NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

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COURSE TITLE: THE NIGERIAN ECONOMY

COURSE GUIDE

BHM 761
THE NIGERIAN ECONOMY

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This course guide tells you in brief what the Nigerian economy is all about. It is a semester, 3-credit, post graduate diploma in local government (PGDLG) course. The course is made up of thirty units and the units are collapsed in five modules.

The overall aim of the Nigerian Economy is to enable you understand the characteristics of the various sectors of the economy. You will learn about the features of the various sectors.

After that, the focus will be shifted to the challenges that impinge on government efforts. Other issues you will cover include the strategies and policies embarked upon by the government of each sector of the economy.

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

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

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

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

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

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

The time between completing the last unit and sitting for the examinations will consist of questions, which reflect the course content.

The time between completing the last unit and sitting for examination should be used to revise the course. It may be useful to review your activities and tutor- marked assignments before the examinations.

The break down of the course marking scheme can be read from this table.

Table 1: Marking Scheme

Assignment	**Marks**
Assignments 1-12	Ten assignments, best five of the ten counts 8% each (8 X 5 = 40%) of course marks
Final examination	60% of overall course marks
Total	100% of course marks

One of the great advantage of distance learning is that you can read through specially designed materials at your own pace, and at a time and place that suit you best.

It may take place in an isolated village with a hurricane lamp or in an urban centre with electricity but the lectures (replaced by study units) is the same.

Just as a lecturer might give you an in-class exercise, your study unit provides activities and tutored marked assignments for you to do at appropriate points.

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

MAIN COURSE

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MODULE 1

UNIT 1 AGRICULTURE AND ECONOMIC DEVELOPMENT IN NIGERIA

CONTENT

1.0 INTRODUCTION

Agriculture is considered the backbone of economic activity in Nigeria. This is because agriculture has some links with some other sectors, for instance industrial sectors, thus, the deyelopment 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.

Further more, 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 earning. 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 why agricultural development is very important in our society
- identify the organisation 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

i. Five main areas of agricultural sector contributions include:
ii. Provision of food needs of the populace
iii. Export production to increase farm incomes and to provide foreign exchange
iv. Expansion of domestic market for the growing industrial sector through rising net farm incomes of the farm population
v. Provision of manpower for industries and other non-farm activities
vi. 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:

i. Waste of foreign exchange, the foreign exchange spent on food ought to have been used for capital importation.
ii. Destruction of local production capacity. This is because 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:

i. Poor performance of the export crops sub sector.
ii. 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 labour will be transferred from the agricultural to nonagricultural sector.

The labour 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 were used for such purposes.

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

Activity 1: 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 Increase 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 Organisation of Agricultural 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, utilisation.

Three different pattern of resources utilisation exist viz:

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

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 technics applicable in these areas include shifting cultivation and bush fallowing. These practices are appropriate because they reflect sound economic reasoning, as land is abundant.

The Labour-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.

Mixed Variable Proportion Economy

This refers to areas where both land and labour are variable proportion, for example, Benue and Anambra States. In this category, to increase production will require increment in both land and labour 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 Utilisation of Resources

Nigerian farmers are efficient in the utilisation of scarce resources. Whenever it is necessary, farmers have been known to reallocate land and labour in order to maximise 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 exhibit great diversity in terms of production and regional specialisation. These include:

- Roots crops e.g. yams, cassava etc.

- Grains e.g. rice, beans e.tc.

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.

Organisation of Production
The organisation 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 ofoutput 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 ofAgricultural 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 favoured.

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

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 addressed through the 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: afforestation programmes and introduction of pesticides.

3.6.6 Labour 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 Agricultural 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:

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 utilise agricultural products as inputs.

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.

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

Activity 3: 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.

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.

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.

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 per cent of the capital of any of the companies engaged in this activity.

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.

Agro-Allied Industries

Agricultural processing would be intensified by the setting up of agro-allied industries, farmers would obtain higher and steady prices for their products since middlemen would be eliminated.

Other Policy Measures

These will include subsidising of essential inputs like fertilizers, pesticide and improved seeds; intensifying mechanisation 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 of the nation.

4.0 CONCLUSION

Inspite 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 our country through:

- provision of food needs of the population
- export production to increase farm incomes and to provide foreign exchange
- expansion of domestic market for growing industrial sector through rising net farm incomes of the farm populations

To achieve these, the government has to put in place certain policy measures and programmes.

6.0 TUTOR-MARKED ASSIGNMENT

The agricultural sector in Nigeria has not made significant 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.

7.0 REFERENCES/FURTHER READING

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UNIT 2 INDUSTRIAL DEVELOPMENT IN NIGERIA

CONTENTS

1.0 INTRODUCTION

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

1. ensure an increase in the gross domestic product
2. increase employment
4. conserve foreign exchange
5. foster linkage with other sectors of the economy
6. ensure an adequate supply of goods to the population
7. help in minimizing the risk of over dependence on foreign trade and ensure full utilisation of available resources.

2.0 OBJECTIVES

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

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

- State the industrial production and structure in Nigeria
- explain the industrialisation 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 1970s 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 1980s, 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 utilise the abundant labour 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 1980s worsened the problem of the sector. Thus, the key features of the Nigerian industrial sector include: loss of competitiveness, low rate of capacity utilisation due to foreign exchange scarcity, obsolete machinery and equipment, high production costs, failure to utilise to advantage the strength of labour- 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.

Activity 1: State the objectives of industrialisation in Nigeria.

3.2 The Objectives of Industrialisation in Nigeria

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

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

Therefore, the overall focus of the industrial policy plan of 1970-74 was how to maximise 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 industrial isation.

3.3 Stages in the Nigerian Industrialisation

For any one to understand better the industrialisation process the organisation of industrialisation 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, industrialisation was mainly resource-based but you could also find some elements of import substitution and therefore, imported raw- materials based type of industrialisation has been established from this period.

The second stage was the immediate post-colonial era of the 1960s. This was characterised by more vigorous import substitution and the beginning of decline for the export-oriented processing of raw materials. 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 1970s. 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 programme 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 1980s 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 emphasised 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 industrialisation by local sourcing of raw materials hence, the manufacturers were encouraged to find local substitutes/alternatives of their raw materials. Apart from helping to maximise local resource utilisation, 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, jewellery, toiletries etc., against intermediate and capital goods. However, the structure has been changing any how, sometimes high and at times low. For example, the second half of 1970s 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 and Growth in Nigeria's Manufacturing Sector

Manufacturing share 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 utilisation 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.

Activity 2: 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 Industrialisation Strategies

The success or failure of industrialisation 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 industrialisation depend on costs and benefits analysis of deploying resources for industrial production or among various sectors of the industry. In Nigeria, the following industrialisation 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

Realising 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 industrialisation 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 utilisation of local resources as well as help in foreign exchange among other merits.

3.9 Government Incentives to Industrialisation

The government has encouraged industrialisation 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:

Tarriff Protection

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

Import Duty Relief

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

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.

Provision of Supportive Activities

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

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 industrialisation management.

Provision of Accelerated Depreciation Allowance

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

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.

Approved User Scheme

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

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 industrialisation 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

Industrialisation, 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, inspite of the shortcoming of the industrialisation in Nigeria, the government has continuously made considerable efforts to improve the performance of this sector.

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.

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UNIT 3 MINING AND QUARRYING IN NIGERIA

CONTENTS

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 realise 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 ofthe G.D.P. and its total monopoly of foreign exchange earnings especially in the 1970s 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 utilisation of these natural resources. The intention here is to look at the role and characteristics of the sector in the Nigerian economy.

Activity 1: 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 deposits 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.

The Nigerian coal is of sub-bituminous class which has a 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% 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 galvanised sheets by the iron and steel company.

3.2 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 utilised and a good base for industrialisation 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.

Activity 2: 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 stabilising 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 behaviour.

3.3 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 2.014

million 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.

3.4 Tin 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 lies in an area centred on the Jos Plateau in Plateau state. A larger area of this tin field is covered by a thicker belt of volcanic basalt which renders the deposits beneath it almost inaccessible. The first deposits to be worked in the early 19thcentury were those in river beds. 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 per cent 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.

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.

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.

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 labour 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 utilised. 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, 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 of Nigerian economy.

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UNIT 4 GOVERNMENT REVENUE IN NIGERIA

CONTENTS

1.0 INTRODUCTION

Nigeria has a three-tier government system: The Federal, the State and the Local Governments. The Nigerian Constitution spells out the functions of each of the governments. Generally, however, it can be said that government are responsible for the provision of collective goods and services on a non-commercial basis as well as the provision of other social and economic services. In order to do this, however, government needs to collect revenue. Thus, it can be said that a government needs revenue to meet its capital and recurrent expenditure.

Government revenue could come from many sources. In the case of Nigeria, the chief sources include: taxes, gains from trade and commerce, loans, fees, statutory allocations and grants, rents and royalties and duties. There are many types of taxes. One type is that referred to as 'indirect taxes', including: import and excise taxes, taxes on extractive industries and sales taxes. Export taxes are imposed on the items that feature in export basket while import taxes are levied on imported items. Excise taxes are paid on some locally manufactured goods. Examples are taxes on tobacco and beer. Taxes on extractiveUnit industries consist of mining and mineral tax (e.g. mining rent and royalties). Examples of sales taxes, purchase/sales tax on motor vehicle fuel and general sales tax.

Another category of taxes is that commonly known as direct taxes, anexample of which is the personal income taxes. In addition to direct and indirect taxes, there are miscellaneous sources, which include revenue derived from licenses, fees, rent on government property, and earnings from government properties. Statutory allocations and grants come from the Federal to the State and/or Local Government.

Each level of government has jurisdiction over certain sources of revenue. It is clear that the Federal Government has legal basis for the collection of 11 out of the 21 sources of revenue, whilst the State and Local Governments have legal basis in respect of the rest. The ones for the Federal Government are: import duties; excise duties; export duties; mining rents and royalties, petroleum profit tax; companies income tax; capital tax; personal income tax of Armed Forces, Police, External Affairs Officers and Federal Capital Territory; Radio and TV licenses and fees; and stamp duties. The Federal Government does not administer all these taxes. Rather, a few of them are administered by the State governments and passed on to the local governments, for instance, radio and television licenses and fees.

The state governments collect most of the other types of revenue and either retain them or pass them over to the local governments or share them jointly with the local governments.

It can be observed that it is the federal government that has jurisdiction over the collection of revenue from the major revenue-yielding sources in Nigeria. Little wonder then that there is need for the federal government to share some of its revenue with the State and Local governments because these may be in a position to provide some services expected of them. Specifically, the federal account is shared approximately 5 per cent to the federal government, 35 percent to the state governments and 10 percent to the local governments.

2.0 OBJECTIVES

In order to appraise government revenue in Nigeria, you shoould be able to:

- identify the various sources of government revenue
- examine ways of achieving a more healthy revenue base.

Activity 1: Think about the importance of the various sources of revenue generation in Nigeria.

3.0 MAIN CONTENT

3.1 Sources of Revenue Generation

In the 1970s, we witnessed a great increase in the current revenue of the federal government. This was mainly due to some structural changes in the economy, particularly in those sectors that generate revenue for the federal government.

A number of reasons can be advanced for the relative importance of the respective sources of revenue viz:

- Direct taxes are now more important as a broad category of revenue source than indirect taxes. This is primarily due to the emergence of a new item of indirect tax, namely, petroleum profit tax. Before this new item was added to the direct tax list, indirect taxes had constituted a more important category than direct taxes.

- Petroleum profit tax is the most important revenue item not only under direct taxes but also among all revenue items. For example, this item alone provided more than 50 percent of the total current Federal Government revenue for any of the years from 1970 to 1977.
- Although company tax has generally been on the increase, it contributed only a small percentage in recent years. This could be due to either the low relative growth in the industrial vis-a-viz the oil sector or to the fact that some companies did not declare accurate profits, or to both.

- Personal income tax is an insignificant source of revenue for the Federal Government. A number of reasons could be adduced for this among which are: the small number of people employed in the public sector and tax evasion on the part of people in the private sector, especially the self-employed.

- Import tax forms the most important item under indirect taxes. For any of the years covered by the data, this item yielded more than 50 percent of the revenue collected as indirect taxes. Its importance and the increase in its contribution over the years could be attributed to two major factors: increase in the volume of imports as a result of the greater affluence of Nigerians and the increase in the import duties on some imported items which did not lead to a fall in the volume of imports (due to the relatively price inelastic nature of the demand for imports).

- The contribution of export tax to government's revenue has become less and less important over the years. This is primarily due to the fact that the volume of exports of almost all items has gone down. In some cases, certain export items have ceased to appear on the export list.

- Excise tax is a more important source of revenue than export tax. Its percentage contribution to total revenue fluctuated over the years probably as a result of variations in the volume of production of the commodities on which excise tax is imposed.

- Royalties, rents, etc., have been increasing primarily because of expansion in mining activities.

- The federal government has been highly dependent on the oil sector for its revenue. This is dangerous, as recent experiences have shown. It is this over dependence that led to the recent financial crises and the austerity measures being adopted by the government to arrest the situation.

Activity 2: Highlight the strategies for achieving a more healthy revenue base in Nigeria.

3.2 Improving Revenue Generation Base

As pointed out above, the current over dependence of the government on the oil sector for its revenue is not healthy. Efforts should, therefore, be made by the government to move away from the current position. This can be done in a number of ways. The government can try to intensify its efforts in getting more revenue from personal income taxes. In this case, the government should devise means that will help in assessing the earnings of people in the private sector, especially the self-employed. The government is losing a lot of revenue by not making adequate efforts to 'reach' the self-employed.

Industrial development behind protective walls is another way of moving the government's revenue source from its current oil bias. As we noted above, the demand for imported items is fairly price inelastic. Thus, if government increases import duties on them, the volume of demand would be less than appreciably decreased. Thus, the government can realize more revenue by increasing import duties. Higher import duties should, to some extent, help to protect home industries. After some time, such protected industries should be making profits that can be taxed by the government. This should help to increase the contribution of company's profit tax to government's revenue. Also industrial development would increase the amount of revenue derived from excise tax.

Agricultural development should also be a priority area of concern. If this is achieved, it will help to increase the volume of exports and, hence, the amount realised by government from export tax.

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.

5.0 SUMMARY

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

i. Discuss the relative importance of the various sources of revenue
ii. 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.

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UNIT 5 GOVERNMENT EXPENDITURE IN NIGERIA

CONTENTS

1.0 INTRODUCTION

Government expenditure policy represents an overall aspects of fiscal policies towards expenditure programmes 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 ad exchange rates. Government spending, taxes, user charges, and borrowing also affect the behaviour 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.

Activity 1: 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:

- defence 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, harbours, 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.

Activity 2: 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, defence 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 programmes. 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.

Activity 3: Has the expenditure made by the Nigerian government had any effects on the economic development ofNigeria?

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:

i. 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.

ii. 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.

iii. 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.

iv. 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.

v. 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.

vi. Development of New States: The allocation made to the state governments has played a key role in enhancing development in the newly created states.

vii. 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.

viii. 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 ofNigeria.

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 defence, general administration, provision of social infrastructures and service, participating directly in economic enterprise, etc. These expenditures could be categorised 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

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MODULE 2

UNIT 1 COMMERCIAL BANKING IN NIGERIA

CONTENTS

1.0 INTRODUCTION

The word ‘bank’ is derived from the Italian word bank-meaning bench. This word has carefully been selected because; the Jews in Bombay who were the early bankers conducted their business at benchers in the market place.

However, as a form of financial institution, the commercial banks otherwise known as joint stock banks act as an intermediary body between those who are in need of fund and those who have surpluses. But its function does not end at only accepting deposit from the public and giving out advances to the public.

More so, they provide other functions which include, discounting bills of exchange, act as customers agents in buying or selling of stocks and securities. Also, they obtain foreign currency for customers and they issue bank drafts, traveller's cheque, etc. You should be informed that the relevance of these services provided by the commercial bank should be emphasized because the development of the economy of a country depends strongly on the efficient performance of its commercial banks as one of the financial institution.

2.0 OBJECTIVES

The significance of the role of commercial banks in the economic development of our society can be better understood if, we look at the evolution of the commercial banking in Nigeria, highlight the features and problems challenging the efficient performance of the commercial banks and identify the sources of funds and functions of commercial banks in Nigeria.

3.0 MAIN CONTENT

3.1 Development of Commercial Banking in Nigeria

The historical evolution of the commercial banking in the country has passed through different major era.

The first era could be regarded as the free banking era. It was the era of monopoly of foreign banks. The first characteristic was the absence of any banking legislation. Before 1952, anybody could set up a banking company, provided he registered under the companies ordinance. The second feature was that it was this period the three biggest foreign banks and the two largest indigenous banks were established. Commercial banking activities began in 1894 when the Bank of British WestAfrica, now First Bank of Nigeria Plc. began operations. For the next two and a half decades, this bank pioneered the development of banking in Nigeria until it was joined in 1917 by Barclays Bank, now Union Bank of Nigeria PLC. The third feature of commercial banks during the period was that ofan indigenous banking boom.

However, beginning in 1929, indigenous entrepreneurs began to make forays into the banking sector by incorporating and establishing formal banking institutions. In the thirty year 1929 to 1959,25 of these banks were established.

A number of factors contributed to this development. The initial impetus could have derived from the attempt to redress the discrimination suffered by indigenous entrepreneurs from the foreign banks. By 1954„ of the 23 banks established only 3 were still operational. The remaining 20 had failed with an average life span of less than 3 years. Of the three established between 1958 and independence in 1960, only one survived to give a total of four survival out of the 26 banks chartered during this period. The four surviving banks are:

- National Bank of Nigeria Limited
- Agbonmagbe Bank (Now Wema Bank PLC)
- Africa Continental Bank PLC
- Bank of the North Limited

There is one common feature among all the four survivors, namely ownership by Regional/State Governments. In fact, it was the lifeline of support from the three Regional governments that guaranteed the survival of these banks.

In this regard, the Central Bank Act of 1958 has been enacted to control the activities of banks and to specify entry conditions.
The 1972 Nigerian Enterprises promotion Decree amended the 1977 Decree. Here, banking was classified under schedule 2 of the Decree, under which at least 60 per cent of the equity of such enterprises must be Nigeria-owned. At the same time government decided to take control of certain critical sectors of the economy including banking, insurance and oil sectors.

Until 1991, the guidelines for establishing a bank required that within the minimum 60% equity for Nigerians, no single individual could own more than 5%. That, in effect means that for joint partnership between Nigerian and foreigners at least a minimum of 12 Nigerians were needed to form a bank. For a fully owned Nigerian bank the minimum numbers of individuals is 20.

More so, the guidelines required a wide geographical spread of Nigerian shareholders to reflect the country's diverse ethnicity. The ownership structure recently has been subject to changes.

Activity 1: Can you say that the ownership structure change had effect on the banking industry?

3.2 Implications of the Changing Structure of Ownership

1. Response of foreign shareholder

The immediate result of indigenisation Decree of 1977 was transfer of 60% ownership of the foreign banks to Nigerians. The transfer of management was more gradual but one could safely say that today. Nigerians have full control of the management of most of the banks operating in the country.

However, there was backlash effect, with the loss of control, there emerged a withdrawal attitude among the foreign banks that still persist today. A gradual flight of good experienced personal followed and the Nigerian banks no longer enjoyed the favoured treatment of being full subsidiaries of these foreign banks. This must certainly have had some effect on efficiency and optimum growth.

2. Attitude of Government

The Nigerian experience in indigenisations of the banking sector has some element of uniqueness. In most cases, indigenisation and nationalization lead to the use of the banking system as a means of implementing monetary policies or Government objectives that does not seem to be the experience in Nigeria. In fairness, the Government has shown the least conflict of interest in its position as both the regulator and major shareholder in many of the banks. Its monetary policies and regulations on the banking industry have regarded the banks as private sector operators in a commercial setting. Government control of the banking industry could be more optimal and effective if it relinquishes the role of shareholder, especially in non-development banks.

3. Quality ofAssets

Before indigenisation, banks took any short-term positions in theirlending portfolio to reflect a similar tenure in their deposits. Theeffects of indigenisation seem to have changed that focus. The banks were sort of transformed to developmental roles and they started taking long-term lending positions. This orientation was subsequently backed-up by CBN guidelines stipulating certain minimum maturity for certain proportion of a banks risk assets. While it was easier for the commercial banks to sustain this position, it was more difficult for the merchant banks.

4. Quality of State-Owned Banks

The poor position of some state owned banks derived partly from the structure of ownership. By and large, privately owned banks seem to have lesser problems of management. In the past some state governments have, for instance, used their banks as extension of their treasuries. This ownership structure has also imposed constraints on the part of the CBN to deal promptly and decisively with erring state banks until a crisis situation of possible insolvency is reached.

5. Instability in Management

One effect of Government ownership of banks both at the federal and state levels is the instability in the management of these banks. Since the Nigerian Directors include those with Executive responsibilities of these banks are appointed by the Government, they have become politicized and the influence of lobbying and pressure groups on such appointments is becoming increasingly manifest. The attendant insecurity in job tenure arising from this situation no doubt has negative impact on the management of these banks.

3.3 Role of Commercial Banks In Nigeria

You can divide the functions of the commercial banks into two broad groups.

- The money creation function and
- The service rendering function.

The money creation function is undertaken not only to satisfy the customers but also because it enable the banks to get some returns on the money deposited with them by their customers. A number of factors affect the extent to which an individual bank can create credit.

These are:

- The amount of deposit that is made with the bank (the greater this, the more the credit creation capacity of the bank):
- The limitation imposed by legal reserve requirements.
- The volume of demand for currency of cash by the public (an increase in currency requirement of the community would mean a reduction in cash of the banking system and therefore in its ability to create credit) and
- The extent of credit created by other banks in the banking system.

The service functions of commercial banks include the following:

- The collection of cheques, drafts, notes and other obligations for their customers;
- The provision of facilities for domestic and foreign remittances;
- The provision of savings services, and the provision of facilities for the safekeeping of valuables.

Besides these functions, the commercial banks have performed useful functions in the country which include the following:

- They have extended credit to the group of people that the expatriate or mixed banks would not have been able to cater for.
- They have contributed to the development of potential depositors and banking habit by extending banking facilities to urban and rural districts.
- The indigenous banks have large portfolios of local securities and, therefore, have reduced the colonial practice of repatriation of all in vestibule funds to the money and capital markets in London.
- The aggressive mobilization of domestic savings through direct contact with the people has contributed significantly to the pool of funds available to national development.

- They have developed local entrepreneurship.
- They have provided employment opportunities for many Nigerians.

Activity 2: How do commercial banks utilize the funds generated from the public?

3.4 Utilisation of Funds By The Commercial Banks

The commercial banks try to reconcile their liquidity with their profitability drive. In doing this, they collect funds from the public. There are two major sources of funds. Capital and Reserves, and deposits. The capital and reserves of commercial banks in Nigeria rose considerably since late 50's, from a little over 1 million in 1958 to over N200 million by 1977. There are quiet a good number of factors that were responsible for this shut-up. These include: The fact that the capital and reserves requirement were applicable to only the indigenous banks initially, changes and/or increase in the capital and reserve requirements over time, the increase in the number of banking institutions, the increased in economic activities in the country.

Capital and reserves of commercial banks provide funds for fixed assets and the performance of such functions as meeting the statutory requirements; acting as a confidence booster to the public and providing cushion against risk. Deposit on the other hand provides the working capital. The two types of deposits with commercial banks are demand and time deposits. Thereafter, 1970 the increase has been due to a number of factors among which are:

- Increase in money supply
- Increasing oil revenue to finance development plans,
- Wages and salaries payment under the Udogi awards.
- The deregulation of the economy under the Structural Adjustment Programme (SAP).

The funds derived by the banks are used to acquire assets. These assets could be classified into two broad categories:

1. Liquid Assets

Liquid assets are made up of cash, money at call, and bills discounted. Cash includes cash in hand (i.e at the coffers of the banks) and balances at the central banks. The cash asset serves two functions. Firstly, it is used to meet depositors and lenders' cash requirements. The need for the later is great in Nigerian because most of the transactions in the economy are done in cash and money borrowers prefer to get cash.

2. Cash Asset

The importance of cash asset is that it enables banks to affect their clearings at the central bank. The cash asset does not earn any income.

Money at call serves as a first line of defence against cash shortages. Therefore, if banks are hard pressed for cash, their next line of action invaluably is to draw on money at call. This is money lent to the borrowing institution from over night to about seven days and that is repayable on call. Thus, it is almost as liquid as cash. However, unlike cash, it earns some interest. Call monies used to be invested in Treasury Bills. However, the scarcity of bills made the central Bank abolish the call money scheme in 1974.

Bills discounted serves as the second line yield income but usually at a rate lower than that earned by money at call.

The other categories of assets (less liquid or hard) are investments, which banks make mainly to meet profit expectations of the shareholders. They are usually made in investments and loans and advances. The latter constitutes the biggest component of the hard assets. They are the most profitable in the most liquid of bank's assets. It is important to add that, in spite of their high profitability their relative obliquity coupled with bank's concern for their depositors and lenders makes banks reluctant to invest all their funds in loans and advances.

4.0 CONCLUSION

As at the end of 1990, the federal government's equity participation in the 58 commercial banks was 12.6% state governments, 24.5%. private shareholders, 47.5% and foreigners 5.4%.

The banking sector shows a mix of government, private sector as well as foreign participation, in terms of ownership. Although foreign participation remains significant it is however, no longer dominant.

However, there is cause for concern in view of the increasing rancour and discord that have characterised the indigenous new banks. There is also the issue of who owns which shares.

It is therefore on this note that the well meaning Nigerian looks up to the regulatory activities to instill discipline and ensure a sound and virile banking industry in Nigeria.

It is widely held that the soundness of any institutions is a reflective of the effectiveness of its management. Thus, effective boards and managements are indispensable in ensuring safe, sound and efficient banking practices that will foster the expected role of the banking industry in our economic development.

5.0 SUMMARY

Commercial banks refer to the joint stock banks which are financial institutions that enhance the economic development of Nigeria. The number of commercial banks have grown phenomenally over the last two decades. Several factors account for the rapid expansion of commercial banks over this period. Amongst these factors are:

- indigenisation policy the oil boom
- perceived increased awareness of the need for banking by the populace
- higher profits declared by existing banks etc.

However, the commercial banks act as vital catalyst of Nigeria's economic development by:

- encouraging saving
- providing capital needed for development
- encouraging trading activities through making the use of cheque possible
- encouraging investment by providing direct loan to government and individuals for investment purpose.

6.0 TUTOR-MARKED ASSIGNMENT

The commercial banks in Nigeria act as a vital catalyst for economic development. Discuss.

7.0 REFERENCES/FURTHER READING

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UNIT 2 CENTRAL BANKING AND THE NIGERIAN ECONOMIC DEVELOPMENT

CONTENTS

1.0 INTRODUCTION

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

2.0 OBJECTIVES

One can only appreciate the relevance of this apex bank, that is, the Central of Nigeria (CBN)

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

- explain the reasons for establishing the Central Bank of Nigeria?

- identify the functions of the Central Bank of Nigeria, and examine its role in the economic development of the nation.

3.0 MAIN CONTENT

3.1 Development of the Central Bank

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

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

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

Activity 1: Do you think the CBN plays any fundamental role in the economic development of the country?

3.2 The Role of the Central Bank of Nigeria (CBN)

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

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

(b) Owing to the rapid structural growth of the financial sector in the last three decades, the bank has modified the nature and style of its surveillance. It has systematically developed policy instruments more relevant for a market-based financial sector. The Bank's size and structure have also witnessed a corresponding growth; and

(c) The Nigerian economy has recorded vast structural changes; economic management moved from reliance on control mechanisms in the late 1960s and up to 1985 to a system of deregulation between 1986 and 1993 and back to control in 1994. Presently, it had to revert to the system of deregulation. The banks response has influenced its operations appropriately through the establishment of the relevant bureaucratic structure and technologies.

3.3 Functions of the Central Bank

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

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

In its role as adviser to the governments on financial matters, the central bank tries to advice on coordination between the government's financial policy and the main economic objectives within the context of monetary stability. One of the policy functions of the central bank is, thus, that which relates to monetary policy. In this regard, the Bank has responsibility for formulating and executing monetary policy. Its tools are open market operations, the discount rate, the liquidity ratio or reserve requirements, moral suasion and selective credit control.

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

Activity 2: How does the central bank regulate the activities of the commercial banks?

3.4 Regulatory Role of the Central Bank in the Nigerian Economy

1. Open Market Operation

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

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

2. Rediscount Rate

The Central Bank, as a lender of last resort, stands ready to honour demand for financial accommodation from the commercial banks. In performing this role the Bank takes into account the financial environment and the economic situation in general. Such temporary financial accommodation is generally extended to the banks at the "discount window" of the Central Bank. In operating the "discount window", penalties are involved since commercial banks are not expected to resort to it until it becomes absolutely necessary.

Rediscount rate, the cost of this last resort borrowing is very important because changes in all interest rates charged by the commercial banks follow those of the rediscount rate. If the rediscount rate is high, the interest rate charged by commercial banks will also be high, and vice versa. In the advanced and more sophisticated financial markets, changes in the rediscount rate produce important announcement effects in the credits markets. An increase in rediscount rate is an indication to the credit institutions that they should raise cost, hence, restrain credit availability to potential borrowers.

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

3. Reserve Requirement

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

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

4. Special Deposit

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

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

Direct Credit Control

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

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

Moral Suasion

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

4.0 CONCLUSION

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

5.0 SUMMARY

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

6.0 TUTOR-MARKED ASSIGNMENT

Discuss the policy-making functions of the Central Bank ofNigeria and state how effective it has been carrying out these policy functions.

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UNIT 3 THE NIGERIAN EXTERNAL DEBT CRISIS

CONTENTS

1.0 INTRODUCTION

Public debt has been defined in several ways depending upon the purpose of definition and the type of institutional arrangement thus, on the extreme all kinds of obligation of a government; currency obligation are included in public debt. However, a general dictionary definition of debt is "payment which must be made but has not yet being paid to somebody". When debt is seen in relation to a nation, it refers to a national debt and it is defined as money owed by the state to those who have lent it money.

According to Furness, debt is a major feature of a monetary economy. This is because, as soon as the society abandons bartecing, the creation of debt is introduced under the monetary economy. Whenever a person acquires commodity without simultaneously given a commodity in exchange he because indebted.

Therefore, public debt is a debt owed by government, whereas a private debt is debt owed by private organisation. Moreover, debt can be categorised into two viz: Internal and External debt. Internal debts are debt owed to individual and organisation within the economy by the government via sales of bonds, treasury bills, treasury certificate. While external debts, on the other hand, are debts owed by government to foreign governments and foreign organisations. Internal debt could be looked at as the totality of the outstanding government borrowing instruments such as savings certificates, currency, treasury bills and certificates, federal government stocks, bonds which constitute the federal government public debt. On the other hand, external debt includes loans and aids secured from foreign government and institutions.

2.0 OBJECTIVES

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

- know the genesis of the Nigerian debt crisis
- origin of the debt problem
- causes of the debt crisis
- suggest debt management option.

Activity 1: What are the causes of the debt crisis in Nigeria?.

3.0 MAIN CONTENT

3.1 Nature and Genesis of Nigerian Debt Crisis

During the first ten years of independence Nigerian total debt was very insignificant. For instance, in 1970 the external debt of the country stood at $567 million. However, certain development during the 70's totally change the situation. Instead of owing very small we started owing very much. Firstly, the 1972/74-oil boom in Nigeria (in 1972 barrel was selling at about $4 dollars it rose to $14 dollars in 1973) has greatly increased the resource available to the federal government, which in turn encouraged reckless spending. Consider the following, Nigeria's first development plan 1962-68 budgeted for =N=2.2 billion; the second development plan 1970-74 budgeted for =N=3 billion. In this two development plans, there was no significant increase. But third development plan 1977-80 budgeted for =N=30.0 billion, that is, an increase of ten times the earlier money spending of the second development plan which is equivalent to 1000 per cent increase.

By 1978, due to the short-fall in oil receipts, Nigeria contracted a =N=26 billion jumbo loan from euro-dollar market (private lenders). This was the beginning of massive borrowing by the federal government and repayments were not being made as at when due.

Furthermore, the availability of oil money in the euro-dollar market encouraged reckless borrowing by Nigeria and other third world countries.

In addition, the inability to repay the loan as at when due together with the sharp rise in interest rate compounded the problems of debtors, Nigeria in particular, and third world economies in general.

Therefore, there are three main reasons why Nigerian in particular and third world countries in general found itself as it is today (i.e. in terms of debt crises) viz:

(a) Reckless spending of available funds as well the borrowed loans.
(b) Availability of Euro-dollar in foreign banks for developing countries to borrow.
(c) Inability to repay the loans as at when due and the sharp increase in interest rate.

3.2 Origin of the Debt Problem

The factors which combined to bring external debt to its current level comprise borrowing from the multilateral and bilateral institutions, the accumulation of trade arrears, default in payment of debts, capitalization of unpaid interest and depreciation of the US dollar against other international currencies in which the loans were contracted.

The current debate on the origin of the debt crisis focuses on whether its primary cause was international economic disruption or domestic policy error. A related issue is whether the borrowed funds were used productively or were aquanaut. The debt crises due external shocks could be attributed to the oil shocks in 1973-80 or the consequence of internal recession in 1981- 82, the excess of real interest rate in 1981-82 above their historical average. These are assumptions that arise because of the debts owed by debtor nations.

Policy error is the second reason. It facilitated massive capital flight from the country, the over-valued exchange rate encouraged capital flight since domestic interest rate, were too low to keep capital at home. The third reason is the domestic physical element in the debt problem. The external debt is part of the total debt, which accumulated as a result of both private and public borrowing, thus over-heating the economy. Rising budget deficits play a significant role in the debt problem of Nigeria. There is also the issue of mismanagement of the economy. A more reasonable hypothesis is that of the balance of payment problem, which arises as a result of international economic disruption. Indeed external shocks eroded exports earning and tax revenue thereby contributing to fiscal deficits.

Infact the origin of the debt crisis could be traced to three periods in Nigeria's history viz:

1. Pre-colonial Period- This period is characterized by slave trade. Slave trade took away able-bodied men that could have remained to produce supply for the country.

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

3. Post-independence Era- Though political independence was granted to Nigeria, but economic independence still alluded her (Nigeria). This period is characterized by intensive activities of multinational corporations and their Nigerian collaborators.

Activity 2: What are the causes of Nigerian debt crisis?

3.3 Approaches to the Analysis of the Causes of Nigerian Debt Crisis

The causes of Nigerian debt crisis could be looked at via two approaches namely:

Orthodox Approach
Dialectical Approach

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

a. Low savings propensity which arises due to high propensity to both consume and waste, because saving is low, investment is also low which implies low level of income.
b. Problem of proper statistics make debts difficult to ascertain.
c. Exchange rate variation adds greater variability to debt figures. This made the local currency to be over-valued thereby resulting to mass-importation which leads to short terms trade arrears, the effect here is that, a little rise in the interest rate will change the overall size of the indebtedness remarkably.
d. Loans contracted were used to finance peripheral consumption rather than investment projects.
e. Harsh international systems and practices which make it impossible for a nation to reduce its debt burden.
f. (0 External creditors, especially banks, encouraged debtor nations to continue to borrow for projects of doubtful viability.
g. Short-term loans were used to finance long term projects and the loans get mature for employment while the projects are half way completion. For instance, the steel

and paper mill projects.

h. Poor economic management, coupled with acids use of resources, corruption and wastage of public funds.

i. Inability of Nigerian government to fully utilise external loans and aids to generate adequate surplus, to enable her repay the loans as well as service charges.

j. Lack of coordination of aid donor policies at national level to ensure maximum economic impact of aid and loans packages on development.

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

3.4 Nature, Size and Magnitude of External Debt

Official statistical information on Nigeria's external debt is partly un-reliable due to poor records keeping and corrupt practices. Nigerian officials tend to rely on data and information computed by the World Bank (W.B) and International Monetary Fund (I.M.F.). Paradoxically, these are people we owe.

Officially, the estimated debt of Nigeria as at the end of 1990 stood at \$33billion U.S. dollars but independent sources, World Bank (WB) and IMF put it at \$35billion. This implies that there is no exact agreement as to what we are owing. Presently. the amount the country is owing is a round \$28 billion U.S

There are two important features of Nigeria's debt that requires attention. viz:

Firstly, the composition is more disturbing than its size because about 61% of total debt owed comes from private source s(i.e. international commercial banks) and this explains in part the rapid growth and burden ofNigeria's debt services obligation.

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

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

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

Activity 3: What are the efforts that the federal government has put in place to address the debt crises in Nigeria?

3.5 Strategies for Managing Debts

Many approaches have been made by Nigerian government for debt management and all the measures have long time lapses because:

First, pumping in more money through emergency relieve package is not the solution/answer and this will aggravate the problem and thereby increasing inflation within the debtor nation.

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

Nonetheless, there are several options that are open to Nigeria inparticular, and an African countries general on how to manage their debts.

Therefore, if properly taken, this may limit the countries external debt burden. They include:

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

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

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

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

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

(a) Amortisation - This refers to the process of ending a debt by setting aside money for regular payment.
(b) Capitalisation of Debt- This is when debt is converted/used as capital, that is, the conversion of debt into wealth, money/property for the purpose of producing more wealth or starting a new business.
(c) Debt for Cash Conversion- This refers to the conversion of debt by the holder at its face value and at the prevailing exchange rate for the currency of the debtor country. For instance, multinational corporation/companies with subsidiaries in debtor third world countries usually buy up developing countries' debt from Western creditor banks at dis-count and use the local currency proceeds acquired from the debt to pay local taxes, repay local loans, and provide working capital for their branches in the debtor countries.

3.6 Consequences of Debt on the Nigerian Economy

The consequences of heavy indebtedness include:

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

High indebtedness implies high debt service ratio and hence low per capital income.

4.0 CONCLUSION

The Nigerian economy in the past three decades has been affected by unsustainable burden of external debt. This burden has made the restructuring of the economy without an intolerable fall in the standard of living a difficult task to achieve.

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

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

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

5.0 SUMMARY

Public debt is a debt owed by government, whereas a private debt is owed by private organisations. To facilitate your understanding of public debt, you can categorize it into internal and external debt.

In light of our discussion on public debt you could further established that the reasons why Nigeria is in a debt-trap are:

- recklessness in public fund spending
- availability of international financial institutions, ready and willing to loan fund to Nigeria; and
- the inability to pay the loans.

The consequence of the above is high burden of debt hanging on the nation's resources.

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

6.0 TUTOR-MARKED ASSIGNMENT

Discuss the origin of debt problem in Nigeria and mention the strategies for debt management.

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UNIT 4 GROWTH AND INVESTMENT OPPORTUNITIES IN NIGERIA

CONTENTS

1.0 INTRODUCTION

The Nigerian economy has, over the years, witnessed economic growth defined essentially in terms of an increase in the nation's output of goods and services. But investment by economic agents in turn depends strongly on the existence of investment opportunities and a conducive atmosphere. This explains why nations consciously put in place incentives to encourage prospective investors both local and foreign. An examination of the sectoral contribution to Gross Domestic Product (GDP) growth, however, reveals that Nigeria's economic growth was agriculture-led. The contribution of the manufacturing sector was by no means dominant. Yet long-run growthand development of an economy demands that the economy be industry-led.

You would observe that the rear place occupied by manufactured products in Nigeria's economic growth is largely explained by inadequate investment in the economy. This could be directly traceable to a number of problems that inhibit the rate and level of investment in the economy.

High investment rates, as you could witness in developed society such as America, generates high rates of capital formation, which helps to fuel growth. In this regard we should bear in mind that capital formation per se cannot fuel (encourage) growth. Rather, such other (complementary) factors as favourable economic environment, improved technology, and adequate and efficient infrastructural facilities, a stable and predictable political environment, etc, are also crucial factors that impinge directly or indirectly on the level of investment.

2.0 OBJECTIVES

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

- enumerate the investment and growth incentives
- list the various tax concessions
- identify the problem of growth and investment opportunities in Nigeria.

3.0 MAIN CONTENT

3.1 Investment and Growth Incentives

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

3.2 Tax Concession

3.2.1 Tax Relief for Research and Development (R&D)

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

3.2.2 Tax Holidays

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

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

3.2.3 Corporate Income Tax

As you may be aware, the government in its annual fiscal budget specifies, incentives under corporate income tax. Such provisions are meant to reduce the tax burden on corporate bodies. In this light, the rate of companies income tax rate was reduced from 45 to 40% and later to 30% while taxes payable on dividends, interest royalties and rests were reduced.

There is also the introduction of small business tax relief under which a lower tax rate of 20% will be paid by small establishments.

3.2.4 Tax-Free Dividends

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

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

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

3.2.5 Investment in Economically-Disadvantaged Areas

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

- Seven years income tax concessions under the pioneer status scheme.

- Special fiscal concessions by the relevant state Governments.; and
- Additional 5% (later 10%) on the initial capital, depreciation allowance under the companies income tax.

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

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

3.3 Tariff Concession

3.3.1 Tariff Restructuring and Concession

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

3.3.2 Custom Duties

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

3.4 Non-tax Financial Incentives

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

3.5 Key Infrastructural Development

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

3.6 Foreign Exchange Incentives

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

3.7 Problems of Growth and Investment

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

- the low level oftechnical know-low
- inadequate supply of basic infrastructural facilities such as water, electricity, transportation facilities etc.
- poor communication facilities
- inconsistent government policy
- political instability.

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

4.0 CONCLUSION

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

5.0 SUMMARY

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

6.0 TUTOR-MARKED ASSIGNMENT

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

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UNIT 5 INTERNATIONAL TRADE IN NIGERIA

CONTENTS

1.0 INTRODUCTION

Random distributions of natural resources necessitate interdependence among countries of the world. Since no country is self sufficient, that is, no country can produce all the goods and services needed for it's economies. Thus, different countries around the globe engage in the production and exchange of different commodities. Therefore, countries engage in international trade to obtain those goods which they do not produce locally. Today, however, many nations buy from other countries goods which they can produce themselves. This is because of the fact that countries tend to specialise in the production of those commodities which they have greatest comparative advantage.

In other words, trade between different countries develops first where one country could produce something desirable which others could not. International trade therefore owes its origin to the varying resources of different regions. Not all resources are found in a particular part of the world. And for each nation to consume what she doesn't produce, there must be exchange between countries which has grown so far into a complex network referred to as international trade.

2.0 OBJECTIVES

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

- define international trade
- identify reasons for international trade
- find out the merits and demerits of international trade
- know the direction and flow of Nigerian's international trade
- get familiar with terms of trade

Activity 2: What is international trade?

3.0 MAIN CONTENT

3.1 Meaning of International Trade

International trade can be defined as the exchange of goods and services between one country and another. In other words, the exchange of goods and services between Nigerian and Ghana; Nigerian and U.S.A. is known as international trade. This exchange becomes inevitable because of the variations in the cost of productions between one country and another, thus, exchange makes it possible for countries who cannot produce the goods at lower cost to import them for the betterment of the welfare of their citizens.

One of the basic questions that the theory of international trade has to provide answer is "What determines trade"? This lies with the theory of comparative advantage. In other words, this theory explains the basis of trade between two or more countries. The theory of comparative advantage was formulated by an English stockbroker named David Ricardo. The theory is often referred to as "theory of comparative cost".

The theory of comparative advantage/cost states that increased production obtainable from specialisation and exchange rather than from a policy of self sufficiency and economic isolation will be maximised under given technological conditions, when each country or region specialises on production of those goods and services in which its relative advantage is largest (i.e. its cost of production is least). Although, this principle was first clearly started by Ricardo in 1817 when developing the theory of international trade, the doctrine/theory is applicable to all territorial division of labour and exchange or form of specialisation between person/ business, Nigeria and any country of the world.

The principle of comparative advantage/cost is illustrated below. In illustrating this, we assume that there are only two countries in the

World - Nigeria and Ghana, and that there are only two commodities - petroleum and cocoa. Given cost of production, the two countries can produce the quantities of commodities as given in the table below.

Table 1: Labour Cost of Production in Hours

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

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

Activity 2: What are the reasons for international trade?

3.2 Reasons for International Trade

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

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

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

(iii) Differences in the Level of Technical Know-How: Developed countries of Europe and America have acquired special skills due to their development in technology and technical know-how. They produce machines, and other advanced equipment which are not obtainable in the less-developed economies of Nigeria and others in sub-Saharan Africa. By exchanging or obtaining these products, the country can enjoy a wider range of commodities, than otherwise.

3.2.1 Advantages of International Trade

(1) Trade is an important stimulator of economic growth. It enlarges the countries consumption capacities, increases world output and provides access to scarce resources, and global market for products without which Nigeria and other low developing countries would not grow.

(2) Trade tends to promote greater international and domestic equality by equalising factor prices, raising real income of trading countries and ensuring efficient use of natural endowment and world resource endowment in general.

(3) International trade makes possible a higher standard of living. It makes possible the availability of necessary goods and services for good living of the people within their reach. Since these goods are mass-produced, they are likely to be cheap with the result that individuals could buy them with their income. This in effect brings about high standard of living.

(4) Finally, international trade promotes growth and development.

3.2.2 Disadvantages of International Trade

Unrestricted international trade may have the following effects on the economy.

(1) Uncontrolled international trade may harm countries with infant industries. Newly established industries need protection from foreign competition. Many of the industries overseas are already grown can stand competition by producing at low cost which is at the detriment of local industries, which always produces at high cost. If goods produced by foreign firms are allowed into the economy to compete with that of the local industries, they will out-compete the goods of the local industries. These infant industries will eventually die off.

(2) If goods are allowed to flow across international boundaries, it implies that every good needed in a country could be imported without restriction. This will eventually drain the country's foreign exchange reserves and eventually it would worsen the balance of payment position of the country, particularly when imports values are higher than exports.

(3) It is impossible for a country to attain self-sufficiency if uncontrolled inter-national trade is allowed, since everything you need you can obtain it within the international market.

(4) International trade will make the weak weaker and strong seemingly stronger provided it is not restricted.

3.3 Direction and Flow of Nigeria's International Trade

One of the main features of Nigeria's international trade is the predominance of developed countries as her customers or consumers for its exports which mainly constitute of Agricultural products or raw materials and petroleum. And also Developed Economies are the main suppliers Nigeria's imports, which are made up of essential commodities, manufactured goods machinery as well as equipment.

America has remained the largest buyer of Nigeria's exports, Western Europe is ranked next. The Asia and African followed in that order. This has remained the feature over the years, however, with some little fluctuation.

3.4 Terms of Trade

Terms of trade measures the purchasing power of exports in terms imports. We define a country's terms of trade as:

N = Where,

N = Commodity terms of trade; Px = price of export good and Pm = price of import good. This can be referred to as commodity or net barter terms of trade.

The country's terms of trade depends on the prices of commodities entering into inter-national trade. The terms of trade is said to be favourable to a country when the prices of its exports exceeds the prices of imports.

So, Nigeria will have a favourable terms of trade when the prices of it exports rises and vice versa.

3.5 Barriers to International Trade

In spite of the relevance of international trade in the economic growth and development, there are impediments in the ways in which this is achieved and they includes:

1. Governments of many countries interfere in the free flow of goods and services across the country's borders. For instance, a country can impose import duties, import quota, tariffs, etc. This in no small measure works against the attainment of principles of comparative advantage/cost and thus serves as a barrier to international trade.

2. Differences in currency: Each country has its own currency and before a country can trade with other countries, it must obtain the currencies of it trading partner. Due to foreign exchange problems, it is not usually easy to obtain foreign currencies. And this is harmful international trade.

3. Language problems make international trade difficult. Communication is vital for any successful transaction to take place. For instance, a British business man may not be able to engage in international trade with his French- speaking friends unless there is a possibility of eliminating this problem via the use of interpreters.

4. Geographical Barriers: Many countries are very far apart, the issue of mobility and accessibility make it difficult to reach some area's or places, since it takes many days or even months before traveling from one country to another. There have been however, improvements in the means of transportation and information technology. Geographical barriers serve as a major factor that hinders international trade.

3.6 Imports and Exports

Imports simply refer to goods and services brought into a country from other countries by importers. For example, if Nigeria buys goods from U.S.A.. Nigeria is the importer. The goods could be manufactured or agricultural products. Exports on the other hand are goods and services which a country sells or provides to other countries. Payment for these goods is usually made in acceptable foreign currency.

Agricultural products such as cocoa, groundnut, rubber, palm produce, crude oil, e.t.c form the bulk of Nigeria's exports and other African countries of less developed economies. The commodities or exports are imported to developed industrialized countries of Europe and America. On the other hand, manufactured goods form the exports of industrialized countries with Nigeria and other African countries as main importers

3.7 Trends and Structure of Nigeria's External Trade

1) Before the introduction of structural adjustment programme in 1986 and even after, Nigeria is faced with unfavourable balance of trade with most countries of Europe, America and Japan.

2) This may be attributed to, among all other things, the fact that the country has relied too much on oil as it major exports and source of revenue earner which becomes very manifest during the oil boom of 1974 to 1979. Unfortunately the oil glut of 1980 greatly reduced our revenue base and this adversely affected our balance of payments position.

3) The data and figures supplied by the Central Bank of Nigerian for the month of April, 1988 show that outflow of funds was 50 million dollars more than inflow from trade which was 11.36%. The total inflow for that month was 440 million dollars as against the outflow of 490 million dollars. In the previous month of March 1988 there was a total inflow of 496.81 million dollars as against total out flow of 515.20 million dollars. The story is similar in February and January 1988. But in 1987, the carrying stood at 5.45 billion dollars as against outflow of 5.25billion dollars.

4) Non-oil exports have been minimal since 1974, i.e. period of oil boom. In April 1988, $2 million dollars was received in respect of non-oil exports which were the lowest since government began its campaigns in 1986 to boost non oil exports under S.A.P.

5) Under SAP, a new council called Export Promotion Council has been formed to encourage general exports of non-oil goods.

6) Trading partners: Most West African countries concentrate their trading activities with Europe, America, Japan, and recently Far East. This is as a result of the fact that all African countries are exporters of raw material and importer of finished products.

7) New trends: New trend is being initiated by ECOWAS. This is to encourage trade among member countries.

8) Nigeria is striving at bringing about a diversification of its exports and to bring about increased earnings from non-oil commodities. Emphasis is on manufacturing for exports and encouragement of exports of agricultural goods.

9) Import substitution: While trying to increase exports earnings, efforts are being made to increase imports substitution because of the huge debts that accumulated over the years which leads to balance of trade and payment problems in the economy.

10) The growth rate in exports of non-oil goods has been about 3%per annum since 1996 as a result of several structural reforms.

4.0 CONCLUSION

As an integral part of the international economy, the Nigerian economy has not been free from the global crisis of capitalism. The Nigerian economic crisis for the 1980s derived mainly from the dependent and weak position of the country within the international economic system. Furthermore, the Nigerian economy, like any other developing economies, has operated within a rather hostile international environment characterized by worsening terms of trade, increasing international protectionism, and external debt.

In the light of these features, the case for diversification of the export trade is even stronger today than it was many years back. It is important for the current export promotion strategies to be re-focused in favour of manufactured exports. This would require incentives such as a stable and realistic exchange rate, export subsidies, cheap credit, low cost of production and adequate infrastructural facilities.

5.0 SUMMARY

Differences in natural resource endowment, climatic condition and level of technological know-how made trade between different countries indispensable and inevitable. Apart from being an important stimulus of economic growth, it tends to bring about higher standard of living and promote economic development. Inspite of the advantages of international trade, it could have serious damaging effect on infant industry, balance of payments position, etc.

Nigeria is faced with unfavourable balance of trade with most countries of Europe, America and Japan. This may be attributed to the fact that the country has relied too much on oil as its major exports and source of revenue.

6.0 TUTOR-MARKED ASSIGNMENT

Inspite of the relevance of international trade in the economic growth and development of Nigeria, there are certain impediments. Discuss

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MODULE 3

UNIT 1 STRUCTURAL ADJUSTMENT PROGRAMME IN NIGERIA

CONTENTS

1.0 INTRODUCTION

The Structural Adjustment Programme (SAP) adopted in 1986 was meant to redress the economic problems confronting the Nigerian society. The economic problems that SAP sought to attack are:

- excessive dependence of the economy on one commodity
- chronic lack of self-reliant growth and development
- serious balance of payments disequilibrium
- growing government budget deficits
- low productivity, etc.

SAP was one of the series of policy programmes directed at Nigeria's economic problems listed above. In this regard, we are going to look at the main objectives and the policy measures of the structural adjustment programme.

2.0 OBJECTIVES

For you to appreciate how the Structural Adjustment Programme (SAP) was to respond to the deteriorating economic conditions in the country, you should be able to.

- identify the main objectives of SAP
- examine the policy measures of SAP
- explain the implementation of some of the macroeconomic policies.

Activity 1: Highlight the main objectives of the Structural Adjustment Programme?

3.0 MAIN CONTENT

3.1 Main Objectives of the Structural Adjustment Programme

What distinguished SAP from previous efforts is the comprehensive breadth, the greater depth,and the radical determination which characterized the programme. Its preoccupation was the removal of the perceived distortions which, for many years, have prevented the economy from crossing the threshold to sustained self reliant growth and development. Specifically, the main objectives of SAP are to:

1. restructure and diversity the productive base of the economy in order to reduce dependence on the oil sector and on imports
2. lay the basis for a sustainable non inflationary or minimal inflationary growth
3. achieve fiscal and balance of payments viability over the period
4. lessen the dominance of unproductive investments in the public sector, improve the sector's efficiency and intensify the growth potential of the private sector.

Activity 2: What are the policy measures of SAP?

3.2 Policy Measures of SAP

Before going into analyzing the implementation of the macro-economic policy measures, you should be aware that, the major policyin the SAP package consists of the removal of the perceived over-valuation of the Naira through the establishment and operation of a Second-Tier Foreign Exchange Market (SFEM). This mechanism for obtaining a realistic Naira exchange rate is to be accompanied by several other policy measures including:

1. Trade and payment liberalisation
2. Tariff reform and rationalisation to promote industrial diversification
3. Deregulation, reduction of administrative controls and greater reliance on market forces

4. Adoption of appropriate pricing policies for petroleum products and public enterprise output that is, removal of subsidies
5. Rationalisation and privatisation of public enterprises
6. Strengthening existing demand management policies
7. Adoption of measures to stimulate production and broaden the supply base of the economy.

3.3 Implementation of the Macro-Economic Policy

1. Realistic Naira Exchange Rate

The first, easiest and the fastest to be implemented was the downward adjustment of the Naira exchange rate through Second-Tier Foreign Exchange Market (SFEM) which took effect on September 29, 1986. The downward side of the Naira exchange rate immediately pushed up production costs in view of the high structure, import dependence of existing production. The most immediate and visible impact of SAP has, therefore, been the pervading and substantial increases in prices arising from SFEM induced increases in costs, unlike the salutory impact on exports, which has been much narrower and highly localised.

2. Demand Management Measures

The demand management measures have also been quicker to put through monetary and credit limits, fiscal deficit limits, and income limit. In fact, one of the main characteristics of SAP is the various macro-economic limits which it seeks to impose on the level of economic activity. For instance, the liquidity squeeze inevitably has been one of the immediate results of SAP, with negative implications for new investment, employment, capacity utilisation and overall economic recovery.

Similarly, with regard to fiscal limits, government budget deficit was to be limited to say 4 percent of the GDP in 1986. also, public sector wage increases were limited to 10 per cent over the SAP period; the implication of this was that, the significant withdrawal of government from the circular flow of income also had 'speedy deflationary impact on effective demand, incomes, employment, and overall macroeconomic activity.

3. Tariff Reforms

Two interim attempts to redress the peculiarity of the external sector have proved to be largely unsatisfactory as they have paradoxically given greater incentive to importation of finished goods than to produce locally with imported inputs. The first attempt shortly after SFEM took off, imposed only token increases (ranging from 5 to 10 per cent) on raw material and capital goods. It imposed rates on finished goods that, together with the excise tax structure and tariff on raw materials, it became largely more profitable. This was aggravated by a number of banned imports from 73 before SFEM to 16 immediately after the inception of SFEM. The second attempt during the first quarter of 1987 did not significantly ameliorate the situation. It was clear by then, that, tariff reforms so far under SAP have tended to be inspired principally by the requirements of trade liberalization than those arising from the need to effectively protect local industry and promote self-reliance.

4. Deregulation

Deregulation has so far been evident principally by the abolition of import and export licensing schemes as a logical consequence of the institution of SFEM, the abolition of the commodity board scheme, the deregulation of interest rate, and the removal of price controls. The bureaucracy continues, as before constituting the greatest bottleneck to economic activity and still fighting shy of urgent institutional reforms sought to deregulate the economy properly. It has so far been found that reliance on market forces in an environment of inefficient government bureaucracy, relatively narrow and weak private entrepreneurship, high dependence on foreign factors and a general anti-developmental environment may not produce the desired or optimal solutions sought for as rapidly as desired.

5. Appropriate Pricing Policy

The adoption of appropriate pricing policies for petroleum products and public enterprises is another element of SAP, which was speedily implemented. So far, about 80 percent of the subsidy on petroleum prices as at early 1986 had been removed, with consideration being given to further subsidy removal, especially in view of the rise in crude oil price. Since the beginning of 1987, air transport fares, National Electric Power Authority (NEPA), Nigerian Telecommunications Ltd (NITEL) and several other public enterprises charges have had an upward revision of the user charges.

6. Rationalisation and Privatisation of Public Enterprises

The rationalisation and privatisation of public enterprises have proved much more difficult to put in place. Five categories of public enterprises have been demarcated namely, those to remain as treasury financed public service organizations, those to be partially or fully commercialized and those to be partially or fully privatized. The flow of government funds into public enterprises had been drastically curtailed in line with the limit indicated earlier.

The impact, so far, of the on-going rationalisation of pubicenterprises had been largely in the form of loss of employment (and real income) by their employees and the role-vacuum created by the exercise. It is, however, clear that the rationalisation of public enterprises is a medium to long term exercise, and the full implementation and impact of the exercise cannot yet be fully expected.

7. Stimulate Production and Broaden Supply Base of the Economy

Supply-oriented policies as evident in most countries are easier to implement and exert positive impact on production than demand management measures aimed at controlling effective demand. SAP has, as one of its basic elements, the measures to stimulate production. However the activities of National Directorate of Employment (NDE), Family Economic Advancement Programme, (FEAP) National Economic Reconstruction Fund (NERFUND), Poverty Alleviation Programme (PAP), are expected to exert much of their positive impact on rural production. Also, the significant improvement in the production and supply of food after the introduction of SAP could be attributed to fine weather conditions than to deliberate government policy. In any case, the apparent increase in food supply had paradoxically been accompanied by generally high prices of food. In addition, at least two factors which may discourage speedy improvement of the general supply situation are already strongly in operation. One is the pervasive increase in cost of production which has induced the second factor, and the drastic curtailment of effective demand through other policies taken under SAP.

Capacity Utilisation

The capacity utilisation during the first year of SAP averaged about 30 percent, lower than was achieved during 1985, the level of employment was also lower. Moreover, inventory accumulation of finished products had also been rising as high costs and reduced effective demand have curtained markets. It is also now being realised that whilst the Naira value of exports has been raised substantially; the Naira value of production cost has also been raised substantially. After all, economics is always a two-sided coin, and it is the net position, which really matters. The solution to the problems of the Nigerian economy lies in production, supply level and the structure.

4.0 CONCLUSION

Structural adjustment calls for another development strategy that should lay emphasis on development that is need-oriented, which will lead to structural transformation. However, it should focus on promoting public policy framework which looks inwards, attempting to improve social amenities and natural endowment which are already in existence. Your worry now should be whether the structural adjustment programme actually addressed issues of poverty, attitude, structures and infrastructures, basic needs, employment and general social welfare of the population.

5.0 SUMMARY

Taking a cursory look at the economic problems confronting the Nigerian society, you have been made to understand the main objectives of the structural adjustment programme in Nigeria, alongside the economic problems. There was the need for structural adjustment which should have promoted sustainable growth and development. Such programmes needed to incorporate demand management policy measures, Tariff reforms, rationalisation and privatisation of public enterprises, policy measures that would stimulate the production and broaden supply base of the economy.

In conclusion, you would observe that the emphasis of the macroeconomic policies within the context of SAP had been on economic growth rather than development. Macroeconomic policy and planning must go beyond growth emphasis to touch on people.

6.0 TUTOR-MARKED ASSIGNMENT

The Structural Adjustment Programme (SAP) was aimed at stimulating production and broader the supply base of the Nigerian economy. Discuss.

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UNIT 2 FINANCIAL SYSTEM IN NIGERIA

CONTENTS

1.0 INTRODUCTION

A financial system is a collection of various financial market instruments, operators and institutions that interact with each other within an economy to provide financial services which will include financial resource mobilisation and allocations, financial intermediation, and facilitation of foreign exchange transactions.

To this end, that there are various financial institutions in the country. The financial institutions serve the purpose of channeling funds from lenders to borrowers. In other words, they act as financial intermediaries between those who are in need of fund and those who presently have surplus funds.

When you talk about financial institution you should be making reference to bank financial institutions in the banking sector of the economy or non-banking financial institutions.

The bank-financial institution will refer to:

Commercial Banks
Central Bank

Merchant and Development Banks. On the other hand, Building Societies, Hire Purchase Companies Insurance Companies, Pension Fund and Investment Trusts, are non-bank financial institutions.

The issue here is to emphasise on the framework that facilitates the flow of funds in the economy.

2.0 OBJECTIVES

The overall aim of this unit to enable us look at the financial system. You should be able to:

- examine the functions of the Nigerian financial system
- identify the features of Nigerian financial system.

Activity 1: What is a financial system?

3.0 MAIN CONTENT

3.1 Meaning of Financial System

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

3.2 Structure of the Nigerian Financial System

The structure of the Nigerian financial system. It shows that it comprises the regulatory/supervisory authorities, banks and non-bank financial institutions. The regulatory/supervisory authorities are the Central Bank of Nigeria (CBN) at the apex, the Nigeria Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), the Federal Ministry of Finance (FMF), the Nigerian Insurance Supervisory Board (NISB), and Federal Mortage Bank of Nigerian (FMBN).

The CBN is the major regulator and supervisor in the money market,with the NDIC playing a complementary role. The CBN exclusively regulates the activities of finance companies and promotes the establishment of development banks.

The National Board for Community Banks (NBCB) gives prior approval for the setting up of community banks, while the final granting of licence is the CBN's responsibility.

The SEC is the apex regulator/supervisor in the capital market, with the NSE as a self-regulatory institution. The FMF and the CBN share control over Bureaux de Change while the NISB is the regulatory authority in the insurance sector. The FMBN regulates mortgage finance business in Nigeria (CBN, 1996).

Activity 2: What are financial institutions in Nigeria?

3.3 What are Financial Institutions?

Financial institutions are institutions which serve the purpose of channeling funds from lenders to borrowers. They hold money balance of, or borrow from individuals and other institutions in order to make loans or other investment. In other words, they act as financial intermediaries between those who presently have surplus funds (those in-the surplus savings unit) and those accommodation (those in the deficit savings unit). Thus, they move funds from those in surplus savings unit of the economy to those in the deficit savings.

Activity 3: Mention three types of financial institutions?

3.4 Types of Financial Institutions

Financial institutions can broadly be classified into two: banks or bank financial institutions in the banking sector and non-bank financial institutions, Commercial, Central, Merchant and Development banks are institutions in the Companies. Pension Funds and Investment Trusts are non-bank financial institutions. While liabilities of banks form part of the money supply, the liabilities of non-bank financial institutions do not, for they are simply classified as “near monies”.

The following types of financial institutions straddle the Nigerian financial landscape:

a. Traditional Financial Institutions
b. Commercial Banks
c. The Central Bank
d. Development Bank
e. Merchant Bank; and
f. Insurance Companies.

The traditional financial institutions are traditional credit groups such as “Esusu” which were originally the institutional agencies for credit supply to members and particularly small scale farmers and businessmen.

The traditional credit system still persists and indeed reigns supreme in large parts of the rural areas of West Africa. However, the emergence of bank credit and the direct intervention of the federal and state government in commercial, industrial and agricultural finance have diminished their importance in the modem economy. In addition, such “Esusu” groups have low financial resources at their disposal. In some cases they charge excessive interest and exploit borrowers as other traditional lenders do.

4.0 CONCLUSION

How can we rate the performance of the financial system so far?

One can conclude that the under-performance of the economy has partly led to poor financing in spite of the efforts of the banks in deposit mobilisation, the proportion of money that lies outside the financial institutions stood at 67.5 per cent in 1995 and has increased since then. This shows that the financial system has yet not succeeded in this critical function. In the task of resource allocation there is also a dearth of medium and long-term finance resulting in small-scale industrialists and farmers being sidelined. Efforts of the government to meet the funding requirements of the real sector through development finance institutions have been crippled by insufficient funds. There is no doubt that the system will hold and play effective role in the economy given the necessary environmental supports.

5.0 SUMMARY

In a market or mixed economy like Nigeria, the mobilisation of funds is the responsibility of the financial sector. It is also this sector that should determine the allocation of the funds it mobilises among the various competing needs of the financial sector. Historically, the financial sector consisted mainly of the banking sub-sector with the establishment of the first commercial bank in Nigeria in 1892. The financial sector was therefore owned, managed and patronised mainly by the colonial master. So, Nigeria inherited a financial system dominated by foreign owned institutions-banks, insurance companies with limited branch network that provided short term financing for trade.

However, the financial system presently shows a mix of governmentprivate sector as well as foreign participation in ownership with divergent interests such as the provision of :

- finance for government
  finance for their private business enterprises
- finance purely on perceived project viability.

6.0 TUTOR-MARKED ASSIGNMENT

i. What are financial institutions?
ii. What are the various types of financial institutions?

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UNIT 3 EDUCATIONAL SECTOR IN NIGERIA

CONTENTS

1.0 INTRODUCTION

In the traditional Nigerian setting, various people and sectors of the country had their own educational systems, which were mainly non formal in nature. The young were taught to conform to social customs and traditions of the community and to learn relevant trades or vocation that would make them good citizens. Such education was aimed at maintaining continuity in various vocations, especially in medical, arts and crafts and the continuity of culture by transmitting to successive generations not only accumulated knowledge but also the acquired standards of values.

Formal education was introduced by the colonial masters. The objective was mainly to service their commercial and religious interests; hence the emphasis was on mumeracy and communication. The method Was role learning based on the development of 3RS-Reading, Riting, and Rithmetic.

After independence, the federal government had little influence oneducational matters at primary and secondary school levels as that wasthe constitutional responsibility of the states. This resulted in a multiplicity of educational policies and practices and varying standards of education in the country.

2.0 OBJECTIVES

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

- identify the importance of education
- examine the structure of the Nigerian educational system

- explain the trend of growth in education.

Activity 1: What is the importance of education?

3.0 MAIN CONTENT

3.1 The Concept and Importance of Education

In its broadest meaning, education is any process by which an individual gains knowledge or insight, or develops attitudes and skills. In its strict sense, it is a process to attain acculturation through which the individual is helped to attain the development of his potentialities, and their maximum activation when necessary, according to the right reason and to achieve his perfect self-fulfillment. It is concerned with the cultivation of the whole person including intellectual, affective, character and psychomotor development. It is the human resources of any nation, rather than its physical capital and materials resources, which ultimately determine the character ad pace of its economic and social development. "Human resources constitute the ultimate basis for the wealth of nations. Capital and natural resources are passive factors of production; human beings are the active agents who accumulate capital, exploit natural resources, build social, economic and political organization, and carry forward national development. Clearly, in a country which is unable to develop the skills and knowledge of its people and to utilize them effectively, the national economy will be unable to develop anything else". It is the formal educational system that is the major institutional mechanism for developing such human skills and knowledge.

In this connection, improving and widening access to education, especially basic education, has been an objective of education policy in developing countries over the past two 'decades. This reflects the broad recognition that education contributes to development. Basic education is often considered a right, which nations have a responsibility to guarantee to each generation. And the benefits to education are by now well established. The evidence iS overwhelming that education raises the quality of life, it improves health and productivity in market and non-market work, increases individual's access to paid employment and often facilitates social and political participation.

Activity 2: What are the goals of the educational system of Nigeria?

3.2 The Structure of the Nigerian Educational System

The formal education system is made up of primary education, secondary education, and tertiary education. These are examined in turn.

Nigerian Primary Education

Primary education is the first component of basic education, the other component being junior secondary education. Basic education is often considered a right which nations have a responsibility to guarantee to each generation. This partly explains the adoption of the defunct Universal Primary Education (UPE) in Nigeria in 1976 (later revised in 1981). This level of education is for 6 to 11 year-old children. The growth in the number ofNigeria's primary schools from 15,703 in 1960 to 39,677 in 1995 has ben observed as a phenomenal growth.

While primary education is currently funded by the Federal Government through the Primary Education Commission, its management rests with the local governments and now states.

During the Second National Developing Plan (1970-74), expenditureon primary education stood at N33.934 million or 24.4% of totaleducation expenditure. During the Third National Development Plan (1975-80), N501 million was spent on primary education, representing 20.1% of total education expenditure. Also during the Fourth National Development Plan (1981-85), a total of N1,126.535 million was spent on primary education, representing 14.6% of total educational expenditure. This means that primary education expenditure as a percentage of total education expenditure has been on a downward trend since 1970.

Nigerian Secondary Education

Secondary education in Nigeria is for the 12 to 18 year old children. It is on the concurrent list in the Nigerian constitution. This explains the existence of Unity Schools or Federal Government Colleges in the country.

Expenditure on secondary education during the First National Development Plan was N53.886 million or 38.7% of total education expenditure. An allocation during the Second National Development Plan was N1055.4 million or 43.4% of total education. During the Third National Development Plan the sum of N3096.303 million or 40.2% of total education expenditure went to secondary education. The allocation to secondary education is yet to enable us witness a meaningful structural changes in terms of capital recurrent expenditure such that it could achieve its desired objectives

Nigerian Tertiary/Higher Education

Post-secondary or higher education is synonymous with tertiary education, covering colleges of education, Colleges ofAgriculture and other similar Post-Secondary institutions, Polytechnics or Colleges of Technology, and Universities. Higher education in Nigeria is aimed at providing specialised manpower as well as nation building, promotion of the economic and social well being of the nation, self-reliance and self-sufficiency. Here, we examine the Colleges of Education, Polytechnics, and Universities.

(1) Colleges of Education

In Nigeria, the goals and objectives of Colleges of Education are:

a. Teaching, encouragement of the spirit of inquiry and creativity in teacher; and
b. Production of highly motivated, conscientious and efficient classroom teachers for the primary and junior secondary levels of the education system.

(2) Polytechnics and Colleges of Technology

The goals and objectives of Polytechnics in Nigerian are teaching, research with emphasis on application and development, and public service through:

a. The production of high level and middle level manpower, as appropriate, in areas necessary for agricultural, commercial and economic development:
b. The identification and solution of the technology problem and the need of industry and
c. The production of technicians and technologists for direct employment in industry.

(3) Nigerian University Education

The goals and objectives of Universities in Nigeria are teaching, research and public service through:

a. encouragement of the advancement of learning in diverse disciplines
b. the development of high-level manpower to meet the identified needs of the economy
c. generation and dissemination of knowledge
d. research relevant to the national and local development problems of the country
e. the maintenance and transformation of the cultural heritage of the country through the preservation and

adaptation of local traditions and value; and
f. Public service.

3.3 The 6-3-3-4 System of Education

(A)Brief outline of the system

The new National Policy on Education was introduced in 1977 to solve some of the problems of education in Nigeria. It lays emphasis on self-reliance through exposure to vocational and technical skills.

The primary school curriculum includes the inculcation of literacy and numeracy, the study of science, social norms, and values of the local community and of the country as a whole through civics and social studies, health and physical education, moral and religious education, encouragement of aesthetic, creative and musical activities, local crafts, domestic science and agriculture.

The Junior Secondary School Curriculum, which is both prevocational and academic, is structured as follows:

Core Subjects
Mathematics, English, Nigerian Languages (2), Science Studies, Art and Music, Practical Agriculture, Religious and Moral Instruction, Physical Education and Pre-vocational Subjects (2)

Pre-Vocational Subjects (2)
Wood-Work, Metal Work, Electronics, Mechanics, Local Crafts, Home Economics, Business Studies.

Non-Vocational Electives:
Arabic Studies, French.

The Senior Secondary School Curriculum, which is comprehensive, has the following curriculum structure:

Core Subjects

English Language, One Nigerian Language, Mathematics One of the following alternative subjects Physics, Chemistry and Biology, One of Literature in English, History and Geography, Agricultural Science or a vocational Subject.

Electives

Biology, Chemistry, Additional Maths, Commerce, Economics, Book-keeping, Typewriting, Shorthand, History, English Literature, Geography, Agricultural Science, Home Economics, Bible Knowledge, Islamic Studies, Arabic Studies, Metal Work, Electronics, Technical Drawing, Wood-Work, Health Science, Government, etc.

The sixth form was abolished under the new system while higher education should focus on teaching, research, dissemination of existing and new information, service to the community and act as a storehouse of knowledge.

3.4 Trends in Education Growth in Nigeria

We noticed earlier that in the 1950s, education expanded rapidly in Nigeria. In fact, the rate of educational expansion far outstripped the population growth rate during those decades. While on the average, the population growth rate was less than 3%, primary school enrolment grow by an average of about 10% per annum between 1970-74. Secondary school enrolment grew by a yearly average of about 15% while enrolment in secondary technical and vocational schools grew by about 10% for the same period. Polytechnics and Institutes of Technology witnessed a yearly growth rate of over 15% while the rate of enrolment in the Universities grew on an average rate of over 45% between 1970 and 1974.

This rapid expansion in the educational system however, slowed down during the 1980s. At the primary level, enrolment in schools only rose marginally by 3.8% from 13,777,642 in 1980 to 14,3000,501 in 1983. In the subsequent years that were to follow (1984-90) enrolment actually declined (with the highest rate of decline or minimum number of enrolment records in 1986-87). However, the enrolment rate began to increase again in 1992 from 13,776,854 in 1991-1992 to 14,805,937 in 1992-1993.

Secondary school enrolment in Nigeria was rather unsteady between 1980 and 1985. However, from 1985, there was a positive and progressive growth in the number of student enrolled in secondary education in Nigeria. Like the primary schools there was a phenomenal growth (a sort of explosion) between 1992 and 1996).

Enrolments in secondary vocational and technical institutions in Nigeria witnessed a steady growth between 1980 and 1988. However, rather surprisingly, it fell drastically by over 98% from 68,678 to a mere 1,179 in 1989-1990. Though adequate statistics is lacking in this regard, it is doubtful whether the enrolment rate into these institutions ever picked up to the former level.

Enrolment into tertiary institutions (Colleges of Education, Polytechnic and Universities) in Nigeria has been increasing progressively over the years. The highest growth rate however, is recorded by the universities (from 77,791 in 1980-1981 to 135,783 in 1985-1986 and 24,879 in 1991-92). The growth rate from 1980-1981 to 1991-1992 is almost 200%. This is followed by the Colleges of Education. Rate of enrolment into the Polytechnics has bot been as impressive as the other two (experiencing a decline of almost 1% from the 1980-1981 figure in 1987-1988 and almost 17% from the figure in 1986-1987). The increase in enrolment from 1980-1981 to 991-1992 was only 40.8%.

Similar growth was witnessed in adult literacy enrolment. From 520,039 in 1987, it increased to 620,296 in 1991. The highest enrolment (724,969) was experienced in 1998.

The proportion of females in education enrolment at all levels in Nigeria has been significant and growing. As observed "the universal primary education policies of the regional governments in the 1950s opened the floodgates not only to males, but to females as well. Since then, the proportion of females in educational enrolment at all levelshas been rising". The proportion of females enrolled in primary schools rose from 42.4% in 1988 to 44.1% in 1992. at secondary schools, it rose from 41.2% to 45.0% for the same period, while it increased from 29.2% in 1988 to 30.0% in 1991 at the Polytechnics.

4.0 CONCLUSION

The trend in educational enrolment in Nigeria reveals a disturbing fact. While enrolments into secondary, vocational, and technical institutions in the country has declined precipitously, there is a massive growth in the rate of enrolment in Universities and Colleges of Education. Expectedly, most of the students seeking admission into the Colleges of Education do not intend to stop at that level but to the Universities. In addition, at the Polytechnics and Colleges of Technology, teaching and enrolment had imperceptibly gravitated away from technology to management and allied studies. The present craze for university education and despise of technical and vocational education apart from creating serious problems for the universities reveal a serious distortion in the economic and social life of the nation. This may not be unconnected with the persistent wide gap between the earning and perquisites of University graduate and vocational/technical schools graduates in the country, a gap that is established to be between the rations 1:12 and 1:3. Wage and employment policies thus have a central role to play in manpower planning. Equal concern and quite related to the above is the emerging enrolment explosions in all levels of education (except secondary vocational and technical institutions and Polytechnics) since 1991. Unless, a serious attempt is made to expand the employment base (capacity) of the nation so as to be able to accommodate the labour force that shall emerge, the unemployment problem in the country may be worsened.

In this connection and also in view of what has been observed earlier, the present thought on the rationalisation (future) of tertiary education in Nigeria is a belated one. Tertiary education must be directed towards the developmental needs of the country while an appropriate remuneration structure must be evolved for vocational and technical skills.

The present situation as observed some years ago is such that men who could like to start work after secondary schools find that they are neither employable nor prepared for self employment, and they carry on to college, not because of a strong commitment but rather because there is not much else they can do. This trend is further carried over to post-graduate studies. "The problem is not only because there is no job, but also partly because they have not learned anything which would be useful on a job, because they have not learned how to fend for themselves on self-employment. Their education has not trained them to rely on their capabilities and potentialities, they have not learnt to be self-confident, to take risks, to ask questions. The Nigerian educational system therefore manages to cater for the needs of the happy minority who will manage to reach the few jobs of which so many aspire but does very little to make the great majority either employable or ready for self-employment".

5.0 SUMMARY

Nigeria is at its lowest ebb in human capital development and utilisation because of its inadequate educational system, which tends to produce more of those who lack job skills for employment than those the economy requires to remain vibrant. The country has been more concerned with quantitative planning, which has led to linear expansion in the size of the educational system without any broad and dynamic conception of the qualitative dimensions of the system. Qualitative as pact of education should be viewed as a living and moving thing whose goodness resides not only in its excellence relative to certain "standards but in its relevance and fitness to the changing needs of the particular students and the society it intended to serve.

6.0 TUTOR-MARKED ASSIGNMENT

Given the problems faced by the educational sector in Nigeria, how can the government re-invigorate the technical and vocational education?

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UNIT 4 THE HEALTH SECTOR IN THE NIGERIAN ECONOMY

CONTENTS

1.0 INTRODUCTION

Health is state of complete physical, mental, and social well-being and not merely the absence of disease or infirmity. From this point of view, one could simply say it is the ability for any human being to live a socially and economically productive life. The implication here is that health ensures adequate supply of labour force and high productivity level by reducing lethargy and inattentiveness. To this effect, health care provision in every society is the provision of conditions for normal, mental and physical development and functioning of human being individually or in-group to enhance economic growth and development of the society. In this perspective, therefore, emphasis is placed on the three health care levels in Nigeria.

2.0 OBJECTIVES

Since the emphasis here is to look at the different health care levels in Nigeria and outline their problems and prospects, you will therefore, identify the levels of health care facilities in Nigeria, look at the basic, primary health care in Nigeria, and bring out the initiatives and programmes, examine the secondary health care (SHC) in Nigeria, and outline the weakness in the health policies.

Activity 1: What is health?

3.0 MAIN CONTENT

3.1 Meaning of Health

Health is a somewhat nebulous condition, difficult to define and never in a state of perfection since one can be "really sick" but never "perfectly healthy". In the face of this, it might be useful to define health, good or bad, in terms that can be measured, can be interpreted with respect to the ability of the individual at the time of measurement to function in a normal manner with respect to the likelihood of imminent disease. Thus, we can say that health is a state of complete-physical, mental and social well being, and not merely the absence of disease or infirmity and this definition has also been interpreted as "the ability to lead a socially and economically productive life (WHO, 1978; 1996).

Activity 2: Who is responsible for health care in Nigeria?

3.2 Responsibility for Health Care in Nigeria

Since you have now realised hat health is a necessity for anymeaningful development, therefore health care implies “the provisionof conditions for normal, mental and physical development” and functioning of the human being individually or in a group". It includes health protection measures; promotion of health; prevention of sickness; and curative and protective medicine in all its ramifications.

Health care is a shared responsibility in all the Nigerian constitutional setups, among the federal, state, and local governments. The local governments are supposed to take care of the primary level (emphasising preventive medicare-health clinics, dispensaries, etc) while state governments are responsible for the secondary level (emphasising curative medicare/first referral general hospitals, etc). The federal government, on the other hand, is in charge of the tertiary level of care (emphasising referral medicare) to which teaching and specialist hospitals belong.

3.3 Levels of Health Care Facilities in Nigeria

There are basically three health care levels in Nigeria: Primary health care, secondary health care, and tertiary health care.

In a National Inventory of Community-based infrastructure just released in May 1977, it was discovered that only 14.47, out of the 101,041 communities in Nigeria have any health care facility at all, representing only 14.3% coverage of health institutions. This shows that the health for all by the year 2,000 remains a mirage in Nigeria. This leaves 85.7% of Nigerians unnerved. Also, only 86 general hospitals are serving over 104 million Nigerians. Also, there are 14 teaching hospitals, 7,027 and 7,231 dispensaries in Nigeria, most of which are urban based. There are also 4,775 maternity homes, 3,004 rural health centers, 284 optometric (eye) hospitals and 152 leprosaria in the country.

Lagos State tops the table of state with the highest presence of health institutions with 25 general hospitals, 85 rural health centers. 73 maternity homes, 1.173 clinics, 254 dispensaries, one teaching hospital, etc, bringing the total to 2,879. Plateau State ranks second highest with 55 general hospitals, one teaching hospital, 98 rural health centers, 119 maternity homes, 657 clinics, 463 dispensaries, etc, totaling 1,409 health institutions. Other following are Ondo (1,193), Benue (1,139), Enugu (986), Rivers (961), and Imo with 935 health institutions. While the Federal Capital Territory has 164 health institutions, Yobe has the least number among the states with 303- health institution made up of 12 general hospitals, 26 rural health centers, 10 maternities, 66 clinics 169 dispensaries, etc.

3.4 Primary Health Care (PHC) in Nigeria

1. Primary Health Care in Nigeria: Basic Health Care System

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

The Alma-Ata Declaration stated that the essential elements of PHC included at least the following:

a) Education concerning prevailing health problems and the methods of preventing and controlling them

b) Promotion of food supply and proper nutrition
c) An adequate supply of safe water and basic sanitation
d) Material and child health care, including family planning
e) Immunisation against the major infectious diseases
f) Appropriate treatment of common diseases and injuries; and
g) Provision of essential drugs.

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

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

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

- Community-based health being pursued by diverse private agencies were recognised and supported as PHC efforts advancing that goal of HFA
- Many governments in both developing and industrialised countries adopted PHC strategies in their health sectors
- The World Health Organisation (WHO) itself promoted HFA objectives and PHC initiatives within its internal programmes as well as with member governments
- United Nations Children's Fund (UNICEF) launched a "child survival and development revolution", using mobilisation to disseminate low-cost yet effective health technologies for child survival, including universal childhood immunisation, mass utilisation of oral rehydration and the "Bamako Initiative", to provide essential drugs in Africa
- Several international PHC related initiatives were launched under multiple-UN- Agency sponsorship, including safe motherhood against maternal mortality; Better Maternal-Child Health through Family Planning; and a Task Force for Child Survival.
- These actions were accompanied by increased investment by some governments and development assistance agencies in PHC.

3.5 Primary Health Care in Nigeria: Initiative and Programmes

Being part of the Alma-Ata meeting in 1978 and being convinced of the importance of good health in national development, the Federal Government of Nigeria produced, during the last decade, a blueprint on "National Health Policy and Strategy to Achieve Health for All Nigerians" (Federal Ministry of Health, 1986). The document reaffirmed the government's commitment to intensive action on the attainment of the goal of health for all by the year 2000. Accordingly, government embarked on a new direction of health care delivery which makes PHC the focus. Before this period, the Basic Health Services (BHS) scheme formed an important health programme of the Third Nation Development Plan 1975-80) and Fourth National Development Plan (1981-1985). Under the BHS, the government intended, in part, to significantly improve the modern health care coverage of the country within the framework of a three-tier national comprehensive health care delivery system comprising the following:

a) Primary Health Care (PHC) at which basic health services would be delivered in health centers, clinics and out-patient departments of hospitals located in rural suburban and urban areas.

b) Secondary Health Care (SHC) designed to provide general and specialist health care services mostly in general hospitals as well as referral support to the Basic/Primary Health Care level.

c) Tertiary Health Care (THC) to be provided in specialist and teaching hospitals and other similar institutions in support of the basic and secondary levels of the health care delivery system (Federal Republic of Nigeria, 1990).

In spite of these achievements, a number of problems remained and in most cases persisted. Some of these problems include: increasing demand on the health care system, misadministration of health manpower and institutions, inadequate health support services, inadequate funding, shortage of drugs, and poor preventive and environmental health services. It was against this background that both the National Health Policy and the First National Rolling Plan (1990-92) made PHC the primary focus ofpolicy.

Experience from the unsuccessful implementation of the BHC programme during the previous two successive plans had shown the need for the close involvement of the local governments, local communities, and individuals in the implementation of the PHC in collaboration with the other two tiers of government which handled it almost exclusively in the past. Consequently, government's policy changed to that of the Federal and States continuing to provide matching grants while the implementation and delivery of PHC in the country became the exclusive responsibility of local governments for 1990. In the presence of financial constraints, a selective approach was adopted in implementation, with more beneficial components given greater emphasis. There was emphasis on sectoral and inter-sectional cooperation for monitoring, evaluating and coordinating health-related programmes in such areas as housing, environmental sanitation, drinking water, as well as food and nutrition.

Based on the above, certain targets under the PHC were set for the years 1992 to 1996.

In the same vein, responsibilities were given to different levels of government as follows:

3.5.1 Federal Government

a) The development of model LGAs in the country for PHC service delivery
b) Completion of two comprehensive health centers for each of the Federal University Teaching Hospitals
c) Rehabilitation of Federal-financed PHC units as well as schools of Health Technology in the states
d) Contribute financially in support of the World Bank-assisted Sokoto and Imo Health Projects and the National Essential Drug and Vaccines programme
e) Development of the National Institute for Production of Vaccines and other Biological Substances in Lagos and Abuja
f) The establishment of the National Primary Health Care Development Agency (NPHCDA) for the development of PHC nationwide
g) AIDs control and prevention programmes.

3.5.2 The States

a) Provision of additional PHC facilities and the improvement and upgrading of existing ones in the states
b) Completion, furnishing and equipping of on-going and abandoned basic health facilities
c) Provision of equipment, drugs and other supplies for the improvement and sustenance of states' efforts in promoting such services as the Expanded Programme on Immunization (EPI). Oral Rehydration Teraphy (ORT) and Family Planning (FP) services

d) The prevention and control of communicable diseases. Emphasis is placed on AIDs, small pox, yellow fever, tuberculosis, guinea worm, malaria, leprosy, etc.

3.5.3 Local Government Authorities (LGAS)

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

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

Consequently, activities that formed integral parts of the Nigerian PHC include: the Extended Programme on Immunisation (REPI): Oral Rehydration Therapy (ORT); Safe Motherhood and Family Planning Activities: Complication of an Essential Drug List: and the National Formulary Decree which makes it an offence to manufacture, import sell display for sale, or advertise any drug not on the list. Others are the Guinea Worm Eradication (GWE), and National AIDs Control Programme; (NACP), reduction of Tuberculosis and Leprosy; campaign against River Blindness and the National Programme of Action for the Survival, Protection and Development of Nigerian Child.

Apart from financial allocations to PHC, allocation to the Department of PHC by the Federal Ministry of Health and Social Services (FMEISS) stood at N10.0 million in 1990, falling to N9.6 million, N9.7 million in 1992 and N6.1 million in 1993.

3.6 Secondary Health Care (SHC) in Nigeria

The secondary health care level exists to "provide specialised services to patients referred from the primary health care level through outpatient and in-patient services at hospital centers for general, medical, surgical and paediatric patients"

The level is also expected to provide administrative training and technical support to and supervision for the subordinate level. It serves as administrative headquarters supervising health care activities of the peripheral units. It is available at the district, divisional and zonal levels of the states. Specialised supportive services such as diagnostic, blood bank, rehabilitation, and physiotherapy are often provided.

At the end of 1995, the number of secondary health care institutions stood at 790. Such government and private hospitals exist in threeelected states-Anambra (in the East), Ogun (in the West), and Plateau (in the North).

3.7 Tertiary Health Care (THC) in Nigeria

Tertiary health care, which is at the apex of the national health care system consists of highly specialised services which provide care for specific diseases, and conditions for specific groups. The institutions which fall under THC are teaching hospitals, specialist hospitals, orthopedic, eye, psychiatric, maternity and pediatric hospitals. THC institutions are often centers of the high level research, training and the source of provision of specialised services in the clinical, scientific, diagnostic and technological spheres.

At the end of 1995, there were 47 tertiary health care institutions in Nigeria.

Activity 2: Outline some of the weaknesses of Health Policy in Nigeria.

3.8 Weaknesses in Past and Present Health Policies

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

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

electricity, and the poor management of drugs, vaccines and supplies system.

4.0 CONCLUSION

In spite of the achievements made so far, a number of problems remained and in most cases persisted. These problems include, increasing demand on health care system, misadministration of health manpower and institutions, inadequate health-support services inadequate finding, shortage of drugs, and poor preventive and environmental health services. There is the need to lay emphasis on sectoral and intersectoral cooperation for monitoring, evaluating and coordinating health-related programmes in areas such as housing, environmental simulation, drinking water, as well as food and nutrition.

5.0 SUMMARY

The world's leading authority on matters relating to health (W.H.O.), sees health as "a state of complete physical, mental and social wellbeing and not merely the absence of disease or infirmity"

In Nigeria, successive federal government have in the past made attempts to improve the quality of life of the citizens through policies designed to provide qualitative medical services. Unfortunately, most of these attempts failed to achieve their objectives owing to lack of adequate medical facilities and infrastructures to provide the desired services as well as the funds to procure the required equipment.

6.0 TUTOR-MARKED ASSIGNMENT

What are the weaknesses of the health policies in Nigeria?

7.0 REFERENCES/FURTHER READING

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UNIT 5 NIGERIA'S EXTERNAL ECONOMIC RELATION

CONTENTS

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 equalisation which can be produced by trade without factor movements, by factor movement without trade, or by some combination of the two. Factor equalisation here means that, because countries trade at a common international price ratio, factor prices among the trading partners will tend to be equalised, assuming identical technological possibilities for all commodities across countries.

Hence, economic integration implies different degrees of economic cooperation, merging, mingling and mix with neighbours 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:

- specify the types of formalised external relations
- identify the objectives of economic integration
- explain how and why the Economic community of West African

States (ECOWAS) was established
- identify the benefits that could be derived from being a member of ECOWAS.

3.0 MAIN CONTENT

3.1 Types of Formalised 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 harmonisation 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 andrequires the establishment of a Supra-national agencies whosedecisions are binding on all member-countries. Achievement of total integration has been difficult due to great concern for national sovereignty.

Activity 1: 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 specialisation and smoothness of trade transactions. That is, it aims at bringing about more efficient utilisation of resources while the harmonisation of economic and trade policies ushers in a smooth

and orderly system of trade among member countries.

- 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 o fproducti on.
- 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 (polarisation effect) may result. That is the integration may cause the locus of production of formerly imported goods to shift from a lower cost non-member country to a 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 ECO WAS

The initial moves at forming the organization were made by the then Nigerian Head of State, General Yakubu Gowon (rtd) and the Togolese Leader, Gnassingbe Eyadema at the time they signed a bilateral agreement in April 1972. That agreement was seen by Eyadema 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

Activity 2: What are the goals ofECOWAS?

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

i. The elimination between member states of customs duties and other charges of equivalent effects in respect of the importation and exportation of goods:
ii. Abolition of quantitative and administrative restriction on trade among member states
iii. The establishment of a common customs tariff and a common commercial policy towards third countries
iv. Free movement of persons, services and capital between member states
v. Harmonisation of the agricultural policies and the promotion of common projects in the member states
vi. The implementation of schemes for the joint development of transport, communication, energy, and other infrastructural facilities
vii. The harmonisation of the economic and industrial policies of the member states and the elimination of differences in the level of development of member states; and
viii. 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 production would be carried on by the most efficient producers, there will be increase in the volume of production. Furthermore, as a result of economies of scale from mass production, the unit cost of production would fall and, hence 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 specialisation, economies of scale in production, management and research, infusion of technical innovation and promotion of capital formation. As a result of specialisation, 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 subregion will attract more capital and technology as well as innovation research.

If the economic sectors are organised in such a way as to generate forward and backward linkages to other sectors, the impact of industrialisation and technology would spread to other sectors. This positive effect is a characteristics of the early stages of industrialisation 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 mobilisation of financial resources among the member states. It is evident that shares are oversubscribed in some parts of the region. Integration would, therefore facilitate mobilisation 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 ECOWAS 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 ofprotocols 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 restricted 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 ECOWAS headquarters in Abuja has been completed.

Nigerian 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 mobilise 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.

- Coordinated industrial planning is likely to result, especially in those industries where economies of scale are likely to exist.

- A corollary of the above (coordinate industrial planning) is that this will result to accelerated 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 subregion. 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, 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?

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MODULE 4

UNIT 1 FOOD PROBLEM IN NIGERIA

CONTENTS

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 per cent per annum, far exceeds that of food supply, which is estimated to be 2.2 per cent per rapid increase in population, urbanisation 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 per cent per annum. This 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 urbanisation, the rate of growth of the rural population in Nigeria between 1970 and 1975, was 1.6 per cent per annum compared to that in respect of urban population, which was 7.8 per cent per annum, more than double the growth rate of total population. The increased urbanisation 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 shortagehas 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, a Food Balance Sheet for Nigeria was published in 'A Quantitative Analysis of Food Requirement Supplies and Demand in Nigerian 1968-1985' by S.O. Olayide. 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 per centage 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 averaged 3,000 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.
Activity 1: 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 foodshortage 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 per cent. 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 N20 million capital.

A sum of N150 million was earmarked for the bank during the Third Plan period. The 650 per cent 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 per cent 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 ofAgricultural Input

The use of improved inputs is extremely limited. Procurement and distribution of seeds, chemicals and other agricultural inputs are handled by each state government. The distributive system has always been bedeviled by inefficient handling. 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.

Activity 2: 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:

i. 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.

ii. 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.

iii. Propagating the production of agricultural materials for extensive domestic manufacturing activities especially in the field of agro-based industries.

iv. 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 centralised control but decentralised 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:

i. Guaranteed loan scheme in which the federal government guarantees all agricultural loans given by commercial banks to the tune of 75 per cent ofthe irrecoverable amount

ii. Five years tax holiday for investment in combined agricultural production and processing.

iii. Abolition of import duties on tractors and other machinery and equipment used for agricultural production.

iv. Increase of subsidies on fertilizer to 75 per cent.

v. Transfer of integrated agricultural production and processing from schedules II to III of the Nigerian Enterprises Promotion Decree.

vi. Treatment of agricultural production and processing and marking of agricultural produce as favoured sector under the credit guideline.

vii. 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 per cent.

viii. Indefinite carry-forward of losses suffered by a company engaged in agriculture until such losses can be written off against future profits.

ix. Exemption from taxation of the interest payable on loans granted to aid investment in agriculture.

x. Granting of capital allowance for tax purposes to those wholease 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 surplus’ 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 Greenrevolution 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 modernise 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 centres. 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 mobilising 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 normadic 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 are 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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UNIT 2 BALANCE OF PAYMENT DISEQUILIBRIUM IN NIGERIA

CONTENTS

1.0 INTRODUCTION

When a country interacts with another country there is bound to be some economic transactions between them. Therefore, balance of payments of a country is a systematic record of all economic transactions between the residents of the foreign countries during a given period of time. The major reason for keeping such an account is to inform governmental authorities of the international position of the country so that appropriate decision on monetary and fiscal policy can be taken. In theory, the balance of payments is kept in standard double entry format. There are two entries for each transaction. The first indicates the goods, services, and securities that are imported or exported while the second entry shows how this transaction is financed. As a result of the underlying double entry structure, the payments to foreigners, by Nigerian residents must be equal to the value of domestically produced goods, services and securities sold to foreigners. It is this fact that accounts for the well known holism that the balance of payment always balances.

2.0 OBJECTIVES

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

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

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

3.0 MAIN CONTENT

3.1 Meaning and Possible Causes of Balance of Payments Disequilibrium

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

Activity 1: What are possible causes of balance ofpayment disequilibrium

Having defined the terms equilibrium and disequilibrium in the balance of payments, it will be pertinent to consider the traditional causes ofdisequilibrium situations in the balance of payments. These causes are discussed in turn.

1. Changes in Demand Conditions: When there is a change in demand conditions, there is going to be disequilibrium in the balance of payments. When the change is favourable in terms of export commodities, then a surplus arises; whereas a deficit results if the change is in favour of imports.
2. International Competition: Here it is assumed that the domestic economy is either sold out of the market or outsells competitors out of international market because its cost of production is higher or lower than that of its rivals. When either of these situations arises, there will be disequilibrium in the balance of payments situation of the domestic country.
3. Exchange Rate Valuation: This affects the equilibrium situation of the balance of payments to the extent that the, exchange rate is over-valued or under-valued. An over-valuation of the exchange rate will lead to a deficit while an under-valuation of exchange rate may lead to a surplus in the balance of payments. Since either a deficit or surplus is a deviation from equilibrium, therefore, disequilibrium exists in the balance of payments.
4. Tax Regulations: an unfavourable export tax regulation leads to a deficit in the balance of payments while an unfavourable import tax regulation could lead to a surplus in the balance of payments

and hence to a disequilibrium situation.

5. Inflation: Inflation in the domestic economy causes exports to be relatively more costly in the world market and this leads to a loss of exports and its attendant deficit in the balance of payments. Conversely, inflation in rival countries' domestic economies causes more to be bought from the domestic country since her exports will be relatively cheaper. When this happens, a surplus exists in the country's balance of payments and hence it could cause disequilibrium.
6. Transfer: When out-transfer payment exceed transfer receipts from other countries or when in-transfer are greater than out-transfer payments, there will be disequilibrium in the balance of payments.
7. Heavy reliance on services performed by firms owned by other countries: This leads to excess of invisible imports over exports and, hence disequilibrium in the balance of payments. Conversely when services performed by firms owned by the domestic country are relied upon by foreign countries, there will result a surplus in the balance-of-payments situation of the domestic economy.
8. International Commitments: When a country has more international commitments (e.g. United States of America) than it receives in the form of foreign aid, scholarships, payment to troops stationed abroad etc, there might be excess of invisible imports over exports and this could throw the balance of payments out of equilibrium if there are no favourable balance in other accounts of the balance of payments.
9. Development Programmes: The incidence of development programmes and the wish to finance it through importation of goods and services and capital provided by foreign countries could throw the balance of payments into disequilibrium.
10. National Income: A country's export will depend on the national incomes of its trading partners. An increase in income abroad will have a favourable effect on the country's exports. Similarly, if income increase in the domestic economy, imports would likely increase. All these cause disequilibrium in the balance of payments.
11. Tastes: A change in tastes in favour of imports from abroad would have unfavourable effects on balance of payments while an unfavourable change in tastes in connection with imports from abroad could lead to a favourable effect on balance of payments. Once any of these happens, there is going to be disequilibrium in the balance of payments of the domestic economy.

Activity 2: How do you measure balance of payment?

3.2 Measurement of Balance of Payments

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

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

ii. **Net Liquidity Balance Approach:** This approach considers as autonomous the current account and long-term capital account transactions, short-tem capital assets, errors and omissions as well as Allocation of Special Drawing Rights (SDRs) while regarding all other items as accommodating.

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

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

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

Activity 3: What do you mean by traditional balance of payments adjustment mechanism?

3.3 Traditional Balance of Payments Adjustment Mechanisms (Measures)

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

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

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

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

3.4.1 Expenditure-Reducing Policies

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

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

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

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

Government expenditures include public consumption, investment and transfer payments. A cut in government expenditure especially with respect to transfer payments will reduce income of the beneficiaries of such transfer payments. This will in the final analysis lead to a fall in imports and a favourable situation in the balance of payments. A decrease in public investment produces the same effect on national income as a fall in private investment, and leads to a fall in national income and imports.

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

c. Expenditure-Switching Policies

Expenditure-Switching policies can take one of two forms.

These are exchange rate changes and direct control.

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

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

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

These operate through quantitative and exchange restrictions. The essence of direct trade controls is usually a wish to restrict imports since factors affecting exports are purely exogenous to the domestic economy. Direct controls can equally be considered in terms of commercial and financial controls. However, policy measures under direct controls include the following:

Import Restriction: Here the government can decide that only a given per centage of the previous volume of imports can be imported in the current year. Such a restriction of imports will make their internal value higher than their external value.

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

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

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

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

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

3.4 The Use of Policy Measures in Nigeria

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

a. Fiscal Measures

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

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

b. Monetary Measures

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

c. Foreign Exchange Regulation

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

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

d. Export Promotion

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

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

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

e. Trade Agreement and Economic Cooperation

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

f. Exchange Rate Policy (Devaluation)

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

4.0 CONCLUSION

Nigeria's balance of payments has been under persistent pressure since 1982 when the second oil shock occurred and the debt burden became pronounced. Attempts at managing the balance of payments, involved restrictive exchange and trade control practice to achieve the policy objectives. The liberalisation of exchange controls and the institution of a market-based exchange rate mechanism with the commencement of the Structural Adjustment Programme (SAP) temporarily stabilised international payments. However, slippages in policy-in particular, the reflation of the economy in 1988-intensified pressure on the external sector. Non-oil exports that initially rose at the inception of SAP declined in 1989 and have remained depressed ever since.

More so, the disproportionate size of oil exports vis-a-vis non-oil exports, the excruciating debt burden, and the unfavourable domestic and international economic environments have constrained the achievement of a balanced and sustained economic growth that could foster balance ofpayments viability.

5.0 SUMMARY

Balance of payment equilibrium is a situation whereby a country'sreceipts and payments are equalised. However, factors such as demand conditions, international competition, exchange rate valuation, tax regulation, etc, are responsible for the balance of payment disequilibrium in the country. In this regard, the government has put in place over the years certain policy measures such as, fiscal policy, monetary measures ,foreign exchange regulation, export promotion to address this problem.

6.0 TUTOR-MARKED ASSIGNMENT

What were the policy measures that respective governments in Nigeria have employed to ameliorate the balance of payment position?

7.0 REFERENCES/FURTHER READING

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UNIT 3 UNEMPLOYMENT IN THE NIGERIAN ECONOMY

CONTENTS

1.0 INTRODUCTION

Unemployment as a phenomenon, is a situation whereby people who are professionally qualified, able and willing to work are unable to find employment.

Ativity 1: What is unemployment?

This situation presents itself in different ways.

Seasonal Unemployment

A situation whereby people are laid off seasonally due to the nature of job they do e.g. agricultural jobs.

Technological Unemployment

- Unemployment caused by technological changes or new methods of production in an industry or business e.g. a non-computer literate accountant may not be able to get a desired job in a bank.

Disguised unemployment

- A situation whereby people take up jobs unrelated to their area of specialisation when the job they are qualified for is not forthcoming.

Under employment

- a condition where people are employed in less-skilled jobs than they are qualified to do.

Sectoral Unemployment

- A situation that affects certain professions because of over production of graduates in such areas. This can also happen as a consequence of rural-urban migration.
  Up to the early eighties, university graduates had jobs waiting for them on graduation, at times more than one offer. What obtains now is a situation whereby graduates of ten years or more are still seeking for employment. What then went wrong and where?

2.0 OBJECTIVES

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

- state the meaning of the unemployment
- identify the courses of the urban unemployment
- look at the government policies towards solving unemployment in the country.

Activity 2: You now imagine that there is high level of unemployment in urban centres, what is actually responsible for this problem?

3.0 MAIN CONTENT

3.1 Causes of Urban Unemployment in Nigeria

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

Activity 3: What factors are responsible for urban unemployment in Nigeria?

3.1.1 Wage Rate

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

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

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

Activity 4: Does education affect the supply of labour in Nigeria?

3.1.2 Expansion in Education and the Supply of Labour

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

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

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

Activity 5: A part from wage differentials and education, what other factors affect the supply of labour?

3.1.3 Population Growth and Labour Supply

Population growth as a factor that influences the supply of labour. The size of labour force is a function of total population. Labour force in Nigeria is comprised of people in the 15-55 year age bracket. However, an increasing number of organisations are increasing their retirement age to 65 years so that in the near future, the potential labour force will increase further because of a change in definition of labour force. In the face of limited labour demand, the acceleration in the growth of the labour force has led to increased urban and total unemployment problem in Nigeria and this will continue to be so unless corrective measures are evolved to halt it.

3.1.4 Institutional Factors Contributing to Urban Unemployment

Moreso, there are institutional factors that contribute to the problem of urban unemployment. Geographical immobility of labour causes unemployment. In the Nigerian setting, the unemployment problem, especially among high-level manpower, is due, in large measure, to institutional factors which lead to a restriction of human resource flow among various parts of the country. While it is now apparent that the southern states are over-producing some categories of high-level manpower with consequent urban unemployment (since most of them remain in the cities), it is also clear that most of the northern states suffer from acute shortage in almost all categories of high-level manpower. Some northern states, after two years of independence still prefer expatriate labour to local labour even when expatriate labour is not as good as local. If a free flow of high-level manpower were permitted between the states, the problem of unemployment among high-level manpower would be reduced. The major institutional factors restricting the free flow is the policy of state governments that stipulate that civil servants must be state indigenes. This policy is now being extended to the private sector as some of the state government pressurize private companies to ensure that no non-state indigenes are employed in companies operating in the state.

Other institutional factors such as the ineffective operation of Labour Exchange (Labour Offices) and the "influence system" (or long leg system) of recruiting and the operation of the expatriate quota system tend to compound unemployment problem. Labour exchanges are few. The "influence system" of employment operates in such a manner that unless the potential employee knows somebody of importance he or she may not be able to secure a job compatible with his skill even when a vacancy exists.

The expatriate quota, which makes influx of foreigners into Nigeria possible, clearly contributes to urban and total unemployment of high-level manpower. Many university graduates, even those in some scientific fields and engineering, have been known to remain unemployed in Nigerian cities while expatriates who are not better qualified perform such jobs.

3.1.5 Factor Proportion and Demand for Labour

It is sometimes suggested that the production functions in modern sector of developing countries reflect fixed factor proportions. There is need for a careful application of this theory in Nigeria. It is true that in Nigeria, the expatriate firms generally use a production function that reflects high capital intensity and fixed factor proportions. Accordingly, a reduction in wage, it is thought, may not increase the amount of labour demand. However, there is a large intermediate sector where the production function shows more variable factor proportions-this refers to the small scale industries, repair shops where more labour-intensive technology is used and the same applies to the government sector which is even the greatest labour employer.

Because of this, the factor proportion in these sectors will be more sensitive to wage rate changes. The possibility is high that the Udoji awards, which led to higher wages, has helped to press down the employment rate and, therefore, increased urban unemployment.

The Nigerian situation, to an extent, therefore, seems to corroborate a hypothesis that 'in the last two and half decades, there had been a high degree of negative correlation between rises in real wages and growth of employment in several African countries'.

3.1.6 Government Expenditure Policy

The government expenditure policy whereby most of government projects (industries and public utilities) are concentrated in urban areas at the utter neglect of the rural encourages mass exodus of rural unskilled labour from villages into the urban towns and, therefore, causes urban unemployment.

Various government policies (e.g. the numerous and sometimes over-generous industrial incentives) tend to encourage capital intensive and labour saving techniques of production in most of the urban industrial establishments. This aggravates the urban unemployment problem.

3.1.7 Attractiveness of the Urban Centres

Apart from the marked differences between urban and rural earnings, many potential migrants usually have little or no valid information about urban unemployment conditions.

There is the deceptive display of 'prosperity' by many city dwellers (even when unemployed) whenever they visit their homes in the rural areas. This gives a wrong impression and encourages some youths to migrate to the cities.

The Nigerian 'Social Security System' emanating from the extended family system whereby a relative may cater for a new migrant who may be unemployed for some time normally lessens the fear of joining the unemployed people in the urban areas.

3.2 Effects of Urban Unemployment In Nigeria

For you to understand the effects of urban and total unemployment you could roughly separate it on the basis of the individual and the nation. For the individual, the young and active Nigerian, hoping to place himself in the modern world-a long period of unemployment in the city may undermine his self-confidence and turn his optimism to disillusionment. For him, unemployment means lower standard of living resulting from no income and it carries a suggestion of failure which is often accompanied by loss of prestige and status. In a competitive economy such as ours, the psychology of failure can lead to complete loss of self-respect and indulgence of otherwise unacceptable behaviour and attitude.

Urban unemployment has high social and economic costs. Those unemployed reduce the disposable income of those who are working and they distort the expenditure and savings patterns of their immediate families with whom they are staying and in this way they help to retard the rate of capital formation and development of the economy.

Another consequence of urban unemployment is its effect on the industrial sector. A high level of urban unemployment does not constitute a factor conductive to the instruction of innovations designed to bring about a rapid increase in labour productivity in industry.

As indicated earlier, most of the urban unemployed are young persons with levels of education ranging from a few years of primary schooling to full secondary school training. Their state of unemployment, therefore, constitutes a double loss to the society, in view of the tremendous amount of resources that had been invested in their formal education and the consumption demands they themselves make on the economy. They consume but do not produce.

Unity may be elusive because of the existence of urban unemployment of high-level manpower. You could now say that, the slogan of ‘one Nigeria’ means nothing to an unemployed and hungry man who knows that he could obtain employment and satisfy his hunger in a part of the country, but cannot do so because of the accident of his birthplace, very often, not even of himself, but of his parents and great grand parents.

3.3 Possible Remedy for Urban Unemployment in Nigeria

Our economy has often assumed that economic growth per se would be accompanied by employment growth and, hence, until 1975 no special provision have been made for employment in any of the development plans. You could argue that the acceptance of the employment objectives as a cornerstone in Nigeria's economic and social development policies has become imperative. The authors of the Third National Development Plan also took note of this by saying 'the inability of economic growth to generate adequate employment opportunities for the masses has, in particular, called for a reexamination of the philosophy and strategies of development planning'. This awareness is praiseworthy when we remember that the ultimate goal of economic development is the welfare of the individual. Employment creation must be a conscious objective of the development planners even if it means a reduced overall growth in the short-run. The problem, therefore, is how can unemployment rate be reduced to a minimum acceptable rate?

It is a fact that should be emphasised that education as such does not create employment. Rather education merely enhances the quality, employability and productive capacity ofthe labour force.

The basic policy and administrative problems lie in designing the optimum balance between levels of education, curriculum content and skill mixes, geared to the needs of the economy as a whole. At present the feelings of manpower and educational administrators as well as of parents and pupils tend to be education and training for wage-earning employment in the formal (modern) sectors of national life. It is for this reason that education has tended to exacerbate rural population exodus to towns and cities, creating the well-documented problem of urban unemployment. It is, therefore,, very important that primary, secondary, technical, vocational and university education must all reflect the ascertained needs of the economy. Secondary education in particular, should be designed to hold the balance between twoextremes and should, therefore, emphasise flexibility through a systemof comparative education that combines some acquisition of skills with academic learning.

In dealing with the problem of rural-urban migration and, therefore, urban unemployment, the governments must focus their attention on urban-rural wage differentials. Government should embark on developmental policies, which involve the provision of social amenities and industries in the rural areas.

In the area of population policy and its possible effect on the size of the labour force as well as overall capacity to undertake more development expenditure, Nigerian governments have shown very little interest. There was no population policy until the time of the Second Development Plan. Even then, the acuteness of the population problem was still discounted by statements such as 'the magnitude of the country's population problems is unlikely to be such that calls for extensive, emergency or panic action'. The present high youth dependency ratio is, of course, serious from the viewpoint of mobilizing domestic savings and, hence, capital formation. It is expected that the National Population Council will take more urgent view of the function of population planning and control than even the Third National Plan stipulates. It should engage in more rigorous and more meaningful national campaigns in favour of family planning, provide enough advisory and treatment services, facilitate sale of subsidized birth control devices, and draw as much as possible, on the experience of Japan and Taiwan.

Policy has in the past been focused on what has been happening to the real wage of urban workers alone. While there is no doubt that the real value of minimum wage has fallen, there is also good reason to believe that the real wage of comparable group of workers in the rural areas has fallen more. If the government is interested in improving the lot of all low-income groups and not just those of urban workers, then the income of the rural groups must be increased as well. This can be done by reducing export tax or income tax rate and increasing primary products' producer's prices. An increase in rural wage, through higher prices for their products, will reduce rural-urban migration and cause urban unemployment rate to decline.

Since rural-urban migration is accentuated by disparities in the supply of public goods in urban and rural areas, it would be desirable to compensate for this disparity in public goods by adjusting up the wage rate in rural areas relative to that in urban areas. This is of particular importance among high-level manpower who put a higher valuation on the relative provision of public goods. They can then buy some of the facilities that are not provided by government with their money.

The rural sector reflects factor proportion conducive to the increased employment generation. Although it was loudly stated (by the former Head of State, General Olusegun Obasanjo in the 1977/78 budget titled the 'Agricultural Budget') that agricultural sector was to be given high priority, there are indications that in the past and even now, the agricultural sector has not got the priority attention it deserves. Judging from the employment generation (about 60 per cent of the total labour force is employed by agriculture) of the agricultural sector, it could be argued that more resources could have been devoted to this sector. The projects in agricultural sector compared with industrial sector seem to be less carefully articulated. If the government is interested in reducing urban unemployment or total unemployment, it is necessary for it to have an integrated development approach to the rural areas.

Rural development should begin to replace the concept of agricultural development in development priorities. Rural development encompasses but involves much more than an increase in agricultural and livestock output and productivity-it includes small towns and villages development, extension of health and educational services, expansion of local credits, the creation of local industries for processing agricultural products, improvements of housing, water supply, sanitation, roads and communications. Broadly based, rural development, in short, means the transformation of stagnant traditional societies into dynamic rural economies.

In Nigeria, rural development has not been sufficiently thought of as an integrated programme of action directed to creating employment in rural areas, making life more attractive, generating additional income and thereby creating conditions which will facilitate holding rural labour on the land, since employment opportunities in urban areas are limited.

The increases in wages and salaries have had unfavourable effects on employment. When labour becomes expensive (as has been the case after Udoji awards), employers naturally lie to economise its use. This in turn affects the volume of employment. Thus, in Nigeria with rising wages it might not be possible for the modern sector to absorb the growing labour force.

There is, therefore, the need for a comprehensive wage policy in which wage and salary rises should, among other things, be strictly related to productivity gains. Minimum wages and salaries should not be artificially determined as had been the case hitherto. With selective price reductions, increased social benefits and services, the minimum wage rates could be reduced below the present level without necessarily lowering the living standards and conditions of workers.

We need to change the existing demand, which is now met by imports, towards the acceptance of indigenous products. The present ban on most imported items, to some extent, could be seen as a step in the right direction. The generation of demand for local products would be primarily accomplished by the creation of comprehensive indigenous institutions trading in products manufactured and assembled in Nigeria and harnessing these institutions to the task of economic development. There should be effective utilisation of what already exists and import substitution industries should be given all the urgent attention and encouragement they deserve. Towards this therefore, and to be really effective, these programmes would have to be powerful and supported by government efforts such as 'Buy Nigerian Campaign', government purchase policies in favour of local products of reasonable quality at all levels, tariff protection and general and administrative measures to promote local industries. There should also be an expansion of the base of operation of these local industries by introducing new lines of products, which, with present technology, could be conveniently manufactured and marketed. Most of them (the products) are more labour-than capital-intensive, and, therefore, their expansion, hopefully, will lead to increased employment.

Deficiency of capital has been identified as one of the causes of the investment deficiency and prevalence of urban unemployment. Ironically, the relatively rich Nigerians derive high social pleasure in wasting the scarce money resource. Through their consumption patterns, they display low propensity to save and, therefore, retard capital formation and investment. This does not enhance the creation of employment opportunities. Government should stop such wasteful spending.

It is a fact that vacancies exist and are not filed while there are numerous jobless people, some with relevant skills. What is responsible for this is that such people are usually unaware of the existence of jobs they seek. There is no efficient system of Federal and/or state employment exchanges. We need to note that an efficient system of Federal and/or state employment exchanges provides one way of dealing with labour immobility. An important function of such a system is the collection and dissemination of information regarding employment opportunities. It should make data available to the entire labour force including those now in the isolated or rural communities.

One other way of combating the present urban unemployment in Nigeria is to encourage and assist the development of high-level manpower. Nigeria is in the category of countries which lack skilled manpower and, therefore, getting them from abroad at rates very prohibitive and exorbitant. These raise production costs and reduce reinvestible profits and funds and, hence, reduce the chances of creation of more employment opportunities. The current effort of the government in the introduction of Universities of Technology is a step in the right direction. The graduate of these Universities should find ready markets in our growing industries.

One of the reasons for the decline of agriculture is the wrong emphasis accorded capital-intensive and labour restrictive import substitutions, which as experience has shown, are even more costly to produce here than to import. We need to boost our traditional export commodities since these are more labour-intensive in production and, therefore, can help to reduce the rush of youths into urban areas where they are hardly employed.

As a way of keeping the youths in rural areas, Nigeria can learn a lot from the example of Kenya where work programmes such as construction of dams and roads done by human labour during off season periods or from the example of Republic of Benin where service centers (these are centers in rural areas where different creative and imaginative trades e.g. modern carpentry, tailoring, mechanical works, and agriculture are taught those who are unable to take or follow the academic line) are operated by the government. These could be established at low costs. They will even generate more employment since people will be employed as staff in such centres.

4.0 CONCLUSION

There is a strong need for institutional collaboration and improved coordination of policy measures for dealing with unemployment. While there are some discernable lapses, the overall policy direction for employment promotion appears to be adequate. What is required is the political will to pursue the policies that work, as well as transparency in programme implementation.

5.0 SUMMARY

Unemployment is when a person who is able and willing to work, and is available for work, does not have work. Therefore, unemployment causes misery, social unrest and hopelessness for the unemployed. However, unemployment could be frictional unemployment, structural unemployment, etc. In event time you will witness urban unemployment. This could have been caused by, high-wage rate, educational facilities, and social attractiveness in the urban centers. But the government has put in place summary facto to resolve this problem.

6.0 TUTOR-MARKED ASSIGNMENT

What are the causes of urban unemployment in Nigeria?

7.0 REFERENCES/FURTHER READING

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UNIT 4 INFLATION IN NIGERIA

CONTENTS

1.0 INTRODUCTION

Inflation may be defined as a high and persistent rise in the price level. This means that not every price increase is regarded as inflation. For example, a once-for-all rise in the price level may not be regarded as an inflationary phenomenon. Some polices designed to control demand, e.g., increase in indirect taxes and interest rates, which policy makers believe would curtail effective demand, may be manifested in higher consumer prices and high production costs. Also, the price of goods and services may not rise simultaneously or by the same proportion.

Even if the increase in price level occurs over a long period of time, it may not be considered inflationary if the rate of increase is considered minimal. For an economy that is growing, some rise in price may be inevitable and may even be acceptable. Indeed, some economies have argued that upward movement in the general price level may be ideal for business. What increase in price constitutes inflation is thus a difficult question to answer. This may vary from country to country. Whilst there seems to be a consensus of opinion that a continuous annual growth rate of price above two per cent in advanced countries could be regarded as inflationary situation, there is not such agreement in the case of developing countries. From this, the definition given earlier on should, therefore, be regarded as, at best, a working definition.

2.0 OBJECTIVES

It is important to know that a high and persistent rise in the price level will affect the growth and development of every society.

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

- explain the meaning and type of inflation
- identify the causes and effect of inflation
- outline efforts made at controlling inflation in Nigeria.

Activity 1: How do we measure inflation?

3.0 MAIN CONTENT

3.1 Measurement of Inflation

It is necessary to measure inflation. There are usually three commonly used measures of price changes, which are referred to as a price indexes. They are: the wholesale price index (wpi), the consumer price index (cpi), and the implicit price index (ipi) or the GDP deflator. Each price index is a weighted index of prices of selected commodities in a basket and its behaviour is taken as representative of the average behaviour of prices of such goods and services in general.

Included in wpi are prices of goods like machinery and equipment, raw materials, and other intermediate inputs. Prices of goods sold directly to consumers or government are usually excluded. The advantages of wpi include the following it could be a good indicator of future trends in consumer goods prices; it includes more items than any of the other indexes; as it responds more directly to changes in the pace of economic activity, it is therefore a very valuable indication of emerging trends; finally, it makes possible the tracing of price rises through successive stages. The major disadvantages, however, are that: its coverage is narrow; and since it covers products at different stages of production, the could significantly affect the entire index.

The most widely used measurement is CPI. This measures the changes in prices of goods and services, which are sold directly to consumers. This index covers wider range of items than wpi since it includes services. Cpi is usually used to deflate nominal incomes and when this is done the result reflects changes in standard of living. Its major defects include the following: it does not measure the extent of price inflation experienced by business enterprises; as a measure of incipient inflation, it is less useful than wpi since it is the more sluggish of the two; and it does not attempt to measure price trends for a large section of the population (e.g. the non-urban).

The ipi (or GNP/GDP deflator) has the broadest coverage. It measures price behaviour of the gross domestic (national) product, i.e. of the total output of goods and services in a country, thus including those of households, business enterprises and government. When ipi is used, inflation indicates when national money income is rising faster than national real income. The problem with using ipi is that its availability is less frequent-annual for some countries and quarterly for others.

It has to be emphasised, however, that none of these three indexes accurately measure inflation for a number of reasons. In the first place, not all transaction are included even in the most comprehensive measure ipi. Second, an observed rising level of general prices may not necessarily reflect an inflationary situation as the quality of the products may have improved.

Activity 2: Identify the various kinds of inflationary situations.

3.2 Kinds of Inflation

There are four major types of inflation. These are: the demand-pull, the cost-push, the mark-up and the structural types.

According to the demand-pull theory, what prompts a rise in the price level is the emergence of excess demand over supply. Usually in this case, full employment is assumed; otherwise, it should be possible to increase supply to eliminate the excess demand. The speed and magnitude of inflation, in this theory, depends on the size of the excess demand. Classical economists have argued that excess demand is caused by expenditures out of excess cash balances. However, Keynesians argued that it is due to autonomous increase in aggregate demand (consumption or investment, private or government). Excess demand in a closed economy with full employment conditions would easily lead to a rise in the price level. However, if the economy is an open one, excess domestic demand may not lead to a rise in the price level if the exchange rate is unchanged and if external reserves are available to finance the increased imports prompted by excess demand.

You can again notice here that it is also possible for inflation to be initiated by increases in costs following the successful move by the factor(s) of production to raise their share(s) of the total product. This is the case of cost-push inflation. The underlying assumption of this theory is that there exists imperfect competition both in the product market and in the labour market. Cost-push inflation is, however, usually considered in relation to autonomous increases in wages. If the rate of growth of wages exceeds that of productivity of labour, producers may have to raise the prices of their products in order to maintain the level of employment. Otherwise, the result would be a decrease in employment and output. It is important to add that the inflationary impact of wage increase depends on: the proportion of wages in the factor costs (the impact being greater in proportion to the labour intensiveness of the enterprises); the extent to which increases in wage rates exceed productivity growth (the larger the gap, the greater the impact), and the amount of offset by the decline in other costs.

Also, in mark-up inflation models, product prices and wages are both assumed to be cost-determined. Business men mark-up prices of their goods over and above the rise in costs of raw materials and labour directly involved in the production of the commodities. Such mark-ups usually cover estimated overhead costs and desired profit margins. When workers realise this, they demand and usually obtain increases in wages to offset the rise in the cost of living. An inflationary spiral can, therefore, be initiated if labour or business or both try to protect real income against an autonomous rise in cost, or if they try to increase their share of national income, which can only be at the expense of some other social groups.

Furthermore, a fourth type of inflation is referred to as structural inflation. Economists argue that inflation may not be the outcome of excess demand, high and rising costs or the willful desire of producers to realise more profits by raising the prices of their products. It could, in fact, be the result of basic structural factors which create supply shortages and deficient government revenue. These structural factors are themselves regarded as reflections of the state of economic under-development.

Many economists have argued that the major type of inflation in developing countries is the structural type, which we intend to examine in some detail in the next section.

Activity 3: What are the source of structural inflation in developing countries?

3.3 Sources of Structural Inflation in Developing Countries

The phenomenon of supply rigidities has been noted in developing countries. Such rigidities are usually attributed to the following: agricultural production may fail to keep pace with population growth as a result of primitive method of cultivation, bad land tenure system, rural-rural migration, poor transport and distribution system, vagaries of the weather; and low level of the country's capacity to import due to shortage of foreign exchange.

Instability of export prices in developing countries does not only limit the capacity to import, it also induces deficit spending, which is one of the structural problems of developing countries. Such deficit spending is usually done through increase in money supply. This consequently leads to inflationary pressures.

Developing countries usually do not produce enough locally to meet aggregate demand. They thus rely heavily on importation of many commodities. The countries are, therefore, prone to imported inflation. Most developing countries usually pay attention to import-substituting industries in the course of their industrial developments. Such industries are usually given a high degree of protection and they usually become 'monopolies' that do not often look for ways of achieving efficiency. The result is that most of them produce at high unit costs and hence have high prices

Finally, developing countries have the characteristic of low savings ratio. This is due not only to low incomes but also to the fact that people have high spending habits as a result of which expenditure is usually high. The level of aggregate expenditure is usually greater than that of aggregate supply and this could fuel inflation, ifnot actually cause it.

Activity 4: What are the likely effects of inflation?

3.4 Effects of Inflation

There is no consensus about the effect of inflation on economic growth. Some argue that it promote economic growth whilst others assert that it retards growth. The arguments for and against the proposition of whether inflation retards or promotes growth have been articulated by two schools of thought the monetarist and the structralists. The former maintain that successful economic development requires increases in price levels as natural consequence of economic development and, that, therefore, such price increases are a necessary part of economic growth in developing countries. While there may be no agreement on this issue, there are other generally accepted effects of inflation on an economy.

It is agreed, for example, that inflation affects production. As costs of production are generally believed not to rise as rapidly as prices, profit margins of producers tend to be greater than expected. Because of the higher profit levels, producers become optimistic and are, therefore, encouraged to expand production.

When there is inflation, the incomes of different groups of people are differently affected by rising prices. The advantages of inflation to some group become disadvantages to some other groups. Profits receivers gain at the expense of consumers. Wages lag behind prices. Thus, at times of rising prices, wage earners find that their real wages would fall. People who receive fixed incomes and salaries suffer most from inflation. These include retired people and pensioners. In addition, debtors gain in an inflationary situation while creditors lose.

Inflation could also affect the balance of payment of a country adversely. As prices of exported goods increase at home, it becomes less competitive in the world market. Under these circumstances, a balance of payment problem would likely arise.

Inflation creates distortions in the economy. It could, for example, lead to price speculation and the hoarding of commodities. These and other distortions do not make for efficiency in the allocation of resources.

Inflation moreover usually has a negative effect on the currency of a country as with rising prices, the value of money falls and gradually the currency may become worthless.

Inflation adversely affects savings. This is because with rising prices, people will have fewer surpluses to save and even the expectation of further inflation may make people to spend all they have immediately. Less saving will, in turn, affect the amount of investment that business men and financial institutions can undertake. This may eventually affect the level of development.

An inflationary situation, finally, usually brings in its wave of industrial discontent. Labour reacts to a rise in prices by asking for higher wages and it may resort to strikes., lock-outs, etc., in order to back its demands.

3.5 Control of Inflation

From the effects of inflation discussed above, it is clear that inflation is not a desirable thing and must therefore be checked or contained in order to avoid these undesirable effects. The control can be affected in a number of ways.

One method is the use of monetary policy. This involves taking actions to reduce the volume of purchasing power in the economy through reductions in money supply. This is usually done by the central bank using certain instruments at its disposal to affect this.

Another way is the use of fiscal policy. This involves measures to reduce aggregate demand. Such measures include increased taxes of individuals and enterprise. The budgeting policy of government with respect to budget surplus is another way of achieving this.

The incomes policy is another measure that can be adopted. This could take the shape of a general statement by the public authorities about the way in which income and prices should develop in the interest of the country or alternatively, a specific and full-scale statutory freeze of wages and prices.

Measures could furthermore be adopted to increase importation of goods, for example, through import liberalisation. This is a short-run policy measure and can only be adopted if the country has foreign exchange reserves to pay for increase imports.

Measures could be adopted to increase the volume of production in the country. This could be done by granting subsidies to producers or by making credit facilities readily available to producers.

3.6 Efforts Made at Controlling Inflation in Nigeria and their Effects

Fiscal measures taken to contain inflation have included tax reduction or abolition to stimulate industrial production and import liberalisation to increase the domestic supply of goods in the economy. As these efforts failed to yield any significant result on supply, trade controls and tariffs were reimposed in 1977 because of lean government financial resources. Operation Feed the Nation (OFN), the National Accelerated Food Production Programme, direct food importation by the National Supply Company and the Price Control Board, which was recently abolished, were unsuccessful efforts made to bring food prices down. An anti-inflation task force was set up in 1975 and its findings led to the setting up of the productivity, Prices and Incomes Board. This Board was to provide guidelines for income, price and wage increases in the economy. Not much positive result has been achieved from the efforts of the Board. Wage freeze in the economy before and after the Udoji Award has also had little or no impact on inflation.

The monetary policy was initially geared towards easy money through credit regulation and credit priority to sectors, which will decrease supply bottlenecks. In the last three years the Central Bank has switched to a tight monetary policy because of persistently rising inflation and excess liquidity in the economy. The impact of monetary policy on inflation in the economy has not been significant because of the relative underdevelopment of the monetary and financial sectors of the economy.

It is pertinent to note here that the lack of policy coordination between the actions of the Finance Ministry and the Central Bank has further compounded the inflationary situation. For example, while the Central Bank has been trying to tighten credit in the economy, the government has encouraged fiscally-induced monetary expansion through its rising budgetary activities. For instance, budget deficits nearly doubled between 1975 and 1977 rising from N1.8 billion. The impact of this on domestic inflation in an economy with limited absorptive capacity cannot be overemphasised.

The inflation problem in Nigeria needs rather drastic measures if any serious impact is to be made in correcting the situation. If the present trend continues unabated it may generate social and political tensions, which would be harmful to the future development of the economy. Real resources wasted by frivolous government expenditure must be stopped and government's fiscal activities should be governed by the absorptive capacity of the economy. The inflationary problem can be linked with the oil and food problems. A successful resolution of these two pressing problems would greatly enhance the effort to find a lasting solution to the problem of inflation in the economy.

4.0 CONCLUSION

The persistent rise of the general price level of the country is yet to be tackled. Besides, government fiscal and monetary policy measures have failed to address this problem. The inflationary pressures keep mounting as the price of goods and service do move upward. This has been primarily as result of excess domestic liquidity and continuous imported inflation. Lack of policy coordination between the action of the finance ministry and the central bank has further compounded the inflationary situation. Thus, while the central bank has been trying to tighten credit in the economy the government has encouraged fiscally induced monetary expansion through its rising budgetary activities.

5.0 SUMMARY

The persistent and appreciable rise in the general level of price could be seen as inflation. The inflationary phenomenon could be identified as demand-pull, the cost-push, and the mark-up and structural types. There is this general consensus that inflation affects production of goods and service, income of different groups of people, balance of payments of the country, the currency of a country and it brings about distortion in the economy and a were of industrial discontent.

However, the government of Nigerian has made considerable efforts to curtail inflationary pressures. These concerted efforts could be observed with the fiscal and monetary policy measures yet to generate enough absorption capacity that places the economy within an economic growth and development that is inflationary free.

6.0 TUTOR-MARKED ASSIGNMENT

Efforts are being made by developing countries to curb structural inflationary situation because of its economic distortion effect. With reference to Nigeria, discuss the various efforts made by the federal government.

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UNIT 5 FISCAL FEDERALISM IN NIGERIA

CONTENTS

1.0 INTRODUCTION

From colonial administration to independence in 1960, revenue allocation in the Federal Republic of Nigeria has had a chequered history. It has been subject of intensive lobbying by politicians in the attempt to have their wishes engrained in the Constitution. The frequencies with which military administrations rewrite decrees to distribute revenue among the tiers of government or simply make fundamental ad-hoc changes in the statutory allocation formulae, clearly shows that revenue allocation in Nigeria is yet an unfinished business. The National Constitutional Conference of 1994 examined the history of revenue allocation in Nigeria with the main objective of reviewing the current revenue allocation formulae being used. The continuity in the unfinished business of revenue allocation in Nigeria is underlined by three issues:

(i) New states and local governments might still be created in Nigeria
(ii) Much of the functions currently being performed by the federal government might be transferred to state and local governments, to de-emphasise the desire by politicians to win at the federal level by all means; and
(iii) The revenue allocation formulae would be reviewed by providing 13 per cent of the revenue from mineral sources to be distributed according to derivation principles. These proposals would have far reaching consequences for revenue allocation in Nigeria. And it may in itselflead to further agitation for review.

2.0 OBJECTIVES

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

- understand the Nigerian experience of fiscal federalism
- identifying the allocation functions of the revenue allocation commission
- highlight the revenue allocation principles
- outline the weakness of the existing revenue allocation system.

3.0 MAIN CONTENT

3.1 Nigerian Experience of Fiscal Federalism 1960-1996

Nigeria became independent in 1960 and adopted the Federal form of administration with three tiers of government in 1963. These were the federal, regional and local governments. The number of the second-tier units was increased in 1967 from 4 regions to 12 states. In 1976, the number rose to 19; 21 in 1987, 30 in 1991and 36 in 1996 After the reforms introduced in 1976, following the restructuring of the country into 12 states, the federal government established 300 local governments. The number of local government units rose progressively to 589 in 1991, and 778 in 1996. Prior to 1989, the administration of local governments was placed under the state government. However, under administrative reforms introduced in 1989, local governments were given some measure of autonomy, including direct funding from the Federation Account.

Although Nigeria retains the physical structure of federalism, theconstitutions over the years. have remained suspended with every military take-over from civilian regimes. The Nigerian experience of fiscal federalism has been influenced largely by the transposition of military rule. Under military administrations, the prevailing command system tends to reduce the administration of the country into a unitary state, as all the state governors receive instructions from the military leader at the centre, who is also the Head of State and Commander-in-Chief of the Armed Forces. The report of the Committee on Revenue Allocation observed with respect to the impact of military intervention on federalism:

"Since the military took over to power, the practice of federalism and power structure between the states and the centre have undergone fundamental changes. In the first place, Decree No. 1 of 1966 vests the Federal Military Government with power to make laws for Nigeria with respect to any matter. A state Governor, an appointee of the Supreme Military Council, derives his authority from the Head of State and must obtain prior permission from him before creating legislation on matters in the concurrent legislative list. Such subordinate-sup ordinance relationships do not of course exactly enhance the free play of inter-governmental relationships normally associated with federal political arrangements. This scenario does not hold under civilian regimes where a state may be under a different political party and ideology from the government at the centre."

The taxing and expenditure functions as provided in the suspended Federal Constitutions are reviewed below:

3.2 Allocation of Functions

The 1963 Federal Constitution allocated the functions to be performed by the federal and regional governments under two main headings. These are exclusive federal and concurrent legislative lists. Local governments were treated implicitly as part of the regional and later, state governments. However, the 1979 Federal Constitution identified functions to be performed by the local governments under the fourth schedule. These functions are summarized below:

i. Exclusive List

All functions under the exclusive list are to be performed by the federal government and include accounts of government of the federation; issue of legal tender currency; external affairs; defence, etc. Over the years, there have been amendments to the contents of the exclusive legislative list, but the overriding principles remain that these functions are to be performed by the federal government alone.

ii. Concurrent Legislative List

All subjects listed under the concurrent legislative list are to performed by both the federal and state/regional governments. These include antiquities, census, higher education, industrial development, prisons, national parks, etc.

iii. Functions of Local Governments

The functional roles of the local governments are listed in the Fourth Schedule of the 1979 and 1989 Federal Constitutions. The local governments are expected to provide public goods and services, such as primary schools, maintenance of markets, cemeteries, home for the destitute and infirm, public conveniences, refuse disposals, etc, as well as other functions that may be conferred on them by the State Houses of Assembly.

Under the military administration, however, there has been a blurring of the lines between the allocation of functions among the tiers of government in the Federation. For instance, the military administration, had tended to take more responsibilities in the area of education, health, housing, agriculture, water supply, etc., such that the demand for more revenue for the execution of these projects nationwide has been the rationale for higher revenue allocation to the federal government. Also from the late 1980s, it was the cause of ad-hoc changes in the revenue allocation formulae resulting in transfer of revenue from the federation account to the federal government.

Activity 1: State some of the revenue allocation commissions that have been instituted in the country.

3.3 Revenue Allocation Commissions

Our search for equitable revenue allocation formulae in support of the functional roles to be performed by the governments pre-dated independence. The first commission was established by the colonial administrators in 1946, when Nigeria was being ruled as a unitary state. This was the Philipson Commission. Three other commissions were: appointed by the British government to help proffer solutions to the problems of revenue allocation in the country. These were Hicks Philispson Commission (1951), Chicks Commission (1953), and Raisman Commission (1958), the last before independence. The issue of revenue allocation re-occurred immediately after independence and the old method of appointing commissions was resorted to by the federal government

Between 1960 and 1979, there were four different revenue allocation commissions appointed to provide equitable revenue allocation formulae for the country. These were the Binns Commission (1964), Dina Commission (1968), Aboyade Commission (1977) and Okigbo Commission (1979). Between 1979 and 1994, may ad-hoc changes or amendments were introduced in the revenue allocation formulae by the military administrations through various Decrees impacting on the statutory share o f each tier of government.

Activity 2: What are the determinants of revenue allocation to the respective tiers of government?

3.4 Revenue Allocation Principles

Revenue allocation in a Federation involves two distinct strands. First is the vertical allocation of revenue between the three tiers of government i.e. federal, state and local governments, and, second is the revenue sharing horizontally among the component states and the local governments. The various fiscal commissions based their recommendations for changes in the revenue allocation system on some principles. Some of these principles are reviewed below:

i. The Derivation Principle

This is old as the Federal Republic of Nigeria, and is based on the argument that a state from which revenue is derived deserves to be compensated reasonably according to its contribution. The establishment of the Federation Account by which all revenues are pooled to be shared in accordance with statutory allocation formulae had tended to minimise, although not to a significant degree, the importance of the derivation principle in the country. Derivation is accorded some recognition currently in the statutory allocation formulae under special fund, by providing 13.0 per cent for development of mineral producing areas and 1 .0 per cent directly to derivation.

ii. Financial Need, Even Development, Minimum National Standards

These are subjective principles that had been recommended in the past but do not influence the present revenue allocation formulae. This is as a result of the fact that these principles cannot be quantified to enhance their application for sharing revenue.

iii. StatutoryAllocation among States and Local Governments

The major principles of revenue allocation among the states/local governments are equality, population, social development, and land mass/terrain. The importance attached to each of these principles is reflected in the weight given to each principle as shown below:

Equality	40.0%
Population	30.0%
Social Development Factor	10.0°/0
Land Mass/Terrain	10.0%
Internal Revenue Effort	10.0%
Total Revenue Formulae	100.0%

3.5 Independent and Internally-Generated Revenue

The Federal Constitution provides for the generation of revenue independently by the three tiers of government in addition to statutory allocations from the federation account. The independent revenue of the federal government comprises personal income tax of personnel in the armed forces, and Ministry of External Affairs, operating surpluses of federal parastatals, dividends from federal government's investment in publicly quoted companies, including those under the Federal Ministry of Finance Incorporated (MOFI), rent on government properties, interest and capital repayment on loans on-lent to state governments and parastatals, etc. Over the years, the share of revenue from independent sources have been very low and averaged only 6.5 per cent of the retained revenue of the federal government between 1990 and 1995.

The major sources of state government's internally-generated revenue are personal income tax of citizens resident in their state, fees for registration and licensing of vehicles, charges and levies with respect to land development, etc. For most of the states, total receipts from internal sources cannot finance about 30 per cent of their annual budgets,S and hence, there is a high dependence on statutory allocations in performing their functions.

Up till 1995, sales tax was administered by individual states and the proceeds accrued to each state government as revenue from internal sources. However, the sales tax was repackaged as Value-AddedTax (VAT) in 1994, and the federal government assumed responsibility for its administration in order to ensure uniformity nationwide. Under the enabling decree, the federal government was to receive 20 per cent for its administrative and collection costs. However, this arrangement was reversed in 1995 with the federal government decision to take 50 per cent of the proceeds, while state and local governments were to receive 25 per cent each. This was later revised to 40, 35 and 25 per cent for federal, states and local government, respectively. The statutory share of the VAT pool account in 1996 now stands at 35,40 and 25 per cent, to the three tiers of governments. The major sources of internally generated revenue by local government in Nigeria are property tax within their localities, licencing of bicycles, trucks (other than mechanically propelled trucks), canoes, wheelbarrows and crafts. Collection of rates, radio and television licenses, etc. A review of local government finances between 1993 and 1995 showed that revenue from internal sources accounted for an average of 6.5 per cent of the total current revenue, while statutory allocations from the federal government accounted for 84.9 per cent. Thus, there is also a high dependence on statutory allocation from the federation account by the local governments in performing their functions.

4.0 CONCLUSION

It is imperative that all the three tiers of government should have revenue to perform the duties allocated to them. A number of revenue allocation commissions have been set up in Nigeria. Although federal allocation has declined over time, its share is still very high, because not all federally collectable revenue goes into the allocation pool. States and local governments have found it difficult to perform their roles as a result of limited resources. Conventionally, resource allocation should follow the system of administration adopted by respective government.

It is pertinent to note the agitation for more states and local governments does not take into consideration that the revenue allocated would not be enough for economic development. More than 90 per cent to per cent of states and local governments depend on the federation account.

5.0 SUMMARY

Fiscal federalism is the inter-government fiscal relations as enshrined in a federal constitution, providing for the functional responsibilities to be performed by the multi-levels of government and the financial resources that can be raised for provision of goods and services.

However, Nigeria has retained the physical structure of federalism. The constitutions, over the years, have spelt-out the functions, in addition to a search for equitable revenue allocation formulae in support of the functional roles to be performed by the various tiers of government various allocation commissions have been instituted to work out equitable revenue allocation formulae for the country. These commissions based their recommendation for changes in the revenue allocation system on some principles.

The review of Nigerian experience of fiscal federal constitution had remained suspended for most of the years. Hence, inter-government fiscal relations that occur under military administrations do not conform strictly to the conditionality of fiscal federalism. However, the fiscal relations under the military administrations have resulted in blurring of the lines of divisions of the taxing and expenditure functions. These have adversely affected fiscal management and economic performance in Nigeria.

6.0 TUTOR-MARKED ASSIGNMENT

Give a critic of the existing revenue allocation system.

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MODULE 5

UNIT 1 THE NIGERIAN MONEY MARKET

CONTENT

1.0 INTRODUCTION

Money market refers to a collection, or group of financial institutions or exchange system, set up for dealing in short-term credit instructions of high quality, such as treasury bills, treasury certificates, call money, commercial paper, bankers' unit fund, certificates, ways and means advances, as well as the dealing in gold and foreign exchange. These short-term instruments involve a small risk due to loss, because they are issued by obligors of the highest credit rating and they mature within one year.

While denoting trading in money and other-term financial assets, the money market comprises all the facilities of the country for the purchase and sale of money for intermediate and deferred delivery, and for the borrowing and lending of money for short periods of time. It is a manifestation of dealing in short-term financial instruments (their sale and purchase, and also, borrowing and lending for short period) on the one hand, and a collection of the dealers in these assets on the other. It is thus a collection of financial institutions set up for the granting of short-term loans and dealing in short-term securities, gold and foreign exchange.

2.0 OBJECTIVES

At the end of this unit, you shouldbe able to:

- identifying the nationals for establishing money market
- looking at the instruments ofNigerian money market.

3.0 MAIN CONTENT

3.1 Reasons For The Establishment of The Nigerian Money Market

1. To provide the machinery needed for government's short-termfinancing requirements.

2. As an essential step on the path to independent nationhood, hence, it is part of a modern financial and monetary system to enable the nation to establish the monetary autonomy, which is part and parcel of the workings of an independent, modern state.

3. To Nigerianize the credit base by providing local investment outlets for the retention of funds in Nigeria, and for the investment of funds repatriated from abroad, as a result of government persuasions to that effect.

3.2 The Instruments of the Nigeria Money Market

3.2.1 Treasury Bills (TBs)

TBs are money-market (short-term) securities issued by the Federal Government of Nigeria. They are sold at discount (rather than paying coupon interest), mature within 90 days of the date of issue, and are default-free. These instruments are promissory notes to pay the bearer, 90 days from the date of issue. They provide the government with a highly flexible and relatively cheap means of borrowing cash. They also provide a sound security for dealings in the money market, and the

Central Bank of Nigeria in particular, can operate on that market by dealing on treasury bills.

TB rates were fixed prior to the deregulation of interest rates in Nigeria, but since 1989, they have been offered on auction basis and hence, market determined.

Thus TB s, mere IOUs are used by the federal government to borrow for short periods of about three months, pending the collection of its revenues. Their issue for the first time in Nigeria in April 1960, was provided for under the Treasury Bill Ordinance of 1959. Among other things, the ordinance stipulated: That treasury bills would be issued in Nigeria in multiples of 2,000 (later reduced to 100 in order to expand the coverage of holders) for 91 days and at fixed discount; that subscription would be accepted from the general public, and only through licensed banks in Lagos (later spread throughout the country), that the issues would be monthly (later made fortnightly, and weekly) and that the total outstanding at any time should not exceed 10 per cent of the federal government estimated revenue for that financial year (the 1970 amendment-Treasury Bill Act, 1970, raised the maximum to 150 per cent of the estimated revenue retained by the federal government, and the gross revenues of all the state governments). The CBN absorbed those not taken up by other institutions-providing for rediscount at par.

The main investor in TBs is the commercial banking system and this is partly related to the fact these bills form part of the assets statutorily specified for liquidity ratio purposes. In April 1960, TBs were first issued to the tune of 18 million. By the end of 1995 total issues amounted to 88,103.3265 million.

3.2.2 Treasury Certificates (TCs)

These are similar to TBs but are issued at par or face value and pay fixed interest rates. These fixed interest rates are called coupon rates. Thus, each issue promises to pay a coupon rate of interest and the investor collects this interest income by tearing coupons off the edge of the certificate and cashing the coupons at a bank, post office, or other specified federal offices. Each coupon is imprinted with its naira value and the date it is eligible to be cashed. They mature within a year from the date of issue. In the Nigerian context, their rates became market-determined like TB rates following interest rates deregulation.

Thus, treasury certificates are medium-term government securities which mature after a period of one to two years and are intended to bridge the gap between the treasury bill and long-term government securities. They were first issued in 1968, at a discount of 4 per cent for one-year certificates, and 41/4 percent for two-year certificates. Like treasury bills, treasury certificates are eligible for rediscounting at the CBN. It is popular with banks which use the opportunity of their use to diversity their asset holdings. Because of its buoyant oil revenues, the government declared in the 1975-76 budget speech that no new certificates would be issued and that outstanding issues would be retired as they mature. Due to dwindling oil revenue of the 1980s, the decision had to be reversed. The maiden issue of the instrument amounting to N29 million was over-subscribed by the commercial banks by N24.0 million. At the end of 1987, treasury certificates outstanding had risen to N654.1 million (and only N639.1 million issues) but reaching N6.944 million in 1989. By 1990, it stood at N34214.6 million, rising to N36584.32 in 1993, N37342.7 million in 1994, but declined to N23596.5 million. In 1995, it averaged N392302 million. The main holders of treasury certificates are the commercial banks with CBN ranking second.

Activity 1: What is the function of call money fund scheme?

3.2.3 Call Money Fund Scheme: Money at Call or Short Notice

This refers to money lent by the banks on the understanding that it is repayable at the bank's demand, or at short notice (eg. 24 hours or over-night). It used to be lent at relatively low rates of interest to financial firms and institutions that use it to finance their everyday business.

Overnight loans between commercial banks arise when banks hold reserves in excess of the minimum amount that the central bank require all banks to hold. They are simply bank reserves that are loaned from banks with excess reserves to banks with insufficient reserves. One bank borrows money and pays the overnight interest rate to another bank in order to obtain the lending bank's excess reserves to hold as one day deposit. The borrowing bank needs these one day deposits in order to acquire the legal reserves the CBN examiners require banks to maintain.

They act as a cushion which absorbs the immediate shock of liquidity pursuers in the market. In 1962, the call money fund scheme was introduced in Naira. Under the scheme, a call money fund was created at the CBN and the participating banks had to agree to maintain a minimum balance at the CBN. An surplus above the minimum balance was then lent to the fund. The CBN administered the fund on behalf of the banks and paid interest at a rate fixed somewhere below the treasury bill rate. The CBN then invested the funds in treasury bills.

Initially limited to the banks, but later extended to other financial institutions, the call money scheme proved very popular. In addition to earning interest for the banks, it acted as a cushion absorbing immediate liquidity pressures on the marker. A noticeable feature is that the funds employed in the market exhibited a definite pattern, usually rising during the first half of the month and peaks around mid-month, but reducing thereafter at month ends. This follows the monthly salary and wage payments cycles. Thus banks pressed for cash balances towards month's ends for salary and wage payments, drew down their balances in the fund, and began to build them up from early in the month as the cash payments travel back to the banking system. The scheme was abolished in 1974, due to buoyant oil revenue of the federal government, consequent upon the oil boom. By 1970, investments in treasury bills under the call money fund scheme had averaged N12.7 million monthly, but in 1973, outstanding investment in the fund averaged N15 million monthly compared with N5 million in 1963, the first full year of its operation.

3.2.4 Commercial Paper or Commercial Bill

These are short-term promissory notes issued by the Central Bank of Nigeria, and their maturity vary from 50 to 270 days, with varying denominations (some times N50,000 or more). They are debts that arise in the course of commerce.

Commercial papers may also be sold by major companies (blue-chip, well-known, national companies) to obtain a loan. Here, such notes are not backed by any collateral; rather, they rely on the high credit rating of the issuing companies. Customarily, issuers of commercial papers maintain open lines of credit (i.e. unused borrowing power at banks) sufficient to pay back all of their commercial papers outstanding. Issuers operate in this form since this type of credit can be obtained more quickly and easily than bank loans.

In the Nigerian context, there were two forms of commercial bills the Ordinary Trade Bill and Marketing Board Bills. The ordinary trade was drawn by ordinary reputable commercial firms and accepted by a bank or acceptance house and secured on stocks of manufactured goods or other stocks in trade. But these were note eligible for rediscount at the CBN and hence ,not popular with banks, except when secured on export produce. The Marketing Board Bills originated with the inception of the Bill Market Scheme in 1962. Under that scheme, the Marketing Board met its requirements forecast by drawing a 90- day commercial bill of exchange, supported by a sales contract on the Nigerian Produce Marketing Company Limited, the then sole exporter for all the Marketing Boards (now disbanded). Upon acceptance by the company, the Board then rediscounted the bills with the participating commercial banks and accepting houses, which, if they chose, could rediscount the bills with the CBN. Three separate consortia of banks and other financial institutions operated the scheme for the three marketing boards; and at the height of the scheme, nearly all the commercial banks were involved.

The scheme provided adequate credit for the marketing of the crops concerned and provided a vehicle for short-term investment. However, the scheme began to crack in 1964/65 cocoa crop season and other members of the Cocoa Producers Alliance withdrew from the World Cocoa Market, in an effort to get the cocoa produce manufacturers to raise the price of cocoa to at least £380 per tone. With the withdrawal of sale contract, finance was no longer available. In 1968 the CBN took over the responsibility for Marketing Board crop finance and hence, the demise of the bill market. What remains today of the commercial paper market, following the disappearance of produce bills, are import and domestic trade bills.

By 1968, commercial paper outstanding was N5.1 million, from 36.4 million in 1967. However in 1989, commercial paper outstanding averaged N868.8 million. Between 1990 and 1995, it averaged 2219.05 million with a high of N5252.5 million in 1993, and a low of 953.4 million recorded in 1990.

3.2.5 Certificates of Deposits (CDs)

These are inter-bank debt instrument meant to provide outlet for the commercial bank's surplus funds. It was introduced in Nigeria by the CBN in 1975. it was also meant to open up anew source of funds for the merchant banks who are the major issuers. Two types of certificates of deposit are the negotiable and the non-negotiable certificate of deposit. Negotiable Certificate of Deposits (NCDs) have a maturity range of between 3 and 36 months, and wholesale unit issue of not less 50,000. Those maturing within 18 months are classified as liquid assets, and are eligible for the purpose of satisfying the liquidity ratio requirements. They are also rediscount able at the CBN.

In addition, they are claims to specified sums of money deposited with a merchant bank named on them, i.e., they are receipts from merchant banks for a deposit of 50,000 or more, with certain provisions attached. The banks issuing the NCDs are said to have bought deposit' by selling CDs' with high interest rates ,in order to induce large depositors to make cash deposits not to be withdrawn from the banks before some specific date. Usually 3 to 36 months.

In Nigeria, in most cases, they are issued to fellow-bankers within that maturity period, as one of the deposits they accept. The non-negotiable certificates of deposits (NNCDs) on the other hand, are issued in denominations ranging between 1,000 and 50,000, and are normally held till maturity.

Whereas interest charges on NCDs were by negotiation, rates on NNCDs complied with the rate of interest of deposits as stipulated from time to time by the CBN (before August 1987 when interest rates were deregulated). The CDs outstanding by 1989 averaged 2079.2 million while it averaged 590.15 million between 1990 and 1995. The decline in average is due to the steep decline in the value of this money market instrument between1992 and 1995 when it declined to a mere 15.2 million in 1994.

3.2.6 Bankers Unit Fund (BUF)

This was introduced by the CBN in 1975. Initially, it was meant to mop up excess liquidity in the banking system. It was also designed to smoothen the market for federal government stock. To this end, commercial banks' holdings of the stocks are accepted as a part of their specified liquid assets and are repayable on demand. Under the BUF, federal government stocks of not more than 3 years to maturity were thus designated "Eligible Development Stocks" (EDS), for the purpose of meeting the banks' specified liquid assets requirements. This placed banks in a position to earn long-term rates of interest on what is essentially a short-term investment. Though, initially designed to mop up excess liquidity in the banking system, by conferring on instruments cash-substitute status repayable on demand or acceptable in meeting reserve requirements, the capability of the banks for credit expansion was unaffected.

In effect, the BUF was intended to provide avenue for the commercial and merchant banks and other financial institutions to invest part of their liquid funds in a money market asset linked to federal government stocks. Participants in the scheme invest in multiples of N10,000, and the fund is in turn, invested in available government stocks of various maturity periods. The operation of the scheme was subject to the availability of stocks. Interest is payable every twelve months, from the date of initial investment of funds in the scheme (Onyido, 1986). At the end of 1975, total CDs BUF and EDS outstanding stood at 49.8 million, constituting only 5.1 per cent of total money market assets then. This went up to 258.2 million in 1985. However, in 1989, BUF alone outstanding averaged 3.9 million, while EDS outstanding averaged 23 million. However, by September 1988, BUF ceased to be used as a money market instrument, following divestment by the investing banks in the instrument, in the wake of the squeeze on their liquidity, occasioned by the transfer of government accounts from these banks to the central bank. While EDS (government development stock of not more than three years to maturity designed for purposes of meeting specified liquid asset requirement) were dropped out of the portfolios of the merchant banks that invested in them inApril, 1991.

3.2.7 Stabilization Securities

These were issued since 1976 by the CBN, ideally to mop up idle ,cash balance of participating banks. Participation was mandatory for banks with saving deposits of N50 million and above. The amount they are required to invest in stabilization securities is fixed at 50 per cent of the increase in savings deposits over the level of the preceding year. The savings deposits relate to individual accounts not exceeding 20,000 each. In 1976, when the scheme was introduced, interest rate paid was 4 per cent per annum and revised to 5 per cent by 1979.

Activity 2: In what ways and means do the federal government grant advances?

3.2.8 Ways and Means Advances:

Section 34 of the CBN Act 1958 (Cap. 30 as amended 1962-1969),empowers the CBN to grant temporary advances in the form of ways and means to the federal government up to 25 percent of estimated recurrent budget revenue. Ways and means advances averaged about Ni million yearly between 1960 and 1962. The federal government did not use this facility from 1963 to 1966, except on two occasions only, in December 1963, and January 1966, when relatively small amounts of 400,000 and 240,000 respectively were borrowed.

However, the financial pressures arising from the prosecution of the civil war led to increased use of the instrument by the government. Therefore, from 1.9 million in 1967 ways and means advances rose to a monthly average of 44.5 million at the end of the war in 1970. The instrument was not use between 1971 and 1976, following government's unprecedented revenue from oil. However, the reemergence of financial pressures in 1977 led to the rise in ways and means to a hard-core level of over Ni billion in 1977, and 1978. By 1979, way and means advances outstanding was N65.4 million, while the average monthly amount outstanding in 1987 was N739.9 million, rising to N5,278.0 million in 1988, and to 5,794.4 in 1989. It rose again to a monthly average of 17,791.4 million in 1991, N21,701.2 million in 1992, 43,065.3 million in 1993, but declined to N3,925.2 million, and further to 24,970 million in 1994 and 1995 respectively, reflecting an average of 29,355.96 million between 1991 and 1995.

4.0 CONCLUSION

The performance of the money market in Nigeria can better be assessed within the framework of the objectives for its establishment, or the functions it is expected to perform on the Nigerian economy. In this regard, the achievement of the Nigerian money market is not too impressive. This is because there still exist much idle funds in the economy, although chief among its functions, is that of borrowing and lending money of short-term funds and, hence promote an efficient allocation and utilization.

5.0 SUMMARY

The money market is a market where money instruments are bought and sold. It is a market where short-term securities are important. The market is, therefore, important for governments and institutions in need of short-term funds and suppliers of short-term funds, who, because of the character, maintain part of their assets in relatively liquid form. To carry out its functions successfully, the money market in Nigeria employs four major instruments. These are: treasury bills, call monies, treasury certificates, and commercial bills.

The Nigerian money market has grown both in the number and value as a result of money market instruments that were introduced during the period 1960-1998. The commercial banks and the other providers of short-term funds now have a local investment outlet for their funds, and this has helped them to check the outflow of funds to foreign banks.

6.0 TUTOR-MARKED ASSIGNMENT

Does the money-market play any significant role in the economic development ofNigeria?

7.0 REFERENCES/FURTHER READING

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UNIT 2 THE NIGERIAN CAPITAL MARKET

CONTENT

1.0 INTRODUCTION

The capital market is a market for the mobilization and utilization of long-term funds for development. The instruments traded in the market include: government securities, corporate bonds and shares (stocks) and mortgage loans. The market consists of an inner capital market (market for new securities) and the outer capital market (not directly concerned with the issue of new securities, but engaged in the business of long-term borrowing and lending, upon which the issue of new securities depends). The capital market embraces therefore, both the new issues (primary) market and the secondary (seasoned securities) market. Participants in the Nigerian capital market include: the Nigerian Stock Exchange (NSE), discount houses, development banks, investment banks, building societies, stock broking firms, insurance and pension organizations, quoted companies, the government, individuals and the Nigerian Securities and Exchange Commission (NSEC).

Activity 1: What is the Nigerian Stock Exchange?

3.0 MAIN CONTENT

3.1 The Nigerian Stock Exchange (NSE)

The stock exchange is a market where those who want to buy or sell shares, stocks, government bonds, debentures, and other approved securities, can do so (though only through its members (stockbrokers). The NSE thus provides the essential facilities for companies and government, to raise money for business expansion and development projects (through investors who own shares in the companies), for the ultimate economic benefit of the society. Such securities traded openly at the SE, refer to documentary evidence of ownership of entitlement to claim upon the assets of the issuing organization, which may be a government, quasi-government institution or agency, or a business firm.

The Nigerian Stock Exchange (NSE) earlier called the Lagos Stock Exchange (LSE), was registered on 1 March, 1959, incorporated on 15th September 1960, and started business on 5th June, 1961. In December 1977, its name was changed firm the Lagos Stock Exchange to the Nigerian Stock Exchange (NSE), and additional branches were opened in Kaduna and Port-Harcourt, in order to meet the aspirations of the users of its services.

The major functions of the NSE include:

- providing appropriate machinery to facilitate further offerings of stock and shares to the general public;
- Promoting increasing participation by the public in the private sector of the economy; and
- Encouraging the investment of savings, as soon as its is clear that stocks and shares are readily available.

Like all stock exchanges, the NSE is made up of many markets, including a market for new issues (primary market), market for existing securities (secondary market), and markets for debt securities and equities. There are in fact, markets for each of the sectors of the economy.

3.1.1 The Primary Market

The market is concerned with the offering of new issues or the initial insurance and sale of securities in the NSE. Previously quoted companies can seek expansion funds through the issuance of supplementary securities in this market while 'new' companies (companies not hitherto quoted on the exchange) will have to go public before they can issue sell securities to the public through the market. Types of instruments/securities issued in the primary market include: debt instruments (comprising federal government development stocks (FDSs), and industrial loans, preference stocks and bonds issued by corporate concerns), and equity capital (ordinary share of corporate entities which confer upon the holder some ownership rights to the business concern).

3.1.2 The Secondary Market

The existing issues or secondary market, in a strict sense, constitute the stock exchange, since it is the mechanism which gives liquidity to the securities listed on the exchange.

The Second-Tier Securities Market (SSM)

The Second-Tier Securities Market, was established on 30th April, 1985, to assist small and medium-sized companies that are unable to meet the requirements of the first-tier market (NSE) in raising long-term capital. To encourage the development of the SSM, the stringent conditions for enlistment in the first-tier market were relaxed for indigenous enterprises seeking to raise funds through the SSM. The simplified listing requirements, which constituted the basic distinguishing features of the SSM, were that prospective companies should:

- Have a three-year trading record, instead of the five years required for full listing at the NSE;

- Thereafter, submit audited half-year and annual statements,without the quarterly statement required for listing in the first-tier market;

- Make at least 10% of their equity available for public subscription as against the 25% minimum required for full listing;

- Have not less than 100 shareholders, compared with the 500 prescribed minimum for full listing in the NSE;

- Make flat annual subscription of 2,000 to the stock exchange, instead of the graduated annual quotation fees based on the companies share capital in the NSE; and

- Raise a maximum sum of 5 million in the market, whereas there is no limit to the amount that could be raised in the NSE.

The Nigerian Securities and Exchange Commission (NSEC)

It is the respnsibility of the Nigerian Securities and Exchange Commission to determine, among others:

- The price at which shares or debentures of a company are to be sold to the public, either through offer for sale, or direct issue;

- The timing and amount of sale; and
- In the case of a quoted company, the price, amount and time any subsequent or supplementary offer of shares or debentures are to be sold.

However, only public companies (quoted or unquoted) fell within the sphere of the NSEC. In other words, private companies were not obliged to seek the approval of the NSEC before raising funds through the securities market.

In 1976, following the realization of the need for an apex capital market regulatory body, the Financial System Review Committee recommended the establishment of the Securities and Exchange Commission. The commission was later established by the Securities and Exchange Commission Act of 27 September„ 1979 (effective retrospectively from April 1978), with an autonomous and legal status. As an apex regulatory body, the NSEC was legally empowered to ensure:

- That resources are allocated into their most efficient and profitable uses, That is, to accelerate the use of capital by helping to increase the amount of domestic savings flowing into productive investments;

- That investors are protected from fraud and deceit and hence instill the confidence needed for orderly growth and development of the market. This implies the regulation of the Nigerian Stock Exchange, stock brokers, issuing houses, and employees;

- The easy transfer of securities by removing bottlenecks which may breed inefficiencies and impair impair the possibility of adequate liquidity, so that funds may freely find their way into productive channel vital for economic and industrial development; and

A wider spread distribution of equities by discouraging the concentration of securities in a few, but powerful hands.

These are in addition to the usual functions of the commission such as, determining the amount of and time at which securities of a company are to be sold to the public, and registering all securities proposed to be offered by the public, etc.

Activity 2: Outline the development that has taken place in the Nigerian capital market.

3.2 Developments In The Nigerian Capital Market

The finance and insurance sector is one that has experienced about the highest growth in the Nigerian economy, especially after the introduction of the Structural Adjustment Programme (SAP). This has had positive and far reaching implications on the activities of the capital market in Nigeria.

The total number of securities transacted in the capital market (bothfirst and second-tier) was 334 in 1961. Of this, government securitieswas 92, while industrial securities was 242 (72.5% of the total). In 1965, the total number of transaction had increased to 1,018 (204.79% over the 1961 figure). Of this, industrial securities still dominate with a percentage share of 61.6.

The number of transactions, however, dropped in 1970 to 643 (47.8% of which were government securities). Again, the value of total transaction in the year was N16.6 million (with government though more in number were valued at only (98.78%). Industrial securities though more in number, were valued at only 0.2 million.

Developments in the markets in the 1970s, however, witnessed a steady growth in the number of value of industrial securities traded vis-a-vis government securities. In 1974 for example, the number of industrial securities was 2,807, as compared to 256 for government securities. Although these still had a relatively small value of N1.3 million compared to 49.4 million for the latter. From 1976, however, the share of industrial security in both number and value of transactions, increased tremendously. (from 97.0% and 2.03% for 1990, to 97.31% and 3.29% for 1985, and 98.85% and 11.11% respectively in 1987). Also, the total number of transaction in the capital market increased steadily, growing by 916.4% in 1980 and 97.7% in 1995.

4.0 SUMMARY

The capital market is seen as the institutions and mechanisms whereby intermediate and long-term funds (loans of longest maturity, government and company stocks), are pooled together and made available to businesses, governments and the individuals, and also through which instruments already outstanding are transferred through the capital market.. Funds raised by businesses and individuals are invested in fixed assts and inventories. It is also through the market that new capital, by offer of new securities, is made available to the public.

5.0 CONCLUSION

With the present move at sanitizing the Nigerian financial system,given the rate of growth of the financial and insurance sector, it is obvious that the capital market in Nigeria has yet a greater role to play in the promotion and channeling of investment into productive activities, with greater growth effect on the economy, and in the growth of indigenous enterprises in the country.

6.0 TUTOR-MARKED ASSIGNMENT

In the Nigerian capital market, the major participant is the Nigerian Stock Exchange (NSE). Discuss the role of NSE in the economic development of Nigeria.

7.0 REFERENCES/FURTHER READING

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UNIT 3 FISCAL POLICY IN NIGERIA

CONTENT

1.0 INTRODUCTION

Fiscal policies in its broadcast sense, embrace all aspects of the volume and composition of government revenue and expenditures. When used in the macro-economic context, we speak of compensatory fiscal policy, by which is meant the alteration of the relationship between aggregate federal revenue and expenditure ,in conscious efforts at influencing the aggregate demand for the Gross National Product. (GDP).

Appropriate fiscal measures can provide the control desired in three principal ways. The first is that the level of government spending can be raised without any changes, or lowered taxes. Secondly, the tax rates can be lowered without changing the level of government spending. Thirdly, the level of both spending and taxes can changed by the same amount. The above three measures can be combined in any desired form to achieve the stimulus need in the economy.

2.0 OBJECTIVES

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

- the objectives of fiscal policy
- the tools of fiscal policy
- how effective the fiscal policies have been in Nigeria.

Activity 1: What is the difference between system and fiscal policy?

3.0 MAIN CONTENT

3.1 Meaning

A fiscal system refers to the kind of arrangement or institutional framework which exists in a society for making budgetary decisions of raising revenue, incurring expenditure, and engaging in debt/borrowing operations. The fiscal system of a country may be decentralized or centralized, depending on whether the political constitution/structure is federalist or unitary. In a federation such as Nigeria, the fiscal system is decentralized, such that there is a division or sharing of fiscal powers and responsibilities among the federal (central), state, and local governments. However, in a unitary government such as Britain, greater fiscal powers are concentrated with the central government.

Fiscal policy is taken to refer to that part of government policy concerning the raising of revenue through taxation and other means, and deciding on the level and pattern of expenditure for the purpose of influencing economic activities or attaining some desirable macroeconomic goals. Fiscal policy can be used for allocation, stabilization, and distribution. In essence, a primary objective of fiscal policy is to balance the use of resources of the public and private sectors and, by so doing, avoid inflation, unemployment, balance of payments pressures, and income inequity.

One the other hand, public finance refers to that branch of Economics that is concerned with the revenue, expenditure and debt operations of the government, and the impact of these measures. It identifies and assesses the effects of government financial policies. That is, it tries to analyze the effects of government taxation (and other sources of revenue) ,and expenditure on the economic situations of individuals, institutions and the economy as a whole. It also examines the effectiveness of policy measures directed at some objectives, and develops techniques and procedures to increase that effectiveness. In effect, it looks into the financial problems and policies of the government at different levels and studies the inter-governmental financial relations.

Activity 2: What are the objectives of fiscal policy in Nigeria?

3.2 Objectives of Fiscal Policy In Nigeria

Nigeria's fiscal policy objectives during the period 1970 to 1993, can be distilled from the Second (1970-1974), Third (1975-1980), and Fourth (1981-1985) National Plans; First (1990-1992) and Second (1991- 1993) Rolling Plans, and from the various annual federal budgets. From these sources, one can summarize Nigeria's fiscal policy objectives for the period 1970-2002 as follows:

a) Generation of significant additional revenues;
b) Diversification of revenue sources away from crude oil-based revenues;
c) Reduction in the tax burden on individuals and corporate bodies;
d) Maintenance of economic equilibrium, particularly to contain inflationary pressures, accelerate economic growth, reduce balance of payments deficits; and generate increased employment;
e) Guaranteeing effective protection of domestic industries
f) Promotion of self-reliant development;
g) Substantial progressive reduction and elimination of government budget deficits;
h) Cost recovering by social services and public enterprises, including the streamlining of the process of deregulation;
i) Integration of the informal sector of the economy into the economic mainstream;
j) Improving the transparency and accountability in the management ofpublic finances;
k) Fighting the twin issues of low productivity in agriculture and low capacity utilization in manufacturing.
l) Reduction of the heavy burden of both internal and external debts;
m) Correction of the distorted patterns of both domestic consumption and production; and
n) Minimization of existing inequalities in wealth, income and consumption standards, which tend to undermine production efficiency, offend a sense of social justice and endanger political stability.

Indeed, in 1997, the broad policy objectives are to:

a) Ensure price stability;
b) Attain job creation and employment opportunities;
c) Achieve balance of payments equilibrium; and
d) Achieve exchange rate stability.

Specifically, the 1997 budget objectives are:

a) Growth and development of the economy;
b) Continuous reduction in the rate of inflation;
c) A realistic and appropriate monetary and credit policy stance;
d) Ensuring fiscal balance and curtailment of extra-budgetary spending;

e) Intensive revenue collection drive;
f) Co-ordination of fiscal and monetary policy to ensure macroeconomic stability;
g) Curtailment of wasteful expenditure and maintenance of general fiscal discipline;
h) Improvement of the external value of the Naira; and
i) Fiscal transparency and comprehensiveness of the conceptualization of projects.

These objectives are based on sustainable growth and development, with the policy thrust as the stimulation of private investments so as to substantially raise the level of production.

These are anchored on:

i. Encouragement of private foreign investments for growth and development;
ii. Agricultural and food production;
iii. Family economic development; and
iv. Privatization and liberalization of key growth-induced ventures.

It is important to note that the simultaneous pursuit of some of the above objectives could result in conflicts or trade-offs. This is more so in the case of accelerated economic growth and higher employment on the one hand and inflation reduction on the other. However, it is the recognition of the fact that fiscal policy affects the economy in many different ways that these objectives are pursued simultaneously. For instance, revenue, expenditure, and the public sector deficit they imply are essential, while at the same time, they affect adjustment and growth. At the microeconomic level, taxes, subsidies and government purchases of goods and services encourage the production and consumption of some commodities and discourage the production and consumption and consumption of others.

3.3 Fiscal Policy Measures in Nigeria

In Nigeria, the major fiscal policy instruments include: changes in taxation rates (on personal income, company income, petroleum profits, capital gains, import duties export duties and excise duties, as well as mining rents, royalties and NNPC earnings), and government expenditure (recurrent and capital). These taxes along with interests and repayments, and licences and fees constitute government revenue. Such taxes are imposed not only to generate revenue, but also to provide incentives and/or disincentives in certain specific socioeconomic activities. Tariffrates are also varied, not only to regulate the external sector of the economy, but also to encourage domestic production as well as to protect domestic (particularly infant) industries.

On the other hand, government expenditures constitute an instrument for direct resource allocation while generating employment opportunities and influencing the general price level, as well as determining the extent of fiscal deficit or surplus each fiscal year.

3.3.1 Taxation Policies

The basic personal income tax (PIT) law in Nigeria is the ITMA (1961), with subsequent amendments. Before 1975, the determination of PIT rates and personal relief and allowances, was under the jurisdiction of the regional/state governments.

In 1975, uniform rates of tax and deductions were imposed throughout the country via Income Tax Management (Uniform Taxation Provisions, etc.) Decree, 1975. The major changes in the 1975 rate structure occurred in 1977 and 1990.

In the area of company income tax, in 1975 and 1997 profit less than 6,000 were tax-free, profits in excess of 6,000 but less than 10,000 were taxed at 45%. The rate was increased to 50% in 1978, but reduced to 45% the following year. In 1982, it took the form of maximum of 2%, based on turnover or 45% of taxable profit, which ever was higher. The turnover tax was abolished in 1985. But in 1987, the rate of company income tax was reduced from 45% to 40% while graduated tax free dividends were allowed to individuals. In 1992, the rate of company income tax was further reduced to 35% with the provision of% for small companies.

Of all the fiscal policy tools, it is the tariff measures that have been most often changed. Such fluctuations reflect similar trend in the nation's external earning. In fact, when prospective earnings are high, a liberalization approach is adopted ,but restrictive measures are taken when induced import demand exceeds the import capacity.

Thus, in order to reduce the inflationary pressure, consequent upon increased aggregate demand on the economy, imports were liberalized in 1971 though a six months ban was in force on some selected items. In 1977, some import duty rates were raised, while others were lowered. These lasted until 1980 when there was reduction in rates from 10-25% to 5-15% was made to liberalize imports for certain specific commodities. From 1979, some other commodities were placed on the prohibition list. In 1981, duties were once more increased until 1984, when the range of import duties was reduced and allowed to last for three years. In 1986, adjustments were made in customs and excise tariff to give advantage to locally assembled agricultural equipment, while some items were place under ban. In 1987, three import duty surcharges earlier abrogated in 1986 were reintroduced, while a comprehensive customs and excise tariff review was completed in 1987. Though a more liberalized trade regime came into force, a number of items were placed on import and export prohibition. In 1988, the comprehensive tariff structure was adopted (designed to last for seven years), partly to provide higher degree of protection to local industries, and make for continuity. There was a reduction in the number of excisable products from 412 to 182. The harmonized commodity and coding system (H.S) was incorporated into the new tariff structure, while anti-dumping tariff on certain items came into force.

3.3.2 Public Expenditure Policies

The Second National Development Plan (1970-74), accorded a leading role to government just as it considered public enterprises as crucial to growth and self-reliance due to capital scarcity, structural defects in the private sectors and perceived dangers of foreign dominance of the private sector. The Third National Development Plan (1975-80), advocated some shift in resource allocation in favour of rural areas which were said to have benefitted little from the economic growth of the 1970s. Thus, small farmers and the rural population were expected to benefit from public expenditures. In addition, the poorer sections of the population were to be provided subsidized facilities such as water supply, health services, electricity, etc. We should note that an exception was the 1977/78 to 1979/80 fiscal year, which was essentially restrictive. However, against the background of the austere fiscal outlook of the government, under the Third National Development Plan (1981-85), the role of fiscal policy was viewed mainly as the generation of revenue through increased tax effort, and the control of public spending.

The Structural Adjustment Programme (SAP), introduced in July 1986, recognized that the financial resources for public expenditures for the rest of the 1980s and beyond, were likely to be less than was previously envisaged. And given the uncertainty in the oil market, and substantial debt repayment falling due, there was need to curtail government expenditure, especially those involving foreign exchange.

In the main, as with other IMF-World-backed programmes, measures were to be taken to reduce government expenditure. Such measures include the reduction of the growth of government wage bill, reduction in government subsidies on fertilizer, food, petroleum and petroleum products, limiting or delaying new investments, and the rationalization, and hence the privatization and commercialization of public enterprises, thereby improving the efficiency of investment and expenditure control and administration.

During the first National Rolling Plan (1990-92), government aimed at efforts to combat inflation. Large budgetary deficits were to be avoided, hence government expenditures were to be made more cost-effective and kept at levels that were consistent with the nation's resources, realistic growth targets and general economic stability. In the main therefore, the government was to promote efficiency in the allocation of scarce development resources through emphasis on private sector participation, and privatization/commercialization. In this regard, the public sector was to place greater emphasis on promotional activities, including provision of an appropriate policy environment, basic infrastructures and adequate institutional support for private investment to thrive (Federal Republic ofNigeria, 1990).

On the other hand, the Second National Rolling Plan (1991-93), went forward at targeting a balanced budget in 1991, and a surplus in 1992, coupled with continued selective withdrawal from commercial activities and increased privatization and commercialization of public enterprises (Federal Republic of Nigeria, 1991).

Thus, fiscal policy in Nigeria generally has oscillated, on balance, between liberalization and restrictiveness during the period 1970 to 2001.

4.0 CONCLUSION

Fiscal policy measures have played an important role in creating a favourable climate for rapid development in the country. In the area of measures to contain balance of payments pressures in particular, the role fiscal policy has been crucial. The fiscal measures adopted continues to reflect the financial requirements of the government and those of the balance of payment.

5.0 SUMMARY

- Revenue sources in Nigeria have always been heavily sl concentrated, as they are, on just one or two taxes, ovethe past - two decades.
- The tax revenue sources in Nigerian have always been largely based on foreign activity.
- The Nigerian tax system is highly unstable, dependent largely on oil.
- The Nigerian tax system is deceptively characterized by the

predominance of direct tax revenue and high tax/GDPratio.

- While there is ample scope to increase the rates of some of the existing taxes, as means of generating additional revenue, emphasis should be on improving the administration of existing taxes, as well as introducing new services to be paid for by the users, as against introducing new forms of taxation not directly related to benefits received by the tax payer.
- Finally, the recent tax reform should be supported by stronger tax administration (and simplicity of tax design), including better training, salaries, and conditions of service of revenue collection personnel. This should involve not only the creation of an autonomous revenue service, but also ,the development and implementation of better salaries and special bonuses or revenue-sharing for meeting specified revenue targets.

6.0 TUTOR-MARKED ASSIGN M ENT

How effective has the fiscal policy instruments of Nigeria been to the economic growth and development objectives of the nation?

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UNIT 4 MONETARY POLICY IN NIGERIA

CONTENT

1.0 INTRODUCTION

Monetary policy can be defined as one which has the objective of influencing economic activity, through variation in money supply, availability of credit, or interest rates. Opinions vary among economists as regards the proper role of monetary policy in an economy. Contrary to the view of the fiscals, the monetarists strongly believe that it is the sole means of stabilizing the price level, and general economic activity. The true position is somewhere between these extremes. In the complexities of present-day conditions, an economy cannot thrive without the aid of monetary policy, while it is equally true that no community can prosper on monetary policy alone.

Monetary policy constitutes a part of the general macro-economicpolicy with the main long-term objective of maintaining a high and stable level of employment, reasonable stability of prices, rapid but steady economy growth, a satisfactory balance of payments and an equitable balance with one another.

2.0 OBJECTIVES

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

- define monetary policy
- highlight the framework of monetary policy in Nigeria

- identify the monetary policy instruments.

Activity 1: Define monetary policy.

3.0 MAIN CONTENT

3.1 What Is Monetary Policy?

Monetary policy involves measures designed to regulate and control the volume cost availability, and direction of money and credit in an economy, to achieve some specified macro-economic policy objectives. That is, it is a deliberate effort by the monetary authorities (the central bank), to control the money supply and credit conditions for the purpose of achieving certain broad economic objectives. Monetary policy in the Nigerian context encompasses actions of the Central Bank of Nigeria that affect the availability and cost of commercial and merchant banks' reserve balances, and thereby the overall monetary and credit conditions in the economy. The main objective of such actions is to ensure that over time, the expansion of money and credit will be adequate for the long-run needs of the growing economy at stable prices.

3.2 The Framework of Monetary Policy In Nigeria

The framework of monetary policy in Nigeria can be organized around five elements: the legal basis of monetary policy, objectives of the policy, its coordination with other policies, policy formulation process, and its implementation.

3.2.1 Legal Basis of Monetary Policy in Nigeria

The history of the Nigerian Securities and Exchange Commission dates back to 1962, following the establishment of the Capital Issues Committee (an ad hoc committee devoid of any legal status), whose primary function was to see to the orderly development of the capital market, by regulating share prices and determining the timing of issues. The committee functioned essentially as an advisory body under the umbrella of the Central Bank ofNigeria (CBN)

After the civil war, however, given the recognition of the important role the committee can play in the successful implementation of the 1972 Nigerian Enterprise Promotion Act, the Capital Issues Act was promulgated by the federal government in 1973. The Act established the Capital Issues Commission (CIC) vested with the power to determine ???????

The authority to formulate and implement monetary policy is vested in the Central Bank of Nigeria (CBN), as outlined in the Central Bank Act of 1958 (and subsequent amendments), the CBN Decree No.24 of 1991, and the Banks and other Financial Institutions Decree (BOFID) No. 25 of 1991. These laws enjoin the CBN to promote monetary stability and a sound financial system in Nigeria, under the overall guidance of the federal government. The CBN is required to make proposals to the President (or Head of State), through Ministry of Finance, who has the power to accept or amend such proposals. In turn, the CBN is obliged to implement the policy approved by the President or Head of State, through the Ministry of Finance.

3.2.2 Objectives of Monetary Policy

As in other economies, monetary policy in Nigeria is a aimed at moderating the inflation rate, promotion of growth, reducing pressures on the external sector, stabilizing the Naira exchange rate, and inducing increased financial savings investment and employment. However, due to conflicts in the attainment of these objectives, priorities are usually set in this direction. Thus, the ultimate targets are:

- Sustained increase in outputs/growth
- Price Stability
- Full Employment
- Sustainable balance of payments
- Exchange Rate Stability.

These can be summed as economic stabilization (growth, price stability and full employment), and external balance (sustainable BOPs and stable exchange rates). To attain these ultimate goals, policy makers identify variables that have stable, certain, and strong relationship with the ultimate goals, which are referred to as proximate targets/goals. The conventional wisdom is that the terms to liquidity (or terms of credit and some measures of the quantity of liquidity) are possible proximate target variables commonly used target variables in Nigeria are:

- Interest Rates Money Supply
- Narrow Money Supply (M,)-currency plus demand deposits
- Broad Money Supply (M_2)-M_1 plus quasi-money (time and savings deposits)
- Domestic Credit
- High-powered Money or Monetary Base/Reserve Money

3.3 Coordination of Monetary Policy With Other Policies

Government economic policies (monetary, fiscal, income, and exchange rate policies) must be coordinated so as contain an inbuilt consistency and hence, be able to achieve desired objectives. The CBN makes assumptions and projections with respect to GDP growth rate, unemployment rate, fiscal deficit, and the implied banking system financing of government borrowing requirement, the balance of payments, etc. However, the CBN as the initiator of monetary policy, must consult government agencies so as to attain these targets. For example, it must consult the National Planning Commission on GDP growth and inflation rates forecasts, the Federal Ministry of Finance on government's fiscal operations, the NNPC on expectations in the oil sector, especially on the net external position, etc. Conflicting proposals are usually ironed out at inter-ministrial levels.

3.3.1 Monetary Policy Formulation

In formulating monetary policy, the CBN relies on the technique of financial programming, whose starting point is a comprehensive review of recent economic performance, as well as the current and anticipated economic problems. Functions are usually made on money supply, GDP growth, inflation rates, and position on the basis of optimum money supply, The economy's absorptive capacity for domestic credit is derived so as to permit growth targets to be determined for the key policy variables of money supply and aggregate domestic credit. The permissible aggregate domestic credit is then allocated between the public and private sectors. The size allocated to the public sector is determined the size of the fiscal deficit to be financed by the banking system. The residua is al located to the private sector.

Activity 2: Outline the various monetary instruments.

3.3.2 Monetary Policy Instruments/Tools

Variables that are under the control of the monetary authorities,and have influence on the proximate targets are known asmonetary instruments or tools. Monetary tools can be direct or indirect. The direct tools include:

- Aggregate Credit Ceilings
- Deposit Ceilings Exchange Controls
- Restriction on the Placement of Public Deposits
- Special Deposits
- Stabilization Securities.

On the other hand,indirect tools include:

- Open Market Operations (OMO)
- Cash Reserve Requirements
- Liquidity Ratio
- Minimum Rediscount Rate

- Parity Changes Selective Credit Policies

Direct monetary control tools which had been in vogue in the 1960s, and also in the 1980s, up to June 1986. Such direct controls were used not only to control overall credit expansion, but also to determine:

- 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 enterprises;
- Proportion of rural bank deposits granted as loans to rural borrowers;
- Categories of banks exempted from credit ceilings; Cash deposits for imports;
- Lid on interest rates, etc.

However, the prolonged use of the direct tools have had adverse effects on both the economy and the effectiveness of monetary policy in Nigeria. Thus, a decision was taken to change the strategy of monetary management, to the indirect approach, involving the use of market-based tools. The plan in this direction involved the deregulation of interest rates, partial deregulation of the market for government debt instruments, and institutional frameworks, and the reduction of excess liquidity in the economy.

3.3.3 Monetary Policy Implementation

After the CBN's monetary policy proposals are approved by the President/Head of State, the relevant proposals are outlined in the form of a monetary policy circular for implementation by banks and other financial institutions. Penalties for malfeasance with specified guidelines, are stipulated in the circular. In order to monitor the activities of financial operators. the CBN conducts periodic and special examinations of books of all licensed banks which are also required to submit regular/periodic returns on their operations to the CBN. Both the results of the examinations, the returns and current developments in economy, enable the CBN to evaluate the extent of compliance with the circular the overall policy effects on the economy, and hence the need or otherwise of policy revisions.

3.4 Monetary Policy In Nigeria

As noted earlier, direct monetary control techniques were in vogue in the 1960s, 1970s, and the 1980s, until June 1986. The main objectives of monetary policy then were the maintenance of relative price stability, and a healthy balance of payments position. The major tools were:

administered interest rates, special deposits, administered exchange rates, prescription of cash reserve requirements, selective credit controls, credit ceilings, etc. Then, it was not feasible to use the market-based tools, because of the narrowness and underdeveloped nature of the financial markets, the inadequate supply of the relevant debt instruments, and the deliberate restraint on interest rates. The most popular instrument of monetary policy, was the issuance of credit rationing guidelines, mostly in the form of setting the rates of change for the components and aggregate commercial bank loans, and advances to the private sector. The control of interest rates at relatively low levels was done to promote investment and growth. Occasionally, special deposit requirements were imposed to reduce the amount of free reserves, and credit-creating capacity of the banks. The sectoral distribution of bank credit in CBN guidelines, was to stimulate the productive sectors and thereby stem inflationary pressures. Minimum cash ratios were imposed on the banks in the mid-1970s on the basis of their total deposit liabilities, but since such cash ratios were usually lower than those voluntarily maintained by the banks, they were less affective as a restraint on the banks' credit operations.

However, in line with the general philosophy of the Structural Adjustment Programme (SAP) introduced in July 1986, monetary policy is aimed at inducing the emergence of a market-oriented financial system for effective mobilization of financial savings and efficient resource allocation. The objectives of monetary policy remained the stimulation of output and employment, and the promotion of domestic and external stability.

In line with the principle of phased approach to the use of indirect control, a series of indirect measures to control the ability of banks in extending new credit were applied alongside credit ceilings. Those measures include:

a) Deregulation of interest rates in August 1987, though in 1991 an upper limit of 21% was imposed on lending r,ates while a floor of 13.5% was fixed for savings, prescribing also a spread of 4 percentage points between savings and lending rates.

b) Due to concern of the adverse effects of high interest rates on growth of productive investments, early in 1992, interest rates were again deregulated, though this has been reversed since November 1993.

c) In 1986 and 1987, the naira counterparts of all external payments outstanding with banks were recalled.

d) Commercial banks' cash reserve requirements were increased in 1989, 1990 and 1992, and merchant banks hitherto excluded, were subject to cash reserve requirements in 1990.

e) In January 1988, the liquidity ratio of merchant banks' was varied from 30% of demand deposits and call money to 20% of total deposits. This was raised to 30% in 1990.

f) In May-June 1989, public sector accounts were transferred from banks to the CBN, and the banks were prohibited thenceforth, from accepting foreign guarantees and/or foreign currency deposits as collaterals, for domestic loans denominated in naira.

g) Since October 1990, banks' excess liquidity are periodically mopped up through the issuance of stabilization securities (though suspended since March 1993).

h) In 1991, the basis for calculating cash reserve requirement was extended beyond demand deposit, to include time and savings deposits.

Effectively from the first week in September, 1992, the CBN on selective basis, lifted credit ceiling on individual banks which observed CBN guidelines in respect of statutory minimum paid-up capital adequacy ratio, cash reserve, liquidity ratio requirements, prudential guidelines, sectoral credit allocation, and sound management.

4.0 CONCLUSION

In general, the choice of a policy instrument should depend on:
1. The economic objectives to be achieved;
2. The lag associated with the instrument;
3. The relative strength of the instrument in relation to the objectives to be achieved; and
4. It's effect on resource allocation.

Of course, faced with a given situation, the tools can be used singly or in combination. While they need not all be used in every case, their proper coordination is necessary in order to achieve the best possible results. Without proper co-ordination, the controls can work at cross purposes, and become counter productive.

5.0 SUMMARY

It be could be said that the monetary policy has the objective of influencing economic activity, through variation of money supply, availability of credit, and interest rates. However, monetary policy constitutes a part of the general macro-economic policy, with the main long-term objective of maintaining a high, and stable level of employment, reasonable stability of prices, rapid but steady economic growth, a satisfactory balance of payments, and an equitable distribution of income.

In this regard, the effectiveness of monetary policy in Nigeria has been hampered by: the lateness in diagnosing the ills to be remedied, improper and wrong diagnosis of the problems. The application of half measures, or the over dose of the measures applied, the conflicts created for the achievement of one objective by another that is opposed to it (in direction and character) and the appearance of unforeseen conflicting economic problems in the finance industry, the under-development nature of the financial markets, and the related ineffectiveness of central bank instrument in controlling money supply, especially where government expenditures are excessive.

6.0 TUTOR-MARKED ASSIGNMENT

What are the objectives of monetary policy in Nigeria. To what extent has the monetary policy achieved these objectives?

7.0 REFERENCES/FURTHER READING

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UNIT 5 DEVELOPMENT PLANNING

CONTENT

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 like Nigeria, there is the general belief that planning is an institutional mechanism, which is capable of overcoming all the obstacles of development, and it helps to ensure a sustained and balance economic growth.

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

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

2.0 OBJECTIVES

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

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.

Activity 1: 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-ordinated under the general direction of a small central development board, consisting exclusively of senior colonial government officials. Moreover, area development commissions were set up in each province, to be assisted by advisory bodies. Considerable effort was made to obtain inter-department and central provincial consultation and co-ordination. In this regard, the plan was an example of a coordinated and integrated plan at the local level, rather than of sectoral planning, as subsequent development plans in Nigeria were. However, the conception, formulation, and implementation of the plan was done entirely by colonial civil servants. In 1951, the plan was revised to cover the period 1951-56. In the revision contained in the colonial government's seasonal paper No.6 of 1951, 'new and unrelated projects were substituted for earlier ones'. The constitutional development of 1954, however, brought the plan to a premature end.

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

1. Its objectives were not relevant and meaningful to the needs of the citizens. Emphasis was rather on the maintenance of law and

order. In other worlds, the plan did not identify the aspirations of the people.

2. Absence of articulate press to monitor opinion and development in different parts of the country. As a result, the plan did not satisfy the fundamental requirement of good planning by falling to involve the people for which it was being made.
3. It was difficult to reconcile the execution of the plan in the three groups that constituted the country then, where different systems of administration, with varying objectives were in vogue. Despite the centralized nature of the planning process, there was no national direction and aspiration. The plan suffered greatly from a lack of consistency and coherence.
4. Paucity of essential data for planning, and acute post-war shortage of high level administrative personnel for plan implementation, constituted the major bottleneck for the planning exercise and implementation.

   Despite the above however, 'the ten-year plan, together with its revised edition, made possible the expansion of public health, education services, and building of some public facilities as road, ports, and water supplies... That private sector of the economy also participated in, and benefitted from the expansion; and productive capacity of the economy rose to a higher level'. Additionally, the plan laid the foundation for the pre-independence economy. The production and expansion of export crops were promoted. Ambitious agricultural programmes, such as the National Agricultural Projects, the irrigation projects on rivers Niger and Benue, were embarked upon. Finally, many feasibility studies of proj ects 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 underfulfilment 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-fulfilment was 32.6% in education, 63.3% in communication, 42.8% in primary production, and 56.3% in health. For the federal government. under-fulfilment in water supply was 63.1% (compared to a 31.8% over-fulfilment in the Northern region, and in health, a staggering 71.1%

Activity 2: What factors accounted for failure of the plan.?

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

The attainment of political independence in 1960 did not, in the Nigerian case, imply an immediate or sudden change in the management of the country's economy despite the expectations created by the nationalism of the colonial era. The extension of the 1955-60 plan 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 co-ordinating 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 Co-ordinating Committee on the Environment; Nigerian Enterprise Promotion Board; Capital Issue Commission, and Nigerian Bank for Commerce and Industry
3. The reduction in inequalities in inter-personal incomes, and promotion of balanced development among the various communities in the different geographical regions in the country.

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

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

3.4 The Third National Development Plan (1975 -1980)

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

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

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

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

- 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 programme 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.

Activity 3: What are the factors that mitigated against the achievement of the objectives of the plan?

Generally, factors that militated against the fuller realization of the objectives ofthe 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. Activity 4: Outline the major achievements of the plan.

The immediate achievements of the plan however includes the following:

1. The establishment of over 147 farm centres in the country
2. Many projects were completed, while new ones were commenced. These included the cement works at Calabar, Ukpilla, Nkalagu, Shagamu, Vander and Ashaka; the pulp and paper projects at Jebba, Calabar and Iwopin; four commercial vehicle assembly plants; two passenger car assembly plants; two petroleum refineries at Warn i and Kaduna, two iron and steel plants at Ajaokuta and Aladja and three steel rolling mills at Katsina, Jos and Oshogbo.;
3. Over 10,000 km of roads were built or rehabilitated, e.g. the Lagos-Ibadan express way, Lagos-Badagry express road, Enugu-Port and Benin-Sagamu expressways. New airports were built in most state capitals. New seaports were also developed in Lagos, Warn, Calabar and Port-Harcourt. Telephone lines increased 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 preceeding plan). 56.74% (40 billion) of this was to be borne by the federal government, 39.72% (28 billion) by the state governments, and 3.5% (2.5 billion) was to be fulfilled by Federal Development Authority. 24.2% of the estimated public expenditure was to come from loans. Private sector expenditure was estimated to be 11.5 billion.

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

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

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

The achievement of more even distribution of income also remained a mirage. Some government workers (eg. in Imo State) were even owed up to eight 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. Feed-back and progress report came late.
5. Effective data base was lacking in the plan formulation.
6. Financial projections were too optimistic and simplistic, and therefore the revenue targets were easily frustrated by external shocks in the world oil market. By the end of 1984, the nation was indebted to the tune of 21,384.5 million in external debts alone. By August 1987, it stood at about 78.8 billion.
7 Over-invoicing, over-valuation of contracts and indiscipline inhibited effective implementation.

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 exiting 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. Developmeutof 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.

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 feed back 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 obj ectives.

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

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

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

These include:

- Lack of proper feasibility studies;
- Lack ofsuitable 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.

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MODULE 6

UNIT 1 HUMAN RESOURCE DEVELOPMENT IN NIGERIA

CONTENTS

1.0 INTRODUCTION

According to Harbison, human resources constitute the ultimate basis for wealth of nations. Capital and natural resources are passive factors of production. Human beings are the active agents, who accumulate capital, exploit natural resources, build social, economic, and political organisations, and carry forward national development. Clearly, a country which is unable to develop the skills and knowledge of its people, and to utilise them effectively in the national economy, will be unable to develop anything else. Therefore, "human resources", often used interchangeably with "manpower", refers to the "totality of the energies, skill, knowledge and experience available in a country". It is the managerial, scientific, engineering, technical, craftsmen and other skills, which are employed in creating, designing, developing organisation managing and operating productive and service enterprises, and economic institutions. They are a nation's most valuable resources. They constitute a nation's human capital. Without the required human capital (that is, stock of skills possessed by human beings), physical capital (in the form of machineries and other technologies) will not give rise to rapid economic growth.

2.0 OBJECTIVES

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

- define human resources
- identify the role of education in manpower development
- assess manpower planning and development in Nigeria.

Activity 1: What constitutes human resources planning in Nigeria?

3.0 MAIN CONTENT

3.1 Human Resources Planning in Nigeria

Human resource planning is the process of determining the policies and programmes that will develop, distribute, and utilise human resources, with a view to attaining a nation's broader goals of soci-economic and political development. The principal aim of such planning ,is to ensure that the right people are available for the right jobs, at the right time. In this way, manpower shortages/surpluses are eliminated, while labour resources are efficiently allocated,beside the development of suitable educational programmes.

The planning of human resources in Nigeria dates back to 1959, with the federal government's setting up a panel to look unto the nation's manpower needs in the field of post-secondary and higher education over the next two decades. The report of the commission referred to as the Ashby Report (1960), came up with some projections of enrolment figures in Nigerian university system for a decade (1960-1970) instead, due mainly to dearth of data. Even at this, the estimates contained in the Report were based on assumptions. For instance, the report assumed that employment would grow at 50 per cent as was the case in the 1950s, the ratio of senior and intermediate level manpower requirement would be 8% and 13% respectively. This was referred to as rules of thumb, because the estimates were not based on concrete data and as such, were full of flaws.

Human resources planning requires accurate data based on demography, education, and the labour market mechanisms. The demographic data required include, population size, and age/sex structure. Before the 1991 census, the last officially accepted national census was conducted in 1963. This state of affairs led to faulty planning and consequently, faulty executions. For instance, when the Universal Primary Education programme took off nationally in 1976, provisions were made for 7,985,000, compared to 9,492,000 children who turned out to be registered.

It is important to note that three important aspects of the machinery for human resource planning grew out of the recommendations of the Ashby Commission. These are, the National Universities Commission (NUC), the National Manpower Board (NMB) and its Secretariat, and the Regional (State) Manpower Committees. NUC was formed to initiate and consider, in consultation with universities, plans for such balanced development as may be required to enable universities to meet national needs. It is also to examine the financial needs of the universities, receive block grants annually from the federal government, and allocate such grants to the universities on the basis of laid down criteria. In 1974, the NUC was reconstituted and changed to a statutory body with executive powers. In the same manner, the NMB was established in 1962, but its governing council was dissolved in 1983, while its secretariat became a division of the Ministry of Budget and Planning (later National Planning Commission). However, NMB was later reorganized as a parastatal with the promulgation of the enabling Decree No.18 of 1991, and formal inauguration in October, 1992. In the main, the NMB is mandated to research into, advise on, coordinate and promote the optimal planning, development (training) and, utilization (employment) of Nigeria's human resources (manpower). On the other hand, the then regional (later state) manpower committees became moribund during the civil war period. New state manpower committees, which could not be sit until October 1993, were charged with the responsibility of human resources planning, development and utilization in their respective states.

Unfortunately, human resources planning and its machinery in Nigeria, had been bedeviled by lack of research on planning and manpower utilizations; low per centage of response from establishments selected for manpower surveys; lack of current and comprehensive information on the stock of skills available in Nigeria; incapability to evaluate manpower contents of development projects; lack of guidance to educational planners; little evidence of coordination in matters relating to employment education and manpower planning; inability to attract and retain competent professional staff; use of inadequate estimation techniques; lack of data; lack of coordination between manpower planners and the educational system; and lack of coordination among the agencies charged with the responsibility of human resources planning.

Furthermore, a situation where almost all secondary school beneficiaries received the same type of education (grammar school type) is an indication of planlessness.

The non-linkage of the educational output to labour market remains the bane of economic recession in this country. This is particularly true, when one realizes that the greatest proportion of the nation's unemployed are youths, between ages of 15 years and 24 years. Their continued unemployment constitutes a huge waste of human and financial resources investment, both private and public. More than that, it fuels anti-social behaviour.

The federal and state governments recognize the above facts, and have instituted a number of programmes for the unemployed, particularly the youths. For instance, in 1982, the River State set up a school-toland programme; Anambra and Imo States implemented the Skills Acquisition Authority Scheme in 1985; and Oyo State embarked on a programme tagged Oyo State Integrated Self-Employment Scheme (OSISES).

The federal government on its part, set up the National Directorate of Employment (NDE), with four cardinal programmes namely, Vocational Skills Development Programme, Small-Scale Enterprise Programme, Agricultural Sector Employment Programme, and Special Public Works Programme.

The aim of these progremmes, is to equip the unemployed with basic skills for effective living in the society. Upon successful completion, some of these programmes provide soft loans and some other facilities to trainees.

The programmes of NDE, and those of the states, appear to have planning and implementation problems. Inadequate provisions of facilities as actual participation rate, overshot target participation for all the programmes of the NDE, with the exception of Small-Scale Enterprises Programme. It has been suggested that government should not be directly involved in employment creation. Government's involvement is ineffectual, as there exists the likelihood of substituting underemployment for viable unemployment, particularly with respect to graduates of the tertiary institutions. Thus, while such schemes might prove adequate for primary and secondary school leavers, they might be inadequate and unviable in scope and effectiveness, as means of combating graduate unemployment.
Government should not be involved in job generation activities, rather it should concentrate efforts on giving incentives to the private sector to enable it become a major actor in employment creation, an approach which would prove much more cost-effective, and result in permanent, rather than transitory achievements.

3.2 Human Resources Development

Human resources development involves the improvement and/or the transformation of a nation's human resources by better medicare, nutrition, accommodation, environment, education and training. Here, emphasis is placed on education and training.

The development of human resource is achieved through formal and informal means. These could be through education (primary, secondary and tertiary), skill training (formal or informal), self-development, and improved health and health facilities.

3.2.1 The Role of Education in Manpower Development

Manpower development relates to the training and development of nation's human resources, to achieve the highest productivity, and most efficient interaction with the other factors of production. It has to do with channeling a nation's human resources towards the growth and development needs of the nation.

Manpower planning is thus an important factor in the development of a nation's human resources. Manpower planning aims at projecting the manpower requirements of a nation for a given period, and the composition thereof, developing suitable educational programmes, to developing the needed labour skills, and efficient allocative labour resources ,so as to eliminate labour shortage or surpluses.

The basic problem of most of the underdeveloped countries is not poverty of natural resources, but the underdevelopment of their human resources. The first step in development, therefore, is the building up of human capital. According to Habison, this means "improving the knowledge, skills, motivation, capacities, hopefulness and the mental and physical health of all members of the community". There is close, almost proportional relationship, between education and training, and production capacity (productivity), income and development. Historical records show that the industrial revolution of the eighteenth century, was preceded by a growth in knowledge and literacy among the populace.

Indeed, much of the economic growth and development that has taken place in the world, can be accounted for by human resources development through education rather than by the increase in capital, land and other classical factors of growth. Again, political development is largely a factor of educational development. The success of democracy, for instance, depends as much on enlightened followers, as on progressive leaderships. The national policy on education in Nigeria, in recognition of this, "categorically assigns to education the responsibility for skill, professional and technological developments". The problems (however), of educational planning as an integral part of manpower analysis, basically involve three controversial issues, the source of education, whether formal or based on practical experience, the content of education instruction that shouldbe given, and, the per centage of the population that should be educated at any given point in time.

Activity 2: How do you assess manpower planning and development in Nigeria?

3.3.2 Assessment of Manpower Planning and Development in Nigeria

Manpower planning in Nigeria began with the appointment of the Ashby Commission in 1959. This was precipitated on the need to fill an existing gap between the supply and demand for high-level manpower, to serve at the top echelons of the expanding administrative systems of regional governments. The commission recognized the need for manpower planning in Nigeria, and went ahead to prepare the first Nigerian manpower projection. The Commission's report established minimum high level manpower needs in Nigeria for the period 1960-70, based on the pre-independence national growth rate. It further recommended that inter-regional machinery be started, to assess on a continuous basis, the manpower needs of the nation and formulate affective manpower programmes.

The approval of the report of the Ashby Commission led to the establishment of the National Manpower Board (NMB) in 1962, with the functioning arm, The secretariat, as a branch of the Federal Ministry of Economic Development. Included in the terms of reference of the Board were:

- The determination of the nation's needs in all occupations
- The formulation of programmes for manpower development
- The co-ordination of policies and activities of the federal and regional ministries primarily concerned with manpower problems, ; and
- The development of employment policies.

In addition, the Board was to be composed of representatives of the Federal and Regional Ministries of Education, the Ministry of Economic Planning and Development, the Ministry. of Labour, the National Universities Commission, the Universities, the Labour Unions, the Nigerian Employers Consultative Association, and private employers, while the operational secretariat was designated as both a research and a manpower development agency.

Despite the above, it is evident that there has been little, or virtually no significant manpower planning at both federal and state levels in Nigeria. This may not be unconnected with the various problems that has almost crippled the NMB since its inception. This is unfortunate, as the absence of effective manpower planning poses potential and actual problems ,for the management of the economy and nation's resources. The western region's experience illustrates some of the problems in a hastily-planned introduction of a programme (UPE), without manpower planning. First, since there was no universal birth registration in the region, it was impossible to know how many children were eligible for the scheme. The western region was forced to drop the compulsory nature of the scheme, as registration far exceeded estimates. Second, as the demand for new teachers was so great that the admission standards for teacher training colleges were lowered. Education standards also fell because the supply of instruction in these institutions was limited. Thirdly, money was used for political purposes. As a result, poorly built buildings deteriorated rapidly. Fourth, the Banjo Commission reported to the regional government that primary education standards had fallen, for candidates who passed the primary six school leaving certificate examination during the period 1960-64 declined. Fifth, the per centage of pupils who never completed their course (primary six), increased from 52.5% in 1964 to 58.0% in 1966. Finally, the greatest problem of the scheme was the unemployment of primary schools leavers. According to some estimates, 81% of the school leavers became unemployed, as secondary school opportunities were limited. The educational philosophy, based on the British elitist model, also deprecated farm activity, and glorified clerical occupations. '

The above scenario has not really changed. For example, while the government saw investment in education as a worthy (economically and socially profitable) venture (from the national perspective), the enrolment explosion at all levels of education, however, meant an increasing financial burden on all the governments - state, and federal, which led to much rethinking on their part. This led to the removal of the ban on private institutions (in the 1980s with respect to primary and secondary schools, and in 1993, with respect to universities). "The effect of total assumption by government of responsibility for education at all levels had not been a happy one. It led to different standards of developments in various states. The number and types of institutions varied, as well as the relevant age groups that were enrolled. The overall financial burden on every state government became obvious and unbearable. But their varying capacity to establish and fund institutions began to pose serious political problems, and led to classification of some states as "educationally disadvantaged".

In most instances, the states have had to depend on the federal government for funds, even in areas where they were directly responsible, and have eventually had to re-introduce some form of cost recovery measures, especially at the primary and secondary school levels. For example, it is noted that the decline in primary school enrolment in the 1980s, was a result of various cost recovery measures introduced by the various state governments, which included reintroduction of school fees, examination fees, various compulsory contributions by students, and shifting the onus of providing chairs and tables unto parents, etc. The condition was compounded, but the non-availability of any machinery to enforce compulsory primary school enrolment and retention of enrolled pupils at the secondary and tertiary level, lack of equipment and instructional materials, and shortage of teachers (science and technical teachers to meet the requirements of the 6-3-3-4 system in the case of secondary schools), bedeviled the systems.

4.0 CONCLUSION

The present situation of human resources planning and development in Nigeria calls for a more deliberate, forceful and effective approach to manpower planning and development. This implies that there is a glaring need for greater co-operation among various arms of the government who are directly concerned. For instance, the ministries of education economic planning and development, and Labour Employment and productivity at both local state and federal levels, should engage more in effective dialogue and cooperation, between government and the private sectors.

5.0 SUMMARY

Human resources development is a necessity for any meaningful development. This is because, this constitutes the totality of the energies, skill, knowledge and experience available in a country. So, human resource planning is the process of determining the policies and programmes that will develop, distribute and utilize human resources, with a view to attaining a nation's broader goals of socio-economic and political development.

Three important aspects of the machinery for human resources planning grew out of the recommendation of the Ashby commission.

Furthermore, the role of education in the development of human resources, is too crucial that the national policy on education has taken this into cognizance before designing respective education programmes such as the National Open University (N.O.U). However, there is clear indication that the country lacks effective manpower planning. In this connection, human resource management in Nigeria needs to confront critical issues related to pay, employment and personnel management.

6.0 TUTOR-MARKED ASSIGNMENT

What are the problems that affect adequate manpower planning in Nigeria?

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UNIT 2 INDIGENISATION POLICY IN NIGERIA

CONTENTS

1.0 INTRODUCTION

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

2.0 OBJECTIVES

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

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

needed, e.g. the intermediate and capital goods production sector.

Activity 1: In your own opinion, what are the reasons for indigenisation in Nigeria?

3.0 MAIN CONTENT

3.1 Reasons for the Indigenisation Policy in Nigeria

a. Before the indigenisation 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 concerns 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.

Activity 2: Do you now think there are disadvantages in changing the ownership structure of industries in Nigeria?

3.2 Disadvantages of Indigenisation

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

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 determine any matter relating to business enterprises in Nigeria generally, in respect of commerce and industry which may be referred to in accordance with any directive of the commissioner or minister.
d. To perform such other functions as the commissioner or minister may determine, or as may be conferred on it by the Nigerian Enterprises Promotion Act or any other enactment.

3.4 Advantages of Indigenisation

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

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 indigenisation 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 associati

e. ons.

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

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

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

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

6.0 TUTOR-MARKED ASSIGNMENT

What are the objectives ofthe Nigerian indigenisation policy?

7.0 REFERENCES/FURTHER READING

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UNIT 3 POVERTY IN NIGERIA

CONTENTS

1.0 INTRODUCTION

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

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

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

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

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 summarised as follows:

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

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

There was clearly a serious deterioration in welfare, and an increase in poverty during this period. Average per capita income plummeted after 1980, as did private consumption per capita after 1981. Real wages in both agriculture and non-agriculture fell after 1980, and by 1985, were identical, wiping out the large differential between the two that has existed for decades. There is no doubt that the welfare of many Nigerians fell sharply throughout that period, and the poverty also increased. Life expectancy at birth in 1982 was 49 and infant mortality was 96 per thousand.

Annual average caloric intake, which was about 2170, went down to about 2100. However, towards the end of this period, a supply response from agriculture began which generated increased revenue for the rural sector.

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

With a reversal of policies, economic growth again slowed, incomesand welfare declined, and poverty both broad and core, undoubtedlyincreased. 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.

Activity 1: 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.

Activity 2: 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 shows that a rate of growth of total consumption of between 5-7% would be required to reduce significantly, the proportion of the poor population.

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

3.2.2 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 organisations and activities, where possible. Targeted programmes are obviously imperative, given the level and profile of poverty in Nigeria. Some elements of targeting should be introduced into public expenditure, particularly for social sector spending. Primary education, health care, and basic infrastructures should command larger share of their sectoral allocation.

In making a strong case for a new initiative on poverty alleviation in Nigeria, the Poverty Alleviation Programme Development Committee of the National Planning commission did suggest that, "a poverty programme should contain a large number of relatively small, well targeted, demand driven projects and sub-projects that can be implemented by the communities themselves". The new initiative is named Community Action Programme for Poverty Alleviation (CAPPA). A core element of CAPPA will be the provision of a support mechanism of finance projects which are initiated, proposed, and implemented by the intended beneficiaries (poor groups and communities), with the support of CBO's and NGO's ,where necessary.

3.2.4 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, decentralisation and good governance. In this regard, three key issues need to be noted. Reforming the role of the public sector, civil society and private sector participation and decentralisation.

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

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

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 decentralisation and the formation of new arrangements with community-based organisations,and with nongovernmental organisations, as well as with the private sector. This arrangement should also build on the initiatives and existing practices of the intended beneficiaries of the development programmes.

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.

6.0 TUTOR-MARKED ASSIGNMENT

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

7.0 REFERENCES/FURTHER READING

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UNIT 4 PRIVATISATION IN NIGERIA

CONTENTS

1.0 INTRODUCTION

One is aware of the on- going privatisation 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 crystallised into the concept of privatisation.

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

With respect to Nigeria, the need to privatise 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, raging from heavy iron and steel industries, to abattoirs. Consequently, in 1988, government promulgated Decree No. 25, known as the Privatisation and Commercialisation Decree, which provided legal forces for the implementation of this policy. Therefore, government set-up a technical committee on privatisation and commercialization to work on 135 enterprises listed in the decree by March, 1989

Privatisation simply refers to the transfer of public resources, management, or ownership from government to private ownership or management. Privatisation 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 privatisation of state-owned enterprises, you have to :

- examine the sources of failures of the SOES
- look at the advantages and disadvantages of privatisation.

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 ofa large share of fixed capital formation. Pioneering of strategic and technology intensive fields
- Low prices charged by public enterprises for their output also enhances the profitability of private enterprises, for example, electricity.

- Requirement for satisfy economic, political,and even social goals simultaneously.

3.2 Sources of Failure in Parastatals

- High cost of production and inadequate capitalisation
- 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 and, 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 ofpublic enterprises
- Undercaptialisation of strategic parastatals; imposition of non-competitive prices, output and staffing.

3.3 Advantages of Privatisation

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

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

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

d) Privatisation is bound to tremendously increase indigenous ownership of enterprises.

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

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

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

3.4 Disadvantages of Privatisation

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

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

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

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

4.0 CONCLUSION

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

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

5.0 SUMMARY

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

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

6.0 TUTOR-MARKED ASSIGNMENT

State the advantages and disadvantages of privatisation.

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