

# PAYMENTS SYSTEM DEVELOPMENT IN THE WEST AFRICAN MONETARY ZONE (WAMZ): NATURE, CHALLENGES AND PROSPECTS

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## INTRODUCTION

The existence of an efficient payments system is significant to the smooth functioning of the banking and financial markets. Payments system can be regarded as mechanisms for the transfer and settlement of monetary obligations arising from transactions in which the central bank and the clearing houses are the main participants. The design of these mechanisms critically affects the efficiency with which monetary policy is conducted, the soundness of financial system, and the functioning of the economy as a whole.

Over the years, the industrialized countries have led the pace in the development of payments system. Initiatives to develop regional payments system in Africa have also gained prominence. These initiatives usually aim at harmonizing national payments system by

identifying gaps and adopting a common quality level of risk mitigation, payments system infrastructure and project management, by providing substantive guidance to national payments designers and policy makers.

The Economic Community of West African States (ECOWAS) which was established in 1975, aimed primarily at integrating the economies of the sub-region through increased trade flows supported by efficient payments system. The establishment of the West African Clearing House (WACH) in 1987 was expected to facilitate payments and settlements in the sub-region. However, the payments system development remained largely rudimentary as most domestic and cross-border transactions were often settled mainly by cash. Non-cash payments were often delayed with associated risks and costs.

As arrangements towards the establishment of a common central bank (the West African Central Bank (WACB)) by 2005 progresses, the need to have an effective, efficient and secured payments, clearing and settlement systems in the West

African Monetary Zone (WAMZ) becomes inevitable. It is therefore expected that the development of payments system in the zone would:

- Eliminate risks associated with Payments, clearing and settlement for transactions among member countries;
- Speed up the exchange and settlement of funds and securities to levels that will eliminate float;
- Improve convenience, service and security for users and encourage use of electronic modes of payment; and
- Encourage free movement of people, goods, services and capital as envisaged under the ECOWAS protocol.

The objectives of the paper are therefore, to assess the state of payments system development in the West African Monetary Zone (WAMZ); analyse the current arrangements in the zone and discuss the challenges as well as the prospects for the payments system development. The rest of the paper is organized into seven sections While Section II discusses the conceptual issues and the rationale for payments

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system development, Section III examines the critical issues in payments system development. Key institutions in payments system arrangements are examined in Section IV, while Section V discusses management of risks associated with payments system development. Section VI focuses on the challenges and prospects of payments system development in the zone while Section VII summarizes and concludes the paper.

## **II. CONCEPTUAL ISSUES**

### **II.1 Rationale for Developing Payments System**

The rationale for developing safe and efficient payments systems is basically to ensure effective functioning of the financial system. The term "payments system" refers to instruments, organizations, operating procedures and information and communications systems used to initiate and transmit payments information from payer to payee. The design of these systems critically affects the efficiency with which monetary policy is transmitted, the soundness of financial institutions, and the functioning of the economy as a whole. The goal of payments system is therefore to ensure that funds are transferred into and out of customers' accounts following payment requests in a timely and efficient manner.

### **II.2 Current Arrangements Within ECOWAS**

Only very few organized system of cross-border payments exist in ECOWAS sub-region. These can be broadly classified into cash transactions, multilateral clearing through the West African Monetary Agency (WAMA) formerly, the West African Clearing House (WACH) and transactions channeled through correspondent banks.

#### **II.2.1 Cash Transactions**

This is predominantly in use for cross-border transactions in the informal sector between neighbouring countries. In some cases, local currencies are obtained by exchanging into a third currency, usually the dollar. However, the use of cash, most often obscures the volume of trade that actually takes place in the informal sector due largely to the level of unrecorded transactions involved.

#### **II.2.2 The West African Clearing House (WACH) now West African Monetary Agency (WAMA)**

The establishment of the West African Clearing House (WACH), as part of initiatives for the realization of the objectives of the ECOWAS Monetary Cooperation Programme by the Authorities of Heads of State and Government of ECOWAS in 1987, was the first attempt to establish a region-wide framework for

monetary co-operation in West Africa. It underscored the imperative of an efficient payments system in fostering intra-regional trade and financial flows in a region characterized by multiplicity of currencies. WACH was charged with the promotion of the use of the national currencies of the member states for intra-community financial and commercial transactions with a view to economizing on the use of scarce convertible currencies for such transactions. WACH operated successfully up to a point when most ECOWAS countries undertook structural reforms, abolished exchange controls and adopted market-based exchange regimes which facilitated easy access to foreign exchange by market participants. Thereafter, the WACH witnessed steady decline in transactions channeled through its clearing mechanism due largely to delays in effecting settlement. WACH was subsequently transformed into the West African Monetary Agency (WAMA) in 1995 with an expanded mandate to move the monetary cooperation programme of the sub-region.

#### **II.2.3 Bilateral Clearing Through Correspondent Banks**

Cross-border payments in the sub-region were sometimes effected through the use of correspondent banks located in other countries, usually in either Europe or America. This triangular correspondent banking

relationship is not only expensive but also takes time for transactions to be completed.

### **III. CRITICAL ISSUES IN PAYMENTS SYSTEM DEVELOPMENT**

#### **III.1 Economic Issues**

In a market economy, central bank executes monetary policy and controls credit through open market operations with the purpose of influencing the level of liquidity. If banks are short of liquidity to meet their daily inter-bank settlement obligations, they can acquire funds through operations in the inter-bank market or alternatively, seek accommodation from the central bank. Thus, efficient payments system facilitates execution of monetary policy and ensures the stability of the financial system.

#### **III.2 Institutional Issues**

All the stakeholders, including banks which are direct members of the payments, clearing and settlement system organizations need to be identified and their level of involvement in the national payments system determined. The stakeholders are normally the banking industry, the end-users of the payments system, service providers such as, the post office, retailers, credit-card operators as well as the regulatory bodies, and bankers associations. All the relevant payments associations need to be identified; their existing and future roles clearly specified.

#### **III.3 Legal Issues**

The legal framework in most countries is often outdated and does not conform with modern payments system. Most often, transactions are negotiated and concluded based on the confidence the contracting parties have for each other and on the expectation that promises will be honoured. Where these basic principles fail to hold, a framework to enforce compliance must be invoked. A legal framework for the conduct of payments system can therefore contribute significantly to the certainty of payments and help to minimize, to some extent, risks inherent payments/settlement process.

#### **III.4 Technology Issues**

Over the years, there has been a paradigm shift, towards electronic payments instruments. Even today's paper based systems, such as the cheque system, are heavily supported by electronic transfer systems which introduce new risks that have to be managed.

#### **III.5 Risk Issues**

Risks and existing risk management measures need to be identified. Risks, such as systemic risk, settlement, liquidity, credit and operational risks are generally those that occur in inter-bank payments settlement.

Most often, the extent of exposure within the payments

system is unknown to the central bank, neither do the individual banks know what their intra-day positions are. That information usually only becomes available at the time of final settlement, which more often than not, takes place the following day. As a result, banks scurry around for funds to cover their exposure. This situation creates avenue for systemic risk and makes the position of the central bank untenable.

But payments system risks do not only occur at this level, risks also exist within the banks themselves, and also at user-levels. An increasing risk problem being experienced is that of fraud and forgery. To mitigate these problems, risk control measures such as prefunding, collateral, limits, caps and loss-sharing schemes need to be discussed, understood and implemented.

At the inter-bank level, risk control measures require that the build-up of exposures between banks be monitored on an intra-day basis. Real-time settlement information should be available to individual banks. The total picture of exposures should be available to the central bank throughout the day.

Exceptional/crisis management is another area which falls squarely under the risk domain. The central bank and banks need to ensure that contingency plans are in place, in the rare event that

the financial system is under stress and a systemic crisis is imminent. Key personnel who know what to do to alleviate the crisis need to be identified and trained.

### **III.6 Environmental Issues**

These issues will affect the physical infrastructure required for any payments system. These include communication and transportation systems as well as the mail or postal services. The existing and future geographical spread of commerce is equally important to the growth of banking and payments services on a regional basis. An assessment of the impact of the existing facilities and future developments within the region on the payments system needs to be made.

### **III.7 Market Dynamics**

In some countries, especially in developed market economies, non-banks, such as large retail corporations are increasingly involved in payments system services. Facilities such as, the notice of final payment and information required for reconciliation purposes, as well as other value added services are often demanded by customers at minimum costs. These developments need to be recognized and built into the formal payments system arrangement.

### **III.8 International Considerations**

Developments in international payments system are of important consideration. As international trade increases, foreign investors and trading partners now place high premium to having internationally acceptable payments, clearing and settlement systems in countries where they invest their funds. New instruments such as smart cards, electronic and internet banking being introduced to facilitate payments and settlement of transactions need to be taken into account. Payments system development therefore, must meet the necessary standards of efficiency and reliability in order to become acceptable to international users.

This is an important consideration in the development of the WAMZ payments system in order to ensure that individual countries apply the same standards in the development of national payments system.

### **III.9 Common Language**

One of the most important approaches to payments system development is to develop a common language for all users. Very often, the terminology employed may mean different things to different people especially when different industries/countries become involved. The development of a common language would

eliminate unnecessary debate on the exact meaning of terminologies used in clearing and settlement systems.

### **III.10 Collaboration**

It is important to involve all the stakeholders, such as, the users and providers of payments services during the development process. Inter-bank co-operation is essential to the provision of infrastructure and delivery systems. Owing to its neutrality, objectivity and its concern for the financial system, the central bank should play a key role in providing direction and leadership to the reform process. It is expected that the central bank promotes a spirit of collaboration and co-operation amongst the stakeholders, thereby, building consensus on the way forward to payments systems reform.

## **IV. KEY INSTITUTIONS IN PAYMENTS SYSTEM ARRANGEMENTS**

In most payments system arrangements, the key players include the following institutions:

- i) central bank;
- ii) banks;
- iii) bankers' associations;
- iv) national payments association;
- v) customer payments service providers;
- vi) payments clearing houses;
- vii) payments system operators; and
- Viii) financial exchanges and depositories.

#### **IV.1 The Central Bank**

The central bank is responsible for ensuring that a country's monetary and financial/banking system as a whole is sound; meets the requirement of the community; keeps abreast of developments in international finance and ensures that the interests of all stakeholders are served by the system. It ensures that a legal basis exists with appropriate risk management procedures and enforces the agreed principles, policies and practices. It leads in the setting up of the required infrastructure for efficient payments/settlements system.

#### **IV.2 Banks**

Banks are gateways to the clearing and settlement facilities. They have settlement accounts with the central bank and participate in clearing and settlement as well as act as both principals and intermediaries to ensure payments mandate. Banks are responsible for managing the risks they introduce into the system and ensuring that they have enough liquidity for their own inter-bank settlement, and that the processing cycle is completed in accordance with the customers' requests.

Banks in the zone are now assuming greater responsibility in clearing and settlement. For example, the Nigerian Inter-Bank Settlement System (NIBSS) is established with the active

participation of the commercial banks for large value payments. What is needed therefore, is to ensure that banks remain proactive and cooperative in the establishment of a common payments system infrastructure.

#### **IV.3 National Payments Associations**

These associations usually consist of banks including the central bank. They normally determine and enforce policy, grant membership to participants in the system. They also ensure the privacy, confidentiality and authenticity of all payment transactions and ensure that payments system mechanisms comply with generally agreed national/international standards and that infrastructure is in place to provide the desired services. They define codes of conduct, publish, implement and act for the prevention of fraud and money laundering. Ghana is the only country in the zone that has National Payments Council.

#### **IV.4 Payments Clearing Houses**

This is a formal arrangement where participants exchange payments instructions. It processes, clears, and issues payments/settlement instructions, which are transmitted to the central bank.

All the member countries of the WAMZ have payment-

clearing houses in one form or the other. Their operations are however, not separate from the mainstream operations of the central bank. The trend is now towards private ownership, which is expected to operate on cost-recovery basis. An example of a private-owned arrangement is the Nigerian Inter Bank Settlement System (NIBSS) which is devoted to large value payments.

#### **IV.5 Payments Processing Infrastructure Operators**

These operators provide infrastructure components such as systems, networks and facilities. They ensure that the agreed service level is maintained and operational information available, and the prescribed controls and security measures are enforced. These services are yet to be established in the zone.

#### **IV.6 Bankers' Association**

This is a collective body that represents the banking industry. The association exists in all the countries of the zone and is involved in decisions affecting the payments system. Proposals are under way in the sub-region to set up an inter-bank payments system to be known as West African Inter-Bank Payments System (WAIPS) by the West African Bankers' Association.

## V. RISKS ASSOCIATED WITH PAYMENTS SYSTEM

Risk, in this instance, is related to the chance or probability of suffering a loss or failure to settle. Payments systems face three types of risks. These are:

- (i) **Liquidity risk** - is the probability that timely settlement of a payment will not occur due to insufficient funds.
- (ii) **Credit risk** - is the probability that a payment will not be honoured or settled due to insolvency.
- (iii) **Systemic Risk** - is the probability that settlement failure of one or more participants in the payments system will lead to liquidity or insolvency problems for other participants, causing settlement failures on such large scale as to threaten the payments system.

These risks can be managed in a variety of ways. These include:

- Availability of funds to the recipient may be delayed until inter-bank settlement has taken place. The clearing procedure in the sub-region requires that the paying bank takes decision on the fate of cheques before the proceeds are released to the beneficiary. This procedure is

however, responsible for the long clearing cycles, ranging from 3 days to more than 15 days in the sub-region.

- Membership of the payments system may be restricted to those banks, which might be considered "big" and therefore, least expected to fail, although the definition of such "big" banks can be problematic and could entail some definition of membership criteria. Nigeria operates a two-tier system whereby non-members of the clearinghouse can clear payments through qualified banks. In most countries of the zone with exception of Nigeria, only the rural and community banks use the services of commercial banks to clear.

- Caps or limits may be placed on the total liabilities that a participant can incur within a period. This may be calculated on either bilateral or multilateral basis.

- Surviving members in a clearing system may be made to share the loss or meet the liquidity shortfall of a defaulting member according to an agreed formula. Generally, the central banks in the zone implicitly guarantee settlement of inter-bank clearing for a period of time until the bank is suspended from clearing if it is unable to meet its liabilities. Banks, which become problematic could be removed from the clearinghouse.

- Collaterals could be provided as part of membership requirements, which could be utilized to facilitate settlement in case of defaults. Such collaterals could be highly liquid assets in the form of government or central bank securities held in a depository. Apart from Nigeria, where the banks pledge their treasure bills which are held at the central bank for use in the settlement of inter bank liabilities in the event of default, there is no organized collateral to automatically support clearing liabilities in the sub-region.

- Reducing time lags for settlement can greatly reduce financial risks. This could be by clearing and settling the inter bank settlement arrangements several times a day and introduction of real time gross settlement system which ensures intra-day finality and precludes accumulation of unsettled balances and the associated risks;

- The laws governing certain aspects of the payments system should be reviewed and updated to encourage utilization of non-cash instruments.

## VI. CHALLENGES AND PROSPECTS OF PAYMENTS SYSTEM DEVELOPMENTS

Within the past few years, there has been series of activities aimed at improving the payments systems within the countries of the zone. Some of these actions

being taken are worth mentioning.

(i) New products are being introduced in some countries to offer a range of choice to users. A high value payment system, the Nigerian Inter Bank Settlement System (NIBSS) has been introduced in Nigeria, while preloaded smart cards are in use in Ghana, Guinea and Nigeria. The development of an automated clearing system is at advance stage in Nigeria, while a clearing house in Ghana processes MICR cheques automatically. ATMs are now spreading in major cities and urban centers in most countries, while some banks are connected to SWIFT for both international and domestic transfers. Plans are at advanced stages to set up Electronic Payments terminals in Ghana and Guinea to facilitate point of sale payments.

(ii) There is a marked improvement in banking services in the zone within the past few years. The licensing of new banks and weeding off of non-liquid ones in Ghana, Guinea and Nigeria has brought competition in banking operations, leading to marked improvement in services. The clearing cycles for cheques have also been reduced. A large proportion of cheques receive value within four days of presentation.

iii) Telecommunication infrastructure has also seen major improvement in Ghana, Guinea and Nigeria. The ECOWAS

Intercom Project is facilitating communication in this direction. Ghana and Nigeria are at advanced stages in their plans to introduce real time gross settlement systems.

Key challenges are how to effectively manage these new developments and ensure that they continue to add value to payments system infrastructure within the sub-region.

## VII. CONCLUSION

The existence of an efficient payments system is significant to the smooth functioning of the financial system. Each member country of the WAMZ has a unique set of payments mechanisms, that is, instruments, procedures and regulations. What is required in the development of WAMZ payments system is a thorough understanding of the existing payments system arrangements and related conditions within the countries involved. This apart, detailed understanding of the needs of both the current and future users of the payments system is necessary. There is the need to develop a long-term strategy and framework through discussions and consultations with the banking sector and other stakeholders. Similarly, it is essential that the necessary short-term improvements to the payments system are consistent with the long term vision of the Zone.

Payments system development should facilitate implementation of monetary policy so as to ensure sound and stable financial markets. It should provide a robust infrastructure, one that will support different services under all conditions and must take the international perspective into consideration. Above all, it should enable the system providers and regulators manage associated risks in timely and efficient manner.

# "NEW ISSUES" FOR NEGOTIATION UNDER THE WORLD TRADE ORGANISATION (WTO) AND THE IMPLICATIONS FOR DEVELOPING COUNTRIES



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## 1.0. SECTION I

### 1.1 INTRODUCTION

The "New Issues" otherwise known as the Singapore Issues, namely Trade and Investment, Competition Policy, Transparency in Government Procurement and Trade Facilitation became very prominent negotiation issues on the World Trade Organization (WTO) agenda during the WTO first Ministerial Conference in Singapore in 1996. Prior to this, Trade and Investment, and Competition policy had both featured in the past trade discussions. They were negotiated under the failed International Trade Organization (ITO) 1948, in Havana, Cuba. There was also a plurilateral agreement negotiated on Government Procurement in the Tokyo Round, 1976. With the establishment of the WTO in 1995, developed countries began to advocate for the negotiation of additional rules

on these four issues.

The rationale for pushing for the inclusion of "New Issues" by developed countries is to secure foreign investments and ensure free and unrestricted market access through application of the core principles of the GATT namely, National Treatment and Most Favoured Nation status. National Treatment implies non-discrimination in provision of equal opportunities for foreign and local investors in the domestic market, while Most Favoured Nation (MFN), implies same treatment extended to third member state to be extended to all. There should also be reciprocity. The developing countries perceived that given their relatively disadvantaged position in global trade and capacity for investment, the immediate negotiation on the New Issues would further worsen their position. They were therefore, unprepared to enter into negotiations on these issues.

After arguments were made for and against the inclusion of the New Issues for negotiation, the Singapore Ministerial Conference agreed to examine the relationships between trade and investment, conduct a study on transparency in government procurement and look at how

trade procedure could be simplified. Given the high visibility of the developed countries and the reluctance of the developing countries to give in to negotiations on these issues, it was agreed at the 4<sup>th</sup> Ministerial Conference held in Doha, Qatar, 2001 that only if an "explicit consensus" was reached at the 5<sup>th</sup> Ministerial Conference would negotiations on the Singapore Issues begin.

This paper has chosen for analytical purposes, to unbundle the Singapore Issues and address each separately with a view to highlighting the likely positive and negative implications of multilateral rules on these issues under the auspices of the WTO, for the developing countries in general and Nigeria in particular. Apart from this introduction, the rest of the paper is organized into four sections. Section II discusses the composition and evaluation of the new issues, while Section III focuses on the likely implications of the outcome of any negotiated multilateral rules on the New Issues. Section IV examines the outcome of the Doha and Cancun Ministerial conferences and the attempts to reach compromise. Section V contains concluding remarks and recommendations.

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## 2.0 SECTION II

### 2.1. Composition and Evaluation of New Issues in WTO

#### a) Trade and Investment:

Foreign loans, Portfolio Investment and Foreign Direct Investment (FDI) accruing to a country are issues under Investment policy. The aim of the proponents is to introduce new rules that would enable foreign investors have the same right as those in the host countries. The argument identifies the potential contribution external finance can make in raising the level of investment necessary to achieve faster economic growth including the promotion of trade and trade related infrastructure. FDI in particular has been identified to assist in technology transfer to developing countries. Furthermore, the need for developing countries to meet essential importation requires foreign exchange which may be in short supply from domestic savings.

The interest in investment was further heightened with the growth in FDI, operations of foreign affiliates, and bilateral and plurilateral agreements on investment. The developed countries argued that international regulation would offer a secure, stable, and predictable environment as well as curtail the use of investment subsidies or

regulatory exemptions in the "bidding wars" to attract FDI.

The opposition to the introduction of multilateral rules on investment is largely from the developing countries who cannot easily see the rationale for the involvement of the WTO on issues relating to investment. This is particularly so since the WTO agreement already exists for Trade Related Investment Measures (TRIMS). Furthermore, they considered negotiations on this issue as premature, pointing to a lack of clarity on the substance and implications of such agreement. As a compromise, the Doha Ministerial declaration laid down the mandate for the Working Group on the Relationship between Trade and Investment to clarify seven issues namely; scope and definition, transparency, non-discrimination, development provisions, exceptions and balance of payments consultation; and settlement of dispute between members, and modalities for pre-establishment commitments.

#### b) Competition

Competition policy focuses on effects of domestic competition laws along with the enforcement process and advocates for standardization to ensure unrestricted market access through the WTO. Developed countries proposed the principle of transparency, non-discrimination and procedural

fairness. They also argued that a multilateral framework of cross-border regulations would enhance the contribution of competition to the development of international trade. Furthermore, they added that competition promotes economic efficiency by restraining price fixing by private cartels and monopolies.

Majority of developing countries however, maintained that worldwide lowering of market access barrier would leave their economies exposed to anti-competitive practices from abroad that would be detrimental to their industrial development.

Although the Doha Declaration recognized that multilateral framework could enhance the contribution of competition policy to international trade and development, a Working Group was also established on this issue. It is to define the scope and nature of compliance mechanism, possible elements of progressivity and flexibility that might be introduced should there be an agreement. It is also to define and clarify hard-core cartel rules; other core principles of competition policy and likely provisions for special and differential treatment as well as possible provisions on technical assistance.

#### c) Government Procurement

Government procurement has remained at the discretion of individual governments. As a new

issue, the core of transparency in government procurement is to introduce the Most Favoured Nation (MFN) and National treatment. The two would ensure that foreign suppliers are not discriminated against and in addition, they are given the same treatment as local suppliers.

Developed countries argued that it would expand international trade as greater knowledge of contracting parties on suppliers would widen the range of choice in international circles. They also argued that it would reduce cost, attract better value for money and in addition encourage economic reforms in public finance management. Furthermore, they maintained that the welfare of the poor might be compromised if lower prices of goods and services are not encouraged since they depend on health, education and social services from the state.

It has even been argued that the implementation of this is an essential part of economic reform for developing countries in pursuit of sound macroeconomic policies and stabilization measures. While developing countries generally support the need for transparency in government procurement policy, they appear not to be in a hurry entering into any agreement, preferring instead to be clear about the implications of such agreement. This is especially so because they lack sufficient skills to properly participate in the

negotiating process. There is the concern about the burdensome obligations and limitations the agreement could place on the use of procurement as a tool for development.

#### d) Trade Facilitation

Trade facilitation is described by WTO as the simplification and harmonization of international trade procedures covering the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for movement of goods in international trade. These activities relate to import and export procedures, transport formalities and payments, insurance and other financial requirements.

Developed countries believe that there are substantial gains to national and world economy if the cost of facilitation is reduced and that this can be achieved through international regulations. An agreement under WTO may drive customs reform and sustain political commitment. They therefore, advocate for transparency of relevant domestic regulations and procedures and that practices should be consistent, predictable and non-discriminatory.

Developing countries have raised the issue of limited implementation capacities and questioned the need for binding obligations and whether the

benefits of an agreement would exceed the cost. They also advocated national and regional efforts at trade facilitation rather than binding and harmonized multilateral rules.

The Doha Declaration enjoined the Working Group to review some "core" agenda items namely on trade facilitation needs and priorities of members, particularly the developing countries, with a view to determining their continuing relevance or need for redesign or regulatory impact assessment in the area of technical assistance and capacity building needs.

### 3.0. SECTION III

#### LIKELY IMPLICATIONS OF AGREEMENTS ON THE NEW ISSUES FOR DEVELOPING COUNTRIES INCLUDING NIGERIA

Although the reasoning behind the proposals on the new issues appear plausible, the overall cost seems to outweigh the benefit as far as developing countries are concerned. To Nigeria in particular, the whole negotiation of the issues under a single undertaking will worsen economic situation of the country as the competition policy for instance will render the Organization of Petroleum Exporting Countries (OPEC) cartel ineffective with serious adverse consequences. Moreover, multilateral rules on

these issues will deny the country the freedom and flexibility to put in place and enforce regulations which can improve their competitiveness, rate of industrialization and development. In what follows, an attempt is made to highlight the positive and negative implications of new multilateral rules on the "New Issues".

### 3.1. Unfavourable Implications of "New Issues" for Developing Countries

#### i) Erosion of protection for Domestic Industries

The introduction of the principles of MFN and National Treatment under government procurement as well as competition policy would erode the protection enjoyed by domestic companies. Furthermore, unrestricted entry of Multinational Companies (MNCs) would undermine local companies that lack the capacity to be competitive. The result is deindustrialization and excessive influence on the host economy.

#### ii) Unfair Competition for Local Producers and Foreign Domination of Product Market

Increased market access of cheaper, superior quality goods from abroad and the ability to obtain cheaper raw materials through transfer pricing for local manufacture of goods would

result in loss of patronage of the local counterpart. This would be inevitable since local producers lack the production capacity and sophisticated technology to compete with MNCs.

#### iii) Loss of Discretion in the Selection of Supplier of Goods and Services

Transparency in government procurement implies that the entire process of bidding and the eventual selection of a supplier would be open. Governments of developing countries would have lost their discretion to select domestic suppliers aimed at strategic development of certain sectors and foreign suppliers who are political allies. In addition, ability to use government procurement estimated at US\$50 billion a year in Africa for development would have been lost.

#### iv) Increase Outflow of Foreign Exchange

By the very nature of certain forms of external financing such as portfolio investment and short-term capital flow, they are highly volatile. They can be withdrawn instantly at the perception of risk in the host country. In addition, the growth in world wide financial derivatives makes it possible to borrow against plant and machineries. Therefore foreign exchange drain can occur from a host economy through repatriation of profit, interest and dividends.

#### V) Deterioration in Balance of Payments Position

Adoption of rules on competition policy, government procurement, and subjecting investment to multilateral rule will result in increased demand for foreign goods and services with the attendant negative consequences on the nation's balance of payments.

#### vi) Trade Sanctions for Non-Compliance with WTO Rules

The WTO Dispute Settlement System is among the most sophisticated and successful in any international legal regime. It is genuinely independent and the tools it uses include sanctions against non-compliance, compulsory jurisdiction, and effective legal obligation of rulings. Compensation or retaliation are also used against the offending party.

#### vii) Lack of Capacity to Conform with Requirements For Trade Facilitation

Trade facilitation involves overhauling the customs and automation of the export and import procedures. These have significant cost implications arising from acquisition of the necessary machineries and in the training of personnel. These may be out of reach for most developing countries.

viii) Distortion of Development Plans

MNCs are known to operate in developed areas of a host country. Factors of production especially human capital tend to concentrate around their presence. This results in the distortion of even development plans of country and causes rural urban migration. A multilateral agreement on investment could limit the capacity of host government to implement local laws that can resolve such problem.

ix) Environmental Degradation

Developed countries often site companies that create environmental pollution in countries with less strict or no environmental laws. Pollution from their activities would result in environmental degradation, loss of source of livelihood and extinction of the bio diversity of the host country.

**3.2. Favourable Effects of “New Issues” to Developing Countries**

i) Low Commodity prices with tendency to enhance Standard of living

Multilateral rules on Competition and Transparency in Government Procurement may bring about healthy competition between foreign and domestic companies. As a result, better and cheaper goods/services can be available

through efficient allocation of resources. The elimination of cartels through trade facilitation may also reduce prices significantly.

ii) High Quality of Products

The stiff competition resulting from increased market access and non-discrimination against foreign firms could lead to improvement in the quality of goods and services offered by local producers in order to remain competitive.

iii) Reduction of Waste in Government Expenditure

In this regard, transparency in government procurement would increase the choice of suppliers as well as curb excessive quotation by contractors. This would drastically reduce the expenditure of governments of developing countries and improve government's decision making process.

iv) Short trade Cycle and Reduction in Cost

Trade facilitation will ensure standardization of customs procedure, and result in predictability of the import and export processes. The automation of this aforementioned process will shorten trade cycles and eliminate demurrage and associated costs.

V) Generation of Demand Locally

Multilateral rules on Investment and competition would attract the presence of MNCs in the domestic economy. The activities of MNCs will increase the demand for the output of local producers that can serve as input for the MNCs. This will increase revenue and profit to local producers, generate local employment and accelerate the pace of economic development.

vi) Improve Access to Export Market

Rules on the New Issues will increase the propensity of local industry to export due to the presence of export oriented MNCs. There will be improved shipping and logistic infrastructure and knowledge transfer that can facilitate export.

**4.0. SECTION IV**

**4.1. The Doha and Cancun Ministerial Conferences as avenues for resolution of the “New Issues”**

4.1.1. Doha Ministerial Conference

The WTO's 4<sup>th</sup> Ministerial Conference, which was held in Doha, Qatar November 2001, produced the Doha Ministerial Declaration. The Ministers agreed that a multilateral framework could enhance the contribution of competition policy to international

trade and development. On Trade and Investment, they agreed that a multilateral framework could secure transparent, stable and predictable conditions for long term cross-border investment, and particularly foreign direct investment which would lead to expansion of trade. For trade facilitation, they accepted a case for further expediting the movement, release and clearance of goods, including goods in transit. Similarly they appreciated the case for multilateral regulation of transparency on government procurement.

On all the four issues, the WTO members recognized the need for technical assistance to enhance capacity building for developing and least developing countries. However, in view of the uncertainty and the lack of clarity on the possible implications of multilateral rules on the issues, the Ministers agreed that negotiations would only take place after the Cancun Ministerial if they reach "explicit consensus" on the need for that. They however, established working groups to determine the implications of these issues.

It is important to recall that as a result of the collapse of the Seattle Ministerial Conference in Seattle, the United States of America in 1999, the Doha Conference agenda was designed to calm the opposing parties on the "New Issues". It was apparent that developing countries were skeptical about the new issues, and

that emphasis should be on the implementation of existing trade rules to ensure development, particularly of the developing countries whose contribution to global trade remains marginal. The conference therefore, adopted the Doha Development Agenda (DDA), explicitly contained in paragraph 16 of the Doha declaration, promising the immediate growth prospect and development gains for developing countries.

The Doha mandate specifies that no sector, including the removal of agricultural and non-agricultural barriers, will be excluded from negotiation. Developed countries were tasked with the removal of export subsidies to allow competitive agricultural product from developing countries.

The agenda also took into account the special needs of developing countries through less than full reciprocity in reduction commitments in accordance to the provision of GATT 1994.

#### 4.2. Cancun Ministerial Conference

The Cancun Ministerial Conference, which was held in September 2003, was mandated from Doha to agree on modalities for negotiations on the "Singapore Issues" and focus on the development agenda for developing countries.

At the Ministerial Conference, developed countries opined that adequate studies had been undertaken for negotiations to commence, while the developing countries thought otherwise. The developing countries argued that they are competing with unequal partners and that they would be further marginalized. The developing countries held to their views that "a no deal is better than a bad deal". The failure of agreement on this particular issue led to the collapse of talks during the conference.

The draft Ministerial text expressed diverse views on its adequacy, given the concerns and the focus of the Doha Development Agenda. While the developed countries accepted and were satisfied with the draft, the developing countries expressed dissatisfaction with the absence of a sufficiently well defined procedure for removal of domestic support, ensuring market access through the removal of barriers and clear commitment on gradual elimination of export subsidy. The draft however, explicitly identified measures for special and differential treatment for developing countries on tariff reduction for specific strategic products.

Despite the focus of the Doha Development Agenda (DDA) and the long standing demand by developing countries to address the systematic

imbalance in the entire WTO Agreements, the draft text on development issues fell short of the expectation of developing countries. Specifically, the implementation related concern and the special and differential provisions (S and D) were not sufficiently addressed.

Since most developing countries face similar capacity and institutional problems, Nigeria took the same position taken by this group on most issues, especially the new issues.

## **SECTION V**

### **5.1. Conclusion and Recommendation**

New issues under WTO remain highly controversial. Consequently, reaching new agreements has become difficult as developing countries are skeptical of the benefits of such agreements for their well-being. For developing countries and Nigeria in particular, the New Issues pose further threat to their low capacity and institutional framework. Developing countries have expressed fear on the decision making process of WTO which they labeled as undemocratic and was responsible for their being systematically sidelined. They express anxiety on the implications of further liberalization of the markets and the potential of losing their sovereign rights in the name of world trade.

The agreements contained in the Doha declaration should however, be seen to be in favour of developing countries and they must take advantage of the opportunities they offer. The unfortunate development is that the developed economies have insisted on policies that promote export and support agricultural subsidy and limit market access for products from developing countries. In view of the intricacies of the "New Issues" this paper proposed the following recommendations on positions to be taken by the developing countries and Nigeria in particular.

- 1) Modalities for negotiation must be simple and clear to negotiators and policy makers. It must address the impediments to the fuller integration of the economies of the developing countries into the multilateral trading system.
- 2) Trade facilitation measures should ensure economic growth for developing countries and emphasis elimination of non-tariff barriers, moderation of tariff peaks and escalation against the goods of export interest to developing countries in order to improve their market access.
- 3) On non-agricultural trade access, emphasis must be placed on the need to protect infant industries during the early state of industrialization

through the specialized and differential treatment.

- 4) Developing Countries should develop their negotiating skills capacity as a group and collaborate with other developing countries to promote their common interest during multilateral negotiations.
- 5) Nigeria and developing countries should favour the scrapping of special safeguard used by developed countries to restrict agricultural export of the developing countries.
- 6) Negotiations on the New Issues on the basis of "single undertaking" should be discouraged by the developing countries and Nigeria should agree to negotiate those of the new issues that would not do serious damage to their own economies.

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# THE WEST AFRICAN GAS PIPELINE PROJECT: A VEHICLE FOR ECONOMIC INTEGRATION IN THE WEST AFRICAN SUB-REGION



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BY  
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The aim of this presentation is to highlight the various activities that have taken place in the attempt to efficiently utilize gas deposit in the sub-region and further reduce gas flaring in Nigeria.



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## INTRODUCTION

The West African Gas Pipeline (WAGP) project was conceived about eight years ago, by the Nigerian Government with a view to effectively utilize gas resources from the West Niger Delta oil fields. The project aims at transporting gas from the oil fields for delivery to power and industrial plants in the sub-region.

The supply of stable power is very essential for economic and social development of any country. This explains why Nigeria's neighbouring countries agreed to jointly invest in the WAGP. Even though the project has been long delayed, the intricacies of reaching agreements among countries with different political orientations demand that time and care should be taken to sensitize the various interest groups involved in a project of this magnitude.

Following this introduction, Section II of the paper discusses the objectives of the WAGP, while Section III presents details of the scope of work and the extent of project implementation. Section IV presents the potential benefits of the project and the paper is concluded in Section V.

## 2. OBJECTIVES OF THE WAGP

The West African Gas Pipeline project was initiated to supply gas to Nigeria's neighbours in the West African sub-region for use in their power generation and industrial plants. This would ultimately replace the liquid fuel oil or diesel currently in use for power generation in most countries in the West Coast. The specific objective of the project is to deliver gas to the Volta River Authority in Ghana for electricity generation, while the Societe Beninois de Gas of the Republic of Benin (SOBEGAS) and Societe Togolais de Gas (SOTOGAS) of

the Republic of Togo would buy part of the gas for use in their power and industrial plants. This would in effect help in reducing the cost of energy production and utilization among the gas customers of WAGP. The project would also help expand gas utilization in Nigeria, improve revenue from the gas resources and assist in reducing the emission of greenhouse gases into the atmosphere in the oil producing areas of the Niger Delta.

### 2.i Promoters of the Project

The West African Gas Pipeline project is being promoted by Nigeria through the NNPC and its joint venture partners, namely Chevron/Texaco Nigeria Limited (formerly Chevron Nigeria Limited) and Shell Petroleum Development Company Limited, which joined the project in 2000. These companies will supply gas on equal basis to the project. The other promoters of the project are SOBEGAS of the Republic of

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Benin, SOTOGAS of the Republic of Togo and the Volta River Authority of Ghana. These promoters have the support of their various governments. However, to guarantee the independence of the project, a company known as the West African Gas Pipeline Company (WAGPCO) that is separate and distinct from the individual corporate sponsors, was incorporated to operate as a private company. The ownership structure of WAGPCO is as follows:

Chevron/Texaco of Nigeria	36.7 per cent
NNPC of Nigeria	25.0 per cent
Shell Pet. Dev. Co. of Nigeria	18.0 per cent
Volta River Authority of Ghana	16.3 per cent
SOBEGAS of Benin Republic	2.0 per cent
SOTOGAS of Togo Republic	2.0 per cent

The project also enjoys the support of the ECOWAS Secretariat in that the ECOWAS institutions in the member states serve as the venue for meetings of the company.

### **3 SCOPE OF WORK AND PROJECT IMPLEMENTATION**

#### **3.i Required Pipeline Linkage**

The project requires extending the present Escravos-Lagos- Pipeline (ELP) system from Alagbado in Ogun State, Nigeria, to the Lagos Beach (near the border with Benin Republic) by laying a 30 inch diameter onshore pipeline over a distance of 57 kilometres. At the Lagos Beach, an 18,000-20,000 HP

compressor station will be built to step down the gas pressure. From the Lagos Beach, an 18 inch diameter offshore pipeline, 560 kilometres long, will be laid to Takoradi in Ghana. In Cotonu, Lome and Tema in Ghana, 12-inch diameter lateral pipelines and facilities will be built to deliver gas to reduction and metering stations onshore. The project will also require the laying of a 12 inch diameter by 84 kilometre long pipeline from Takoradi to Effasu in Ghana. According to Chevron/Texaco, the existing NNPC Escravos-Lagos Pipeline system would be technically audited and examined by an independent engineer to ascertain its quality, integrity and suitability for integration with the project.

#### **3.ii Project Costs**

According to Chevron/Texaco, the pre-development costs of the project was estimated at US\$60 million, while the supply and laying of pipelines up to Takoradi will cost US\$460 million. It was also estimated that with the possible extension of the pipeline to Effasu in the hinterland of Ghana would raise the cost to US\$530million. These costs would cover the purchase and laying of the pipelines.

#### **3.iii Volume of Gas Required**

The volume of gas required for the project was initially estimated at 210 million standard cubic feet per day (mmscf/d) and

would ultimately increase to 500 mmscf/d. Much of the gas, about 85 per cent of it, would be delivered to the Volta River Authority in Ghana for electricity generation, while the rest would be sold to SOBEGAS and SOTOGAS of Benin and Togo Republics, respectively.

#### **3.iv Treaties and Agreements Required for the Project**

The West African Gas Pipeline (WAGP) Treaty, the International Project Agreement (IPA) as well as the proposed enabling Legislations now before the States were intended to establish a critical framework to achieve harmonization of fiscal, regulatory and legal regimes for successful pipeline construction and to achieve the viability of the project in the long run. The WAGP would operate under international law as a single regional entity with administrative authority, but the States would exercise some control to regulate pipeline construction and operations. The WAGP treaty, the IPA and the Proposed Enabling Legislations were prepared, negotiated, amended and finalized after series of consultations and deliberations. These negotiations took place among the four Project States which are represented on the Project Implementation Committee (PIC), the Commercial Group and a wide range of stake holders, including Ministries of Finance, Foreign Affairs, and Justice as well as Tax Agencies. The Ministerial Steering

Committee comprising Energy/Petroleum Ministries of Benin, Ghana, Nigeria and Togo provided oversight functions.

### 3.v The Need for Fast tracking the Project Implementation

Due to real concerns among the States about gaps in energy supply, security and sustainability, as well as cooperation between the Member States and the Project Developer, the WAGP is being implemented on a fast-track basis. The milestones are as follows:

- The Preliminary Commercial Evaluation decision to move the project forward was taken in August 2002.
- The Treaty of WAGP was signed on 30th January, 2003 during the ECOWAS Summit in Dakar, Senegal, by the Presidents and Heads of States of the Member States.
- Engineering Surveys, Environmental Impact Assessment (EIA) Study and Front-End Engineering Design (FEED) started in September 2002 and were on-going.
- The first phase of Extensive Environmental Impact Assessment (E.I.A) and stakeholder consultation in all the four member countries have been completed. Public consultations on the E.I.A. were proactively pursued before the mandatory public hearings. The stakeholders

expected to be sensitized during the consultations were:

- Host communities, Non-Governmental Organizations, Public Agencies, Industry and Commerce Associations, Traditional and Local Government Leaders, Land Owners, National Canoe Fishermen Associations, the Navy and University communities.

The intent of these consultations and project information sharing was to ensure intimate local knowledge about situations that influence project design, construction and operations. This was expected to guarantee long term project sustainability. The Project developer, subject to achieving conditions for the Final Investment Decision (FID) by December, 2003, was working towards the commencement of the construction in early 2004 and achieving first gas delivery by mid 2005.

### 3.vi Further Obligations of the Project States

There is the urgent need to finalize the International Project Agreement through approvals by the four member states and sponsoring companies as well as other investors. The Enabling Legislation for the project should be submitted to the Parliaments of the four countries for speedy enactment into law. The enabling laws in the participating countries would give the company the legal

power to operate in the various countries. These are the steps that should be taken to actualize the dreams of the project by the middle of 2005.

## 4 **BENEFITS OF WAGP**

### 4.i The WAGP as a Vehicle for Economic Integration in West Africa

The WAGP has been described as an example of cooperation and harmonized partnership among countries in the West African sub-region. It is also a model of partnership between the private and public sector to enhance socio-economic development. According to the energy authorities of the sub-region, the WAGP and the West African Power Pool (WAPP) are NEPAD's priority projects for the West African sub-region. These projects signify inter-connection and sharing of resources to reduce costs, enhance economic growth, poverty alleviation and ensure environmental protection. However, it should be recognized that the NNPC joint venture partners are Nigerian companies and with the financial support of their parent companies, the WAGP has progressed this far.

One of the proofs that the participating countries desire the success of this project is the promptness with which enabling legislations were enacted by the member countries. Another real test of the cooperation and integration efforts will be seen in

the ability of West African entrepreneurs to pool resources and set up gas companies, power projects and raise finance for their projects. Such projects will open up larger markets for Nigeria's gas resources, and ensure stable and cheaper power generation sources for the countries willing to hook onto gas from Nigeria. The final test of cooperation will be seen when Nigerian indigenous companies make attempts to establish gas supply and delivery enterprises in the neighbouring countries and they are welcome.

4.ii Current State of ECOWAS Economies that the project will change

The ratio of contribution of the primary, secondary and tertiary sectors to the gross domestic products of all the WAGP member countries tilts more on the tertiary, primary and secondary sectors in that order, except for Nigeria where secondary production was predominant in 2001 and 2002. As illustrated for instance by the Report of the Multilateral Surveillance of UEMOA in July, 2001,

**Table 1**

Country	Primary		Secondary		Tertiary	
	2001	2002	2001	2002	2001	2002
Benin Republic	37.4	36.9	17.5	17.8	45.3	45.7
Togo Republic	27.9	27.7	26.9	27.1	44.7	44.3
Ghana	52.5	52.9	18.3	18.6	29.5	29.0
Nigeria	34.3	35.2	38.1	38.0	28.1	27.7

Source: UEMOA Report on Multilateral Surveillance, July, 2001

Which also indicates the overwhelming influence of the tertiary/service sectors, mostly dominated by the governments (see table 1). The table also shows that most of the output of the countries participating in the WAGP project are primary produce, with little value added. This largely accounts for the low prices that primary products/exports from these countries attract in both local and international markets. They are also characterized by the low employment generation levels and the heavy harvest losses. It has been argued that the inability of these countries to process their commodities, enhance the value of exports and earn more incomes arose from low level of industrialization owing largely to insufficient and unstable energy production, supply and distribution. The cooperation in gas delivery, power production, supply and utilization through the WAGP Project would create opportunities for establishing processing industries in these countries. These new processing firms, when established, will form the nucleus of secondary economic activities that would create employment for West African citizens.

4. iii Other Gains of the WAGP

According to the promoters, the project is a win-win for all stakeholders: the project countries, investors, sponsors, customers, host communities, the general public and ECOWAS as a

regional economic integration block. The other benefits of the project include the following:

(A) Accelerated regional economic growth, development and integration in West Africa. The use of the gas resource for fertilizer production in the West African sub-region, for instance, will open up avenues for large scale agricultural production which in turn will supply more raw materials to the processing industries. The increased supply of more stable and adequate kilowatt hours of electricity would then create opportunity for small and medium scale enterprises to be established. The new industries also would create employment for technicians in welding, tool fabrication, furniture works as well as grains milling.

(B) Provide clean, stable, secure and low cost energy solutions for the participating countries. This size of energy cost reduction (about \$500 to \$750 million) would arise from the lower expenditure on gas compared to that on liquid fuel oil/diesel and eliminate the smug emitted from the existing power generating systems in the non-gas user countries.

(C) Contribute tax revenues to the four project states estimated at about \$634 million over the project life. The expected tax revenue would be derived from the operating income of WAGP are estimated at \$348 million for Ghana as the primary user of the

gas; \$124 million to Benin Republic; \$52 million to the Republic of Togo and \$110 million to Nigeria, in addition to her earnings from the sale of the gas.

(D) Provide a platform for sharing and exchanging expertise/experience among project developer, international and local contractors, state agencies and consultants in natural gas transmission and pipeline system operations. Nigeria already has experience in gas supply and delivery contracts to local industries. This WAGP would also create investment opportunities for Gas Link Company Ltd and Shell Nigeria

Gas Ltd to expand their services to these countries as well as share experience in gas engineering consultancy.

The other benefits of WAGP include: Elimination of gas flaring in Nigeria and reduction of hazardous emissions in the Niger Delta area; provision of additional markets for Nigeria's gas, and increase in the revenue base of Nigeria.

## 5. CONCLUSION

The West African Gas Pipeline project has taken a long time in coming into being. It has taken almost eight years for the

discussions and agreements among countries, government agencies and companies to progress to the current level. It is hoped that the project implementation process would be accelerated by the member countries and companies that are involved in the project. This is the only way to show the seriousness the sub-regional governments attach to the project. As the project is expected to benefit various stakeholders in the sub-region, there is need to expedite actions on policies and decisions that would move the project towards the target date. One of such actions is the enactment by member parliaments of the enabling laws setting up the

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# DEREGULATION OF THE DOWNSTREAM SECTOR OF THE OIL INDUSTRY IN NIGERIA

## ANALYSIS OF SOME MAIN ISSUES



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**BY**  
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### 1.0 INTRODUCTION

**D**ecisively but quietly, the Federal Government pursued the implementation of one of the core elements of its National Economic empowerment and Development Strategy (NEEDS) by adopting deregulation in the downstream sector of the oil industry in Nigeria during the second half of 2003. The NEEDS objectives, among others, seek to achieve sustainable economic growth and development through budgeting and sectoral economic reforms. The private sector development agenda under the NEEDS include the privatization, liberalization and deregulation of the downstream petrol sector, etc. In contrast to the past strategy of announcing review of prices of petroleum products administratively, the government allowed the major oil companies and the independent marketers, in collaboration with the Federal Government's Petroleum Prod-

ucts Pricing Regulatory Committee (PPPRC), to decide on the prices of petroleum products from October 2003. The policy change was partly explained by experience in July, early in the second term of Obasanjo's administration, as well as refusal by oil importers and newly licensed refineries to accept the prevailing prices as uncompetitive and therefore unprofitable to enhance viability of their investments. In July when the Federal Government announced a new set of petroleum product prices, the National Labour Congress (NLC), concerned with the inevitable rise in cost of living declared industrial action, calling out workers on strike nationwide. There was widespread strike with considerable disruption and stoppage of economic activities. In addition, there was loss of lives when the law enforcement agencies attempted forcibly to break the strike. The Federal Government, the NLC, etc later met formally and discussed the issues involved in importation of petroleum products and pricing and agreed to reduced price increases for petroleum products, which were less than the initial price proposals announced by the government.

The objectives of the petroleum prices review were to resolve the prevailing problems of supply shortage of petroleum products characterized by long queues and time wastage at petrol filling stations, and the existence of black markets for the sale of petroleum in all towns and cities and to enhance private investment in the crude oil refinery. In many instances, the petroleum products that were not available at officially controlled price at the petroleum filling stations were being sold in jerry cans by fuel touts in the black market at prices that were sometimes 200 per cent higher than the controlled prices.

After the increase in the price of petroleum products in July, the major oil companies and independent marketers were given permission to import refined fuel products and sell at the controlled price of N34.00 per litre rather than rely on the Nigerian National Petroleum Company (NNPC) for their supply. In addition, the Federal Government claimed that it had licensed some private firms for additional refining of crude oil as supplement to production by the NNPC four refineries. These NNPC refineries for over a decade have been working considerably below their

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installed capacity and have not been able to meet 50 per cent of the demand for domestic fuel consumption owing largely to poor maintenance of the refineries. The importers and major oil companies' grudge was that the fixed fuel price was not attractive enough either for importation or for the investment in support of domestic refinery.

The NNPC remains the sole importer of refined product from the world market as a result of poor management of the national refineries. Delay in supply delivery and distribution usually lead to fuel shortages and price-hikes by marketers throughout the nation. Thus Nigeria, a major oil producer in the Global village has continued to suffer widespread shortage of petroleum products, significant man-hour losses at petrol filling stations and with adverse consequences on national output and social welfare.

By deregulating the downstream sector of the oil industry, the Federal Government expects that the major marketers would be willing to readily import petroleum products at a competitive price from the international oil market, and thus reduce/eliminate NNPC monopoly in this direction. It would also encourage private investment to establish private refineries that would compete with the NNPC refineries until these are eventually privatized.

The policy of deregulation in the downstream sector has received widespread acceptance by the public, including the NLC and the Manufacturers Association of Nigeria. The objection to the policy of deregulation of the Federal Government has been the emphasis on periodic upward price review in the face of low capacity utilisation of four national refineries. The policy of deregulation raises many issues concerning the prospects for sustained national economic development, income distribution and poverty reduction and how much reliance can we place on market forces without some regulations.

The objectives of this paper are to analyse some pertinent issues raised by the policy of deregulation adopted by the Federal Government in the downstream sector of the Oil Industry in Nigeria. The rest of the paper is presented in three parts in addition to the introduction in Part I. Part II reviews the profile and management of the oil sector in Nigeria while Part III analyses the main issues that are generated by deregulation of the downstream sector of the oil industry in Nigeria. Part IV contains a brief concluding remarks.

## **2.0 PROFILE AND MANAGEMENT OF THE OIL INDUSTRY IN NIGERIA**

For over three decades,

i.e. between 1973 when the Arab Israel war broke out in the Middle East and 2003, the status and relevance of Nigeria in the Global economy has been determined by the oil sector. At the beginning of the Arab-Israel war in 1973, the Arab nations suspended export of crude oil to Western Europe and the United States of America (USA) with consequent supply shortage and astronomical rise in the prices of petroleum products in the world oil market. Nigeria being a non-Arab, crude oil producer, was able to realise substantial foreign exchange from the export of crude oil. For a short period, Nigeria moved from the group of third world low-income countries to be ranked as one of the middle income countries. The oil sector since 1970s has become dominant displacing agricultural sector as the major sources of foreign exchange and government revenue. Before the advent of the oil boom, each of the four regions of the country in the early 1970s was unique for production of export cash commodities. The northern part of Nigeria earned foreign exchange from the export of groundnuts and oil, while the Western Region depended on cocoa and rubber. The southern part was well known for production of palm kernels and oil. However, the picture changed dramatically with the emergence of crude oil exports and the management of the proceeds. As an oil producing country, with substantial foreign exchange receipts for over thirty years,

issue of poverty with an ever growing number of the poor should not arise neither should an oil producing nation be experiencing widespread supply shortage of fuel products scarcity and poverty. The problem has been the management of the oil industry in general and the downstream sector in particular as well as prudent utilisation of the proceeds from the export of crude oil to enhance the achievement of sustainable economic growth and development. This section of the paper will highlight issues raised by the operation and management of the oil sector and the proceeds from the sales of crude oil in order to appreciate the prospects and problems posed by deregulation of the sector.

### **2.1 Operation and Management of the Oil Sector**

Four distinct activities can be identified in the operation of the oil sector in Nigeria and these can broadly be classified under upstream and downstream sectors of the oil industry. These are exploration for crude oil and production of crude oil which fall under the upstream sector of the oil industry. Refining of crude oil into petroleum products and the distribution of petroleum products for consumption are the major operational activities in the downstream sector. Details of these operational activities in the upper stream and

downstream sectors are reviewed below:-

#### **(a) Upstream Sector**

Exploration for crude oil deposits started in the 1950s with Shell Petroleum Development Company of Nigeria (a subsidiary of Royal Dutch Shell) leading the search. Other major oil producing companies are Chevron, Mobil, Agip, Elf, and some smaller companies. The oil companies work in partnership with the NNPC under joint venture arrangements entrenched in a Memorandum of Understanding (MOU). The MOU covers the rights and obligations of the parties. The NNPC holds a commanding share of about 60 per cent with respect to the cash calls for oil exploration and production as well as proportionate share of the crude oil produced. Meeting the cash calls demands of the joint venture operations has always been difficult and with considerable arrears.

Once crude oil deposits in commercial quantities are found, production for export and domestic petroleum refining would commence. Nigeria's crude oil is found with substantial gas deposits, and classified as light Brent in contrast to heavy or average. This implies low cost of refining and hence its high demand in the world oil market. Until recent years, much of the gas produced was flared owing to cost of transportation constraints

since gas cannot be transported from production site to the markets around the world in regular tankers, except through pipelines. But gas flaring has considerable costs, such as environmental pollution, loss of revenue that could have been realized directly from the sale of liquefied natural gas and indirectly from the by-products. In addition, it is argued that liquefied gas could provide a sustainable base for supply of stable electricity for the country. Writing on *Harnessing Nigeria and Petrochemicals Potentials for Economic Development*, Dr Rilwanu Lukman, former Presidential Adviser on Petroleum and Energy observed:

“Today, at the current rate of crude oil production of 2 million barrels per day (b/d) about 38 billion cubic feet per day (b c f d) of mainly associated gas is produced out of which 53% is flared. This represents about 25% of the world's total volume of gas flared and is enough to satisfy the power needs for the entire sub Saharan Africa! Infact Nigeria loses about US \$2.5 billion annually through gas flaring. What an irony for a country suffering from epileptic power supply resulting in paralyses of economic activities and social life daily (CBN 2001 p.101)”.

The market structure for crude oil production is the same as for the exploration with the NNPC and the major oil companies as partners under the joint venture agreements. The

issue is that existing market structure is like an oligopolistic producers working together collusively like a monopoly in the upstream sector of the oil industry in Nigeria. The Federal Government policy of deregulation is focused on the downstream sector of the industry. The question is why should the NNPC bear 60 percent of the cost of oil exploration and crude oil production in addition to dictating the price at which crude oil for domestic consumption are bought from the producers. It is doubtful if the arrangement in the upstream sector promotes efficiency in resource allocation, as the market structure deviates significantly from the perfect competitive model.

### **(b) Downstream Sector**

The main-operational activities in the downstream sector of the oil industry in Nigeria are refining of crude oil and distribution of petroleum products throughout the country. The major stakeholders are the NNPC, which manages the four refineries and the oil marketers. The refineries that are managed by the NNPC are:

- (i) Port Harcourt Old Refining Company with a production capacity of 60,000 barrels per day;
- (ii) Port Harcourt New Refining Company (150,000 barrels per day);
- (iii) Warri Refining and Petrochemical Company

(125,000 barrels per day)  
The plant is designed to jointly produce fuel and petrochemicals, such as polypropylene and carbon black; and

- (iv) Kaduna Refining and Petrochemical Company {100,000 barrels per day.

However, over the years, the utilization rate of installed capacity of the refineries had fallen considerable and the nation now meets her demand for petroleum products through importation. Despite the high amount of budgetary allocation for the rehabilitation or Turn Around Maintenance (TAM) of the refineries, the production capacity has remained low, while scarcity of petroleum products is the order of the day nationwide.

With 300,000 barrel per day earmarked for domestic refining and consumption, over 80 percent of the production of crude oil under the quota imposed by the Organization of Petroleum Exporting Countries (OPEC) is exported. Although crude oil export generates substantial revenue for Nigeria, the exportation of crude oil represents considerable loss of refined petroleum products that could be sold in the international oil market. These joint products include aviation fuel, gasoline for vehicle, kerosene and diesel. Others are lubricating oils, waxes, fuels for ships and asphalt (bitumen).

The policy of fixing the domestic price of petroleum products sourced from importation has further increased the treasury loss. The Federal Government through NNPC imports petroleum products at international prices and sells at a subsidized uniform price throughout the nation, thereby incurring additional bridging costs for the price uniformity nationwide. Of course, this anomaly partly results from the poor performance of the national refineries and the national question is why should the four national refineries not be working at full capacity, while the neighbouring West African countries are managing their petroleum refining plants efficiently with crude oil purchased from Nigeria. Of course, some Nigerian petroleum product importers now go to these countries for importation of refined petroleum products.

## **2.2 MANAGEMENT OF GOVERNMENT RECEIPTS FROM THE DOWNSTREAM SECTOR**

Low economic performance, resulting from poor economic management for most of the 1990s and early 21<sup>st</sup> century, has continued to paint a sad picture of Nigeria in the global community. The spectacle of an oil exporting nation suffering from widespread and prolonged scarcity of fuel products and the growing index of poverty despite



the foreign exchange receipts from the oil sector over the years continue to baffle the outside world. The conclusion is that poor management of the foreign exchange earnings over the year, lack of good governance and corruption have been the major causes. The national economic profile had been described as a paradox (World Bank 1996, p.) a paradox of a rich nation and poor people. The World Bank Report titled "Nigeria Poverty in the Midst of Plenty, the Challenges of Growth with Inclusion" observed that between 1973 and 1996 over US \$200 billion has been earned from the exploitation of the country's oil resources...Nigeria is rich in land, people, oil and natural gas resources. If more of this wealth had been channeled to the development of its people and to the productive use of its land and other resources, then Nigeria could have been poised for a promising future."

The issue of poor management of proceeds of the oil exports by the successive military and civilian administrations over the years continued to be the major cause of resistance by the citizens to increases in the prices of petroleum products. In 1993 when the then military administration wanted to increase the pump price of petroleum from 70kobo to N3.25 per litre, the Military Government had to promise the populace the establishment of a Petroleum Trust Fund (PTF) into which the revenue gains would be

paid for the provision of public goods and services that would improve social life of the lower income groups. The management of the PTF was not subject to accountability and transparency; and rather than enhance sound fiscal management, it became the source of extra budgetary and off-budget expenditure in the country.

With the oil sector contributing over 90 percent of foreign exchange earnings and 80 percent of government finances generally, the problem of unsustainable level of fiscal deficits, which the nation has been experiencing for some years may undermine the implementation of deregulation of the downstream sector. Fiscal deficits financed through borrowing from domestic sources would continue to have inflationary undertones and inevitably affect the rate of foreign exchange at which petroleum products are being imported. One implication is that the prices of petroleum product would be changing with the movements in the foreign exchange and inflation rates. The independent marketers would therefore demand continuous price review to the embarrassment of the government, while each price review for petroleum products would lead to a new round of inflation. Obviously, deregulation of importation of petroleum products without domestic production base can only lead the nation to a vicious circle of budget deficits, inflation, pump price

increases, and inevitably a growing number of the poor.

### **3.0 SOME ISSUES ARISING FROM THE DEREGULATION OF DOWNSTREAM SECTOR OF THE OIL INDUSTRY**

One of the core elements of the NEEDS programme of the Federal Government is the privatization and deregulation of the major state owned enterprises, such as NEPA, NITEL, NNPC involving downstream petroleum enterprise. The Federal Government has given priority to the implementation of deregulation of petroleum prices because of the reluctance of the major oil companies to invest in the establishment of new refineries after being granted licenses and failure by independent oil marketers to import fuel for distribution because of the price. It is argued that government control of prices of petroleum products does not enhance the attractiveness of the industry for private investment. Therefore, it could be argued that the permission to allow major oil companies and independent oil marketers to import fuel and sell at agreed competitive prices is in the right direction. However, there is question whether the privatization of the refineries should not have preceded price deregulation, which places more emphasis on supply stability of petroleum products, rather than development of domestic capacity. The

issue here is that of policy sequencing. In addition, the strategy of deregulation as presently being implemented raises some fundamental issues, such as the achievement of sustainable economic development, income distribution as the prices of petroleum products are determined by inflation rates, exchange rates and the supply of petroleum products, etc. The issue therefore is, whether sustainable economic development can be achieved through the deregulatory policy as presently conceived. This section of the paper will examine these issues.

### **3.1 The Deregulatory Option And Economic Development**

Conceptually, the Federal Government has not deregulated the downstream sector of the oil industry in Nigeria. It has only allowed an oligopoly of private firms to collusively determine the prices of petroleum products in order to induce them to supply imported products for the Nigerian market. Deregulation and privatization are elements of economic liberalization. Deregulation can be defined as removal of government control over entry, exit, prices and services quality. (Elliq 2001). In a deregulated market, competitors are free to offer or terminate service without first obtaining government permission. Prices are set through voluntary agreement between supplies and

customers. Deregulation moves a market towards the competitive model with respect to buyers and sellers. The issue is that the Federal Government should have first addressed the privatization of the four refineries, which would help to determine an average marginal cost of production and thus enhance the determination of a fair competitive price of petroleum products in Nigeria. With a market-determined foreign exchange rate and multiple supply sources for imported petroleum products, it would be difficult for the independent oil marketers to agree on price margins. Different countries have different costs given the type of crude oil being refined. In addition, the bridging cost of distribution of petroleum products throughout Nigeria cannot enhance the achievement of a uniform price in all towns and cities, except the Federal Government picks the bill. Of course the issue of national economic development must also be addressed. Independent oil marketers would savour the opportunity to import and sell at competitive prices in the interest of profit maximization. Price reviews will be demanded once the national currency depreciates and importers may refuse to import fuel products. Nigeria should find solution to the problem of the four refineries. For instance, the Federal Government can enter into agreement with four of the major oil companies with considerable international experience in oil production and

refining and turn these refineries to them. The Federal Government can sell its 60% shares under the Joint Venture agreement to the public given special preference to the residents of the oil producing areas in order to reduce or eliminate the present hostility to oil companies. Economic development will be enhanced when Nigeria starts export of refined fuel products rather than import for domestic consumption.

The issue of gas flaring in the upstream sector should be addressed urgently in order to enhance value added from the oil industry. The gas can be harnessed as supplement for supply of electricity in addition to other bye-products that will be realized in its refining. Domestic and industrial consumption and the prospects of exporting liquefied natural gas to the communities of west Africa under line our losses from the present practice of flaring gas that are found in conjunction with oil production.

### **3.2 Deregulation And Poverty Reduction**

The achievement of the International Development Goal (IDG) of halving severe incidence of poverty by 2015 will be difficult if the Federal Government continues with the present strategy of deregulation and fiscal management. The national GDP average growth of 3 percent for most of the late 1990s and early 21<sup>st</sup> century falls short of the

expected 7 percent envisaged under the IDG. The per capita income of Nigeria is yet to assume the peak it reached in 1980. The price of gasoline was only 20 kobo per litre in 1986 before the introduction of Structural Adjustment Programme (SAP) with economic liberation policies. Even at the present =N=40.00 per litre, the oil marketers are asking for a higher price in the light of Naira depreciation. The issue here is that inflation will accelerate in 2003 because of some policy measures already implemented while any attempt by Government to control the price will result in scarcity of petroleum products and the number of the poor will increase. Deregulation is desirable in many of our state owned enterprises public monopolies, only when the market is liberalized for competition to induce efficiency in resources allocation. For example, in the telecommunications industry with two major operators the services are available but unaffordable to many of our people. But with the entry of more operators to take advantage of the Nigerian market the prices of telecommunication services are coming down. Even then the issue of sustainable national development needs to be addressed by going further to encourage private investment with industrial linkage that enhances value added to the national output.

### **3.3 Deregulation and Government Revenue**

With the full deregulation of the downstream sector of the oil industry there may be concern about revenue loss to the Federation account when the four refineries are privatized. However this needs not be the case. The present situation of excessive funding of joint venture obligations puts a strain on government revenue. The issue here is that the privatization of the refineries should be aimed at deriving the full benefits of domestic production of crude oil and refining into petroleum products. The core investor should be international Oil Companies with considerable experience and exposure in crude oil refining. Government revenue would accrue from royalties, company income tax and dividends.

### **3.4 Conducive Environment for Private investment**

The issue of providing a conducive environment for deregulation to support private investment in the oil industry should be addressed. An environment of domestic macro economic instability and external shocks will neither promote stability of prices of petroleum products nor investment in the oil sector. The Federal Government should provide incentives to enhance private investment. In addition to the four refineries, the licensed firms should be encouraged to begin operations while the industry should be open for new entries.

## **4.0 CONCLUDING REMARKS**

The paper examined some main issues that are generated by the deregulation of the downstream sector of the oil industry in Nigeria. The policy of deregulation represents one of the core elements of the NEEDS programme of the Federal Government aimed at achieving sustainable economic growth and development through budgeting and sectoral economic reforms. The paper observed the policy measure of allowing importers of petroleum products and the regulatory agency of the government, i.e. the Petroleum Products Pricing Regulatory Committee to jointly decide on prices of Petroleum product falls short of the concept of deregulation. The Federal Government decision to deregulate the downstream sector of the oil industry was informed by the reluctance of licensed importers to bring in petroleum products and the licensed private firms to establish refineries as a result of the controlled prices of fuel products. While there is a consensus that deregulation of the downstream sector of the oil sector is desirable in the light of perennial petroleum products shortages and long hours wasted at petrol filling station, the issue of four national petroleum refineries that have been suffering low rate of utilization of installed capacity should have been given priority. The oil sector consists of four economic activities. These are

exploration for and production of crude oil, refining of crude oil into petroleum products and distribution of petroleum productions. The first two activities constitute the upstream sector while the last two belong to the downstream sector. Much of the gas produced with oil is flared though the production of liquefied natural gas could be used for generating sustainable electricity supply for the nation, as well as other by products that can be sold to earn foreign exchange. The NNPC in conjunction with six major oil companies, are prominent in the upstream sector working under joint venture agreements on the basis of 60:40 equity share with response to cash calls obligations and product sharing. In downstream sector, the NNPC, a state owned enterprise, manages the four refineries but these four refineries, have low rate of capacity utilization which has resulted in large scale import of petroleum products to meet domestic demand while much of the produced crude oil is exported. By relying on imported petroleum products the country spends considerable sums out of the receipts from export crude oil. It is also, observed that the management of the proceeds over the years has not enhanced sustainable national economic growth and development. Thus, Nigeria's profile in the Global Village is that of country rich in resources and having poor citizens. By liberalizing the importation of petroleum

products, while the privatization of the refineries is yet to be implemented, the achievement of a rapid rate of economic development cannot be realized and the prospects of actualizing the international Development Goal of halving severe poverty by 2015 are low except sound fiscal policy is implemented with transparency, accountability and discipline. The oil sector provides a good opportunity for achieving sustainable development through deregulation of the downstream by allowing private investment as the engine of growth while government provides the much-needed conducive environment.

**TABLE I**  
**NIGERIAN OIL AND GAS INDUSTRY**

<b>ACTIVITY</b>	<b>UPSTREAM SECTOR</b>	<b>STAKE HOLDERS</b>	<b>MARKET STRUCTURE</b>
<b>ONE</b>	EXPLORATION FOR CRUDE OIL	MAJOR OIL COMPANIES AND NNPC	OLIGOPOLISTIC
<b>TWO</b>	PRODUCTION OF CRUDE OIL	MAJOR OIL COMPANIES	OLIGOPOLISTIC
	<b>DOWNSTREAM SECTOR</b>	<b>STAKE HOLDERS</b>	<b>MARKET STRUCTURE</b>
<b>THREE</b>	REFINING OF PETROLEUM PRODUCTS	NNPC	STATE MONOPOLIES
<b>FOUR</b>	DISTRIBUTION OF PETROLEUM PRODUCTS	NNPC, MAJOR OIL COMPANIES AND INDEPENDENT MARKETERS	MONOPOLISTIC ARRANGEMENT

**TABLE II**  
**DOMESTIC FUEL PRICE MOVEMENTS**  
**1986-2003**

<b>YEAR</b>	<b>PETROL</b>	<b>DIESEL</b>	<b>KEROSENE</b>
Dec. 1985	20 kobo	11 kobo	10.5 kobo
Jan 1986	39.5 kobo	29.5 kobo	10.5 kobo
April 1988	42 kobo		15 kobo
1990	60 kobo	50 kobo	40 kobo
1991	70 kobo	50 kobo	50 kobo
1992	70 kobo	55 kobo	50 kobo
1993	N3.25	N3.00	N2.75
1994	N11.00	N9.00	N6.00
1999	N20.00	N19.00	N17.00
2000	N22.00	N19.00	N17.00
2001	N22.00	N19.00	N17.00
2002	N26.00	N26.00	N24.00
2003	N34.00		
2004	N41.5		

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## THE MILLENNIUM DEVELOPMENT GOALS (MDGs): PROSPECTS OF ATTAINMENT AND CHALLENGES FOR NIGERIA



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### INTRODUCTION

Poverty reduction over the years has been of great concern and challenge to every Government World over. There has been growing abject poverty in a world of growing material plenty. The Millennium Development Goals grew out of the various agreements and resolutions of world organizations in the past decade aimed at addressing the ever-growing poverty among the populace especially in developing countries.

At the Millennium Summit held in September 2000, in New York, United States of America, member countries of the United Nations (UN) made the following declaration: "we will spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty, to which more than a billion of them are currently subjected"<sup>1</sup>.

The Millennium Declaration has created a new focus for addressing the issue of poverty that undermines the International Community's Commitment to act with a renewed vigour or sense of urgency in achieving specific benchmark within a given time span. This has led to the formulation and acceptance of the Millennium Development Goals to be achieved by 2015.

Consequently, the debate has shifted from the mere scaling-up of aids, to the more complex issue of its quality and impact. Also of importance is the limited capacity of many developing countries to benefit from the trade and direct foreign investment that will make their economies grow. Thus, MDGs is both an opportunity and a challenge.

Nigeria and other developing countries, especially sub-Saharan African countries face the greatest challenge for meeting the Millennium Development Goals. Poverty has remained pervasive; growth is below the threshold of 7% per annum required for the MDGs. The private sector is weak, external debt remains unsustainable in almost all countries while social indicators generally point to low levels of

human development. In addition to the above, regional conflicts have inflicted grave consequences on the population of a number of Sub Saharan African Countries, thus casting political uncertainty over the region, and also, driving away foreign investment. The World Bank estimates indicate that in the context of recent economic development experience, it is possible to reach all MDGs by 2015, in all regions if there is a major scaling-up of efforts in Sub-Saharan Africa.

Nigeria, a country in Sub-Saharan Africa with current height poverty incidence remains an aberration given the country's abundant natural and human resources. The country is endowed with both material and human resource that disqualify her from the club of the poor. Thus, it is often said that "Nigeria is so rich not to be poor, but so poor not to be rich". The poor state of Nigeria is said to be emanating from past lack lustre political leadership, economic mismanagement, corruption, poor social infrastructures, ethnic conflicts, insecurity and other social vices.

It is in recognition of the above, that this paper is set to

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<sup>1</sup> United Nations Millennium Declaration, September, 2003



consider the goals of the Millennium Development strategies and examine the prospects and challenges for their attainment in Nigeria. The paper is, therefore, is divided into four parts. Following the introduction, Part II highlights the Goals, Targets and Indicators of the MDGs; Part III focuses on the Prospects and Challenges for the attainment of MDGs in Nigeria, while Part IV covers the Recommendations and Conclusion.

**PART II**

**1. THE MILLENNIUM DEVELOPMENT GOALS**

The Millennium Development Goals (MDGs), in a nutshell, refer to the International Community adopted specific targets for Poverty Reduction globally but specifically in developing countries by 2015. These development goals, which have been embraced by the World Bank, have now provided a focus for the Bank's development programmes.

The goals are put in place to address specific poverty indices, including the following:

- Goal I: Eradication of Extreme Poverty and Hunger
- Goal II: Achieve Universal Primary Education
- Goal III: Promote Gender Equality and Empowerment of Women.

- Goal IV: Reduce Child Mortality
- Goal V: Improve Maternal Health
- Goal VI: Combat HIV/AIDS, Malaria and Other Communicable diseases.
- Goal VII: Ensure Environmental Sustainability
- Goal VIII: Develop a Global Partnership for Development.

Each goal has its own target and a measure (indicator) of its achievement over time. The first six goals aim at reducing income-poverty and its social manifestations, including; poor health and inadequate educational opportunities. The seventh aims at ensuring environmental sustainability, while the eighth advocates genuine international partnerships for development; it also addresses, how developed countries could assist developing countries to attain the earlier stated seven MDGs.

For ease of execution, the millennium goals' declaration has a set of targets to be achieved in reducing poverty to a manageable level by 2015. They are as follows:

- Goal I:** Reducing by half between 1990 and 2015, the proportion of people whose income is less than US\$1 a day; and the proportion of people who suffer from hunger.

- Goal II:** Ensuring that by 2015, children everywhere, boys

and girls alike, will be able to complete a full course of primary schooling.

- Goal III:** Eliminating gender disparity in primary and secondary education preferably by 2005 and in all levels of education not later than 2015.

- Goal IV:** Reducing child mortality rate by between 1990 and 2015, i.e. the under-five mortality rate.

- Goal V:** Reducing by three-quarters, the maternal mortality ratio between 1990 and 2015.

- Goal VI:** Reducing by half the spread of HIV/AIDS and other diseases, by 2015 thereby reversing the spread.

- Goal VII:** Integrating the principles of sustainable environmental development into member country's policies and programmes and reverse the loss of environmental resources, i.e.

- Half the proportion of people without sustainable access to drinking water by 2015
- Achieve a significant improvement in the lives of at least 100 million slum dwellers by 2020.

**Goal VIII:** has as a target among others, the development of an open, rule based, predictable, non-discriminatory trading and financial system. This should include a commitment to good governance, and poverty reduction, both nationally and internationally. The goal, therefore, will among others:

- Address the special needs of the least developed countries if more generous ODA are committed to poverty reduction.
- Address the special needs of landlocked countries and small Island developing states.
- Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long-term.

## 2. PROSPECTS OF ATTAINMENT OF THE TARGETS IN NIGERIA

The Millennium Development Goals (MDGs) have elicited various interests and attracted broad support from the International Community. At the 2002, Mexico- Monterrey Conference on Financing for Development, World Leaders

reaffirmed their clear and unequivocal support for the goals. However, the experience of the past decade has shown that achieving these will be difficult but not impossible.

Currently, there are considerable variations in the prospect of individual African Countries' attainment of the goals. Those that have implemented sound economic policies and improved their system of governance have seen acceleration in growth and poverty reduction and are likely to make significant head way in the future. However, Countries like Uganda and Mozambique for example recorded GDP growth rate average of 6% a year in the 1990s but with increasing prevalence of HIV/AIDS scourge may experience some difficulties in meeting the goals: (Global Poverty report 2002). On the other hand, there are other countries where policy improvements are yet to be secured, largely due to conflicts and poor governance, and where little progress on the MDGs is also unlikely. In effect, other sub-Saharan African countries wanting to make progress toward meeting the MDGs, will require to act in three main areas:

- Deepening macroeconomic reforms and enhancing domestic competitiveness and efficiency, as a foundation for a favourable investment climate and pro-poor growth.

- Strengthening democratic institutions and systems of public budget and financial management to ensure that government are accountable to their people, especially for the effective use of public resources.

- Investing adequate resources in human development.

At the National level, the present Civilian Administration came to power in May 1999, with the quest to revive and grow Nigeria's comatose economy. The guiding principles were to operate an economy, which is market oriented, private sector led, highly competitive, technology driven, broad based, open and internationally significant. These were expected to raise the standard of living of the people through gainful employment, provision of social infrastructure, aid capacity building and reduce poverty. Thus, from May 1999 date, the government of Nigeria has put in place several measures for the alleviation of poverty. These efforts include, the Poverty Reduction Strategy Papers (PRSP) a framework for effectively fighting poverty, and a vehicle for achieving the United Nations Millennium Development Goals (MDGs). The challenges of the PRSP that needed to be tackled include the following:

- Strengthening the content and its implementation.
- Aligning donor strategies and assistance fully with national

priorities and budgetary implementation cycles;

- Improving the monitoring and evaluation of the effectiveness of Poverty Reduction Strategies, and
- Reducing the cost of its implementation, especially as it relates to the costs of designing, preparing the full PRSP Paper, social, rural and household surveys and monitoring.

Of course, it must be stated that the Bretton Woods Institutions (BWIs) and other donor agencies have a role to play in the successful implementation of the PRSPs with regard to the costs of the processes enumerated above. While their role is crucial, the process should also take into full consideration the unique characteristics of individual stakeholders and be underpinned by technical assistance for capacity building, appropriate level of financial assistance, and effective streamlining of procedure and coordination in the delivery of donor assistance for effect.

**PART III**

**I. PROGRESS TOWARD THE MILLENNIUM DEVELOPMENT GOALS**

**GOAL I: Eradicate Extreme Poverty and Hunger**

The target of the first goal

is the reduction by half the proportion of people living on less than one dollar a day between 1999 and 2015. It also advocates the reduction by half the proportion of people living in extreme hunger.

According to the African Development Bank (ADB) (2003), in 1997, Nigeria had 70.2 % of her population living above US\$1 per day and 90.8% below 2 dollars a day using the international poverty line criteria. By the same criteria, Nigeria currently has 34.1% of her population living below the US\$1 (dollar) a day. The poverty line is defined as a line below which adequate acceptable nutrition - shelter and personal amenities cannot be assured. This indicates that poverty among the population is escalating, as most macro-economic fundamentals seem to be getting worse.

Despite the extreme statistical data, Nigeria has a large informal sector whose activities were never captured. In addition, the coping mechanism, strategies, and the resilience of the population which are not put into consideration in calculating the indices may be responsible for averting total collapse of the economies of most poor countries where majority of the citizens live below the poverty line of about one dollar

Malnutrition and under-nourishment are closely linked to income poverty. Nigeria had made

dramatic progress in reducing the proportion of under-weight children. Consequently, the African Development Bank (2002/2003), reported that Nigeria had only 7% of the children under-nourished with food availability at 2840 Kcal/person/day between 1998 2000. This may not be an ideal situation as there is room for progress.

**GOAL II: Achieve Universal Primary Education**

The goal has a set target of ensuring that by 2015, children everywhere, boys and girls, would have completed a full course of primary education. Since the inception of the Civilian Administration, the educational sector had witnessed some improvement in its performance, as enrolment in primary schools had increased. The increase would not have been unconnected with the introduction of the Universal Basic Education (UBE) programme. An impetus was given to this programme when the National Assembly passed into law the Children Right Bill (2002). The Bill makes it mandatory that Nigerian children of school age must not be denied the basic primary education, consequently, parents risk going to jail should any child be denied the Basic Education.

Although the introduction of UBE saw budgetary allocation to education rising from N62,567.1 million in 2001 to

N69,033.8 million in 2002, the Fund was used in rehabilitating some of the dilapidated schools across the country. Since the introduction of the scheme in 2000, the number of primary schools pupil has been increasing steadily from 48,860 to 49,343 in 2002. In the same vein, the number of pupils' enrolment has also increased from 506 in 1998 to 528 in 2000 respectively (see table 1). However progress should be sustained by reaching the rural areas of the country with the rehabilitation of schools. It should be stated that, in Nigeria, there is disparity in primary school enrolments between boys and girls. Estimated youths illiteracy rates for pupils between 15 and 24 years gives boys a rate of 9.7%, while, the girls have a rate of 15.0%. This is as a result of social and cultural bias against the girl child.

### **GOALS III: Promote Gender Equality and Women Empowerment**

Nigerian laws are gender neutra, however, in practice, females are discriminated against. Consequently, the target is to eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels of education by 2015. Indicators set for the attainment of this goal also aim at measuring progress towards ensuring that more women become literate, have a voice and representation in public policy and decision-making process, including

improved job prospects. It is emphasized that gender equality is not only a desirable outcome but also a crucial input for a country's ability to reach all other development goals. The Declaration, therefore, resolves "to promote gender equality and the empowerment of women as an effective way to fight the impact of poverty, hunger, diseases, control population growth and to stimulate development that is truly sustainable".

According to the United Nations declaration, "There is no time to lose, if we are to reach the Millennium Development Goals by the target date of 2015. Only by investing in the worlds of women can we expect to get there".

Nigerian women had suffered a lot of deprivation, and poverty is prevalent among them. The worst case exists in the Northern part of Nigeria where urgent assistance is required to address the situation. Unemployment is rife among the female gender, consequently, they are worse off as a result of various biases i.e. lack of education leading to illiteracy, early marriage, low birth weight, hunger and other deprivation. These vices assist the vicious circle of poverty among the women generally.

### **GOAL IV: Reduce child Mortality Rate Especially the under 5 by $\frac{2}{3}$ by 2015.**

Running at an average

economic growth rate of about 3.3 per cent a year in the recent past, most sub-Saharan African countries may not achieve the goals, as the number of the poor in the region is likely to increase. Nigeria for example, has under 5-year mortality rates of 136 children per 1000 birth between 1990-94. From 1995-2000, this has increased to 153 per 1000 birth. This is in contrast to the 25 per 1000 in Mauritius and some other developing countries.

The World Health Organization estimates that more than two-thirds of these deaths come from combination of malnutrition and diseases are preventable with more competent public services. In some parts of the world, vaccination coverage has begun to decline. For example, the report further stated that in 1999, 55 countries had not attained 80% measles vaccination of children under one year of age, while in Nigeria, particularly in the North, religious bias is preventing some children of Muslim parents from being vaccinated against polio and consequently, more children are infected by the disease thereby aiding a cluster of future beggars.

### **GOAL V: Improve Maternal Health**

World Health Organisation (WHO) and United Nations International Children Educational Fund (UNICEF) has estimated that more than half a million women die in developing