision' into reality.
2. The three-year national rolling plan.
3. One-year annual budgets.

The instrumentality of rolling plans was adopted in 1988, following which the First National Rolling Plan was launched in January 1990, for the period 1990-1992. It was intended to replace the five-year plan. While the annual budgets were to be tool for its implementation, the rolling plan was to constitute the tool for implementing the 'perspective plans'. The main objective of the National Rolling (plan), was to consolidate the achievements of SAP, and address the pressing problems still facing the economy.

Thus, the objectives of the National Rolling Plan were as follows:

1. Attainment of higher levels of self-sufficiency in the production of food and other raw materials:

2. Laying a solid foundation for a self-reliant industrial development, as a key to self-sustaining dynamic and non-inflationary growth, and promoting industrial peace and harmony;
3. Create ample employment opportunities, as a means of containing unemployment problem; and
4. Enhancing the level of socio-political awareness of the people, and further strengthening the base for a market-oriented economy, and mitigating the adverse impact of the economic downturn, and the adjustment process on the most affected groups.

In order to achieve these objectives, the plan placed emphasis on the following priority programmes:

a. Integrated rural development, including the Agricultural Development Programmes (ADPs) in the states, the programmes of the River Basin Development Authorities (RBSAs), and rural access roads;
b. Provision of basic infrastructures including roads, mass transportation facilities, power supply, and potable water supply;
c. Completion of on-going basic industries and the strengthening of existing ones;
d. Development of small scale industries
e. Strengthening the on-going programmes of the National Directorate of Employment (NDE), maintenance of industrial peace and harmony intensification of co-operative awareness, promotion of productivity consciousness;
f. Improvement of efficiency of the administrative/bureaucratic framework for the co-ordination of public sector intervention in the economy; and
g. Laying the foundation for gradually reducing growth rate of the population.

(iii) The major thrusts are agricultural development, provision of infrastructural facilities, and key programmes benefiting the segment of the society more adversely affected by SAP.

The strategies and programmes that will ensure the realization of the above objectives of the National Rolling Plan are as follows:

i. Rehabilitation of economic and social infrastructures, especially with regard to urban and rural roads and highways, power supply, potable water, communications, health care delivery, and educational facilities at all levels;

ii. Agricultural development programmes, including sustenance of the ADP's Fadama Development Programmes, and NALDA programmes;

iii. Establishment of Employment-oriented Agricultural Programme to stem the rising tide of unemployment;

iv. Completion of on-going irrigation projects of the River Basin Authorities, and maintenance of existing dams;

v. Enhanced involvement of the private sector towards the resuscitation of ailing government industries;

vi. Completion of Ajoakuta Steel, the Itakpe-Warri Ore rail line, and rehabilitation of Delta Steel, Aladja;

vii. Completion of teaching hospital projects at Ahmadu Bello University, Zaria, University of Nigeria, Nsukka, and Ado Beyero University, Kano, and rehabilitation of facilities at the University of Ibadan Teaching Hospital, existing Federal Medical Centres and Primary Health Centres;

viii. Resuscitation of the oil-refineries, and completion of Petrochemical Phase II, Eleme and Oso Condensate Phase II;

ix. Resuscitation of the Nigerian Railway Corporation;

x. Enhancement of aviation safety, and rehabilitation of facilities at the Murtala Muhammed, Aminu Kano, Abuja, Port-Harcourt, Calaba, and Owerri airports;

xi. Development of solid minerals, including coal, bitumen, kaolin, gold, and feldspar, among others; and

xii. Encouraging private sector participation in the areas of power supply and telecommunications.

3.6.1 Need for Planning

a) Need for economic planning arises from the following reasons: Economic development on the right lines and at the desired speed can best be achieved, if is undertaken by the state rather than by individuals. The state alone is in a position to mobilize the required resources for an all out development effort.

b) If planning is left in hands of private individuals, there will be a lot of wasteful competition, which is one of the characteristics of a free market economy. In order to coordinate the efforts of the individuals, a central planning authority is essential. Moreover, wastage due to duplication can also arise in unplanned economies.

c) Planning ensures the optimum utilization of resources. In a planned economy the planning commission conducts comprehensive surveys to ascertain the needs and resources of the economy and investible funds are distributed among various projects on the basis of needs and priorities.

4.0 Conclusion

With the searchlight beamed on the goals of development plans in Nigeria, it is imperative to note that, in order to improve plan implementations in the country, the executive capacity must be strengthened. There should also be some form of feedback mechanism, which will enable people to find out whether the plans achieve their objectives or not during implementation.

5.0 Summary

Development planning is conscious government efforts to influence, direct, and in some cases, even control changes in the principal social and economic variables (such as consumption savings, exports, health education, infrastructures, etc), of a country over the course of time in order to achieve a pre-determined set of objectives.

However, the history planning in Nigeria can be very interesting if we notice the features in the respective plans, starting with the Ten Years Plan of Development and Welfare (1945-1955 through the second pal of 1955-1990, the post independence development plan of 1962-1985, 1970-1974, 1975-180, and 1981-85 to the first rolling plan, 1990-1992, and national rolling plan 1997-1999).

Each of this plans made considerable effort to redress the social and economic problem facing the nation at different times in history.

You would still be anxious to question why inspite all these efforts made through the respective plans, not much, at least in certain areas, has not been achieved in this connection. Certain problems could have been militating against the successful implementation of the development plans.

These include:

- Lack of proper feasibility studies;
- Lack of suitable economic and political environment;
- The bureaucratic bottleneck in administrative machinery

6.0 Tutor-Marked Assignment

Compare and contrast the peculiarities of any two-development plans in Nigeria.

7.0 References/Further Reading

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MODULE 3:

Unit 1: Indigenization Policy in Nigeria

Unit 2: Poverty in Nigeria

Unit 3: Privatization in Nigeria

Unit 4: Monetary in Nigeria

UNIT 1: INDIGENIZATION POLICY IN NIGERIA

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1.0 Introduction

Indigenization can be seen as 'evolutionary process by which the natives of a country are enabled, and are seen, to acquire ownership, control and management of the economy of their country'. In this sense, it involves the elimination, or reduction of foreign ownership, control, and management of the native economy. The aim in Nigeria, is thus to achieve and retain for Nigerians the ownership, control, and management of the Nigerian economy. It is a policy meant to promote local participation in all industrial, commercial and financial activities in the country.

In Nigeria, therefore, indigenization involves government intervention of 'acquire and control, on behalf of the Nigerian society, the greater proportion of the productive assets of the country'

2.0 Objectives

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

- The transference of ownership control to Nigerians, in respect of those enterprises formerly wholly or mainly owned, and controlled by foreigners
- Fostering widespread ownership of enterprises among Nigerian citizens
- Fostering the development of the Nigerian capital market
- To create opportunities for Nigerian indigenous businessmen
- To raise the level of intermediate capital goods production in the domestic economy
- To encourage foreign businessmen and investors to move from the unsophisticated area of the economy to the area where larger investment in terms of managerial skills, and capital, are more needed, e.g. the intermediate and capital goods production sector.

Self-Assessment Exercise:

In your own opinion, what are the reasons for indigenization in Nigeria?

3.0 Main Content

3.1 Reasons for the Indigenization Policy in Nigeria

a. Before the indigenization policy in Nigeria, foreigners dominated the ownership and management of firms in the country.
b. The cost implications to Nigerian economy and inimical to her development were the concerned of the government.
c. Those foreign firms proved irresponsive to many years of moral suasion by successive governments of the country for employment of qualified Nigerians, for the moderation of their pricing and wage policies, for managerial and technical training, and the development of their Nigerian employees.
d. The operations of foreign-owned firms in the country became increasingly costly to the Nigerian economy.

Self-Assessment Exercise:

Do you now think there are disadvantages in changing the ownership structure of industries in Nigeria?

3.2 Disadvantages of Indigenization

a. Aliens could misinterpret indigenization as a crippling nationalization.
b. Reduction in foreign ownership may reduce the volume of funds for industrial investment.
c. Fear of further indigenization in the future might deter potential foreign investors.
d. The resulting exodus of some skilled alien manpower reduced total jewellery, including imitation jewellery for the general public; fish and shrimp; trawling and processing; garment manufacture; industrial cleaning; internal air transport; insurance of all classes; lithe rage; manufacture of dairy products, butter, cheese, milk and other milk products; manufacture of plastic products; manufacture of tyres and tubes for bicycles, motorcycles, motor vehicle, etc.

3.3 Functions of the Nigeria Enterprises Promotion Board

a. To advance and develop the promotion of enterprises in which citizens of Nigeria shall participate fully and play a dominant role.
b. To advice the commissioner or minister on clearly defined policy/guidelines for the promotion of Nigerian enterprises.
c. To determines any matter relating to business enterprises in Nigeria generally, in respect of commerce and industry, which may be referred to it in accordance with any directive of the commissioner or minister.
d. To perform such other functions as the commissioner or minister may determine, or the Nigerian Enterprises Promotion Act or any other enactment may confer as on it.

3.4 Advantages of Indigenization

a. Indigenization ensures economic self-determination, or self-reliance and available skilled manpower, especially in the management and technical cadre.
b. It may reduce entrepreneurial intercourse with the outside world, thus impeding 'technological transfer',
c. Greater indigenous control (especially in Nigeria), leads to increased corruption.
d. The foreign countries adversely affected may be less interested in technical co-operation.
e. Retaliatory price increases might result.
f. There may be decreased inflow of foreign tourists.
g. Dislike of the indigenization policy may lead to less enthusiasm for goods made in the indigenized economy.
h. Scarcity of certain goods may occur, thus encouraging foreign exchange malpractices, including smuggling and hence, reduced government revenue.
i. There is no guarantee that share equity ownership will not be concentrated in few rich hands, thus widening the gap between the rich (the 'haves') and the poor (the 'have-nots').
j. It encourages 'fronting', thus defeating the initial objectives.

4.0 Conclusion

a. The objective of transferring ownership and control of enterprises to Nigerians has been largely achieved, since major enterprises concerned have complied with the indigenization requirements.
b. The objective of fostering the development of the Nigerian capital market has been achieved to some extent since many industries and firms had quoted their shares on the Nigerian Stock Exchange.
c. It awakened the need for the "transfer of technology" in the form of technical, managerial, and entrepreneurial capability.
d. It stimulated investment consciousness among Nigerian citizens and association

However, the objective of fostering widespread share ownership has not been achieved, since increase in share ownership took place essentially among the rich and the well-to-do individuals, or groups in the country.

5.0 Summary

Indigenization invariably is about a situation whereby the natives of a country are encouraged to acquire ownership, control and management of their economy.

However, the reasons cut across avoiding a situation whereby foreigners dominate the ownership and management of firms in the country, to where resources are repatriated by foreign based firms to their respective home countries.

Furthermore, the government promulgated in 1972, Nigerian Enterprises Promotion Act (NEPA), which ushered in the implementation of the indigenization policy in Nigeria.

6.0 Tutor-Marked Assignment

What are the objectives ofthe Nigerian indigenization policies?

7.0 References/Further Reading

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UNIT 2: POVERTY IN NIGERIA

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1.0 Introduction

Nigeria has a human population of nearly 110 million people, which is more than 15% of the total population of all of Africa, and almost equal to the total population of the 5 countries of North Africa (Algeria, Egypt, Libya, Morocco and Tunisia). The country also has a land area of about 900,000 sq. km, more than one third of which is arable with minimal irrigation. The country is endowed with a wealth of underdeveloped and untapped water and mineral resources. Recent figures from the government show a gross domestic product valued at 103 billion for 1995, and 108 billion for 1996. It is therefore a glaring paradox when this great potential is contrasted to the state of the people, with a GNP per capita of $300, life expectancy of about 50, and illiteracy rate of about 45%. Infant mortality, maternal mortality, and malnutrition prevalence are all high and increasing.

In contrast to other developing economies, the trend is more disturbing. While Nigeria ranks in the same life expectancy and per capita total consumption brackets with countries like Pakistan, Indonesia and Lesotho in the late 70's, the country is either stagnating or retrogressing in the 90's. These countries now have life expectancy in the range of 60-65 and per capital income between $450 and $900.

The bottom line is that, there is increasing poverty and deprivation in the country and it is perhaps a slight relief to note that the government has come to the recognition of the situation (of 1996 budget). Poverty alleviation has been listed as one of the objectives of the 1996 budget, as well as a key element of the rolling plan.

As the government, civil society, and the international community embark on the search for the most appropriate and practicable way to tackle the issue of poverty, it becomes crucial to consider the size, form and dynamics of the "beast" called poverty, with a view to designing or inventing the right type of "ammunition" to "destroy" it. This in essence is the approach of this presentation.

2.0 Objectives

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

- Identify the level of poverty in the country
- Look at the government's panacea for poverty reduction.

3.0 Main Content

3.1 Poverty Situation in Nigeria

Major changes in welfare and poverty in Nigeria can be summarized as follows:

With the first positive oil shock in 1973, there was a dramatic positive impact on most indicators. Real per capita income and per capita private consumption rose sharply, and there was a dramatic increase in real wages, particularly in the non-agricultural sector. Clearly, welfare improved sharply for many Nigerians, and poverty declined during this period.

The picture is mixed, and the welfare and poverty implications are harder to identify. Average real per capita income continues to rise rapidly until 1980, but private consumption per capita remained stable, except for a brief rise in 1978. Real wages in agriculture continued to rise until 1976, after which they remained relatively constant until 1980. But there was a sharp fall in real wages in the non-agricultural sector. The rapid expansion of social services during these years, may have contributed to some overall improvement in welfare, but the proportion of people living in poverty probably did not decline significantly.

There was clearly a serious deterioration in welfare and an increase in poverty during this period. Average per capita income plummeted after 1980, as did private consumption per capita after 1981. Real wages in both agriculture and non-agriculture fell after 1980, and by 1985, were identical, wiping out the large differential between the two that has existed for decades. There is no doubt that the welfare of many Nigerians fell sharply throughout that period, and the poverty also increased. Life expectancy at birth in 1982 was 49 and infant mortality was 96 per thousand. Annual average caloric intake, which was about 2170, went down to about 2100. However, towards the end of this period, a supply response from agriculture began which generated increased revenue for the rural sector.

There was a broad-based recovery in the economy, fostered by policy reforms. Per capita household expenditures increased by 34 percent, and poverty declined by 9 percent. But real incomes did not even get close to their 1980 levels, nor did real per capita private consumption. Real wages in agriculture and non-agriculture fluctuated, but remained low. Thus, while poverty was reduced, the welfare of many Nigerians remained below what it had been in 1980. There were improvements in broad social indicators such as life expectancy, level of literacy, and infant mortality but primary school gross enrollment ratio which was 104 in 1980, went down to about 70 in 1990. In essence, this period recorded a broad decline in poverty, while core poverty continued to worsen.

With a reversal of policies, economic growth again slowed, incomes and welfare declined, and poverty both broad and core, undoubtedly increased. Real wages in agriculture and non-agriculture have fallen significantly since 1987 for agriculture and since 1990 for nonagricultural workers. By 1994, real per capital income, real per capita consumption, and real wages were all lower than they were in 1970. Literacy rate is now 52%,with infant mortality estimated at about 9 per thousand live births. Thus, in 1995 welfare is lower, and poverty higher than in the pre-oil boom years of the early 1970s.

Self-Assessment Exercise:
What could have been responsible for the increase in poverty in Nigeria between 1971-1995

3.2 Strategy for Poverty Reduction

A successful poverty reducing strategy in Nigeria will require a strong and focused emphasis on economic growth, access to social services, and infrastructure and targeting.

Self-Assessment Exercise:
Do you think economic growth will reduce poverty without increasing the access ofpoor people to quality social service?

3.2.1 Economic Growth

The growth and poverty reduction experienced shows that modest growth on its own can bring about a small reduction in the number of poor people, although the proportion of those in poverty is reduced significantly, given the relatively high population growth rate. Simulations of the projected growth show that a rate of growth of total consumption of between 5-7% would be required to reduce significantly, the proportion of the poor population.

To gradually reduce the number of people in poverty, growth must not only be rapid, but also broad-based, and employment generating. To generate such growth, removal of price distortions, liberalization of the trade regime, and investment in technology and physical capital, are obvious stimulants. Government may want to maximize its position by focusing its efforts on the policy aspects of improving the welfare of its human resources, and rely more on the informal and private sectors to increase capital investment. Land laws, property rights, and tax structure are vital policy instruments in this regard, particularly for farming, mining, and manufacturing

Improved access to credit technology and materials, and markets, as well as ancillary incentives, to increase output and income are vital to poverty reduction.

3.2.2 Access to Social Services and Infrastructure

Sustained long-term growth depends critically upon increasing the access of poor people to quality social services and essential infrastructure, in order to enable them to increase their human capital and make full use of their main asset, namely their labour. Key priorities are health, education, water supplies and sanitation, rural roads, and urban transport. This requires an increase in funding, in order to expand the number of facilities, and to improve service at each facility. Increasing the supply of and access to, potable water is an important poverty reducer, not only because of the health benefits, but also because many household members (mainly women and children) spend significant amounts of time seeking good water, when they could be free to engage in other gainful activities. Provision and maintenance of rural roads and affordable and timely mass transportation to urban areas, are important to provide people with access to jobs and to markets. Access could be made sustainable through increased community participation in the development and maintenance of infrastructure, and provision of services.

3.2.3 Targeting

Targeted recourse transfers for those who remain in poverty should complement the first two strategy elements. The government can target the delivery of some services and resources to reach poor areas, and to communities living in poverty, building on existing community-based organizations and activities, where possible. Targeted programmes are obviously imperative, given the level and profile of poverty in Nigeria. Some elements of targeting should be introduced into public expenditure, particularly for social sector spending. Primary education, health care, and basic infrastructures should command larger share of their sectoral allocation.

In making a strong case for a new initiative on poverty alleviation in Nigeria, the Poverty Alleviation Programme Development Committee of the National Planning commission did suggest that, "a poverty programme should contain a large number of relatively small, well targeted, demand driven projects and sub-projects that can be implemented by the communities themselves". The new initiative is named Community Action Programme for Poverty Alleviation

(CAPPA). A core element of CAPPA will be the provision of a support mechanism of finance projects which are initiated, proposed, and implemented by the intended beneficiaries (poor groups and communities), with the support of CBO's and NGO's ,where necessary.

3.2.4 Facilitating Strategies

The, effectiveness of the strategy outlined above will depend critically upon increasing the institutional capacity and degree of accountability within each level of government, and or, intervention agencies, decentralization and good governance. In this regard, three key issues need to be noted. Reforming the role of the public sector, civil society and private sector participation and decentralization.

Limitations on government resources highlight the need for government to rely more on the private sector, NG0s, and community-based organizations (CB0) to undertake activities for which they are better suited. The PPA has shown that NGO's, CB0s, and even profit making private sector agencies have comparative advantage over government agencies in ensuring wider participation in needs identification, project planning and implementation, for effectiveness. These organizations and their leaders generally share the value of their constituencies and retain their confidence. Relying more on these groups, will require a considerable reform and reorientation away from direct government provision of some services toward demand-driven policies. Public sector institutional accountability and capacity, particularly for monitoring and coordination, must be strengthened. NGOs and CBOs will also need substantial strengthening to contribute meaningfully to equitable development. As their deep knowledge of the communities is being tapped, their ability to render assistance also needs to be amplified through the provision of financial resources and training.

The PPA has shown the necessity for understanding local situation, if development efforts are to be effective. Projects planning must be based on locally perceived needs and implementation preferences, as well as capability, rather than on a blueprint developed at a higher level. This implies a need to examine the roles played by each level of government, or intervention agencies. They key issues here include: the fiscal and expenditure responsibility of each level of government, resource control and transfers, and programme coordination. The current distribution of responsibilities and authorities in Nigeria presently does not make for effectiveness of local level based institutions.

4.0 Conclusion

It is notable from the above, that Nigeria now faces enormous development challenges that are key to both welfare improvement for the general population and to poverty reduction in particular. Given the state, magnitude and dynamics of poverty in the country, it is imperative that government makes a firm commitment to poverty reduction, making it the core element of the development strategy. There is the need to establish a viable and stable macro-economic framework, and to streamline the incentive regime to promote broad-based economic growth with equity. This implies adopting sectoral policies, and re-arranging priorities in public expenditures, to promote efficient economic growth, increase productivity, and target the poor. Secondly, there is the need to reform the public sector, work in partnership with the private sector and the civil society. These challenges point to the need for Nigeria to make a fundamental shift away from policies and institutional arrangements that promote rent seeking, to policies, programs and institutions that promote efficient, sustainable, and broad-based growth and poverty reduction.

To address these challenges, there is a broad consensus within the country that a new approach to poverty reduction is needed. A rapidly growing economy is a must. The cake has to be baked first. Sharing the cake must, however, be equitable. Participation in the growth process is the surest way of ensuring poverty- reduction growth. Participation in the planning and implementation processes of development programmes can be widened and deepened. This can be achieved through decentralization and the formation of new arrangements with community-based organizations, and with nongovernmental organizations, as well as with the private sector. This arrangement should also build on the initiatives and existing practices of the intended beneficiaries of the development programmes.

5.0 Summary

The paradox of Nigeria's development is thought provoking to planners, policy makers, and particularly, to development workers, both within and outside the country. The country is rich, but the people are poor, Nigeria is rich in land, people, oil and natural gas resources, but the people could hardly eat, drink or clothe themselves, not to talk of being largely unhealthy and uneducated. To reduce poverty in Nigeria will require a strong focus and emphasis on economic growth, access to social service, and infrastructure and targeting. In the next unit effort will be on interpretation of privatization of public enterprise as a measure of improving the lot of masses and ensure poverty reduction.

6.0 Tutor-Marked Assignment

How can economic growth be brought about in Nigeria, which will eventually reduce poverty?

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UNIT 3: PRIVATIZATION IN NIGERIA

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1.0 INTRODUCTION

One is aware of the on- going privatization exercise under the auspices of Bureau of Public Enterprise. This is probably because overtime, the public or state-owned enterprises (SOES) started showing inefficiencies, which translated into huge losses to be financed from public treasury. This led to the conviction that (SOES) has failed, this thinking crystallized into the concept of privatization.

This embraces a set of policies, which emphasize the role of market forces in place of statutory restrictions and monopoly power.

With respect to Nigeria, the need to privatize arose from the fact that, by the beginning of the 1980s, the public sector alone had accounted for about 50 per cent of GDP,, and 67 per cent of modern sector employment. Furthermore, by 1986 the federal government alone had about 100 commercial and to non-commercial ventures, ranging from heavy iron and steel industries, to abattoirs. Consequently, in 1988, government promulgated Decree No. 25, known as the Privatization and Commercialization Decree, which provided legal forces for the implementation of this policy. Therefore, government set-up a technical committee on privatization and commercialization to work on 135 enterprises listed in the decree by March, 1989

Privatization simply refers to the transfer of public resources, management, or ownership or from government to private ownership or management. Privatization of government parastatals is aimed at reducing government equity participation, and bringing in private individuals to the ownership and running of these Parastatals.

2.0 Objectives

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

- Examine the sources of failures of the SOES
- Look at the advantages and disadvantages of privatization.

3.0 Main Content

3.1 Basic Features of Public Enterprises

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

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

3.3 Sources of Failure in Parastatals

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

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

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

3.4 Advantages of Privatization

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

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

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

d. Privatization is bound to tremendously increase indigenous ownership of enterprises.

e. It is a good opportunity for Nigerians to have extra sources of income by receiving dividends in form of returns on their invested capital.

f. Given the scarcity of resources available to the government, one expects frugality and optimality in resource allocation and utilization. Resources have alternative uses. To sustain an inefficient corporation, implies shifting of resources from more productive investments, which has negative implications for economic growth and development. The problems is bound to be obviated by privatization, as there will be more efficient management of resources and more room for productive investment. Irrespective of ownership, the society as a whole will gain.

g. Only a private entrepreneur is motivated by profit. Maximization would attract the right labour at the right, price and take prompt financial decisions without bureaucratic headaches. However, as resources management improves through greater efficiency and minimization of resources wastage, the savings could be used in the creation of more labour intensive industries, thereby generating employment, especially in the agro-based industries.

3.5 Disadvantages of Privatization

a. It is argued that few rich Nigerians, or rather the transnational's already dominating the economy by their multifarious activities, would benefit, while majority of Nigerians who cannot afford the initial huge capital and financial requirement would participate.
b. Even though government has appealed to banks to make loans available to their customers to assist them in purchasing shares, financial constraints imposed on banks by Central bank of Nigeria tend to negate the objective.
c. The price of some of the shares of privatized companies seems to be high for ordinary citizens to pay in this harsh economic climate. Purchasing power of the citizens has definitely gone down as a result of persistent inflation.
d. There is fear of unemployment which privatization might generate at the initial stages, given the fact that a profit maximized would only employ labour up to the point where its marginal product is equal to the price of the product especially in the short run.

4.0 Conclusion

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

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

5.0 Summary

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

Given these advantages of privatization, there is the fear that it will result to unemployment of the already employed people in the parastatals. Monetary policy as an instrument of economic management shall be considered in the next unit.

6.0 Tutor-Marked Assignment

State the advantages and disadvantages of privatization.

7.0 References/Further Reading

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UNIT 4: MONETARY IN NIGERIA

TABLE OF CONTENTS

1.0 Introduction

Having looked at the circular flow of economic activities, you are now in the position to refer to them as we discuss the goals, instruments, targets and problems associated with monetary policies in macroeconomic analyses. As an administrator, knowledge of goals and targets of any economic policy will aid in your planning and control functions. This explains the reason for this unit.

2.0 Objectives

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

- Explain monetary policies, their goals, instruments and targets
- Advice on administrative decisions bordering on monetary policies
- Identify those monetary targets that can affect the business and political environment and account for them in administrative decisions.

3.0 Main Content

3.1 Goals, Instruments, Targets and Problems with Monetary Policy

Monetary policy is one of the important tools through which policy makers can influence economic development in a given economy. It will be therefore, important to always look at its goals, instruments, targets, and problems associated with it. By so doing, you will be in a position to contribute fruitfully on issues concerning monetary policies.

This explains the need for the current discussions.

3.2 Goals of Monetary Policy

The basic goals of monetary policies include the following:

1. **High employment*:*** This is a worthy goal for two basic reasons: First, the alternative, high unemployment causes much human misery, with affected families suffering financial distress, loss of personal self-respect, and increase in crime. Secondly, when Unemployment is high, the economy not only has idle workers but also idle resources.

For important economic implications, the goal of high employment does not seek for an unemployment level of zero, but rather, a level above zero that is consistent with full employment at which the demand for labour equals the supply of labour. This level of unemployment is referred to as the natural rate of unemployment in economic terms.

2. **Economic growth:** This goal is closely related to the high employment goal because promote businesses are more likely to invest in capital equipment to increase productivity and economic growth when unemployment is low. Conversely, if unemployment is high and factories and other businesses are idle, it does not pay for a firm to invest in additional plants and equipments.

3. **Stability of financial markets:** One of the major functions of the monetary authorities is to a stable financial system. One way the Central Bank of Nigeria can promote stability in the financial system is by helping prevent financial panics, through its role as the lender of last resort. The stability of financial markets can also be promoted by interest rate stability, since fluctuations in interest rates create uncertainty for financial institutions. An increase in interest rates gives rise to capital losses on long-term bonds and mortgages, losses that cause the failure of financial institutions holding them.

4. **Stability in foreign exchange markets:** With increasing importance of the global market, the value of a country's currency relative to other currencies has become a major consideration for the monetary authorities. A fall in the value of the naira relative to other currencies, for example, will stimulate inflation in Nigeria. Preventing large changes in the value of the naira makes it easier for firms and individuals purchasing or Selling goods abroad to plan ahead.

3.3 Monetary Policy Instruments

Monetary policy instruments are those variables under the control of monetary authorities and are used in controlling the affairs of the money and financial markets. These instruments can be ***direct*** or ***indirect***.

The direct instruments include:

- Aggregate credit ceilings
- Deposit Ceilings
- Exchange rate controls
- Restriction on the placement of public deposits
- Special deposits
- Stabilization securities.

The indirect instruments include:

- Open Market Operation (OMO)
- Cash reserve requirements
- Liquidity ratio
- Minimum rediscount rate
- Parity changes
- Selective credit policies

For the specific case of Nigeria, direct controls were used not only to control overall credit expansion but also to determine the proportion of bank loans going to the preferred sectors; merchant banks' asset portfolio; proportion of bank loans to indigenous borrowers; proportion of bank loans to small-scale indigenous enterprise; proportion of rural bank deposits granted as loans to rural borrowers; lid on interest rates, etc.

The three main monetary policy instruments used worldwide are: Open Market Operations, changes in the reserve requirements and changes in the discount rate. In addition are the selective controls over specific markets, among which are the margin requirements and the ceiling on the interest rate commercial banks can pay on savings or time deposits.

The **fractional reserve system** is a convenient way to gain control over the money supply. By requiring banks to maintain a stated percentage of their deposits as reserves, it limits the ability of banks to lend out funds and thus their ability to create money. It follows that the prime target of monetary policy has been the level of bank reserves, and the strongest weapon to influence reserves is the required reserve ratio.

Open Market Operations refer to the buying and selling of government bonds or securities in order to influence indirectly the reserve position of banks. If the Central Bank buys bonds, the effect would be an increase in bank reserves, a possible increase in the money supply, and a possible fall in interest rates. These effects are potential stimulants to economic activity. Sales of government securities will produce the opposite effects. Open Market Operations is the most frequently used weapon or instrument of monetary policy.

The discount rate refers to the interest rate with which the Central Bank can lend money to commercial banks. By lowering or raising the discount rate, the Central Bank can encourage or discourage such borrowings. The Central Bank can also openly announce its intentions to be receptive or not to request for loans and advances.

3.4 The Use of Monetary Targets

Apart from the use of the monetary policy instruments such as the open market operation, changes in discount rate, and changes in reserve requirements, the monetary authorities often choose a set of variables to aim for in its efforts to stabilize price and increase employment. These variables are referred to as ***intermediate targets***, such as the monetary aggregates (M1, M2, or M3) or interest rates, which have a direct effect on employment and price level, unlike the use of the regular monetary instruments which have indirect effects. Other sets of variables to aim for are the so-called operating targets, such as reserve aggregates (that is, reserves, non-borrowed reserves, monetary base) or interest rates (the treasury bill rate), which are more responsive to monetary policy tools or instruments. Note that non-borrowed reserves refer to total reserves minus borrowed reserves.

3.5 Problems of Monetary Policy

There are a number of limitations on the use of monetary policy for economic stability. These limitations include the following:

1. **The uneven incidence of monetary policy:** Monetary policies have some uneven impacts on different groups within a given economy. Most notable is the restrictive monetary policy that raises market interest rates, which in turn reduces the flow of funds into the home mortgage market. It is frequently argued that small businesses are particularly sensitive to altered credit conditions. Large-scale businesses tend to have ready access to several sources of funding and can borrow funds either from banks or by direct sale of security issues. Thus, under restrictive credit conditions, banks might feel it necessary to meet the needs of their large-scale business customers first and to limit the funds available to small-scale businesses.
2. **Compliance with the Treasury:** The conduct of monetary policy has also been seriously restricted through the Central Bank's efforts to serve the desires of the National Treasury.
3. **Timing:** There are many lags in the conduct of monetary policy. These lags can be broadly classified into two: ***inside lags*** and ***outside lags***. Inside lags refer to all the steps and time it takes to go form the first recognition that a problem exists to the point where the policy begins to affect the economy by its impact on aggregate demand and output. Outside lags, on the other hand, are concerned with the response of the economy to the changed monetary conditions resulting from the monetary policy. Monetary authorities may react to a situation by altering money market conditions, but it is other economic units in the economy – consumers, firms, government –that must alter their plans in the face of the changed conditions.

This outside lag is of considerable importance, for until these economic units change their behaviour the economy will not be materially affected, and to that extent, monetary policy will not be effective.

4. **Financial intermediaries:** One of the monetary policy problems can be found in financial intermediaries, including saving and loan associations, insurance companies, pension funds, etc, which deal in "near money", the highly liquid deposits of the public.

These financial intermediaries cannot create money like commercial banks but can affect the money supply indirectly through their actions, over which the monetary authorities have little or no control.

SELF-ASSESSMENT EXERCISE

What are the major benefits to an entrepreneur, of understanding the goals and targets of monetary policy?

4.0 CONCLUSION

Among the important issues discussed in this unit is that of the monetary policy goals. In a nutshell, the monetary policy goals include:

(1) High employment;

(2) Economic growth;

(3) Financial market stability; and,

(4) Stability in the foreign exchange market.

Also of importance in our discussions are the monetary policy instruments, which include those variables that are under the control of monetary authorities' especially the Central Bank of Nigeria. We also learned that monetary authorities have some intermediate targets classified as a set of variables aimed at stabilizing prices and increasing employment. The variables include, among others, the monetary targets (M1, M2, and M3) or interest rates that have direct effects on employment and price level.

There are some limitations on the use of monetary policy which need to be noted. The limitations were discussed extensively as uneven incidence of monetary policy; compliance with the Treasury which can restrict the monetary policy objectives; existence of time lags in the conduct of monetary policies and financial intermediation.

5.0 SUMMARY

This unit focuses on four basic monetary policy goals which include:

(1) High employment; (2) economic growth; (3) financial market stability and (4) stability in the foreign exchange market.

The unit exposes us to the monetary policy instruments. Monetary policy instruments are those variables under the control of monetary authorities and are used in controlling the affairs of the money and financial markets. These instruments can be ***direct*** or ***indirect***. The direct instruments are subsumed as: Aggregate Credit Ceilings; Deposit Ceilings; Exchange rate controls; Restriction on the Placement of Public Deposits; Special Deposits; and, Stabilization Securities. The indirect instruments include: Open Market Operation (OMO); Cash Reserve Requirements; Liquidity Ratio; Minimum Rediscount Rate; Parity Changes; and, Selective Credit Policies.

In Nigeria, direct controls are used not only to control overall credit expansion but also to determine the proportion of bank loans going to the preferred sectors; merchant banks' asset portfolio; proportion of bank loans to indigenous borrowers; proportion of bank loans to small scale indigenous enterprise; proportion of rural bank deposits granted as loans to rural borrowers; lid on interest rates, etc.

The three main monetary policy instruments used worldwide are: Open Market Operations, changes in the reserve requirements and changes in the discount rate. In addition are the selective controls over specific markets, among which are the margin requirements and the ceiling on the interest rate commercial banks can pay on savings or time deposits.

The major limitations on the use of monetary policy are (1) uneven incidence of monetary policy; (2) compliance with the Treasury which can restrict the monetary policy objectives; (3) existence of time lags in the conduct of monetary policies and (4) financial intermediation.

6.0 Tutor-Marked Assignment

Briefly discuss how monetary policies can affect investment decisions.

7.0 REFERENCES/FURTHER READING

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MODULE 4:

UNIT 1: NIGERIAN ENTERPRISES

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1.0 Introduction

Many people think about running a business of their own at some time in their life. With some this is no more than day-dreaming. Others are more serious. This unit will give you the basis of business forms, how to source for capital, valuation of credit and many more that will help you start your small business as a way of contributing to the development of your community.

2.0 Objectives

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

- Recognize the business forms existing in Nigeria, goals of profit oriented business and financial requirements of various types of business

- Know how to source for capital for business operations
- Identify the concept of capitalization
- Recognise the types of financial market in Nigeria, financial institutions
- Distinguish the time value of money, capital budgeting, analysis of financial statements
- Explain small-scale businesses in Nigeria
- Know how to prepare a feasibility study.

3.0 MAIN CONTENT

3.1 Business Forms in Nigeria

There are four different legal forms of business organisation:

· Cooperative

· Sole proprietorship

· Partnership

· Limited company/Joint Stock Company.

a. A cooperative is a group of people who come together voluntarily to produce goods or to provide a service. Usually all members contribute some funds to start the cooperative. In many countries there must be at least ten people to form a cooperative, one person-one vote, and the members have to share the profits either equally or according to how much each member works. The liability for debts in the cooperative is limited to the amount of capital invested.

There are different regulations in different countries on how to form a cooperative. Usually there is a Ministry of Cooperatives or Department of Cooperatives within the government, which helps groups who want to form a cooperative. They give advice, provide training in management skills and sometimes assist with start-up capital.

Those who want to form a cooperative should write an application letter to the ministry or department saying they want to become a cooperative. They should submit a membership list and a list of the committee.

b. Sole proprietorship means that an individual person decides to start a business and he/she becomes the sole owner of the business. The success or failure of the business depends only on the individual him/herself. He/she is responsible for running the business and he/she must be willing to pay losses/debts him/herself. The income produced in the business will be taxed as personal income. A person who plans to start a business should ask the local council office for license. The cost of the license usually depends on the kind of business being planned.

c. Partnership is a joint ownership business together with one or more people. The partners will share the control of the business and they will have joint responsibility for any decision made. They will share the profits and debts and they will be taxed separately on each individual's share of the business.

d. Limited Company/Joint Stock Company this form of business is not recommended for a small business because it involves complicated legal procedures and heavy taxation. Its shareholders own a limited or joint stock company. People invest money by buying shares.

Those with more shares have more control of the company. The shareholders are responsible for debts of the company but their responsibilities for debts are limited to the amount of capital invested In the Company. The shareholders elect directors who run the company.

3.2 Capital for Business Operation

To finance your business there are many things to it but for the scope of this course you will be given the basics of what it takes to source for money.

Good management is the key to small business success. A firm's profitability is directly related to the ability of its management. Lenders and investors know this. Consequently, they'll want to know the following:

1. The Character of the Businessman. Is he considered a responsible member of the community? Does he have a reputation for honesty?

What's his performance record?

2. Competence of the Businessman. Does he have the necessary background and experience required for successful business operation? Is he a "go-getter" with lots of initiative?

3. How will the Money be used? Start-up, Expansion, Working capital, Cover up a mistake?

4. How Much Money is needed? Is the amount enough for the purpose? Is it too much? Too little? In the case of a loan: what will be the source and method of repayment? Can the businessman really afford it? What does he own that can serve as collateral or security?

5. Type of Business or Industry. Is it a growing industry, steady industry, or is it on the decline? Is it a "fad" type of business?

In the case of an already established business, a lender or investor will want to know:

1. The type of business; manufacturing, contracting, wholesale, service, retail.
2. Major products or services.
3. When was the business started and by whom?
4. Education and experience of principals in the business.
5. What is the legal organisation of the business - proprietorship, partnership, or corporation? Why was this form chosen?
6. Some details on how and where the business operates.
7. Major suppliers and customers.

Also needed are financial data on the business, such as:

1. Initial capitalization: how much money was invested to start the business originally?
2. Where did this money come from?
3. Financial statements for the last two years.
4. Credit rating.
5. Previous financing: How much? When? From whom?
6. Operating ratios of the business compared to industry standards, where available.

Regardless of whether the business is new or already in operation, the lender or investor will want to know:

1. Does the business have a plan of operation stating goals and objectives for the next four years?
2. What are the short-term and long-term money needs to reach these objectives?

He may also ask such questions like:

1. In the event of accident or death of the owner/manager, is there someone who can carry on the business successfully?
2. Is there “key man” insurance?
3. Is the owner insured against losses and liabilities that might occur in the business?
4. How much competition does the business face in its area of operation?

To get financing, a businessman must be able to produce evidence that proves a loan to, or investment in the business will not result in a loss.

The provider of financing must be satisfied that the funds are required for sound reasons and that the business can:

1. Pay back the money according to terms in the case of a loan
2. Generate a profitable return in the case of an investment

The soundness of a loan or investment is best illustrated by clearly mapping out the anticipated future growth of the business. There are four basic forms to prepare:

1. A Comparative Profit and Loss Statement.
2. A Projected Cash Budget.
3. Financial Statements for the past couple of years.
4. “Growth Plan” for the future of the business.

Where to get help in preparing the information needed for a complete financial picture of the business:

1. Attorneys can often handle both the accounting and tax problems of the smaller business. In addition they are in good position to advise the businessman if and when he should consider changing his form of business (proprietorship, partnership, or corporation) for legal or tax purposes.
2. An accountant or bookkeeper is the best source of information if the business can afford it.

3. Income tax returns for previous years can supply the basic information necessary for financial records.
4. Banks and small business administration can provide assistance, as well as recommend others in the business community who can help prepare the necessary information.

In planning the growth of your business over, for example, a four year period, you will want to consider the following kind of questions:
1. By how much do I hope to increase my sales?
2. How much more inventory will I have to buy to meet these sales?
3. Will I need a new building or leasehold improvements? How much will they cost?
4. What new fixtures and equipment will I need? How much will they cost?
5. Will I have to hire more people? What will that cost me in wages, etc.?
6. What other expenses will be increased? By how much? (Rent, utilities, supplies, insurance, advertising, taxes, other expenses)
7. How much more cash will be tied up in receivables-money other people owe me?
8. Will the increase in sales dollars adequately cover the increase in expenses?
9. How much money will be left over as business profits?
10. Will the increase sales also cover interest and loan payments?
11. Is this figure worth the time and expense required?

Steps in Obtaining and Maintaining a Credit Rating:
1. Contact a mercantile credit agency.
2. Make available to the credit reporter whatever information is requested.
3. Keep the credit agency records current by submitting an annual report.

Four basic ways of getting more money for your business:
1. Trade Credit: Purchasing merchandise, supplies and equipment on credit extended by suppliers. The larger portion of small business financing comes from trade sources.
2. Loans: Borrowing money from banks, other financial institutions or individuals.

3. Equity Financing: Selling part of the ownership of your business to someone else, by taking in a partner or selling stock.

4. Business Profits: Reinvestment in the business from profits.

Types of Financing:

1. Accounts receivable financing
2. Bank credit cards
3. Commercial loans
4. Commodity loans
5. Convertible debentures
6. Equipment financing
7. Equipment leasing
8. Factoring
9. Flooring
10. Improvement loans
11. Indirect collection financing
12. Installment loans (time plan)
13. Inventory distribution financing
14. Inventory financing
15. Passbook loans
16. Professional term loans
17. Real estate loans
18. Secured loans
19. Term loans
20. Trade credit
21. 'Other' loans
22. Small business administrative loans:
    - Bank participation loans
    - Direct loans
    - displaced business loans

- Economic opportunity loans
- guaranteed loans

These sources can be grouped into two, which are:

1. Informal credit institutions or traditional institution.
2. Formal credit institution.

However the large proportion of farmers' loan comes from the formal credit institution. It is however pertinent to know that majority of the farmers in developing countries still rely on traditional money lender because:

1. Their approach to farming is as a hobby not business.
2. The farmer value his time so much that he has no time for bureaucratic procedures.
3. The credit need might be too small. Therefore the production objective is not to make profit but farming is mostly done as a hobby.

4.0 Conclusion

Success in rising outside finance can be crucial if your new business is to get off the ground. There is, therefore, no excuse for presenting a poorly thought-out application. Indeed, the rejection of a bad application is probably the best favour an investor could do for you!

There are more sources of start-up finance than many people believe but they all tend to have slightly different preferences and approaches. So, if you believe you have idea, have planned properly and are asking for a reasonable amount of money do not be unduly disheartened by one rejection. Try somewhere else instead. (Richard B. H., 1983.)The next unit will be providing you some detail on private forms of enterprises.

5.0 Summary

This unit discussed various form of business organisation.

6.0 TUTOR-MARKED ASSIGNMENT

Discussed various forms of business organization in Nigeria

7.0 **REFERENCES/FURTHER READING**

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UNIT 2: CHOOSING A FORM OF BUSINESSOWNERSHIP

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1.0 Introduction

Like Donald and Susan Sutherland, hundreds of thousands of people have started new businesses in the United States. In fact, more than 500,000 new U.S. businesses are started each year. Chances are, you have thought of owning your own business or know someone who has.

One key to success in starting a new business understands how to get the resources you need. You may have to take on partners or find other ways of obtaining money. To stay in business, you may need help from someone with more expertise than you have in certain areas, or you may need to raise more money to expand. How you form your business can make a tremendous difference in your long-term success.

You can form a business in one of several ways. The three major formsof business ownership are:

1. Sole proprietorships
2. Partnerships
3. Corporations

It can be easy to get started in your own business. You can begin a word processing service out of your home, open a car repair center, start a restaurant, develop a web site, or go about meeting other wants and needs of your community. A business that is owned, and usually managed, by one person is called a *sole proprietorship*. That is the most common form of business ownership. Many people do not have the money, time, or desire to run a business on their own. They prefer to have someone else or some group of people get together to form a business. When two or more people legally agree to become co-owners of a business, the organisation is called a *partnership.*

There are advantages to creating a business that is separate and distinct from the owners. A legal entity with authority to act and have liability separate from its owners is called a *corporation.* The almost 5 million corporations in the United States comprise only 20 percent of all businesses, but they earn 81 percent of the total receipts.

As you will learn in this unit, each form of business ownership has its advantages and disadvantages. It is important to understand these advantages and disadvantages before attempting to start a business.

Keep in mind that just because a business starts in one form of ownership, it doesn't have to stay in that form. Many companies' start out in one form, then add (or drop) a partner or two, and eventually become corporations, limited liability companies, or franchisors.

2.0 Objectives

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

- Compare the advantages and disadvantages of sole proprietorships
- Describe the differences between general and limited partners, and compare the advantages and disadvantages of partnerships
- State the advantages and disadvantages of corporations, and know what is meant by the term Limited Liability (Ltd).

3.0 Main Content

3.1 Sole Proprietorships

Sole proprietorship has been explained in the introductory part of this unit, without wasting time we shall be considering the advantages and disadvantages in some few lines.

Advantages of Sole Proprietorships

Sole proprietorships are the easiest kind of businesses for you to explore in your quest for an interesting career. Every town has sole proprietors you can visit. Talk with some of these businesspeople about the joys and frustrations of being on their own. Most will mention the benefits of being their own boss and setting their own hours. Other advantages they mention may include the following:

1. Ease of starting and ending the business. All you have to do to start a sole proprietorship is buy or lease the needed equipment (e.g., a saw, a word processor, a tractor, a lawn mower) and put up some announcements saying you are in business. It is just as easy to get out of business; you simply stop. There is no one to consult or to disagree with about such decisions. You may have to get a permit or license from the local government, but often that is no problem.

2. Being your own boss. Working for others simply does not have the same excitement as working for you, at least that's the way sole proprietors feel. You may make mistakes, but they are your mistakes and so are the many small victories each day.

3. Pride of ownership. People who own and manage their own businesses are rightfully proud of their work. They deserve all the credit for taking the risks and providing needed goods or services.

4. Leaving a legacy. Business owners have something to leave behind for future generations.

5. Retention of company profit. Other than the joy of being your own boss, there is nothing like the pleasure of knowing that you can earn as much as possible and not have to share that money with anyone else (except the government, in taxes).

6. No special taxes. All profits of a sole proprietorship are taxed as the personal income of the owner, and the owner pays the normal income tax on that money. (However, owners do have to estimate their taxes and make quarterly payments to the government or suffer penalties for nonpayment.)

Disadvantages of Sole Proprietorships

Not everyone is equipped to own and manage a business. Often it is difficult to save enough money to start a business and keep it going. The costs of inventory, supplies, insurance, advertising, rent, computers, utilities, and so on may be too much to cover alone. There are other disadvantages of owning your own business:

1. Unlimited liability-the risk of personal losses. When you work for others, it is their problem if the business is not profitable. When you own your own business, you and the business are considered one.

You have unlimited liability; that is, any debts or damages incurred by the business are your debts and you must pay them, even if it means selling your home, your car, or whatever else you own. This is a serious risk, and one that requires not only thought but also discussion with a lawyer; an insurance agent, an accountant, and others.

2. Limited financial resources. Funds available to the business are limited to the funds that the one (sole) owner can gather. Since there are serious limits to how much money one person can raise, partnerships and corporations have a greater probability of obtaining the needed financial backing to start a business and keep it going.

3. Management difficulties. All businesses need management; that is, someone must keep inventory records, accounting records, tax records, and so forth. Many people who are skilled at selling things or providing a service are not so skilled in keeping records. Sole proprietors often find it difficult to attract good, qualified employees to help run the business because they cannot compete with the salary and fringe benefits offered by larger companies.

4. Overwhelming time commitment. Though sole proprietors may say they set their own hours. It's hard to own a business, manage it, train people, and have time for anything else in life. This is true of any business, but a sole proprietor has no one with whom to share the burden. The owner often must spend long hours working. The owner of a store, for example, may put in 12 hours a day, at least six days a week-almost twice the hours worked by a non-supervisory employee in a large company. Imagine how this time commitment affects the sole proprietors family life. Tim DeMello, founder of the successful company Wall Street Games Inc., echoes countless other sole proprietors when he says, "It's not a job, it's not a career, it's a way of life."

5. Few fringe benefits. If you are your own boss, you lose the fringe benefits that often come from working for others. You have no paid health insurance, no paid disability insurance, no sick leave, and no vacation pay. These and other benefits may add up to approximately30 percent of a worker's income.

6. Limited growth. Expansion is often slow since a sole proprietorship relies on its owner for most of its creativity, business know-how, and funding.

7. Limited life span. If the sole proprietor dies, is anticipated, or retires, the business no longer exists (unless it is sold or taken over by the sole proprietors heirs).

3.2 Partnerships

A partnership is a legal form of business with two or more owners.

There are several types of partnerships:

1. General partnerships
2. Limited partnerships
3. Master limited partnerships.

A **general partnership** is a partnership in which all owners share in operating the business and in assuming liability for the business's debts.

A **limited partnership** is a partnership with one or more general partners and one or more limited partners.

A **general partner** is an owner (partner) who has unlimited liability and is active in managing the firm.

A **limited partner** is an owner who invests money in the business but does not have any management responsibility or liability for losses beyond the investment.

Limited liability means that limited partners are not responsible for the debt of the business beyond the amount of their investment. Their liability is limited to the amount they put into the company; their personal assets are not at risk.

A newer form of partnership, the master limited partnership (MLP),looks much like a corporation (which we discuss next) in that it acts like corporation and is traded on the stock exchanges like a corporation, but it is taxed like a partnership and thus avoids the corporate income tax. For example, Sunoco Inc. formed MLP Sunoco Logistics (SXL) to acquire, own, and operate a group of crude oil and refined-product pipelines and storage facilities. SXL began trading on the New YorkStock Exchange in 2002. Income received by SXL is not taxed before it is passed on to investors in the form of dividends as it would have been if SXL were a corporation.

Another newer type of partnership was created to limit the disadvantage of unlimited liability. All states are now allowing partners to form what is called a *limited liability partnership (LLP).* LLP limit partners' risk of losing their personal assets to only their own acts and omissions of people under their supervision. This means that the LLP allows you to operate without the fear that one of your partners might commit an act of malpractice that would result in a judgment that takes away your house, car, retirement plan, and collection of vintage Star Wars action figures, as would be the case in a general partnership. However, in many states this personal protection does not extend to contract liability protections for LLP. The LLP is in many ways similar to an LLC.

All states except Louisiana have adopted the Uniform Partnership Act (UPA) to replace laws relating to partnerships. The UPA defines the three key elements of any general partnership as:
1. Common ownership,
2. Shared profits and losses, and
3. The right to participate in managing the operations of the business.

Advantages of Partnerships

There are many advantages to having one or more partners in a business. Often, it is much easier to own and manage a business with one or more partners. Your partner can cover for you when you are sick or go on vacation. Your partner may be skilled at inventory control and accounting, while you do the selling or servicing. A partner can also provide additional money, support, and expertise. Partnerships usually have the following advantages:

1. More financial resources. When two or more people pool their money and credit, it is easier to pay the rent, utilities, and other bills incurred by a business. A limited partnership is specially designed to help raise money. As mentioned earlier, a limited partner invests money in the business but cannot legally have any management responsibility and has limited liability.

2. Shared management and pooled/complementary skills and knowledge. It is simply much easier to manage the day-to-day activities of a business with carefully chosen partners. Partners' give each other free time from the business and provide different skills and perspectives. Some people find that the best partner is a spouse.

3. Longer survival. One study that examined 2,000 businesses started since 1960 reported that partnerships were four times as likely to succeed as sole proprietorships. Being watched by a partner can help a businessperson become more disciplined.

4. No special taxes. As with sole proprietorship, all profits of partnerships are taxed as the personal income of the owners, and the owners pay the normal income tax on that money. Similarly, partners must estimate their taxes and make quarterly payments or suffer penalties for nonpayment.

Disadvantages of partnerships

Anytime two people must agree, there is the possibility of conflict and tension. Partnerships have caused splits among families, friends and marriages. Let’s explore the disadvantages of partnerships:

1. Unlimited liability. Each general partner is liable for the debts of the firm, no matter who was responsible for causing those debts. You a reliable for your partners’ mistakes as well as your own. Like sole proprietors, general partners can lose their homes, cars, and everything else they own if the business loses a lawsuit or goes bankrupt.

2. Division of profits. Sharing risk means sharing profits, and that can cause conflicts. There is no set system for dividing profits in partnership, so profits are not always divided evenly. For example, two people form a partnership in which one puts in more money and the other puts in more hours working the business. Each may feel justified in asking for a bigger share of the profits. Imagine the
Resulting conflicts.

3. Disagreements among partners. Disagreements over money are just one example of potential conflict in a partnership. Who has final authority over employees? Who hires and fires employees? Who works what hours? What if one partner wants to buy expensive equipment for the firm and the other partner disagrees? Potential conflicts are many.

4. Difficulty of termination. Once you have committed yourself to a partnership, it is not easy to get out of it (other than death, which immediately terminates the partnership). Sure, you can end a partnership just by quitting. However, questions about who gets what and what happens next are often very difficult to solve when the partnership ends.

3.2.1 How to Form a partnership

It is not hard to form a partnership, but it's wise for each prospective partner to get the counsel of a lawyer experienced with such agreements. Lawyers' services are usually expensive, so would-be partners should read all about partnerships and reach some basic agreements before calling a lawyer. For your protection, be sure to put your partnership agreement into writing. The model business corporation act recommends including the following in a written partnership agreement:

1. The name of the business. Many states require the firm's name to be registered with state and/or county officials if the firm's name is different from the name of any of the partners.
2. The names and addresses of all partners.
3. The purpose and nature of the business, the location of the principal offices, and any other locations where business will be conducted.
4. The date the partnership will start and how long it will last. Will it exist for a specific length of time, or will it stop when one of the partners dies or when the partners agree to discontinue?
5. The contributions made by each partner. Will some partners contribute money, while others provide real estate, personal property, expertise, or labour? When are the contributions due?
6. The management responsibilities. Will all partners have equal voices in management, or will there be senior and junior partners?
7. The duties of each partner.
8. The salaries and drawing accounts of each partner.
9. Provision for sharing of profits or losses.

10. Provision for accounting procedures. Who'll keep the accounts? What bookkeeping and accounting methods will be used? Where will the books be kept?
11. The requirements for taking in new partner.
12. Any special restrictions, rights, or duties of any partner.
13. Provision for a retiring partner.
14. Provision for the purchase of a deceased or retiring partner's share of the business.
15. Provision for how grievances will be handled.
16. Provision for how to dissolve the partnership and distribute the assets to the partners.

3.3 Corporations

Although the word corporation makes people think of big businesses like General Motors, IBM, Ford, Exxon, General Electric, Microsoft, and Wal-Mart, it is not necessary to be big in order to incorporate. However, many corporations are big in order to incorporate. Obviously, many corporations are big and contribute substantially to the U.S. economy. IN any case, incorporating may be beneficial for small businesses as well.

A **conventional corporation** is a state-chartered legal entity with authority to act and have liability separate from its owners (the corporation's stockholders are its owners). What this means for the owners is that they are not liable for the debts or any other problems of the corporation beyond the money they invest. Owners no longer have to worry about losing personal belongings such as their house, car, or other property because of some businesses problem. This is a significant benefit. A corporation not only limits the liability of owners but often enables any people to share in the ownership (and profits) of a business without working there or having other commitments to it. Corporations can choose whether to offer such ownership to outside investors or whether to remain privately held.

Advantages of Corporations

Most people are not willing to risk everything to go into business. Yet for a business to grow and prosper and create economic opportunity, many people would have to be willing to invest their money in it. One away to solve this problem is to create an artificial being, an entity that exists only in the eyes of the law - a corporation. Let’s explore some of the advantages of corporations:

1. Limited liability. A major advantage of corporations is the limited liability of owners. Corporations in England and Canada have the letters *Ltd*. after their name, as in British Motors Ltd. The *Ltd.* stands for “limited liability,” probably the most significant advantage of corporations. Remember, limited liability means that the owners of a business are responsible for losses only up to the amount they invest.

2. More money for investment. To raise money, a corporation can sell ownership (stock) to anyone who is interested. This means that millions of people can own part of major companies like IBM, Xerox, and General Motors and smaller companies as well. Corporations can also borrow money from individual investors through issuing bonds. Corporations may also find it easier to obtain loans from financial institutions, since lenders find it easier to place a value on the company when they can review how the stock is trading.

3. Size. That one word summarizes many of the advantages of some corporations. Because they have the ability to raise large amounts of money to work with, corporations can build modern factories or software development facilities with the latest equipment.

4. Perpetual life. Because corporations are separate from those who own them, the death of one or more owners does not terminate the corporation.

5. Ease of ownership change. It is easy to change the owners of a corporation. All that is necessary is to sell the stock to someone else.

6. Ease of drawing talented employees. Corporations can attract skilled employees by offering such benefits as stock options (the right to purchase shares of the corporation for a fixed price).

7. Separation of ownership from management. Corporations are able to raise money from many different investors without getting them involved in management

Disadvantages of corporations

1. Extensive paperwork. The paperwork filed to start a corporation is just the beginning. Tax laws demand that a corporation prove that all its expenses and deductions are legitimate. Corporations must therefore process many forms. A sole proprietor or a partnership may keep rather broad accounting records; a corporation, in contrast, must keep detailed financial records, the minutes of meetings, and more.

2. Double taxation. Corporate income is taxed twice. First the corporation pays tax on income before it can distribute any to stockholders. Then the stockholders pay tax on the income (dividends) they receive from the corporation. States often tax corporations more harshly than they tax other enterprises. Sometimes they levy special taxes that apply to corporations but not other forms of business.

3. Two tax returns. If an individual incorporates, he or she must fill both a corporate tax return and an individual tax return. Depending on the size of the corporation, a corporate return can be quite complex and require the assistance of a certified public accountant (CPA).

4. Difficulty of termination. Once a corporation is started, it’s relatively hard to end.

5. Initial cost. Incorporation may cost thousands of dollars and involve expensive lawyers and accountants.

6. Possible conflict with shareholders and board of directors. Some conflict may brew if the stockholders elect a board of directors that disagrees with the present management.

7. Size. Size may be one advantage of corporation but it can be a disadvantage as well. Large corporations sometimes become too inflexible and too tied down in red tape to respond quickly to market changes.

4.0 Conclusion

As you can see, you may participate in the business world in a variety of ways. You can start your own sole proprietorship, partnership or corporation. There are advantages and disadvantages to each. However, there are risks no matter which form you choose. Before you decide, you need to evaluate all the alternatives carefully.

5.0 Summary

In summary, sole proprietorship is the type of business ownership that is owned and control by one person. Partnership on the other hand is the type of business ownership in which two people come together to start a business while corporation is the type in which the business is separated totally from the owners property and is legally backed up.

6.0 Tutor-Marked Assignment

Compare and contrast the three types of business ownership discussed, which one is best for a beginner?

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UNIT 3: PUBLIC ENTERPRISES

CONTENTS

1.0 Introduction

Public enterprises are by definition intended to be operated in the public interest. This gives rise to a number of organizational and commercial issues. One problem is how to reconcile the need for close political control with the need for sufficient management autonomy. The public corporation form, used extensively in Great Britain and widely copied in other parts of the world, is created by a special act of Parliament that defines its powers, management structure, and relationship with government bodies. As a corporation it has legal entity. The treasury meets its capital requirements, but it is supposed to meet its current expenses from its normal commercial operations. Its employees are not civil servants, and the minister in charge often appoints the top management. Another administrative form that is popular in parts of the world is the state company, which is simply an ordinary joint-stock company whose shares are owned wholly or partly by the state.

2.0 Objectives

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

- Compare the advantages and disadvantages of public enterprises
- Describe the differences between public and private enterprises and identify their similarity in service provision
- State the importance features of public enterprises

3.0 Main Content

3.1 Overview of Public Enterprises

Public enterprises are usually intended to pay their way in the longer term, and yet they may be subject to political constraints in their pricing policy that could be in conflict with that objective. Conversely, for social reasons they may receive hidden subsidies or enjoy additional protection not available to competitors. Such factors tend to distort the normal commercial operations of the corporation or the company and often lead to managerial disorientation. Partly because of these noncommercial considerations, public enterprises may appear to be highly inefficient and, in times of difficult trading conditions, may be a drain on public resources. However, the measurement of the efficiency of a public enterprise is no easy matter. When it produces a marketable product, such as coal or steel that competes with other products the normal commercial criterion of profit may be adopted to assess its performance. In the case of a utility enjoying monopoly power, economists have developed concepts like cost-benefit analysis as a performance measurement tool. In recent years many state enterprises in the developed world have been given financial targets that take into account both social and commercial responsibilities.

3.2 Five (5) important Features of Public Enterprises

1. **State Ownership:** A public enterprise is wholly owned by the Central Government or State Government(s) or local authority or jointly owned by two or more of them, in case the enterprise is owned both by the Government and private sector, the State must have at least 51 percent share in ownership.

2. **State Control:** The ultimate control of a public enterprise lies with the Government, which appoints its Board of Directors and the Chief Executive.

3. **Government financing:** the Government provides the whole or a major portion of the capital of a public enterprise.

4. **Service Motive:** The primary aim of a public enterprise is to render service to the society at large. It may have even to incur losses for this purpose. However, public enterprises are expected to generate surplus in course of time.

5. **Public Accountability**: Public enterprises are financed out of public money. Therefore, they are accountable for their results to the elected representatives of the public, i.e., the Parliament and the State Legislature. That is why; the Committees of the Parliament or the State Legislature scrutinize the working of public enterprises.

6. Autonomous Bodies: Public enterprises are autonomous or semi- autonomous bodies. In some cases they work under the control of Government departments. In other cases these enterprises function as companies and statutory corporations.

3.3 Advantages of Public Enterprises.

• Charges low prices.

• Provide essential facilities like education, health, free or at reduced prices.

• Ensures efficient control of industry.

• Expert administrative services.

• Money can be made available for R&D.

• Private monopoly which would cause high prices is avoided.

• Foreign denominations of the economy are avoided.

3.4 Disadvantages of Public Enterprises.

• Government must bear losses or this could lead to higher taxation.

• Consumers' choice is restricted to the state if the business is a monopoly.

• Regulations may be passed to curb the progress of private business.

• Lack of competition may lead to inefficiency and higher prices.

• Government interference.

• Don't care attitude.

• Political pressure.

• Corruption and embezzlement of funds.

• Foreign investment may be discouraged due to fear of nationalization.

3.5 Differences between Private and Public Enterprises.

1. Formation: Private companies formed by private individual while the government forms public enterprises.

2. Membership: Private members are shareholders while public enterprises no shareholders.

3. Control: Controlled by board of directors elected by shareholders whereas government approves public enterprise controlled by board of director.

4. Share of Profit: Shared in form of dividend while public enterprises all profits got to the state.

5. Financing: Private companies financed by member contributions, ploughing back, borrowing while for public enterprises capital provided by taxation, rate assessment, sloughing back, borrowing, etc.

4.0 Conclusion

Public enterprises operate in the public interest. A public enterprise is wholly owned by the Central Government or State Government(s) or local authority or jointly owned by two or more of them, in case the enterprise is owned both by the Government and private sector, the State must have at least 51 percent share in ownership.

5.0 Summary

In summary, the public enterprises is usually composed of organizations that are owned and operated by the government. This includes federal, provincial, state, or municipal governments, depending on where you live. Privacy legislation usually calls organizations in the public sector a public body or a public authority

6.0 Tutor-Marked Assignment

1) Explain the differences between public and private enterprises.

2) What are the advantages and disadvantages of public enterprises.

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UNIT 4: THE HISTORICAL THEORIES OF DEVELOPMENT

TABLE OF CONTENTS

1.0 Introduction

According to Grabowski and Shield (1996) historical theories are theories that explain current events or condition. The theory explains or predicts how these events or conditions evolve. Oyejide (2001) ascertained that many historical theories of economic development simply postulate the existence of different phases or stages of a development process and hypothesise about the forces that cause a change in the phase or stage of development. In this unit, we attempt to explain some of the causes of changes in the stages of development.

The aim is to equip you with some basic backgrounds in the analysis of stages of economic development so that no one can be taken unawares when a change in the development process occurs.

2.0 Objectives

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

• Explain what economic development is all about
• State the theories of economic development

• Demonstrate the ability to contribute towards development goals in the Nigerian economy.

3.0 Main Content

3.1 Definitions and Theories of Economic Development

The preliminary step in the understanding of any economic concept is the understanding of what the concept is all about, as well as understanding the theories behind it. This section exemplifies these by highlighting the definitions of economic development and pointing out the associated theories.

3.2 Definitions of Economic Development

Misra and Puri (2003) define economic development to mean growth plus progressive changes in certain critical variables that determine the well-being of the people. They assert that there are qualitative dimensions in the development process, which may be missing in the growth of a given economy expressed in terms of an increase in the national product or the product per capita. According to Mahbub (1971), the problem of development must be defined as a selective attack on the worst forms of poverty. Development goals must be defined in terms of progressive reduction and eventual elimination of malnutrition, disease, illiteracy, squalor, unemployment, and inequalities.

Misra and Puri (2003) note one major approach to the concept of economic development, referred to as the traditional approach. The *traditional approach* defines development strictly in economic terms. According to the traditional approach, economic development implies a sustained annual increase in Gross National Product (GNP) at rates varying from 5 to 7 percent or more, together with such alteration in the structure of production and employment that decreases the shares of agriculture in production and employment and increases those of manufacturing and services sectors. Policy measures suggested in this case are those, which induce industrialization at the expense of agricultural development. Such objectives as poverty elimination, reduction of economic inequalities, and generation of employment are mentioned in passing reference only, and in most cases, it is assumed that rapid gains in overall growth in GNP or per capita domestic product would trickle down to people in one form or the other.

In his own contribution, Seers (1969) argues that the questions to be addressed about the meaning of development in the right perspective should be: "What has been happening to inequality? What has been happening to unemployment? What has been happening to poverty?" He suggests that if inequality, unemployment, and poverty have declined from high levels, then beyond doubt, this has been a period of development for the country in question. 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 the per captain come doubled.

Economic development is, therefore, a process with noble ideals. Backward countries, without exception, are endeavoring to make economic development a successful objective.

It is worth noting the difference between economic development and economic growth, as these two important economic concepts have often been misplaced and confused in their meanings. Distinguishing between economic growth and development, recent literature notes that economic growth refers to increases in a country's real output of goods and services or product per capita over time. Output is generally measured, in this case, by gross or net national product. The term economic development, on the other hand, is more comprehensive. It implies progressive changes in the socio-economic structure of a country.

Economic development involves a steady decline in agriculture's share in Gross National Product (GNP) and a corresponding increase in the share of industries, trade, banking, construction, and services. This transformation in economic structure has been noted as being accompanied by a shift in the occupational structure of the labour force and improvement in its skill and productivity. Put differently, whereas economic growth merely refers to a rise in output, economic development implies changes in technological and institutional organisation of production, as well as in the distributive pattern of income.

3.3 Theories of Economic Development and Growth

There are two famous theories of economic development and one important growth model to be discussed:

1. Schumpeter's Theory
2. The Big Push Theory
3. The Harrod-Domar Growth Model

In the following discussions, we summaries the first theory as presented by Misra and Puri (2003) and Onwe (1993). The rest of the theories will be presented in subsequent units.

3.3.1 The Schumpeter's Theory of Economic Development

In developing his theory, Schumpeter distinguishes between two types of influences on an economy: first are the influences of changes in the availability of factors of production, which he refers to as growth component; second are the influences of technological and social changes, which he characterized as development component.

Schumpeter refers to economic growth as "changes in population and in the sum total of savings plus accumulation corrected for the variation in the purchasing power of the monetary unit". According to him, changes in these two variables are both continuous and slow. He notes that development is a distinct phenomenon and entirely foreign to what maybe observed in the tendency toward equilibrium. It is a phenomenon that cannot be explained economically.

According to Schumpeter, growth component represents the contribution of changes in the utilization of the factors of production. The supply of land being fixed, growth component represents only the contribution of variations in the size of population and of increases in the produced means of production, which Schumpeter distinguishes from capital. Population growth is considered as an external factor in the Schumpeter's treatment of economic change. Schumpeter believes that the rate at which population changes is determined by factors outside the system.

Similar to population growth, increases in producer goods is said to belong to the growth component of economic change. Schumpeter asserts that an increase in the supply of producer goods ordinarily depends on the positive savings flow. The rate of savings in any economy, in turn, rarely rises abruptly. Increases in savings rate are slow and gradual and often require infinitesimal steps. Schumpeter believes that savings are rarely independent factor of change.
Schumpeter looked at profit as an outcome of the development process. It gets completely eliminated in the circular flow of economic life, since the value of the output is exactly same as the value of productive factors employed to produce it.

Another factor that influences the development component of economic change is the change in social climate. With respect to the social factors, Schumpeter's approach is similar to that of the Marxist theory.

According to him, because of the fundamental dependence of the economic aspect of things on everything else, it is not possible to explain economic change by previous economic conditions alone.

Schumpeter assumes that the economic state of people does not emerge simply from the preceding economic conditions, but only from the preceding total situation.

Other important factors influencing economic growth and development in Schumpeter's context include: technological change, entrepreneurship, capital, and credit. These are discussed as follows:

Technological Change

Schumpeter visualized two broad types of technological changes: continuous technological change in which technologies develop from the prevailing technologies, and discontinuous technologies. According to Schumpeter, continuous technological changes give rise to economic growth, while discontinuous technological changes give rise to economic development.

Entrepreneurship

Schumpeter believes that the entrepreneur is neither a financier nor a technician; he or she is merely an innovator who carries out discontinuous technological changes resulting in economic development. He also assumes that the activities of entrepreneurs are greatly influenced by the social climate. In a depressing social climate, the possibility of widespread innovative activities will be limited. In addition, any attempt to restrict independence and to violate capitalist rationality will discourage entrepreneurial activities.

Capital

Schumpeter defines capital as that sum of means of payments, which is available at any moment for transference to entrepreneurs. He notes however, that not all means of payment should be regarded as capital and that if means of payment are not used for diverting means of production from their existing uses to the new ones; they do not serve any development purpose and as such, would not be considered as capital. According to Schumpeter, capital is a concept of development to which nothing in the circular flow of economic activities corresponds.

Credit

Schumpeter assigns a unique role to credit in economic development. Entrepreneurs need credit in order to carry out innovations that give rise to economic development. Every kind of extension of credit for purposes of innovation is by definition the granting of credit to the entrepreneur, and forms an element of development. The need of credit arises from the requirements of development.

Self-Assessment Exercise

With appropriate practical example, explain what economic development is all about.

4.0 Conclusion

This unit has brought into focus the definitions of economic development. It informs us of the basic difference between the two often-confused terms in economics, economic development and economic growth. Economic growth refers to increases in a country’s

Real output of goods and services or product per capita over time. The term economic development, on the other hand, is more comprehensive.

It implies progressive changes in the socio-economic structure of country. It involves a steady decline in agriculture's share in Gross National Product (GNP) and a corresponding increase in the share of industries, trade, banking, construction, and services.

5.0 Summary

Our discussions reveal that historical theories are theories that explain current events or conditions. The theories explain or predict how these events or conditions evolve. We noted that many historical theories of economic development simply postulate the existence of different phases or stages of a development process and make hypothesis on the forces that cause a change in the phase or stage of development. There is one major approach to the concept of economic development, referred to as the traditional approach. The traditional approach defines development strictly in economic terms. According to the traditional approach, economic development implies a sustained annual increase in

Gross National Product (GNP) at rates varying from 5 to 7 percent or more, together with such alteration in the structure of production and employment that decreases the shares of agriculture in production and employment and increases those of manufacturing and services sectors.

One basic distinguishing feature of economic development is clear. Whereas economic growth merely refers to a rise in output, economic development implies changes in technological and institutional organisation of production, as well as in the distributive pattern of income. The unit ended by noting four famous theories of economic development: Schumpeter's Theory; the Big Push Theory; the Harrod- Domar Growth Model; and, the Robert Solow's Neo-Classical Theory of Growth.

6.0 Tutor-Marked Assignment

Discuss in detail the two types of influences in an economy, according to Schumpeter.

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MODULE 5:

Unit1: Nigeria’s External Economic Relation

Unit2: Food Problems in Nigeria

UNIT 1: NIGERIA'S EXTERNAL ECONOMIC RELATION

CONTENT

1.0 Introduction

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

Hence, economic integration implies different degrees of economic cooperation, merging, mingling and mix with neighbors in a number of areas such as trade mobility of labour and capital payment, fiscal and monetary policies, social welfare provisions, and coordination of investment plans.

2.0 Objectives

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

- Looking at the types of formalized external relations
- Identifying the objectives of economic integration
- Explaining how and why the Economic community of West Africa States (ECOAWAS) was established
- Identifying the benefits that could be derived from being a member of ECOWAS.

3.0 Main Content

3.1 Types of Formalized External Economic Relations

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

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

2. **Customs Union**: Custom union involves the abolition of all forms of internal restrictions on trade within the union and the adoption of a common external tariffs policy by all member countries. The EEC achieved this status in the 1960s.

3. **The Common Market (Factor Integration):** The economic union combines the abolition of restrictions and impediments of factors movements among member countries.

4. **Economic Union (Policy Integration):** The economic union combines the abolition of restrictions on both commodity and factor movements with some degree of

harmonization of national economic policies. A typical example is the European Economic Community (EEC).

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

Self-Assessment Exercise:
What are the objectives of economic integrations?

3.2 Objectives of Economic Integration

- It aims at reducing the external vulnerability of the participants. This thus improves their bargaining power with their third party trading partners.
- It aims at promoting efficiency through specialization and smoothness of trade transactions. That is, it aims at bringing about more efficient utilization of resources while the harmonization of economic and trade policies ushers in a smooth and orderly system of trade among member countries.
- It aims at increasing the level of economic activity through increased trade. This permits the exploitation of external
- Economies, and inter-industry linkages. This, in the long run, lowers cost of production.
- It aims at enlarging the size of the market for firms producing below optimum capacity prior to integration. This brings about
- Economies of scale. Large markets so created also help to sustain heavy industries.
- The resultant enlarged market and reduced unit cost will further stimulate demand and consumption and ultimately lead to increased investments and economic growth.
- It results in trade creation, that is, a shift in the geographic location of production from high cost to lower coat member-countries.

- It must be pointed out; however, that trade diversion (polarization effect) may result. That is the integration may cause the locus of production of formerly imported goods to shift from a lower cost non-member country to a higher cost member country.
- It is also a stimulus for competition. Effective competition makes possible the existence of internal and external economies.
- It results in coordinated industrial planning.
- It increases job opportunities as a result of increased investment and emergence of infant industries

3.3 Economic Community of West African States (ECOWAS)

Establishment of ECOWAS

The initial moves at forming the organization were made by the then Nigerian Head of State, General Yakubu Gowon (Rtd) and the Togolese Leader, GnassingbeEyadema at the time they signed a bilateral agreement in April 1972. Eyadema saw that agreement as a 'embryo' of West African Economic Community. Other countries came into the picture in 1973 at Lome, Togo when the council of ministers of the organization of African Unity (OAU) agreed in principle to form a West African Economic Community. On May 28, 1975, the treaty establishing the ECOWAS was signed by fifteen (15) West African nations in Lagos, Nigeria. These countries include the host country, Nigeria, Benin Republic (formerly Dahomey). The Gambia, Guinea, Guinea Bissau, Ghana, Cote d'ivoire, Senegal, Togo, Burkina Faso, Cape Verde Later joined at her independence to make the number sixteen.

Self-Assessment Exercise:

What are the goals of ECOWAS?

3.4 Aims of ECOWAS

a. The community shall aim to promote cooperation and development in all fields of economic activity particularly in the fields of agriculture, natural resources, trade, monetary and financial questions and social and cultural matters for the purpose of raising the standard of living of its peoples, of increasing and maintaining economic stability of 'fostering closer relations among its members.

b. For the purpose of the above objective the treaty outlines a programme, which will be implemented in stages in fifteen years. The community will ensure;

- The elimination between member states of customs duties and other charges of equivalent effects in respect of the importation and exportation of goods:
- Abolition of quantitative and administrative restriction on trade among member states;
- The establishment of a common customs tariff and a common commercial policy towards third countries;
- Free movement of persons, services and capital between member states;
- Harmonization of the agricultural policies and the promotion of common projects in the member states;
- The implementation of schemes for the joint development of transport, communication, energy, and other infrastructural facilities;
- The harmonization of the economic and industrial policies of the member states and the elimination of differences in the level of development of member states; and
- The establishment of a fund for cooperation, compensation and development.

3.5 Expected Benefits from ECOWAS

The formation of a community would result in single enlarged market for many commodities. Producers of those commodities would face acute competition and the most efficient ones would outclass the less efficient ones. Since the most efficient producers would carry on production, there will be increase in the volume of production. Furthermore, as a result of the economies of scale from mass production, the unit cost of production would fall, hence the reduction in supply with ultimate increase in people welfare. Members of ECOWAS, being principal raw materials producers, will likely be able to cooperate with regards to the supply of those commodities to the world market. For example, ECOWAS countries control an overwhelmingly large proportion of the world's output of cocoa and groundnuts. Thus they, through cooperation, could have monopoly power in the world market with respect to those commodities. This power could thus enable member countries improve their terms of trade as done by the members of EEC and OPEC.

Furthermore, the enlarged market size should bring specialization, economies of scale in production, management and research, infusion of technical innovation and promotion of capital formation. As a result of specialization, there will be efficiency and greater use of machinery and modern technology in the sub-region. Also, increased production will boost greater employment and hence improvement in the sub region will attract more capital and technology as well as innovation research.

If the economic sectors were organized in such a way as to generate forward and backward linkages to other sectors, the impact of industrialization and technology would spread to other sectors. This positive effect is a characteristic of the early stages of industrialization whereby the leading sectors trigger the development of other sectors.

Furthermore, the new and larger protected market under ECOWAS should, in a distant future, give dynamic stimulus to domestic investment as well as to the possibility of investment being induced from abroad.

In addition, cooperation among the West African Central banks will bring an integrated capital market. This will facilitate a more efficient mobilization of financial resources among the member states. It is evident that shares are oversubscribed in some parts of the region. Integration would, therefore facilitate mobilization of hitherto idle resources and generate huge capital in the sub-region.

In conclusion, the establishment of ECOWAS will tend to stimulate economic development in the sub-region. With the increase in trade and some coordinated industrial undertakings, there will be increased interdependence of the economies of member states, thereby generating linkages among their industries. The achievement of a West African wide economic cooperation in several shares will tend to promote intra-regional trade and economic development in the sub region.

3.6 Achievement of ECOWAS Easing the Movement of Persons

This is the first phase of the protocol which entitles ECO WAS citizens to stay in any member state for 90 days without visa (but with other residential and necessary documents).The motor vehicle third party insurance, otherwise known as the Brown card is one of protocols so far ratified and being implemented by member states. It establishes a common settlement system of claims in international motor traffic.

Right of Residence

Though this protocol has not been completely ratified, it enables citizens to take up jobs in any member state without the need for work permits. Nigeria has ratified it but stricted its application to certain professions.

Telecommunication Project

Work on the U.S. $35 million ECOWAS telecommunications is nearing completion.

Road/Air Transport Projects

Road and Air transport projects worth U.S. $26 million embarked upon to link up member states are in progress.

ECOWAS Headquarters

Construction of ECO WAS headquarters in Abuja has been completed. Nigeria set aside N5 million in support of the community's budget towards this project

Ecobank

The Ecobank Transnational Incorporate (ETI) and its Togolese subsidiary (affiliate) were both officially opened in March 1988 in home, Togo, the West Africa's first =1\1=50 million off-share bank, specifically designed to mobilize convertible currency resources within the 16-nation

ECOWAS and, from the worldwide investment community in order to establish major venture capital fund for equity investments in the region, has thus materialized.

The project was officially presented by the present of the federation of West African Chambers of Commerce (F.W.A.C.C.) to the summit meeting of ECO WAS heads of state and Governments in May 1983 in Conakry, Guinea, The Ecobank was subsequently given the go ahead in November 1984 during the ECO WAS summit held in home Togo.

3.7 Nigeria's Expected Benefits from ECOWAS

- The nation will have access to a wider market, both for the sales of products and for the purchase of its requirements at home.
- Mobility of labour will result especially with the "free movement" objective. However, the richer nations are likely to suffer the socio-economic and political problems of even-influx, such as the one Nigeria has been experiencing before the expulsion of illegal immigrants.
- Rational division of labour is likely to result among the member nations; this may therefore encourage the growth of industries that have not yet been established.
- Co-ordinate industrial planning is likely to result, especially in those industries where economies of scale are likely to exist.
- A corollary of the above (co-ordinate industrial planning) is that this will result to accelerate industrial growth since certain industries will be assigned to member nations. This will materialize in so far as the fear of domination is eliminated.
- Trade creation may also occur as a result of the imposition of external barriers and encouragement of internal free trade. Trade creation here refers to a situation where production shifts from high-to low cost member nations.

4.0 Conclusion

The establishment of regional economic organization such as ECOWAS was intended to stimulate economic development in the West-Africa sub-region. With the increase in trade and some coordinated industrial undertakings, there will be increased interdependence of the economies of member states, thereby generating linkages among their industries. The achievement of a West African-wide economic cooperation in several spheres will tend to promote interregional trade and economic development in the sub region. Therefore, you could reiterate that the primary objective of ECOWAS, like all regional economic organizations is the unification of several diverse markets in order to foster free movement of goods and services and free movement of largely expanded market.

5.0 Summary

External economic relations involve economic integration, which could be seen as several stages of economic cooperation between nations. The stages of economic integration are: free trade areas, customs union, and common market, economic union and monetary cooperation. In this regard, the efforts of economic cooperation in West African sub-region could be said to have been sustained with the establishment of ECO WAS on May 23', 1978.

Among other purposes and objectives, the essence of establishing ECOWAS was to aimed promote cooperation and development in all fields of economic activity, particularly in areas of transportation, industry, telecommunications, energy, agriculture, natural resources, monetary and financial questions and social and cultural matters for the purpose of raising standard of living of its people, of increasing and maintaining economic stability, and of fostering closer relations among its members.

6.0 Tutor-Marked Assignment

What benefits would Nigeria derive from being a member of ECOWAS?

7.0 References/Further Reading

- Anyanwu J.C., Oyefusi A., Oaikhenan H.O., Dimowo F.A.. Structure of the Nigerian Economy (1960-1997). Joanee Education Publisher Ltd.
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UNIT 2: FOOD PROBLEMS IN NIGERIA

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1.0 Introduction

Food provides the basic human need and energy. Before 1970, food supply in Nigeria was enough given the population. The abundant food at this time was due to low prices. From then onwards, food shortage in the country has remained a permanent problem. This is reflected in the high food prices, and growing expenditure on food imports. However, in this unit you will find out that although Nigeria is an agrarian society there is still shortage of basic food.

2.0 Objectives

A hungry person is an angry person. When you infer from this perspective, you should be interested to know that there are indicators that show the existence of food shortage in our society. Therefore, at the end of this unit, you should be able to:

- Trace the indicators of food problem

- Explain the reasons for food problem in Nigeria
- Outline government's objectives, policies and programmes for combating the food shortage problem.

3.0 Main Content

3.1 Indicators of the Existence of the Problem

Food shortage is ironically becoming a major national problem in this country, a country that is supposed to be agricultural. In this unit, we intend to provide some evidence that attests to the growing acuteness of the problem.

3.1.1 Growth Rate of Food Supply and Demand

For some time now, available data have indicated that the rate of growth of food demand, estimated at 3.4 percent per annum, far exceeds that of food supply, which is estimated to be 2.2 percent per rapid increase in population, urbanization and increase in incomes.

In the 1960s, the population growth rate of Nigeria averaged 2.5 per cent per annum while in the 1970s this growth rate has been estimated to be in the range of 2.5-3 percent per annum. These show that the population growth rate is greater than the growth rate of food supply in the same period. The increase in the growth of population has been largely due to a decline in the mortality rate resulting from improvement in public health and nutrition.

Concerning urbanization, the rate of growth of the rural population in Nigeria between 1970 and 1975, was 1.6 percent per annum compared to that in respect of urban population, which was 7.8 percent per annum, more than double the growth rate of total population. The increased urbanization was a result of wider spread of education, better communications, and better employment opportunities. Generally, better levels of conditions of living increased the individual's economic horizon beyond the rural areas.

The excess demand situation also resulted from increased income as a result of the various salaries and wage increases, most especially the Udoji awards. The salary increases have placed many more people within high-income level bracket. More people were able to buy food items of better nutritional value

3.1.2 The Nigerian Food Balance Sheet

Alternative criteria for measuring the acuteness of food shortage have been suggested by the Food and Agricultural Organization (FAO) of the United Nations. This is referred to as the analysis of Food Balance Sheet. A Food Balance Sheet shows the estimated per capita supply of food available to a country in a given period.

In 1972, S.O. Olayide published a Food Balance Sheet for Nigeria in 'A Quantitative Analysis of Food Requirement Supplies and Demand in Nigerian 1968-1985'. It was estimated that in 1968/69 about 61.2 grams of crude protein and 2203 kilo calories of energy per day were available to the population. Minimum requirements, according to the FAO, for meeting the food and nutritional needs of the population are 2420 kilocalories and 65 grams of crude protein. Thus, the nutrients from available food supply in Nigeria in 1968/69 were below the minimum requirements.

In 1974/75, the position had deteriorated further as only 56 grams of protein and 2023 kilo calories of energy were being derived from available food supply. This gloomy picture is often covered by reference to the National average since, in fact, practical experience shows that a greater percentage of the population actually lives below the national average just as a few rich ones live well above the national average. In the more developed countries, the corresponding data for 1974/75 averaged3,000 kilo calories for energy and 95 gram for protein.

3.1.3 Changes in the Level of Food Imports

Another, and perhaps the most appropriate measure of food supply situation, is the changes in the level of food imports. Government policies during the First Republic were geared towards increased production of export crops to meet the requirement for increased foreign exchange earnings for development purposes. Food production was, therefore, often neglected. Thus, in the mid-sixties, it became apparent that the country could no longer feed herself and a substantial amount of food had to be imported, in the first stage, to supplement local production. At a later stage, however, imports substituted for home production.

If food import merely complemented domestic supply, it would be difficult to link a growing food import volume with a deteriorating food supply situation. But when imports become substitutes for domestic supply, the inference would be justified. The latter is true in Nigeria's case.

3.1.4 Domestic Food Prices

A rise in domestic food prices generally implies a situation of excess demand although prices can also be influenced by supply bottlenecks and speculation. However, there were continuous rise in domestic food prices situation. The result of a decline in growth rate of domestic food supply in the face of increasing population and increased urban income has been the increase in food prices.

Self-Assessment Exercise:

Highlight the reasons for the food problems in Nigeria

Possible Explanations for the Food Problem in Nigeria, A number of plausible explanations could be provided for the food shortage problem in Nigeria. These are discussed briefly in this section.

(a) The Effect of the Civil War

The political and military crises of 1966 to 1970 had devastating effects on economic performance in the country. Apart from the fact that a large amount of labour was lost to the armed forces and that huge resources were diverted to prosecuting the war, considerable time and resources were put to the rehabilitation, reconciliation and reconstruction of the war-torn areas. These, no doubt, had some adverse effects on food production in all parts of the country but especially in the war affected areas.

(b) The Effect of the Sahelian Drought on Grain and Livestock Production

The country's main grain and beef producing areas were badly hit by the Sahelian drought of 1972/73. It was estimated that in 1973, the worst year of the drought, the production levels of such crops as millets. Guinea corn, groundnuts cowpeas, maize and rice were reduced by between 25 and 40 percent. It was also estimated that about 300,000 heads of cattle died of starvation and many thousands more were slaughtered prematurely.

(c) Inadequacy or Lack of Effective Supporting Services

Only a small portion of total capital outlays was devoted to credit programmes in the First National Development Plan by the southern regional governments. Lack of adequate credit facilities has always been a major constraint to agricultural development in Nigeria.

During the Second Plan period, however, the Nigerian Agricultural Bank was established for the purpose of making loans available to farmers on more or less favourable terms. It was provided with N20million capital.

A sum of N150 million was earmarked for the bank during the Third Plan period. The 650 percent increase in the bank's capital is in recognition of the importance of easy credit facilities to the development of agriculture. Since the bank's inception in 1973, it has carried out its loan lending activities. One can presume that the loans of the banks are never likely to reach the majority of Nigerian farmers since they will not be able to fulfill the conditions for getting the loans.

(d) Marketing Facilities

As regards marketing facilities, the marketing system, especially that in relation to staple food crops, is largely unorganized, very inefficient and constitutes a disincentive to producers. State Marketing Boards used to constitute the exclusive purchasers of Cocoa, groundnuts, palm produce and a number of minor commercial crops like coffee. The major commodities not controlled by Marketing Boards were the various food crops.

However, a Grains Board was established to deal with storage and marketing of products like maize and guinea corn and a Root Crops Board was also established to deal specifically with tubers like yam, coco-yam, cassava, etc. Commodity Boards have also replaced the existing Marketing Boards. In spite of these changes, however, there is still lack of adequate storage facilities, which is the most serious problem regarding the marketing of staple food crops in Nigeria. One implication of this is that virtually the whole farm output is brought to the market for sale at harvest time, resulting in prices that do not give the farmer sufficient incentive to expand output. The marketing of staple foodstuff is also inefficient because of the inadequate transportation facilities and the generally low infrastructural development of rural areas. Poor transport links tend to cause seasonal price variations in small isolated markets. Storage costs are as high as 2.5-3 percent of the value of the produce stored per month. The high cost of distribution of foodstuff has probably contributed to the increase in urban food prices.

(e) Land Tenure

Land ownership system varies from one ethnic group to another. However, there is a common characteristic feature, namely, the absence of individual land ownership. Before the promulgation of the Land Use Decree, land was owned by the community and individual holding was consequently often very small. Such a system discouraged individual investment in conservation and improvement of land, and makes it difficult for a farmer to obtain loans using his land for security. The essence of the decree in the rural areas is basically to facilitate large-scale farming. However, the lack of an effective law enforcement agency to back up the decree coupled with the foot-dragging that has accompanied the implementation of its provision has left it rather ineffective up to date. Although the decree vests the ownership of all undeveloped land in government, people are still selling land.

(f) Inadequate Supply of Agricultural Input

The use of improved inputs is extremely limited. Each state government handles procurement and distribution of seeds, chemicals and other agricultural inputs. Inefficient handling has always bedeviled the distributive system. Not only are the quantities not enough but also very often the limited quantities distributed do not reach the farmers at all. Even when they do, they rarely get to the farmers at the time they are most needed.

Though agriculture still employs a considerable proportion of the Nigerian labour force, it still suffers from the problem of inadequate labour supply, especially during the clearing, planting weeding and harvesting seasons. The young ones are attracted to the urban areas in search of employment and thus the rural population is often old and, as one would expect, with declining productivity. As already narrated, the civil war attracted some able-bodied young men into the Army and thus their contribution to agriculture was lost while they consumed a high proportion of the food products.

Self-Assessment Exercise:

Given the problems of food shortage in the country what effort has the government made to alleviate this problem?

3.2 Government Objectives, Policies and Programmes for Combating the Food Shortage Problem

Given the persistent nature of various agricultural problems, the Federal and state governments had to be guided, from time to time, by certain objectives, which have been stated in development plans as well as annual government budgets. The major stated objectives include:

- Ensuring food supplies are adequate and quality to keep pace with increased population and need for fair and stable prices. These would be achieved by improvement of hoes and cutlasses with harvesters, tractors, and the use of National Seed Multiplication Scheme.

- Expanding the production of export crops with a view to increasing and further diversifying the country's foreign exchange earnings. This was to be achieved by the rehabilitation of low producing palms and the regeneration of cocoa. Hence, provision was made for creation of incentives to producers by way of better produce prices, loans incentive and extension services.

- Propagating the production of agricultural materials for extensive domestic manufacturing activities especially in the field of agro-based industries.

- Evolving appropriate institutional and administrative apparatus to facilitate a smooth integrated development of agricultural potentials of the country as a whole.

In furtherance of these objectives, land tenure system was to be vigorously pursued and National Agricultural Credit Scheme with centralized control but decentralized operation was to be established. In addition, Federal and state research centres were to be reformed. This involves establishment of new ones and the improvement of existing ones.

The Federal government also embarked on a number of measures aimed at removing identified obstacles to rapid agricultural development and crop production and encouraging more investment in the sector. These measures include:

a. Guaranteed loan scheme in which the federal government guarantees all agricultural loans given by commercial banks to the tune of75 percent of the irrecoverable amount.
b. Five years tax holiday for investment in combined agricultural production and processing.
c. Abolition of import duties on tractors and other machinery and equipment used for agricultural production.
d. Increase of subsidies on fertilizer to 75 percent.
e. Transfer of integrated agricultural production and processing from schedules II to III of the Nigerian Enterprises Promotion Decree.

f. Treatment of agricultural production and processing and marking of agricultural produce as favoured sector under the credit guideline.
g. All capital expenditure and equipment incurred in agricultural production by individuals or companies will, apart from attracting existing capital allowance, enjoy an additional investment allowance of 10 percent.
h. Indefinite carry-forward of losses suffered by a company engaged in agriculture until such losses can be written off against future profits.
i. Exemption from taxation of the interest payable on loans granted to aid investment in agriculture.
j. Granting of capital allowance for tax purposes to those wholesale out agricultural equipment.

Although most of the measures enumerated above are designed for types of farmers-small, medium and large scale-it is a fact that small-scale farmers who feed this nation hardly benefit from them. This is the major defect of governments' efforts.

Certain specific programmes were pursued to enhance the realization of improved agricultural system and productivity. Such integrated policies include the following:

i. Price and Tax Incentives for Producers

The federal government has already abrogated the Marketing Board System with a view to increasing producer prices, producer incomes and the level of inputs. The highlights of the reforms were as follows: price fixing has become the responsibility of producer; the two-tier system of produce taxation has been canceled; and prices were to be fixed with no ‘trading surpluses in view.

ii. Infrastructure Programme

This constitutes the bulk of the subsectors' capital estimate with an allocation ofN428.26 million consisting mainly of irrigation, soil conversion, land use survey, agricultural research, manpower training and storage and marketing.

ii. Federal government participation in direct production

iii. National Accelerated Food Production Project (NSFPP)

iv. Agro Service System

This system was designed to facilitate an expeditious delivery system for inputs such as fertilizers, pesticides, herbicides. It also involves storage schemes for combating scarcity in the event of crop failures.

vi. National Seed Multiplication Programme: The aim of the programme is to provide farmers with improved seeds.

vii. Agricultural Credit: This is aimed at tackling the problem of capital in Nigerian agriculture by establishing the Agricultural Credit and Co-operative Bank in 1975.

viii. Land Use Decree: The aim is to solve the problem of land ownership and make vast land available for farming.

ix. The Operation Feed the Nation (OFN) of 1976 and the Green revolution of recent years were major food production programmes designed to promote self-sufficiency in food supplies. The Green Revolution was formally launched in April 1980. It is a programme that was designed primarily to modernize the agricultural sector and especially to achieve self-sufficiency in food production by 1985. Under it, the federal government is expected to allocate substantial funds for the resuscitation of areas of food crop, livestock and fish production, which had been hinder financial handicapped. Various projects such as land clearing schemes, the provision of farm mechanization centers. Agro-service centers, river basin development schemes, the national food production programme and tractor hire services will receive priority treatment. The Green Revolution programme included the increased supply of fertilizers and other materials inputs, and the expansion of credit facilities under the credit guarantee scheme, to farmers.

4.0 Conclusion

Food policy in Nigeria has so far gone along times that will create and intensify dependency between Nigerian agriculture and the agricultural products and technology of external economies. This is because its strategy for food production is biased towards sowing the urban food crisis. It is that capital intensive and focuses on transferring investment into the hands of elite farmers and not mobilizing the creative powers of the millions of small rural farmers. It also ignores meaningful investment in livestock sector, which is in the hands of or the bush environment of rural farmers and nomadic groups. This policy is brought with the internal contradiction of intensifying the poverty and migration of rural people into urban area.

5.0 Summary

Food shortage is becoming a major national problem in this country. The growth rate of food supply and demand of food is growing disproportionately. This could be because of some fundamental problems such as the Sahelian drought on grain and livestock, lack of effective supporting services, marketing facilities, land tenure system, etc. However, supply of agriculture input has been a major strategy of the federal government. The federal government also embarked on many other measures aimed at removing identified obstacles to rapid agricultural development and crop production. These include, guaranteed loan scheme, tax holiday, abolition of import duties, amongst others.

6.0 Tutor-Marked Assignment

The federal government of Nigeria embarked on certain programmes to improve food production in the country. Outline some of the programmes.

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