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PROSPECTS AND CHALLENGES OF THE 2004 PENSION REFORM SCHEME IN NIGERIA: SOME LESSONS FROM THE CHILEAN EXPERIENCE

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ABSTRACT

Over the years, existing pension schemes in Nigeria were bedeviled by many problems; the most prominent of these problems included the inability to pay pension to retirees as and when due, and the huge pecuniary and non-pecuniary costs associated with the implementation/administration of the schemes which evidently made them unsustainable. This led to the Pension Reform Scheme in the country in 2004. This paper examines the prospects and challenges of the 2004 Pension Reform Scheme, drawing from the Chilean experience. The major prospects of the new pension reform scheme include: increase in liquidity in the economy which is expected to have favorable multiplier effects on the value of interest rate, investment types, availability of funds for organizations and infrastructural development; development and deepening of the Nigerian capital market; and increase in aggregate savings which is expected to pave the way for rapid and sustainable economic growth and reduction in poverty and inequality in the country. The major challenges of the new scheme include: high transition cost, high commissions, that are most likely to be charged by the profit-maximizing Pension Fund Administrators, which would tremendously reduce the percentage of returns on workers' investment; and the possibility of the minimum pension guarantee creating a substantial contingent liability for the government. It is apparent, however, that the prospects of the new pension scheme far outweigh its challenges. Therefore, the paper concludes by advising that efforts should be made by all stakeholders to maximize the prospects of the new scheme and minimize its challenges.

Key words: Pension reform, Chilean experience, prospects, challenges, liquidity, Nigeria

INTRODUCTION

The attainment of significant improvement in the welfare and standard of living of the people has been identified by experts in development studies as a core objective of development. Indeed, the fundamental reason for the creation of a nation-state is to improve the living conditions of its citizens. This makes development a principal national objective. It has been recognized that poverty in all its ramifications and manifestations is antithetical to development (Seers, 1972; Olopoenia, 1983; Todaro and Smith, 2003). Suffice it to say that poverty has been recognized as a major blemish in developing economies ever since economists began to take interest in the Third World countries.

A major way of enhancing livelihood in a society is by ensuring that workers in the society enjoy an appreciable level of welfare after retirement; such level of welfare should be able to make the workers to be above the poverty line that is defined for the society. A crucial instrument used in achieving the foregoing is pension scheme. Pension may be conceptualized as a regular payment by an employer to a retired employee, usually till the death of the employee; such payment may also be made to the next-of-kin of a pensioner, after the death of the employee, for a given period of time.

The Federal Government of Nigeria has over the years instituted a number of pension schemes for the Nigerian workers in order to guarantee adequate welfare for them in their post-retirement life and in their old age. It could be recalled that in 1961-just about a year after the attainment of political independence in the country-the National Providence Fund (NPF) was established by an Act of Parliament with the broad objective of catering for the pensions and old age security of certain categories of employees in Nigeria. A major pension system in the early post-independence era was the Public Pension System whose guiding policies could be found in the policy paper emanating from the Udoji Commission Reports, the Pension Decree No. 41 of 1972 and the Official Gazette of 1993.

The administration of the National Provident Fund was undertaken by the government and it was treated as a parastatal in the presidency. The scheme was however replaced by the Nigerian Social Insurance and Trust Fund (NSITF) in 1993 through Decree No. 73 of 1993 due to the glaring inadequacies in the former system which included the

* Inadequate contribution which brought about very low retirement benefits;
* Uncorrelated contribution in relation to the various levels of salary structure (N4.00 per employee regardless of the pay level); and
* Inadequate provision of counseling to workers on the ways to productively spend their benefits.

The views expressed in the paper are those of the Author and do not in any way represent the views or thinking of the University of Ibadan.

The foregoing pension schemes were bedeviled by series of problems which adversely affected their effective and efficient performances. The Public Pension System has apparently been mostly affected. Indeed, in recent years the scheme had been unable to pay pensions and retirement gratuities to retirees. This was due to high payroll taxes and tax evasion, misallocation of resources, lack of budgetary provision and inefficiency in the management of the system (Olayiwola, 2002). Other reasons included economic reforms which led to the privatization of some government agencies which brought about the reduction of the workforce and hence reduced contribution and increased pension liability.

In 2004, the Federal Government of Nigeria, under President Olusegun Obasanjo, undertook a pension reform through the Pension Reform Act of 2004 due to the various problems that plagued the pension scheme that existed hitherto. The pension scheme that emanated from the Pension Reform Act (2004) is known as Contributory Pension Scheme (CPS) and this replaced the Pay-As-You-Go (PAYG) scheme which was in place before it.

The new pension scheme under the 2004 Pension Reform Act has many prospects and challenges. In looking at these prospects and challenges, there is need to draw some experience from a comparable pension reform scheme that existed before it in another part of the world. In this connection, the Chilean Pension Reform Scheme is most appropriate. Therefore, this paper will rigorously analyze the new pension reform scheme in Nigeria the Contributory Pension Scheme drawing some lessons from the Chilean experience. The next section contains an overview of the 2004 Pension Reform Scheme in Nigeria while section three contains an overview of the Chilean pension system before reform. Section four highlights features of the Chilean pension reform while section five points out experience from the Chilean pension reform scheme. Section six deals with prospects and challenges of the Nigerian pension reform based on the Chilean experience while section seven contains recommendation; and section eight contains some brief concluding remarks.

2. OVERVIEW OF THE 2004 PENSION REFORM SCHEME IN NIGERIA

The inadequacy of the Defined Benefit Pension Scheme also referred to as the Pay-As-You-Go (PAYG) Pension Scheme made the Federal Government of Nigeria to embark on a Contributory Pension Reform Scheme through the 2004 Pension Reform Act that tends to unify the features of the public service with those of the private sector in terms of rate of contribution to benefits, key players and regulation. Before the 2004 Pension Reform Act was passed into law, the pension liability of the Federal Government of Nigeria was put at about three trillion naira (ARM, 2004). This value constituted a huge proportion of the average annual budget of Nigeria in recent times.

The 2004 Pension Reform Scheme in Nigeria which has replaced the Defined Benefit Pension Scheme is well encapsulated in the 2004 Pension Reform Act (FGN, 2004). The objectives of the 2004 Pension Reform Scheme include the following: (a)to ensure that every person who worked in either the Public Service of the Federation, Federal Capital Territory or private sector receives his retirement benefits as and when due;(b)to assist improvident individuals by ensuring that they save in order to cater for their livelihood during old age; and (c) to establish a uniform set of rules, regulations and standards for the administration and payments of retirement benefits for the Public Service of the Federation, Federal Capital Territory and the private sector.

Under the 2004 Pension Reform Scheme, no employee is entitled to make any withdrawal from his retirement savings account before attaining the age of 50 years. However, any employee that is retired before the age of 50 years on the advice of a suitably qualified physician or a properly constituted medical board certifying that the employee is no longer mentally or physically capable of carrying out the functions of his office, or any employee that is retired before the age of 50 years due to this total or permanent disability either of the mind or of the body, or any employee that retires before the age of 50 years in accordance with the terms and conditions of his employment shall be entitled to make withdrawals in accordance with the following provisions:

(a) a holder of a retirement savings account upon retirement or attaining the age of 50 years shall be entitled to utilize the balance standing to the credit of his retirement savings account for the following benefits:

   (i) programmed monthly or quarterly withdrawals on the basis of an expected life span;

   (ii) annuity for life purchased from a life insurance company licensed by the National Insurance Commission with monthly or quarterly payments; and

   (iii) a lump sum of the balance standing in the credit of his retirement savings account provided that the amount left after that lump sum withdrawal shall be sufficient to procure an annuity or fund programmed withdrawals that will produce an amount not less than 50 per cent of his annual remuneration as at the date of his retirement.

(b) where an employee retires before the age of 50 years in accordance with the terms and conditions of his employment, the employee may, on request, withdraw a lump sum of money not more than 25 per cent of the amount standing in the credit of the retirement savings account provided that such withdrawals shall only be made after six months of such retirement and that the retired employee does not secure another employment.

The 2004 Pension Reform Scheme in Nigeria also has the following provisions:

(i) Where an employee dies, his entitlements under the life

insurance policy maintained in favor of the employee for a minimum of three times the annual total emolument of the employee shall be paid to his retirement savings account. The Pension Fund Administrator (PFA) shall apply the amount paid in favor of the beneficiary under a will or the spouse and children of the deceased or, in the absence of the spouse and children, to the recorded next-of-kin or any person designated by him during his life time or, in the absence of such designation, to any person appointed by the Probate Registry as the administrator of the estate of the deceased.

(ii) Where an employee is duly declared missing he will be presumed to have died and the provisions in (i) above shall apply.

(iii) Any amount payable as a retirement benefit shall not be taxable. However, any voluntary contribution made by an employee in addition to the total contributions made by the employee and his employer shall be subject to taxation at the point of withdrawal where the withdrawal is made before the end of 5 years from the date the voluntary contribution was made.

(iv) Any employee who at the commencement of the 2004 Pension Reform Scheme is entitled to retirement benefits under any pension scheme existing before the commencement of the 2004 Pension Reform Act but has 3 or fewer years to retire shall be exempted from the scheme.

With regard to rate of contribution to the scheme, the 2004 Pension Reform Act stipulated as follows:

(a) In the case of the Public Service of the Federation and the Federal Capital Territory, a minimum of 7.5 per cent should be contributed by the employee; also, a minimum of 7.5 per cent should be contributed by the employer.

(b) In the case of the Military, a minimum of 2.5 per cent should be contributed by the employee and a minimum of 12.5 per cent should be contributed by the employer.

(c) In other cases, a minimum of 7.5 per cent should be contributed by the employee; also, a minimum of 7.5 per cent should be contributed by the employer.

(d) Not withstanding the foregoing, an employer may agree or elect to bear the full burden of the scheme provided that in such a case the employer's contribution shall not be less than 15 per cent of the monthly emoluments of the employee (FGN, 2004).

In addition to the foregoing, the employer shall maintain a life insurance in favor of the retirement savings account in the employee's name with a Pension Fund Administrator (PFA) of the employee's choice. The Pension Fund Administrator, who is to be strictly regulated, would be allowed to invest in government and corporate bonds, treasury bills, debentures, redeemable preference shares issued by corporate entities, ordinary shares of companies listed on the stock exchange, real estate and unit-linked investment schemes. The Pension Fund Administrator is required to maintain accounts on all pension transactions and to provide up-to-date information of its investment strategies. It is also responsible for all calculations and payments of retirement benefits. The Pension Fund Administrator, apart from maintaining a statutory reserve fund from which it will meet claims for which it may be liable as determined by a Pension Fund Custodian (PFC), shall however hold no pension fund asset or keep such with a Pension Fund Custodian in which it has business interest or shares. Every Pension Fund Administrator is required to ensure that pension funds are managed and invested according to the provision of the 2004 Pension Reform Act.

The Pension Fund Custodian, which has to be a licensed financial institution with a very strong footing and a clean track record, is to hold pension funds and assets in safe custody on trust for the employees and the pension scheme's beneficiaries and also to settle transactions on Pension Fund Administrators' behalf. Indeed, all Pension Fund Custodians are required to give regular reports to the National Pension Commission on the activities of the various Pension Fund Administrators. The Pension Fund Custodians are also required to receive all pension contributions and notify the appropriate Pension Fund Administrators of such receipts within 24 hours. To ensure the safety of contributions, a Pension Fund Custodian is required to issue guarantee for the pension funds and assets held by it to the appropriate Pension Fund Administrators. The National Pension Commission is the regulatory authority and is charged with the responsibility of formulating, directing and overseeing the overall policy on pension matters in Nigeria. The body is made up of representatives from both the public and private sectors.

The 2004 Pension Reform Scheme makes provision for the issuance of Federal Government retirement bond to employees in the public service that are currently in pension schemes that are not funded. The bond will be redeemed when the affected employees retire and the amount at redemption will be added to the retirement savings accounts of the beneficiaries. To make this possible, the Federal Government will pay an amount equal to 5 per cent of the total monthly wage bill payable to the workers (in the Federal Public Service) into the Retirement Benefits Bond Redemption Funds. Payments shall however cease after all the retirement benefit bonds issued have been redeemed. In the private sector, the transitional arrangement is such that the benefits will be computed and paid as per the condition of service prior to the commencement of the 2004 Pension Reform Act and the amount will be transferred to the retirement savings account of each employee maintained with the Pension Fund Administrator of his choice.

3. OVERVIEW OF THE CHILEAN PENSION SYSTEM BEFORE REFORM

Now coming to the Chilean Pension System and its reform, it is worthwhile to state here that the Chilean Pension Reform - which was initiated in late 1980 and implemented in early 1981 - was part of a series of policy initiatives in Chile in the 1970s and 1980s. It could be recalled that in 1920, Chile adopted a social security system aimed at providing retirement income for the elderly as well as other benefits. In the early years following this time, contribution by active workers exceeded payments to retirees. Thus the original system was not purely pay-as-you-go. Instead surplus was expected to help in meeting increasing obligations as the system matured and the accumulated funds were purely managed. In the 1970s, however, the government raised benefits quickly and the system's assets were gone thus it became a pure pay-as-you-go system.

Non uniformity was one of the difficulties of the original pension system in Chile which had over 180 different regimes. As a result, total contribution by the employers and employees in 1973, for instance, varied between 16 per cent and 26 per cent of wages, depending on the type of occupation (Rodriguez, 1999). These differences created large differences in retirement benefits in which some workers could retire with large pension benefits at the age of 42 years while many blue collar workers could not qualify for retirement benefit until the age of 65 years.

Chile's traditional retirement system also suffered from shrinking number of contributors. For instance, in 1955 the system had 12 active contributors per retiree but in 1979 it had only 2.5 contributors per retiree (Rodriguez, 2001). By 1980, the system was running a deficit equal to 2.7 per cent of the Chilean Gross Domestic Product and the discounted present value of the system's contingent liabilities exceeded the Gross Domestic Product (Sebastian, 1998). The deficit put increasing stress on the existing system and heightened the pressure/demand for the pension reform that formally kicked off in 1981.

4. FEATURES OF THE CHILEAN PENSION REFORM

The reform of the Chilean pension system - implemented in early 1981 - replaced the hitherto existing pay-as-you-go regime with a fully-funded pension system based on individual capital account, managed by private companies(or Pension Fund Administrators) known as Administradoras de Fondos de Pensiones (AFPs). To reduce political opposition at the time of the reform and to increase interest in the new system, contribution rates were set at a level low enough to increase net “take-home” pay. This was financed by increase in minimum retirement age. On average, workers that opted for the new regime obtained 11 per cent effective increase in net wages (Ruiz-Tagle, 1998). Also, in order to recognize workers' past contributions to the old system, the government issued special bonds - known as “Recognition Bonds” - and deposited them in the transferring workers' individual capital accounts. The bonds were paid in full upon retirement. These bonds provided the link between the contributions to the old system and the new retirement funds (Ruiz-Tagle, 1998).

The Chilean Pension Reform Scheme (which effectively began in 1981) was encapsulated in the Chile's Social Security Reform Act of 1980. The Act allowed current workers to opt out of the hitherto existing government - operated pension system financed by payroll taxation - and start contribution to a personal retirement account, under the new pension reform scheme. Under the new scheme, what determines workers retirement benefits are the amounts of money accumulated in their personal retirement savings accounts during their working years. The workers and their employers do not pay payroll taxes; also the workers do not collect government financed benefits rather 10 per cent of their pre-tax wages is deposited into their personal accounts monthly. Workers may contribute up to an additional 10 per cent a month of their pre-tax wages. The invested amount grows on a tax-free basis, and the workers pay tax on the money only when they withdraw it at retirement.

Upon retirement, workers may choose from the following three options, according to the Pension Reform Act: (a) purchase a family annuity from a life insurance company indexed to inflation; (b) leave their funds in their personal retirement savings accounts and make monthly withdrawals, subject to limits on life expectancy (if a worker dies, the remaining funds form a part of his estate); or (c) any combination of (a) and (b). In all cases, if the amount exceeds the amount needed to provide a monthly benefit equal to 70 per cent of the workers' most recent wages then the workers can withdraw the surplus as a lump sum.

A worker who has reached retirement age and has contributed for 20 years but whose accumulated fund is not enough to provide a minimum pension as defined by the Pension Act will receive the amount from the government once the fund in the personal retirement savings account has been depleted. Workers may choose any one of several competing Pension Fund Administrators [known as Administradoras de Fondos de Pensiones (AFPs)] to manage their accounts. These companies are subject to strict supervision by a government agency called the Superintendencia de Administradoras de Fondos de Pensiones (SAFP). This body is equivalent to the Nigerian version of the National Pension Commission. SAFP reports to the government through the Ministry of Labor and Social Security. The major functions of the SAFP include to approve the creation of new AFPs, to regulate their operations, to ensure that the AFPs comply with minimum capital and cash requirements, to provide policy advice to the government, to interpret legislations and regulations, to provide general rules for AFP administration, to levy fines and to oversee the dissolution of AFPs when applicable.

The provisions for safety as contained in the Pension Reform Act specify that AFPs should invest only in approved assets with diversified portfolios while the profitability provisions allow the AFPs to seek the highest returns with the approved parameters (Vittas and Iglesias, 1992). The regulations may be

summarized as the separation of assets, “one fund” and “one account” rules, and rules governing non-discrimination, solvency, investment, trading and valuation, minimum profitability and information disclosure (Vittas, 1996).

Each worker receives a statement from his Pension Fund Administrator every three months and he can keep of the retirement capital at any moment. Workers with enough retirement savings in their accounts to buy sufficient annuities, which amount to 50 per cent of their average salary, as long as it is 20 per cent higher than the minimum pension, can stop contributing and begin to withdraw their money. But there is no obligation to stop working at any age (before the retirement age) and there is also no obligation to continue to work or to save for retirement once a worker has met sufficient benefit threshold.

Due to the fact that the personal retirement savings accounts are tied to the workers and not to the employers, workers can take their accounts with them when they move to other jobs thus keeping the labor market flexible. Each year, every Pension Fund Administrator is required to guarantee that its return is not lower than the prescribed minimum as contained in the Pension Reform Act. If the return of a Pension Fund Administrator is higher than the specified limit as contained in the Act, the excess is placed in a profitability fluctuating reserve. Funds will be drawn from this reserve whenever the return of the Pension Fund Administrator falls below the required minimum. If a Pension Fund Administrator does not have enough funds in the profitability reserve, the remaining required fund will be drawn from a cash reserve which is equivalent to 1 per cent of total assets under management. And if the cash reserve does not have enough funds then the government will make up the difference and the Pension Fund Administrator will be liquidated.

It is instructive to note at the point that the Chilean Pension Reform Scheme and the Nigerian Pension Reform Scheme have common characteristics. Table 1 below shows the basic characteristics of the Chilean and the Nigerian Pension Reform Schemes.

Table 1: Basic Characteristics of the Chilean and the Nigerian Pension Schemes

Serial No.	Aspects of Reform	Chile	Nigeria
1.	Inception Date	1981	2004
2.	Mandatory/Optional	Mandatory	Mandatory
3.	Parallel Public System	No	No
4.	Contribution Rate as a Percentage of Salary	10per cent	7.5per cent
5.	Voluntary Contribution	Yes	Yes
6.	Government Contribution	No	Yes (7.5per cent)
7.	Additional Savings	Yes	Yes
8.	Fixed Commission	Yes	Not yet determined
9.	Variable Commission on Contributions	Yes	Yes
10.	Discount Allowed	No	No
11.	Old Age Pension	Yes	Yes
12.	Disability and Survivors Pension	Yes	Yes
13.	Early Retirement	Yes	Yes(50 years)
14.	Number of Funds per Pension Fund Administrator	1	Not yet determined

Serial No.	Aspects of Reform	Chile	Nigeria
15.	Investment Limits	Yes	Not yet determined
16.	Guaranteed Minimum Return	Yes	Not defined
17.	Profitability Fluctuation Reserve	Yes	-
18.	Legal Reserve	Yes	-
19.	Number of Pension Fund Administrators	8(as at May,1999)	13(as at August,2005)
20.	Number of Contributors	2,619,616(as at December,1998)	Not yet specific
21.	Asset Under Management(AUM)	$34.1billion(as at May,1999)	-
22.	Rate of Return(real annual average,1981-1998)	11per cent	-
23.	AUM/Gross Domestic Product	42per cent approximately	-
24.	Statutory Reserve	-	12.5per cent

Sources: Rodriguez (1999); FGN (2004); various Nigerian newspapers

5. EXPERIENCE FROM THE CHILEAN PENSION REFORM SCHEME

The substitution of the pay-as-you-go pension scheme with a fully-funded arrangement has been described as the optimal therapy that will permanently solve the problems associated with the hitherto existing pension system in Nigeria (ARM, 2004). The fully-funded pension scheme can be assessed by investigating the performance of similar schemes embarked upon by some other countries. And Chile is apparently the most appropriate country for it is the first country in the world to introduce a fully-funded pension scheme and the country's pension reform scheme is similar to that of Nigeria in many ways. The Chilean Pension Reform Scheme, which the Nigerian Pension Reform Scheme took after, has been in place long enough to provide reasonable evidence of benefits and problems associated with it. With this, the chances of Nigeria drawing some lessons from the Chilean system could be seen. We will now draw experience from the Chilean Pension Reform Scheme along the following lines of thought.

5.1 Social Security Coverage

The social security coverage is the extent to which the population of the workers participates in the pension scheme. It also shows the level of acceptance among the workers especially against the backdrop of the room for choice between the former system (the pay-as-you-go system) and the new system (the fully funded pension scheme). Table 2 shows the development of the social security coverage in Chile between 1980 and 2003.

Table 2 reveals three basic facts about the social security coverage in Chile namely: (a) from the inception of the pension reform in 1981, the percentage of workers covered by the pay-as-you-go system decreased sharply between 1980 and 1982, from 51.6 per cent to 16.7 per cent, and thereafter it decreased almost consistently, reaching 2.8 per cent in 2003. This percentage is expected to gradually reduce to zero as the workers covered by the old scheme finally retire from service; (b) the percentage of workers under the pension reform scheme increased sharply from zero in 1980 to 38 per cent in 1982 and then it increased almost consistently and got to 63.8 per cent in 2003; and (c) the overall coverage of pension increased from 51.6 per cent in 1980 to 66.6 per cent in 2003. This increase in coverage was due to the fact that the pension reform scheme is more economical than the pay-as-you-go system with the gross wages estimated as 12.3 per cent as opposed to 19 per cent under the pay-as-you-go system (Rodgriguez, 1999).

Table 2: Development of Social Security Coverage in Chile (as percentage of workers)

Year	Workers under PAYG (per cent)	Workers under AFPs (per cent)	Total
1980	51.6	-	51.6
1981	30.6	21.4	52
1982	16.7	36	52.7
1983	14.9	38.3	53.2
1984	13.9	41.8	55.7
1985	13	44.1	57.1
1986	11.4	45.9	57.3
1987	10.9	50.6	61.5
1988	9.8	50.6	60.4
1989	8.7	50.8	59.5
1990	7.8	50.6	58.4
1991	7.6	53.7	61.3
1992	6.9	55.3	62.2
1993	6	54.7	60.7
1994	5.5	56.2	61.7
1995	5.5	57.2	62.7
1996	4.9	58.9	63.8
1997	4.3	61.3	65.6
1998	4.1	58.0	62.1
1999	3.8	60.4	64.2
2000	3.8	59.4	63.2
2001	3.3	63	66.3
2002	3.1	61.9	65
2003	2.8	63.8	66.6

Source: The Chilean AFP Association

5.2 Cost of the Pension Reform Scheme

To put the cost of the pension reform scheme into proper perspective it is necessary to compare the cost with costs of some other institutions that manage savings. In the Chilean pension system the administrative cost is usually obtained by dividing the commission fee - which ranges between 2.49 per cent and 2.95 per cent of taxable wages - by the total contribution (10 per cent plus the commission). The commission should adequately cater for the workers' disability and survivorship insurance. If the commission charged by the Pension Fund Administrators is measured as a percentage of the managed funds it amounts to 0.63 per cent per year on the average (The Chilean AFP Association, 2004). This is substantially lower than those of other fund managers like the USA Mutual Funds with 1.38 per cent, 401 k USA with 1.46 per cent and Chilean Mutual Funds with a commission fee of 2.3 per cent per year on the average.

5.3 Pension Fund Assets

The Chilean Pension Reform Scheme evidently brought about rapid growth in pension fund assets. For instance, between 1981 and 1998, pension fund assets as percentage of GDP grew tremendously, from 0.9 per cent in 1981 to 58.6 per cent in 2003 (see table 3). The immense growth in pension assets (following the implementation of the pension reform scheme) has contributed greatly to the development and the deepening of the Chilean capital market which is by far the most advanced in Latin America in recent times; it has also contributed greatly to the development of the risk rating industry in Chile.

Table 3: Cumulative Value and Rates of Return on Chilean Pension Fund Assets: 1981-2003

Year	Pension Fund Assets under Management(value in millions of current pesos)	Percentage of GDP	Returns on Fund Assets (average yearly real return in per cent)
1981	11,695	0.9	12.8
1982	44,495	3.7	28.5
1983	99,474	6.5	21.3
1984	159,576	8.4	3.6
1985	281,807	10.3	13.4
1986	433,377	12.7	12.3
1987	644,728	14.1	5.4
1988	885,875	14.7	6.5
1989	1,329,268	17.5	6.9
1990	2,244,481	23.3	15.6
1991	3,769,243	29.7	29.7
1992	4,736,462	29.4	3.0
1993	6,830,788	35.4	16.2
1994	8,983,563	38.8	18.2
1995	10,230,990	36.1	-2.5
1996	11,555,632	37	3.5
1997	13,405,826	38.6	4.7
1998	14,552,547	39.8	-1.1
1999	18,093,003	48.7	16.3
2000	20,343,371	50.1	4.4
2001	22,955,974	52.8	6.7
2002	25,227,058	54.4	3
2003	29,176,611	58.6	10.5

Source: Arenas de Mesa (2005)

The returns on pension fund assets have been highly significant in Chile since the pension reform scheme started. The returns ranged from 3.6 per cent and 29.7 per cent between 1984 and 1991 and it was 3 per cent in 1992 and 10.5 per cent in 2003 (see table 3). It is worthwhile to note that the pension fund assets experienced negative returns twice between 1981 and 2003 - in 1995 (when it was -2.5 per cent) and in 1998 (when it was -1.1 per cent). The negative return of -2.5 per cent experienced in 1995 was due to the Mexican pesso crisis; and the negative return of -1.1 per cent experienced in 1998 was attributable to the effects of the Asian crises, lower commodity prices and an economic down turn (Rodriguez, 1999).

5.4 Financial Deepening of the Capital Market in Chile

The implication of the pension reform scheme in Chile can be investigated through the structure and development of the capital market. Table 4 shows the structure and development of the Chilean capital market from 1980 to 2000. The data available are on: (a) asset turn over, taking into consideration stock, financial intermediation and fixed income securities;(b) stock market asset valuation;(c) institutional investors funds involving insurance company reserves, pension funds, mutual funds and foreign investment funds;(c)corporate aggregate; and (d)monetary aggregate (M7-M1 or Index of financial debt).

The development phases in the Chilean capital market, based on table 4, can be grouped into three: 1980 - 1985, 1986-1995 and 1996-2000. In the period 1980-1985, stock transactions decreased markedly both as a percentage of GDP and in US dollar terms; this was a direct consequence of the economic and financial crisis experienced in Chile between 1982 and 1983, whose effect extended until 1985 (Cifuentes et al, 2002). The development of the pension reform scheme led to the investment of significant proportion of the country's portfolio in fixed income securities; it also led to significant growth of insurance company reserves (Cifuentes et al, 2002). In the period 1986-1995, the Chilean

Table 4: Structure and Development of Capital Market in Chile: 1980-2000 (as a percentage of GDP of each year)

Year	Asset Turnover			Stock Market Valuation	Institutional Investors				Corporate	M7-M1(indicator of financial depth)
	Stock	Financial Intermediation	Fixed Income Security		Insurance Company Reserves	Pension Funds	Mutual Funds	Foreign Investment Funds		
1980	2.41	0.25	3.27	41.87	2.02	-	2.68	-	0.19	-
1981	1.39	0.55	8.54	26.58	1.91	1.16	2.62	-	0.37	27.72
1982	0.56	3.29	10.42	21.55	2.32	3.50	2.44	-	1.66	32.22
1983	0.31	5.74	3.24	13.08	2.59	6.43	0.55	-	1.91	31.06
1984	0.21	4.42	2.90	11.41	2.91	7.58	0.49	-	1.37	31.05
1985	0.32	10.61	9.23	13.08	3.41	10.63	0.76	-	1.53	37.94
1986	1.67	24.26	16.54	22.90	3.89	12.67	1.21	-	0.85	39.62
1987	2.43	26.24	24.67	25.43	4.44	14.20	1.43	-	1.37	43.03
1988	2.54	34.13	40.14	27.47	4.39	14.97	1.39	-	2.01	42.08
1989	2.98	42.48	32.67	33.16	5.15	17.65	1.29	0.38	3.37	49.52
1990	2.93	45.5	17.28	43.73	6.71	24.21	1.58	1.65	4.57	58.94
1991	5.52	35.15	27.09	81.64	7.89	31.37	2.64	2.97	5.59	61.23
1992	4.75	53.17	39.19	69.60	8.22	30.56	2.32	2.69	4.87	61.23
1993	6.13	55.86	61.30	73.15	9.65	37.02	2.86	3.63	4.80	62.62
1994	10.06	89.02	63.26	124.78	8.65	40.99	3.36	3.85	4.52	62.64
1995	17.51	128.47	95.01	111.99	9.80	39.88	3.98	3.06	3.48	65.35
1996	11.67	118.96	167.28	98.99	11.45	40.88	4.21	2.12	2.46	72.82
1997	10.17	121.23	193.68	100.08	12.40	42.47	5.29	1.93	2.98	79.15
1998	6.21	127.40	273.23	72.99	13.41	43.27	3.89	1.20	3.74	81.32
1999	10.17	72.87	199.09	105.01	15.16	52.56	5.59	1.85	5.33	87.13
2000	8.92	64.47	191.83	91.74	16.74	53.85	8.77	0.98	5.33	-

Source: Cifuentes et al(2002)

capital market advanced remarkably in size, depth and liquidity. Stock transactions grew faster than GDP, fixed income transaction and financial intermediation (commercial papers and other short term securities) grew remarkably well, stock market asset valuation increased tremendously and asset values grew greatly at an average rate of 56 per cent. The growth of asset values in the period under reference was due the growth in the volume of funds managed by institutional investors and foreign capital inflows. Furthermore, in the period 1986-1995, pension funds increased their share of GDP from about 11 per cent in 1985 to about 40 per cent in 1995 while insurance company reserves rose from about 3 per cent of GDP in 1986 to about 10 per cent of GDP in 1995. Also, mutual funds, foreign investment funds and corporate bonds increased their shares of GDP stupendously in the period under reference. And monetary aggregate (M7-M1) - which is the most comprehensive indicator of financial depth-increased enormously from about 38 per cent of GDP in 1985 to about 65 per cent of GDP in 1995.

In the period 1996-2000, stock market transactions declined almost throughout the period, financial intermediation increased from 1996 to 1998 but dropped in 1999 and 2000; pension funds continued to increase their share of GDP throughout the period; insurance company reserves also increased throughout the period; mutual funds increased their share almost throughout the period; corporate bonds issued in domestic markets decreased from about 3.5 per cent in 1995 to 2.46 per cent in 1996 and then it rose to 5.33 per cent in 1999 and remained so in 2000; foreign investment reduced from 3.06 per cent in 1995 to 2.12 per cent in 1996 and it fell to less than 1 per cent in 2000; and the index of financial depth - the monetary aggregate (M7 M1) - shows consistent growth throughout this period thus suggesting that the total pool of savings increased systematically within the period under reference.

To reconcile the continued growth in savings with the significant reduction in stock and bond transactions as well as in stock valuation since 1995, five reasons were given by Cifuentes et al (2002) namely: (a) application of taxes on some secondary insurance in 1995 which seriously affected financial integration and dried up liquidity in domestic markets;(b) domestic financial markets are over regulated, particularly in the case of pension funds, which has hampered innovation and creativity and stimulated rent-seeking behaviors; (c) high cost of listing small and medium scale companies on the stock exchange; (d) the domestic stock market is a poor representation of the

economy's GDP especially where some sectors have minimum representation despite being significant sectors of the economy; and (e) increased concentration of the pension industries which has created a virtual monopsony among institutional investors.

5.5 Transition Cost

The transition cost of the Chilean Pension Reform Scheme can be broken down into three different parts namely: (a) cost of paying for the retirement benefits of those workers who were already retired when the scheme started and of those workers who chose to remain in the old system; (b) cost of redeeming the recognition bond given to workers who moved from the old system to the new system in acknowledgement of the contribution they had made to the old system; and (c) cost of providing a safety net to the system in the form of welfare pension, funded from general reserve and cost of supplementing pension that do not meet the required legally defined minimum pension.

Table 5 shows fiscal requirement of the Chilean Pension Reform Scheme from 1981 to 1996; the figures are given as percentage of GDP. As shown in the table, the expenditure on pension of workers retired under the old system increased from 1.5 per cent of the GDP in 1981 to a peak of 4.2 per cent of the GDP in 1985 and then gradually reduced to 2.6 per cent of the GDP in 1996. The cost would continue to decline and eventually become zero as the last worker exit from the old system.

Table 5: Fiscal Requirement of the Chilean Pension Reform Scheme (as percentage of GDP)

Year	Recognition Bonds	Expenditure on Pension of Workers Retired under the Old Scheme	Total Fiscal Cost
1981	0.00	1.45	1.45
1982	0.09	1.85	1.94
1983	0.17	2.36	2.53
1984	0.22	3.22	3.44
1985	0.24	4.22	4.46
1986	0.33	3.94	4.27
1987	0.41	3.32	3.73
1988	0.42	3.4	3.82
1989	0.41	2.55	2.96
1990	0.50	3.23	3.73
1991	0.44	3.30	3.74
1992	0.49	3.10	3.59
1993	0.60	3.07	3.67
1994	0.65	2.97	3.62
1995	0.67	2.77	3.44
1996	0.69	2.60	3.29

Source:Rodriguez(1999)

The table also shows that recognition bonds increased from zero in 1981 to 0.7 per cent in 1996, though with period of unsteady increase between 1989 and 1992. Given that these bonds would be redeemed when the recipients retire, the cost to the government would gradually increase as transition workers retire and then will eventually disappear. The total fiscal cost increased from 1.5 per cent in 1981 to a peak of 4.5 per cent in 1985; it declined to 3.7 per cent in 1987, increased to 3.8 per cent in 1988, declined to 3.0 per cent in 1989; increased from 1990 to 1991 and then declined to 3.6 per cent in 1992; it increased to 3.7 per cent in 1993 and it then decreased throughout from 1994 to 1996. It is instructive to state here that Chile used the following five methods to finance the transition: (a) new government bonds; (b) sold some state owned enterprises; (c) maintaining a fraction of the old payroll tax as a temporary transition tax which has since ceased; (d) by cutting down government expenditures; and (e) pension privatization and other market reforms (Rodriguez, 1999).

6. PROSPECTS AND CHALLENGES OF THE NIGERIAN PENSION REFORM BASED ON THE CHILEAN EXPERIENCE

This section highlights some of the major prospects and challenges of

the 2004 Pension Reform Scheme in Nigeria, drawing from the Chilean experience. Sub-section 6.1 points out some of the major prospects while sub-section 6.2 highlights some of the major challenges of the Nigeria pension reform.

6.1 MAJOR PROSPECTS OF THE NIGERIAN PENSION REFORM SCHEME

Based on the Chilean experience some of the major prospects of the 2004 Pension Reform Scheme in Nigeria are stated below:

(a) As the contributions to the pension reform scheme continue it is most likely that there will be a gradual increase in liquidity in the economy. This increase in liquidity will, all other things being equal, expectedly bring about a multiplier effect on the value of interest rate, investment types, availability of funds for organizations, variety of credit facilities and infrastructural development.

(b) With the increase in the rate of savings, interest rates would most likely drop. This will encourage manufacturers and various business organizations to go for loans that have been difficult to get in the past. Financial institutions will also be more willing to consider longer term investments for possible maximum returns. Already, many banks are offering diverse loan packages aimed at boosting advances to customers for investment. Further, as more funds reach investors in the real sector the resultant effects on output, poverty and income inequality would lead to sustainable livelihood for greater number of the population.

(c) It is expected that the pension reform scheme would assist greatly in the development and deepening of the Nigerian capital market. Before the pension fund will gain adequate footing it is expected that the stock market would record higher stock valuations partly because large sums of money available with the Pension Fund Administrators would be chasing the few available stocks in the secondary market. And as the fund grows, companies are expected to assess the capital market for equity and debt to raise cheap money; thus the real sector is most likely to benefit from the pension fund thereby increasing the possibility of new investments and industrial expansion and diversifications. This avalanche could trigger off the participation of other institutional investors in the capital market especially when the entry of these institutions into the market becomes a very strong incentive for stock investment. Currently, the stock market is experiencing over subscription of public offers of stocks in the primary market.

(d) Apart from the 7.5per cent (of workers' emoluments) as contribution by government and the cost of transition from the old pension scheme to the new scheme, the government does not make any other pension payment thus the different tiers of government would then have more money to spend on infrastructural development as well as other developmental projects and programs for the benefit of the people.

(e) The mandatory contributions of workers and their employers would force workers to save on a large scale thus leading to adequate funding of the new pension scheme and hence availability of funds to pay retirement benefits. And the National Pension Commission is expected to act as the watch-dog of the Pension Fund Administrators. The presence of the National Pension Commission will most likely prevent the abuse of workers' funds as was the case in the old pension scheme.

(f) Due to the rules and regulations given out to control the operations of the Pension Fund Administrators, workers' funds are expected to be exposed to minimum investment risk under ideal conditions.

(g) On the part of the workers, the habit of saving is expected to be imbibed gradually and as workers watch their savings and investment grow, it is most likely that they would be encouraged to save more money in excess of the stipulated minimum of 7.5per cent of their emoluments for further investments. This will have tremendous positive impact on the economic growth of Nigeria and on the independence/welfare of the workers. With the anticipated huge pension funds in their accounts workers would become owners of assets that can enhance and sustain their welfare even during old age as is in the case of Chile.

(h) The pension reform scheme in Nigeria also has the prospect of improving corporate governance in the country. Since institutional investors like the Pension Fund Administrators would like to tie their investments to good corporate governance, companies would likely put in their best in the management of their affairs so as to convince the Pension Fund Administrators for more investments.

6.2 MAJOR CHALLENGES OF THE NIGERIAN PENSION REFORM SCHEME

Some of the major challenges of the 2004 Pension Reform Scheme in Nigeria, following the Chilean experience are stated below:

(a) The transition cost would constitute a great drain on the purse of the government, especially when workers would consequently begin to pay less tax and government continues to pay at least a contribution of 7.5 per cent of workers' emoluments in addition to 5 per cent of the total monthly wage bill payable to employees in the public service into the Redemption Funds for the redemption of the retirement bond for workers retiring under the old pension scheme. This will impose great financial stress on the fiscal allocation of the government. Also, due to the fact that the government is still

involved in the contribution to the scheme, great commitment and fiscal discipline is needed on the part of the government otherwise the scheme may suffer the same problem that plagued the old pension scheme.

Moreover, given the delay in the take-of of the scheme in terms remitting contributions from PENCOM to Pension Fund Administrators, workers are likely to incur more cost in terms of foregone interest payments on funds not transferred on time to Pension fund administrators. For example, some workers who registered with some Pension Fund Administrators over ten months or more ago are yet to have their accounts credited with the money already contributed. The verification of workers in the new pension scheme is affecting the transfer of fund from PENCOM to Pension fund administrators and this problem needs urgent attention so as enlarge the pool of fund available for investment and hasten the pace of enlisting every eligible worker into the scheme.

(b) Going by the tendency of Nigerian financial institutions to pursue extreme profit maximization to the detriment of their clients, the issue of commission to be charged by the Pension Fund Administrators is most likely to be problematic. Unless the National Pension Commission comes out with a favorable regulation, workers may not be able to have a satisfactory percentage of return on their investment; and excessive regulation is not in the spirit of a deregulated and liberalized economy. Thus, this area is a major challenge to the pension reform scheme.

(c) The issue of non-sustainability of the benefits under the old pension scheme is still a major area of concern. The magnitude of benefits for current pensioners (public sector employees within 3 years of qualifying for benefits) and even the accrued pension rights of current workers moving from the old pension scheme to the new are in principle protected by the Pension Reform Act and cannot be adjusted even though the benefits/rights are recognized as being too generous. The inability to optimally address this issue raises questions about equity and transition costs associated with carrying the two pension systems. The pension reform implies that there will be a reduced level of pension benefits for public sector workers especially those with low incomes relative to their counterparts who retired or will retire under the old scheme or who crossed to the new scheme.

(d) The minimum pension guarantee could create a substantial contingent liability for the government. This is because its redistributive impact will depend on the coverage of the new pension scheme (which is fully funded) with the probability that mostly urban, formal and relatively higher income segments of the labor market will benefit from the scheme. Part of the liability will be the determination of a consistent threshold for various segments of the labor market.

7. RECOMMENDATIONS

Having stated some of the major prospects and challenges of the 2004 Pension Reform Scheme in Nigeria, drawing from the Chilean experience, we are constrained to recommend as follows:

(a) Now that the pension reform scheme is still fresh, the participation of the government may be satisfactory but as time goes on, the zeal of the government may drop and its contribution to the scheme may reduce significantly thus leading to a repeat of the problem that plagued the old scheme. It is therefore recommended (based on how it worked in Chile) that contribution should be made solely by the employees while the government should be responsible for payments into the Redemption Fund as stipulated by the Pension Reform Act and the Act should be amended accordingly to take care of the above recommendation. Workers' wages should be sufficiently increased to cater for the extra percentage of contribution (i.e. extra 7.5per cent) that will come from them based on the above recommendation.

(b) Based on the Chilean experience, the laws governing the pension reform scheme in Nigeria should not be rigid. The laws should be open for amendments that will strengthen the operation and management of the pension funds for higher rate of returns and for overall economic growth and development of the country.

(c) In order to significantly increase the coverage of the pension reform scheme and enhance the welfare of the aged, government should ensure that all categories of workers, including self-employed workers and those employed in business organizations with less than 5 employees, adequately take to the scheme. This would help in cushioning the adverse effects of old age for all workers since, we do not have social welfare scheme that covers all in the country as at now.

(d) The implementation and monitoring methods of the National Pension Commission and the Pension Fund Administrators should be made to optimally embrace information and communication technology. This will enhance communication and guarantee efficiency in the services render to workers and in the monitoring and evaluation efforts of these agencies.

(e) There is need for adequate and continuous education of all stakeholders on the objectives, participation, operations, monitoring, offences and related penalties, and rights and benefits of workers. This will

improve the coverage of the scheme and it will help to check unwholesome practices by various stakeholders of the scheme and hence lead to the overall success of the scheme.

8. CONCLUSION

A major innovation in Nigeria in recent times, in the country's effort to enthrone rapid and sustainable development, is the adoption and implementation of the 2004 Pension Reform Scheme which is a fully-funded pension system, similar in many respects to the one adopted and implemented in Chile since 1981. The pension reform scheme was set up in order to address the various problems that plagued the various pension schemes that existed before it.

The new pension scheme has many prospects and challenges but the prospects apparently outweigh the challenges. Therefore, efforts should be made by all stakeholders to maximize the prospects and minimize the challenges of the scheme. Suffice it to say that the pension reform scheme has the capacity to impact positively and tremendously on the Nigerian economy, and contribute immensely towards rapid and sustainable growth and reduction in poverty and inequality in the country.

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MAXIMISING THE IMPACT OF THE NEW PENSION SCHEME IN NIGERIA: ISSUES, PROSPECTS AND CHALLENGES

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ABSTRACT

The paper serializes the Nigerian Pension Reform Act 2004 and discusses the likely impact on the Nigerian employees. The paper submitted that the reform pose a demographic challenge in moving from the defined benefit to defined contribution. It opined that the new system has winners and losers. The paper identified the challenges for the future success to include: social implications from employees, higher life expectancy and lower fertility, increase population of pensioners and possibility of lower pensions compared to higher cost of living, etc. The paper concludes that the success of the scheme depends on the effective partnership between members, trustees, employer and professional advisers (PFAs). Post-retirement success in the new dispensation rests on the employers in terms of equipping the employees on effective management of personal finances.

INTRODUCTION

Pensions are increasingly becoming high on the policy agenda of many countries today. This reflects the challenges that demographic changes are creating for pension systems, whether pay-as-you-go (PAYG), unfunded or funded. The broad directions of that demographic change are common, but the precise nature of the pension policy challenge in most developing countries reflects two main factors: the severity of demographic change and the pension systems with which countries start. In some countries, relatively modest adjustments to existing pension systems can ensure their sustainability, while in others, more radical change is required.

All pension systems, Defined Benefits (DB) or Defined Contribution (DC) such as PAYG, involve the transfer of resources to pensioners (who consume but do not produce) from workers (who produce more than they consume). As a result, in a funded system a change in the ratio of pensioners to workers must affect rates of return and asset prices. If people attempt to finance a longer retirement by saving at a higher rate, that will tend to generate a higher capital output ratio and therefore come at the expense of lower returns on capital. If a high-saving generation is followed by a generation smaller in number, asset prices must tend to fall as the first generation attempts to sell its accumulated assets. It should be noted that there are some basic difference between a DB and DC pension systems which is focused by the table below:

Both types of systems, as may be rightly argued, are ultimately challenged by changing demography of working age bracket, and many of the proposed advantages of funded systems can be achieved within a PYSG environment. If an increase in the national saving rate is appropriate, adjustments to PAYG contribution rates can achieve that as easily as compulsory savings, and under both systems the increase is attainable only if someone sacrifices current consumption. PAYG systems can be made more robust (as was done in Sweden) in the face of uncertainty over both future longevity and future national fertility rates. The risk of unexpected future changes in longevity can be shifted from the government to individuals by moving to a notional defined contribution approach, where the state credits each individual's compulsory contributions to an account whose value increases with defined rate of return and delivers a capital sum at retirement age that it coverts into an annuity.

Within the Federal Republic of Nigeria, the Pension Reform Act 2004 established a contributory pension scheme for payment of retirement benefits of employees in the public and private sector. The new Act migrate Nigeria's Pension from Defined Benefits to Defined Contribution Pension System. The underlying reason for the change was the inefficient and dysfunctional administration of the old pension

Table 1: Key Differences Between DB and DC

	Defined Benefit	Defined Contribution
Employer Contributions	Volatile	Fixed
Employee Pensions	Fixed	Volatile

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scheme. At the global level, many governments are creating management systems that release the state resources and energy of their people for crystallizing growth and sustainable development. The need to secure more financial resources to finance human and technological development requires that Nigeria needs to shift from administrative systems that carry heavy and avoidable overheads.

Studies have shown that Defined Benefit Pension schemes are too risky to management of employers' liquidity and solvency and therefore many employers are moving away from it. Also, the cash contribution for pension funding is governed by laws described in the New Pension Reform Act 2004, which determines minimum amounts that must be contributed to the plan and the maximum tax-deductible contribution amount.

Employers prefund their pension obligations for a variety of reasons. Apart from the fact that prefunding is required by the Pension Act, pre-funding attempts to equitably allocate to each year the cost of the pension benefits. Also, benefit security is increased when pension benefits are pre-funded, investment earnings on assets held in a qualified pension plan's trust are tax free and contributions up to the maximum generate a tax deduction. Other reason why employers pre-fund their pension plan is that benefits earned under the plan are not taxed until they are paid to participants.

Nigeria as a country and Nigerians would benefit from the new DB Pension Plan. In the first instance, the new scheme addresses the huge public debt of pension liability of yesteryears by stemming its further growth and provides a platform for addressing the liability. Since the individuals owned the contribution, the pensioner is not at the mercy of government or other employer thereby assuring the regular payment of retirement benefits. Monitoring is possible for employees as he or she has current information on his retirement savings account. The scheme allows the contributor the freedom to choose who administers his retirement benefits account and this promotes competition among the Pension Fund Administrators (PFA). A major benefit of the scheme to the worker is that the individual account is portable and as such, the worker is able to change employment and still maintain the same account. He is merely required to provide the details of his account to the new employer.

The Scheme imposes fiscal discipline on the nation and it's a solid foundation for economic development. There is an expansion of convertible funds, creation of huge pool of long-term funds and enhanced accountability. The Scheme introduced clear, legal and administrative sanctions and there is a separation of investment, administration and custody of assets. Transparency is also ensured by the requirements for published rate of returns, regular statement of contributions and earnings and annual audited accounts. As a result, the choice of a balance between PAYG and funded elements of the system, and thus the appropriate generosity of the PAYG system, needs to reflect a country's political culture and fiscal situation and in particular, the sufficiency of pension liabilities and compulsory contribution.

The rest of the paper is divided into five sections. Section two discusses an overview of the pension system in Nigeria while section three renders the main highlights of the new pension reform act. Section four discusses the expected impact and expectations of the new scheme while section five outlines the future challenges. Section six highlights the prospects, recommendation and conclusion.

2.0 OVERVIEW OF THE PENSION SYSTEM IN NIGERIA

Since independence, the pension scheme in Nigeria had been non-contributory, fully funded by only the employer and operated same. Usually, it forms part of the current expenditure of the organization charged against the current income. There was direct relationship between the current incomes and meeting the obligations of the pension liabilities. This feature had caused the problems of under-funding, irregular payments of pension and build-up of arrears, social suffering to pensioners and fiscal unsustainability.

The Nigerian public service operates an unfunded Defined Benefits Scheme and the payment of retirement benefits are budgeted annually. The annual budgetary allocation for pension has been one of the most vulnerable items in the Nigerian budget implementation in the light of resource constraints. Indeed, even where budgetary provisions are made, inadequate and untimely release of funds results in delays and accumulation of arrears. However, current arrears of the pension payments are only the symptom of a much deeper crisis. As the scheme is unfunded, there is no opportunity for the accumulation of investible funds. Even where funds were accumulated under some parastatals' schemes, restrictive investment policies and practices sometimes limited the capacity of such funds to grow.

Political instability and unstable labour policies in the past had endangered massive premature retirements thus creating an unstable pensioner-to-active-worker ratio. In addition, poor administration, inadequate delivery structures for payment and lack of a database of pensioners have resulted in delayed payments of benefits and consequent near destitution of pensioners, adverse publicity in the media and portrayal of society and government as uncaring to the plight of its senior citizens. Such inherent problems of the current pension scheme in the country have given rise to insecurity and appeared to have encouraged corruption in the active workforce.

With an estimated outstanding pension liabilities nation-wide of about N2 trillion, the Defined Benefits pension scheme cannot be sustained. The Nigerian Railway Corporation is a classic case of unsustainable relationship between the income generating salary earners. The corporation generate N30 million every month. It pays N250 million to pensioners and N200 million to its regular workers. Then, there is the accumulated teachers' pension, itself a consequence of the same skewed pension policy. Another graphic example is the armed forces,

which have more officers and men on the pension roll than those in active service. Many of the retirees were retired in their thirties and forties. This means that they are at the mercy of budgetary constraints for at least thirty years. It is therefore not surprising that the pension crisis in Nigeria has manifested most dramatically and tragically in the Nigerian Armed Forces, the Railway and the Teaching Services. This is also explain, in part, why the existing pension scheme collapsed.

Also, a fiscal snapshot of the Nigerian pension system before the new reform revealed the volatility of its management. Since government is the dominant employer, the domination is reflected in its fiscal operation over the years. Fiscal outlay on pensions and gratuities by various tiers of government is given in Table 1. The table revealed that the Federal, State and local Governments, expends averages of N50.06, N31.9, N8.44billion yearly respectively on pensions and gratuities. Reviewing pension commitments against some selected fiscal indicators revealed interesting developments for policy. Pension outlay as a percentage of total government expenditure which stood at 6.1 per cent in 2001 rose to 12 1 in 2004. When viewed in relation to GDP, it recorded huge levels of 814.4 and 1155.2 percent in 2003 and 2004 respectively against normal trends of 20 percent worldwide. Also, pension expenditure as a percentage of total revenue of governments in Nigeria stood at 27.5 in 2000 declined to 14.04 percent in 2004 due to corruption and fraud which infested the old pension management system.

The foregoing scenario, among others, necessitated a policy reform for pension administration in Nigeria. Furthermore, as typical worldwide, the Pay As You Go Defined Benefit Scheme that was hitherto operated in Nigeria was burdened with a lot of problems and therefore became increasingly unsustainable. Against the backdrop of an estimated N2 trillion deficit, arbitrary increases in salaries and pensions as well as poor administrative structures, the need for pension reform is glaring. Accordingly, the government initiated a pension reform in order to address and eliminate the problems associated with the pension schemes.

3.0 HIGHLIGHTS OF THE NEW PENSION REFORM ACT 2004

Before discussing the main highlights of the new Pension Act of 2004, we should look at the main objectives of the reform which gave birth to the new Act. The main objectives of the reform are to:

(a) Ensure that every person who has worked in either the public or private sector receives his retirement benefits as and when due;

(b) Assist improvident individuals by ensuring that they save to cater for their livelihood during old age and thereby reducing old age poverty;

(c) Ensure that pensioners are not subjected to untold suffering due to inefficient and cumbersome process of pension payment;

(d) Establish a set of standard rules and regulation for the administration and payment of retirement benefits in the public and private sectors; and

(e) Stem the growth of outstanding pension liabilities.

The reform process was governed by the key principles of sustainability, safety and security of benefits, transparency, accountability, equity, flexibility, uniformity and practicality.

3.1 Other Elements of the New Contributory Pension Scheme

The key objectives of the new scheme are:

3.1.1 Contribution Mode and System

The new pension scheme will be contributory, fully funded, based on individual accounts that are privately managed by Pension Fund Administrators with the pension funds assets held by Pension Assets Custodians.

Under this system, the employees contribute a minimum of 7.5 per cent of their Basic Salary, Housing and Transport Allowances and 2.5 per cent for the Military. Employers shall contribute 7.5 per cent in the case of the Public Sector and 12.5per cent in the case of the military. Employers and employees in the private sector will contribute a minimum of 7.5 per cent each. An Employer may elect to contribute on behalf of the employees such that the total contribution shall not be less than 15 per cent of the Basic Salary, Housing and Transport allowances of the employees. An Employer is obliged to deduct and remit contributions to a Custodian within 7 days from the day the employee is paid his salary while the Custodian shall notify the PFA within 24 hours of the receipt of contribution. Contribution and retirement benefits are tax exempt.

3.1.2 Fully Funded Pension Fund

The contributions are deducted monthly from the salary of the employee and transferred to the relevant retirement savings account operated with the chosen pension fund administrator. By so doing, the pension funds become available from the onset and payments will be made as at when due by the pension funds custodian through the pension funds administrator.

3.1.3 Individual Accounts

The employee opens an account to be known as a 'Retirement Savings Account' in his name with a Pension Fund Administrator of his choice. This individual account belongs to the employee and will remain with him through life. He may change employers or pension fund administrators but the account remains the same. The employee may only withdraw from this account at the age of 50 or upon retirement thereafter. This withdrawal may take the form of:

(i) A programmed monthly or quarterly withdrawal;

(ii) A purchase of annuity for life through a licensed life insurance company with monthly or quarterly payments; and

(iii) A lump sum from the balance standing to the credit of his retirement savings account; provided that the amount remaining after the lump sum withdrawal shall be sufficient to procure an annuity of fund programmed withdrawals that will produce an amount not less than 50 per cent of his monthly remuneration as at the date of his retirement.

With any of the above options, there is an assurance that the pensioner has sufficient funds available to him for his old age. Although many have contended that at the end of the working period, they should be allowed to collect their savings in lump sum, experience has shown that very few individuals have the discipline to manage funds effectively over a long period of time. The above was considered a better process than to allow the individual withdraw his accumulated savings at once, spend it all and then have no income when he/she is longer in a position to work.

3.1.4 Life Insurance Policy

Every employer shall maintain life insurance policy in favour of an employee for a minimum of three times the annual total emolument of the employee.

3.1.5 Privately-Managed Pension Fund Administrators and Pension Assets Custodians

The new scheme requires pension funds to be privately managed by Pension Fund Administrator (PFAs) and Pension Assets Custodians (PACs). The PFAs are duly licensed to open retirement savings accounts for employees, invest and manage the pension funds in fixed income securities as approved by the National Pension Commission (NPC). The PACs shall be responsible for the warehousing of the pension fund assets. The employer sends the contributions directly to the Custodian, who notifies the PFA of the receipt of the contribution and the PFA subsequently credits the retirement savings account of the employee. The Custodian will execute transactions and undertake activities relating to the administration of pension fund investments upon instructions by the PFA.

3.1.6 The National Pension Commission (NPC)

The Scheme approved the establishment of a National Pension Commission (NPC), to regulate, supervise and ensure the effective administration of pension matters in Nigeria. The law empowers the NPC to receive and investigate any complaint of impropriety leveled against any Pension Fund administrator, Custodian or employer or any of their staff or agents.

3.1.7 Eligibility for the scheme

The Scheme is compulsory for all workers in the Nigerian Public and the private sector where the total number of employees is at least five. The categories of exempt individuals are: existing pensioners, workers that have 3 years or less to retire as well as people specified under Section 291 of the Nigerian Constitution who are given the option to join voluntarily.

3.1.8 Transitional Provisions for the Public and Private Sector

There shall be established Pension Departments under the Scheme to countinue to administer the affairs of existing pensioners under the supervision of the NPC until the death of the last pensioner. The responsibilities, funds, and assets of the relevant existing pension boards or offices shall be transferred to the respective departments.

The Government shall issue Retirement Benefit Bond to those who are currently in employment of the public service where the schemes were unfunded, who are not exempted from the new scheme but have worked for a\specified number of years, in recognition of their accrued rights under the defunct pension scheme. This bond recognizes government indebtedness to them, which is due and payable when they retire. This reduces the huge transition cost to government.

A Retirement Benefits Bond Redemption Fund shall be established and maintained by the Central Bank of Nigeria. The Federal Government shall pay an amount equal to 5 percent of the total monthly wage bill payable to employees in the public service of the Federation and Federal Capital Territory. The total amount in this Fund shall be used to redeem any retirement benefit bond issued and payments into this fund shall cease after all retirement benefit bonds have been redeemed.

In the private sector, viable pension schemes shall continue to exist where it is already in existence provided that they can demonstrate that they are fully funded at all times with any shortfall made-up within 90 days; the assets of the company are fully segregated from the pension fund assets; the pension fund assets held by a custodian; and the company has the requisite capacity for the management of pension fund assets.

4.0 Expected Impact and Expectations of the New Scheme

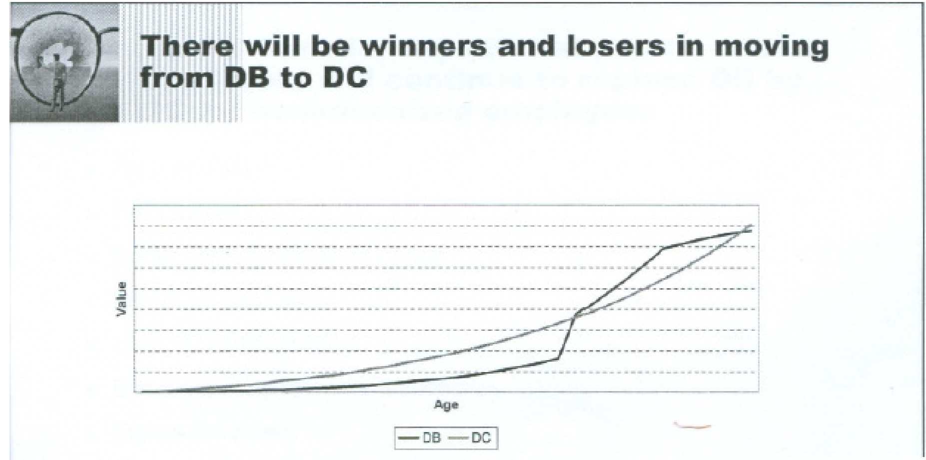
The implications for countries with PAYG state pension systems (where contributions from current workers fund payments to current beneficiaries) is that some combination of three adjustments will be unavoidable: higher levels of tax or of compulsory contributions to pay for state pensions, lower pensions relative to society-wide average earnings, or higher pensionable ages. It is important to note that moving to a funded private pension system (where workers save a part of their wages and draw on the accumulated funds after retirement) does not provide a complete and certain escape from this demographic challenge.

All pension systems, PAYG or funded, involve the transfer of resources to pensioners (who consume but do not produce) from workers (who produce more than they consume). As a result, in a funded system a change in the ratio of pensioners to workers must affect rates of return and asset prices. If people attempt to finance a longer retirement by saving at a higher rate, that will tend to generate a higher capital output ratio and therefore come at the expense of lower returns on capital. If a high-saving generation is followed by a generation smaller in number, asset prices must tend to fall (relative to a higher fertility scenario) as the first

generation attempts to sell its accumulated assets. The theoretical magnitude of these demographic effects on returns and asset prices is extensively debated: the empirical analysis of correlations is hampered by the limited availability of data and multiple other factors. In a global market, it is demography that matters to the economics of the PYSG systems.

Faced with these demographic challenges, many countries have adopted significant changes to pension policy or undertake entire pension reform while others have introduced a greater element of funding in the overall system. A common element that is discernible and which eventually emerges into common policy choice is the gradual rise in retirement ages. The issues of fertility and immigration directly affect the adequacy or otherwise of average earnings of pensioners compared to levels needed to live above minimum standards of poverty index. If demographic factors of the economy work well such that it increases longevity, there would be no fundamental problem of pension policy design. If longevity increases, but fertility stays stable, a proportional rise in pensionable ages (that is, a rise that keeps stable the proportions of adult life spent working and in retirement) will balance a PAYG system, with no need for either higher contribution rates or lower pension relative to average earnings.

It is vital that the employees fully understand and appreciate the value of the benefits provided by their new pension scheme. Proper communication of the scheme and its benefits can be an effective aid in assisting in the recruitment and retention of key employees. There is need for the pension fund administrators to provide assistance to employers and scheme trustees in pension communications to ensure that their scheme provides clear and concise member booklets, annual benefits statements that illustrate the value of existing and future benefits, group presentations addressing investment performance/scheme benefits/legislative changes, addressing individual members queries, internet and intranet communication with members.



Winners	Losers
-Terminated employees	-Early retirement
-Younger employees	-Career employees
-If good returns	-If low returns

On the whole, there should be opportunity by the Pension Fund Administrator (PFA) to provide a unique service to employers and scheme trustees whereby the PFA independently review and report on the administration of the company's occupational pension scheme.

2.0 CHALLENGES FOR THE FUTURE

There are many challenges that will likely face the effective implementation of the new Pension Scheme in Nigeria. The current and future challenges could be seen from discussion of the reasons why many employers are moving away from DB scheme to DC and what can be done to manage pension costs on a sustainable basis.

Judging from various economies that have successfully moved from DB to DC, it is no doubt that there are social difficulties associated with dismounting a DB pension system. There are usual misconception from the labour union and other pressure groups who find it difficult to understand why the current DB cannot be sustained despite its fiscal inadequacies.

There is the demographic challenge in view of the fact that longer lives and lower fertility rates are dramatically increasing the proportion above the ages we typically associate with retirement (Table 2).

Table 2: Aging structure of population in selected regions (ratio of people over 65 to those aged 20-65, in per cent)

	2005	2050
China	0.12	0.43
Italy	0.33	0.75
Japan	0.32	0.78
Korea	0.16	0.70
United Kingdom	0.27	0.47
United States	0.21	0.37

Source: Adapted from Adair Turner (2006): Pension Challenges in an aging World; Finance and Development International Monetary Fund, Sept. 2006

The implication for a country such as Nigeria with PAYG state funded dominated pension system where contributions from the current workers fund payments to current beneficiaries, is that some economic challenges may be unavoidable: lower pensions relative society-wide average earnings, or higher pensionable ages or higher levels of tax. Even transition from DB to DC does not provide a complete avoidance of these challenges. This situation gives rise the need for protection of baby boomers within the economy because if its demographic implications.

The immediate challenge of the DC system is that comparison should be made of equivalent benefits and costs to the economy. In transiting to DC, we need to consider costs and benefits in terms of winners and losers as relevant stakeholders within the economy. The winners include terminated employees, younger employees and those that would benefit if the current economic environment brings good financial investment returns. Losers include those forced to retire early, career employees and if investment returns are currently low.

Another challenge is how to manage pension costs effectively to reduce investment risk within the economy and increase employee contributions over time.

2.0 Prospects, Recommendation and Conclusion

The success of any pension scheme rests on an effective partnership between members,trustees, employer and professional advisers. That partnership is strengthened through the trust and confidence built on strong individual relationships. It is desirable that the PFA that provides the ongoing administration service is involved from initial stage with take on and set-up, and will remain involved throughout.

Through close liaison with human resource and payroll departments, the teams maintain the various procedures and processes necessary for the ongoing success of the relationship. One way of fostering this is to continue to share cost with employees and retirees by adjusting contributions and indexing. Related to this is the recommendation that early retirement incentives may be replaced with flexible working arrangements, such as phased retirement. A total compensation package with more pension and less salary may be more attractive to workers.

In conclusion, employees need sustainable support and education; particularly on how much to contribute, where to open an account, who keeps the funds and what to do after retirement. As many employees may not be able to efficiently manage capital, the risk of litigation increases and more fiduciary responsibility rests on the employers.

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Table 1: Selected Fiscal Sector Indicators on Nigeria's Pensions & Gratuities

	1999	2000	2001	2002	2003	2004	2005
FEDERAL GOVERNMENT RETAINED REVENUE	662.58	597.28	797.00	716.80	1,023.20	1,253.60	1,660.70
FGN TOTAL GROSS REVENUE (NBILLION)	949.19	1,906.20	2,231.60	1,731.80	2,575.10	3,901.40	5,547.50
GROSS DOMESTIC PRODUCT (CURR MKT PRICES)	4,799.97	6,850.23	7,055.30	7,984.40	10,136.40	11,673.60	14,894.50
TOTAL FGN CAPITAL EXPENDITURE (Nb)	498.03	239.45	438.70	321.40	241.70	351.30	519.50
RECURRENT EXPENDITURE* (Nbillion) By:	-	369,794.50	592,016.90	912,976.90	904,429.10	960,194.30	1,179,833.00
FEDERAL GOVERNMENT EXPEND (Nm) ON:		**209,917.80**	**313,495.50**	**587,069.50**	**506,446.30**	**500,015.10**	**650,627.00**
Administration	-	121,299.10	180,810.00	331,736.00	307,848.50	306,842.80	434,671.80
Economic Services	-	29,816.30	53,011.10	65,901.90	96,031.80	58,781.60	64,308.60
Social & Community Services	-	58,802.40	79,674.40	189,431.60	102,566.00	134,390.70	151,646.60
STATE GOVERNMENT ON:	**-**	**159,876.70**	**278,521.40**	**325,907.40**	**397,982.80**	**460,179.20**	**529,206.00**
Administration	-	42,888.60	61,264.20	102,921.60	116,193.80	170,895.00	196,529.30
Economic Services	-	58,687.00	55,139.70	60,600.10	63,978.10	80,500.50	92,575.50
Social & Community Services	-	58,301.10	162,117.50	162,385.70	217,810.90	208,783.70	240,101.20
AGGREGATE GOVERNMENT EXPEND ON:	**-**	**369,794.50**	**592,016.90**	**912,976.90**	**904,429.10**	**960,194.30**	**1,179,833.00**
Administration	-	164,187.70	242,074.20	434,657.60	424,042.30	477,737.80	631,201.10
Economic Services	-	88,503.30	108,150.80	126,502.00	160,009.90	139,282.10	156,884.10
Social & Community Services	-	117,103.50	241,791.90	351,817.30	320,376.90	343,174.40	391,747.80
TRANSFER PAYMENTS ON PENSIONS & GRATUITIES (Nm):	**72.19**	**101,560.50**	**38,427.70**	**94,253.92**	**82,549.50**	**134,857.30**	**83,028.70**
By Federal Government	25.19	42947.6	30,046.40	71,052.90	34,149.80	72,200.90	8,405.00
By State Government	-	51,831.10	6,309.60	21,823.30	34,848.90	44,387.60	51,045.60
By Local Governments	287.10	6,781.80	2,071.70	1,377.72	13,550.80	18,268.80	23,578.10
Pension & Gratuities as a per cent of:							
Total Government Expenditure		11.61	6.14	10.17	7.63	12.14	5.04
GDP		1,482.59	544.66	1,180.48	814.39	1,155.23	557.45
Capital Expenditure		42,414.07	8,759.45	29,326.05	34,153.70	38,388.07	15,982.43
Total Government Revenue		27.46	6.49	10.32	9.13	14.04	7.04

Source: Central Bank of Nigeria Annual Reports

NURTURING THE MUSTARD SEED IN THE NEEDS: A FRAMEWORK FOR SUSTAINABLE ECONOMIC DEVELOPMENT

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ABSTRACT

The paper examines the National Economic Empowerment and Development Strategy (NEEDS), Nigeria's medium term Poverty Reduction Strategy Programme (PRSP), which aims at reducing poverty, creating wealth, generating employment, and value reorientation. It appraised the strategies adopted for developing the informal sector, identified as the economy's engine of growth. The paper highlighted that to make the required difference; NEEDS's approach must stress more on the complete overhaul of informal sector activities, including their modus operandi, and integrate their activities into a national development framework. A blueprint for growing the economy via the informal sector based on measurable, targeted and time-bound-phased-implementation approach was therefore, advocated.

"The kingdom of heaven is like a grain of mustard seed…which indeed is the least of all seeds, but when it is grown, it is the greatest among herbs, and becomes a tree, so that the birds of the air come and lodge in the branches of it" …Jesus Christ (Matt. 13: ***The paper examines the National Economic Empowerment and Development Strategy (NEEDS), Nigeria's medium term Poverty Reduction Strategy Programme (PRSP), which aims at reducing poverty, creating wealth, generating employment, and value reorientation. It appraised the strategies adopted for developing the informal sector, identified as the economy's engine of growth. The paper highlighted that to make the required difference; NEEDS's approach must stress more on the complete overhaul of informal sector activities, including their modus operandi, and integrate their activities into a national development framework. A blueprint for growing the economy via the informal sector based on measurable, targeted and time-bound-phased-implementation approach was therefore, advocated.*** *31,32)*

1.0 Introduction

The National Economic Empowerment and Development Strategy (NEEDS) is Nigeria's home-grown medium term poverty reduction strategy programme. It posits to be a plan on ground, owned by Nigerians, and founded on a clear vision, sound values, and enduring principles, for poverty reduction, wealth creation, employment generation and value reorientation. Its three-way strategies are anchored on reforming government and institutions, growing the private sector, and implementing a social charter. Specifically, the key elements of growing the private sector under NEEDS include renewed privatization, de-regulation and liberalization, infrastructural development, especially electricity and transport.

The identification of the constraints to the growth inducing sectors of the economy, and targeting strategies to address them provides an appeal about NEEDS. In this regard, the programme particularly, recognized the need to turnaround the dwindling fortunes of the manufacturing sector through the removal of infrastructural constraints, provision of appropriate institutional support, strengthening institutional finance for industry and removal of the legal and institutional framework for the operation of micro-finance institutions, review of the tax system, and the provision of targeted incentives. It also recognized small and medium enterprises (SMEs), most of which operate in the informal sector, as critical for employment generation.

Perhaps, in recognition of the entrepreneurial role of the informal sector, NEEDS has inevitably, sown a vital seed for development. The International Labour Organisation (ILO) recognized the informal sector as a potential vehicle to resolving the unemployment problem in developing countries. As observed by Sethuraman (1981), although informal sector activities remain essentially an aggregation of survival strategies, constrained by undercapitalization, inadequacy of skills, and smallness of size of the enterprises, they are nonetheless, capable of absorbing substantial employment if these negative conditions are reversed. A visible feature of most informal sector activities is their penchant for observing rules and regulations in breach, which has made them a nuisance in some sectors of the economy. De Soto (1986) has also argued that informal sector growth is

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constrained by the high costs of formality inherent in country structures, time-consuming and expensive regulations that are nearly insurmountable by informal sector organizations and which are pro-large firms and corporations. In his view, some of the problems identified by the ILO may have emanated from the regulatory system.

NEEDS aims at reversing these negative conditions through targeted strategies that would comprehensively address the requirements of the growth inducing sectors of the economy. To induce enduring growth, constantly fine-tuned NEEDS must take a critical look at activity-based strategies for improving the quality of informal sector service delivery. To this end, the growth strategies should be rule based, training centered and target driven, to reduce the nuisance content in most informal sector services and to provide an enabling environment for sustainable growth. To miss this link, NEEDS may remain a perfect but elitist document on paper, lacking the ingredients for stimulating growth.

This paper therefore, largely, examined the strategies of NEEDS designed to address the problems of the informal sector, in order to kick start growth. It identified the major challenges to realizing these goals, and suggested a rule based approach to informal sector service delivery to reduce their nuisance content, that is apparent in some sectors of the economy. To address these issues, the paper is structured in five sections. Following this introduction, Section II presents some thoughts on the state of Nigeria's informal Sector, while Section III looks at the strategies advanced in the NEEDS for addressing the problems militating against the full realisation of the potentials of the informal sector. In Section IV, we present the challenges and a framework for informal sector led growth under the NEEDS framework. Section V summarizes the paper and proposes some policy options.

SECTION II

SOME THOUGHTS ON NIGERIA'S INFORMAL SECTOR

Nigeria's formal sector has been bedeviled by low capacity utilization arising from poor infrastructure, high cost of raw materials and inconsistent and uncoordinated policies which have constrained output quality, domestic demand, investment and consequently, growth. Several years of conflicting policies and policy reversals, including a multiplicity of controls and tax regimes aimed at stimulating growth, tended to rather, undermine key sectors of the economy. Economic liberalization and globalization threw up further complex challenges that still witness the continued dominance of government in the major economic sectors. Consequently, the traditional growth-inducing sectors of the economy could not serve as sources of growth.

The private sector has particularly been practically crowded out as the public sector dominates the economy in high expenditure profile and access to choice finance from the banking system. The overall interface of these policy regimes produced a weak formal sector that was unable to respond to the key demands of the economy, a weak external sector that was, an import dependent economy, an impoverished and disenchanted citizenry, rising price levels, high level unemployment, weak and poor infrastructure, and a dilapidated social order that engineered and nurtured corruption. Consequently, the organized private sector recorded high cost of production, necessitating rising cost of final output, thus undermining capacity utilization.

Despite the failure of the formal sector to promote growth, the economy was observed to exhibit some high level of resilience by providing employment opportunities to the teeming population, generating survival wages, and above all, sustaining average marginal growth of 3.0 per cent for over a decade, while the population grew at an average 2.3 per cent. In 1992, Nigeria's military ruler wondered why the economy had not collapsed under the weight of conflicting policy mixes which his government was implementing. As observed by the CBN/FOS/NISER (2001), “a search for the underlining strength of the economy led to the feeling that the resilience in the economy could be attributed to the contribution of the informal sector”. While the organized private sector has generally stagnated, the informal sector, a sub-component of the private sector has found new impetus for growth.

Conceptually, the informal sector is an embodiment of the economic activities that are consummated outside the formal norms of economic transactions established by the state and formal business practices. It comprises micro-business enterprises established by individuals or family members for purposes of providing self employment, and involves the production of goods and services without appropriate business permits, violation of business codes/ethics, failure to appropriately report tax liability, non-compliance with labour regulations governing contracts and work conditions. Although important in Nigeria's growth equation, informal sector firms remain largely small in size and hidden to avoid detection, and lack legal protection for their investments, both factors creating disincentives for growth and capital investment.

Hart (1970) first employed this terminology in reference to responses to real social needs through a multitude of temporary economic strategies adopted by migrant workers in Ghana amidst marginal job opportunities. He observed that “Planners who look primarily to entrepreneurial persons overlook those who are currently performing the entrepreneurial function”. Thus, in Hart's view, the informal sector operator (ISO) is the real entrepreneur whom planners and policy makers should pay attention to.

In Nigeria, the informal sector is a complex network of intricate relationships along professional/trade lines for the purpose of providing life sustenance through engaging in productive economic activities. These changes not governed by primordial ethnic sentiments often douse tension engineered by economic hardship which often manifest in social unrest. Thus, the economy has come to depend on services provided by informal sector owners, for which there are no alternatives in the formal sector. A good example of these include: vulcanizers, taxi drivers, food

vendors, *kabu-kabu* operators, electronics mechanics, masons, painters, leather tanners, blacksmiths, *esusu/bam* financial unions, spare parts dealers, animal husbandry, goods haulage, etc.

Although the informal sector presents an alternative means of survival, the need to formalize the whole economy is imperative especially, with regard to contracts, respect for the rule of law, provision of statistics for planning purposes, etc. Despite these pressing needs, it is important to realize that some informal sector activities derive inspiration and continuity from informality, actuated by respect of cultural values, and are therefore, so closely knit due to community traditions which takes on a form of resistance to modernization/standardization of labour relations, production methods, record keeping in accordance with the demands of the modern sector. Moreover, this notion finds acceptance in the traditional argument that the objective of the informal sector is to create jobs which are non-existent in the formal sector, to spread wealth and not to accumulate, and these activities are carried out by individuals, families and close acquaintances, as such, the need for modernization is unnecessary. The plausibility of these arguments does not dispense with the need for rule based operations especially for informal sector activities identified as possessing high nuisance content in their modus operandi. It is the compelling necessity for the existence of the informal sector that informs the need for rule based operations as distinct from controls.

The transport sector is one area of economic activity controlled by informal sector operators in Nigeria, especially, road and water transport. The breakdown of public transportation system in the country has loosely left the task of inter and intra-city, including rural transportation in the hands of the private sector, dominated by informal sector operators. Informal sector operators make-shift alternatives for intra-city transport-commercial motorcycling (popularly called Okada), old and dilapidated taxi cabs, the high-risk 'kabu-kabu (unregistered private cars used for commercial transportation), and the reckless commuter buses, etc, have become the main sources of intra-city transport in the country. The menace has left an eye sore in the psyche of the nation and commerce generally. Interestingly, no rules and guidelines seem to exist detailing minimum standards for intra-city transportation in the country. A worrisome feature of road transportation in the country is the careless way in which vehicle owners ply the road with arrogant pride of “what right do you have to use the road,” in outright disregard to other road users. Perhaps, the experience of the 'Bicycle Riding Minister of Transport” a few years ago explains the helplessness of majority of Nigerian road users at the hands of okada riders,molue/combi bus drivers. The Honourable Minister, just back from a visit of some Asian countries (it seems), in a rare show of humility and statesmanship in a country where status is measured by the model of your car, dared to put his Asian experience into practice by riding a bicycle to weekly meetings of the Federal Executive Council. He embarked on this Asian-type-crusade to eulogize the health and economic virtues of bicycle riding, but was lucky to live to tell his story after the crusade was truncated by an itinerant *“molue-like”* (a mass transportation lorry in Lagos metropolis) driver. Many of his countrymen are not that lucky. His greatest lesson, perhaps, is that *never attempt the Asian bicycle riding experience in Nigeria; because you may read your obituary while yet alive*. Despite these 'noises', every modern economy makes some basic demands regarding the respect for the rule of law, and Nigeria cannot be an exception.

Haulage activities in Nigeria involve road, rail, animal and human traffic. The failure of organized public mass transportation system has created incentives for informal sector operators to attempt to fill the gap. The prohibitive cost of procuring new haulage vehicles has created an additional risk due to reliance on imported used vehicles to ferry large consignment of goods over long distances. There are often cases of incessant breakdown of these vehicles in areas far from help, and at impossible points, thereby posing grave danger to other road users. Poor policing and emergency recovery has further compounded the problems of haulage vehicles and commuter passenger luxury buses that have to travel long distances at night. The delays associated with processing indemnity by insurance companies have complicated loss recovery. For most ISOs, insurance is a waste of time, as such; losses are incurred and borne without remedy for ameliorating the risk suffered.

Although, Nigeria's informal sector provides sizeable employment to millions of Nigerians, sector specific policies remain rather scanty. A common feature of government approach is to carry out ad-hoc raids on operators deemed to be engaged in 'nuisance' activities as interpreted by government officials. The nuisance argument sometimes brings operators in direct confrontation with government. For instance, very recently in Enugu town, the State Governor was at pains to outlaw the use of high-jack motorcycles (which had become notorious for use in armed robbery incidents in the state) in inter-city transportation in the state. The Governor had clear knowledge on the level of employment this activity provided for able bodied youths in the state, but underestimated the resilience of the union members to resist controls. The reaction from the Association of Motorcycles Riders was swift, total and challenging to the authority of the state governor to maintain law and order, and a battle line was drawn. A compromise was only reached when the state government purchased sample motorcycles and distributed to members of the union as loan in kind, in replacement of the phased out highjack motorcycle models.

Beside such instances where informal sector operators could hold the government to ransom, they are known to operate as a government of their own e.g. motor cycle riders practice their trade in brazenly careless manner in violation of all traffic laws, leading to widespread public outcry against their mode of operations across the country. They cause avoidable accidents in the city and immediately surround their victim with threats of “dealing with you”.

Pure water sellers dispose of the non-bio degradable cellophane materials at will, any where, any time oblivious of the impact on the environment. Where ever mechanics, spare parts sellers, taxi parks, food vendors, petty traders are found, there shall you find filth and disorder. We have acquired an unenviable culture of carelessly parking/abandoning broken down, unserviceable and or accidented vehicles along major streets, corner and police stations, across the country. The police are the worst culprit in this matter as every Police Station is a junkyard for accidented vehicles.

Garbage collection remains a challenging area informal sector operators have attempted to make their mark, although with little success. Due to their rudimentary modes of operations, they create refuse dumps indiscriminately, thus blocking roads, drainages, etc. In the Lagos Island for instance, refuse is dumped into the adjourning lagoon without restraint. The result is that Nigerians continue to live with avoidable filth and blocked drainages, including the attendant risk of flooding of major cities. Reckless driving and overloaded vehicles, indiscriminate dropping of passengers and parking of broken down vehicles in the middle of the roads, thereby creating avoidable traffic jams, non-conformity with basic road worthiness of vehicles standards, etc, have contributed to compounding traffic management in our major cities.

While the authorities have recognized the right of most informal sector operators to practice their trade, they are not comfortable with the methods adopted by the operators, but are handicapped for lack of capacity to enforce non-existing/ill-defined rules. Society's apathy to informal sector operators is best exhibited in the absence of designated places for informal sector operations. For instance, except for mechanics that have in some cities, designated sites for practicing their trade, no provision in town planning concept, city management regulations nor provision of infrastructural facilities for the informal sector operators to legitimately practice their trade without harassment. The informal sector operators have on the other hand recognized their right to existence, their privileged position due to lack of credible alternatives to their services in the formal sector, and have tended to brazenly pursue their trades with reckless abandon, thus hurting, rather than stimulating growth.

The CBN/FOS/NISER (2001) estimated that there are at least 8,604,048, informal sector enterprises operating in the country. Of these, the whole sale and retail sector comprise 49.0 per cent, while manufacturing is 30.1 per cent. Other sectors take the balance, with financial intermediation making the rear with 0.1 per cent. These enterprises as indicated by the study were dominated by males. At least 36.0 and 9.0 per cent males and females, respectively, in the urban areas were said to operate informal enterprises, while 35.4 and 5.5 per cent male and female in rural areas were operators of informal businesses. Thus, at least 45.0 and 40.9 per cent of Nigerians in the urban and rural areas, respectively, were involved in informal business activities. The FOS (1999) estimates Nigeria's population in 1998 to be 108,466,552. Extrapolating to 2001, the country's population was 120,258,805. Given that at least 36.28 and 63.72 per cent of Nigerians lived in urban and rural areas, respectively in 2001, it follows that at least 51.0 million Nigerians are engaged in informal sector activities. This represents at least 42.0 per cent of the population.

The environmental impact of informal sector activities remain to be estimated, the health impact has not been assessed either. Recent estimates put the contributions of informal sector mining activities at 0.01 per cent to GDP, manufacturing (0.83per cent), individually constructed buildings and roads in rural and urban areas (0.20per cent), retail trade (3.27per cent), transport services (1.0per cent), and other services (0.72per cent) to GDP at current prices. (Oladoye:1997)
Informal financial credit markets have been found to be a nuisance to monetary management. Otu, et al (2004) have found that the task of monetary management has been complicated by large volume of funds controlled outside the banking system by informal sector operators. These institutions were said to control at least 5.3 per cent of total money supply, and to contribute significantly to financial intermediation in the country. A feature of informal credit institutions identified in the study was their manipulation of interest rates, and their influences on the direction of interest rates. A CBN/NISER (1998) Study on informal foreign exchange market in Nigeria shows that although most people source funds from the parallel market, the market serve as agents of banks for free funds transfer.

SECTION III

NEEDS' STRATEGIES FOR GROWING THE INFORMAL SECTOR

One of the cardinal principles underpinning NEEDS is "an incentive structure that rewards and celebrates private enterprise, entrepreneurial spirit and excellence". Thus, under the Environmental Protection and Conservation Programme, the need to integrate environmental considerations in national development efforts was acknowledged. The problem areas include:

- the geometric waste production in the country and poor waste management,
- uncontrolled development without regard to waste management;
- pollution requirements absence of significant private sector involvement in waste management;
- unsustainable use of land;
- poor enforcement of environmental laws, and urban decay, pollution and biodiversity loss.

The programme strategies target:

- the establishment of a central self-sustaining regulatory

The National Population Commission estimates that Nigeria's population grows at a constant 3.5% given the 1991 population Census

agency responsible for environmental enforcement;

- compliance monitoring, environmental auditing, impact assessment and setting standards;

- strengthening the machinery for desertification and erosion control, and

- the promotion of a programme of private sector involvement in waste to wealth creation.

The strategies for promoting manufacturing, including micro, small and medium enterprises are:

- the removal of infrastructural constraints on SMEs,

- provision of appropriate institutional support to enable SME play their role in the growth process,

- strengthening of the Bank of industry and other such special purpose finance institutions NEXIM, NARCDB, etc to perform their statutory roles (especially the provision of concessional loans, credit guarantee schemes).

Others include the strengthening of the legal and institutional framework for the operation of micro-finance institutions, including streamlining the operational guidelines and tax incentives for SMEs, and the promotion of a government procurement policy that patronize the services and goods of SMEs.

In recognition of the role of informal mining activities in poverty alleviation, the review of current legislation, inventory of the real position of artisanal small scale mining in the country, and the promotion of mining cooperatives and associations would be undertaken. Also, a central processing unit for quality control would be established as well as measures to rehabilitate mine sites after extraction, as well as the promotion of access to finance for artisanal miners.

The strategies under the social charter are classified under educational, health, housing, women and youth empowerment. Under the educational sub-sector, the strategies include:

- a review of the educational curricula of schools from primary to tertiary to incorporate vocational and entrepreneurial skills;

- re-tolling and re-positioning of technical schools to be able to address the technical manpower needs of the economy;

- encouraging Nigerians to embrace vocational education, sustain the vocational/on-the-job training scheme; and

- review of the NYSC scheme to include entrepreneurial and basic business skills development programme.

The women empowerment agenda involves the promotion of women access to micro-finance and all poverty alleviation strategies with a view to reducing feminized poverty. The youth development programme involve the expansion of opportunities for vocational training and entrepreneurial development, provision of facilities for sports development, promotion of arts and culture, and target employment of youth during the programme period.

SECTION IV

FRAMEWORK FOR INFORMAL SECTOR LED GROWTH

What is required however, under NEEDS, is a national philosophy that minimizes the nuisance content of informal sector activities, and projecting their high value content to economic growth. Under the social charter, any agency of state responsible for mass transportation, traffic control, licensing, law enforcement, refuse disposal, etc, must awake to its responsibilities or the officers concerned loose their jobs, and moreover, be prosecuted for sabotage. Unfortunately, these are not the priorities of NEEDS as evidenced in the social charter. To ensure that informal sector operators conform to basic standards of commerce, they must first of all be empowered to contribute their quota to national development. While we advocate that activities that generate refuse/filth have to pay for their disposal, we must first of all provide a basis for their orderly conduct of legitimate business. We understand that may elicit resistance to the policies as some would misconstrue this to mean control of the activities of the informal sector, but this is inevitable if sustainable growth is the goal.

City authorities should make uniform booths/shelters for vulcanizers at intervals along the streets, fenced mechanic garages at strategic locations in the city; provide easily accessible food and drinking joints. Provision has to be made for legitimate economic activities to thrive in our cities. For now, in most of our cities, taxi drivers, market women, carpenters, welders, building material merchants, spare parts dealers, etc, colonize and designate places at will for any business activity of their choice to the extent that our cities remain carelessly disorganized. Although this is most absurd, local authorities are comfortable with the situation.

An agency in partnership with the private sector should be established for purposes of clearing the country of unserviceable vehicles and transporting same to established crushing yards, which shall be established to generate base metals for our foundries. In addition, garbage disposal, a virgin area in the country should be given a new lease of life through informal sector participation in evacuation of refuse to incinerating sites, established at the outskirts of our cities in partnership with the private sector. Already, there is evidence of readiness to pay for refuse disposal. Government/private sector partnership in establishing cheap and easy to use incinerators would encourage proper disposal of refuse and generate huge incomes and raw materials for the private sector.

Nigerian informal sector operators need formal training institutes dedicated for perfecting skills acquired on the trade. These can be provided at trade/craft centers. Government through target and dedicated loans can provide for city

transport development through existing unions. Afterall, loan recovery rate in the informal sector is higher than in the formal sector of the economy (Otu, et al:2004). NEEDS may boldly take on this challenge and chart a new course for the development of informal sector activities through removal of the toga of 'underground economy', seeing there is not much really hidden about informal sector organizations. A National Institute for Informal Sector Activities is hereby advocated to help galvanize the development efforts represented by the informal sector.

The economy needs a new orientation of what role it expects the informal sector to play in a globalized and liberalized economy. To this end, a concerted approach to informal sector development would involve an overhaul of the information dissemination machinery. At the moment, the grassroot is yet to buy in to NEEDS, not because the programme lacks focus, but because of poor marketing. NEEDS must be aggressively marketed by all stakeholders. The states and local governments who are co-owners must spend resources on marketing and implementing the programmes under NEEDS. Although NEEDS has been developed and anchored at the national level, for it to succeed, it must be private sector driven, with the public sector providing the enabling environment. In this regard, the informal sector which constitutes the bulk of the private sector must be given a chance to make their inputs in areas that affect their welfare and growth. Thus, there is need to develop a feedback mechanism through constant surveys of what the programme was designed to be, what it is and what it should be, from the perspective of the people. The possibility of politicizing NEEDS looms large as opposition governments may not wish to buy in to the programme. This presents a further challenge to the government in power. NEEDS is about purposeful growth-inducing reforms and information asymmetry is antithetical to the philosophy of NEEDS.

A programme like NEEDS cannot be implemented under a herd approach. NEEDS must outlive the administration that initiated it. It is a medium term programme with potential for roll over. It must be activity based, time bound and phased. Clear cut implementation stages must be designed and closely monitored for compliance. As part of the implementation strategies, efforts must be made to review our town planning laws to make adequate provision for informal sector economic activities to thrive. Designated sites must be made available for various classes of informal sector operators to practice their trade. Trade based rules must be designed in conformity with basic standards in conjunction with each trade union/association, and all operators must be registered through their various unions. Unions must take responsibility for ensuring the observance of the agreed rules. The army of enforcement agents would provide employment to the unemployed youth. Clean drainages/streets would improve health and safety, observing traffic rules would ensure safety of life and property and save time and waste.

The active promotion of informal sector products through government patronage is very heartwarming. This has the potential of promoting the growth of the informal sector. The need for standardization can, therefore, not be overemphasized. The need to meet basic standards is, therefore, imperative. Observing environmental rules is absolutely necessary if we must achieve growth at minimal cost to national health. It is certain that some informal sector activities are very hazardous and injurious to health. At the moment, these activities are carried out without minimal controls and standards. If government is to patronize informal sector operators, the patronage should be used as an incentive to informal sector firms that meet basic environmental/health standards and product quality.

Where there is the need to meet certain basic standards, the relevant research agency should with inputs from the ISOs and supervising government agency develop cheap prototypes for the entrepreneurs. Thus, there is need for the private sector to be encouraged to establish strong research and development organ (with active financial, material and personnel support from government) in addition to government research institutes to speed up research in developing prototype machines for ISOs, which shall be patronized at rates subsidized and guaranteed by the Industrial Bank. There is need for increased research on the workings of the informal sector in the country.

SECTION V

SUMMARY, CONCLUSION AND POLICY REMARKS

Summary

The paper examined the NEEDS and acknowledged that it is a home grown Nigerian programme aimed at poverty alleviation. It equally appreciates the recognition of the informal sector by NEEDS as the engine of growth of the economy. However, the paper directs attention to the need to develop basic rules of conduct, targeted activity-based loans, sites development for ISOs to stimulate informal sector growth. Besides, the paper cautions on the possibility of NEEDS being hijacked by the vultures that have over the years devoured well intentioned programmes because of non-ownership by the private sector. This possibility looms large in the absence of articulate marketing and improper approach to targeting, to stimulate grassroot participation and ownership of NEEDS as a home grown and Nigerian owned programme.

Policy Remarks

There is the need for government to provide an anchor ombudsman and institution for the reforms at federal, state, local government, community level and union/activity level to galvanize the reform process. A clear identification of what is to be done, by whom, when, and the cost implications of all actions need be clearly developed by all stake-holders of the programme. The sources of growth expected to be generated by each sector and sectoral activity needs to be clearly identified. Clear cut guidelines need be developed and personnel assigned individual tasks, and a review programme firmly established to evaluate performance and deviation from/conformity to target. Haphazard implementation would not achieve the envisaged growth.

The need to market NEEDS at the grassroots is important and must be professionally executed on activity-based level. The programme imperatives for sectoral reforms should be advanced to the point of nagging. The private press must be convinced of the efficacy of the reforms and government must underscore the need to succeed through transparent exemplary leadership devoid of primordial sentiments.

The need for phased implementation of the programme cannot be overemphasized. This is with a view to gaining synergy and overcoming reform fatigue which often manifest from increased social costs, eliciting unintended results. Phased-implementation would ensure single battle fronts, proper coordination, monitoring, evaluation of results achieved and concentration of efforts instead of thinly spreading reform resources with little results.

NEEDS should be devoid of jamborees of the past, and must target the very down trodden. This can begin with housing reforms that recognize the right to accommodation and survival of the very poor in cities like Abuja, Port Harcourt and Lagos. Provision must therefore be made for artisans such as Mechanics, carpenters, food vendors, vulcanizers, hawkers, pure water sellers, amongst others to practice their legitimate trade in these largely elitist cities. It should be borne in mind that the success of NEEDS depends largely on the involvement of the very poor and ISOs in implementing programmes that are poor-friendly and user-driven. The notion that government shall…, government will…, government has…, need be urgently addressed. If anything, government should galvanize the people to take the initiatives so that the people shall…, the people will…, and the people should… do. In this way, NEEDS would have largely succeeded where others have failed. Afterall, governance is all about people, and NEEDS is a people owned and a people oriented programme and must therefore, be people driven.

Conclusion

NEEDS, as a home grown poverty reduction programme, has the potential to succeed if it is not hijacked by bureaucratic scavengers. The need to rally the real owners of the programme behind government good intentions was advocated. Ownership must not be hoisted on Nigerians at 5-Star Hotels across the country using public resources, but must stem from the grassroot, be owned and driven by the private sector, with the public sector providing the enabling environment for growth to occur. Informal sector activities should be given due recognition in the scheme of things and their owners actively encouraged through target activity-based empowerment.

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SUSTAINNNG THE GAINS RECORDED IN THE INFORMATION AND COMMUNICATION TECHNOLOGY SUB-SECTOR IN NIGERIA

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ABSTRACT

At the inception of the administration of President Umaru Musa Yar' Adua, he enunciated a seven point agenda among which is the sustainability of the gains recorded in the reform programmes of former President. One of the gains was in the Information and Communication Technology (ICT) sector which received foremost attention in the scheme of things. Presently in Nigeria, ICT infrastructure, accessibility and connectivity, vary greatly from area to area. For instance, the big urban cities enjoy to some extent fairly affordable internet access, the smaller sub-urban and rural areas by contrast, have little or no access to telecommunications infrastructure, little or no shared facilities for telecommunication access, erratic and mostly poor mobile wireless penetration and very poor or non-existent internet access. ICT is an enabler of broad based social and economic development and must therefore be accessible and affordable to all the citizens of this country. It is therefore the intention of the government and the regulating body to facilitate an enabling environment that will ensure availability and affordability of ICT infrastructure across all class levels in the society. In view of the exploitative tendencies of the GSM operators in their high tariffs, per second billing, drop calls and poor network service, the government should call them to order. Another challenge facing the GSM industry is the high-import content of the equipment, including handsets and accessories, used in the industry. It is therefore recommended that handset manufacturers be encouraged to build production plants in Economic Processing Zone (EPZ) and enjoy the benefits offered to companies operating in those areas. Importantly, they should be given some years of tax holiday in the medium term. All these will help to reduce the unit cost, generate revenue and boost employment in the county.

1.0 Introduction

The inability of Nigerian Telecommunications Limited (NITEL) to meet the telecommunications needs of the country prompted the deregulation of the sector with the establishment of Nigerian Communications Commission (NCC) by government decree No. 75 of 1992. The commission was to regulate the telecommunications industry, ensure the provision of adequate, effective and efficient telecommunications services nationwide at an affordable price, and to provide local and international communications service. Former President, Chief Olusegun Obasanjo during his eight years of administration reformed the sector and succour in terms of increase in business and employment generation was witnessed in the sub-sector. His successor President Umaru Musa Yar' Adua, as part of his seven-point agenda (Power, Electoral Reforms, Education, Agriculture, the Niger Delta, Health and Employment generation) during his electioneering campaign pledged to sustain the gains achieved through the various reforms of the former administration with special reference to Information and Communication Technology sub sector. In today's world, telecommunications has become a vital element in the building of infrastructure of nations and economies. No modern economy can be sustained today without an adequate and pervasive ICT. The impact of ICT in the development of a nation spans across various aspects of a nation's socio-economic life. These include: economic activity, health care, education, transportation, rural development and conduct of Government. Importantly, the advances in information and communication technology (ICT) have compressed the world into a global village. With the deregulation of the Information and Communication Technologies sector in the Nigeria, from 1992 and more effectively from 1999, the use of ICT use has recorded impressive growth in the country.

In this era of globalization, this is a good development as ICT has become a very key component in the emergence of new economies of high reckoning. Although the country has great potentials, especially when its oil resources, mineral deposits and other natural resources are taken into consideration, it is still lagging very much behind in the global effort to become part of the new, digital economy. Whereas the trend in the developed countries is that the info-technological revolution is boosting growth of knowledge, in a developing country such as Nigeria the reverse is the case. A vast majority of the people, lack access to ICT services. This exclusion and missed opportunities have continuously become a frustrating bane in the nation's effort to bridge the gap in its human development quotient. Against this background, these developments have made ICT a vital engine of any economy as it is an essential infrastructure that promotes the development of other sectors such as education, health and banking among others. It is indispensable in times of national emergency and/or natural disaster. It considerably reduces the risks and rigours of travel and rural-urban migration.

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The rest of the paper is divided into four sections. Section 2 examines the conceptual issues in information and communication technology for national development. Section 3 discusses the level of private sector participation in ICT provision and the challenges facing it in the country. Section 4, however, reports the achievements so far recorded in ICT development in promoting the economic growth of the country.

2.0 Nigerian Communications Commission and the Telecommunication Industry

In furtherance of the objective of telecommunications deregulation, the Nigerian Communication Commission (NCC) was established by government decree No 75 of 1992 to regulate the telecommunications industry, ensure the provision of adequate, effective and efficient telecommunications services nationwide at affordable prices, and to provide local and international communications service.

2.1 The Functions of NCC

The functions of NCC as stipulated in the Nigerian Communications Act, 2003 include:

The facilitation of investment in, and entry into, the Nigerian market for provision and supply of communications services, equipment and facilities;

The protection and promotion of the interests of consumers against unfair practices including, but not limited to, matters relating to tariffs and charges for the availability and quality of communications services, equipment and facilities;

Ensuring that licensees implement and operate at all times the most efficient and accurate billing system;

The promotion of fair competition in the telecommunications industry and the protection of communication services and facilities providers from misuse of market power or anti-competitive and unfair practices by other service or facilities providers or equipment suppliers;

Granting and renewing communications licenses whether or not the licenses themselves provide for renewal in accordance with the provisions of this act and monitoring and enforcing compliance with license terms and conditions by licensees; among others.

2.2 Achievements of NCC

From inception, the NCC has embarked on the following:

Issuance of 4 Digital Mobile GSM licenses with several roll out obligations licensing of several Fixed Wireless Access (FWA) Operators for most states of the Federation with a primary objective of ensuring access to most parts of the country, including the rural, under-served and un-served areas. The NCC has established necessary structures and frameworks, including licensing procedures and requirements, operating conditions in terms of scope, limitations, obligations and other conditions governing the operation and/or provision of telecommunications services in the country, within the context and scope of its statutory mandate. Amongst the relevant frameworks for ensuring fairness amongst all stakeholders are the establishment of a Consumer Affairs Bureau, which champions Consumer-Operator Outreach Programs and the people's Parliament; various regulations to guide relationships between and amongst operators and their consumers, etc. According to industry statistics, as at March 2006, the current subscriber population was estimated at 1.2 million for fixed and 21 million for mobile telephone.

2.3 Reform within the Telecommunications Industry

Importantly, the bedrock of the information and communication technology is the telecommunication service. Telecommunication is now widely considered a strategic investment to maintain and develop competitive advantage at all levels national, regional and firm (Englama and Bamidele, 2002). The derivatives of information technology such as electronic banking, commerce, electronic mail (e-mail) and internet are built on the telecommunication technology. Telecommunication is an integral part of financial services, commodities markets, media, transportation and the travel/tourism industry, and provides vital links among manufacturers, wholesalers and retailers.

Telecommunication services can substitute for other forms of communication (mainly postal service and personal travel) and are often more effective and more efficient than other forms in their use of time, energy and materials and in their effect on the quality of the environment. Moreover, telecommunication is an essential feature of globalization which affects international trade-flows of investment, technologies of the nation and the world economy as a whole.

2.3.1 Liberalization of the sector

In realization of the significance of ICT to the economic development of the nation, the Obasanjo administration set out to liberalise the communication sector. In September 2000, a national telecommunication policy was produced to provide Nigeria with the basic framework and primary building blocks for the much desired telecommunication revolution in the country. This effort was aimed at reviving and boosting the telecommunication industry. The total number of telephone lines at independence in 1960 was only 18,724 for a population estimated at about 40 million people resulting in a teledensity of one telephone line per 12.128 people. This was a far cry below the ITU benchmark of one telephone line per 100 people. The telephone network consisted of 121 exchanges of which 116 were of the manual (magneto) type and 5 were automatic.

Between 1960 and 1984, the provision of telecommunication services in the country was perceived as a social good and thus remained in the domain of the public sector. In addition, the demand level was low relative to the huge capital outlay required, and as such domestic private capital could not cope. Another factor that necessitated its being publicly provided was the consideration for national security. Consequently, government set up two organisations namely, the Department of Posts and Telecommunication (P&T) to take

charge of the internal network and a limited liability company, the Nigerian External Telecommunications (NET) to provide a gateway to the outside world. The installed switching capacity at the end of 1985 was about 200,000 lines as against the planned target of about 460,000. All the exchanges were analogue. The quality of service was largely unsatisfactory coupled with a low teledensity of one telephone line to 440 inhabitants. During this period, the quality of both internal and external telecommunications services was unsatisfactory. This was due to equipment obsolescence, unreliable and congested lines, and expensive service delivery cost.

Arising from the foregoing, the P&T Department was split into Postal and Telecommunication Divisions in January 1985. The latter was merged with NET to form Nigerian Telecommunications Limited (NITEL), a limited liability company, while the Postal Division was reconstituted into another organisation called the Nigerian Postal Service (NIPOST). The establishment of NITEL was intended to harmonise the planning and co-ordination of the internal and external telecommunications services, rationalise investments in telecommunications development and provide accessible, efficient and affordable services (FGN, 2000).

In spite of the re-organisation in the communications sector, many of the problems facing the sector prior to the re-organisation were still noticeable. Given the observed shortcomings, the government set out to deregulate the industry in order to make it more result-oriented. This began with the establishment of the Nigerian Communications Commission (NCC) by Decree 75 of 1992, which, since its inauguration in July 1993, set out guidelines for private sector participation. However, due to bureaucratic bottlenecks and insufficient political will on the part of successive governments, much progress could not be achieved in the liberalisation of the sector. Nevertheless, since the return to democratic rule in May 1999, the sector has witnessed much liberalisation resulting in increased private sector participation in ICT service provision. A major event was the launch of Global System of Mobile (GSM) communication service in the country. Given the importance of ICT revolution to the social and economic development of the country, and the government's political will to liberalise and deregulate the sector, it may be necessary to critically assess the efforts of the Yar' Adua administration in fostering the advancement of information and communication technology in the country.

3.0 ICT AS A STRATEGY FOR ECONOMIC GROWTH POLICY

Nigeria is widely recognized as a major market for telecommunications equipment and services on the African continent. Nigeria's population makes it an attractive investment destination for potential investors. The Government of Nigeria has been conscious of the role telecommunications can play in national development and has therefore been committed over the last eight years to ensuring that the telecommunications facilities and services are expanded rapidly. Since the democratic governance was ushered in on the 29th of May 1999, the attention of the world has returned to Nigeria as the country with the highest potential for investment on the continent. As a way forward, Nigeria should aggressively pursue the following strategies to move the nation forward and be one of the largest economies in the year 2020. They include:

3.1 Continued increase in tele-density:

Owing to the advent of G.S.M in Nigeria, the inadequate and inefficient Nigerian telecommunication systems gave way to a more efficient telecommunication system such as G.S.M. The increase in tele-density which is the capacity content of telecommunication systems in relation to its subscribers, has had immense and continuing impact on the economic growth of Nigeria; it is evident that virtually all Nigerian homes have access to telecommunication facilities. These developments should be sustained and improved upon so as to create an effective and efficient economy in Nigeria.

3.2 Further Injection of Foreign Capital:

The Nigeria government has tremendously benefited from foreign direct investment that runs into billions of dollars through the improvement in the telecommunication industry. The FDIs have boosted the foreign reserve of Nigeria. They have also contributed to the development of Nigerian economy. It is therefore imperative that the Nigerian government woos foreign investors to come and invest in the lucrative markets available in Nigeria. Also, of great importance is the fact that a better conducive business environment should be created for these FDIs.

3.3 Stimulation of the Local Capital Base and ICT talents:

The pursuance of enhanced and adequate local capacity base and ICT talents should be made paramount. Stimulation of ICT talents will go a long way in creating employment opportunities for Nigerian citizens and consequently promote economic growth.

3.4 Creation of ICT-related jobs:

The ushering in of advanced telecommunication systems in Nigeria has paved the way for the emergence of various ICT related jobs. Repairing of telephone sets, selling of credit cards and telephone handsets has created jobs for a lot of unemployed Nigerians and has turned many Nigerians economically buoyant. These developments should be harnessed, sustained and improve upon.

3.5 New employment opportunities (Software & Network Engineering):

Nigerians with software and Network engineering talents are been sought for by the telecommunication industries in Nigeria. It has created many jobs in ICT and Network engineering industries. Telephone handsets are been assembled in Nigeria and telecommunication facilities are been installed and manned by Nigerians, thereby creating jobs for Nigerians and consequently improving the economy.

3.6 Cascading effect of income earned in newly created ICT-related Jobs:

Creation of employment opportunities by newly created ICT related jobs will increase the purchasing power of Nigerians. This implies that business will thrive.

3.7 Emergence of new economic frontiers:

Nigeria is experiencing emerging markets in many frontiers, mainly in the ICT related markets. The ICT industry is multi faceted and encompasses a lot of sub markets, creating new markets on daily bases (emerging markets). This in turn will widen the scope of the Nigerian government towards a new economic frontier and reduce her dependence on oil revenue as a result the much needed diversification of the economy will be achieved.

3.8 Additional Government taxation income:

a result of these overall changes in the economy, there are consequent increased activities in the economy. As the citizens get employed, and earn salaries, taxes are paid to the government. The operating companies also pay tax to government.

In summary, success stories are widely and readily available of countries that have used ICT to drive the economic growth of their nation. Such successes would not have been achieved without a properly focused and consistent ICT policy orientation.

To ensure the continuity of the above, the under listed strategic considerations must be accorded high priority:

Continuous building of ICT Infrastructure;

Focused capacity building in human resources;

Protection of the consumers;

Favourable enabling environment (Legal, Regulatory and Policy);

Availability of trusted systems and legal instruments;

Robust legal and financial framework to support e-commerce;

ICT Software development and digital content creation.

4.0 INTERNET SERVICE AS A COROLLARY FOR ECONOMIC GROWTH

Access to telecommunications and information technology holds the key to the nation's ability to respond to the demands of its position in the new world order. Access to modern telecommunications services should necessarily be within easy reach of every person that lives within the shores of Nigeria. The Nigerian Communications Commission is committed to ensuring a regulatory environment that will continue accelerating the creation of a robust, pervasive and ubiquitous Information and Communications Technology infrastructure across the nation over the next few years.
This is essential to drive socio-economic development and improve the living standards of the citizenry.

4.1 Internet

Electronic networks now make it possible for people to interact, co-ordinate action, gain access to and exchange information from mere desktop computers. The networks provide numerous services including the e-mail, the World Wide Web, information retrieval, e-commerce, news groups, intranets, games and chats. The most interesting thing is that people of all ages, race, creeds, and countries freely share ideas, stories, data, opinions and products. Rapid expansion of the internet holds substantial promise for developing nations, which can benefit greatly from the internet's communication and information delivery capabilities to help meet their needs. The accelerating transition of information to electronic media is making information resources of the world available to an increasingly global audience through the internet. Nigeria has much to gain from that revolution in communication and information access. In contrast to the situation in developed world where transport and communication infrastructure are well established and make room for adequate delivery of physical goods and services, the alternatives available in Nigeria are generally slow, expensive or non-existent. The communications and information delivery capability of the internet serves all sectors of society. Sectors like education, health, commerce and trade, government, agriculture, communications, and science and technology all benefit from access to information via the internet and e-mail. The correlation between information and communication, on one hand, and economic growth, on the other hand, is well known, making the usefulness of networks nearly self-evident. Electronic networking is a powerful, rapid, and inexpensive way to communicate and to exchange information. When networks are available, previously unanticipated collaboration seems to come into being almost spontaneously. Many banks in the country operate on-line through the use of VSAT (very small aperture terminal) technology. This helps to promote the goal of paperless economy and reduce the incidence of armed robbery on the nation's highways. Other customer-friendly services employed by the banks include smartcard technology that enables a customer to load any amount of money into a smartcard chip which he/she uses to purchase goods and services.

4.2 Global System of Mobile (GSM) Communications

The successful auction and launch of the GSM communication in January and August 2001 respectively has helped to boost revenue into the federation account, and more importantly it has enabled the country to meet the standard of one telephone line per 100 persons. Similar to the internet service, the GSM operators have boosted the employment profile of the country. Many Nigerians now operate GSM call centres; sell recharge cards, handsets and accessories.

Similar to the internet service, the GSM operation has boosted the employment profile of the country. Many Nigerians now operate GSM call centres and sales offices for handsets and accessories. In addition, many Nigerians, especially young men and women are now engaged in sales of recharge cards and GSM handset accessories.

Table 1: Validity Period of GSM and National Carrier Operational Licences

S/N	Name	GSM Licence		National Carrier Licence	
		Operative Date	**Expiry Date**	**Operative Date**	**Expiry Date**
1	MTN Nigeria Ltd	9 February 2001	8 February 2016	Not Applicable	Not Applicable
2	ECONET Wireless Ltd	9 February 2001	8 February 2016	Not Applicable	Not Applicable
3	NITEL Ltd	9 February 2001	8 February 2016	1 November 2002	31 October 2022
4	GLOBACOM Ltd	1September 2001	8 February 2017	1 September 2002	31 August 2022

Source: Compiled from NCC Website: www.ncc.gov.ng

TABLE 2: TELECOMS SUBSCRIBER INFORMATION 2001- MARCH, 2008

	OPERATOR	2001	2002	2003	2004	2005
Connected Lines	Mobile (GSM)	266,461	1,569,050	3,149,472	9,174,209	18,295,896
	Mobile (CDMA)	N/A	N/A	N/A	N/A	N/A
	Fixed Wired/ Wireless	600,321	702,000	872,473	1,027,519	1,223,258
	Total	**866,782**	**2,271,050**	**4,021,945**	**10,201,728**	**19,519,154**
Active Lines	Mobile (GSM)	N/A	N/A	N/A	N/A	N/A
	Mobile (CDMA)	N/A	N/A	N/A	N/A	N/A
	Fixed Wired/ Wireless	N/A	N/A	N/A	N/A	N/A
	Total	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Installed Capacity	Mobile (GSM)	N/A	N/A	N/A	N/A	N/A
	Mobile (CDMA)	N/A	N/A	N/A	N/A	N/A
	Fixed Wired/ Wireless	N/A	N/A	N/A	N/A	N/A
	Total	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
	[1]Teledensity	**0.73**	**1.89**	**3.35**	**8.5**	**16.27**

	OPERATOR	2006	2007	Jan. 2008	Feb. 2008	Mar. 2008
Connected Lines	Mobile (GSM)	32,184,861	54,413,784	56,492,255	57,720,782	57,622,901
	Mobile (CDMA)	N/A	824,741	621,604	702,146	780,938
	Fixed Wired/ Wireless	1,673,161	2,449,019	2,454,443	2,417,705	2,537,504
	Total	**33,858,022**	**57,687,544**	**59,568,302**	**60,840,633**	**60,941,343**
Active Lines	Mobile (GSM)	N/A	40,011,296	41,049,103	42,483,091	43,786,542
	Mobile (CDMA)	N/A	384,315	413,198	424,325	567,185
	Fixed Wired/ Wireless	N/A	1,579,664	1,453,566	1,430,616	1,545,984
	Total	**N/A**	**41,975,275**	**42,915,867**	**44,338,032**	**45,899,711**
Installed Capacity	Mobile (GSM)	N/A	76,545,308	77,545,308	77,545,308	79,625,308
	Mobile (CDMA)	N/A	1,540,000	1,520,000	3,720,000	3,170,000
	Fixed Wired/ Wireless	N/A	6,578,303	5,633,251	5,576,481	5,676,481
	Total	**N/A**	**84,663,611**	**84,698,559**	**86,841,789**	**88,471,789**
	[1]Teledensity	**24.18**	[2]29.98	**30.65**	**31.67**	**32.79**

(1) From Dec 2005, Teledensity was based on a population estimate of 140million.
(2) Teledensity from December 2006 was based on active subscribers.
Source: NCC website: www.ncc.gov.ng 2008

4.3 Nigersat 1 Satellite

Another major feat in ICT was the launch of Nigeria's first ever satellite into space in Russia in September, 2003. The satellite code-named Nigersat -1 makes Nigeria the third African country behind Algeria and South Africa to have a presence in space. The project which consumed more than $11 million has been criticised to be unnecessary in a country characterised by abject poverty and poor infrastructural facilities. The usefulness of the satellite is, however, predicated on its importance in mineral exploitation, weather forecasting, pipeline monitoring, monitoring of environment (coastal erosion, oil pollution and desertification), boundary monitoring to stem cross-border armed banditry, and identifying underground water resources that could provide water to the rural populace. It is a well known fact that getting the right information about the quantity and quality of mineral deposits in the country has often been a problem, and the acquisition of the satellite is expected to help in this regard through a more efficient Geographic Information System (GIS).

Table 3: Gross Domestic Product at 1990 Constant Basic Prices (Naira Billion unless otherwise stated)

									Share in Total (per cent)							
Activity Sector	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007 1/**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007 1/**
1. Agriculture	175.88	182.66	190.37	203.01	216.21	231.46	248.60	267.06	42.65	42.30	42.14	41.01	40.98	41.19	41.72	42.20
(a) Crop Production	156.21	162.15	168.88	180.71	192.45	206.18	221.62	238.27	37.88	37.55	37.38	36.51	36.48	36.69	37.20	37.65
(b) Livestock	11.45	11.79	12.36	12.88	13.72	14.64	15.65	16.74	2.78	2.73	2.74	2.60	2.60	2.61	2.63	2.65
(c) Forestry	2.56	2.61	2.62	2.66	2.84	3.01	3.19	3.38	0.62	0.60	0.58	0.54	0.54	0.53	0.53	0.53
(d) Fishing	5.66	6.11	6.50	6.76	7.20	7.64	8.14	8.67	1.37	1.42	1.44	1.37	1.37	1.36	1.37	1.37
2. Industry	122.06	128.74	123.91	150.25	156.49	159.16	155.17	149.76	29.60	29.82	27.43	30.35	29.66	28.32	26.04	23.66
(a) Crude Petroleum	106.83	112.42	106.00	131.34	135.67	136.35	130.19	122.48	25.96	26.04	23.46	26.53	25.72	24.26	21.85	19.35
(b) Mining & Quarrying	1.03	1.13	1.18	1.24	1.38	1.51	1.67	1.84	0.25	0.26	0.26	0.25	0.26	0.27	0.28	0.29
(c) Manufacturing	14.20	15.19	16.72	17.67	19.44	21.31	23.31	25.44	3.39	3.52	3.70	3.57	3.68	3.79	3.91	4.02
3. Building & Construction	5.45	6.11	6.37	6.93	7.62	8.54	9.65	10.91	1.32	1.41	1.41	1.40	1.44	1.52	1.62	1.72
4. Wholesale & Retail Trade	53.77	55.11	58.68	62.06	68.08	77.28	89.08	102.69	13.04	12.76	12.99	12.54	12.90	13.75	14.95	16.23
5. Services	55.18	59.17	72.46	72.75	79.18	85.48	93.33	102.44	13.38	13.70	16.04	14.70	15.01	15.21	15.66	16.19
(a) Transport	10.60	11.09	13.06	13.21	13.99	14.88	15.91	17.01	2.56	2.57	2.89	2.67	2.65	2.65	2.67	2.69
(b) Communication	**2.14**	**2.69**	**3.85**	**5.24**	**6.69**	**8.59**	**11.38**	**15.11**	**0.52**	**0.62**	**0.85**	**1.06**	**1.27**	**1.53**	**1.91**	**2.39**
(c) Utilities	11.37	12.87	16.45	17.03	18.88	20.14	21.12	22.06	2.76	2.98	3.64	3.44	3.58	3.58	3.54	3.49
(d) Hotel & Restaurant	1.51	1.57	1.68	1.76	1.95	2.16	2.43	2.75	0.37	0.36	0.37	0.36	0.37	0.38	0.41	0.43
(e) Finance & Insurance	17.14	17.91	23.17	20.96	21.53	22.14	23.25	24.41	4.16	4.15	5.13	4.23	4.08	3.94	3.90	3.86
(f) Real Estate & Business Services	6.22	6.53	6.74	6.95	7.71	8.52	9.49	10.56	1.51	1.51	1.49	1.40	1.46	1.52	1.59	1.67
(h) Producers of Govt. Services	3.81	3.88	4.48	4.53	5.02	5.29	5.60	5.94	0.72	0.90	0.99	0.92	0.95	0.94	0.94	0.94
(I) Comm., Social & Pers. Services	2.39	2.63	3.02	3.06	3.40	3.75	4.15	4.59	0.78	0.61	0.67	0.62	0.64	0.67	0.70	0.73
TOTAL (GDP)	412.3	431.8	451.8	495.0	527.6	561.9	595.8	632.8	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
NON-OIL (GDP)	305.5	319.37	345.78	363.67	391.91	425.59	465.63	510.38	74.09	73.96	76.54	73.47	74.28	75.74	78.15	80.65
TOTAL GDP GROWTH RATE (per cent)		4.72	4.63	9.57	6.58	6.51	6.03	6.22								
OIL GDP GROWTH RATE (per cent)		5.23	-5.71	23.90	3.30	0.50	-4.51	-5.92								
NON-OIL GDP GROWTH RATE (per cent)		4.54	8.27	5.17	7.76	8.59	9.41	9.61								
Of which Agriculture (per cent)		3.86	4.22	6.64	6.50	7.06	7.40	7.43								
Industry (per cent)		5.47	-3.75	21.26	4.15	1.71	-2.51	-3.48								
Services (per cent)		7.23	22.46	0.41	8.83	7.96	9.18	9.76								
Finance & Insurance (per cent)		4.48	29.42	-9.56	2.73	2.85	4.98	5.00								
Manufacturing (per cent)		6.95	10.09	5.66	10.00	9.61	9.39	9.16	-86.67							
Mining and Quarrying (per cent)		9.89	4.32	5.44	10.85	9.53	10.28	10.51	-86.42							
Communication (per cent)		**26.06**	**43.04**	**35.87**	**27.77**	**28.38**	**32.45**	**32.80**								

1/ Provisional
Source: National Bureau of Statistics (NBS) 2008

Compared to the years before the deregulation, from 2003 to 2007, the Communication sub sector has grown significantly from 1.27 per cent, 1.53 per cent, 1.91 per cent and 2.39 per cent for the years 2004, 2005, 2006 and 2007 respectively.

Table 4: ICT Services Operative in Nigeria

S/N (1)	ICT Service (2)	Total No. of Approved Licences (3)	Licences Approved During the Fourth Republic (4)	(per cent) (5) = (4)/(3) * 100
1	Community Telephone Service (CTS)	27	13	48
2	Fixed Wireless Access (FWA)	24	24	100
3	Global Mobile Personal Communication by Satellite (GMPCS)	1	1	100
4	Global System of Mobile Communication (GSM)	4	4	100
5	Internet Services	363	330	91
6	National Carrier (NC)	2	2	100
7	Voicemail Service (VS)	29	10	34
8	Private Network Link (International) (PNL(I))	48	12	35
9	Private Network Link (Domestic) (PNL (D))	60	55	92
10	Microwave Radio	38	15	39
11	Non-Commercial	5	5	100
12	Pre-paid Card Calling Service	91	91	100
13	National Long Distance Operation (NLDO)	2	2	100
	Total	694	564	81

Source: NCC website: www.ncc.gov.ng

The increase in approved licenses has helped to improve the flow of information in the country, and has positively impacted on the economy in terms of reduction in travels and delay in decision making. It has also helped in spreading the business of ICT services to other parts of the country apart from Lagos and Abuja. Out of the 36 states of the federation, ICT providers have their corporate head offices physically located in 20 states of the federation.

4.4 Nigeria SAT-2

The country has also completed arrangements with Surrey Satellite Technology Limited (SSTL), UK, the maker of NigeriaSat-1 to commence the Nigeria Sat-2 to be launched in 2009. It is a Critical Design Review (CDR) of spacecraft and ground segment as well as plans for the full satellite manufacture. The 300 kg satellite will provide Nigeria with valuable geographically referenced high-resolution satellite imaging for similar tasks as NigeriaSat-1. This will help SAT-1 by complimenting the quantity and quality of surface and underground water, rainfall prediction, as well as integrated water resources management on drought and other disaster forecast.

In addition there would be training satellite to be called NX, which is an integral part of a know-how transfer programme that is providing the Nigerian engineers with hands-on experience in all aspects of spacecraft analysis, build, integration and test. NX will carry a 22-metre multi-spectral imaging system with ultra-wide 600km swath. On completion, the engineers will fully manage the complete life-cycle of the satellite, with responsibility for the delivery of the spacecraft to full flight specification.

Table 5: Spatial Distribution of ICT Providers in Nigeria by State

S/N	State	GSM	NC	Internet	CTS	FWA	GMPCS	MR	VS	PNL(I)	PNL(D)	NLDO	Total
1	Abia			3						1	2		6
2	Adamawa										1		1
3	Akwa Ibom				1								1
4	Bauchi			1	1								2
5	Benue			1		1							2
6	Cross River			3									3
7	Delta			3						1	1		5
8	Edo			2							1		3
9	Enugu			9		1		1		1			12
10	Imo			3									3
11	Jigawa										1		1
12	Kaduna			7	2						2		11
13	Kano			8		2							10
14	Lagos	3	1	261	15	13	1	31	28	37	45	2	437
15	Nassarawa					1							1
16	Niger					1							1
17	Ondo			2									2
18	Oyo			4		1				1			6
19	Plateau			5									5
20	Rivers			9	4	1				1	1		16
21	FCT	1	1	41	4	3		6	1	6	6		69
22	Total	4	2	363	27	24	1	38	29	48	60	2	694

Source: NCC website: www.ncc.gov.ng 2007

5.0 Challenges, Recommendations and Conclusion

5.1 Challenges

There are ongoing and concerted efforts by the Nigerian Federal Government to commence provision of cheap telephone services through the recent launch of a rural telephony program for the country. This program which took off in the Kwali axis of the Federal Capital Territory will subsequently be spread across 343 (Three Hundred and Forty Three) local government areas of the country. With this take off of rural telephony in the country, other value-added services like internet, e-mail etc. will penetrate the rural communities. The Nigeria Development Gateway will definitely be in a position to play a role using these facilities to provide services such as distance learning (e-Learning), telemedicine, dissemination of relevant information to the rural people in these rural areas. In spite of the ICT prospects in the country, there are a number of issues which the present administration needs to address in order to make the ICT services more efficient and catalytic for economic growth in the country.

5.1.1 Lack of technical know-how and awareness

When viewed against the background of the growth of cybercafé in the country, the situation is better than it was five years ago, though there is still a shallow understanding of the workings of the internet by average Nigerians. Coupled with this is the fact that the level of awareness in terms of using e-mails facilities in communication is still low.

5.1.2 Inadequate telecommunication and electricity infrastructure

In spite of a large capacity submarine optical fiber cable in five satellite earth stations and 19 domestic satellite earth stations (DOMSAT) installed in the country, the telecommunication infrastructure is inadequate. In some areas, digital exchanges are not available, even the analogue lines available are far less than the demand. The service is grossly inefficient due to lack of maintenance and upgrading of the equipment. Many Internet users link up to internet Service Providers (ISPs) through telephone lines although some richer Internet user companies or cyber cafés use wireless radio access to the internet.

5.1.3 Promoting education

Since ICT has been proven to be a very effective tool for distance learning, poverty alleviation, dissemination of information on health care issues/services, job creation, etc. it is very obvious that its use as a medium for the promotion of socio-economic development in Nigeria, will go a long way in nudging the country towards realizing its

potentials among the community of nations.

5.1.4 Extending Services to Rural and Underserved Areas

In general terms while ICT human resource base in the country is growing, in the urban areas, its huge potentials are yet to be taken full advantage of. On the other hand the rural and sub-urban areas, actually form the majority in this diverse and vast country, but due to economic constraints, ICT use, awareness and literacy is still very poor and in most cases non-existent.

5.1.5 Improvement in Sector Efficiency and Quality of Service

Improved telecommunication services in Nigeria will be a very useful platform and medium for e-Learning. It will also be a very effective platform for e-Government, e-Business, creating public awareness and enlightenment on civil society activities, a platform for feedback from the public on government policies, socio-economic activities and programs through e-Discussions.

5.1.6 Training so as to ensure technology transfer

Majority of ICT users in the country, have at several fora and through several media, called for thorough and comprehensive ICT human resource development. Presently, ICT education in the Nigeria exists only in tertiary educational institutions, private training institutions and perhaps a negligible number of elitist privately owned primary/secondary educational institutions, mainly patronized by the elite in the country who form a very small minority among the total population of the country.

5.1.7 Favourable macroeconomic environment

Moreover, efforts should be made to encourage local production of many of the ICT equipment, including handsets and accessories, needed in the country. A strategy to achieve this objective is to encourage handset manufacturers such as Nokia, Motorola, Samsung, etc., to site production plants in the country. This development will generate employment opportunities for Nigerians, increase the revenue profile of government and lead to reduction in the unit price of the handsets as the companies will enjoy economies of scale in their production given the large consumer market in existence in Nigeria the most populous country in Africa. In addition, it could aid technological advancement in the country.

5.2 RECOMMENDATIONS

5.2.1 Medium-Long Term Policy measures

It is advocated that the government should encourage foreign direct investment in Economic Processing Zone (EPZ) to allow them enjoy all the benefits offered to companies operating in EPZ. Also, they should be granted some years of tax holiday in the medium term, and assuring them of unrestricted transfers of profits to certain level, import duty waivers on imported raw materials for manufacturing but not for assembling. Companies should be tasked to make commitment to ensure that they achieve above 60 per cent local content in five years. Appropriate regulatory agencies should be set up to monitor the quality of their products to ensure that they are of high stand and that their prices are competitive. Once their products are proven to be comparable with respect to quality and price with other ones manufactured by their parent company, then in the long run, government should discourage the importation of telephone handsets by imposing high tariffs or outright ban. The telephone companies of the Global System of Mobile communication operators (GSM) can form joint venture companies or partnership with these telephone manufacturing companies to set up their handset manufacturing plants locally. By this, they would be the major outlet from where the companies sell their products through different arrangements. One of such arrangements could be that as you buy their sim cards you would also buy their handset and so on. All these would assure that the handset manufacturing company has a local market and so would spur them to set up their plants promptly.

5.2.2 Others

As a matter of urgency, the Nigerian Communication Commission (NCC) should ensure the protection of consumer's interests. This can be achieved by enforcing the providers to standardize and reduce charges, improve on interconnectivity, quality of service and service provision. NCC should also improve on monitoring and enforcing compliance with rules by providers especially ISP to ensure that they give quality service to their customers. It should equally review the license charges. This will also help reduce the tariff charge to telecommunications consumers. They should ensure that those who did not obtain license or permit do not operate. This will help guarantee the quality of service provided as the licensed providers would always work within the dictates of NCC in order to avert license revocation. Furthermore, to facilitate the provision of quality service by providers, NCC should ensure that their technical officers that supervise the facilities used by the providers are well trained and retrained to be abreast with recent developments in the industry. NCC should equally be more firm with the providers that default in any of the aspects of service provision as this will serve as a check and thus help guarantee quality service. Further liberalization of the sector is encouraged. This will facilitate the entrance of more providers and healthy competition and the rendering of quality service.

5.3 Conclusion

The prospect for information and communication technology development in Nigeria is bright provided the challenges facing the sector are quickly resolved. The NCC in partnership with the government should provide an enabling environment for all ICT stakeholders, especially investors, to operate.

Furthermore, NCC should instruct all ICT operators in the country from undue exploitation of consumers. Nigeria's quest for enhanced ICT is dynamic. In order to make this service more efficient, there is need for improved power generation in the country coupled with the need to have a stable and democratic system of governance that guarantees economic prosperity within a culture of the rule of law.

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THE IMPACT OF OIL ON NIGERIA'S ECONOMY: THE BOOM AND BUST CYCLES.

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1.0 INTRODUCTION

The global perception of Nigeria is that of a richly blessed oil producing nation but with a growing poverty index. The problem of low economic performance of Nigeria cannot be attributed solely to instability of earnings from the oil sector, but as a result of failure by government to utilize productively the financial windfall from the export of crude oil from the mid-1970s to develop other sectors of the economy. Nigeria is among the poorest countries in the world, with the poverty incidence estimated at 54 per cent in 2006. The economy has been substantially unstable, a consequence of the heavy dependence on oil revenue, and the volatility in its prices. The oil boom of the 1970s led to the neglect of non oil tax revenues, expansion of the public sector, and deterioration in financial discipline and accountability. In turn, oil-dependence exposed Nigeria to oil price volatility which threw the country's public finance into disarray. Since 1986, Nigeria has undertaken reforms in various sectors of the economy. The reforms have moved the economy forward but the rate of the growth is not commensurate with the reforms and there is much room for improvement. This paper therefore, seeks to appraise the state of the Nigerian economy, over the years from the boom to burst periods and identify some major economic policy issues. To do this, the part two of the paper would give appraisal of the theoretical issues. Part three will examine the boom period, while part four will discuss the burst period and policies responses. Major economic policy issues will be discuss in part five, while reforms and outcomes will be examine in part six. Finally, the prospect of diversification from oil to non-oil will be converse in part seven of the paper.

2.0 THEORETICAL REVIEW

In the early 1950s, some development economists, especially those associated with the ***Staple theory*** *of growth*, suggested that natural resource abundance would help the backward states to overcome their capital shortfalls and provide revenues for their governments to provide public goods and lift their citizens out of the doldrums of poverty. However, since the 1990s, a growing number of researches have established a link between resource abundance and socio-economic problems. Natural resource abundance has been associated with slow growth (Sachs and Warner, (1995)), (Gravin and Hausmann (1988)), Ross (2004), (Lane and Tornell (1999)), Ross (1999, 2001). At the same time, there is an established link between resource motivated conflict and economic collapse (Collier and others (2003)), Skaperdas (1992), Deininger (2003). Of all natural resources, oil has been found to have the highest risk of civil conflict because of the large rents it offers and the shocks to which the government and the national economy are exposed to (Collier and Hoeffler (2005)), (Fearon and Laiton (2005)). According to Collier and Hoeffler (2002), 23.0 percent of states dependent on oil exports have experienced civil war in any five-year period, a figure that dwarfs the 0.6 per cent for countries without natural resources.

Three major lines of argument have been employed in the theoretical literature to explain the resource curse which is the tendency of natural resource abundance or dependence to miniseries growth and development. One line of argument follows what has come to be known as the ***Dutch disease***. The second focuses on the ***volatility*** *effect* of natural resource export-dependence IDB, (1995), Gravin and Hausmann,(1996), Ramey, (1995) Aizenren and Manon, (1999) and Caballero, (2000), while the third discusses the ***rent-seeking effects***. The rent seeking view assert that resource-dependence ,especially oil, often lead to a vicious development cycle, whereby all actors public and private, domestic and foreign have overwhelming incentives to seek links with the state in order to share in the resource pie. This incentive for rent-seeking penalizes productive activities, distorts the entire economy and hinders economic growth. In a dynamic setting, this may produce a *voracity effect* (Lane and Tornell, (1999)). The *Dutch disease* thesis asserts that an increase in resource-based revenues due to a boom leads to an appreciation in the local currency, increases the capacity of the country to import *tradable* and also enlarges the demand for other goods and services, including *non-tradable* which must be produced locally. This forces a structural adjustment in the domestic economy as resources are diverted out of the non-resource tradable sector represented by manufacturing into the production of *non-tradable*. Thus typically, resource booms lead to the contraction of the non resource (manufacturing) sector (Hausmann and Rigobon, (2003)).

3.0 THE BOOM PERIOD

By the time Nigeria became politically independent in October 1960, agriculture was the dominant sector of the economy. Agriculture provided the

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bulk of the employment for Nigerians and the needs of the household. The proportion of the Gross Domestic Product (GDP) accounted by agriculture (defined broadly to include crops, animal husbandry, fishing and forestry) and petroleum stood at 67.0 per cent and 0.6 per cent respectively, by 1970 the proportions had been reversed to 23.4 and 45.5 per cent respectively, by 1980, the shares of agriculture and petroleum went down further to 15.5 per cent and 28.0 per cent respectively. The proportion of oil continued to dominate ever since.

Since the early 1970s, the Nigerian economy has become more reliant on oil earnings, with a negative impact on the non-oil sector of the economy, resulting in the sector's declining contribution to GDP despite the phenomenal increase in prices over the years. The crude oil price which was only $2.00 per barrel in 1973 had risen to $36.6 per barrel by 1980. In 2005, the price rose to $55.4 and by 2007, the price had risen to $135.00 per barrel. This sky-rocketing oil prices, initially propelled by the Arab-Israeli war and energy crisis and depression in the industrial countries, resulted in increased oil revenue and boom for Nigeria and other oil exporting countries.

The enormous increase in the oil revenue created unprecedented and unplanned wealth for Nigeria, that our leaders even once remarked that money was not the nation's problem but how to spend it. Consequently, the government began the dramatic shift of policies from a holistic approach to benchmarking them against the state of the oil sector. In order to make the business environment conducive for new investments, the government began investing the newfound wealth in socio-economic infrastructure across the country, especially in the urban areas, and the services sector grew. The relative attractiveness of the urban centre made many able-bodied Nigerians to migrate from the hinterland, abandoning their farmlands for the cities and hoping to partake in the growing and prosperous (oil-driven) urban economy. This created social problems of congestion, pollution, unemployment and crimes. The national currency, Naira,

Fig 1

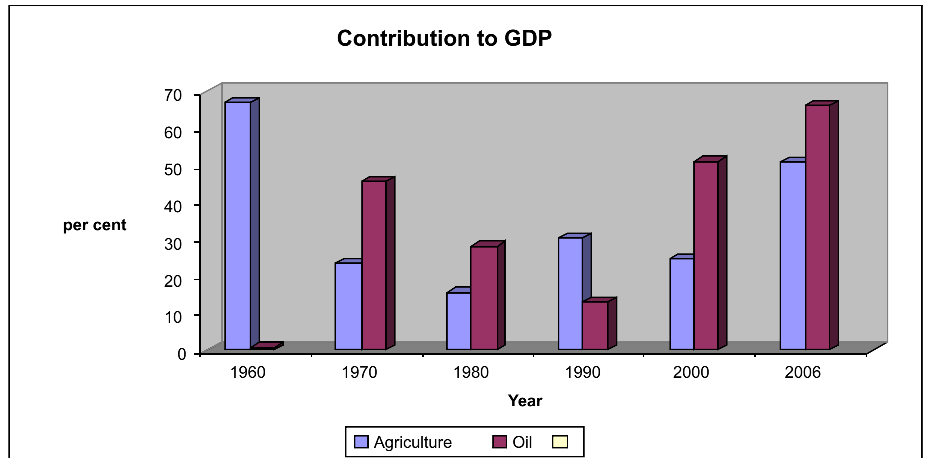


Fig 2

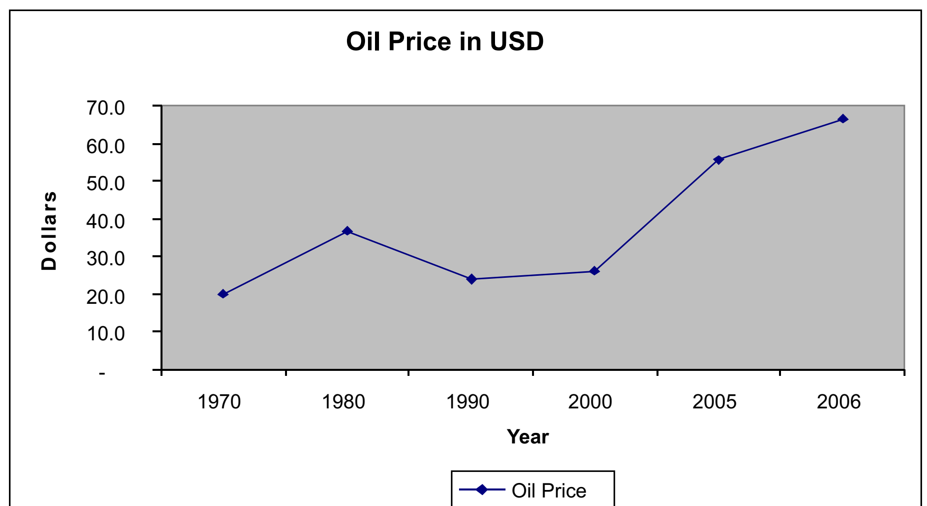
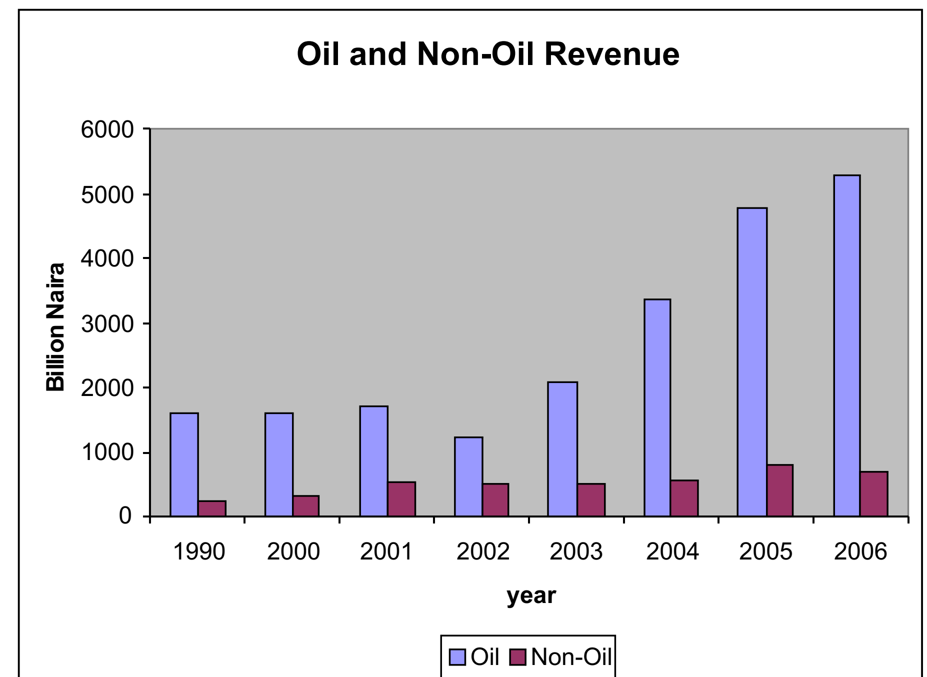


Fig 3



strengthened as foreign exchange inflows outweighed outflows, and foreign reserves built up.

This encouraged import-oriented consumption habit that soon turned Nigeria into a perennial net importer, which became a major problem when oil earnings decreased with lower international oil prices. External reserves collapsed, fiscal deficits mounted and external borrowing ensued with the "jumbo loans" taken in 1979. Most of Nigeria's macro-economic indices became unstable and worrisome. Several policy initiatives to address the defective structure and inefficiencies were taken, but poorly implemented and sometimes contradictory. These created new distortions and further weakened the inchoate institutions for policy implementation. The average Nigerian therefore, became so sensitive to oil and all the variables surrounding it, to the extent that any development in the international oil markets invites an almost instantaneous reaction from domestic economic agents and policy makers alike.

Table 1 gives the picture of the structure of the Nigerian economy from 1960. The table reveals that the contribution of the agricultural sector to the GDP declined consistently from over 60.0 per cent in 1960 to 24.6 per cent in 2000 before rising up to 50.8 in 2006. With the re-emergence of the oil-glut in 1980 and the subsequent collapse of the petroleum economy, the Nigerian economy was engulfed in a serious economic crisis. The slow growth rate of national output, the balance of payment crisis, the mounting national debt and debt servicing burden, the deepening food shortage crisis, the collapse of the manufacturing sector, mounting unemployment and galloping inflation (stagflation) and deteriorating standard of living are dramatic indicators of economic crisis.

4.0 THE BURST PERIOD AND POLICIES RESPONSES

The false sense of economic self-sufficiency generated by the oil boom of the 1970s, led to the neglect of the agricultural sector since the nation had access to cheap money to import all sorts of things including foodstuffs, raw materials and manufactured goods. In turn, oil-dependence exposed Nigeria to oil price volatility which threw the country's public finance into disarray. The economy witnessed structural changes in the 1980s which was characterized by a slow growth of output in almost all sectors of the economy. The manufacturing sector has in particular suffered from this declining output as a result of a drastic reduction in capacity utilization due to shortage of raw materials. By 1986, the overall average capacity utilization of the Nigerian manufacturing sector, an index of economic performance in the sector, stood at 38.8 per cent as against 77.4 per cent ten years earlier. However, with the remarkable reforms in the 1999s, capacity utilization have improved reaching 57.8 per cent in 2005.

Fig 4

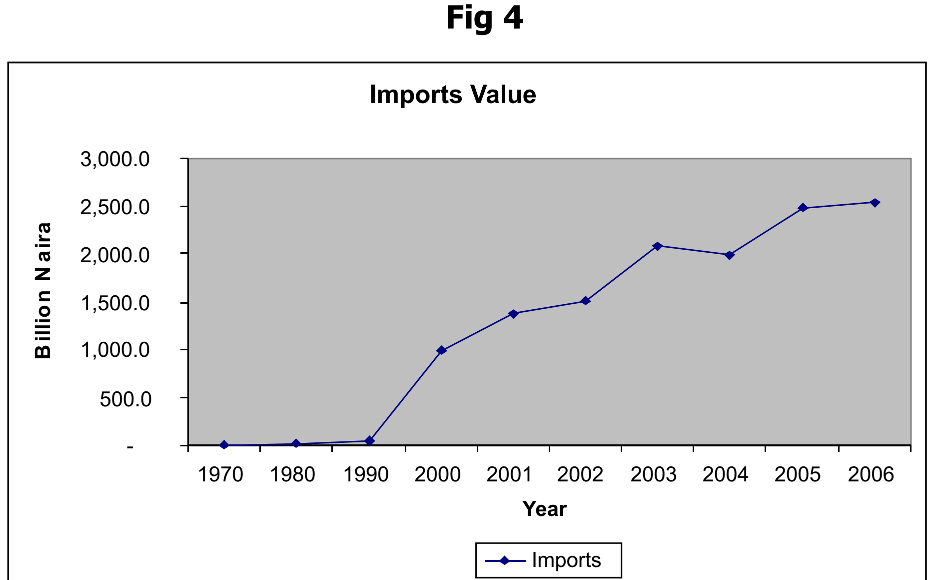


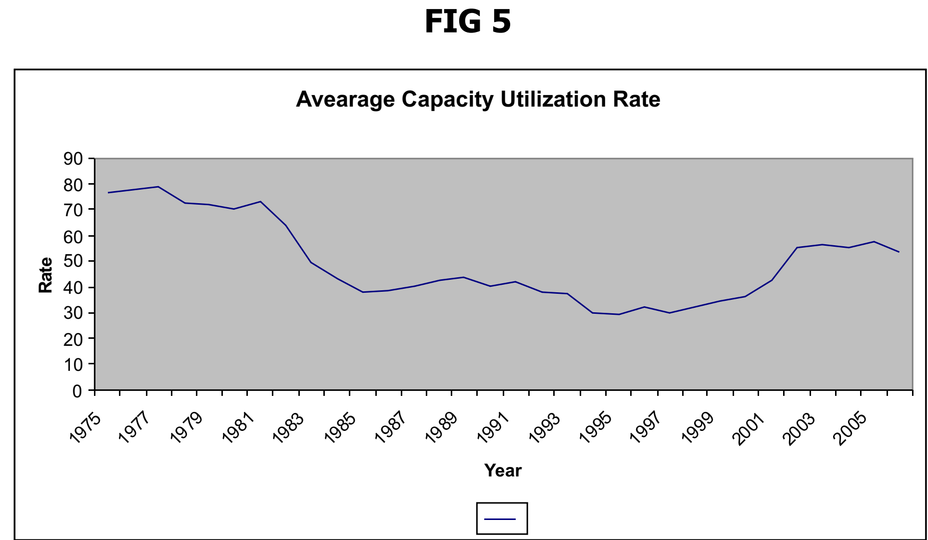
Table 1

Nigeria: Sectoral Contribution to Gross Domestic Product (GDP)

SECTOR	1960	1970	1980	1990	2000	2006
Agriculture	67.0	23.4	15.5	30.1	24.6	50.78
Crude	0.6	45.5	28.0	12.8	51.1	66.21

Source: Central Bank of Nigeria, Changing Structure of the Nigerian Economy (2000) and Annual Report & Statement of Accounts (various years)

FIG 5



The over-dependence on petroleum oil is more vivid in the external sector trends. The desire for imports reflects in the current account balances, whose oil component expanded by an annual average of 57.7 per cent during 1971 to 1980, 43.0 per cent in 1981-1990 and 40.3 per cent in 1991-1998. The current account balance grew with the oil revenue trend, reflecting import expansion as oil earnings grew. In 1982, reflecting the crash in oil earnings and the tight rein on international trade through the Stabilization Act implementation, current account balances dropped by 22.7 per cent in 1982 and further by 14.6 per cent in 1983.

Another critical dimension of Nigeria's economic problem was the foreign exchange crisis. As a result of dwindling foreign exchange earnings from crude-oil, the nation has experienced dreadful short-fall in foreign exchange. The foreign exchange crisis manifests itself in terms of balance of payments problem, rising external debt and debt servicing burden as well as the inability of the nation to import crucial capital and intermediate goods to execute her development projects. As a result of the country's inability to pay for imports and the dwindling foreign reserves, Nigeria accumulated trade arrears during the period 1980 and 1986, the period before the operation of the Second-tier Foreign Exchange Market (SFEM). This accumulated trade arrears coupled with external borrowing led to a mounting external debt and debt servicing burden.

The 1980's saw Nigeria plagued by the twin problems of high inflation rate and high unemployment rate. In the 1980's, events have disproved traditional economics postulation of a trade-off between inflation and unemployment. During that period both high inflation rate and high-unemployment rates co-existed, giving rise to what came to be known as stagflation. These twin problems were crucial elements of the Nigeria's economic crisis. The high inflation rate has in particular been fueled by the under-valuation of the naira due to the operation of the foreign exchange market. The government has to introduce some measures to tackle the problems which include the followings:

Table 3: Current Account (US$ Million)

Year	Oil Export	Non-Oil Export	Total	Oil Imports	Non-Oil Imports	Total
1986	5,977.40	394.40	6,371.80	652.80	3,259.10	3,911.90
1987	7,052.20	538.00	7,590.20	792.50	3,305.60	4,098.10
1988	6,319.00	612.70	6,931.70	845.10	3,545.50	4,390.60
1989	7,469.80	401.10	7,870.90	634.30	3,200.10	3,834.40
1990	13,265.60	405.50	13,671.10	755.60	4,192.52	4,948.10
1991	11,792.40	472.00	12,264.40	784.30	6,971.50	7,755.80
1992	11,641.70	244.40	11,886.10	1,130.80	6,072.90	7,203.70
1993	9,696.60	227.80	9,924.40	1,865.90	4,790.00	6,655.90
1994	9,170.70	244.40	9,415.10	1,935.00	4,677.60	6,612.60
1995	11,448.70	285.70	11,734.40	1,923.90	6,297.60	8,221.50
1996	15,829.80	287.20	16,117.00	1,997.10	4,441.30	6,438.40
1997	14,850.10	357.20	15,207.30	2,043.90	7,457.40	9,501.30
1998	8,564.70	406.50	8,971.20	2,099.60	7,111.80	9,211.40
1999	12,664.90	211.10	12,876.00	2,292.20	6,295.60	8,587.80
2000	18,897.20	244.20	19,141.40	1,955.10	6,766.20	8,721.30
2001	17,633.80	250.30	17,884.10	1,925.60	9,104.50	11,030.10
2002	14,777.40	785.70	15,563.10	1,984.50	9,893.18	11,877.68
2003	23,215.00	735.10	23,950.10	3,094.10	13,040.51	16,134.61
2004	33,755.43	851.95	34,607.38	2,391.84	12,548.35	14,940.19
2005	47,683.56	806.30	48,489.86	1,251.65	15,728.72	16,980.37
2006	44,068.26	1,047.72	45,115.98	1,560.48	16,283.40	17,843.88

Source: Central Bank of Nigeria Annual Report & Statement of Accounts. (Various)

Economic Stabilization Measures of April 1982

As the glut in the international oil market continued unabated, and the country's balance of payments situation continued to deteriorate persistently, it led to a heavy drain on the external reserves. Thus, by 1982, the external reserves had fallen to a dangerously low level that it could hardly finance one month's imports at the then level of importation. In the circumstances, it became imperative for the Federal Government to take immediate action to protect the balance of payments and revamp the economy. Thus, the government introduced the Economic Stabilization Act comprising a package of stringent policies and measures of demand management aimed at rationalizing overall expenditure pattern in order to restore fiscal balance and equilibrium in the external sector. These stabilization measures were, to a large extent, implemented through administrative controls which included a severe tightening of import controls, the imposition of exchange restrictions on international transactions, substantial increases in customs tariffs, introduction of an advance import deposit scheme, and ceilings on total central bank foreign exchange disbursements. The emphasis on short-run stabilization measures reflected the Government's belief, at the time, that Nigeria's economic and financial problems were transient and would eventually disappear with a recovery in oil export prices. However, oil prices did not recover as soon as expected and it became clear that the stabilization policies were inadequate in tackling the underlying economic problems. The immediate option was to secure IMF support facility which was debated on and later dropped. However, in 1985, the Government agreed on a number of structural reforms based on the Funds framework but rejected an IMF loan.

The Structural Adjustment Program (SAP) of 1986

The SAP adopted in June 1986 signaled a radical departure from previous reform efforts. The aim of the SAP was to effectively alter and restructure the consumption and production patterns of the economy as well as eliminate price distortions and heavy dependence on the export of crude oil and imports of consumer and producer goods. It emphasized reliance on market forces and the private sector in dealing with the fundamental problems of the economy. The SAP was originally intended to last for two years, but was extended when it was realized that

implementing many of the reforms required more time.

The objectives of the SAP were, among others, to:

- restructure and diversify the productive base of the economy so as to reduce dependency on the oil sector and imports;
- achieve fiscal and balance of payments viability over the medium term; and
- promote non-inflationary economic growth.

The key policies designed to achieve these objective were:

- Strengthening relevant demand management policies;
- Adoption of measures to stimulate domestic production and broaden the supply base of the economy;
- The setting up of a Second-Tier Foreign Exchange Market (SFEM) as a mechanism for achieving a realistic exchange rate and consequently, the alteration of relative prices to enhance efficiency in resource allocation, and to promote domestic-based production and non oil exports;
- Further rationalization and restructuring of tariffs in order to aid industrial diversification;
- The liberalization of the external trade and payments system-dismantling of price, trade and exchange controls;
- The abolition of price commodity boards;
- The decontrol of interest rates; and
- The rationalization and restructuring of public sector enterprises and overhauling of the public sector administrative structure.

In general, the various policy measures incorporated in SAP have been pursued to varying degrees of implementation coupled with a number of complementary polices and programmes. The implementation of the SAP was bedeviled with lots of slippages to give it a human face, consequently the performance was mixed, as it recorded successes only in the early years after which performance worsened. In the 1990s the economy went through periods of control (1994), partial deregulation (1995-1998) and guided liberalization from 1999.

In realization of the relevance of the tenets of the SAP to Nigeria's economic development, the Government embarked on renewed initiative to formulate its home-grown programme after the unsuccessful implementation of two Stand-by Arrangements (SBAs) with the IMF. The home-grown programme was christened the National Economic Empowerment and Development Strategy (NEEDS) and was aimed at enhancing efficiency and higher productivity, growth, transparency and accountability in the economy.

NEEDS

The NEEDS is a strategic change in Nigerian economic development policy and as reflected in the Federal Budget (2002 budget statement), Nigeria's policy reforms are expected to continue focusing on four main themes: pursuing sound economic management, improving the condition of public infrastructure, diversifying the economy while emphasizing poverty reduction, and increasing integration with the regional and global economies.

Each sector's reforms and measurement of economic performance rests on achieving:

- Diversifying the economy towards poverty reduction activities
- Adopting strategies aimed at integrating the Nigerian economy into the global world, using domestic competitiveness as a launch pad for reasserting the country's position in the globalization process.

The entire scenario has changed with the formal announcement and presentation of the NEEDS, which is a medium-term strategy that seeks to implement series of reforms that would lay a solid foundation for a diversified Nigerian economy by 2007. It sets specific goals in major growth indices as wealth creation, employment generation, institutional reforms and social charter.

The unveiling of NEEDS is another attempt to chart a sustainable growth path for the economy. The primary objective of NEEDS agenda is to reinvigorate the economy, and return it to the path of sustainable growth, development and poverty reduction. The various reforms focus on people, with emphasis on job creation, and employment generation for the youths, through provision of the enabling environment for the private sector to generate jobs. The NEEDS is also meant to enable Nigeria turn around and adopt a broad based market oriented economy that is private sector - led and in which people can be empowered to afford the basic needs of life. It is therefore a pro-poor development strategy which is in line with the new focus of both the IMF and the World Bank.

The Federal Government identified and prioritized major areas requiring reforms under the NEEDS platform and such areas include:

- Privatization of public enterprises;
- Liberalization of key sectors of the economy;
- Restructuring of the Public Service;
- Review of government budgeting and taxation laws;
- Governance and institutional strengthening;
- Debt Management;
- Service Delivery;
- Economic empowerment programmes; and
- Due Process.

The reforms refer to positive changes in economic policies aimed at achieving different objectives or same objectives at a faster rate. They focus on ways of doing things and on setting

targets. Reforms become necessary when existing policies fail to achieve set targets or when set targets are found to be unsustainable and so need to be changed. The reforms introduced include macroeconomic, fiscal policy, budgetary, monetary policy, debt management, banking and financial sector and other sectoral reforms.

Nigeria has made commendable progress in implementing its economic reform program. In the process, the authorities requested the IMF for a Policy Support Instrument (PSI) in support of the NEEDS programme. The IMF board approved the establishment of a Policy Support Instrument (PSI) in 2005, a non-lending programme which will provide policy advice to poor countries and send a signal to donors and markets about the quality of a country's economic policies. This has also assisted the country in securing remarkable debt relief from the Paris Club of Creditors.

5.0 MAJOR ECONOMIC POLICY ISSUES

The disappointing results of the adjustment effort were linked to two major factors:

- Product of misguided policies under the SAP and;
- Incoherent implementation of SAP policies.

In general, not only did the economic stabilization measures and reforms proved inadequate in dealing with the seemingly intractable problems of the economy, some of them, were to a large extent, counter-productive, thus defeating the attempts to use them successfully in restoring normalcy to economic activities. After more than a decade of SAP, structural imbalances still persist and abound. The reforms have not been far-reaching with low economic growth and more people becoming poor. The mono cultural economy of Nigeria continued to be exposed to shocks beyond the control of the government. These shocks have adversely affected the government's ability to meet the needs and aspirations of the people. The economy over the years had been beset with lingering problems of low output growth elative to the population growth rate, unemployment and external debt overhang.

The first consequence of the major policies pursued over the years was the sluggish growth of the Nigerian economy. By and large, Nigeria had implemented policies which were largely inconsistent and ineffective in tackling the problems of the country. The policy reversals have tended to discourage domestic and foreign investments required for the development of the economy. Taiwo (2001) and Iyoha (2003) explained that stagnation of the Nigerian economy could be traced to both the remote and immediate causes. The remote causes included the weak production base arising largely from a poor technological base, overdependence on externally driven solutions to Nigerian economic problems as well as poor governance. The remote causes manifested in immediate causes such as the high cost of doing business arising largely from inefficient infrastructures, non-competitiveness of the domestic products in the international market, falling investment-GDP ratio, poor planning and data base, political instability, insecurity of life and social and ethnic dichotomy.

In spite of the reforms, the economy continued to rely heavily on foreign exchange earnings from oil exports as a result of failure to diversify the foreign exchange base away from oil receipts. The implications are multifarious. First, the excessive dependence on the petroleum sub-sector makes the economy susceptible to external shocks. The economic programme adopted in 1986 failed partly because the process of change was not properly managed and partly because the people were not ready for change (Ojo, 1994). Second, it resulted in the slow growth of the non-oil export sub-sector owing to the neglect of other sectors particularly the solid minerals. Third, the successive development programmes could not be accomplished owing largely to declining fortunes as well as mismanagement of oil receipts while the three tiers of government were engaged in financial recklessness leading to the draw-down on the external reserves. Furthermore, the pace of economic recovery suffered a setback in the 1980's following intensification of pressure on external sector as the world price of oil slumped while the growth rate of non-oil exports remained weak. Another dimension worth examining is the direction of trade which shows an over-dependence of oil export on industrialized countries, while intra-Africa trade is very minimal, although there has been an increase over the period. In reviewing the direction of trade, with particular reference to oil exports, it is the Americas that remained the largest buyer of Nigeria's crude oil, followed by Western Europe, while the export share taken up by Asian and African countries fell during the period 19881996. It has been proposed that regional trade, particularly within the West African sub-region, needs to be boosted as part of diversification. *Other problems associated with trade were the composition of the non-oil exports. T*he contribution of the non-oil export was low, in spite of government's efforts to revamp the sub-sector. The factors accounting for the poor performance of the sector during these periods included inefficient implementation of export incentives and support programmes, inadequate and decaying infrastructure, financing constraints and policy instability, among others.

WHY THE FAILURE?

Numerous explanations have been advanced as to why, with such great promise, the Nigerian economy failed to achieve take-off in the past. It is argued that, natural resource possession makes countries vulnerable to the "Dutch Disease", which is the propensity for the real exchange rate to become overly appreciated in response to positive price shocks. The natural resource abundance does reduce private and public incentives to accumulate human capital due to a high level of non-wage income, among others. In Nigeria, the poor management of oil revenues during the boom and bust period has tended to create a highly volatile macroeconomic environment for the nation. Inadequate adjustment to oil price shocks during the downturn in oil prices in the 1970s and 1980s led to large fiscal deficits. The second price hike of the 1980s

witnessed a marginal surplus and reverted to large deficits afterwards. The resultant huge fluctuations in government expenditure reflected both the over-reliance on oil earnings and weak fiscal discipline by previous administrations, reinforced by an accommodating monetary policy. Public expenditure closely followed swings in current revenue such that, invariably, the oil price shocks were transferred into the domestic economy. Another major reason why Nigeria failed to achieve progress in the past was due mainly to lack of unswerving long-term reform and planning, arising largely from political instability. Since independence in 1960, Nigeria has had 13 different governments; eight of them were through military coups.

6.0 REFORMS AND OUTCOMES

Several landmark successes had changed the dynamics of the Nigerian economy. These include: the banking sector and telecommunications revolution, sound macroeconomic environment, the privatization programme, deregulation of the downstream oil sector, sectoral reforms, a stable exchange rate regime and increasing external reserves. The real sector should be the prime beneficiary of the reforms. Macro stability and sound financial system constitute the foundation and lubricant for the new economy. Some of the outcomes are as follows:

- Average GDP growth rate of 7.5 per cent since 2003 compared with 2.8 per cent in the 1990s
- Non-oil sectors growth rate above 7.0 per cent since 2004, led by services with 7.0 per cent
- External reserves grew from US$4bn in 1999 to US$51.3 billion in December, 2007, even after paying about US$14 billion to Paris and London Clubs.
- Debt relief (from Paris and London clubs - about US$33 billion).
- Foreign investment over US$4.0 billion in 2007.
- Remittances about US$4.0 billion per annum and by 2007 reach US$10,000 billion.
- End period inflation declined to single digit in 2006
- Exchange rate has been appreciating and stable, while parallel and official rates have converged.

The Nigerian economy is changing in fundamental ways and the rest of the world is taking notice. From a perception of Nigeria as a hopeless case for investment, the growing view now is that of a preferred investment destination. In the banking sector, the country now has 24 strong and reliable banks. The growth in assets, deposits credit and profitability etc since 2004 had been astounding. In terms of performance, the capital adequacy and liquidity ratios are satisfactory while the size of nonperforming loans as a percentage of total loans declined significantly. The Nigerian banking industry is now the fastest growing in Africa. Similarly, it is the dominant sector in the Nigerian Stock Exchange and indeed the key driver of the recent phenomenal growth of the stock exchange.

Since 2003 Nigeria has begun to address, systematically, the problem that has been referred to as a resource curse. A number of key measures are being put in place to manage oil revenue and expenditure more effectively in order to cushion unanticipated boom and bust cycles caused by oil price shock. These measures are captured in an overall economic reform agenda that has resulted in boosting confidence, credibility, transparency and accountability, rule of law and corporate governance in Nigeria. Between 2002 and 2006, the non-oil sector's contribution to GDP rebounded to 7.2 per cent from an average of 2.4 per cent between 1992 and 1998; and 3.8 per cent between 1999 and 2001, compared with the oil sector's contribution of 3.9 per cent. The overall growth in GDP averaged 6.0 per cent for the period. Inflation and exchange rates moderated, with the latter achieving convergence with the rate in the bureaux de change. The attainment of macroeconomic stability has provided a platform for improved growth performance in recent years.

Nigeria is a nation endowed with a variety of resources ranging from natural to human and capital, if well harnessed, have the great potential of elevating Nigeria from a struggling economy to one of the so-called Tigers, such as Indonesia, Malaysia and Thailand. These resources include crude oil and gas, solid minerals, population, land, foreign reserves and capital inflow. Currently, Nigeria is the eighth largest oil-exporting country in the world with oil revenue accounting for about 80 per cent of total government revenue and 95 per cent of foreign exchange earnings. Nigeria's proven oil reserves are estimated to be 36 billion barrels while the country's natural gas reserves are even bigger, estimated at well over 100 trillion cubic feet. Nigeria is also endowed with a variety of solid minerals ranging from coal, cassiterite and columbite in the southern region to limestone, iron ore, tin and marble in the northern region. With a population of over 140 million and estimated growth rate of 9.0 per cent, Nigeria is the most populous country in Africa. It accounts for over half of West Africa's population. About 45 per cent of the population is under the age of 15 years, with a dependency ratio of 0.9. The total average fertility rate is estimated at 5.7 per woman. The country has some of the best-educated people in Africa and the world. The large population is also a solid base for the domestic market. The unprecedented, continuous rise in the price of crude oil in the international market in recent years has given Nigeria an opportunity to accumulate reserves. External reserves grew from US$4 billion in 1999 to US$51.3 billion by end-December 2007. The foreign reserves are expected to remain relatively high in the foreseeable future due to the upward shift in the structural global demand for oil. At the level of imports in 2006, the foreign reserve could finance 24.7 months of imports.

Nigeria is turning out to be one of the most attractive countries in terms of foreign investment inflow. Foreign direct investment increased from less than US$1 billion in 1990 to US$1.2 billion in 2000, US$4.9 billion in 2005, US$4.0 billion in 2006 and US$12.4 billion in 2007. As percentage of GDP, foreign direct investment has increased substantially in recent years. The same pattern is witnessed

in portfolio investment, which grew from US$0.2 billion in 2003 to US$2.9 billion in 2005 and US$4.4 billion in 2007. This is attributable to the economic reforms and the resulting macroeconomic stability, which have instilled great credibility in the Nigerian economy. Home remittances are also becoming an increasingly important catalyst to growth in Nigeria. In 2005, it received an estimated US$6.5 billion in home remittances; this has continued to increase remarkably with a recorded figure of over US$18.0 billion in 2007.

7.0 PROSPECTS OF DIVERSIFICATION FROM OIL TO NON-OIL

The major problem has been the economy's continued excessive reliance on the fortunes of the oil market and the failed attempts to achieve any meaningful economic diversification. The need to correct the existing structural distortions and put the economy on the path of sustainable growth is therefore compelling. This raises the question of what need to be done in order to diversify the economy and develop the non-oil sector in order to realize the potentials of the sector. This calls for new thinking and initiatives.

The continued unimpressive performance of the non-oil sector and the vulnerability of the external sector thus dictate the urgent need for a reappraisal of the thrust and contents of our development policies and commitments to their implementation. Indeed, the need for a change in our policy focus and paradigm shift in our industrialization strategy is imperative, if we are to return the Nigerian economy to the path of sustainable growth and external viability.

The prospects for achieving transformation from a crude oil dependent to a sectorally balanced and diversified economy are not high in the short run. However, the prospects for long term transformation are good if the nation can surmount the challenges. It calls for removal of the major constraints to sustainable economic growth and development that currently plagued the economy. The Nigerian economy is richly endowed with both human

Fig 5

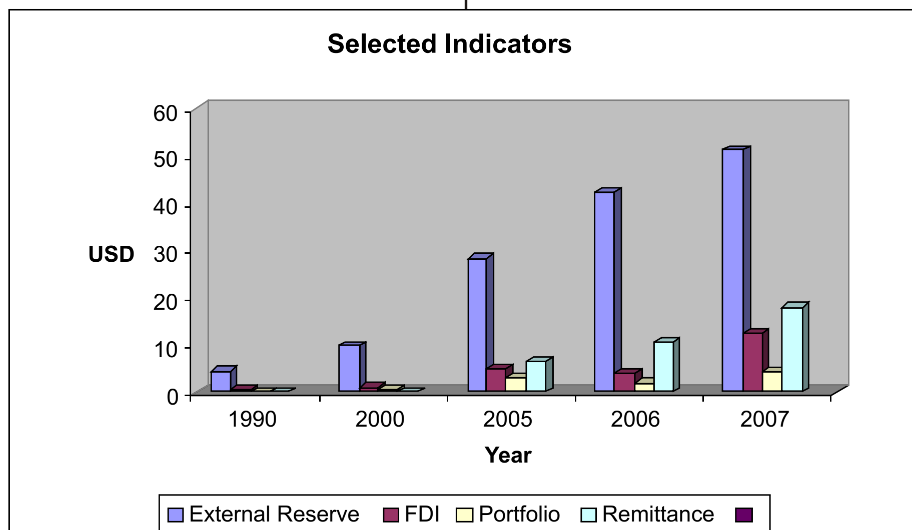
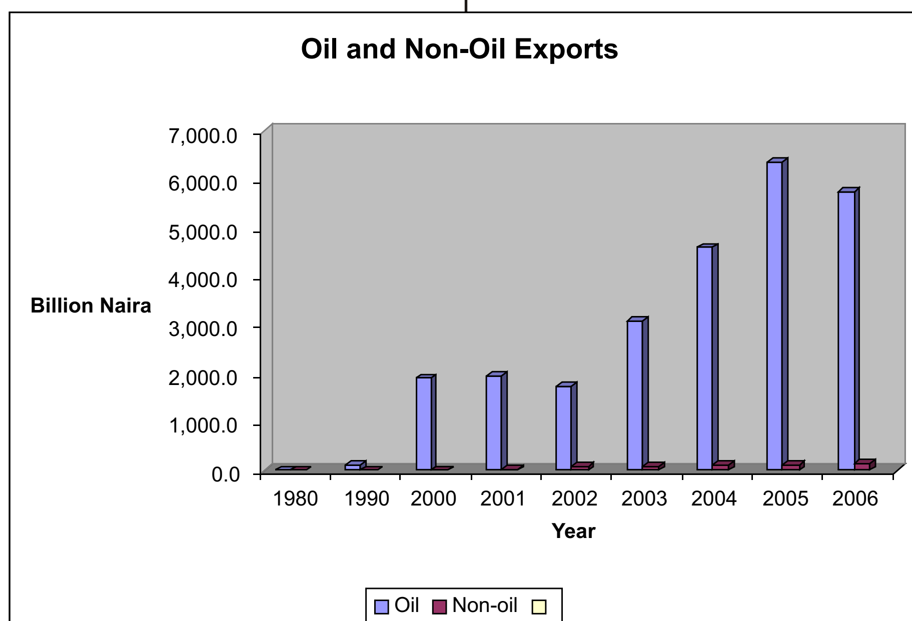


Fig 6



and natural resources which can be productively and efficiently harnessed to achieve sustained growth of GDP and development. The government must address the issue of poor economic management which results in macroeconomic instability and undermines the achievement of growth and economic development in general and the real sector in particular. The issue is not whether government should not budget a deficit. The issue is that the size of the deficit as a proportion of GDP must be low while the financing should not rely on credits from the banking system. In addition, borrowing from external sources must be productively utilized to enhance the capacity of the national economy to meet the debt service obligations in future.

The private sector should be motivated and supported in the production of private goods in which Nigeria enjoys considerable comparative advantage. It should also encourage the private sector to take advantage of backward and forward linkages in establishing manufacturing industries that rely on agricultural produce while products of the manufacturing sector feed the distributive service sector.

There is need to recognize the problem posed by poor infrastructural services, particularly unstable electricity supply, sustained

performance of the real sector and the non-export production in particular. The country is blessed with four main sources of energy. These are hydro, thermal, gas and solar energy, yet the nation suffers from unstable electricity supply, persistent shortage of gas for both residential and industrial consumption. The gas shortage is supplemented by import with scarce foreign exchange from crude oil exports. The development of these sources of energy would enhance private production levels as well as costs of production. Entry into public monopolies providing these services presently should be liberalized to enhance private investment and competition and thus ensure stable supply. Of course, it is pertinent to readily admit the determination of the present administration to address the problem of inadequate infrastructural services as well as poor delivery of critical public goods and services. Considerable success has been achieved in eliminating fuel shortages and long queues and wastage of precious hours at the petrol stations. The oil refineries are being revived and production capacity increased in order to reduce foreign exchange expenditure due to import of refined petroleum products. These policy measures would have to be sustained and improved sufficiently to meet international standards to the point of enhancing comparative advantages for production of non-oil manufactures for export.

The government should identify key industries with comparative advantages and high potentials for export penetration encourage private investment for its development while providing export promotion schemes. These may include provision of strategic foreign market services and provision of favourable credit facilities for export producers, export credit insurance and guarantee schemes trade facilitation, etc.

The long-term perspective must address the issue of capacity building and development of intermediate capital inputs. This calls for a new approach in funding of high tech educational institutions and selecting the best scientists and engineers who will be motivated and well remunerated to use their knowledge in the economic interest of the nation, rather than seeking green pastures abroad. The 140 million population provide a strong market for large-scale production and the realization of economies of scale. The West African region offers another window of opportunity for export growth and promotion. The main issue is for Nigeria to recognize and tap the opportunities for development and enrichment of its citizenry.

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THE NIGERIAN MONEY MARKET: ISSUES AND CHALLENGES

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1. INTRODUCTION

Money markets are integral to the financial infrastructure of industrial countries and are among the largest financial markets in the world. These markets, which serve as channels for the execution and transmission of monetary policy and as trading venues for the short-term instruments, anchor the entire term structure of interest rates. Money markets are central to the allocation of capital, the efficient distribution of liquidity among financial institutions, and the hedging of short-term risks. The markets also play an important role in the credit evaluation process and in the large-value payments systems where trades are settled.

The need for a money market arises because receipts of economic units do not always coincide with their expenditures. Thus, the money market functions by channeling short-term funds from the surplus units to the deficit units of the economy. Economic units with surplus funds can hold money balances that is, transactions balances in the form of currency or demand deposits to ensure that planned expenditures can be maintained independently of cash receipts. Holding these balances, however, involves a cost in the form of foregone interest. To minimize this cost, economic units usually seek to hold the minimum money balances required for day-to-day transactions. They supplement these balances with holdings of money market instruments that can be converted to cash quickly and at a relatively low cost and that have low price risk due to their short maturities. The deficit units, which could be public or private, can meet their short-term cash demands by accessing the money market and raising funds there. The market is segmented into two parts: the primary and secondary markets. The primary market is the market for new issues of debt instruments, while the secondary market is the market for the exchange of previously issued instruments. Active secondary markets for money market instruments allow them to be sold prior to maturity.

In Nigeria, the development of the Nigerian money market arose from the need to stem the outflow of surplus funds into investment outlets in the London money and capital markets. Other factors included the need to develop market that would enhance effective and efficient monetary management and promotion of deposit money banks' (DMBs) portfolio management as well as facilitate short-term capital mobilization. With the commencement of Open Market Operations (OMO) by the CBN, the scope of the money market has been expanded. The number of participants in the market also increased with the establishment of five discount houses. Money market institutions constitute the hub of the financial system. These institutions include discount houses, deposit money and merchant banks, and special purpose banks. Consequently, the formal money market evolved in the early 1960s with the first issue of treasury bills of N8.0 million by the Central Bank of Nigeria in April 1960.

Money market instruments are generally characterized by a high degree of safety of principal and their maturities range from one day to one year. Unlike organized securities or commodities exchanges, the money market has no specific location. It is primarily a telephone market, so it is easily accessible from almost all parts of a nation as well as from foreign financial centers. Generally, the term 'money market' encompasses all forms of short-term lending and deposits, including savings and time deposits with commercial banks, but for the purpose of this paper on the Nigerian money market, it is taken strictly as trading in direct debt instruments, to the exclusion of intermediated debt instruments such as bank loans and deposits.

THE LIMITED PERFORMANCE OF THE NIGERIAN MONEY MARKET

Although the money market has witnessed some expansion in the review period, there are observed problems which the market has to contend with. The overall performance of the market since inception has been mixed. In particular, as propellers of economic growth and development, the money market in Nigeria has performed below its potential. The market is shallow when compared with some advanced and emerging countries, but fairly satisfactory relative to sub-

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Saharan African countries. First is the preponderance of government instruments. The market virtually depends on the Government as the prime mover of activity on the demand side of the market. For instance, during lean revenue periods, government deficit financing requirements usually fuelled the market with large issues of government instruments. Correspondingly, the market is faced with the problem of paucity of private sector instruments at a time when the philosophy and policy posture is for the private sector to take the initiative in all spheres of economic development. Similarly, the function of underwriting of issues of treasury securities by the CBN, coupled with the unattractive yield of the securities, until recently, have resulted to holding of disproportionately large portion of the securities by the Bank. Also, there have been increasing uncertainty and lack of confidence in the market arising from interest rate movements and distress in the banking system, though some progress has been made in this area. There is also the problem of the wide margin between lending and deposit rates. The market lacks the breadth, resilience and depth needed to effectively discharge its functions, particularly the intermediation function. This is reinforced by the observed tendency of some market operators to act as primary users rather than as intermediaries in the deposits they mobilize. Some improvements could be achieved in this regard by enhancing surveillance of the operators and developing professionalism in the activities of the sector.

The money market in Nigeria is overcoming its initial problems through the provision of information technology and communication. This has led to automation in the market thereby resulting into faster dissemination of material information and promotion of greater integration between market operators and investors. The fall out of these improved technologies is improved efficiency, greater transparency of operations and dramatic increase in turnover in the money market.

The objective of the paper is to examine the structure and performance of the Nigerian Money Market, discuss its current prospects to play more supportive roles for economic activities in Nigeria, and highlight challenges as well as areas where policy intervention can help bring the market to its maximum potential.

The rest of the paper is structured into six parts. Chapter II discusses some literature review and analyses the developments in the money market of some selected developed and emerging economies. Chapter III reviews the evolution of the Nigerian money market. Chapter IV appraises the performance of the money market, while Chapter V identifies the challenges and prospects in the Nigerian money market and concludes the paper.

2. LITERATURE REVIEW AND COUNTRY EXPERIENCES

The importance of well-functioning financial markets in economic growth and development cannot be over-emphasized. A growing body of literature finds that the development of financial markets has a positive impact on growth. Through an efficient intermediation process, financial markets improve productivity of investment by channeling funds to the most profitable investment projects which translate into economic growth. The positive impact of financial developments at the macro level is usually measured by the depth of the markets which affects the size of investment. Money markets intermediation process improves productivity of investment by channeling funds to the most profitable investment projects which translates into economic growth.
The purpose, form and the peculiarities of money markets differ across countries depending on their levels of development (Uzoaga, 1981 and Onoh, 2002). The money markets in advanced economies are highly developed and usually dated. Some, notably the London money market, have been around for virtually two centuries (Vaish, 1991).

Money market serves as the first step of the transmission of monetary actions to economy (Piero Ugolini 2001). Accordingly, money market rates serve as a useful indicator of expectations regarding future monetary actions. It promotes financial stability and facilitates the development of a liquid bond market.

Well-developed money markets exist in developed countries, particularly, in the high income ones, while those in the least developed countries (LDCs) mirror the state of their development. Here, the markets are narrow, poorly integrated and in instances even non-existent in the real sense of it. It is therefore not in doubt, and as indicated by several authors, including Vaish (1991), Sundharen (1994) and Encyclopedia Britannica On-line (2006), that the level of development of a money market serves as a barometer of the level of development of the economy of the country. They emphasized that the degree and tempo of development of one reflects the spate of development of the other. Both Vaish, (1991) and Sundharen (1994) cautioned, however, that the fact remains that there could be exceptions to the rule, as in the case of Australia. Up to the early 1990s, in spite of its developed commercial banking system and the presence of a central bank, they adjudged that an organized money market was non-existent. It is therefore not out of place to deduce that several other factors work in consonance.

The authors enumerate the most fundamental of these factors, in other words, the characteristics of developed money markets that enable them play the pivotal role of economic development include:

- Presence of a fully autonomous, efficient and effectively functioning central bank, which invariably serves as both de juré and de facto apex of the country's monetary and banking system;

- Operation of a highly developed and organized commercial banking system, with the role of being a major operator and vital link between the central bank on one hand and the other segments of the money market on the other;

- Existence of large, vibrant and well diversified sub-markets,

which together engender both healthy competition and true integration in the market, as well as enable long lending; even when and if they borrow short, the sub-markets would have a level playing field to maneuver and invest broadly, vertically and horizontally, and get funds speedily, whenever the need arose;

- Trade in a wide range real short term instruments and presence of dealers that operate at a dynamic tempo, inject and sustain the required life in the market;
- Availability of sufficient resources, both internally pooled and supplied from outside, to finance transactions, adequately, on an ongoing basis; and
- Existence of on-going international linkages and free flow of investments and transactions across geographical borders.

The above factors must necessarily exist simultaneously. The absence of any one would result in a compromise of sorts and jeopardize the existence and continuance of a well-developed money market in all ramifications. This is specifically why well developed money markets are absent in most of the developing world, especially in the African economies. The markets are usually deficient in one or the factor. The worst hit is Sub-Sahara Africa, where money markets are virtually non-existent in some of its LDCs. At best, they are at various levels of rudimentary stages of development. Such markets face fundamental challenges in effective and efficient pooling of idle short-term funds for channeling to the deficit internal and external sectors, to finance businesses and government needs.

Characteristics of underdeveloped economies' money markets are high degree of specialization, absence of integration, strict confinement to a class or limited range of business, and limited competition with limited interaction. Others are diversity and wide margins in interest rates as well as seasonal stringency of funds. Money markets in the LDCs are usually without sufficient depth and breadth. As such, they are constrained to serve the purpose of absorbing large volume of transactions without significant effects on security prices and interest rates (Iyiegbuniwe, 2005)

Unlike the capital market, the money market has a higher degree of liquidity of instruments bought and sold. According to Onyido (1994:20), the money market primarily exists as a means of liquidity adjustment while the capital market provides the bridge by which the saving of surplus units may be transformed into long-term investments of deficit units. The rate of interest (yield) is the primary factor which motivates savers to part with their funds in the capital market while the safety and liquidity of the financial instrument is at least as important as its rate of return in the money market.

EXPERIENCES OF OTHER COUNTRIES

INDIA

The Reserve Bank of India has accorded prime attention to the development of the money market as it is the key link in the transmission mechanism of monetary policy to financial markets and finally, to the real economy. In the past, the development of the Indian money market was hindered by the system of administered interest rates, directed credit, and lack of proper accounting and risk management systems. With the onset of reforms and the transition to indirect, market-based instruments of monetary policy in the 1990s, the Reserve Bank made conscious efforts to develop an efficient, stable and liquid money market by creating favourable policy environment through appropriate institutional changes, instruments, technologies and market practices. These policy initiatives over time have led to the development of a relatively deep, liquid and vibrant money market in the country.

In line with the objective of widening and deepening the money market and imparting greater liquidity to the market for facilitating efficient price discovery, new instruments, such as collateralized lending and borrowing obligation (CBLO), have been introduced. Money market instruments such as market repo and CBLO have provided avenues for non-banks to manage their short-term liquidity mismatches and facilitated the transformation of the call money market into a pure inter-bank market. Furthermore, issuance norms and maturity profiles of other money market instruments such as commercial paper (CP) and certificates of deposit (CDs) have been modified over time to encourage wider participation while strengthening the transmission of policy signals across the various market segments. The abolition of ad hoc Treasury Bills and introduction of auction Treasury Bills paved the way for the emergence of a risk free rate, which has become a benchmark for pricing other money market instruments. Concomitantly, with the increased market orientation of monetary policy along with greater global integration of domestic markets, the Reserve Bank's emphasis has been on setting prudential limits on borrowing and lending in the call money market, encouraging migration towards the collateralised segments and developing derivative instruments for hedging market risks. This has been complemented by the institutionalization of the Clearing Corporation of India Limited (CCIL) as a central counterparty. The upgrading of payment system technologies has also enabled market participants to improve their asset liability management. Cumulatively, these measures have widened and deepened the money market in terms of instruments and participants, enhanced transparency and improved the signaling mechanism of monetary policy while ensuring financial stability.

Canada

Since the mid-1970's, the market for Government of Canada treasury bills and marketable bonds has shown innovation and, until the mid-1990's, rapid growth. The Government of Canada, and the Bank of Canada, had a commitment to promoting efficient, liquid and competitive domestic markets. The Bank views money markets as an effective channel for conducting monetary policy and, in recent years, to promote broader stability in the financial system. The

government continues to monitor the financial markets to provide it with stable, low-cost funding as well as promoting well-functioning markets in Government of Canada securities. Because of the “risk-free” nature of Government securities, they provide the benchmark against which all other domestic fixed income instruments are priced. They also form the basis for other money transactions, such as swaps, repos and a host of other financial market derivatives. Government of Canada securities also have been attractive portfolio investments for international investors which has contributed to the market's liquidity.

Over the years, the Bank and the Department of Finance have worked to improve the efficiency of Canadian financial markets through their own initiatives and by supporting those of others, including various regulatory agencies. This cooperative approach to market development has created an active market for short-term corporate paper and has led to the introduction of numerous new products such as short-term interest rate derivatives (e.g. Bankers' Acceptances future contracts, called BAX, traded on the Montreal Exchange and a myriad of over-the-counter derivative products). In more recent years there has also been a rapid growth in securitized commercial paper in the domestic market, and the longer-term corporate market has expanded in Canada after being relatively dormant since the early 1970's.

Recent Initiatives in the Canadian Market for Government of Canada Securities

In light of the significant improvement in the Government's financial position in recent years, the Department of Finance and the Bank of Canada, in close consultation with a broad range of financial market participants (investment dealers, investors, banks and various regulatory agencies) have focused their efforts on ensuring a liquid, well-functioning market for Government of Canada securities. Some of the initiatives include the following.

The improvement of the government's financial situation has meant that there has been an absolute drop in the amount of its outstanding market debt. In December 2000 this debt amounted to Can$414 billion, while in December 1996 it stood at Can$439 billion. The composition of the Canadian dollar denominated debt has also changed dramatically in recent years.

In order to maintain a well-functioning domestic market and keep borrowing costs low, the Government focused on the key aspects of liquidity, transparency, regularity and integrity. For this reason, the government borrows on a regular, pre-announced basis in key segments of the market, builds large bond benchmarks and maintains effective rules for Government of Canada auctions. Market participants are consulted extensively on the government's debt strategy and adjustments to its debt programmes. The Bank of Canada plays an important role in advising the government on its debt strategy and implementing the debt program on behalf of the government as its fiscal agent.

The Bank of Canada has also adjusted its own participation at the regular treasury bill and bond auctions to mitigate, to the extent possible, the effect of declining net new issuance. As the government increased the average term to maturity of its outstanding debt, the Bank of Canada reduced its holdings of treasury bills and increased its holdings of bonds to be broadly in line with the structure of outstanding debt. This adjustment was made in part to reflect the way in which monetary policy is implemented in Canada. The framework for implementing monetary policy in Canada has changed dramatically from the days when the Bank Rate was set weekly at 25 basis points above the average yield on the auction of 90-day treasury bills. The Bank's operating target for monetary policy is now the middle of a 50 basis point target band for overnight financing, which the Bank can reinforce if necessary through conducting repo operations (or reverses) with a designated group of primary securities dealers (similar to the previous “jobber” designation). This has meant that the Bank no longer has the same need for substantial holdings of treasury bills on its own balance sheet for potential open market operations. Therefore, the Bank made changes to its own auction participation to reflect not only changes to the manner in which monetary policy was being conducted, but also to ensure that the public float of treasury bills was as large as possible during a period of rapidly declining net new issuance by the government.

The changes that affected the amount and issuance of government securities, as well as the desire to maintain and enhance market liquidity and efficiency, has led to a number of initiatives on the part of authorities and market participants. Among the measures taken were changes to the auction rules for government securities and their oversight by the Bank of Canada, as well as guidelines governing a code of conduct in secondary markets for fixed income products in Canada adopted by the Investment Dealers Association of Canada (IDA). In addition, the Bank of Canada and the federal government have modified bond and treasury bill auctions to maintain benchmark sizes as large as possible.

Korea

In Korea, the money market embraces the call market and a wide range of other financial markets, including those for treasury bills, monetary stabilization bond, negotiable certificates of deposit, repurchase agreements and commercial paper. As part of government series of measures designed to channel curb-market funds into financial transactions and to organize the short-term financial market more systematically, various new financial instruments have been introduced and have contributed to broadening and activating the money market, with additional measures taken to realign and activate the market in accordance with financial deregulation.

In furtherance to develop money market in Korea, a US dollar call market is in existence, which fosters foreign exchange market. Similarly, Japanese Yen, Deutsche Mark and Pound Sterling markets were inaugurated in the 1990s to diversify

and strengthened the market. Participants include foreign exchange banks. The maturities are classified as overnight, tomorrow/next, spot/next, 1 week and 1 month to 12 months with interest rates being determine freely in relation to rate prevailing in international finance market, such as the London Inter-bank offered (LIBOR). The volume of foreign currency call transactions has grown very rapidly.

India

In India, prior to the 1990s, the financial markets were marked by administered interest rates, quantitative ceilings, statutory pre-emption, captive market for government securities, excessive reliance on central bank financing, pegged exchange rate, and current and capital account restrictions. Therefore, as part of structural reforms in the early 1990s, wide-ranging reforms were introduced in the Indian financial sector, including financial markets. Reforms in the financial markets encompassed all segments - the money market, the credit market, the government securities market, the foreign exchange market, the equity market and the private corporate debt market.

As a result of various reform measures, the structure of financial markets has witnessed a remarkable change in terms of financial instruments traded in various segments of the financial market, and market participants. Although various segments of the financial market, in general, have certainly become deeper and more liquid, there is still some way to go before all the segments of the financial market are fully developed.

The U.S Market

The United States of America's money market carries out the largest volume of transactions of any such market in the world. Its participants include the most heterogeneous group of financial and non-financial institutions to be found in any money market; it permits trading in an unusually wide variety of money substitutes; and it is less centralized geographically than the money market of any other country. New York City is the major center of the US money market activities and most international trading activities take place there.

There was a significant change in the U.S. banking laws after the great depression of the 1930s which includes the withdrawal of all gold from internal circulation and was held by the U.S. Treasury for use only in settling net flows of international payments among governments or central banks; legislative recognition of the primary importance of unified open-market operations by the Federal Reserve System; delegation to the board of governors of the Federal Reserve System of authority to raise or reduce the ratios required between reserves and commercial bank deposits; reduction in the size of banks existing in the early 1920s by almost half of the 30,000 separate banks by the mid-1930s; systematic change in the essential character of commercial banking in the U.S. remained that of a “unit” (or single-outlet) banking system in contrast to those of most other countries, which had a small number of large branch-banking organizations.

This system has led inevitably to striking differences between money market arrangements in the United States and those of other countries. At times, some smaller banks almost inevitably find that the wholesale facilities of the money market cannot provide promptly the funds needed to meet unexpected reserve drains, as deposits move around the country from one bank to another. To provide temporary relief, pending a return flow of funds or more gradual disposal of other liquid assets in the money market, such banks have the privilege, if they are members of the Federal Reserve System, of borrowing for reasonable periods at their own Federal Reserve Bank. At times some large banks, which serve as depositories for part of the liquid balances of many of the smaller ones (including those that are not members of the Federal Reserve System) also, find that demands converging on them are much greater than expected. These large banks, too, can borrow temporarily at a Federal Reserve Bank if other money market facilities are not adequate to their needs. Because these borrowing needs are unavoidably frequent and, as a rule, do not indicate poor management, the discount rate charged by the Federal Reserve banks on such borrowing is not ordinarily put at punitive or severe penalty levels thus, contrary to practice in many other countries, the central bank does not always maintain its interest rate well above those prevailing on marketable money market instruments. To avoid abuse, there is continuous surveillance of the borrowing banks by the Federal Reserve Bank. This practice of borrowing at a Federal Reserve Bank has developed the market for “federal funds.” This specialized part of the money market provides for the direct transfer to a member bank of balances on the books of a Federal Reserve Bank in return for payment of a variable rate of interest called the “federal funds rate.” These funds are immediately available. There are transactions, too, in funds that are on deposit at commercial banksby means of loans between banks, or through loans by one large depositor to another. Because these must be collected through a clearing process, they are usually called “clearinghouse funds.”

United Kingdom

Since 1997, the Bank of England has implemented its monetary policy via the official two-week repo rate. This is the rate at which the Bank conducts repo transactions with its counterparties as part of its open market operations. The official rate is closely tracked by the two-week market-determined GC repo rate. The Bank's rate is typically higher though; among other possible reasons, market participants appear willing to pay a premium for the more flexible collateral arrangements allowed by Bank repo (Brooke and Cooper (2000)). The 1997 reforms also widened the range of counterparties that are able to participate in the Bank's auctions. They include a wide range of financial institutions that are active in the sterling money markets. The adoption of the two-week repo rate as the target for monetary policy followed on the heels of the January 1996 gilt repo reforms. While gilt repo arrangements had been available since the early 1990s, their use was relatively restrictive. The 1996 reforms removed these restrictions on participation and allowed for the

development of a liquid gilt repo market. Consequently, the amounts outstanding in the gilt repo market expanded from £72 billion in 1997 to £128 billion at the end of 2000.

The Bank conducts its open market operations using a range of short-term money market instruments. These include repo of gilts and eligible bills (Treasury bills and eligible local authority and bank bills), and outright purchase of eligible bills. The maturity of the Bank's open market operations is principally at two weeks, with minor variations, depending on liquidity needs. The pool of securities eligible for use in the Bank's open market operations has been extended since 1997, most notably in August 1999, when euro-denominated securities issued by governments and central banks in the European Economic Association were added to the list. Table A provides a breakdown of the Bank's open market operations by instrument type. Prior to 1997, open market operations were mainly conducted via outright purchases or sales of eligible bank bills and sterling Treasury bills. A key rate was the so-called minimum Band 1 dealing rate, the minimum rate at which the Bank was willing to discount bills with up to 14 days maturity. As a reaction to the September 1992 ERM crisis, the Bank introduced repo facilities of gilts and loans related to export and shipbuilding credit. These were re-offered on a number of occasions thereafter, and from April 1994 became a permanent part of the Bank's open market operations. They were conducted twice a month with a maturity of generally two or four weeks. From 1997 to 1998, there were two daily rounds where the Bank's counterparties could bid for two-week repo or outright sales (12:00 noon and 2:30 pm), and sometimes an additional early round (9:45 am) depending on liquidity conditions. In June 1998, this was modified to two regular daily rounds (9:45 am and 2:30 pm) for two-week repo and outright sales. In addition, two end-of-day facilities were created for overnight repo. At 3:30 pm, all counterparties can bid for additional funds at a penal rate (currently 100 basis points above the Bank's repo rate). As such, the Bank introduced a ceiling for the overnight rate. After the close of the money markets, the 4:20 pm facility allows settlement banks to obtain additional funds (at a penal rate of 150 basis points above the official rate) that might be needed in order to balance their account with the Bank at the end of the day. In June 2001, the Bank of England introduced an overnight deposit facility (remunerated at 100 basis points below the Bank's repo rate). This facility is made available to the Bank's counterparties at 3:30 pm.

Lessons Learned and Challenges Ahead

Developing an efficient treasury bill market led to the expansion of private capital markets, both short and long-term, and also provided the public sector with access to the broader capital markets in later years as government borrowing requirements soared through the 1980's into the early 1990's.

The clear and ongoing policy objective of developing an active money market was instrumental to the success of the initiatives undertaken. Financial market participants were willing to work cooperatively with public authorities in an environment that was consistent with their own business interests. One of the overriding objectives, from the outset, was to make the market for Government of Canada securities attractive for investors, both domestic and international. International participation in the secondary market was very important to provide liquidity, especially during periods of large government financing requirements.

The approach Canada pursued almost 40 years ago may not be entirely appropriate in today's world. In particular, Canadian authorities showed preferential treatment to domestic banks and dealers to encourage them to become more active in Canadian fixed income markets, especially those for Government of Canada securities.

In addition, Canada undertook initiatives that provided domestic firms, and in later years, foreign firms with Canadian operations, with appropriate incentives to expand their capital markets activities. However, today, the environment is dramatically different. Smaller financial centres, such as Canada, are faced with different competitive forces as financial markets have become more globalized and improvements in communications and information technology have changed the economics of capital market activities, especially those related to government fixed income securities. The continuing movement towards a more globalized economy presents challenges to public authorities as they strive to pursue policies that preserve and enhance the continued efficiency and competitiveness of capital markets.

3. OVERVIEW OF THE NIGERIAN MONEY MARKET

3.1 THE JOURNEY SO FAR:

Prior to the establishment of the CBN in 1959, there was no formal or organized domestic money market in Nigeria. What existed then was an integral part of the London money market. The market operated by moving funds from the London money market to Nigeria for the purpose of financing export produce. With the establishment of the CBN and the subsequent attainment of political independence in 1960, the CBN became involved in the active development of Nigeria's money market. In line with the Treasury Bills Ordinance of 1959, the Bank designed and issued the first Nigerian Treasury Bills in April 1960. Also, the Bank introduced the Finance Bill Scheme in 1962 to provide funds for the marketing boards to help boost their export of agricultural produce. In 1968, Treasury Certificates were issued for the first time as short-to-medium term government securities to help bridge the gap in government fiscal operations. Other forms of money market instruments like Certificates of Deposit (CDs), Bankers Unit Fund (BUF) and Special Deposits with the CBN were introduced between 1974 and 1976. The Nigerian money market now constitutes a very important segment of Nigeria's financial system, and with the commencement of secondary market activities for Nigerian government debt securities known as Open Market Operations (OMO) in 1993, the money market has assumed a more prominent role in the conduct of Monetary Policy. The market comprises the inter-bank

funds market and the short-term securities market and the operators include the Debt Management Office (DMO), the CBN (which is also the regulatory authority), the Deposit Money Banks (DMBs), the Discount Houses and the investing public.

Since its formal emergence in the 1960s, entrenchment in the 1970s and 1980s, and continuous growth from the 1990s to date, the money market has served the following major purposes. It has helped localize the credit base and has prevented the uncontrolled outflow of funds to foreign money markets. Importantly, the retention of funds within has contributed immensely to meeting domestic investment needs of the private sector. Another vital purpose of the Nigerian money market is that it has facilitated the mobilization of funds to meet the credit requirements of government. The market, in addition, enables the banks to economize on their cash holdings and adjust their liquidity positions as conveniently as possible. It is also responsible for money creation through credit.

3.2 FUNCTIONS OF THE NIGERIAN MONEY MARKET

The major function of the Nigerian money market is to facilitate the raising of short-term funds from the surplus sectors to the deficit sectors of the economy. The money market allows money available for short periods to be directed to those who can use it. In addition to facilitating the liquidity management of economic actors, money markets fulfill a number of additional economic functions

- facilitates the conduct of monetary policy through market-based instruments;
- provides anchor for the short end of the yield curve;
- supports the development of foreign exchange market;
- provides the authorities with better signals of market expectations;
- allows banks and their customers to better manage their liquidity;
- strengthens competition in financial intermediation;
- helps to promote private issuance of negotiable certificates of deposit, promissory notes, and commercial paper; and
- short-term instruments support the development of longer term corporate bond markets.
- The money market allows institutions to hold a proportion of their funds in liquid assets that will enable them realize cash quickly should the need arise.
- The money market is used to take care of imbalances in the supply of money between the financial system as a whole and the government.

3.3 PARTICIPANTS IN THE NIGERIAN MONEY MARKET

A number of institutions are active in the market, and perhaps it boasts of the most active participants in the Nigerian financial markets. The key participants are the Federal Ministry of Finance (FMF), Debt Management Office (DMO), Central Bank of Nigeria (CBN), deposit money banks (DMBs), discount houses, businesses and individuals.

Federal Ministry of Finance

The Federal Ministry of Finance (FMF) is responsible for the fiscal policies of the Federal Government. It, however, collaborates with the CBN, because fiscal policies are at the core of all financial policies. Fiscal and monetary policies and the activities of the FMF and the CBN have to move in tandem, for a stable money market to operate.

The FMF and the Bank shared responsibilities for licensing and supervising DMBs up to 1991, when the CBN became the sole authority for these. Suffice to mention, there have been changes, over the years, in the responsibilities, which the two monetary authorities have had, concerning their roles. From the inception of the market to 1965, the power of bank examination rested with a division in the FMF, which was in charge of on-site supervision. The division merged with the Banking Scrutiny section of the CBN that had been responsible for off-site supervision, to form the Banking Supervision Department of the CBN. However, earlier, from its being otherwise largely autonomous since inception, the Amendment Decree No. 3, of 1963 put the CBN under the ambit of the FMF. This arrangement continued until the intervention by the CBN Act No. 24 in 1991. The FMF, once more, regained control with the 1997 amendment to this act, and became the reporting channel to the Presidency, while a Director General in the ministry became a member of the CBN Board of Directors. An amendment in 1998 suspended this control. The indirect linkage with the Presidency through the FMF had been undermining efficiency in the CBN, especially its ability to operate an independent monetary policy, devoid of political undertones.

Notwithstanding, the FMF continues to interact with the CBN. It interfaces with the money market through its function of mobilizing domestic financial resources for the development purposes of the Federal Government (FG). In 2005, the ministry inaugurated a committee to facilitate a buoyant secondary market for FG Bonds. The virile secondary market, driven by the forces of demand and supply, aimed to become a robust platform, to stimulate the trade in the government securities. Money market institutions, notable among which are the banks, are to partake actively. Even though the bonds are de facto medium to long-term instruments that the FMF issued on behalf of the FG, the CBN commenced the conversion and auctioning of some of the shorter tenor ones through the OMO market. The tenors were of 21, 25, 35, and 49 days.

Central Bank of Nigeria

The Banking Act of 1958 established the CBN, the apex regulatory and supervisory body of the Nigerian money market. The Bank commenced operations on 01 July 1959. In its pursuance of its core mandate of promotion of monetary stability, the Bank has as one of its responsibilities the development and growth of the money market. The functions of maintenance of a sound and efficient

financial system, being banker and financial adviser to the FG and lender of last resort to the banks all interplay with the money market. For example, it issues securities on behalf of the FG, provides it with rediscount facilities for its short-term debt instruments and other eligible assets and is the last source of credit to the DMBs. Over time, the CBN role has varied, from a purely traditional central bank role at inception to include developmental roles, of varying degrees, from the 1980s to mid-2000s.

Debt Management Office

In September 2001, the FG set up the semi-autonomous Debt Management Office (DMO) as a one-stop clearing for all Nigerian government debts. The office used to be in the CBN. To ensure cognate continuity, a complement of core personnel from the Bank and the FMF were pooled together. The conception of the office centralizes exclusively on the country's debt situation and it, thus, coordinates the records and streamlines the management. Core activities include debt service forecasts, debt service payments, and advising on debt negotiations as well as new borrowings. DMO's relationship with the money market is perceivable in its sharpened strategic focus and operational efficiency in domestic debt management.

Discount Houses

These are non-bank financial institutions devoted to trading in money market securities in the secondary market. Established first in 1993, discount houses provide discounting and rediscounting facilities in government short-term securities, there are five of them currently operating in Nigeria. They provide the Deposit money banks with a convenient window for liquidity management by contracting loans from banks, repayable at call. Discount Houses intervene between the monetary authority, Central Bank of Nigeria and the deposit money banks (DMBs) in mobilising funds for investments in securities and take positions depending on the liquidity profile of the financial system. They do this by providing discounting/rediscounting facilities in government short-term securities. They invest mainly in government treasury bills and to a lesser extent, in commercial bills issued by blue-chip companies and accepted by banks. They provide primary liquidity in the Nigerian financial sector through buying and selling of securities in huge volumes, for very short periods of time from 1 day up to 90 days on average. In effect, they act as market maker in money market instruments and as agents in OMO auctions.

Deposit Money Banks (DMBs)

DMBs are the largest partners with the CBN in money market transactions. They serve as the channel for the transmission of CBN's monetary policy. They also serve as intermediaries between the CBN and the public in the sale and purchase of instruments. Furthermore, they are the principal borrowers at the CBN discount window.

Public and private corporate

These entities could be either lenders (investors) or borrowers in the money market. Private blue chip companies usually issue BAs and CPs to take care of certain working capital requirements. They also sometimes invest in government debt instruments or other corporate debt instruments. Individuals/households participate in the money market when they invest any surplus income in money market instruments.

3.4 REGULATORS OF THE NIGERIAN MONEY MARKET.

3.4.1 The Central Bank of Nigeria

The Central Bank of Nigeria (CBN) is the apex regulatory authority of the financial system in the country. It was established by the CBN Act of 1958 and commenced operations in 1959. The promulgation of the CBN decree 24 and Banks and Other Financial Institutions (BOFI) Decree 25, both in 1991 gave the bank more flexibility in regulation and supervision of the banking sector and licensing finance companies which hitherto operated outside any regulatory frame work.

One of the principal objectives of the bank as stipulated in the CBN Act of 1958 is to promote monetary stability and a sound financial system. To achieve the objective of promoting and maintaining the monetary and price stability in the economy, the CBN formulates policies to control the amount of money in circulation, control other banks and major players in the financial market, control rates of banks credits and therefore the supply of money in the economy. The instruments used by CBN to achieve these functions are: Open Market Operation (OMO), bank rate, rediscount rate, direct control of banks liquidity, direct control of bank credit, special deposits, moral suasion and minimum cash ratio.

3.4.2 The Nigeria Deposit Insurance Corporation (NDIC)

The corporation was established through the promulgation of Decree No. 22 of 15th June 1988. This was part of the economic reform measures taken by the then government, to strengthen the safety net for the banking sector following its liberalization policy and the introduction of the 1986 Structural Adjustment Programme (SAP) in Nigeria. The Corporation supervises banks so as to protect depositors; ensure monetary stability; ensure effective and efficient payment system, and promote competition and innovation in the banking system.

Supervision of insured banks is an integral part of the mechanism for ensuring safe and sound banking practices and the Corporation has continued to accord this top priority. This entails on-site examination and off-site surveillance, both of which are mutually reinforcing. The off-site supervision provides an early warning signal which is useful in prioritizing on-site examinations and assessing potential problem areas.

3.4.3 The Federal Ministry of Finance (FMF)

The Federal Ministry of Finance was established in 1958 by the Finance (Control and Management) Ordinance, to replace the then Finance Department. The Ordinance conferred on the Ministry the responsibility for the control and Management of the public finance of the Federation. The ministry advises the Federal Government on its fiscal operations and collaborates with the CBN on monetary matters.

3.5 INVESTMENT WINDOWS IN THE NIGERIAN MONEY MARKET

This is a market for short-term debt instruments. The major function of the money markets is to facilitate the raising of short-term funds from the surplus sectors to the deficit sectors of the economy. The deficit units, which could be public or private, obtain funds from the market to bridge budgetary gaps by trading in short-term securities such as Treasury Bills, Treasury Certificates, Call Money, Certificates of Deposits (CDs), and Commercial Papers (CPs). The instruments are liquid and are comparatively safer than other financial markets' securities. The trade-off is that they offer significantly lower rates of return.

Treasury Bills: These are short-term securities that mature in one year or less from their issue date, with maturity structure of 3-month, 6-month and one year. The bills are purchased at a discount and serve as the benchmark risk free instrument in the money market. Treasury bills are issued through a competitive bid auction.

Certificate of Deposit (CD): this a time deposit with a universal bank. They bear a specific maturity date ranging from 3 months to 12 months. CD offers yields that are slightly higher than t-bills because of the existence of default risk. It is next in line to T-bill in order of liquidity and its guaranteed by NDIC up to a limit of N200,000.

Banker's Acceptance (BA): This is a short term credit investment created by a non-bank institution and guaranteed by a bank. The yield is higher than that of CD and it is traded at a discount. It is particularly useful for financing exports and imports.

Commercial Paper (CP): This is issued by large corporations and blue chip companies that have high credit ratings. CP is an unsecured debt instrument and trades at a discount. It has maturities of between 1 month and 9 months and offers yields that are slightly higher than most BAs. It is used to finance short-term working capital needs.

Repos: Repo is the short form used for repurchase agreement, and is widely used by a dealer in government securities who sells T-bill to a lender with an agreement to repurchase the instrument at an agreed date in future, and at an agreed price. They are usually for short term, ranging from overnight to 30 days. In a repo transaction, the lender of money acquires full ownership of the underlying security and thus may sell it in the event of default.

Reverse Repo: This is the exact opposite of Repo. It is a collateralized loan, realized through the sale and subsequent repurchase of a security at a specified date and price. It is the combination of an immediate sale of a security with the agreement to reverse the transaction at a specified future date

4.0 APPRAISAL OF THE NIGERIAN MONEY MARKET

The Nigerian money market has grown steadily over the years. From 12 in 1960, the number of commercial banks operating in the country grew steadily to 29 in 1986 and peaked at 66 in 1992. Thereafter, owing to the liquidation of fifteen banks over the years the number declined to 51 at the end of 1998 and rose again to 89 in 2005. As at end-December 2006, owing to the consolidation of the banking system, twenty-five banks emerged from a total of 89 banks that existed as at end-December 2005. It further reduced to 24 banks at end 2007, following the merging of Stanbic Bank and IBTC. Their branch network rose faster from 160 in 1960 to 2,407 in 1996 but declined to 2,185 in 1998 and rose again to 4,579 in 2007.

The total value of money market assets outstanding which stood at N123.66 billion in 1996, grew significantly to N247.35 billion in1997, following the conversion of long-dated treasury bonds and outstanding CBN direct advances to Government into treasury bills. By 2002, it had grown to N518.72 billion and stood at N2,250.1 billion at end-2007. Government short-term securities, comprising treasury bills and treasury certificates have constituted the bulk of the total value of money market assets in Nigeria. With the discontinuation of the issuing of treasury certificates since

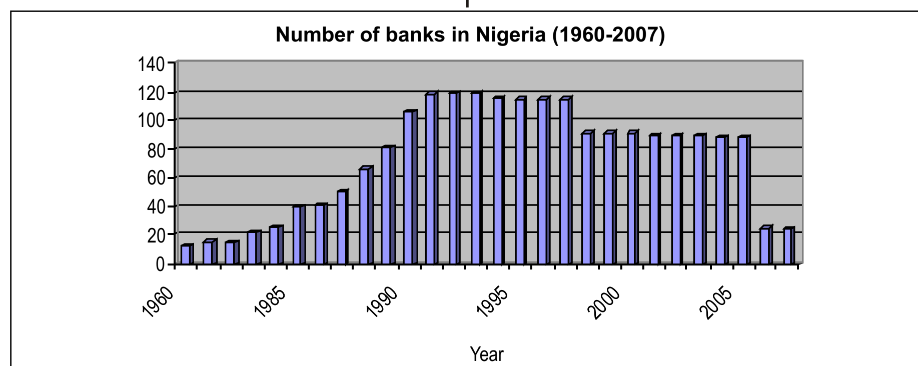
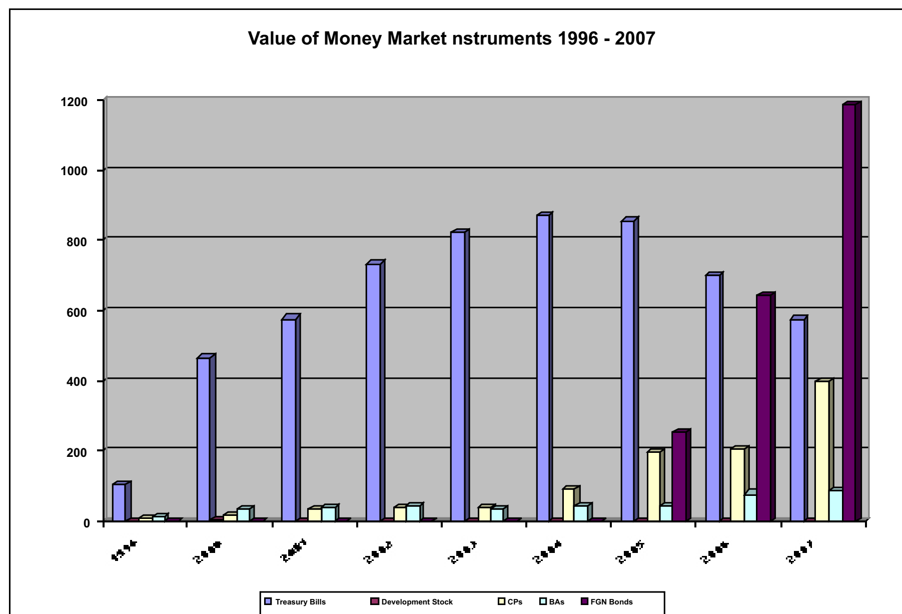


Table 1: VALUE OF MONEY MARKET INSTRUMENTS (=N=b)

Year	T bills	EDS	Cert. of Deposit	CPs	BAs	FGN Bonds	Total
1996	103.33	0.00	0.10	8.02	12.20	0.00	**123.65**
1997	221.80	0.00	0.00	13.60	12.00	0.00	**247.40**
1998	221.80	0.79	0.00	7.25	17.47	0.00	**247.31**
1999	361.76	0.95	0.00	20.48	11.97	0.00	**395.16**
2000	465.54	2.41	0.00	19.00	31.77	0.00	**518.72**
2001	578.54	1.83	0.00	35.38	36.50	0.00	**652.25**
2002	733.76	1.63	0.00	37.14	42.62	0.00	**815.15**
2003	825.10	1.47	0.00	37.30	32.90	0.00	**896.77**
2004	871.58	1.25	0.00	88.83	41.62	0.00	**1,003.28**
2005	854.83	0.98	0.00	194.59	41.12	250.83	**1,342.35**
2006	701.40	0.72	0.00	204.6	78.50	643.94	**1,629.17**
2007	574.90	0.62	0.00	400.8	87.60	1186.19	**2,250.11**

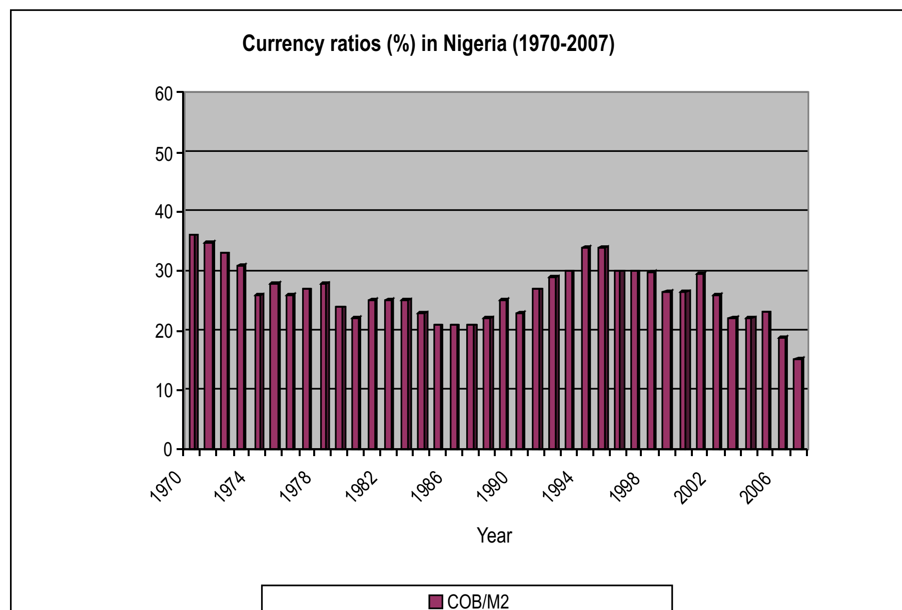
Source: 2007 CBN Statistical Bulletin and Annual Report and Statement of Account.



Relative Size of Nigeria's Money Market (1996 2007)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
MMA/GDP (per cent)	2.99	5.75	6.03	8.23	7.57	7.67	8.35	8.85	8.59	7.71	8.8	9.9
MMA/CiC (per cent)	98.11	170.79	143.47	189.47	167.06	134.08	143.93	178.54	183.82	178.72	209.1	234.2
MMA/QM (per cent)	86.55	153.53	119.44	128.86	130.22	108.39	102.05	118.05	107.54	105.38	93.65	100.0
MMA/DD (per cent)	128.95	197.23	173.86	195.48	150.35	120.76	132.30	155.23	137.71	121.28	130.95	122.87

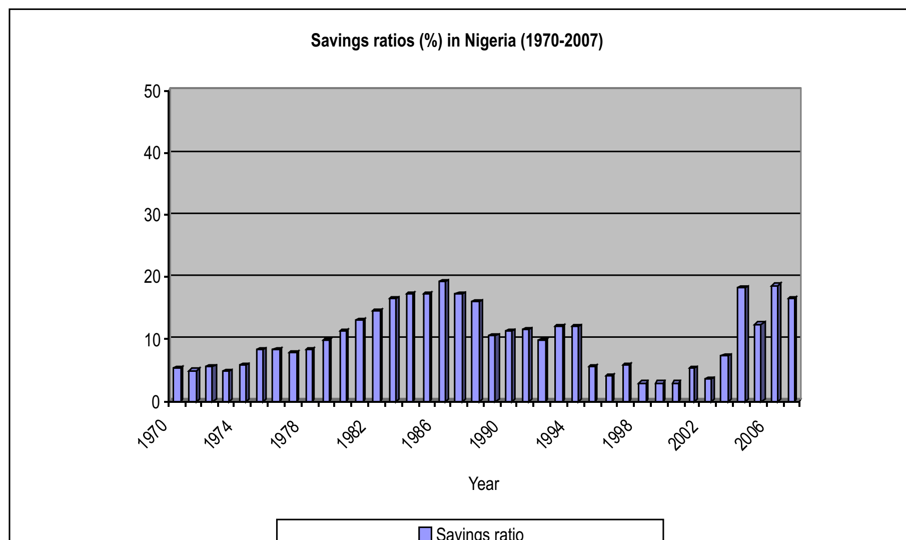
Source: CBN Statistical Bulletin, 2006 and CBN Annual Report, 2007.



1996, treasury bills have consistently constituted the bulk of the total value of money market assets. With the re-introduction of the FGN Bond in 2003, bonds have also contributed largely to the total value of money market assets.

Relative to the size of the economy (as measured by the GDP), money market assets grew from 3.0 per cent in 1996 to 9.8 per cent at end-2007. As a percentage of Currency in Circulation (CiC), money market assets grew from 98.1 per cent in 1996 to 234.2 per cent in 2007. The same trend is observable for the growth of money market assets relative to Quasi-Money (QM), as this proportion grew from 86.6 per cent to 100.0 per cent by end-2007. Relative to total demand deposits, the value of money market assets grew from 129 per cent in 1996 to 195.5 per cent in 1999, but fell to122.9 per cent in 2007. Another useful measure of the performance of the banking sector is the extent to which it is able to promote banking habit usually captured by the currency ratio (ratio of currency outside banks to broadly define money supply). Between 1970 and 1980, there was a steady decline in this ratio from 36.0 per cent to 22.1 per cent, reflecting increased patronage of the banks. The ratio rose to about 25 per cent during the early 1980s but started to decline again by 1984 until 1989 when it resumed its upward trend. The upward trend coincided with the period of several distresses in the banking sector, with the accompanying general loss of public confidence in the banking system. By 1994, the ratio rose to 34.2 per cent, about the level recorded in 1970. With the distress resolution and the gradual restoration of confidence in the banking sector, the ratio declined again to 29.81 per cent in 1998, 26.65 per cent in 2000 and further to 15.2 per cent in 2007 partly reflecting the impact of the increased use of electronic and other forms of payments, particularly ATM and other card products.

A major function of banks is the mobilization of savings for financing investment. Between 1970 and 1987, there was a significant increase in savings mobilization as reflected in savings to GDP ratio which maintained an upward trend in the 1970s through early 1980s, rising from 5.5 per cent in 1970 to a peak of 19.1 per cent in 1986. Thereafter, it trended downward to 3.0 per cent in 1998, lower than that attained over twenty years ago (Table 7.7). It however rose to 5.3 per cent in 2001 and 16.4 per cent in 2007. The lack luster performance of the 1990s was largely attributable to the distress situation in banking sector and consequent loss of confidence in the sector.



5.0 CHALLENGES FACING THE NIGERIAN MONEY MARKET

Among the biggest challenges of the Nigerian Money market is the creation of a highly liquid market in which investors can buy and sell with relative ease, where large transactions are consummated without significant changes in prices. This becomes necessary, given the backdrop that well informed international investors generally consider the level of a market's liquidity before investing in such a market. They will only consider a market which provides ease of entry and exit. Situations where the central bank needs to withdraw liquidity from the system in a systematic and structural way (hereafter referred to as structural liquidity surplus) have complicated monetary policy or interfered with its transmission in countries with shallow market. A structural liquidity surplus may build up due to capital or foreign aid inflows or export booms in commodity-producing countries, leading to an increase in international reserves. In particular, when the volume of transactions in the markets is not commensurate with the size of the central bank's operations, liquidity absorbing capacity of money market operations have led to overshooting and volatility of interest rates. At times, the inability of the central bank to undertake effective monetary policy actions to deal with excess liquidity has resulted in excessive domestic lending or pressures on the exchange rate. More broadly, excess liquidity has blunted the impact of changes in monetary policy on interest rates and bank lending, and liquidity absorbing monetary operations has had little impact on interest rates, credit conditions, or bank lending.

Weak domestic payment systems have also hindered efficient liquidity management and have obstructed the development of money markets. Most notably, the difficulty encountered by the banks in tracking their position at the central bank has encouraged maintenance of large excess reserves to meet settlement contingencies, and it has discouraged inter-bank trading. Therefore, short-term rates have been slow to respond well to changes in liquidity conditions resulting from the central bank's monetary operations, and the central bank has encountered difficulties in managing liquidity in the system.

Also, the absence of efficient and cost effective systems for transferring ownership of the securities traded in the secondary market, or the funds to pay for them has obstructed market development or repurchases transactions. In turn, the lack of a repurchase framework has delayed the introduction of collateralized lending in the inter-bank market, therefore helping back inter-bank trading, particularly when there has been limited trust between participants.

In comparison with money markets of developed economies, the depth of the Nigerian money market still needs further restructuring. There are not enough investment outlets in the market. The appropriate legal framework needs to be put in place for the smooth introduction and operation of existing and new products. There is therefore the need to further empower the regulatory institutions (such as CBN) to enable them check and nip in the bud any perceived or potential irregularity that may arise as a result of the introduction of new products or in the transaction of the existing ones.

However, prospect of the Nigerian Money market is very bright. It has, among others, the potential to attract more investors into the economy. A money market that is perceived by investors as vibrant, well-regulated and rewarding in terms of return on investment would easily attract foreign participants. In the bid to attract more foreign capital into the Nigerian money market, there is the need to improve on our market indicators. As improvement in our market float, the volume of trading and market liquidity etc would go a long way in arriving at better market indicators when compared on a global basis. The pension fund and other reforms in the economy also offer very bright prospects for the money market.

In the bid to catch up with global developments and improve the quality of their service delivery, Nigeria banks have no doubt invested much on technology: and have widely adopted electronic and telecommunication networks for delivering a wide range of value added products and services. The money market, as the citadel of the private sector can render financial services capable of revamping a nation's economy. But for it to render such services with optimal efficiency, the assistance of government is needed in the area of fiscal policies and provision of efficient infrastructure, telecommunications and investment incentives. For the entire system to function properly, therefore, fiscal policies and incentives that can stimulate both investors and users of long-term funds should be put in place by government. It is important to note that the place of the money market as a catalyst for Nigeria's socio- economic development will remain more significant in the years to come, as it helps to support national growth and development. The money market should, therefore, be accorded a pride of place in national economic management.

6.0 CONCLUSION

The Nigerian money market is still developing. There is thus a lot to be done to improve the market, since it mirrors and records the economic pulse of the nation. It also influences economic development. It is therefore vital for the CBN not to relent in its efforts to continuously revolutionize the Nigerian money market and bring it to world standards. Only then will the market be able to serve not only local needs, of the Nigerian economy, but also external first, the West African sub-region, regional and continental level. To achieve this lofty goals all hands must be on deck. This includes not only the monetary authorities, but, in addition, all participants in the market, notably, the DMBs, discount houses, FCs, businesses and individuals. The instruments too should be part of the process. It is worthy of note that the dominant role of the NTBs and government in the money market signals a dire need for change, to make the money market more private-sector-led.

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