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CREDIT POLICIES AND PRIVATE SECTOR INVESTMENT IN NIGERIA

BY

S. N. ESSIEN AND N. I. AKPAN[1]

S. N. ESSIEN

I. INTRODUCTION

Credit policies can be defined as policies directed at developing and encouraging investment in certain sectors of the economy. Essentially, it involves giving loans on preferential terms and conditions to priority sectors of the economy. Directed credit policies had been in use in developing economies, particularly where the money and capital markets were less developed (Ojo, 1992). However, different countries adopted directed credit policies for various reasons, ranging from a perceived contrast between social and private economic rates of return to more immediate concerns such as providing national security. For instance, all East Asian countries adopted directed credits in varying degrees to support industrial policies and other social objectives.

In Nigeria, selective credit allocation became imperative in the early 1970s when investment capital was scarce and access to bank credit was limited. Thus, selective credit policy was part of the contribution of the monetary authorities to promote economic development by creating easier access to bank credit for the productive sectors. The policy therefore encouraged banks, through a package of incentives, to allocate the bulk of their loans and advances to agricultural and manufacturing enterprises. There was also a locational dimension attached to the selective credit allocation, which required banks to lend to rural borrowers a specified proportion of total deposits mobilized by their rural branches. This was targeted at promoting the rapid transformation of the rural areas. Similarly, small-scale enterprises, excluding commercial and trading activities, were favoured under the selective credit controls.

Over the years, however, the use of selective credit controls had undergone several transformations and modifications. The commonest form was the sectoral allocation of commercial and merchant banks' loans and advances within the credit limit specified by the Central Bank. Under that arrangement, agricultural production and manufacturing enterprises were allocated the bulk of bank credit. However, there had always been some skepticism about the effectiveness of the policy. For instance, it was particularly difficult to monitor the end use of the credit to ascertain whether the beneficiaries deployed the loans to intended purposes. This resulted in the risk of fungible credit, in which a good proportion of the credit was diverted to unauthorized use, thereby rendering monitoring activities ineffective. It also became worrisome that considerable resources were used to monitor the performance of such loans. Consequently, it was later realized that the 'favoured' sectors were actually being subsidized, as the existing credit policies inadvertently could not ensure optimal utilization of the available resources. Overall, some degree of success was achieved with the credit control measures, in as much as the banks adhered to the performance criteria.

Against the foregoing background, this paper will attempt to evaluate the impact of credit policies on private sector investment in Nigeria. The private sector is selected for the simple reason that it has been the primary focus of such credit policies over the years. Recently, there was a controversy between the monetary authorities and the private sector operators that a lot of resources had been channeled to the sector yet the impact has not been felt in the economy. Admittedly, the government and the monetary authorities have directed considerable efforts at increasing the productive capacity of the real sector of the economy through various policies, schemes and incentives. These included the advocacy for interest rate cuts by banks to encourage cheap and easy access to credit for the sector, tariff reduction on some imported consumables as well as the establishment of specialized credit institutions.

Following this introduction, the rest of the paper is organized into four parts as follows: Part II is the literature review which deals with conceptual issues and selected country experience in the use of directed credit policies, while Part III undertakes a review of credit policies in Nigeria from the early 1980s to 2006. Part IV examines the challenges and prospects of private sector investment in Nigeria, while Part V provides the summary, recommendations and concludes the paper.

II. LITERATURE REVIEW

As stated earlier, credit policies are essentially directed at developing and encouraging investment in certain sectors of the economy. An important lesson from the East Asian

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miracle was that all the East Asian countries operated directed credit policies in varying degrees to support industrial and social objectives. The high performing East Asian economies used two broad types of intervention. First, the government directs credit to priority firms, groups, industries and other activities such as exports or high-technology projects. Second, the government directs credit for social reasons, often to small farmers, small and medium-scale enterprises or a specific ethnic group. In both cases, the government directs credit by investing in public enterprises, using its development banks to lend to priority areas, and compelling the commercial banks to lend to designated activities (Stiglitz and Ur, 1996).

Japan and Korea, in particular, pervasively used directed credit to promote the growth of specific firms and industries Japan during its postwar reconstruction and Korea during its promotion of chemical and heavy industries in the 1970s. The result of the credit program in Japan was controversial: some of the industries provided with credit subsidies increased their exports while others continued to decline. Similarly, Korea's policy loans had mixed results (Stern et al 1992). Some of Korea's heavy industries (such as steel, electronics and passenger cars) became leading exporters during the 1980s, while others became financially distressed. The policies also increased the concentration of wealth among conglomerates and contributed to high firm leverage (Cho and Kim 1995). Indonesia and Malaysia, on the other hand, had few successful experiences with selective credit intervention and abandoned the schemes once the negative effects of the policy became apparent. However, Thailand as much as possible avoided credit programs directed at specific firms and industries.

Development banks and financial markets play an important role in filling the credit gaps in an economy. Stiglitz (1996) noted that many countries established long-term credit banks and specialized institutions to provide credit for agriculture, small firms, and housing. Banks offering long-term credit have also been among the most common government-created financial institutions. The Japanese government created the Industrial Bank of Japan in 1902 partly because of the absence of alternative sources of long-term credit for business investment. The government also recognized that commercial banks were poorly suited for extending long-term credit. Most East Asian countries also created specialized banks in areas where private lending had been viewed as inadequate, most notably in agriculture and small-scale enterprises. For example, Thailand's agricultural development bank caters for small farmers who do not have access to commercial bank lending. The bank's loan rates are slightly lower than commercial bank rates and substantially lower than informal market rates. To increase farmers' access to formal credit, the Thai government complemented financial reforms with legal reforms that enabled small farmers to use their land as collateral for loans.

The theoretical underpinnings of policy-based lending indicate that in an ideal market situation, neither government nor financial institutions need to influence the availability or allocation of credit. However, Vittas and Cho (1996) observed that such intervention became inevitable in order to avoid conflict of interest and information asymmetry in the allocation of credit. Thus, in the absence of full information, banks tend to allocate credit to only firms with reliable track records, even if other firms present better investment opportunities. In this regard, financial intermediaries develop and maintain close long-term relationships with their customers. They can thus play an important role in screening projects, monitoring behaviour and outcomes, and managing corporate distress.

Similarly, government's role in allocating credit can be justified on two grounds. First, directed credit program could serve as a superior industrial policy instrument for reaping positive externalities (i.e. for increasing benefits across the economy). Second, the government has a comparative advantage in directing the allocation of credit, as government agencies tend to have better information on sectoral prospects than do individual private firms. However, experience has shown that government involvement in credit allocation often results in rent-seeking behaviours by borrowers, corruption by bankers and government officials, and crowding out of other worthwhile projects. It is therefore important for government to prevent such tendencies so as not to undermine the growth objectives of government policies.

Furthermore, government's role in credit policy should be understood in a dynamic context. In the early stages of economic development, when many markets and private institutions were poorly developed, government's intervention in the credit market was necessary to help stimulate healthy economic growth. In the later stages of development, when the private industrial sector had become more sophisticated and markets were better developed and more robust, the merits of government intervention diminished significantly. Notably, two empirical studies carried out by Horiuchi and Sui (1993) and Calomiris and Himmelberg (1995) lend support to the argument that policy-based finance was effective in stimulating initial growth and encouraging private investment in priority industries in Japan.

Most studies on directed credit policies focused on the size of the programs, the level of interest rates and, especially, the level of subsidies. But focusing too narrowly on these aspects of credit policy may be misleading as government's influence on credit allocation may be much stronger

than these levels indicate. Similarly, one cannot assess the degree of government intervention in a country, over time, by simply looking at the level of real interest rates. Korea, for example, doubled the level of interest rates in 1965, yielding highly positive real interest rates, but the interest rate rise actually strengthened the government's role in allocating credit by shifting funds from the informal market to the banks, which were tightly controlled by the government (Cho and Kim 1995).

In 1987, the government of Kenya introduced plans to improve credit and training assistance to informal sector entrepreneurs. The purpose of the project was to assist in defining government policies in the informal sector. A research project (headed by Denise Deby) was carried out on existing credit sources and training programs available to the informal sector in Nairobi, Mombasa, and Kisumu. It was found that, although informal sector development was promoted by government parastatals; over 50 NGOs; and some private sector initiatives, only 10 per cent of the surveyed entrepreneurs were aware of the existence of such credit and assistance programmes. The Researchers observed that factors relating to credit and training accessibility, as well as market opportunities, influenced the sector's performance, and that productivity and employment varied with the sub-sectors. Further analysis revealed that existing government policies, which, recognized the role played by the informal sector of the economy, were not substantially implemented. The study therefore recommended that strategies for development should be subsector-specific; that priority be given to those sub-sectors generating employment at a rate compatible with population growth; and that income inequality be addressed.

Itoh and Urata (1994) examined how Japan's public and private sectors support small and medium-size enterprises (SMEs). Their findings, based on a survey of 107 firms, revealed that technical and marketing support came largely through private channels while public institutions played only a subordinate role. Most loans for Japan's SMEs were provided under competitive market conditions, but three sources of directed credit loans from specialized parastatals, loans channeled through local governments, and loan guarantees accounted for about 20 per cent of all SME borrowing and 35 to 60 per cent of investment borrowing. Default rates averaged less than one-half of one per cent of outstanding loans, and real interest rates were positive. The majority of firms surveyed obtained and relied on directed credits. Similarly, Kim and Nuggent (1994) evaluated the effectiveness of private and collective technical, marketing, and financial support systems for the Republic of Korea's small and medium-sized enterprises and entrepreneurs. Their findings, which drew from a survey of 122 SMEs, showed that in spite of the existence of a dense network of public technology-support institutions in Korea, the SMEs tended to turn to private sources of technical support more often than to public institutions. The authors noted that, for technical assistance to be timely and relevant, its delivery must increasingly be decentralized to industry-specific institutes and to geographic clusters of SMEs in the same industry. They also observed that financial assistance was the most critical form of support for Korean SMEs and that government intervention in finance was very pervasive. The Korean government had made extensive use of parastatal finance institutions, targeted credit, and credit guarantee schemes.

It is noteworthy that investment decisions in the private sector are influenced largely by macroeconomic policies, which send important signals about the direction and credibility of government's commitment to manage the economy efficiently. Such policies encourage private capital accumulation by facilitating long-term planning and investment decisions (Akpokodje, 1998 and Hadjimichael, et al. 1995). The absence of consistent macroeconomic policies creates an atmosphere of uncertainty and makes it difficult for economic agents to extract the correct signals from relative prices, such as the real returns on investment in human and physical capital and, thus leads to inefficiency in resource allocation (Barro, 1976 and 1980). Theoretical literature identifies inflation rate, credit to private sector, budget deficit, debt service ratio and real exchange rate as key macroeconomic policy variables that impact on private investment (Fisher, 1991 and 1993).

McKinnon (1973) and Shaw (1973) argued that financial deepening increases the rate of domestic saving, and thus lowers the cost of borrowing and stimulates investment. Their argument is anchored on the claim that developing countries suffer from financial repression. It is posited that the liberation of these countries from their repressive conditions would induce savings, investment and growth. The endogenous growth literature has emphasized the important role that financial intermediation plays in improving the efficiency of investment (King and Levine, 1993). However, under financial repression, interest rate may be a poor proxy for the direction of monetary policy as well as the user cost of capital. Direct credit may be a better proxy (Bier, 1992).

Investment activity is also affected by the presence of external shock and huge external debt burdens. These two factors have been shown to have a dampening effect on private investment (Greene and Villananueva, 1991; Oshikoya, 1994 and Iyoha, 1997). The existence of high external debt and debt service affects investment mainly through the “debt overhang” effect, the “crowding out” effect and credit rationing. For Nigeria, Ajayi (1995) observes that the existence of huge external debts has led to capital flight and has precluded new investment from coming into the country.

Experiences and outcomes of directed credit policies vary from country to country. In Japan and Korea, for instance, government intervention in credit markets was deemed to have been effective and beneficial for economic growth and development. In the vast majority of developing countries, however, credit policies have failed to promote growth and have given rise, instead, to severe market distortions. This was largely because a huge proportion of the credits were directed to public instead of private enterprises. Other reasons included ineffective monitoring mechanisms and high default rates. The general lessons that can be drawn from the success of directed credit in Japan and Korea relate to two essential factors, namely good vision and good management. Although these lessons are important, replicating them may be difficult in today's global financial environment which limits government's ability to set interest rates substantially below market levels. Moreover, the new World Trade Organization (WTO) agreement limits the use of credit policies.

Other factors that inhibit the effectiveness of policy-based finance in most developing countries include the behaviour of the bankers and the incentives and regulations that govern their operations. In many countries, commercial banks favour lending for low-risk activities, such as self-liquidating, short-term working capital and trade finance. Commercial banks are less willing to finance high-risk projects with long payback periods, even if these projects may yield higher overall returns. They are also generally reluctant to finance small firms that lack adequate collaterals, even though such firms may be more innovative and promising than others. These are some of the major handicaps experienced in recent years in the Nigerian credit market, which has adversely affected the cost, access to and availability of credit to the private sector.

III. REVIEW OF CREDIT POLICIES IN NIGERIA (1980 - 2006)

The broad objectives of credit policies in Nigeria, over the years, have been the enhancement of availability, reduction of cost and access of credit to the private sector as well as the stimulation of growth in the productive sectors of the economy. Consequently, credit guidelines were designed to ensure that the financial needs of small and medium scale enterprises were adequately catered for. Banks were, therefore, required to pay greater attention to the prescribed aggregate and sectoral allocation of their loans and advances to enhance the attainment of the objectives of the Government.

In the early 1980s, credit allocation was sectoral, namely preferred and less preferred sectors. The preferred sector comprised production (agriculture and manufacturing), services, exports and development finance institutions, while the less preferred sector comprised general commerce (imports & domestic trade), government and others (credit & financial institutions, personal & professional and miscellaneous). Analysis by the CBN indicated that between 1981 and 1985, 75 per cent of commercial banks'[1] aggregate credit went to the preferred sector, while 25 per cent was allocated to the less preferred sector. Similarly, 79 per cent of merchant banks' credit allocation went to the preferred sector and 21 per to the less preferred sector. Out of this, a larger chunk was allocated to the productive sub-sector: commercial banks (59 per cent), merchant banks (69 per cent). Banks were allowed to expand their credit limits by specified margins over the previous year's level. For instance, the permissible credit expansion in 1982 was 30 per cent. However, small banks with loans and advances not exceeding N100 million were allowed to exceed the 30 per cent ceiling up to 40 per cent, or 70 per cent of their total deposit liabilities (excluding government deposits maturing earlier than six months), whichever was higher.

Banks were also required to maintain a minimum credit allocation of 70 per cent to indigenous borrowers as a means of encouraging the development of small scale enterprises. In order to enhance the rapid economic development of the rural areas, banks were required to lend not less than 30 per cent of the total deposits collected in the rural branches to customers in the rural areas. Also, the range of lending rates for the preferred sector/sub-sectors for loans maturing within 3 years was 8.5 to 10.5 per cent; but loans to these sectors maturing after 3 years could carry interest rates up to a maximum of 12 per cent.

The policy objectives of 1985 was geared towards the stimulation of increased agricultural production (especially staple food items and basic raw materials) and increased industrial production in order to reduce the persisting high level of dependence on the external sector. Thus, the share of agriculture in commercial banks' loans and advances was raised from 10 to 12 per cent to facilitate increased output expected from the sector. However, the share of manufacturing was reduced from 36 to 35 per cent and that of services from 12 to 11 per cent in recognition of capacity under-utilization of plants due to shortages of imported inputs in these sectors. For merchant banks, the share of agriculture was raised from 5 to 6 per cent while the share of services was reduced from 7 to 6 per cent. Also, banks were required to reserve not less than 16 per cent of their total loans and advances exclusively for small-scale enterprises wholly owned by Nigerians, and to lend not less than

[1]During the period under review, Nigeria operated a commercial and merchant bank structure. The dichotomy between the two was removed in January 2001 when universal banking was introduced and the name deposit money banks (DMBs) was adopted.

40 per cent of the total deposits collected in their rural branches to borrowers in such rural areas.

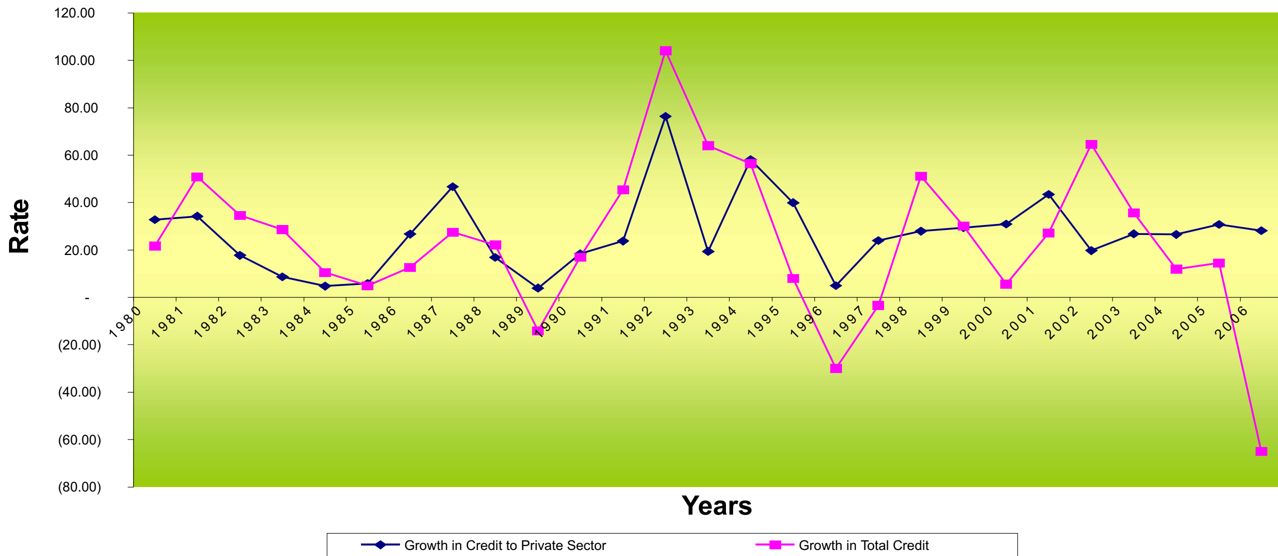
In 1986, it was envisaged that foreign exchange scarcity would continue to constrain full utilization of the productive sector. In order to accommodate the expected increase in the demand for bank credit, particularly for agricultural production, it became necessary to raise the ceiling on bank credit expansion from 7 per cent fixed for the previous year to 10 per cent. In view of the special operational characteristics of merchant banks, their aggregate credit was no longer subjected to the same quantitative control as the commercial banks. In order to facilitate the channeling of bank lending directly to the productive sectors of the economy, the 18 sectors/sub-sectors categorization of banks' loans and advances was regrouped into 8 in 1985 and further compressed to 4 in 1986. Banks were also required to grant stipulated grace periods on their loans to all categories of agricultural production.

The need to give banks greater initiative and flexibility in their credit operations led to further simplification of the credit categorization to two sectors in 1987, namely high priority sector (agricultural production and manufacturing enterprises) and 'others' sector. The stipulated credit allocation was as follows: high priority sectors (50 per cent) comprising, agricultural production (15 %) and manufacturing enterprises (35%); and 'others' sector (50 per cent). In line with government's policy to deregulate the economy, interest rates policy was sufficiently flexible and responsive to market forces. The minimum interest rate payable on time deposits was 12 per cent and that on savings deposits 11 per cent, while banks were allowed to negotiate higher rates with their customers. However, the maximum lending rate was raised from 13 per cent to 15 per cent, while other lending rates were to be negotiated between the banks and their customers.

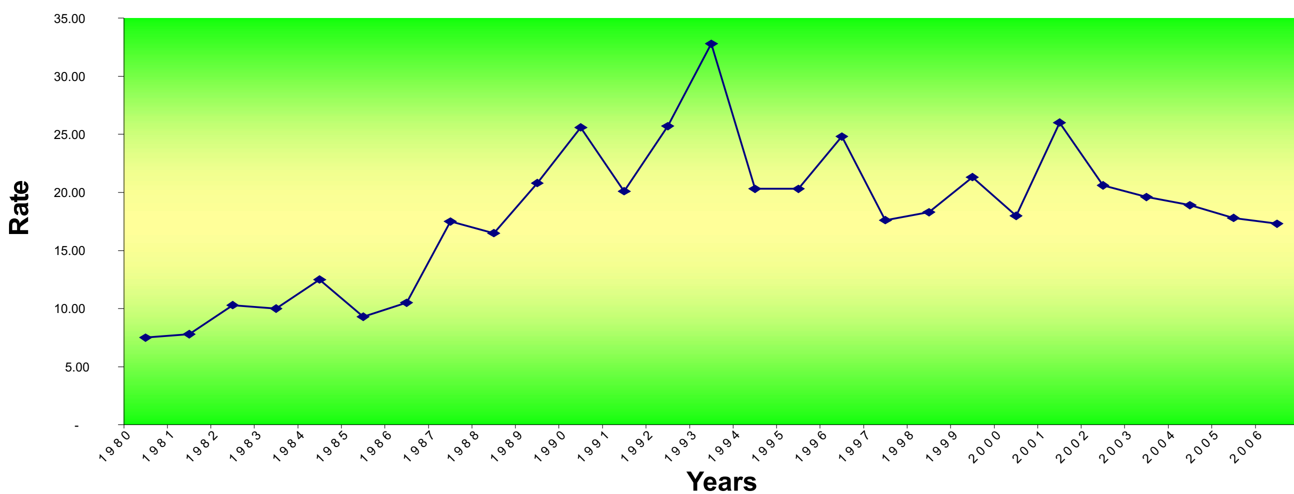
In pursuit of the objective of achieving non-inflationary growth, there was a compelling need for the moderation in bank credit expansion to the domestic economy in 1989. In this regard, the ceiling on commercial and merchant banks' aggregate credit expansion was reduced from 12.5 per cent to 10.0 per cent in 1989, but raised again to 12.5 per cent in 1990. Unlike in the past when the ceiling applied to only loans and advances, the 1990 ceiling applied to all credit granted to the private sector without any exception. In order to ensure adequate provision of credit to the priority sectors, preference continued to be accorded the agricultural and manufacturing sectors in the allocation of available credit. Thus, the prescribed distribution of commercial banks' credit to agricultural production and manufacturing enterprises remained at 15 and 35 per cent, while merchant banks' distribution was 10 and 40 per cent, respectively. However, the maturity pattern of merchant banks' credit to the private sector had over the years deviated widely from stipulated targets. Indeed, concentration had been at the short end of the credit spectrum contrary to the expectation that they would design appropriate financial instruments to attract long-term deposits for long-term lending.

In order to further enhance the development of small-scale enterprises, commercial and merchant banks' total credit outstanding to small-scale enterprises wholly owned by Nigerians was raised from 16 per cent to 20 per cent in 1990. Such loans would finance strictly activities in the industrial sector and exclude general commerce. The policy of interest rates deregulation continued to be in force in 1989. Under the dispensation, individual bank was free to determine the level and structure of its deposit and lending rates in line with prevailing market conditions. Banks were however, required to narrow the spread between their savings deposit and prime lending rates to a maximum of 7.5 percentage points.

In an effort to eliminate the distortions and inefficiency in the financial system caused by the prolonged use of credit ceilings, monetary policy in 1991 shifted from the direct control of credit growth to a market-oriented approach based on the use of instruments of indirect credit control. Similarly, Government's commitment to abstain from additional borrowing from the banking system was expected to make more credit available to the private sector and exert a downward pressure on interest rates. These developments would further enhance the objective of stimulating private sector productive capacity and output growth. Thus, the ceiling on commercial and merchant banks' aggregate credit to the private sector was raised from 12.5 per cent to 13.2 per cent in fiscal 1991. In an effort to provide stimulus for the growth of output, a higher rate of bank lending to the private sector was allowed in 1992. To this end, the ceiling on the growth of commercial and merchant banks' credit to the sector was raised to 16 per cent from 13.2 per cent in the preceding year. For effective monitoring of the performance of banks, the permissible expansion rate was broken into four quarterly growth ceilings of 3.8, 2.7, 3.5 and 6.0 per cent. Effective 1st September, 1992, the ceiling imposed on individual bank's credit growth was removed for banks which met the specified credit performance criteria set by the CBN. Banks were however, required to maintain a 5.0 percentage spread between their average cost of funds and their lending rates.



In 1993, interest rates rose to unprecedented high levels, following the deregulation of interest rates and the undue discretion it conferred on key market players in pricing their funds as well as the arbitraging activities of market players. Savings deposit rates ranged from 13.5 to 25.0 per cent, while prime-lending rates ranged from 26.0 to 60.0 per cent for commercial banks and 42.0 and 80.0 per cent for merchant banks. This resulted in the widening of the margin between banks' savings and lending rates. Such high rates seriously discouraged investment, especially in the directly productive sectors of the economy. Similarly, the persistently high and rising government deficit financing resulted in the 'crowding out' of the private sector in the credit market. Consequently, several measures were adopted in 1994 to address the identified causes of high and unstable interest rates in order to ensure a more investor-friendly regime. For instance, the instilling of fiscal discipline through the zero-deficit budget adopted during the year was expected to release more loanable funds to the private sector and thereby exert a downward pressure on market interest rates. The fixing of interest rates was re-introduced in 1994. These measures resulted in a rapid increase in banking systems' credit to the private sector as well as relatively low interest and exchange rates during the year. In particular, private sector borrowers took advantage of the cheap bank credit to buy cheap foreign exchange. However, interest rates were substantially negative in real terms as the inflation rate remained high during the period.



The low interest rate regime was maintained in 1995 and 1996 but with a minor modification to make for flexibility. Under the new arrangement, banks and other financial institutions were required to maintain a maximum spread of 7.5 percentage points between their deposit and lending rates, subject to a maximum lending rate of 21.0 per cent. In 1996, the requirement that a minimum of 20 per cent of merchant banks' loans and advances should be of medium and long-term tenure was abolished. In recognition of the need for enhanced efficiency of resource allocation in the economy, the prolonged use of the policy of sectoral credit allocation was phased out in stages in 1996, and was replaced by an incentive system which encouraged banks' voluntary lending to the priority sectors. In line with the need to realign the interest rate regime with the policy of financial market deregulation, the cap on interest rates, which was imposed since 1994, was removed with effect from 1st October, 1996. However, the CBN continued to influence interest rates through its intervention with various market instruments, especially through the minimum rediscount rate (MRR) and the marginal rate at the weekly tender for treasury bills. The abolition of mandatory bank credit allocation to the preferred sectors remained in force since 1997. However, banks were enjoined to continue to provide adequate credit to the growth sectors of the economy, including loans to rural borrowers and small-scale enterprises.

In 2000, the CBN pursued initiatives to strengthen the community banks with a view to enhancing their efficiency to attract savings and provide credit at the micro level. A new initiative was evolved in 2001, under the aegis of the bankers' committee, to ensure adequate assistance to small and medium-scale industries to enhance their performance in terms of employment generation, developing local technology, and contributing to output growth. Under the Small and Medium Industries Equity Investment Scheme (SMIEIS), banks were required to set aside 10.0 per cent of their profit before tax for the financing and promotion of small and medium-scale industries. Banks' investment would be in the form of equity participation and long-term loans, project packaging/monitoring, advisory services and nurturing of specific industries to maturity. The scheme, which has been the most recent up till the end of 2006, was expected to enhance and improve funding that would facilitate the achievement of higher economic growth.

In recognition of the role of small and medium scale enterprises (SMEs) in the promotion of economic growth and employment generation, the Government put in place various programmes and schemes to assist them, including the establishment of sector-specific development finance institutions (DFIs). These included the Family Economic Advancement Programme (FEAP), People's Bank of Nigeria (PBN), Nigerian Agricultural and Co-operative Bank (NACB), Nigerian Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI) and National Economic Reconstruction Fund (NERFUND). These institutions were later merged in 2001 to form the Nigerian Agricultural, Co-operative and Rural Development Bank (NACRDB) and the Bank of Industry (BOI). Also, to ensure improved supply of credit to the agricultural sector, the Agricultural Credit Guarantee Scheme (ACGS) was established to cater for secured and unsecured loans to individuals as well as corporate borrowers.

During the review years, analysis of the maturity structure of deposit money banks' credit to the domestic economy revealed that the bulk of their aggregate credit was short-term, and that such loans were channeled mainly to general commerce and trade. The need to encourage medium to long-term lending to the productive sectors of the economy therefore became imperative in order to expand and diversify the productive base of the Nigerian economy. In this regard, the CBN introduced the Rediscounting and Refinancing Facility (RRF) in 2002 to support medium to long-term bank lending at concessionary interest rates to the productive sectors of the economy. The RRF was designed to provide temporary relief to banks that faced liquidity problems as a result of committing their resources to long-term financing of the specified productive sectors.

In order to provide small scale credit and enhance access to adequate formal productive credit to poor and low income persons, Nigeria introduced the Microfinance scheme in 2005. The objective was to make financial services accessible to a large segment of the potentially productive population, which otherwise would have little or no access to such services. It was also aimed at promoting synergy and mainstreaming the informal sub-sector into the national financial system, as well as enhancing service delivery by microfinance institutions to medium and small scale enterprises and contributing to rural transformation.

IV. CHALLENGES AND PROSPECTS

Private sector investment in Nigeria is faced with some daunting challenges. For decades, Nigeria's economy was characterized by growing dominance of the public sector, over-dependence on oil exports and the pursuit of highly import-dependent industrial strategy. The private sector was dogged by weaknesses inherent in its skewed structure: dominated by a few multinationals and a large segment of small and medium-size enterprises with little linkage to the multinationals. Other problems included the poor state of physical infrastructure, particularly road networks, electricity and water supply; high cost and limited access to bank credit; high cost of imported raw materials and spare parts; high

production cost; inadequate security; corruption; weak enforcement of contracts; and lack of skilled labour.

Infrastructure deficiency has been the most prominent constraining factor to doing business in Nigeria. Nigeria's infrastructure does not meet the needs of the average investor, thereby inhibiting and increasing the cost of doing business. The biggest infrastructure problem is electric power supply. Electric power is regarded as a strategic resource and it represents the most important requirement for moving the private sector forward. Nigeria's power system is so inadequate that it has held back economic progress and social well-being for several years. It should be noted, however, that electricity supply is capital intensive and cannot be funded adequately by the government alone. The sector therefore needs to be reformed in order to attract private sector participation.

The existing macroeconomic policies have also been unconducive for a vibrant private sector investment. These include interest and exchange rate policies as well as other sectoral policies. Most entrepreneurs in Nigeria inadvertently reduced their borrowings from banks due to high interest rates and the short-term nature of the available loans. At the same time, banks were not actively lending to the real sector, and loanable funds were primarily used to finance consumer imports and for speculation in the foreign exchange markets. These factors have combined to act as deterrents to foreign investment flows and induced many Nigerians to take their money and skills abroad.

In spite of the problems and constraints highlighted above, Nigeria has a strong and potentially vibrant private sector which can quickly respond if the business environment is improved. In order to enhance the prospects for better performance of private sector investment, the National Economic Empowerment and Development Strategy (NEEDS) has enunciated various measures in the policy document. Under the NEEDS, the dominance of government in running business would be reversed and government would rather redirect its efforts to providing essential services. In other words, government would act as a facilitator of economic development by creating and maintaining an environment that enables Nigerians to implement livelihood strategies and achieving personal goals. To this end, the government is expected to develop infrastructure, particularly power generation, transport and telecommunications infrastructure to stimulate the growth of the private sector.

The primary objective of privatizing public enterprises was to shrink government's dominance and enlarging the size of the private sector. In the programme, government would auction and sell off its interest in various publicly-owned companies to private entrepreneurs in order to improve efficiency and competitiveness of the enterprises, expand business, and create wealth. It would also encourage private investment in areas such as power generation and infrastructure development. The privatization of infrastructure would contribute to the improvement of vital services for business, which currently imposed exceptionally high costs on the Nigerian economy. Similarly, the liberalization of economic sectors hitherto monopolized by the government would unleash competition by the private sector, and hence spur growth and employment generation.

The creation of public-private partnerships would enable the government to effectively play its entrepreneurial/developmental role by actively interacting with the private sector operators on an ongoing basis to ensure continuing feedback and a true partnership in the development of the nation.

V. SUMMARY, RECOMMENDATIONS AND CONCLUSION

The paper noted that directed credit policies play an important role in developing and encouraging investment in certain sectors of the economy. They have been applied by different countries for various reasons, ranging from social and private economic rates of return to more immediate concerns such as providing national security. In Nigeria, the commonest form of directed credit was the sectoral allocation of commercial and merchant banks' loans and advances within the credit limits specified by the Central Bank of Nigeria, of which, agricultural production and manufacturing enterprises were accorded top priority. It is noteworthy that investment decisions in the private sector are influenced largely by existing macroeconomic policies, which send important signals about the direction and credibility of government's commitment.

A review of credit policies in the past three decades showed that various measures were pursued to ensure that adequate credit was made available to the productive sectors of the economy. Such measures included selective credit allocation to preferred sectors of the economy, stipulated ceiling on banks' aggregate credit expansion, market-oriented approach based on the use of indirect instruments, deregulation of interest rates, enhancement of micro-credits to SMEs, and establishment of sector-specific development finance institutions (DFIs). However, analysis of the maturity structure of banks' credit to the domestic economy revealed that the bulk of their aggregate credit was short-term, and that such loans were channeled mainly to general commerce and trade.

In order to achieve government's objective of increasing private sector investment and its participation in Nigeria's economic

development, the following recommendations are pertinent.

- There is the need to accumulate capital funds and make such capital easily available to genuine entrepreneurs. That is to say, there should be easy access to credit by the private sector at concessionary interest rates.

- Government and the monetary authorities should also adopt sound macroeconomic policies (such as a realistic exchange and lending rates) that would be conducive to investment as well as guarantee the profitability of investment. This entails the reduction in the cost of doing business. The prevailing inflation rate and banks' lending rates are considered too high and are known to impact negatively on investment and economic growth in Nigeria. Monetary policy should therefore be designed to stem inflation and bring about low but positive real interest rates. This will, in turn, encourage capital accumulation for investment.

- The government should, as a matter of necessity, provide adequate infrastructural support and monetary incentives to private entrepreneurs. These include constant power and water supply, good road network, and concessionary import and export incentives.

- There is also the need to institutionalize an efficient and viable framework for the monitoring of private sector credit in order to ensure productive investment. This would also prevent the leakage of such credit to unintended purposes.

- Foreign private investment (which includes foreign direct investment) has been found to be an important component of Nigeria's aggregate investment. In order to bring about rapid expansion in foreign private investment, the government should make the incentive structure credible and more attractive. In addition, there is need to reduce perceived business risk and uncertainty, by implementing sound and consistent macroeconomic policies as well as ensuring a stable and secured political environment.

- The recent initiatives by the CBN in encouraging lending to medium and small scale enterprises through various micro-finance schemes should be improved upon and sustained. The scheme would be more acceptable if adequate awareness is created in the minds of the populace through public campaigns as well as making sure that such credit facilities reach the targeted group and are easily accessible by them.

- There is also the need for the sustenance of the new public-private partnership (PPP) initiative to ensure that there exist a continuing feedback and true partnership in economic development of the nation.

In conclusion, credit policies have over the years provided the impetus for private sector investment in Nigeria. A review of credit developments indicated that adequate credits have been channeled to the private sector over time. However, the predominance of government in business in the earlier years tended to “crowd out” the private sector and led to the poor performance of the sector during the period. With the recent economic reforms in the country, the position of the private sector is further enhanced to play a leading role in the economic development of Nigeria.

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Table 1: Bank Credit to the Domestic Economy (1980 2006)

Years	Credit to Private Sector	Credit to Government	Credit to Private Sector as % of Total Credit
1980	7,190.9	3,589.2	66.7
1981	9,654.2	6,607.2	59.3
1982	11,371.5	10,528.2	51.9
1983	12,353.9	15,824.5	43.8
1984	12,942.0	18,194.5	41.6
1985	13,700.2	18,980.1	41.9
1986	17,365.0	19,455.3	47.2
1987	25,476.1	21,450.3	54.3
1988	29,773.6	27,552.7	51.9
1989	30,942.8	18,316.3	62.8
1990	36,631.0	21,043.9	63.5
1991	30,942.8	18,316.3	36.9
1992	56,791.6	100,272.6	33.2
1993	68,082.8	190,979.8	24.3
1994	117,668.8	292,158.8	26.8
1995	175,787.6	264,521.1	37.1
1996	216,780.9	117,560.0	65.2
1997	272,482.0	54,679.5	84.8
1998	352,359.5	133,929.0	72.5
1999	455,205.2	176,804.9	72.0
2000	596,001.5	(110,202.8)	89.3
2001	854,999.4	(6,006.5)	100.7
2002	955,762.1	373,639.2	71.9
2003	1,211,993.4	591,944.7	67.2
2004	1,534,447.8	485,725.5	76.0
2005	2,007,355.8	306,031.9	86.8
2006	2,572,921.4	(1,812,021.8)	341.3

Source: CBN Statistical Bulletin and Annual Report & Statement of Accounts (Various Issues)

Table 2: Interest Rates and Inflation Developments (1980 2006)

Years	Deposit Rate	Prime Lending Rate	Inflation (Year-on-Year)
1980	5.8	7.5	16.1
1981	5.5	7.8	17.4
1982	7.3	10.3	6.9
1983	7.3	10.0	38.8
1984	9.8	12.5	22.6
1985	9.3	9.3	1.0
1986	9.3	10.5	13.7
1987	14.9	17.5	9.7
1988	13.4	16.5	61.2
1989	18.9	20.8	44.7
1990	19.6	25.6	3.6
1991	15.7	20.1	23.0
1992	20.8	25.7	48.8
1993	23.6	32.8	61.3
1994	15.0	20.3	76.8
1995	13.6	20.3	51.6
1996	12.9	24.8	14.3
1997	7.0	17.6	10.2
1998	10.2	18.3	11.9
1999	12.7	21.3	0.2
2000	10.6	18.0	14.5
2001	10.2	26.0	16.5
2002	16.3	20.6	12.2
2003	13.9	19.6	23.8
2004	12.9	18.9	10.0
2005	10.2	17.8	11.6
2006	9.9	17.3	8.5

Source: Major Economic, Financial and Banking Indicators and Annual Report & Statement of Accounts (Various Issues)

ESTABLISHING A CREDIBLE SMALL AND MEDIUM ENTERPRISES (SMEs) CREDIT GUARANTEE SCHEME IN NIGERIA: LESSONS FROM THE OPERATIONS OF THE AGRICULTURAL CREDIT GUARANTEE SCHEME (ACGS)

BY

S. F. MOHAMMED

INTRODUCTION

Credit guarantee schemes are among the options been used as collateral substitute to facilitate and enhance financing to the preferred sectors in many parts of the world. In the developing countries, these are used as development instruments.

Guarantees are designed to remedy situations in which borrowers with an equal probability of default have an unequal probability of obtaining credit due to insufficient collateral. Their major objectives are to alleviate the problems faced by small-scale borrowers seeking credit and to achieve financial and, ultimately, economic additionality. Guarantees also aim to improve the terms of loans.

In consonance with this line of thought, a guarantee scheme for the agricultural sector, known as the Agricultural Credit Guarantee Scheme (ACGS) was established in Nigeria as far back as 1977. The Scheme was designed to provide guarantee in respect of loans granted by banks for agricultural purposes with the aim of increasing credit to the sector.

Several schemes and programmes were also put in place to find solutions to the problems of credit delivery to the small and medium enterprises (SMEs), which are widely acknowledged as engines of growth and employment generation. Such schemes and programmes include the establishment of development banks like the Nigerian industrial Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI), the World Bank assisted SMEII loan and the National Economic Reconstruction Fund (NERFUND). Their impacts remained restricted mainly due to low target coverage and unsustainable operation mechanism. It was reported that not more than 50 percent of aggregate effective demand for investment loans in the manufacturing sector are currently being met (Ukeje, 2003). This, among other reasons, gave rise to the need to institute a guarantee scheme to enhance the flow of financial resources to the MSME sub-sector.

This paper is intended to review the operation of the ACGS over a 20-year period between 1986 and 2005, so as to derive some lessons that would serve as guide to the establishment and subsequent operations of the proposed SMEs credit guarantee scheme. The remaining parts of the paper is organised as follows: Part II discusses the rationale and definitions of credit guarantee, while Part III focus on the history and practice of credit guarantee in Nigeria. Part IV dwells on the review of the ACGS and the lessons derived therefrom, while Part V contains the conclusion and recommendations.

2.0 THE CREDIT GUARANTEE OPTION

2.1 Conceptualisation/ Advantages for credit Guarantee

Credit guarantees are conceptually designed to attract or entice reluctant lenders to advance funds to the disadvantaged and credit-rationed sector/clientele so as to achieve growth and contribute to nation building and development. Guarantee arrangements provide that the guarantor settles a determined percentage of defaults that could arise from lending to clients that do not have collateral. Using guarantees would create more room for more clients to benefit from loans than would be the case if the guarantee were not put in place. It is also based on the theory that in the long run, the lenders would by experience, observe that such clients are not as risky as earlier perceived and so would continue to lend to them without the need for guarantees.

2.2 Definition of Guarantee

Section (4) of the Statutes of Frauds 1677, defines guarantee as *"a written promise made by one person to be collaterally answerable for the debt, default or miscarriage of another"* (Doyle, 1981). The party that promises that the obligation of the principal debtor would be discharged or performed is called the guarantor or surety. Often, a guarantor has no interest in the contract between the principal debtor and the creditor, except in so far as the acceptance to bear liability if the debtor fails to pay. Legally, a guarantee is a contract and promise in writing by one person or party (surety) to a third party (lender, creditor) to be collaterally liable for the default,

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omission or inactions of another (the primary borrower).

2.3 The Basic Principles of Lending

A review of some of the basic lending principles is presented below to refresh our minds. These principles gave the factors to consider before approving any loan request as:

- The legal capacity of the borrower;
- The purpose of the advance;
- The amount involved;
- The duration of the advance;
- The source of repayment;
- The profitability of the transaction; and
- The security offered (if any).

Prudent lending principles strictly emphasised that security is taken as kind of insurance and that no advance or loan is to be granted just because it is secured. Rather, the lender's decision ought to be influenced principally by the profitability of the business, character of the borrower, the risk involved, and the social/ economic desirability of the project, among others. However, security is required because the borrower's position can, and sometimes does, change very quickly. Therefore, any security taken should be regarded as a last line of defence to fall back upon in exceptional circumstances only as its realisation can be costly, lengthy and complicated.

2.4 The Rationale for Credit Guarantee

In the developing countries, in particular, two independent conditions must exist before a credit guarantee scheme becomes imperative. First, a business must be assessed to be viable, profitable and socially desirable but the promoter lacks capital to fund it; and secondly, the promoter lacks adequate collateral to pledge as security (*Meyer & Nagarajan, 1996*).

The conditions for establishing credit guarantee in developing countries were further elaborated by *Kilby (1998),* who observed that while European banks generally require 100% to 120% security, the figure lies between 180% and 300% in Latin America and Africa. This implies that many potential borrowers in emerging economies are driven out of the market for credit. This is more so that the assets they possess do not satisfy the marketability criterion of collateral and can thus not be pledged. Reputation is often seen as a substitute for collateral. However, small firms' lack of collateral prevents them from establishing a reputation since the initial credit cannot be attained. Encouraging the financial intermediaries to support this sector therefore require appropriate collateral policy. One of the ways is to establish a guarantee scheme that will share in the perceived risks of the conventional institutions. Such Schemes have been in existence in various countries for decades. In Nigeria, the ACGSF has been in existence since 1978.

3.0 CREDIT GUARANTEE IN NIGERIA.

3.1 The Agricultural Credit Guarantee Scheme (ACGS)

The first formal credit guarantee scheme to be introduced in Nigeria through a Decree was the Agricultural Credit Guarantee Scheme Fund (ACGSF). The scheme was established by Decree No. 20 of 1977 that provides for a fund of N100 million subscribed to by the Federal Government and the Central Bank of Nigeria in the ratio of 60:40. The fund was later enhanced to N1 billion in 1999 and later to the present level of N 3 billion.

The Fund provides guarantee in respect of loans granted by banks for approved agricultural purposes with the aim of increasing the level of bank credit to the agricultural sector. The maximum amount that could be guaranteed for individuals under the Scheme was initially N 100,000 while upper limit for limited liability companies and cooperative societies was N 1 million. The upper limit was gradually enhanced to the present limits of N 1 million and N 10 million for individuals and corporate bodies respectively.

The Fund's liability is limited to 75% of the amount in default net of any amount realised by the lending bank from the sale of the security pledged by the borrower.

Available data showed that a total number of 443,660 loans valued at over N 10.6 billion was guaranteed from the inception of the Scheme in 1978 to December, 2005. This translates into an average of 16,432 loans valued at N 0.3 billion per annum.

The Scheme is under the management of the Central Bank of Nigeria, with a separate Board of Directors responsible for policy making.

3.2 Background to The Small and Medium Industries Credit Guarantee Scheme

The Federal Ministry of Industry (FMI) organized the first National Consultation on Strategies for Financing Small and Medium Enterprises (SMEs) in June 1992. As one of its main recommendations, the forum advocated for a National Credit Guarantee Scheme for SMEs.

The FMI set up a Technical Committee with members drawn from relevant SME support agencies and private sector organizations to prepare a feasibility study for the establishment of the scheme. The committee's report submitted in July 1993 proposed the establishment of a National Credit Guarantee Company as a limited liability company, jointly subscribed to by Governments, Financial Institutions and other Private Sector Organizations (PSOs) with the following objectives:

i) To relieve the banks of some risks inherent in funding credit delivery to SMEs;

ii) To facilitate the flow of short, medium and long-term credit to SMEs either for new projects or expansions, modernizations and restructuring of on-going projects;

iii) To encourage banks, through special guarantee schemes, to extend credits to enterprises, which are generally perceived as unsecured or unattractive, but are nonetheless, viable project based on borrower's business standing, or in sector considered vital to balanced industrial development;

iv) To encourage the use of SMEs services offered by recognized consultants and support institutions like the IDCs for the efficient management of industrial enterprises;

v) To stimulate sound credit delivery transactions through efficient management and utilizations of available information on credit and loan schemes in order to promote integrated and balanced industrial development nationwide.

The Ministry accepted the report of the Technical Committee but could not secure the necessary approval to implement the Scheme.

By 1997, a Consultant was engaged under the UNDP assisted Fourth Country programme for SME Development to carry out a review of the TC's Report. The Consultant supported the idea of setting up of a private sector- managed National Credit Guarantee Company (NCGC) and further recommended that the bulk of the Guarantee Fund be provided by Government as a soft long-term loan.

Notwithstanding the endorsement by the Consultant and the continued relevance of the Scheme, its implementation was still stalled.

At the resurgence of democratic governance in 1999, the FMI re-constituted the Inter-Agency Technical Committee of relevant SME Agencies and Organizations under the chairmanship of *Mr. Ben Akabueze*, the then MD of NAL Bank Plc. The committee reviewed earlier works and prepared the new framework described as the "Implementation Blueprint for the Establishment of National Credit Guarantee Scheme for Small and Medium Enterprises in Nigeria" in November 2003.

Some Major Recommendations from the Implementation Blueprint are:

i) The establishment of a credit guarantee scheme, which shall be known and called the National Credit Guarantee Company (NCGC) for Small and Medium Enterprises (SMEs) including micro enterprises.

ii) That the proposed National Credit Guarantee Scheme should be established as a Joint Venture Limited Liability Company by the public and private sector with the latter holding controlling shares.

iii) That the proposed equity sharing ratio should be 40 percent for Government (Federal, States and Local), 30 percent for deposit money banks, 10 percent for the Organized Private Sector (NASSI, NACCIMA, MAN, NASME, etc) and 10 percent for NGOs/ Micro-Finance Intermediaries.

iv) The start-up capital of the company should be N500 million.

v) That the Guarantee Fund (initially N5 billion) should be sourced mainly in the forms of long-term loans under very soft arrangements and grants from the following:

   a. Federal, State and local Governments

   b. Bilateral/Multilateral International Agencies

   c. Supportive Foreign Governments

   d. International Donor Agencies

The government is yet to accept these recommendations and this imply that the take off date of the scheme is still uncertain. How ever, the Central Bank of Nigeria has shown its intention to kick start the small and medium industries credit guarantee scheme that would be patterned after the ACGS, which it had managed for the last 26 years.

4.0 EVALUATION AND LESSONS FROM THE AGRICULTURAL CREDIT GUARANTEE SCHEME (ACGS).

4.1 Evaluation of the Performance of ACGS 1986 - 2005

In the developing countries, guarantee schemes are used as development instruments. Hence the schemes are designed to alleviate the problems faced by small-scale borrowers seeking credit and to achieve financial and, ultimately, economic additionality. They aim to offset situations in which borrowers with an equal probability of default have an unequal probability of obtaining credit due to insufficient collateral. Guarantees also aim to improve the terms of a loan.

For the purpose of this paper, data on the Scheme for 20 years from 1986 to 2005 were used to arrive at some conclusions that would serve as useful guides in the establishment and implementation of the proposed small and medium enterprises credit guarantee scheme (SMECGS). This period chosen represents the time when the scheme had stabilized after the initial teething problems.

There is no doubt that ACGS is the leading guarantee scheme in Africa, having been operated successfully for 28 years since 1978. Despite the successes recorded, a careful

review of the various issues of the ACGSF Annual Reports revealed the major problems of the ACGS in its 28 years of operation to be the following:

- Unstable loan portfolio
- Low level of participation by banks
- Low loan limits
- Delays in claims settlement
- Absence of long term loans
- Over-reliance on security
- Out-dated operation procedures
- High cost of operation

These issues would be examined individually based on the data available.

4.1.1 Unstable Loan Portfolio

The number and value of loans guaranteed under the scheme continued to rise from the inception of the scheme up till 1989 when 43,518 loans valued at N129.3 million were guaranteed. There after, there was gradual decline in the number and value of loans guaranteed up to 1993 when only 15,514 loans valued at N80.8 million were guaranteed. However, the number and value of loans guaranteed have been on the increase since 1995, with the value of loans guaranteed almost doubling from N361.4 million in 2000 to N726.5 million in 2001. The first N1billion guarantee mark was achieved in the 2002 farming year.

In constant terms, however, the highest value of loans guaranteed when expressed in US$ denomination was in 1985 when loans equivalent to $44.2 million were guaranteed. Due to the continued depreciation of the Naira, the lowest dollar equivalent of loans guaranteed was $1.9 million in 1995. From then, the scheme continues to record improvements up to 2005 when loans of over $22.6 million were guaranteed. The detail is contained in *Appendix* I.

4.1.2 Low Participation by Banks

From the data available, the number of banks participating under the Scheme continued to fall from a maximum of 32 in 1988 to 17 in 1993 and further down to only 6 since 1999. Slight improvements were recorded as from 2003.

The highest participation by banks under the ACGSF was in 1988 when 32 out of 66 banks (or 48%) participated under the Scheme. The number dropped 17 out of 120 bank (or 14%) in 1993. By the year 2000, only 6 out of 88 deposit money banks granted loans under the Scheme. This translated into meagre 6.8 percent participation by banks. The approval granted community banks to grant loans under the scheme has not made appreciable impact as only 5 community banks granted loans under the scheme in 2004. The number reduced to only 4 in 2005.

The lack of patronage by banks was attributed to the deregulation of the lending policy and the continued dissatisfactions with low claim settlement by the Fund.

4.1.3 Low Loan Limits

An important objective of a guarantee scheme is the achievement of additionality of loans. Available records from the ACGSF Annual Reports showed gradual decline in the average loan amount per head between 1984 and 1990. Thereafter, there was gradual appreciation from as low as N3,730 in 1991 to about N47,900 in 2003 and further up to N65,893 in 2005.

When expressed in US dollar terms however, the average loan amount per borrower in1986 was $3,497. By 1995, average loan amount had fallen to paltry $106.8. This marginally rose to $370.0 in 2003 and $489 in 2005. The prevailing exchange rates over the 20 year period are given in Appendix IV.

4.1.4 Low Level of Claim Settlement

Available records showed that the total number of claims filed on the Fund in twenty year period between 1986 and 2005 was 17,219 valued at over N997.5 million. The number of claims settled in the same period was 8,161 valued at a little over N68.3 million.

This implied that only about 47.4 percent of the total number of claims filed was settled. The percent for value is the most dismal as just about 6.9 percent of the total claims filed were settled in the period under review.

The bulk claims settlement approved by the ACGSF Board in 2004 had boosted the image of the scheme. In that year, a total of 2,061 claims valued at N9.76 million, representing the single largest settlement in the history of the scheme. The claims settlement tempo was maintained in 2005 where a total of 8,074 default claims valued at over N18.7 approved for payment to banks.

Prior to 2004, the highest number of claims settled in any particular year was 826 valued at N6.7 million settled in 1998.

4.1.5 Absence of Long Term Loans

The ACGSF Reports for the year 2000 states that "*only 1,309 representing 0.5% of the total loans granted by banks under the Scheme was channelled to medium and long gestation agricultural projects*". This leads to the conclusion that the scheme had failed to improve the terms of lending by way of granting loans of longer durations as to encourage investments in fixed assets.

4.1.6 Over-Reliance on Security

The principal objective of a guarantee scheme is to enable capital constrained but viable projects with inadequate or unacceptable collateral enjoy loan facilities from formal financial institutions. Over the years, the *modus operandi* of the Scheme was distorted to impose high security requirement as opposed to viability. The security requirement under the ACGS had become so serious that

banks were normally compelled to provide an additional clause on their applications for guarantee that *"the security pledged by the borrower is adequate and realizable"*. This requirement clearly negates the essence of the guarantee scheme since a project that is adjudged viable and adequately secured need not require additional guarantee from a formal agency. The resources of a guarantee agency ought to be directed to projects that are adjudged viable but inadequately collateralised if the much orchestrated objective of real *"additionality"* of lending is to be achieved.

4.2 Lessons from the ACGSF

The idea of setting up a National Credit Guarantee Scheme for SMEs had been on the drawing board for over 14 years (since 1992) by the Federal Ministry of Industry without tangible result. The supposed private sector initiative have failed to see the light of day despite all the merits advanced in its favour.

To live up to its billing as an effective promoter of economic development in Nigeria, the Central Bank of Nigeria's Management had proposed to spearhead the establishment of a credit guarantee scheme for small and medium enterprises as contained in Bank's Credit, Foreign Trade and Exchange Policy Guidelines for fiscal 2004/2005.

The points discussed below were meant to serve as guides to the operators of the proposed scheme so as to ensure its smooth take off and eventual success.

4.2.1 Establishment

The ACGS was established by a Decree and at a period when there was direct control and sectoral allocation of credits to the preferred sectors of the economy. There are insinuations that the initial success of the ACGS was attributed to the compulsion to banks to lend to the preferred sectors of manufacturing and agriculture. The minimum rates of loan portfolio to agriculture was gradually raised from 10 15% for commercial banks and 5 - 8% for merchant banks in the years of sectoral credit allocation in the country. Penalties were also imposed for non-compliance. The sectoral allocation policy was abolished in 1988 and just few years later, the fortunes of the scheme in terms of participation by banks commenced the downward dive.

The proposed small and medium enterprises credit guarantee scheme (SMECGS) is to be set up without a legal backing and at a period when the financial market is completely liberalised and also at a time when the financial sector consolidation is in full swing.

4.2.2 Marketing

The regulated nature of the economy at the time the ACGSF was established, coupled with the domination of government owned and controlled banks then, whose mandate included developmental roles, led to the easy adoption of the scheme without the need for intensive marketing.

In this era of complete deregulation, the Bank would need to urgently and seriously sensitise the deposit money banks and engender their confidence so as to achieve a smooth take up of the new scheme. There should be serious demonstration of willingness of the scheme to live up to expectations by simplifying application procedures and more importantly live up to expectations in terms of prompt claim settlement.

4.2.3 Operational Cost.

One of the major criticisms to guarantee schemes is their implicit costs both to the borrower and the economy.

A careful review of the ACGSF income on Table III showed gradual rise in investment and other incomes from about N10.7 million in 1986 to N52.9 million in 1993 and further to N603.1 in 2003. The income was not uniform due its over-dependence on the prevailing interest rate on Nigeria Treasury Bills (NTBs).

On the other hand, administrative expenses were rising at faster rates than the income. The figures rose from about N2.1 million in 1986 to N31 million in 1993 and rose further to N209.7 million in 2003.

Moreover, the cost per N guaranteed under the ACGSF rose from only 3 kobo in 1986 to 15 kobo in 1990. The cost reached its peak at 41k in 1994 before dropping to 18 kobo in the year 2003. The average cost for the 20 - year period where data was obtained is 21 kobo.

Cost implications were never a factor at the initial stages of the ACGS. However, in line with the best practices, cost effectiveness need be considered from the onset of the proposed scheme, so as to gain national and international recognition and reputation.

4.2.4 Mechanics of Operation

Unduly long processing periods coupled with delays in claims settlement contributed to the apathy shown by deposit money banks to the ACGS. Unnecessary clauses that tended to negate the principles of credit guarantee need to be expunged. In particular, viability of projects should be the principal guide in accepting projects for guarantee rather than unnecessary over-reliance on adequacy of security.

The Bank's Monetary Policy Circular No. 37 of 2004 clearly stated the objective of the SME Credit Guarantee Scheme as *"to encourage financial institutions, particularly deposit money banks to lend to small businesses, which have viable projects and good prospects of success, but are unable to satisfy the lender's collateral requirements"*. This implies that over-reliance on adequacy of security pledged by potential borrowers once their projects were proved to be viable negates the objective of the scheme.

4.2.5 Manpower Development

The projects under the ACGS are normally small-scale that do not require sophisticated appraisal techniques. With a proposed maximum loan limit of N50.0 million under the SMECGS, there is need for comprehensive training and retraining of personnel on project appraisal techniques. Where a project is specialised, the services of specialists in project appraisal and / or evaluation need be employed.

5.0 CONCLUSION

Despite the potency of SMEs in economic development and job creation, restricted access to financing has been identified as one of the major factors militating against their growth and development. Credit guarantees were noted for their roles in improving the accessibility of financing to the SMEs and other credit rationed groups. Nigerian SMEs need this service in order to expand their scope of operations, acquire new machinery and create additional jobs for the teeming unemployed.

In line with best practices, a private sector led credit guarantee for SMEs is most desirable for the country. But as previous attempts to establish the scheme had consistently failed, it is strongly suggested that the intervention of the CBN is most desirable. The CBN, as the lead promoter of economic development ought to break the jinx by spearheading the establishment of a credit guarantee scheme for the SMEs by actualizing the pledge made in its year 2004/2005 monetary circular. The Bank could collaborate with multilateral and other relevant international development agencies to establish the scheme, get it on sound footing, then gradually divest and totally hand over to the private sector in the long run.

As the managing agent of the ACGSF for over 28 years, it is our belief that the CBN had acquired enough experience and skills to establish and manage the proposed guarantee scheme. More over, the CBN enjoy the goodwill of both bilateral and multilateral agencies, non-governmental organizations and other international development agencies that could assist in working out the modalities, exposure and capacity building for the operators.

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APPENDIX I
AGRICULTURAL CREDIT GUARANTEE SCHEME

TABLE I: COMPARISON OF LOANS GUAR ANTEED AND CLAIMS POSITION UNDER ACGS 1986 - 2005

YEAR	LOANS GUARANTEED					CLAIMS FILED		CLAIMS PAID		% CLAIMS PAID/ CLAIMS FILED	
	NO	VALUE	US$ EQUIV	AV. LOAN PER HEAD (N)	US$ EQUIV.	NO.	VALUE	NO.	VALUE	NO	AMOUNT
1986	5,203	68,417,400	18,196,117	13,150	3,497	125	6,385,410.2	-			
1987	16,209	102,152,500	26,327,964	6,302	1,624	85	2,150,000.0				
1988	24,538	118,611,000	26,358,000	4,834	1,074	150	7,900,000.0	52	381,569.00	34.67	4.83
1989	34,518	129,300,300	17,449,433	3,746	506	160	8,500,000.0	56	229,000.00	35.00	2.69
1990	30,704	98,494,400	12,250,547	3,208	399	236	21,756,810.0	51	770,090.00	21.61	3.54
1991	22,014	82,107,400	8,268,620	3,730	376	810	27,972,500.0	67	253,700.00	8.27	0.91
1992	21,206	88,031,800	5,065,121	4,151	239	1,362	31,500,000.0	65	360,000.00	4.77	1.14
1993	15,514	80,845,800	3,648,276	5,211	235	998	28,659,063.6	91	455,556.97	9.12	1.59
1994	16,572	103,186,000	4,696,677	6,227	283	1,263	60,500,000.0	56	220,000.00	4.43	0.36
1995	18,079	164,160,000	1,931,294	9,080	107	598	6,020,000.0	144	2,800,000.00	24.08	46.51
1996	19,036	225,502,500	2,652,971	11,846	139	442	5,400,000.0	166	1,090,000.00	37.56	20.19
1997	17,840	242,038,200	2,847,508	13,567	160	232	5,180,000.0	690	6,130,000.00	297.41	118.34
1998	14,637	215,697,200	2,537,614	14,736	173	78	2,750,000.0	**826**	6,910,000.00	**1,058.97**	251.27
1999	12,859	246,062,500	2,559,951	19,135	199	79	2,500,000.0	498	5,500,000.00	630.38	220.00
2000	14,102	361,450,400	3,442,385	25,631	244	173	8,000,000.0	228	1,691,222.00	131.79	21.14
2001	20,298	726,545,400	6,492,810	35,794	320	406	9,560,000.0	436	6,400,000.00	107.39	66.95
2002	23,681	1,051,589,800	8,726,886	44,406	369	206	6,080,000.0	124	3,210,220.00	60.19	52.80
2003	24,303	1,164,460,400	9,001,704	47,914	370	506	9,236,314.0	168	3,440,000.00	33.20	37.24
2004	34,779	2,041,000,000	15,288,390	58,685	440	1,236	15,674,340.0	2,061	9,765,000.00	166.75	62.30
2005	46,238	3,046,738,500	22,601,918	65,893	489	8,074	731,845,800.0	2,382	18,782,000.00	29.50	2.57
TOTAL	**432,330**	**10,356,391,500**	**200,344,186**	**397,247**	**11,243**	**17,219**	**997,570,238**	**8,161**	**68,388,358**	47.40	6.86
AVERAGE	21,617	517,819,575	10,017,209			860.95	49,878,512	453	3,799,353		
%				**91.89**	**0.00**					52.66	6.86

Source: Annual Reports of the Agricultural Credit Guarantee Scheme Fund (ACGSF), various issues

APPENDIX II
AGRICULTURAL CREDIT GUARANTEE SCHEME

TABLE II: COMPARISON EXPENSES, GUARANTEE COSTS AND BANKS' PARTICIPATION UNDER THE ACGS 1984 - 2005

YEAR	LOANS GUARANTEED		% CHANGE		AV. AMOUNT GUARANTEED/ BORROWER	ADMIN EXP	COST/NAIRA GUARANTEED	BANKS		
	NO	VALUE	NO	VALUE				NO. IN NIGERIA	NO PART-CIPATING	%
1986	5,203	68,417,400.00			13,149.61	2,176,297.00	0.03	40		
1987	16,209	102,152,500.00	211.5	49.31	6,302.21	4,111,312.00	0.04	50		
1988	24,538	118,611,000.00	51.4	16.11	4,833.77	4,928,088.00	0.04	66	32	48.48
1989	34,518	129,300,300.00	40.7	9.01	3,745.88	12,635,567.00	0.10	81	31	38.27
1990	30,704	98,494,400.00	- 11.0	- 23.83	3,207.87	15,137,073.00	0.15	88	32	36.36
1991	22,014	82,107,400.00	- 28.3	- 16.64	3,729.78	18,311,416.00	0.22	119	29	24.37
1992	21,206	88,031,800.00	- 3.7	7.22	4,151.27	28,484,537.00	0.32	120	24	20.00
1993	15,514	80,845,800.00	- 26.8	- 8.16	5,211.15	31,040,577.00	0.38	120	17	14.17
1994	16,572	103,186,000.00	6.8	27.63	6,226.53	42,710,184.00	0.41	115	17	14.78
1995	18,079	164,160,000.00	9.1	59.09	9,080.15	54,898,198.00	0.33	115	17	14.78
1996	19,036	225,502,500.00	5.3	37.37	11,846.11	54,884,814.00	0.24	115	9	7.83
1997	17,840	242,038,200.00	- 6.3	7.33	13,567.16	50,117,695.00	0.21	115	8	6.96
1998	14,637	215,697,200.00	- 18.0	- 10.88	14,736.44	60,818,255.00	0.28	89	5	5.62
1999	12,859	246,062,500.00	- 12.1	14.08	19,135.43	82,415,915.00	0.33	90	6	6.67
2000	14,102	361,450,400.00	9.7	46.89	25,631.14	125,875,035.00	0.35	88	6	6.82
2001	20,298	726,545,400.00	43.9	101.01	35,793.94	158,165,249.00	0.22	90	6	6.67
2002	23,681	1,051,589,800.00	16.7	44.74	44,406.48	133,316,588.00	0.13	90	6	6.67
2003	24,303	1,164,460,400.00	2.6	10.73	47,914.27	209,794,376.00	0.18	90	8	8.89
2004	34,779	2,041,000,000.00	43.1	75.27	58,684.84			89	11	12.36
2005	46,238	3,046,738,500	32.9	49.28	65,892.52			89	7	7.87
TOTAL	**432,330**	**10,356,391,500**	**367**	**496**	**397,247**	**1,089,821,176**				
AVRG			15.3	**19.5**	13,633.46		0.21			

**Paid up share capital of the Fund raised to N251,340,000 in 2000*

Source: Annual Reports of the Agricultural Credit Guarantee Scheme Fund (ACGSF), various issues

APPENDIX III

AGRICULTURAL CREDIT GUARANTEE SCHEME

TABLE III: COMPARISON OF THE INCOME AND EXPENSES UNDER ACGS 1986 - 2005

YEAR	LOANS GUARANTEED NO	VALUE	% CHANGE NO	% CHANGE VALUE	FUND'S INCOME	% CHANGE	ADMIN EXP	% CHANGE	% EXPENSES/ INCOME
1986	5,203	68,417,400.00			10,712,408.00		2,176,297.00		20.32
1987	16,209	102,152,500.00	211.5	49.31	15,630,133.00	45.91	4,111,312.00	88.91	26.30
1988	24,538	118,611,000.00	51.4	16.11	18,766,728.00	20.07	4,928,088.00	19.87	26.26
1989	34,518	129,300,300.00	40.7	9.01	20,628,004.00	9.92	12,635,567.00	156.40	61.25
1990	30,704	98,494,400.00	-11.0	-23.83	24,220,039.00	17.41	15,137,073.00	19.80	62.50
1991	22,014	82,107,400.00	-28.3	-16.64	30,368,629.00	25.39	18,311,416.00	20.97	60.30
1992	21,206	88,031,800.00	-3.7	7.22	38,026,359.00	25.22	28,484,537.00	55.56	74.91
1993	15,514	80,845,800.00	-26.8	-8.16	52,992,741.00	39.36	31,040,577.00	8.97	58.58
1994	16,572	103,186,000.00	6.8	27.63	47,877,845.00	-9.65	42,710,184.00	37.59	89.21
1995	18,079	164,160,000.00	9.1	59.09	35,018,343.00	-26.86	54,898,198.00	28.54	156.77
1996	19,036	225,502,500.00	5.3	37.37	36,222,999.00	3.44	54,884,814.00	-0.02	151.52
1997	17,840	242,038,200.00	-6.3	7.33	31,209,634.00	-13.84	50,117,695.00	-8.69	**160.58**
1998	14,637	215,697,200.00	-18.0	-10.88	43,684,462.00	39.97	60,818,255.00	21.35	139.22
1999	12,859	246,062,500.00	-12.1	14.08	71,763,021.00	64.28	82,415,915.00	35.51	114.84
2000	14,102	361,450,400.00	9.7	46.89	84,234,281.00	17.38	125,875,035.00	52.73	149.43
2001	20,298	726,545,400.00	43.9	101.01	299,623,166.00	255.70	158,165,249.00	25.65	52.79
2002	23,681	1,051,589,800.00	16.7	44.74	641,036,300.00	113.95	133,316,588.00	-15.71	20.80
2003	24,303	1,164,460,400.00	2.6	10.73	603,188,114.00	-5.90	209,794,376.00	57.37	34.78
2004**	34,779	2,041,000,000							
2005**	46,238	3,046,738,500							
TOTAL		**5,268,653,000.00**	**-**		**2,105,203,206.00**		**1,089,821,176.00**	**-**	
AVRG			17.1	21.8		34.54		40.3	

**Paid up share capital of the Fund raised to N251,340,000 in 2000*

*** ACGSF Audited Accounts for 2004 and 2005 were not released as at the date of compiling the figures.*

Source: Annual Reports of the Agricultural Credit Guarantee Scheme Fund (ACGSF), various issues

APPENDIX IV

NIGERIAN ₦/US$EXCHANGE RATES (1986 - 2005)

YEAR	RATE(N/$)	YEAR	RATE(N/$)	YEAR	RATE(N/$)	YEAR	RATE(N/$)
1984	0.83	1989	7.41	1994	21.97	1999	96.12
1985	1.00	1990	8.04	1995	85.00	2000	105.00
1986	3.76	1991	9.93	1996	85.00	2001	111.90
1987	3.88	1992	17.38	1997	85.00	2002	120.50
1988	4.50	1993	22.16	1998	85.00	2003	129.36
						2004	133.5
						2005	134.8

Source: Central Bank of Nigeria Annual Reports (various issues)

FINANCIAL RESOURCE MOBILIZATION AND INVESTMENT IN NIGERIA: THE ROLE OF THE FINANCIAL SECTOR

By
A. O. ADENUGA AND N. I. AKPAN *

A. O. ADENUGA

1. INTRODUCTION

Prior to the oil boom of the 1970's, the Nigerian economy could be described as agrarian in nature. The agricultural sector accounted for more than 60.0 per cent of the gross domestic product (GDP). Also, about 80.0 per cent of the Federal Government revenue was derived from the sector, while 80.0 per cent of the work force was engaged in agriculture. The contribution of the sector to foreign exchange earnings was between 70.0 and 80.0 per cent. The agricultural sector's contribution to GDP increased from 33.6 per cent in 1981 to 39.4 per cent in 1991. It increased slightly further to 40.8 per cent in 1995. By 2000, its contribution to GDP had increased to 42.7 per cent and further to 43.9 and 47.0 per cent by 2005 and 2006, respectively. The contribution of the manufacturing sector increased from 6.5 per cent in 1981 to 7.4 per cent in 1982, before declining further to 4.2 per cent in 1994. By year 2000, its contribution had declined further to 3.7 per cent, however, it rose to 4.3 per cent by 2005. It later increased to 4.4 in 2006. The corresponding figures for wholesale and retail trade sectors showed decline in its contribution from 14.2 in 1981 to 14.1 per cent in 1992. It fell to 13.9 per cent in 1995. But by 2000, its contribution showed some marginal decline as it fell to 13.0 per cent. It increased to 14.7 and 16.7 per cent by 2005 and 2006 (see table 1).

By 1970, the petroleum sector had become a very important factor in the Nigerian economy, contributing 29.1 per cent of the GDP in 1981 compared to 22.0 per cent in the early 1970s. It declined to 27.8 per cent in 1992, but by 2000 its contribution declined to 25.9 per cent and further to 25.8 and 24.6 per cent by 2005 and 2006, respectively. The Nigerian economy became almost mono-cultural. For instance, in 1990, the sector contributed 84.3 per cent of the Government revenue as against 24.0 per cent in 1970. Comparatively, 90.9 per cent of the export earnings came from the petroleum sector in 1980 as against 40.0 per cent in 1970. This period of oil boom witnessed substantial growth in GDP accentuated mainly by the petroleum sector. Conversely, the contribution of agriculture fell drastically during the oil boom era. As a proportion of the GDP, the sector fell from 55.0 per cent in 1968 to 29.0 per cent in 1973. By 1980, it declined to 21.0 per cent (Onwioduokit and Adenuga, 1999).

In order to shift emphasis from commerce to industry, the Nigerian Government became involved in the process of industrialization by directly investing in industrial enterprises and by encouraging Nigerians to participate in industrial projects. In addition, the government started to monitor the industrial sector with a view to setting guidelines for its development. As a result of this action, and as oil revenue grew and the economy expanded, the big trading enterprises and the foreign producers who were only interested in building up marketing organization, started to invest in the industrial sector in order to stabilize their market positions. Also, for new companies who showed interest in establishing themselves in Nigeria, the setting up of manufacturing facilities was a promising opportunity to gain a foothold in the expanding Nigerian market. Ever since, there had been a progressive increase in the number of industrial enterprises. This increase was being aided by abundant natural resources of the country and the size of its domestic market. With the abundant natural resources, the importance of mobilizing critical mass of domestic resources needed for investment in the industrial sector was recognized as essential for the realization of a sustainable development momentum not only for the industrial sector but also for the economy as a whole. Savings mobilization in any economy is a critical factor for economic growth since the industrial sector, the engine of growth, is usually stimulated by savings. Eleazu (1999) identified insufficient financing among others, as one of the reasons for failure of industrialization in Africa. This may explain why economic planners seek to promote growth along with its determinants, of which savings mobilization is crucial. Consequently, financial policy which more than often, complements economic policy, attempts to create a conducive

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environment for mobilizing financial resources so as to enhance the industrialization process in Nigeria.

The role of financial resources as a factor of production to induce economic growth and development as well as need to channel these resources to the industrial sector of the economy for economic empowerment of these industries can not be overemphasized (Ukpong, 1998). This recognition notwithstanding, this decade (the 1990s) has been particularly marked by a steady decline in both official and private international lending. As Slaggen (1997) observed, it is a paradox that donor funds have declined precipitously at a time when financial institutions should be in a better shape to more adequately serve the industrialists. This development appears to have heightened the need for developing countries to increase their capacity to mobilize domestic resources (savings) effectively and allocate them efficiently. In order to achieve this goal (increased domestic savings and efficient allocation of resources), it is imperative for these countries to have well-functioning financial sector. The policies pursued and practices adopted to accumulate savings and increasingly lend to industrial sector vary from country to country. Entrenched mechanisms for mobilizing financial resources from surplus to deficit sector of an economy (including the industrial sector) have not always been successful in achieving that objective because of a number of factors. Some of the factors included among others: structural distortions and macro-economic imbalances, the bankruptcy of public enterprises, poor institutional capacities and political upheavals, combined with adverse external factors induced crisis in the financial sector leading to budget cuts in the whole public sector. Competition for investment is thus constrained by the dwindled domestic financial base. The major known sources of resources for growth are traced to both the informal sector and formal sector activities which include the fiscal operations of the Government, foreign sector transactions, capital market activities, and institutional savings mobilization in the financial sector which is the focus of this study.

The objective of this paper is to examine the modalities of financial resource mobilization by the financial sector in Nigeria and its transformation into investment in the industrial sector for growth which would enhance development. Savings mobilization in the financial sector is an important factor when investment in any economy is concerned. While some economic units may have surplus funds others may be in deficit, those units which have surplus funds are most often not capable or interested in investment. Consequently, financial intermediation has become necessary in order to redirect savings by economic units to productive investment. In addition, the paper will expose the various outlets and opportunities opened to investors and businessmen alike, so that they are aware of the situation in Nigeria, regarding savings mobilization. Accordingly, the rest of the paper is organised into five sections. Section 2 examines some relevant literature with a view to providing the background for the theoretic and conceptual framework of financial resource mobilization, while Section 3 contains a review of Nigeria's experience in savings mobilization. Section 4 examines the processes of transforming savings into investment and also identified the constraints, while Section 5 provides summary, conclusion and recommendation.

2.0 THEORETIC AND CONCEPTUAL FRAMEWORK OF FINANCIAL RESOURCE MOBILIZATION

In recognizing the importance of mobilizing financial resources for the implementation of the programme for the Second Industrial Development Decade for Africa (IDDA), the United Nations Industrial Development Organization (UNIDO) emphasized the unrealistic nature of any industrial development plans without a solid financial back-up. In its 1995 report, the implications of the emerging world economic order and Africa's social and economic realities were examined with a view to understanding the scope and potential for mobilizing financial resources for industrial sector investments. The report stated that “in Africa, particularly in the least developed countries (LDCs), the extremely low per capita income of US$335 in 1990 in Sub-Saharan Africa hardly promotes the build up of savings. In other words, any extra income earned tends to be directed to consumption rather than savings”. The scarcity of bank branches in the rural areas can be attributed partly to the very high transaction costs in these areas, resulting from inadequate development of the local infrastructure, and to the limited nature of financial or material collateral for loans. The high interest rates charged because of the degree of risk divert credits to the speculative activities of the economy, to the detriment of production, capital formation and employment. In the rural area, agricultural production techniques have not developed, due to the rationing of credit whereas most production activities take place in this area. The low value-added resulting from such a situation leads to the scarcity of resources at the local level which, in turn, reduces productivity in the productive sectors.

While some authors have found evidence of positive interest rate effects on savings in developing countries using the theory of consumption, estimated effects tend to be small. Fry (1988), for example, estimated the effects of several variables on national savings using a pooled cross-section time series sample of fourteen Asian developing countries over the period of 1961-1983. He found that a 1.0 percentage point increase in real deposit rate increased the saving

rate by about 0.1 per cent. In contrast, several studies - see Giovaninni (1985) as well as Schmidt-Hebbel et al. (1992) failed to detect a statistically significant positive interest rate effect (Pierre-Richard Agenor and Peter J. Montiel, 1996). Mckinnon (1973) and Shaw (1973) argued that saving instruments available in the formal financial system are limited to cash, demand deposits, and time deposits, raising controlled interest rates to near-equilibrium levels may induce an increase in the saving rate as well as a portfolio shift out of inventories, precious metals, foreign exchange, and curb market lending into the formal financial system. The high real interest rates resulting from the reform would actually increase rather than reduce aggregate investment, either because the need to accumulate funds to undertake lumpy investments makes money and capital complementary rather than substitute assets (stressed by Mckinnon), or because of a "credit availability" effect (the channel emphasized by Shaw). The latter functions as follows: when interest rates are at below-equilibrium levels, total investment is limited to the available saving. By increasing total saving into the banking system, higher real interest rates would increase investment through enhanced credit availability. Moreover, many high-returns projects not previously funded would be undertaken after monetary reform, because banks have economies of scale relative to the informal market in collecting and processing information on borrowers. Thus, they are more efficient in channeling funds to high-returns investment projects than the informal market. The conclusion is that growth is enhanced both because the increase in savings raises investment and because the quality of investment improves (Pierre-Richard Agenor and Peter J. Montiel, 1996).

Hawkins (1986) agreed that efficient capital markets, in which interest rates and yields on financial assets are determined by competitive supply and demand forces, are central to industrial development. He argued that pegging interest rates below rates of inflation in order to control the cost of credit and encourage investment has often been counterproductive, in effect deterring savings and generating excess demand for credit. This in turn requires direct control over bank lending policies which tend to favour large rather than small enterprises while encouraging capital-intensive projects. He further argued that efficient capital markets on the other hand increases both savings and investment, channeling them to productive uses throughout the economy on the basis of the highest rates of return, and ultimately generating employment and overall economic growth. He also identified some problems associated with low rate of savings mobilization, which included the low rate of domestic savings in the low income countries which fell from 10.9 per cent in the 1960s to 8.8 per cent in the 1970s and is expected to drop to an average of 8.6 per cent over the next decade. Although, partially explained by stagnating real income levels, this trend also reflects policies and institutional structure that are not conducive to savings and investment. Structural deficiencies in the banking systems also explain the failure to mobilize even low level of savings and to channel these funds into productive investment. In terms of investment, low rates of return on capital in manufacturing and problems within the investing institutions themselves, such as banks are among the more glaring shortcomings.

2.1 Conceptual Issues

In identifying and appraising Nigeria's experience in financial resource mobilization and policy in relation to investment and growth in the industrial sector of the economy, it would be useful to have some background information on the conceptual issues in resource mobilization and investment.

Output or the Production function can be expressed as:

$$Y = f(K) \qquad (1)$$

$$\text{Also, } f(K) = f(X) \qquad (2)$$

$$\text{It follows that } Y = f(X) \qquad (3)$$

Where Y = Output = GDP

K = Capital

X = Credit from the financial system (Money Supply).

Equation (3), describes the credit analysis (financial sector) in relation to what happens in the industrial sector.

2.2 Sources of Savings

In national accounting framework, any portion of the gross national disposable income (GDI) which is not consumed is saved. Hence, national savings, S, is defined as GDI not consumed. For any economy, these savings reflect contributions by the various economic units. These units constitute the primary sources of aggregate savings in the economy and could be any of the following: individuals, families, companies etc. The rate of savings by economic units would depend on many factors including current income, expected life income, expected returns on savings, demographic influences, and the rate of growth of the economy. However, the mobilization of such savings from the savers would be determined largely by the efficiency of the institutional and regulatory framework and arrangements. GDI is as stated in the equation that follows:

$$GDI = GDP + YF + TR = C + I + (X - M + YF + TR) \qquad (4)$$

Definitions of variables

GDP = Gross Domestic Product

C = Consumption

I = Investment

X = Export

M = Import

YF = Net Factor Income from Abroad

TR = Net Transfer from Abroad

S = National Savings = GDI - C

2.3 Institutional and Regulatory Framework

The national accounting system emphasizes national or aggregate savings and their relationship with investment and output, the financial sector seeks to assist in promoting these variables through savings intermediation from surplus economic units to deficit ones. This intermediatory role is embarked upon for several reasons. Firstly, some economic units have surplus funds while others are in deficit. Secondly, those units which have surplus funds may not be capable or interested in investment. Thirdly, some of those units which do not have surplus funds may be interested in investment spending. Therefore, it becomes imperative to redirect and promote the use of these savings to productive investment.

For financial intermediation to be effective, four elements are usually at work. These are financial institutions, financial resources, financial rules, and financial interactions. Thus, the first step in mobilizing financial resources is to establish institutions that embark on savings mobilization drives. The strategy employed would depend on the type of institution. For example, while banks and other deposit accepting institutions engage in attracting deposits, insurance companies take measures to accumulate insurance funds while pension schemes collect pension funds.

Savings institutions alone would not be effective without regulatory support. The first step in providing this support is to put in place enabling laws which would stipulate the obligations and functions of all parties involved; the prohibited activities; and the penalties for non-compliance with the law. In addition, the regulators, in collaboration with the Government, takes measures to ensure that:

i the laws are observed;

ii additional rules are made to supplement the laws;

iii financial policy is adequate;

iv the institutions are properly supervised; and defaulting parties are penalized appropriately.

Hence, through the efforts of financial institutions which mobilize savings and the regulators which provide the enabling environment, the financial sector can increase the efficiency of mobilizing savings for investment.

2.4 Savings Investment Linkage

Financial resources are not mobilized or sought, for their own sake. Their usefulness depends on what they could be used to achieve. Usually, the financial resources mobilized by the financial institutions are applied to increase investment in the industrial sector which enhances growth. Although, it should be noted that the immediate primary objective of individual financial institutions which mobilize savings is to make profit from their operations, they end up promoting investment and growth. When financial resources are saved by economic units or are mobilized by institutions, two options are readily available to the savers or the mobilizing institutions, namely, either to invest them directly on some economic activities or to lend them to those who would apply them to investment. In both options, but more importantly in the latter, the regulatory institutions in connection with the Government would step in to provide a more conducive environment to protect the various interest groups. Among these groups are:

i. the primary economic units or savers who respond to savings mobilization drives, which depend on the incentives offered, such as the rate of interest;

ii. the institutions which mobilize such savings with the objective of making profit from their lending activities; and

iii. borrowers who are prepared to pay the cost of borrowing (i.e the lending rate) in order to have investible fund.

When the efforts of these groups are harnessed to turn savings into capital stock through investment spending, the economy's productive capacity is enhanced, thus making it possible to produce more goods and services. Some critical conditions for this task of transforming savings into investment include low or moderate lending rates which encourage investors to borrow; sufficient credit flow to the private sector which is noted for efficiency in resource utilization; and macroeconomic stability which increases confidence in the system.

The structure of the Nigerian financial system is presented below.

BOX 1.0 STRUCTURE OF THE NIGERIAN FINANCIAL SYSTEM

A financial system is a collection of various institutions, markets, instruments and operators that interact within an economy to provide financial services. The services provided include resource mobilization and allocation, financial intermediation and foreign exchange transactions. The Nigerian financial system can be categorized into two: the formal and informal. The informal sector comprises the local money lenders, the thrifts and savings associations etc. It is poorly developed, limited in reach, and not integrated into the formal financial system, but plays a major role in the Nigerian financial system. The formal financial system on the other hand can be further categorized into capital and money market institutions and these comprise of the banks and non-banks financial institutions.

The Nigerian financial system comprises the regulatory/supervisory authorities, banks and non-bank financial institutions. As at end-2006 the system comprised of the (regulatory/supervisory authorities) the Central Bank of Nigeria (CBN), the Nigerian Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), the National Insurance Commission (NAICOM), the National Pension Commission (NPC), and the Federal Mortgage Bank of Nigeria (FMBN). The CBN is the principal regulator and supervisor in the money market, consisting of deposit money banks, discount houses, the People's Bank of Nigeria and Community Banks. The CBN exclusively regulates the activities of finance companies and promotes the establishment of specialized or development finance institutions. The SEC is the apex regulatory/supervisory authority in the capital market. The Nigerian Stock Exchange (NSE) is a self-regulatory or user-regulatory) institution. The issuing houses, registrars and stock brokers, who also interact with the money market, complete the chain in the capital. The Federal Ministry of Finance, together with the CBN constitutes the monetary authorities, share control over Bureau de Change. The NAICOM is the regulatory authority in the insurance industry, while the FMBN regulates mortgage finance activities in Nigeria. There are also 25 deposit money banks, 750 community banks, 112 finance companies, 322 Bureaux-de-change, 1 stock exchange, 1 commodity exchange, 91 primary mortgage institutions, 5 development finance institutions, 103 insurance companies, 7 microfinance banks, and 581 registered insurance brokers (CBN Annual Report and Statement of Accounts, 2006).

3.0 NIGERIA'S EXPERIENCE IN SAVINGS MOBILIZATION

3.1 Institutional Setting

In Nigeria, deposit money banks provide more than 90.0 per cent of institutional savings. Consequently, much importance is attached to such banks in promoting financial intermediation. The initial official step to tap surplus financial resources from primary savers was the establishment of deposit money banks. Although many of them were established between 1894 when the first surviving deposit money bank was opened in Nigeria and 1958 when the Central Bank of Nigeria was established, only few of the banks survived[1]. Thus, by 1958 there were only 7 commercial banks. The number rose to 28 in 1985 and thereafter more than doubled to 66 in 1993 following the structural reforms since 1986 and the easing of the licensing of banks by 1995. Merchant banks rose gradually from one in 1960 to 12 in 1986 and increased subsequently more than four-fold to 53 in 1993 before dropping to 51 in 1994 when three of them were liquidated (see table 2). With the advent of the universal banking era between 2000 and 2001, the commercial and merchant banks became deposit money banks (DMBs). The total number of licensed banks was 89 as at 2004. The number decline to 25 as at 2006 after the banking sector consolidation that increased the minimum capital base of banks to N25 billion.

Aside from the growth in number, the banks' branch network also increased, thereby expanding the scope of savings mobilization. Thus, reflecting the branch system of banking in Nigeria, the branches of commercial banks rose rapidly from 192 in 1960 to 1,297 in 1985 and later increased to 2,403 in 1994 before falling to 2,351 in 1995 following the liquidation of the terminally distressed ones among them and the rationalization of the branches of some others. Merchant banks' branches rose steadily, though more slowly, from one in 1960 to 144 in 1995. The rapid growth in the number of branches of commercial banks was attributed largely to the introduction of Rural Banking Programme (RBP), under which commercial banks were required to open branches in rural areas. The geographical spread of commercial and merchant banks has been reinforced substantially by the newly introduced community banks (a variant of commercial banks of unit banking variety) which rose from only one in 1991 to 970 in 1995. With the launching of the microfinance policy in December 2005, all community banks (CBs) are required to convert to microfinance banks within the next two years.

[1] Ezeuduji (1996)

Forty-three (43) additional bank branches and cash offices were approved for banks, bringing the total number of bank branches to 3,535 as at end-December 2005.

3.2 Mobilization Techniques

Savings mobilization techniques in Nigeria vary among the institutions. For deposit money banks, savings are mobilized largely through the accumulation of deposits. Of the three deposits types - current account, savings account and fixed deposit account, the last two - savings and time deposits are usually regarded as savings because of the ease of withdrawing or transferring it. However, the hardcore of the current account which is hardly withdrawn is as good as savings. Similarly, the microfinance institutions and mortgage institutions make efforts to attract savings and time deposits from their customers. In the case of mortgage institutions, the mobilized financial resources are tied to activities in the mortgage sub-sector. For the insurance and pension schemes, the focus is on accumulating insurance and pension funds. Although the primary aim of such funds is to settle claims arising from insurance policies and pension entitlements, the funds provide a reservoir of financial resources for investment. Available data indicate that total savings mobilized by these institutions (institutional savers) increased from N341.6 million in 1970 to N23,249.0 million in 1988 and subsequently shot up to N108,460.5 million in 1994 and further increased to N385,190.9 million in 2000. It rose to as much as N797,517.2 million in 2004. It increased further to N1,316,957.4 million in 2005 and later declined to N641,669.8 million in 2006, (see table 2). Institutional savers performed better when interest rates were positive than when they were negative in real terms, thus pointing to the need to have appropriate interest rates in order to stimulate savings.

Another viable way of raising savings for private sector industrial development is through the capital market, government or private sector firm can raise funds from the market through development stocks or debenture stocks. A development or debenture stock may be for a period of 10-20 or any number of years with specified repayment terms. This may include moratorium period, serving charge i.e interest rate on the loan and annual installmental payments. The capital market is the financial market for medium and long term lending and borrowing. The major instruments - equities and bonds - are traded in the capital market. Equities allow ownership rights in a company while bonds are promissory notes issued by a company or government, as a long term instrument. There are two separate markets in the capital market, the primary market where new and fresh funds for corporate bodies and public enterprises are raised and the secondary market (the Nigerian Stocks Exchange) where securities are traded. Table 2 shows transactions in the Nigerian Stock Exchange. By 1996, value of stock traded stood at N7.0 billion and the all share value index was 507.1. By 2006, the value of stock traded rose to N454.3 billion, the all share value index increased to 33,358.30. The instruments usually traded in the secondary market are:

i. Federal Government Development Loan Stock and State Municipal Bonds.
ii. Commercial and industrial loans or debenture stocks and equities.

Major capital markets instruments for financing public sector project are Federal Government Development Loan Stock (DLS) and State Municipal Bonds (SMB). They are issued by the CBN on behalf of Federal Government and are not registered with SEC. They are floated at very low interest rates with a tenor of over twenty years. SMB are projected debt instruments issued by State Government and referred to SEC for approval before being offered to the public through the capital market. Financing a public sector project through capital market instrument enables the Government to subject itself to the discipline of the capital market. Another method of mobilizing resources is through loan syndication. Since the amount needed is large and long term in nature, it will not be possible for a single institution to finance. Syndication of the loan by many banks helps to share the risk of lending.

3.3 Recent Financial, Regulatory and Institutional Policy Measures

Some reforms were introduced between 1986 and 1995 in order to enhance activities in the financial sector, including the stimulation of savings mobilization. With the deregulation of economic activities under the reforms, more deposit accepting institutions were licensed than at any period in the nation's financial history. This encouraged competition. To protect banks from the liberal policy of the licensing of new banks and to adjust to inflationary pressures, the minimum paid-up capital for commercial and merchant banks were increased from N 12.00 and N 10.00 million in 1985 to N 50.00 and N40.00 million, respectively in 1992 and later unified and regulated at N 500.00 million for both. Presently, the paid-up capital for deposit money banks is N25 billion. This was to reverse the trend in the inadequate liquidity position of banks and strengthen the financial system. Similar adjustment was made for other financial institutions.

Since the health and stability of the savings institutions is critical to their performance in savings mobilization, a number of measures were adopted to strengthen the supervision of these institutions. In the banking sub-sector for instance, the following reforms were introduced:

i. Capital adequacy requirements specifying the banks, minimum ratio of capital to the total-weighted assets;
ii. Prudential guidelines, requiring all banks to make adequate provisions for losses based on portfolio classification so as to reflect their true financial positions; and
iii. Accounting standards to promote accuracy, reliability and comparability of financial statements of financial institutions.

To further enhance the stability and health of the financial institutions, some institutional and legal changes were made. Firstly, the Nigeria Deposit Insurance Corporation (NDIC) was established to insure bank deposits against bank failures and to ensure safe and sound banking practices through effective monitoring in collaboration with the CBN. Secondly, there have been a series of actions taken jointly by the various regulators to assist distressed institutions overcome the problems of illiquidity, poor asset quality, capital erosion, poor management and technical insolvency. Thirdly, a number of laws and reforms were introduced or amended in order to strengthen the regulation of savings institutions so as to enhance savings among other objectives. These include:

i. The CBN Decree No. 24 of 1991 which replaced the repealed CBN Act of 1958 (as amended) and enlarges the powers of the CBN with regard to the maintenance of monetary stability and sound financial structure and to facilitate market based instrument of monetary control;
ii. The Banks and Other Financial Institutions Decree (BOFID) of 1991 which centralizes the functions of bank licensing and regulation in the CBN and strengthens the Banks supervisory power;
iii. The failed Banks (Debt Recovery) and Financial Malpractices in Banks Decree whose objectives are to bring to book those who contribute to the failure of banks and to recover debts owed to the banks;
iv. The transformation of the National Provident Fund to Nigeria Social Insurance Trust Fund; and
v. The establishment of the Financial Services Regulation Coordinating Committee (FSRCC) to reconcile and streamline the activities of the regulators in the financial system.
vi. The new CBN Act of 2007.

3.4 Incentives for Savings

Apart from the measures taken, and facilities provided by the Government and regulators to encourage savings and savings mobilization, institutions which intermediate funds in Nigeria use varying incentives to attract savers depending on the prevailing environment provided by financial policy. Prior to the commencement of structural reforms in the mid-1980s, incentives were limited by the intervention of the regulators which fixed not only the savings and lending rates but also the permissible credit to be granted. Since the structural reforms, especially since 1987, the deregulation of the financial sector opened the way for numerous incentives. Unlike in the era prior to the reforms, interest rate became largely market determined (though with occasional reverses), thus making institutional savers rely on interest payments and other benefits to attract savings from primary savers. These benefits included, allowing savers to bargain for the interest rate to be paid; branding products or deposit instruments which could be used as collateral for borrowing; and offering access to special services. In the process, competition to pay higher rates to customers in order to capture a large share of the market commenced. For the period up to 1993, this competition was carried a bit too far when interest payment for savings mobilization were very high and in many cases were settled up front. This abuse contributed to the distress in the system, notwithstanding, the incentives offered by operators in the financial sector to their customers; along with regulatory policy measures enhanced savings mobilization. However, these incentives were not sustained following the reversal of interest rate policy in 1994.

4.0 THE PROCESSES OF TRANSFORMING INSTITUTIONAL SAVINGS INTO INVESTMENT IN NIGERIA

4.1 Transformation of Savings into Investment

As indicated earlier, the mobilization of savings by financial institutions is only one of the ways of accumulating the stock of aggregate savings for investment. However, focus would only be on the process of transforming institutional savings into investment through the expansion of credit, comprising loans and advances to the various sectors, in particular to the productive sector manufacturing, and mining and quarrying sectors (capital goods producing sub-sector). This relationship can be seen in equation 3. This sub-sector that produces capital goods will not only promote and enhance the industrialization process but will also have a multiplier effect on the other industries consumer goods sub-sector. For this transformation to be effective, the borrowers, the lending institutions and the regulators have important roles to perform. The primary responsibility for turning borrowed fund into investment lies with the investor who must have planned the following ahead of the borrowing:

i. What project to invest the loan on;
ii. How to use the loan;
iii. When to repay the loan;
iv. How to repay the loan; and
v. What to achieve through the loans.

However, an efficient lending institution, motivated by the need to recover its loan, takes additional measures to safeguard its interest. Efficient lending institutions in Nigeria, as elsewhere usually adhere to the following steps: First, the lender evaluates the project for which the loan is sought to ensure that it is viable. Second, it assesses the credit worthiness of the borrower and the borrower's ability to manage the project. Third, the lending institution determines the level of loan that is convenient to it and the level compatible with the operating guidelines. Fourth, the lender follows the progress of the project and determines what proportion of the approved total loan that should be released to the borrower at each phase of the project. Fifth, the lender takes measures deemed necessary to protect the project so as to protect the loan. The inability of some lenders in the financial sector to follow these guidelines has contributed significantly to the current distress in the financial sector arising from project failures.

The regulatory authorities in Nigeria, on their part, have taken some steps to ensure not only that the savings institutions stimulate investment through lending but also that loans flow mainly to sectors considered priority in terms of contribution to growth. Different strategies have been adopted over the years in performing this task. Prior to the introduction of structural reforms in 1986 the strategy was administratively controlled for example, banks were given strict directives on the expansion of their total credit and how they should allocate it among the sectors. With the commencement of the structural reforms in Nigeria in 1986, sectoral allocation of credit was initially simplified up to 1993 by reducing the number of sectors receiving mandatory credit allocation, but intensified in 1994 and 1995 by introducing more sectors for compulsory allocation and subsequently entered a phase of gradual elimination in 1996. The administrative ceilings on the expansion of aggregate credit continued up to September 1992 when they were discontinued for banks which met some prescribed performance criteria. Thus, such banks were allowed to use their discretion in expanding their aggregate credit. Apart from directives on how institutional savers should expand and structure their lending activities, the government also continued to borrow from these institutions through both short-term and medium to long term instruments which sometimes crowded-out private sector borrowing. These instruments are held not only by banks but also by other institutional savers such as insurance companies and pension funds. While measures were taken by the institutional savers to encourage savings, the regulators and the Government encouraged the transformation of savings into investment, others served as constraints.

4.2 Constraints to Transforming Savings into Investment

From the foregoing, a number of factors can be identified as constraints to the process of transforming savings into investment for growth in Nigeria. These constraints could be classified into four broad groups, namely the poor condition of the financial sector, the distortion effects of negative interest rates, economic problems and general uncertainty, usually caused by civil unrest and political instability. The emergence of distress in the financial sector in Nigeria since late 1980s, its rapid spread and persistence with the resultant confidence crisis, led to some disintermediation in the system.

Another conspicuous constraint is the negative interest structure in the system. Although, some past financial policy regimes had generally encouraged some efficiency in financial resource mobilization and allocation through deregulation measures which stimulated competition, this was not sustained following some reverses. This coupled with high inflation has led to the continuation of negative interest rates in real terms. In Nigeria, inflation was 13.1 per cent in 1970 and 16.1 per cent in 1980. The inflation rate went as low as 3.6 per cent in 1990 and as high as 23.8 per cent in 2003, and decline to 8.6 per cent in 2006. This has inhibited savings mobilization. A related constraint is macroeconomic instability. The economy since the 1980s has witnessed not only economic downturn as reflected in the sluggish growth in GDP but also instability, especially in the first half of the 1990s, with rapid growth in inflation and sharp depreciation in Naira exchange. The downturn in economic activities has slowed down the growth of savings for investment. Furthermore, there has been general uncertainty arising from political crises especially between 1993 and 1994, and insecurity of life and property particularly since the turn of the 1990s. These developments encouraged capital flight from the system which constrained savings further. Since savings and investment in the industrial sector for growth are based on effective planning, uncertainty which discourages planning constitutes an obstacle to growth which is the basis for development.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

This paper has attempted to examine how the financial sector in Nigeria mobilizes savings for investment growth. It gives a brief overview of the Nigerian economy and historical nature of the country and a general review about the issues concerned such as interest rates, liberalization, financial reforms and also by defining aggregate savings and identifying their sources. The paper also identified the structure of the Nigerian financial system and discussed Nigeria's experiences in savings mobilization, particularly the institutional arrangement, the techniques used for mobilization, financial regulation, institutional policy measures and attractive incentives created for savings. The processes of transforming institutional savings into investment through lending to investors and the various constraints associated with this was covered in Chapter 4. Some of the constraints included the poor condition of the financial sector and the negative interest rates as well as the downturn in economic activities and general uncertainty.

5.2 Conclusion

The difficulty of mobilizing adequate savings for investment and growth has remained a formidable problem, the recent measures for its resolution notwithstanding. The prospect of reversing the trend would depend largely on three major groups of actors. The institutions, whose major role included savings mobilization, constitute the first group. The loss of public confidence on the banks was due basically to the mismanagement of customer's fund that also culminated into the distress in the sector. This affected the mobilization efforts of the banks. However, inspired by increased enforcement of operating laws, there has been concerted internal efforts to reposition most of the institutions for improved performance. The various regulators in the financial sector make up the second group of actors in the sector. In collaboration with the Government, they formulate the guiding policies. These collaborative

efforts sometimes make it difficult for the public to know whose views are reflected in any particular policy. Thus, when there are inconsistencies or policy slippages the public is left in doubt about where to seek solution, thereby making it necessary to have a clear definition of roles. This notwithstanding, there has been significant steps to rid the sector of distress with a view to restoring the sector to a position of improved savings mobilization for investment. The third and most important actor in the task of mobilizing savings for investment in the industrial sector is the Government which could provide the required environment through its dominant role in creating macroeconomic and political stability, and social security. Regarding this, the government has already embarked on several programmes of action.

There is every hope that the major players in the financial sector have identified not only the constraints of the sector but also the urgent need to remove these constraints so that the financial sector could perform its functions, including savings mobilization. However, the ultimate revitalization of the sector and its savings drive for investment and development would only be successful if the current efforts (banking sector reform) and measures are sustained while the enabling policies, management, institutions and environment are fine-tuned. This becomes necessary when the assistance that the donor community can realistically be expected to provide is limited, given the disappointing results of the substantial aid flows over the last two decades.

5.3 Recommendation

Policy measures for the development of a dynamic financial sector in Nigeria would invariably have to start from the premise that the financial institutional infrastructures as well as available financial instruments are extremely deficient for the mobilization and allocation of resources in support of industrialization and hence economic development.

The following key policy actions have to be adopted:

i. Facilitation of an enabling environment for the establishment of a wider range of financial institutions and their branches in the rural area, as well as the financial instruments and services they offer;

ii. Strengthening the legal framework within which the financial sector operates;

iii. Creating and maintaining a stable macroeconomic environment that offers enough confidence and adequate incentives to savings and investment which is conducive to sustained industrial growth and development of a sound and dynamic financial sector. In order to avoid capital flight the exchange rates must be realistic and relatively stable.

iii. Reducing the fiscal burden on the financial sector through increased savings by public enterprises;

iv. Develop appropriate saving scheme which include both savings and credit aspects. This savings would automatically confer eligibility for a pre-determined volume of credit. This type of formula infact acts as an incentive to save and partly solve the problem of guarantees, to the extent that savings deposits could serve as a guarantee that the loan to which they are linked will be repaid; and

v. Fostering the development of the capital markets with the ultimate aim of promoting private sector development and trade through investment in stocks.

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TABLE 1
Gross Domestic Product and Share of Agriculture, Wholesale and Retail Trade, Manufacturing and Crude Petroleum and Natural Gas

Year	GDP at current market prices (₦ million)	Share of Agric in total GDP (%)	Share of Wholesale and Retail Trade in Total GDP (%)	Share of Manufacturing in Total GDP (%)	Share of Crude Petroleum and Natural Gas in Total GDP (%)
1981	251,052.3	33.63	14.17	6.53	29.09
1982	246,726.6	35.07	15.04	7.40	26.48
1983	230,380.8	37.03	15.72	5.56	25.81
1984	227,254.7	35.64	14.70	4.96	29.43
1985	253,013.3	38.25	13.72	5.22	28.52
1986	257,784.4	41.38	13.94	4.77	27.46
1987	255,997.0	40.13	14.92	5.01	26.96
1988	275,409.6	41.22	15.13	5.28	25.72
1989	295,090.8	40.49	14.69	5.05	26.88
1990	472,648.7	26.37	8.68	23.22	31.68
1991	328,644.5	39.43	14.02	5.20	27.79
1992	337,288.6	39.33	14.08	4.85	27.75
1993	342,540.5	39.46	14.28	4.61	27.39
1994	345,228.5	40.19	14.17	4.22	26.47
1995	352,646.2	40.75	13.89	4.53	26.52
1996	367,218.1	40.71	13.45	4.10	27.30
1997	377,830.8	41.28	13.27	4.02	26.92
1998	388,468.1	41.77	13.29	3.66	26.75
1999	393,107.2	43.45	13.46	3.75	24.45
2000	412,332.0	42.65	13.04	3.69	25.91
2001	431,783.2	42.30	12.76	3.78	26.60
2002	451,785.7	42.14	12.99	3.96	23.46
2003	495,007.2	41.01	12.54	3.82	26.53
2004	527,580.0	40.98	12.90	3.94	25.72
2005	561,930.0	43.87	14.65	4.33	25.84
2006[1]	593,570.0	47.02	16.66	4.43	24.64

[1] **Provisional**
Source: Central Bank of Nigeria Statistical Bulletin, Volume 16, December 2005

TABLE 2
Selected Variables on Savings and the Nigerian Stock Excahange

Year	Total Savings	All Share Value Index 1984 =100	Value of Stock Traded (N' billion)	Market Capitalization (N' billion)
1970	341.6	-	0.02	-
1971	376.3	-	0.04	-
1972	461.2	-	0.03	-
1973	586.8	-	0.09	-
1974	1,137.1	-	0.05	-
1975	1,815.2	-	1.00	-
1976	2,255.3	-	0.11	-
1977	2,592.8	-	0.18	-
1978	3,009.7	-	0.19	-
1979	4,161.8	-	0.25	-
1980	5,769.9	-	0.39	-
1981	6,562.6	-	0.38	-
1982	7,514.4	-	0.22	-
1983	9,443.9	-	0.40	-
1984	10,988.1	-	0.26	-
1985	12,521.8		0.32	-
1986	13,934.1	130.00	0.50	-
1987	18,676.3	133.10	0.46	-
1988	23,249.0	138.50	0.25	-
1989	23,801.3	152.50	0.61	-
1990	29,651.2	175.10	0.23	-
1991	37,738.2	192.90	0.24	-
1992	55,116.8	227.20	0.50	-
1993	85,027.9	269.30	0.80	-
1994	108,460.5	290.70	1.00	-
1995	108,490.3	389.20	1.80	-
1996	134,503.2	507.10	7.00	-
1997	177,648.7	6,472.10	10.30	-
1998	200,065.1	5,672.80	13.50	0.00
1999	277,667.5	5,226.40	14.10	294.10
2000	385,190.9	8,111.00	28.20	466.10
2001	488,045.4	10,965.00	57.70	648.50
2002	592,094.0	12,137.70	59.40	747.60
2003	655,739.7	20,128.90	120.40	1,324.90
2004	797,517.2	23,844.50	225.80	1,925.90
2005	1,316,957.4	24,085.80	262.90	2,900.10
2006	641,669.8	33,358.30	454.30	5,120.90

Source: Central Bank of Nigeria Statistical Bulletin, Volume 16, 2005.

AGRICULTURAL KNOWLEDGE SYSTEMS, INFORMATION AND COMMUNICATION TECHNOLOGIES AND THEIR IMPLICATIONS FOR AGRICULTURAL DEVELOPMENT IN NIGERIA

PHEBIAN N OMANUKWUE

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Dissemination of agricultural information in a globalized environment is crucial to the achievement of predetermined agricultural objectives of an economy. Information is often considered as one of the fourth factor of production. This paper sets out to examine the agricultural knowledge system, which further underscores the significance of Information and Communication technologies (ICTs) in agriculture. The paper further identifies measures that could assist an average rural farmer in Nigeria to make effective use of the information and communication technologies towards boosting productivity in the agricultural sector. Some factors such as conservatism, lack of education/computer skills, as well as inadequate finance were identified as constraints to effective use of ICTs in the agricultural sector. Amongst others, the paper recommends the establishment of rural/community radio stations dedicated to dissemination of agricultural information in local languages, the organization of group training sessions as well the promotion of the increased use of folklores, traditional plays and dances to improve understanding and awareness of new technologies among rural agrarian communities.

JEL Codes: Q10, D80, 013, O30
Keywords: Agricultural Knowledge Systems, ICTs, Agriculture
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I. Introduction

In a typical African developing economy, agriculture continues to assume a pivotal role in the drive towards achieving sustained growth and development. Available statistics from World Trade Organization, (WTO) show that agriculture accounts for more than one third of export earnings of 50 developing countries, (WDI, 2006). The sector also plays an important role in rural development of most developing economies, employing up to 80 percent of the rural population, The sector also sustains the growing population, stimulates growth and employment in the agro allied industry.

Despite the importance and potential contribution of this sector for economic development, the sector has continued to perform below average. In Africa, agricultural growth has been estimated at 1.7 percent, (Diom 1996). In Nigeria, for instance, its value added to GDP had declined from 28.8 percent and 26.4 percent in 2000 and 2003 respectively to 16.6 percent in 2004, (WDI, 2006). Some factors responsible for low agricultural growth and development have remained restricted access to finance, dearth of agricultural inputs, inefficient market systems and continued use of traditional agricultural techniques. These challenges require more than increases in budgetary allocations by government.

ICTs usually provide the pathways that can network agricultural stakeholders to collectively facilitate the provision and modification of innovations to address agricultural challenges. However, in most rural areas of developing countries, it has been observed that there is usually a lack of knowledge or information asymmetry on some of these agricultural innovations, (Paquot and Berque 1996).

The focus of this paper, therefore, is to examine the concept of agricultural knowledge systems, its linkages with ICTs and agricultural development. The rest of the paper is organized thus: Section 2 presents a review of the literature. Section 3 describes the agricultural knowledge system and its application to Nigeria. Section 4 identifies some constraints to effective application of ICTs in agriculture. Section 5 proffers recommendation on how to minimize the constraints associated with the use of ICTs in agriculture, while section 6 concludes the paper.

I. Literature Review

The concept of Information and Communication Technology, (ICT) is not a novel one. Its role in almost all spheres of economic life has

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become the focus of academic research in developed and developing economies alike. The agricultural sector is not an exception. However, due to its ever-changing methods, nature, structure, and application, there is no widely accepted definition of ICT. Nevertheless, the European Commission had defined ICT to denote a term concerned with the storage, processing, dissemination and management of information and knowledge adopting various types of software and equipments in a digital and non digital form, (European Commission, 2001). From the foregoing definition, one can deduce that there are three components of ICT. The first is services that include telephones, fax, internet, fax, and emails. The second is the application, which involves management information systems, teleworking, teleconferences, distance learning and stock taking. The third component is the technology ranging from the old ones such as accounting ledgers, face to face training, television and radio to new ones such as cellular mobile telecommunications, (European Commission, 2001).

There are two major types of ICTs. The traditional (non-digital) ICT which constitutes of face to face discussions, newspapers, magazine, radio and television and the modern (digital) ICTs which includes digital technologies such as internet, super highways, computers and interactive multi media systems, (Winrock International, 2003; Munyua, 2000). Each of these types of technologies has advantages and disadvantages peculiar to its use. For example, the radio in most rural agricultural settings is very handy and is the major source of information. For instance, in Kenya, it was estimated that about 69 percent of the rural population had a radio listening preferences, (Munyua, 2000).

In a globalized environment, the internet and email ensures rapid transfer and exchange of information such as farming needs and practices between research stations and farming communities. However, the internet has been criticized for widening the gap between the 'information rich' and 'information poor'. Further more, due to the issues of inadequate electricity supply and lack of skilled manpower, the use of this technology in agrarian communities may not yield the desired and immediate results. The audiovisual media is quite popular with illiterate agrarian population. This is because it affords rural farmers an opportunity to visualize and discuss complex agricultural techniques before using them.

The linkages between information and communication technologies as mass drivers of sustained macroeconomic development have been established in the literature. The United Nations for Educational, Scientific and Cultural Organization, (UNESCO) as far back as 1961, and the European Commission (EC) are some international institutions that have underscored the importance of ICTs in economic development. Various scholars have also documented the importance of ICTs for agricultural development McQuail, (1987), Tehranian (1996), and Obijiofor, et al, (2005) noted that ICTs improves communication/information flows and exchange, increases participation of sector stakeholders, enhances overall efficiency/productivity and solves socio economic problems. McNamara, (2003) further noted that ICTs can assist agricultural markets and institutions to work more effectively by reducing transactions costs, providing increased access to credit, government services, agricultural products and services, and decrease rent seeking opportunities. However, Schaniel (1988) in his study noted that in as much as new technologies creates change, the direction of such changes is usually determined by the nature and the use of such technology in the adopting economy. For instance, in India, a web based agriculture information dissemination system provides expert information to farmers towards improving crop productivity. In Namibia, its Ministry of Agriculture has introduced and sustained a computerized database of the country's natural resources to enable planners and researchers make efficient use of manpower and increase food security. In African countries such as Ethiopia, Uganda, and Kenyan, a decision support software called the Nutrient Monitoring for Tropical Faming systems, (NUTMON) has been initiated to address soil fertility problems and improve nutrient management systems. In Nigeria, agriculture research and extension agents have refocused on high input technologies for soil cropping system as against the mixed/relay cropping systems used by small farmers, (ICT update, 2006).

Indeed, ICTs when suitably adapted for local conditions, becomes a powerful tool towards fostering sustainable agricultural development. In his study, McNamara, (2003) noted that the key to an effective deployment of ICTs is to have an idea of the country's development needs/challenges and how ICTs can be effectively used to bring about the desired changes. Nevertheless, he added that ICTs are not “magic pills” that solve problems of developing economies as other factors such as the macroeconomic environment could aid or inhibit sectoral developmental growth. In addition, he opined that a new technology does not necessarily connotes a better one, as the aim of any technology is to produce the desired result/output in a most efficient manner, taking into account the needs of the user, the availability of resources and environmental constraints. In most situations, the introduction of ICT requires that provisions must be made for the recurrent expenditure component for its update and maintenance (Omanukwue, 2005). Nevertheless, it is increasingly clear that the significance of ICTs is mainly in the accessibility to current

information and not necessarily in its technology. Thus, irrespective of the type or nature of the technology in place, they all remain relevant to the daily needs of farmers and the functioning of agricultural markets and institutions.

The Agricultural Knowledge system (AKS) developed by Winrock International for the United States Agency for International Development (USAID) focuses on addressing the needs of small farming households within a web of organizations, (e.g. intermediaries such as the extension service workers, the NGOs, producers associations), farmers, sources of knowledge, communication methods and behaviors associated with typical agricultural processes linked together by information and communication, (Winrock International, 2003). Thus, the AKS is a flow and exchange of agricultural information between the globalized knowledge system and the localized knowledge system though ICTs. The globalized knowledge system consists of national and international institutions in agriculture and rural development such as Ministries and international NGOs. In most cases, these globalized systems have access to technical, market and policy information through the internet, networking and websites that the localized systems may not have access to due to distance, expense and other factors as the case may be. In a rural farmer's localized knowledge system, information and communication exchange is usually by non- digital means such as radios, face to face discussions, pamphlets, etc.

The component of the AKS differs across countries and is defined by the function and linkages of the institutions that make up the components. These institutions could be concerned with technology generation, technology transfer, technology utilization or policy. Technology generation institutions are primarily concerned with the planning and implementation of research activities that develop, assess, adapt and test agricultural technologies for farmers. In most economies, these functions are domiciled with agricultural institutes. Technology transfer consists of knowledge transfer and input transfer to the farmers. These functions are usually performed by government extension and private organizations. Technology utilization involves mainly the users of agricultural technology (i.e. farmers) and involves user awareness, adoption and adaptation of improved technology. The policy component relates to government development goals and strategies, market and price policies, and the levels of resource investments in the system. Various government bodies play a role in setting development policy. The policy component can limit or enable technology development and transfer organizations in fundamental ways.

II. The Agricultural Knowledge System and Its Application to Nigeria

In Nigeria, the components that make up the AKS are defined and interlinked by their objectives and roles. These organizations influence themselves in complex ways. Suffice to say, though, that most agriculture knowledge systems are funded by governments with the objective to improve the well being of rural/urban population and to increase agricultural productivity. Within the AKS, the average Nigerian farmer is faced with decisions about market prices, agriculture input supply, credit sources, farm practices (land management practice, pest management practice, crop combination, etc). In the course of doing this, the farmer would usually rely on the support of local organizations such as the local non-governmental organizations, rural support programmes (RSPs) social organization such as schools and churches, rural credit agencies, radio broadcasts (if available), face to face discussions, producer organizations and farmer groups, amongst others as major sources of non-digital information.

Due to the nature of agriculture in developing economies such as Nigeria, the absence of sophisticated ICTs and lack of human capacity to maintain them, non-digital ways of managing and communicating agricultural information would continue to be dominant in these economies. Nevertheless, the need to strengthen the capacities of all AKS components has been recognized. The proposed Agriculture Policy support facility (A-PSF), envisaged as a joint initiative between the Nigerian government, Canadian International Development Agency (CIDA), United States Agency for International Development (USAID) and Department for International Development (DFID) presents a typical example.

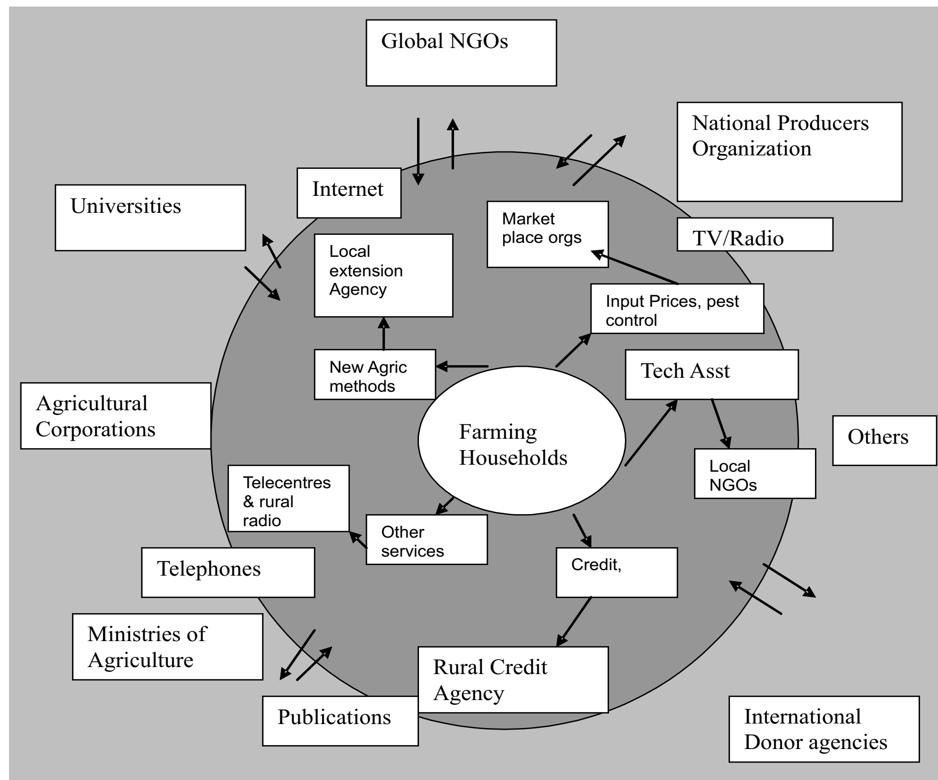
There is also a growing involvement of the private sector, both commercial and non-profit organizations in agriculture development. Though they may possess limited research aims and coverage targets, they aid in the technology transfer and generation process. The grass-roots farmer's organizations/cooperatives form part of the utilization component and thus provide an effective channel for wider outreach to farmers, as well as opportunities for participatory interaction with the localized AKS.

Box 1: Some Contributions of ICTs in the Agricultural Knowledge System

- *Rapid transfer of digital information on prices, agricultural products, credit, agricultural development programs/technical assistance across long distances*
- *Storage of information as digital files*
- *Provision of diversified information and facilitates knowledge management*
- *Provision of greater interactivity and feedback mechanisms in evaluating agricultural programs*
- *Improvements in trade in agricultural products/services*
- *Improvements in the access to regional and global agricultural markets*
- *Reduction of barriers of farming community feedback, time and location.*
- *Facilitate rapid assessments of agrarian needs and monitor progress*
- *Facilitate payments for agricultural products/services*
- *Enhance efficiency in the use of limited human resources*
- *Reduction in cost and spread of information*
- *Increase integration of national agricultural production systems into regional and global systems.*
- *Linkage between knowledge seekers in remote areas with knowledge sources.*
- *Mobilize science and technologies for agriculture by lin king experts across borders and creating opportunities for agricultural research*
- *Access to information boosts competitiveness in agricultural sector*

Figure 1: The Agriculture Knowledge System

The figure below presents a simplified version of an agricultural knowledge system



Source: Winrock International, 2003

Box 2. Key Information and Messages exchanged within an Agriculture Knowledge system

Agriculture technologies	**Natural resource Base and Geography**
Best practices *Demonstration results* *New Varieties* *Technical Assistance*	*Climate and Weather* *Soils Information]* *Rainfall and water sources* *Infrastructure (e.g. roads, irrigation, structures)*
Policy Environment, Laws and Regulations	**Market Information**
Land Titling *Labor laws* *Water access rights* *Arbitration and dispute settlement* *Environment Regulations* *Entrepreneurial rules and off farm income options*	*Prices, quality requirements* *Input provision* *Credit Availability* *Selling Options* *Labor supply and demand* *Distribution and other logistics*
Others	
Communication with migrant family members, remittances, etc.	

Source: Adapted from Winrock International (2003) "Future directions in Agriculture and Information and Communication Technologies (ICTs) at USAID"

Figure 2 below shows the typical information needs of a rural farmer based on a survey conducted in Nigeria, (Oladokun 1994). These needs ranged from information about market prices to credit availability. Farmers are constantly sourcing for information on where and how to access loan schemes and credit facilities to be able to purchase necessary tools and equipments for use in their farms. They also seek information on daily farm and market prices for their farm produce. Such information assists them in knowing when they are likely to make profits, even if marginal, in the sale of their produce. Farmers also stress the need for access to some form of technical assistance and or agricultural inputs such as fertilizers from localized farmer groups or local government when faced with low productivity and inadequate know-how on how to improve farm productivity.

Agriculture knowledge and information like other inputs to any production activity must be managed properly and understanding these information needs provide an idea on the type of ICTs to deploy that will aid in meeting them. Indeed, the long term benefits of increased agricultural productivity derived from addressing these farming needs cannot be undermined. In most cases, though often overstated, rural farmers tend to be more favorable to the traditional (non-digital) ICTs. However, with the influx of cellular mobile communications, and increased use of small power generating sets, some rural agrarian communities may begin to have access to the global knowledge system. Nevertheless, the direct use of some of the sophisticated and digital ICTs by local farmers in Nigeria may take decades.

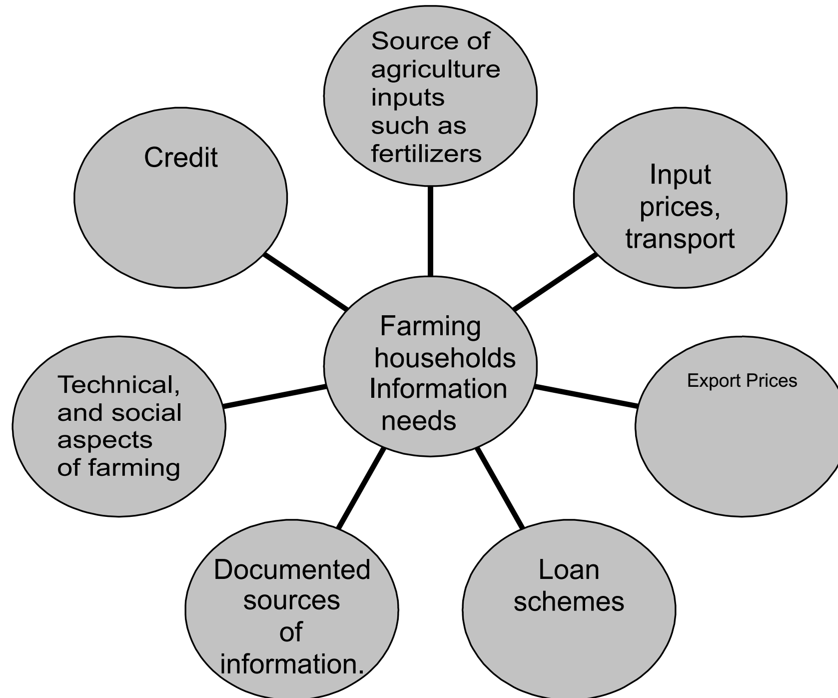
IV. Constraints to Effective Use of ICTs/AKS to Boost Agriculture Development In Nigeria

Several inhibiting factors on the effective use of ICTs and the AKS in a strictly agrarian community of Nigeria are identified below. Some of these factors include:

Lack of basic education and computer skills

Despite the technological advancements made in the

Figure 2: Basic Information needs of a small farmer in Nigeria



Source: Munyua Hilda, Application of ICTs in Africa's Agricultural sector; A Gender perspective.

agricultural sector through the adoption of ICTs, some of the agrarian communities still lack the basic education and computer skills to understand the new technologies being introduced. It is also not uncommon to witness poor communication between some educational organizations and extension service providers. The problem of feed back from farmers to research institutes continue to linger

Finance

Because most rural agricultural communities are involved in mainly subsistence farming, they lack the finance to purchase or have access to modern ICTs that would aid access to agricultural innovations. For instance, despite the technological advancements in irrigation, forestry etc, most rural farmers still cannot have access to these technologies, not because they are not interested, but rather they lack the finance to adopt not only the innovations, but also the ICTs that would increase the awareness of these innovations and thus resort to using crude and outdated measures.

Conservatism

Because of the relatively low level of education and cultural barriers amongst rural farmers, most of them would rather retain the 'status quo' and continue to carry out their agricultural production and processing activities the way they are used to doing.

Infrastructural problems

Inadequate telephone and communication facilities in the rural areas continue to inhibit improved information and communication exchange between stakeholders in the agricultural sector. The high costs of internet access further serves to constrain its use in all parts of an African agrarian setting. Due to the remote nature of agrarian communities, characterized by poor access roads, lack of electricity, reduced ownership of televisions, most rural farmers do not have access to new information about agricultural production and processing techniques and thus continue to depend on the old ways of carrying out these activities, which may inhibit productivity in the sector.

V. Recommendation

Poor farmers operating on a subsistence level cannot afford to take the risks of adopting new technologies even if they correctly perceive the likely benefits. Extending access to ICTs especially in rural agrarian communities is not an easy task. Thus several approaches and mechanisms that can reduce the constraints that farmers face, and thus encourage them to adopt promising technologies are discussed below:

Improve farmers' access to knowledge from diverse sources

- With several extension services in place, private service providers such as non-governmental organizations (NGOs) have a role to play. Where their services are made available, farmers should be organized and their capabilities built to be able to adopt and apply the knowledge acquired.

- There should be increased collaboration with international organizations such as UNESCO, Food and Agricultural Organization (FAO)

of the United Nations towards providing technical assistance to local farmers in developing indigenous communication facilities. Such organizations, in addition to their assistance in the implementation aspect should extend their resources to training of Nigerian personnel's on the job. There continues to be impediments to improving access and since private services are taking time to emerge in rural communities, government will need to sustain its roles towards creating the necessary incentives to attract private sector provision of ICTs in rural agrarian communities.

- Also, the translation of agriculture information to local languages of the community would enhance the understanding of new agriculture technologies. This could be introduced in the form of folklores, traditional plays and dances. All these are very crucial in ensuring wider acceptance of new technologies. Indeed, just like in Harare, Zimbabwe, a dedicated local radio station for disseminating agricultural information in local languages could also be introduced. Such stations could be connected to major ICT networks to expand the availability of information.

Development of rural financial services

- Increasing access to rural financial services, including credit, savings, and insurance could provide farmers with the finances they need to adopt new technologies, including their access to ICTs. Thus, Government and its agencies should promote the development of rural financial services by providing infrastructure and other support services that would lead to reduced transaction costs and better environment that would promote savings.

Increased Support for producers' organizations/groups

- Government can create an enabling environment and provide technical assistance to producers' organizations that could procure inputs and market the outputs more efficiently and effectively than the numerous small stand-alone farmers. These could reduce costs and the risks associated with adopting new technologies for production, processing, and marketing.

- Local support groups should be encouraged to serve as brokers between the available and existing knowledge system and the needs of local farmers. This will serve to bridge the digital divide[1] and thus enable poor agrarian communities to

- connect effectively with sources of assistance, financial resources and knowledge systems.

- Government can share risks by providing matching grants to people willing to demonstrate new technologies, perhaps through community driven development programmes.

Education, ICT training and awareness

- With the rapidly changing knowledge base of the global economy, there is a constant need to modify and sustain ICT based agricultural content. This can be done through capacity building, training and retraining of stakeholders on how to utilize, maintain, manage and integrate ICTs in agriculture.

- Boosting the literacy rate among rural agrarian families is of utmost importance to ensure effective of use ICTs in agriculture development. Thus, efforts by agricultural intermediaries to design appropriate user interface to communicate with the farmers through visual networks such as pictures, sound and video are beginning to gain significance. This form of ICT has the advantage of improving mental retention, and for this reason educators are making increasing use of them, particularly in training and retraining sessions. The role of women in increasing the literacy rate cannot also be undermined as several studies have shown that women possess innate abilities to impart knowledge than their male counterparts, especially on educational issues.

- Further studies need to be conducted to determine the ICT needs of farmers.

Above all, it is important that performance indicators should be predetermined to enable stakeholders measure the level of success in the dissemination of agricultural information.

IV. Conclusion

Decisions on agricultural processes such as when to plant, when to sell farm products and at what prices, have long depended, amongst others, on availability of information, knowledge and communication exchange. This paper had examined the agricultural knowledge system and underscored the importance of ICTs for agriculture development in Nigeria. It particularly noted that ICTs for rural farmers can only be of help where there exists a harmony between the information farmers require and knowledge they possess, their livelihood strategies, the ways through which they absorb /utilize information, and a determination of, in consultation with them, their priority needs for new or enhanced information. Another critical point is that the new technology must be provided in an appropriate form and should be affordable whether based on their cash or non-cash resources such as time.

Information, knowledge and access

[1] *Digital divide is the gap between the information rich and the information poor.*

to it, is crucial to bringing about the necessary changes in any economy. The agricultural sector is not an exception. However, most developing economies have not invested adequate resources in ensuring improved access to information to the agrarian population, who are mainly found in the rural areas. In order to sustain the benefits of agricultural production, it is important that information and communication technologies aimed at enhancing agricultural sector productivity should be developed and introduced in user-friendly manner and be made easily accessible.

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MICROFINANCE BANKS: UNLOCKING THE POTENTIALS OF MICRO-BUSINESS ACTIVITIES OF THE NIGERIAN RURAL ECONOMY

By

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ABSTRACT

Over the years, the Government had embarked on series of policy and institutional reforms, aimed at enhancing the flow of finance from the banking system to Small and Medium Scale Industries (SMIs) as well as those involved in the petty-business (micro) activities at the informal level. In particular, the important objective of boosting the performance of the petty-business activities has not materialized. Bank perceive micro activities as bad risk, hence the very low level of funding to the sector coupled with issues of high costs and short tenor. Since a robust economic growth cannot be achieved without putting in place well focused programme to reduce poverty through empowering the people by increasing their access to credit, the Central Bank of Nigeria (CBN) as part of its reform agenda embarked on the Microfinance Banks aimed at providing financial services to the poor who are not served by the conventional financial institutions

INTRODUCTION

In the past, Government has initiated series of micro/rural programmes targeted at the poor with the overriding objective of making credit readily available to those who were traditionally denied access to credit. Such credits, the world over, were used for the development of Small and Medium Industries (SMIs), which had been described as the springboard for sustainable development. In all emerging economies like Nigeria, the government has shown a great concern for the development of SMIs because of the underlying socio economic factors plaguing the nation. Some of the reasons include: the past policies failed to generate efficient self sustaining impetus needed to uplift the country to the 'take-off' stage of growth, the increased emphasis on self-reliant approach to the development and the recognition that dynamic and growing petty-business can contribute substantially to a wide range of developmental objectives. However, the full potential of the Micro business in the developmental process have not been realized owing to numerous bottlenecks. In the light of this, the Central Bank of Nigeria (CBN) as part of its reform agenda, initiated Micro Finance Banks, a policy initiative aimed at bringing credit to the door step of the poor who do not have such access under the conventional financial system. The thrust of this paper is to articulate the prospects of the Micro Finance Banks towards boosting the performance of the Micro businesses thereby reducing the level of poverty and enhancing employment generation. This paper is divided into six parts. Section two reviews definitional and conceptual issues within Micro Credit/Finance and SMIs. Section three examined the Microfinance policy initiative, the objectives, the target and strategies and the transformation of Community banks into microfinance banks. Section four reviewed the attention and incentives by the government and past policies aimed towards boosting the Micro businesses as well as the appraisal of some these measures. Lingering problems of the sub-sector is discussed in Section five while prospects for development of micro businesses through the Micro Finance Scheme highlighted in Section six. Section seven summarizes and concludes the paper.

2.0 CONCEPTUAL ISSUES

2.1 Micro Finance

There are several definitions to the concept of Microfinance. It is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. It is the provision of very small loans (micro-credit) to the poor, to help them engage in new productive business activities. It includes a broader range of services; mainly credit, savings opportunities, insurance and money transfers. It refers to loans, savings opportunities, insurance, money transfers and other financial products targeted to the poor.

Micro-financing is not a new phenomenon in the Nigerian Society as evidenced by cultural economic activities such as “Esusu”, “AJO”, Adashi”, “Otataje” etc, which were practiced to provide funds for producers in our rural communities. The effort of government in Nigeria is to modernize micro-financing in our rural and urban communities to improve the productive capacity of the rural and urban poor, enhance their economic standing which alleviates the level of poverty and aggregates to improved development of the national economy. In Nigeria, the formal financial system provides services to about 35 per cent of the economically active population while the remaining 65 per cent are excluded from access to financial services. This majority of the

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population was served by the informal sector through Non-Government Organizations-Microfinance Institutions (NGO-MFIs). Microfinance in Nigeria is culturally rooted and dates back to several centuries. The traditional microfinance institutions provide access to credit for the rural and urban, low-income earners. They are mainly Self-Help Groups (SHGs) or Rotating Savings and Credit Associations (ROSCAs) types. Microfinance services provided by the government had adopted the traditional supply-led, subsidized credit approach mainly directed to the agricultural sector and farm activities, such as poultry, fishing, trading, tailoring, weaving, blacksmithing, and agro-processing and transportation. However, since the early 1980s, various organizations had emerged to champion the cause of microfinance activities in the country.

2.2 Micro Credit

Micro-credit refers to small loans made to low-income individuals to sustain self-employment or to start up very small businesses. Although there is no standard definition of micro-credit, in practice such loans are quite small, amounting to a few thousand dollars. Put simply, microfinance is the provision of very small loans (micro-credit) to the poor, to help them engage in new productive business activities and/or to grow/expand existing ones. However, overtime, microfinance has come to include a broader range of services. These include mainly credit, savings opportunities, insurance and money transfers, as practitioners came to realize that the poor, who lacked access to traditional formal financial institutions, needed and required a variety of financial products to achieve meaningful improvement in their business activities. While microfinance refers to loans, savings opportunities, insurance, money transfers and other financial products targeted to the poor, micro-credit refers specifically to small loans. Average loan size varies from county to country, but in most cases, the average loan is equivalent to $120.0-150.0 in the respective currency.

The key distinguishing features that separate microfinance from other formal financial products include the following:

- The smallness of the loans advanced or savings collected make it easy for monitoring.
- The absence of asset based collateral before the advancement of the loans to the poor
- It is very simple to operate and devoid of conventional banking administrative bottlenecks.
- A micro-credit fund is a pool of loan capital generated to support micro-entrepreneurs in their activities, generally with alternative collateral guarantees and a monitored repayment system.
- The loans may serve as: working capital to cover day-to-day expenses, as seed capital to startup a business, or as investment capital to purchase fixed assets.
- The ownership structure of loan funds varies widely; generally there is a mix of public funding and private investment.
- A micro-credit fund may be an independent operation, part of an integrated community economic development program, or a micro-finance program within a commercial bank.
- Usually a micro-credit fund provides service to a particular geographical area or community, but funds are also initiated in response to the needs of particular groups such as women, new immigrants, children, and the disabled.

2.3 Roles of Microfinance Policy

- It is the most effective poverty alleviation intervention tool worldwide.
- It helps to improve the latent capacity of the poor for entrepreneurship and skill development
- It enable its clientele to become more self reliant in their business endeavors especially in the face of mass unemployment in the country.
- It helps to enhance the mobilization of local savings into productive ventures.
- It helps to increase the employment opportunities (job-givers replaces job-takers).
- It encourages asset accumulation and wealth creation.
- It helps to increase access to finance which will equally result in financial deepening
- It causes growth and improves income distribution of the populace.
- Microfinance will help to increase individual household income thus resulting in increased access to education and health care for the poor.

2.4 Small and Medium Industries (SMIs)

The concept of SMIs is relative and dynamic. The definitions change over a period of time and depend largely on a country's level of development. Prior to 1992, different government agencies in Nigeria such as the Central Bank of Nigeria, the Nigerian Bank for Commerce and Industry, the Centre for Industrial Research and Development (CIRD) and the National Economic Reconstruction Fund (NERFUND) adopted various definitions of SMIs probably due to differences in policy focus. However, in 1996, the National Council of Industries streamlined the various definitions in order to remove ambiguities and agreed to revise them every four years. Small Scale Enterprises were defined as those with fixed assets above N1

million but not exceeding N10 million excluding land but including working capital while Medium Scale Enterprises are those with fixed assets excluding land but including working capital of over N10 million but not exceeding N40 million. The definitions were revised in 1996 with Small Scale Industry defined as those with total cost, including working capital but excluding cost of land above N1 million but not exceeding N40 million with a labour size of between 36 and 100 workers.

3.0 PAST GOVERNMENT INCENTIVES FOR SMALL AND MEDIUM SCALE INDUSTRIES

In the past the Federal Government has employed monetary, fiscal and industrial policy measures and incentives to promote small and medium scale enterprises. Specifically, the government has been active in the following areas:

- funding and setting up industrial areas and estates (to reduce overhead costs);
- providing local finances through its agencies the Federal Ministry of Industries (Small-Scale Industry Credit Scheme SSICS), the Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (BCI), the Central Bank of Nigeria and Small and Medium Scale Enterprises (SME) Apex Unit;
- facilitating and guaranteeing external finance through the World Bank, African Developmental Bank and other international institutions willing to, and capable of assisting SMIs;
- facilitating the establishment of the National Directorate of Employment (NDE) which also initiates the setting up of new SMIs;
- setting up through Decree No. 2 of 1989, the National Economic Reconstruction Fund (NERFUND) which is a source of medium to long-term local and foreign loans for small and medium scale businesses, particularly those located in the rural areas;
- initiating the Family Economic Advancement Programme (FEAP); and
- provision of technical, training and advisory assistance programmes through establishment of Industrial Development Centers etc.

3.1 Some Government Policies and Incentives

Some of the past policy measures taken by the government to boost the performance of SMIs and enhance employment generations were as follows:

3.1.1 Small Scale Industries Credit Scheme (SSICS)

The Federal Military Government set up in 1971, a Small Industries Development Programme to provide technical and financial support for SMIs. This led to the creation of the Small Industries Credit Fund (SICF) which was formally launched as the Small Scale Industries Credit Scheme (SSICS) in the Third National Development Plan, 1975 1980. The scheme which operated as a matching grant between the Federal and State Governments, was designed to make credit available in liberal terms to SMIs and was managed by the states' Ministries of Industry, Trade and Co-operatives.

3.1.2 The Nigerian Bank for Commerce and Industry (NBCI)

The NBCI was set up by the Federal Government through Decree 22 of 1973 to provide among other things, financial services to indigenous business community particularly SMIs. The NBCI operates as the apex financial institutional body for SMIs. The NBCI administered the SME I World Bank Loan Scheme of US$41 million secure in 1984. The scheme had maturities period ranging from 4 to 10 years including a moratorium of 2 to 4 years, and the foreign exchange risk was borne by the Federal Government.

3.1.3 The Nigeria Industrial Development Bank (NIDB)

The NIDB which set up in 1964 provided credit and other facilities to industrial enterprises especially medium and large scale ones. Some small scale enterprises also come under its scope of financing of terms which are relatively soft. An attractive feature of NIDB's financing is its policy of equity participation in the paid up share capital of some of the projects financed.

3.1.4 The National Economic Reconstruction Fund (NERFUND)

NERFUND was set up in January 1989 to provide medium to long-term funds at lower interest changes than prevailing rates with 5 10 years maturity period including a grace period of 1- 3 years for wholly Nigeria owned SMIs. Access to NERFUND facilities is restricted to manufacturing and other enterprises which source at least 60 per cent of their raw materials and other inputs locally. Funds are disbursed to beneficiaries through participating banks.

3.1.5 The National Directorate of Employment (NDE)

Established in 1986, the NDE is another channel through which government has promoted the development of SMIs. In January 1987, NDE launched a number of programmes to generate self-employment. These were (i) Small Scale Industries (SSI), (ii) Agriculture, (iii) Youth Employment and Vocational Skills Development.

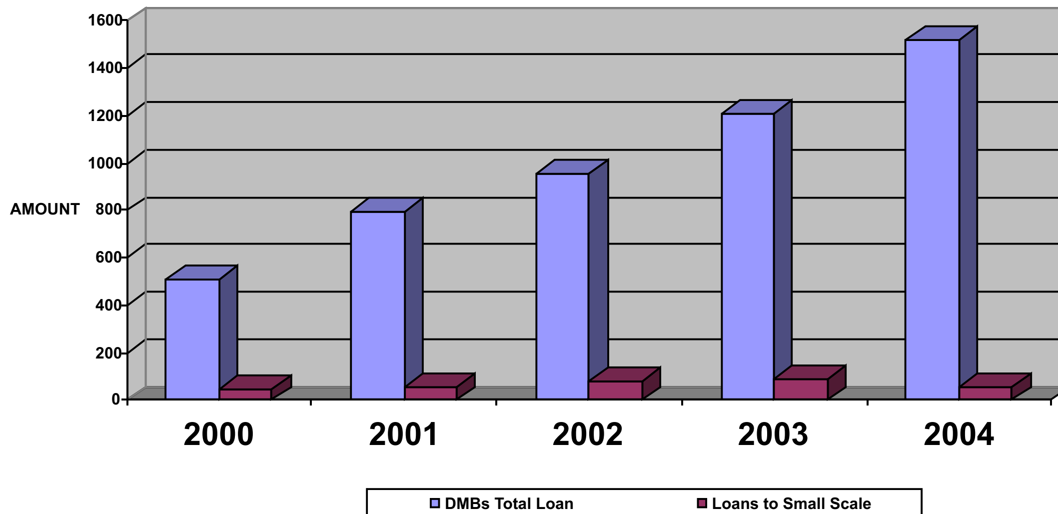
1.1.6 Special Public Works

The programme operates two credit guarantee schemes complemented by an entrepreneur development programme to assist the SMIs. The two credit schemes are the Graduate Job Creation Loan Scheme (GJLS) and the Matured People's Scheme (MPS). Facilities under the two schemes are replayed over a five-year period at a concessionary interest rate with varying periods of moratorium. SME

projects covered included soap making, food processing and flour milling.

The Peoples Bank:
After failed trials in DFRI, Rural Banking by commercial bank and even Peoples Bank programme, the government of the Federal Republic of Nigeria took the bull by the horns by enacting legislation for the establishment of community banks. Community banking came into existence in December 1990 as an attempt to resolve the perennial problems of unavailability of credit facilities to the rural producers.

FIG. 1: RATIO OF LOANS GIVEN TO SMALL SCALE ENTERPRISES OUT OF THE TOTAL DEPOSIT MONEY BANKS CREDIT 2000 - 2004 (Nmillion)



The proportion of loans granted to the Small Scale Industries was very small in comparison the total loans granted by the DMBs. In the light of this and as earlier stated one wonders little what Micro institutions would obtain in the face of this fragrant lending to this sector.

3.2 Appraisal of the past policy measures

An appraisal of the various policies and incentives aimed at promoting the development of Micro businesses showed various degrees of success. The implementation of the Industrial Development Centers (IDCs) was poor and their performance devoid of luster because many of them were inadequately equipped and funded. The Small Scale Industries Credit Scheme (SSICS) was largely unsuccessful because of the dearth of executive capacity to appraise, supervise and monitor projects. As a result, many un-viable projects were funded which led to massive loan repayment defiant. Consequently, the scheme which was expected to be revolving had to be stopped. Similarly, NERFUND faces a number of problems including poor and untimely loan recovery rate, as well as low demand for loans after 1990 because of concern for foreign exchange risk which was borne by the borrower.

Another significant problem witnessed in the banking sector was the lukewarm in meeting the credit requirements of the SMEs. This was because of inadequate financial documentation and inadequate collateral including the inability to raise the required equity contribution by the SMEs. The banks also regarded SMEs as high risk ventures because of the absence of succession plan in the event of the death of the proprietor.

Closely related to the above, the incidence of inadequate working capital which constrains productive capacities of the SMEs as well as absence of succession plan in the event of the death of the proprietor leads, in many cases to frequent early demise of SMEs. In the face of the above, the performance or the contributions of the SMEs and Micro businesses have been very insignificant to the development of the national economy. Against this background, government embarked on the development of the Microfinance policy initiative.

4. OTHER CBN MICROFINANCE POLICY INITIATIVE

As part of the Central Bank Policy measures introduced in July, 2004, CBN established Microfinance Banks aimed at bringing credit to the rural people who were yet to have access to those credits.

4.1 Policy Objectives

The specific objectives include the following:

- Promote linkage programmes between universal/ development banks, specialized institutions and microfinance banks.
- Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs.
- Promote synergy and mainstreaming of informal

subsector into the national financial systems

- Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services.

4.2 Policy Targets

The targets of the policy are as follows:

The policy would cover the majority of the poor but economically active population by the year 2020 thereby creating millions of jobs and reducing the poverty level of the nation. Similarly, the policy would increase the share of micro credit from its initial share of 0.9 percent allocated in 2005 to 20 percent in 2020. In the same vein, it would strive to increase the share of micro credit as a percentage of GDP from 0.2 percent in 2005 to at least 5 percent in 2020. The policy would equally ensure that at least 2/3 of the states and local government increases their participation in the micro credit financing. Finally, the policy would ensure a well coordinated linkage among the universal banks, development banks, specialized finance institutions and microfinance banks not less than 10 percent annually.

4.3 Policy Strategies

The CBN has put in place the following strategies:

Measures have been taken to license and regulate the establishment of Microfinance banks as well as promoting the establishment of NGOs-based microfinance institutions. Infact a lot of funds by many NGOs channeled towards micro finance were undocumented. Under the current dispensation, the Bank, has put in place a well coordinated policy meant for NGOs which will equally have a great impact on micro activities. The states and local government would be encouraged to participate in microfinance industry by encouraging them to devote at least one percent of their annual budgets to micro credit initiatives which would be finance by Microfinance Banks. The regulatory institutions for the microfinance banks would be strengthened and a campaign for transparency, professionalism and good governance would be pursued with vigor. Finally, domestic savings would be adequately mobilized while the capital base of the existing microfinance institutions (Community banks) would be strengthened. This would be followed up by continuous training of the regulators, operators and the beneficiaries from the policy.

4.4: The Neglect of Micro-Businesses/Justification for the Establishment of Microfinance Banks

For many years attention by the government has been on giving credit assistance and in most cases given protection to SMIs while little or nothing has been heard about micro businesses. The reasons are not far fetched. Deposit Money Banks (DMBs) more often than not consider credit to micro businesses as bad risk and hence do not lend to it. It is not an understatement to assert that the bedrock of any hinges not only on the development of its Small and Medium Industries but also largely on the development of micro enterprises. The deviant of DMSs to this sector has been an issue of discourse to the authority especially when assiduous attention as one of the pillars of National Economic Empowerment and Development Strategy (NEEDS) is on 'GROWING THE PRIVATE SECTOR'. Therefore, the establishment of Microfinance banks has become imperative because of the following factors: First, like the conventional banks, there has been a weak institutional capacity due to incompetent management, weak internal control and absence of deposit insurance schemes on the part of the old existing community banks. Secondly, most of the community banks have very weak capital base to adequately provide succor for the risk of lending to micro entrepreneurs without collaterals. Out of 600 community banks operating in the country according to CBN record of end December, 2005, only 75 of the community banks had up to =N=20 million shareholders' funds unimpaired by losses. Thirdly, the baseline survey of Small and Medium Industries (SMIs) in Nigeria conducted in 2004 indicated that the 6,498 industries covered employ a little over one million workers out of about 18.5million Nigerians that are unemployed. To this effect the objective of SMIs is far from being achieved. Fourthly, there are large markets, which were not served. The average banking density in Nigeria is one financial institutions outlet to 32,700 inhabitants. In the rural areas, it is one bank to 57,000 which implies that less than 2 per cent of the rural populace have access to financial institutions. Moreover, the total assets of the 615 community banks which rendered their returns out of the 753 operating community banks as at end-December 2004 stood at =N=34.2 billion. Similarly their total loans and advances amounted to =N=11.4 billion while their aggregate deposit liabilities stood at =N=21.4billion for the same period. It was against this background of increasing the savings opportunity of the public that led to the establishment of the Microfinance banks.

Finally, the need to utilize the fund appropriated for Small and Medium Enterprises Equity Investment Scheme (SMEEIS) led to the establishment of Microfinance banks. Available statistics showed that at end December 2004, only =N=8.5billion (29.5%) of the =N=28.8billion meant for micro credit had been utilized. Moreover, 10 % of the fund meant for micro credit had not been utilized due to lack of an appropriate framework and confidence in the existing institutions that would have served the purpose.

4.5 Characteristics of Micro Business Activities

The Micro businesses are characterized by limited access to financial capital, simple management structure resulting from the fusion of ownership and

management among very few individuals. There is often greater subjectivity in decision taking, and prevalence of a largely informal employer employee relationships. These micro activities tend to strongly revolve around the owner-managers, rather than as a separate corporate entity. As a result of their greater use of local resources, they are widely dispersed throughout the country. They are also closely attached to the products that launched them; many are labour intensive although modern businesses are increasingly employing reasonably high technology.

4.6 Transformation of Community Banks into Mocro-Finance Banks

Considering the spread of Community banks in the bank, CBN as part of its policy measures urged the Community Banks to have a special and peculiar status that stands them out to transform into Microfinance intermediation. The reasons are not far fetched.

(1) The communal ownership of the community banks makes them stake holders in poverty alleviation / Microfinance intermediation.

(2) Development and appreciation on need of the rural small producers to cultivate the habit of savings of funds mobilization for developmental purposes

(3) Community banks are targeted to grassroots communities which engender their loyalty and pride.

(4) It is cheaper for government to support the community banks as it will make them more self sufficient and better developed in the short, medium and long terms.

(5) Community Banks should be seen as helping commercial Banks in the task of making the economy grow in all sectors, the more the community banks are empowered to become effective savings mobilizes and credit managers at grassroots level, the better it will be for the entire economy.

(6) The acceptance of NDIC to insure CBN Licensed Community Banks has added further guarantee to the safety of the depositor funds.

(7) Community Banks already held business relationships with the emerging universal banks, thus paving the way for smooth linkage and partnership.

4.7 Rationale for the Transformation

Community banks stand out as the best channel for transmitting funds to the poor in the rural areas. The reasons include:

i. The promotion of rural development by providing financial and banking services (credit and deposit services) as well as other facilities to communities inadequately supplied with such facilities.

ii. The rapid enhancement of the development of productive activities in both rural and urban areas and hence the improvement of the economic status of small producers in the informal sectors of the national economy.

iii. The promotion of the emergence of an effective and integrated national financial system that responds to the need of the whole economy, especially at the grass root community levels.

iv. The inculcation of disciplined banking habits, among the masses of the low income workers in Nigeria especially those in the rural areas.

v. Fostering the spirit of community ownership and assets and the maintenance of such facilities and organisation on sustainable basis.

(b) Community Banks, should constitute the bulk of rural / semi rural banking programme, in partnership with universal banks.

(c) Under the new Micro-finance policy of Federal Government, the capitalization of community banks would be through synergy whereby Universal banks, donor agencies and institution including individuals can buy and or donate into community banks as partners in Micro finance intermediation.

(d) It is certain that this synergy would reduce the frustrations being experienced by community banks in the clearance of cheques. Under the new arrangement, community banks cheques would become more acceptable in a universal way.

(e) Under the new policy, opportunity is being created for rural dwellers and worker such as pensioner, youth corpers, NDE beneficiaries can draw on their funds from the rural areas where they reside rather than urban centers. The community banks are now poised to render these services on this major role as intermediators of the Micro finance scheme.

4.8 Distribution of Community Banks in Nigeria

The distribution of the operating Community Banks in Nigeria is as follows:-

S/NO	STATES/ZONES	CBN LICENSED	STATES/ZONES	CBN LICENSED
1	***South East Zone***		***South South Zone***	
	Abia State Chapter	19	River State Chapter	10
	Anambra State "	81	Cross River State "	14
	Imo State Chapter	37	Bayelsa State Chapter	1
	Ebonyi State Chapter	6	Edo State Chapter	20
	Enugu State	22	Akwa Ibom State "	7
			Delta State Chapter	22
		165		**74**
2	***North East Zone***		***North West Zone***	
	Bauchi State Chapter	6	Sokoto State Chapter	4
	Adamawa State "	7	Zamfara State "	3
	Gombe State "	3	Kaduna State Chapter	6
	Borno State "	2	Katsina State Chapter	Nil
	Yobe State	2	Kebbi State Chapter	6
	Taraba State "	2	Kano State Chapter	5
			Jigawa State Chapter	1
		22		**25**
3	***South West Zone***		***North Central Zone***	
	Lagos State Chapter	39	Kwara State Chapter	15
	Ogun State Chapter	44	Kogi State Chapter	23
	Oyo State Chapter	42	Benue State Chapter	7
	Osun State Chapter	26	Plateau State Chapter	7
	Ekiti State Chapter	18	Niger State Chapter	7
	Ondo State Chapter	17	Nasarawa State "	Nil
			FCT, Abuja Chapter	6
		186		**65**

Source: Computed from National Board for Community Banks. The CBN Licensed Community Banks are 634. Given the above distribution in rural and urban areas, community banks have the widest reach to the grassroot poor producers in Nigeria.

5.0 EXPERIENCES FROM OTHER COUNTRIES

Microfinance has helped to change the quality of life for millions of people in developing countries, especially in Africa, South East Asia and the Pacific and Latin America Regions. Few specific examples are discussed as follows:

5.1 Ghana

In Ghana, access to financial services from banks is limited despite government efforts to extend access to finance. In Ghana, there is only one bank outlet for every 81,850 persons. Access is almost four times better in the Greater Accra region, with one bank branch for every 21,000 persons. The Ghanaian regulatory approach has fostered a wide range of formal and informal microfinance institutions (MFIs) rural banks (RBs), savings and loan companies (S&Ls), credit unions (CUs), non-governmental organizations (NGOs), community-based organizations (CBOs), small savings-credit associations and informal savings collectors and moneylenders. The commercial banking system, consisting of 20 banks, is dominated by a few major banks. It reaches only about 5% of households, most of which are excluded by high minimum deposit requirements. The three largest commercial banks control 55 per cent of the total assets of the banking sector. The five smaller commercial banks operate on a much smaller scale. The universal banks, merchant banks and development banks together share about 30 per cent of the total asset base of the banking sector. Ghana Commercial Bank alone holds about 25 per cent

of total assets and 20 per cent of deposits. A large proportion of the money supply (about 60%) circulates without intermediation by the commercial banking system. Thus the rural banks, savings and loans companies, and the semi-formal and informal financial systems play an important role in Ghana's private sector development and poverty reduction strategies. The number of RBs reached a peak of 133 in 1998, but fell to 111 in 1999 with the closure of 23 distressed banks and the commissioning of one new bank. These closures sent a strong signal to the remaining rural banks to maintain or improve their operations in order to achieve satisfactory status. After an NBFI Law was passed in 1993 that created microfinance institution, the BOG eventually issued licensing requirements.

The Association of Rural Banks (ARB) was founded in 1981 as an NGO with voluntary membership, and at the end of 2001 there were 115 members. Ghana also has a Credit Union Association (CUA) which is a private association of cooperative societies, independent of the government. To foster the development of this, Microfinance Institutions Network (GHAMFIN) was established in the late 1990s by as a network of MFIs. Its membership cuts across the formal, semi formal and informal institutions and includes consultants, researchers and service providers to MFIs. Although not all MFIs are members, it does include the major associations that represent key groups such as the ARB, CUA, and cooperative federation of susu collectors. These apex institutions have also helped to compile information on the general outreach of all financial institutions in Ghana. Microfinance loans are generally short-term (4-6 months) with weekly repayment, averaging around $50-75 but ranging up to several hundred dollars, with compulsory up-front savings of 20% retained as security for the loan, complementing group or individual guarantees as the other principal form of security. To facilitate savings collection, some RBs introduced Mobile Banking, staff visit rural markets on certain days to collect savings and provide loans to groups or individuals with guarantors. They consider this to be a profitable formal adaptation of the *susu* system. Individual members make predetermined periodic deposits into their accounts and may borrow up to two times their savings balance.

5.2 South Africa

The Micro Finance Regulatory Council (MFRC) was created in 1999 to monitor micro lending activity and to register micro lenders. Any number of different types of financial institutions provides financial services to poor households in South Africa. The main retail finance parastatals are the Post Office Bank, Land Bank and Ithala Development Finance. While Post Office Bank and Land Bank operates with branches nationally, Ithala is geographically constrained to the KwaZulu-Natal province. The focus in South Africa has long been the provision of credit, and various types of credit are offered by the range of institutions operating in the country.

Recently, there has been an increased emphasis on improved access to savings and other financial services. The South African government relaxed administrative requirements for savings accounts below a certain amount. There are a wide range of institutions that reach poorer households in some capacity or another.

5.3 Indonesia

Indonesia has a century-long history in microfinance that dates back to Dutch colonial times at the close of the 19th century. There are many varieties of formal, semi-formal and informal financial institutions, as well as subsidized government programs offering loans linked to sector development or poverty alleviation. NGOs play a less significant role in microfinance in Indonesia than in virtually any other country in the world. There are two main types of rural banks in Indonesia. The first are BPRs, (see table) which are mostly privately owned, although some do participate in government funding schemes or maintain linkages with commercial banks. These rural banks were established in law in 1988. Prior to that, many institutions operated as BKDs, or "village banks," all of which receive their seed capital from either village landowners or the village treasury. These BKDs are supervised by BRI and licensed by the Ministry of Finance. When the central bank established the BPRs in 1988, it was intended that the thousands of small BKDs would consolidate into large BPRs and then fall under the supervision of the central bank. The Indonesian financial sector comprises of commercial banks, rural banks, non-bank financial institutions (leasing, factoring, consumer financing, credit card), pawnshops, and various semi-formal and informal microfinance institutions (MFIs). Currently, a large number of institutional types offer microcredit, which Bank Indonesia defines as a loan below roughly US$ 5,000 (Rp. 50 million), provided by formal and semi-formal financial providers. These banks do have a harder time collecting savings, however, due to competition with commercial banks. Most of the clients of these rural banks have lower income than BRI Unit clients. Non-Bank MFIs, or LDKPs, were established by provincial or district level governments as microfinance providers. They are directly owned by government authorities and receive seed capital from both the local and central government or the Ministry of Finance.

5.2 The Impact of Microfinance in those countries

For microfinance to have lasting impact on poverty reduction, relevant authorities in the countries in the South East Asia and the Pacific and Latin America Regions were guided by three (3) operating procedures, namely:

- Developing financial systems that include microfinance sector
- Maintaining good governance, transparency accountability and achieving wide outreach
- Collaboration among financial services providers, governments and central banks with a view to achieve inclusive financial sector.

With these developments, their impact has been felt in their respective countries in the following ways.

- Private sector driven Economy and market driven microfinance programme
- Active poor is the market niche as well as Long-term sustainability
- Effective mobilization of local savings,
- Increases individual household income and enhance local employment
- Encourages accumulation of assets and to wealth creation, resulting in noticeable increase financial wellbeing in the lives of the people.

The effects of the policy include the provision of diversified financial services at competitive pricing in a dependable, timely and long-term sustainable manner. It helps donors' coordination, with deliberate, systematic and predictable mobilization. Moreover, the maximization of allocation of scarce resources for capacity building, facilitate the participation of private sector in microfinance for a wider, more effective and efficient way of delivering services and financial advice. Also it recognizes and calls for professional management of MFIs and MF Banks, accreditation of the Chief Executives of Microfinance Banks.

5.3 Guiding Principles to ensure Success

Policy makers and commentators of banking and Microfinance issues have argued that for the borrowers/entrepreneurs, to ensure full realization of the success of their business activities they are to be guided by the **PALM** Methodology. This simply means:

- Pricing-to ensures that the pricing of the financial services/products offered are within the market rate or lower.
- Ability-to ensure that the borrower (loan applicant) has the capability to successfully undertake and manage the proposed business venture.
- Location-The proposed business venture needs to be strategically located and easily accessible to the current and would be future clients.
- Market Undertake a simple market survey, to establish that there are enough immediately identifiable clients for the intend product and services

6.0 OBSTACLES TOWARDS THE REALIZATION OF THE MICRO INDUSTRIES DREAM

1. The total lack of industrial data on Micro Credit makes an accurate assessment of the state of the evolution of an effective development plan difficult.

2. Micro businesses have vital and widely acclaimed developmental roles, as the experience of other developing countries. However, there are several problems confronting their effective performance in Nigeria which must be addressed as a package rather than piece-meal. This could be handled through the framework of a national policy for Micro Institutions.

3. Although standard are benchmark for good practices whether in the production of food, drugs, cosmetics and other industrial products, most Micro institutions consider the existing standards too high, and their enforcements too harsh and too expensive.

4. Despite series of policy and institutional reforms, aimed at enhancing the flow of finance from the banking system to Micro businesses, this important objective has not materialized. Bank's still perceive Micro business as bad risk, hence the very low level of funding to the sector. Further more, there are also issues of high costs and short tenor.

5. The issue of production technology by SMIs and Micro institutions has not received enough attention. Several indigenous technologies already developed for the use of Petty businesses and SMIs are lying at the research institute awaiting commercial take-up.

6.1 Reconciliatory Linkages Between Microfinance Bank and SMEDA Towards Boosting Micro Business Activities for Sustainable Growth

1. Nigerian Micro businesses and SMIs should aim at producing to meet specified standards for long-term survival competitiveness since the world is now a global village. In the interim however, both Standard Organization of Nigeria (SON) and National Agency for Food Drug and Administrative Control (NAFDAC) should make the cost of compliance more affordable to them. Small and Medium Enterprises Development Authority (SMEDA) should also partner with SON and NAFDAC to promote the interest of the Micro businesses and SMIs.

2. There should be a clear focus on promoting the emergence and adoption of appropriate production technologies for the Micro businesses. Since some

of these technologies are currently available at the various research institutes, SMEDA should facilitate the process of bringing this knowledge to the SMIs.

3. There must be a conscious promotion of vertical linkages between Micro business, SMIs and the large enterprises. SMEDA should take the lead in facilitating this.

- SMEDA should pursue more vigorously the issue of public-private partnership. Specifically, the private sector should act as the pressure group for SMEDA and vice versa.

- SMEDA's facilitating role for Micro businesses and SMEs development should emphasize matters such as finance, marketing, sourcing of machineries, and disseminating of pertinent information, among others. In implicating its programmes, SMEDA should move away from the old approach of top/bottom to bottom/up. Cognizance must be taken of the interest of the grassroots people.
- Provision must be made for training and capacity building for Micro business entrepreneurs.

- State and Local Government should support the policies of the Federal Government on Micro enterprises. Furthermore, the Federal Government should continue to use Fiscal Policy tools to redress dumping of those goods for which adequate domestic production potentials exists.

- The evolution of SMEDA as the apex institution for development for SMIs as well as Micro enterprises development should be accelerated through adequate funding, staffing and Board composition. Similarly, the law establishing the Agency should be properly streamlined and should be accessible to interested stakeholders.

- Actively promote competition by deregulating and liberalizing the economy.

7.0 RECOMMENDATIONS

Against the background of the foregoing theoretical elucidations, for unemployment to reduce and industrialization to, indeed, take place in Nigeria, the following policy options towards developing micro/petty businesses through proper microfinance should be stepped up.

i. Importation of goods, which can be produced in Nigeria, should be strongly banned. This will give our indigenous inventors, engineers and manufacturers the zeal and challenge to do more exploit in research.

ii. Government should set industrial goals, and work consciously towards achieving the goals within a specified time frame. Government should create opportunities for local technical personnel (innovators, inventors, engineers and manufacturers) to experiment and unify their skills by involving them in the design and execution of projects. This will cause them to discover their flaws and to strive to improve.

iii. Economic environment should be made conductive. Government should improve the present state of infrastructure. Water and electricity are among the vital inputs in raw material processing, their constant supply is, therefore, crucial in industrial development. The existing research centers should be well funded. Drastic and urgent steps should be taken to salvage the decaying education system in Nigeria. Academic merits should be based on excellence not 'sorting'. Teachers and students involved in 'sorting' should be made to face the law accordingly.

iv. Practical oriented science, engineering and technology education should be encouraged at all levels primary, secondary and university. Handwork, as a subject, in our primary/secondary schools should be reinforced. And teachers should be warned not to collect money in lieu of handwork. This is what can boost Micro businesses as well as SMI at the local level.

v. Government should sponsor indigenous inventors, engineers and manufacturers for international exhibitions. This will give them the necessary challenges to improve.

Similarly, Indigenous small and medium industries (SMI) and importantly Micro or petty businesses clusters should be promoted for sharing of experience and synergy.

vi. Establish and promote SME industrial clusters which specialise in products and technologies for specific industries; provide infrastructure such as access roads, electricity, water and telephone link in these locations.

vii. Establish small business information/industrial centers to offer legal, business advisory and technical assistance as well as promote skill development and information dissemination.

viii. Provide fiscal incentives to support entrepreneurs in these enterprises and simplify and computerize export/import procedures to make them as efficient as those, which obtain in developed countries.

ix. Minimize community-related

disruption of operations by making the community a stakeholder in the operations of the sector. There should be support from all Micro Business stakeholders and also Small and Medium Enterprises Development Agency (SMEDA) as the public sector apex institution for SME development, especially in the developing and regularly updating a database for Micro enterprises and SMIs in Nigeria.

x. In view of poor record performance and impact of financial subsidies (or subsidized interest rate) in the past, future attention should be shifted towards non-cash subsidies such as efficient and low-priced infrastructure for improved Micro businesses performance.

7.1 Strategy for implementing Microfinance in Nigeria

- Policy articulated to act as a road map/catalyst to poverty alleviation
- Policy supported flexible regulatory and supervisory framework that recognizes the importance and the peculiarity of microfinance as a tool for poverty alleviation.
- stakeholders to play roles with focused commitment to create a vibrant and all inclusive microfinance sub-sector
- Policy would harmonize the operating standards and provide strategic platform for evolution of professionally managed microfinance institutions
- Immediate assessment of the skill gaps in the CBN, the practitioners and borrowers.
- Identify and invite available donor sources to fund these Capacity Building activities
- Strengthen the Microfinance Unit at the Development Finance Department (DFD) and the regulatory and supervisory Unit Other Financial Institutions Department (OFID).
- Microfinance Management Team Certification process must be agreed upon and put in place without delay
- Create and strengthen national institutions
- Identify and remove the bottle-necks that could hinder continuous and systematic progress in the microfinance industry
- Avoid the "inordinate delays" in decision making
- Government to stay out of the microfinance industry and reduce its social programmes
- Encourage and offer more support to MF Banks that contribute most in employment and wealth creation.
- Make commercial funding available, through independently managed wholesale funders
- Encourage new MFB and/or MFIs to become self-accounting and to achieve financial self-sufficiency
- Create awareness of the millennium goals for microfinance institutions.

7.2 Other Recommendations

There is the need to a have a clear Vision and Mission on the policy. This is a double edged sword: It helps to have a well focused Professional management, diverse and professional board that have the policy at heart.

There is also the need to have an impartial, quick and simple approval and disbursement procedures that will superior innovation and ensure the achievement of financial self-sufficiency. A very conducive investment environment that will guarantee competitive interest rate and definite and reliable source of on-lending funds cannot be overemphasized. Other noteworthy recommendations include:

- Timely and accurate data, to facilitate prompt and sound decision making
- High repayment rate, with portfolio at risk of less than 2%- Repayment of 98 %.
- Maintain equivalent of 2% of total portfolio as reserve for Bad and Doubtful Debts.
- Have a clearly documented Bad Debt Write-off policy.
- Maintain good client retention, with less than 15% client drop-out rate

7.0 CONCLUSION

One thing that is evident from this paper is that Micro businesses and in particular SMIs is critical to rapid economic development. It is, in fact, said to hold a major key to the emancipation of developing countries from technological servitude. To this end and given the backwardness of most developing countries especially Nigeria, it is recommended that more efforts should be made to improve the rate of development and granting of financial support to Micro businesses and SMIs. The Central Bank of Nigeria policy initiative of Micro Finance is a welcome development. Adequate efforts should also be made specifically by Nigeria to diversify its economy in order to reduce its high dependence on primary products. This will pave the way for broad-based economic growth that will bring about tremendous reduction in absolute poverty or even eradication of the phenomenon, thereby enhancing the pace of job creation and economic development. Suffice it to say that the obliteration of absolute poverty can be seen to be synonymous with desirable economic development. Efforts should also be directed towards boosting the manufacturing sector where many entrepreneurs are

carrying out small scale industries. Finally, the initiative by the government to make financial services accessible to a large segment of the potentially productive Nigerian population, who are currently not being served by the formal financial sector, will enable them to engage in profitable and long-term sustainable business activities that will result in increase in individual household income, thereby enhancing the family's access to better diet, improved shelter, education and health care.

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EXPANDING TRADE FOR SUSTAINABLE DEVELOPMENT IN NIGERIA: ISSUES, PROSPECTS AND CHALLENGES

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ABSTRACT
Although there is no guarantee that the world will solve the problem of sustainable development, there is nothing in modern growth theory or existing evidence to suggest that such an achievement is impossible. The standard path has always been increase in investment and bridging the domestic savings-investments gaps through FDI. For Nigeria, a developing country by all standard, the custom has been "creating conducive investment climate and attracting FDI" using diversity of incentives through plethora of policies, the recent of which is the NEEDS document. Empirical literature has however shown that multiplicity of incentives towards FDI is not a sufficient condition to attract them and make them work towards the industrial development aspiration of the economy. Nigeria's trade performance over the years has therefore remained uneven due to gratuitous emphasis on commercial policies that overlooked the inherent socio economic realities in the country and hence the envisaged economic performance which would have otherwise resulted from such strategy has eluded her. Of course, Nigeria's trade performance and economic growth suffers from the deleterious effects of export instability as a result of its export of mainly primary product; as well as lack of infrastructure, absence of local technology, and high dependence on imported inputs among others. The position of this paper is that, since there exist some powerful technical, economic, social, political and institutional forces likely to render the world economy even more "globalized" tomorrow than today, attracting FDI, developing appropriate negotiating capacity as well as designing workable macroeconomic policies must be preceded by, or at least accompany an appropriate Built Operate and Transfer of competitive industrial clusters by the government across the country. These should however be done without relegating the overall overhauling of the agricultural sector. While articulating a clear cut linkage between agriculture and the industrial sector however, other sub sectors, especially oil, should complement, not compete for (especially external) trade revenue, but rather should serve as the basis for the development of our agricultural and industrial capacity and hence Nigeria's overall sustainable development agenda. The conclusion drawn in this paper is that, the global economy never gives what one does not have.

1.0 INTRODUCTION

The most important benefits of economic growth lie in its potential contribution to the long run struggle to raise living standards, to escape poverty and to minimize the tendencies and incidence of corruption. The cumulative effect of even small differences in growth rate becomes larger over a long period of time. It is also easier to redistribute income in a growing economy than in a static one. However, the opportunity cost of growth is the diversion of resources from current consumption to capital formation. Yet, for nations who are left behind in a rapidly changing world, the costs can be higher and more personal.

Economic growth and development with their attendant benefits would be very hard to achieve if residents of an economy could not buy some goods and services from abroad and most importantly, export goods and services to generate revenue to pay for the imports. Consequently, the dynamic role of agricultural and industrial establishments as engine of growth in developing countries has long been recognized by economic development experts. Its accelerative effects in achieving the macroeconomic objectives of nations such as full employment, income redistribution, favorable Balance of Payments (BOPs), price stability, development of local technology, diffusion of managerial skills and the stimulation of indigenous entrepreneurship to innovation have been well documented in economic literature.

Today, it is generally recognized that economic growth also corresponds to a process of continual replacement and reorganization of human activities facilitated by investment, motivated to maximize returns. Since science has no good way of modeling complex self-organizing systems, various efforts to model the long term evolution of economies have produced few useful results.

For Nigeria, the question has always remained the same: how to build enough trade capacity and simultaneously surmount production obstacles to energize its agricultural and industrial sectors with a focus on transforming lives and; how to generate capital for such development agenda. For one, foreign investment is

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considered an important catalyst for sustainable development in Nigeria as it can contribute to generating employment, expanding output, enhancing productivity and transferring skills and technology to indigenous firms. This is one reason why countries compete for foreign investment and enter into (bilateral and multilateral) international investment agreements, although at present, there is no single comprehensive multilateral instrument on investment but a patchwork of bilateral investment treaties between developed and developing countries. There are also investments rules embedded in some international trade agreement such as the World Trade Organization (WTO) agreement.

The WTO came into being on January 1st 1995 as a successor to the General Agreement on Tariffs and Trade (GATT) and as a result of the Uruguay Round of multilateral trade negotiations which lasted from 1986 to 1994. The responsibilities of the newly found organization included the administration and implementation of some 60 trade agreements on a variety of issues ranging from trade in goods to trade related aspects of intellectual property. At the United Nations (UN) Millennium Summit of September 2000, 189 nations adopted the Millennium Declaration out of which grew a set of 8 goals, 18 numerical targets and 48 quantifiable indicators to be achieved over the 25 year-periods from 1990 to 2015. However, despite the proliferation of bilateral investment agreements in the last two decades, there are conflicting evidences that their adoption by developing countries like Nigeria has significantly impacted positively on the level of domestic investment, output, trade and economic growth.

As nations strive to achieve the millennium development targets, Nigeria faces enormous challenges. It is glaring that Nigeria will miss the Millennium Development Goals (MDGs) by a large extent. Today, Nigeria is not among nations that are on the track in achieving the first goals of halving the proportion of people living below US$1 per day by 2015. Meanwhile, the target of halving hunger and others is extremely far from being achieved in Nigeria. Due to Nigeria's disproportionate burden of poverty and many other impediments to development, achieving the MDG will hinge on making substantial and sustained advances in trade.

Although several works have been done on the structure of the Nigerian economy, the recent work by the Central Bank of Nigeria (CBN, 2005) World Bank (WB) and others puts most of the structural issues in perspective. The highlights of the structure and changes therein are as follows:

- Nigeria is the largest, most populous geographical unit in Africa (and the most populous black nation in the world), with land area of 923,768 square kilometers and estimated population of 140 million (2006 Census figure), 47% of whom are below 15 years of age and another 3% aged 65 years and above, while the remaining percentage is between the ages 16 and 64. These give a dependency ratio of 1:1 as against 1:3 or less in the advanced economies. Given its large reserves of human and natural resources, Nigeria has the potential to build and maintain a prosperous economy, reduce poverty significantly and provide health, education and infrastructure needs of its population. Despite the nation's potential wealth, poverty is still widespread and her basic economic indicators place it among the twenty poorest countries in the world and about 57% of the population falls below the standard poverty line of the US$1 a day mark (M.U. Yakub, 2005);

- Agriculture dominates the GDP, but its contribution has reduced gradually over the years since the attainment of political independence in 1960. This ratio dropped from 64.1% in 1960 to 28.35% in 2002 and an estimated 34% in 2003, with an estimated 35.2% of the labor force employed in the sector same year. Agricultural GDP increased at an annual rate of 2.9% between 1990 and 1998. Generally, the sector remains the largest contributor to the Nigerian economy, accounting for over 38% of the active labor force of the population (NIPC Report, 2002). The Federal Government (FG) had, over the years, initiated a number of specialized development schemes to enhance agriculture as well as the establishment of several agricultural research institutes and their extension research liaison services to enhance agricultural development;

- Manufacturing improved in the early post-independence years, but its contribution dipped in the 1990's, from 4.8% in 1960 to 5.5% in 2002. Four industrial sectors are considered priority areas of development because of their attendant effects on standard of living, their linkages effect on other sectors and their catalytic role in the overall growth of the industrial sector and the economy at large. These priority areas are metallurgical/engineering industries, agriculture (forest-based and agro-allied activities) chemical/petrochemical sectors, construction sector, solid minerals and energy. In 2001, the industrial sector was responsible for 45.8% of GDP and output rose by 3.3%, substantially below the 7.6% rate of increase in the previous year. The manufacturing sector has suffered from reduced capacity which has seen for instance the number of textile industries in the country to fall to just 40 in 2002, a quarter of the number in the mid 1980s. This situation had prompted the FG to ban the importation of all printed fabric in order to protect the ailing textile industry. With over 2000 industrial establishments

in the country, including multinational oil companies, Iron and Steel rolling mills, pharmaceutical industries, food processing and car assembling, agricultural production and agro-processing industries, manufacturing and export production industries (NIPC Report 2002) they cannot be said to have positively impacted significantly on the Nigerian economic growth process;

- Crude petroleum became prominent, contributing 0.3% to GDP in 1960 and increased to 40.6% in 2002. The Nigerian economy is heavily dependent on the oil sector which contributes about 95% of its export revenue, about 76% of government revenue and about a third of GDP (Ashton-Jones et al 1998, P. 135 and M.U. Yakub, 2005). However, despite efforts to diversify the non oil sectors in order to reduce the excessive dependence on the oil sector, there had been wide range fluctuations in the growth of the non oil sectors contributions to GDP;

- Service activities have in general stagnated; railways and the banking sector are emerging from near total collapse. Telecommunications services have been dominated by inefficient public enterprises which, over time, have seriously handicapped other sectors that use those services as inputs. In contrast, private participation in maritime and air transport has contributed to a certain degree of restructuring and modernization;

- The size of the economy is undeniably small given the Gross National Products (GNP) of around US$38 billion and a per-capita GDP of US$310 (WB 2002). Today the GDP is US$142 billion and a per-capita GDP of US$1000. Average growth rate of GDP in the last 3 years has been 7% driven by appreciable growth in the real sector made up of agriculture, telecom, solid mineral etc;

- Dualistic nature in which there is a mix of formal (organized) and informal (curb markets) systems, providing succor for many families in Nigeria, in terms of employment generation and income. The latter is a huge sector that is difficult to measure, as it owes its existence to institutional weaknesses, policy inconsistencies and policy implementation deficiencies. Estimates often indicate it to represent between 40% and 45% of economic activities in Nigeria;

- Increasing inequalities in inter-personal incomes and a widening gap between urban and rural incomes and consequently resulting in the continuous rural urban migration, urban congestion, pollution and crimes since the oil boom of the 1970s and became more pronounced in 1986;

- Weak social and institutional structures in education and health. Enrolment figures show improved distribution in favor of secondary and tertiary education, with less drop out, but there are concerns about the quality of education regarding the dynamics of the work environment and its requirements;

- A vibrant financial system that has had cycles of stability/prosperity and distress, the latter pronounced in the early 1980s to mid-1990 and the former from 2005. The improved enforcement of regulation and increasing commitment to corporate governance principles by the operators, as well as the mounting pressures from international financial "globalizers", assure soundness of the financial system going forward. Moreover, the financial sector is predominated by the formal financial institutions which include the CBN, Deposits Money Banks (DMBs), Nigerian Deposits Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), Financial Companies, Mortgage and Insurance Companies, Forex Bureaux, Stock Exchange as well as other specialized institutions. There also exists an array of informal financial institutions where deposits mobilization and lending are done on a small scale. However, the credit market is not fully developed to warrant for easy accessibility to funds for investment purposes;

- External trade is dominated by oil, which accounted for 32.9% of the total in 1970 and 64.63% in 2002. The external sector of Nigeria experienced renewed pressure in 2001 due to a sharp fall in the trade surplus (Appendix 6). The fall in trade surplus was the result of Nigeria's lingering problem of excessive dependence on import even as export revenues dwindled. The values of Nigeria's export increased by 8.9% in 2001 to US$18.9 billion, with the oil sector accounting for 44.5%, down from the share of 49 % the previous year. On the other hand, total imports rose by 31.5% in 2001 to US$10.3 billion, representing 31.2% of GDP in 2000. The increase in import in 2001 reflected increased demand for finished goods and raw materials which are hardly produced domestically. Consequently, trade surplus fell from US$10.4 billion (22.7% of GDP) in 2001. The reduction in trade surplus led to the Current Account balance also falling from 9.5% of GDP in 2000 to 5.2% of GDP in 2001.The external sector saw a further fall in the trade surplus to an estimated 11.7% of GDP in 2002 (African Economic Outlook, AfDB/OECD, 2003; Appendix 6);

- Raw materials and consumption goods in that order dominate imports. The shift between 1970 and 1996 show that these two gained over capital goods, further entrenching the Nigerian economy as import dependent and reliant on crude petroleum as the major export item since its discovery in the 1970s.

The remaining part of this paper is divided into the following sections: section two, conceptual issues, section three, a review of trade polices in Nigeria and outcome, section four problems and challenges of expanding trade in Nigeria, section five, recommendations and concluding remarks.

2.0 CONCEPTUAL ISSUES

Economic growth is the increase in value of goods and services produced by an economy in a year. It is conventionally measured as the percentage increase in real GDP. Growth is usually calculated in real terms i.e. inflation adjusted terms, in order to net out the effects of inflation on the prices of the goods and services produced. Normally, the higher the level of national (net public sector plus private sector) savings, the higher the level of investment and owing to the accumulation of more and better capital equipment, the higher the level of investment, the higher the level of income i.e. high saving economy accumulates assets faster and thus grows faster than does a low saving economy, foreign lending not accounted for.

The long run path of economic growth is one of the central questions of economics. An increase in GDP of a country is generally taken as an increase in the standard of living of its inhabitants. Over a long period of time, even small rates of annual growth can have large effects through compounding. A growth rate of 2.5% per annum will lead to a doubling of GDP within 28 years, while a growth rate of 8% per annum as experienced by some East Asian Tigers will lead to a doubling of GDP within 9 years. Economic growth has been the major concern of economists for centuries. Consequently, various models have been applied to explain the role of savings, investments, foreign capital, trade policies etc. in economic development.

In the Keynesian framework, interpreting the role of savings and investment in economic growth, prices adjust very slowly. In the short run, they are taken as given and fixed. On the other hand, output is demand driven and suppliers produce what is demanded at the said price. Markets may be imperfect and adjustment may be slowly and costly. Consequently, there is necessarily a general tendency towards the full utilization of production factors. In an economy that operates under such assumptions, any exogenous disturbances that changes aggregate effective demand affect growth as well.

One of the earliest models of economic growth is the Harrod-Domar growth models. These models are based on the experience of advanced capitalist economies and attempt to analyze the requirement for a steady growth. The theory attempts to discover the rate of income growth necessary for a smooth and uninterrupted working of an economy. This model implied a direct link between the rate of economic growth and the level of current investment. The model assumes that the growth of output in the current year is proportional to the investment ratio (the share of investment in output) in the previous year. This theory laid emphasis on the dual character of investment. Firstly, it creates income, and secondly, it augments the productive capacity of the economy by increasing its capital stock. Harrod-Domar growth models are purely laissez-faire one based on the assumption of fiscal neutrality and designed to indicate conditions of progressive equilibrium for an advanced economy. The theory represents a stimulating attempt to dynamize and secularizes Keynes static short run savings and investment theory.

It has been recognized that this model was not meant to be a long run growth model envisaged as a tool to analyze long term growth performance, especially in the context of designing aid programs in developing countries. In the framework of this model, a targeted rate of growth of output or GDP implies a required investment, the incremental capital-output ratio. Hence, the difference between domestic savings and the required investment is interpreted as financing gap to be bridged by foreign savings in the form of loans, aids and/or FDI. Most development assistance programs of the 1950s-1970s were designed along this strand of economic thinking. One of the underlying assumptions of this model is that domestic and foreign savings would be fully channeled into productive investment. However, despite these models' theoretical robustness and simplified manipulative nature, its applications in developing countries are bedeviled by lack of absorptive capacity due to institutional bottleneck and/or scarcity of profitable investment opportunities (Ojameruaye, 2003).

The neo classical growth theory has relaxed some of the simplistic assumption of the Harrod-Domar models; but despite which it failed to offer a satisfactory account of the links between savings and growth that conforms to conventional wisdom that capital accumulation is the engine of growth. This model assumes that countries use their resources efficiently and that there are diminishing returns to capital and labor increases. From these two premises, the neo-classical model makes three important predictions. First, increasing capital relative to labor creates economic growth, since people can be more productive given more capital. Second, poor countries with less capital per person will grow faster because each investment in capital will produce a higher return than rich countries with ample capital. Three,

because of diminishing returns to capital, economies will eventually reach a point at which no new increase in capital will create output or economic growth; this point is called a “steady state.” It also notes that countries can overcome this steady state and continue growing by inventing new technology that allows production with fewer resources. But the model assumes technological progress “exogenizing” from the model made economists to doubt its validity and applicability in real world situations.

In a model developed by Robert Solow (1957), he estimated the contribution of technical change to the overall growth rate of the US by separating the variations in output per head due to technical change from those due to change in the availability of capital per head. He treats technical change as disembodied, where capital is assumed as exogenous. Disembodied technical changes are capital augmenting in which existing capital is by one means or another made more productive. Thus, the theory postulates that productivity depends upon the amount of capital stock. Kaldors' (1960) model is an attempt to make the savings income ratio a variable in the growth process. It is based on the classical savings function which implies that savings equal the ratio of profit to national income. He points out that there will not be any inherent tendency to a smooth rate of growth in a capitalist economy. He follows the Harrodian dynamic approach and the Keynesian techniques of analysis in regarding the rate of change in income and capital as the dependent variable of the system. Other neo-classical models treat the causations of technical progress as completely exogenous, but Kaldor attempts to provide a framework for relating the genesis of technical progress to capital accumulation. This model shows that the ultimate causal factor was not saving or capital accumulation but technical dynamism- the flow of new ideas and readiness of the system to absorb them.

Unsatisfied with these explanations, economists in the 1980s developed the endogenous growth theory. This model incorporated a new concept of human capital, the skills and knowledge that make workers productive. Unlike physical capital, human capital has increasing rates of returns. Therefore, overall, there are constant returns to capital and economies never reach a steady state. Growth does not slow as capital accumulates, but the rate of growth depends on the type of capital a country invests in. Research done in this area has focused on what increases human capital (e.g. education) or technological change (e.g. innovations). Modern growth theorists contend that changes in outputs are due to changes in the quantities and qualities of inputs, in economies of scale and advance in knowledge rather than the result of technical change.

In the MundellFleming models which incorporate the external sector variables in succinct manner, the relationship between aggregate demand, investment and output growth becomes more complex due to the effects of the exchange rate regime. With full stock/flow accounting respected, the two-country open economy portfolio balance model has just two independent equations for asset market clearing. It can determine home and foreign interest rates but not the exchange rate. If asset market equilibria vary smoothly over time, the BOPs equation in the MundellFleming model is not independent and cannot set the exchange rate either. The familiar fixed reserves/'floating rate' vs. endogenous reserves/'fixed rate' dichotomy does not exist, and 'fundamentals-based' econometric models of the exchange rate are bound to fail. An alternative is a two-country IS/LM model with exchange rate dynamics added.

The Nigerian economy can be better captured in a concept of an economic dualism in a domestic or closed economy. The economic dualism of Fei Ranis and Jorgenson involving a developing urban industrial market and an underdeveloped subsistence rural agricultural economy is the supporting analytical framework. Fei Ranis particularly discussed the interaction between the traditional agricultural sector and the modern industrial sector where a transitional process through which the economy hopes to move from a condition of stagnation to that of self sustained growth (Jhingan, 2005). The dualism scenario in Nigeria is typified by organized agriculture and industrial sectors as well as money market in cities charging low interest rates on loans and unorganized informal traditional lending markets charging high rates of interest on loans. The situation partly explains the wide gap of development between the traditional agricultural sector and modern industrial sector which Fei Ranis's dualistic concept wants closed up, with the two sectors complementing and not competing with the other.

Various kinds of public policy variables therefore seem to make a difference in growth rates. Countries with relatively “open economies” (i.e. those which allow relatively free movement of goods and capital in and out of the country without high tariffs, excessive protectionist mentality, import quotas, forex controls or major restrictions on foreign investment) have tended to maintain high growth than countries with more restricted policies. Countries that allow extremely rapid expansion of their money stocks and thus bring on high rates of inflation have tended to experience sharply lower economic growth rates than countries with low or moderates inflation. Countries whose legal systems provide relatively reliable enforcement of private contracts and relatively secured protection for private property rights have tended to grow more rapidly than countries whose legal systems are bogged down by corruption, arbitrary judicial decision making, frequent radical changes in basic legal principles, ex post facto legislation

and/or just plain lack of prompt and effective enforcement of the law.

Despite their appeal, studies linking trade to growth have elicited significant criticism. Skeptics challenge the methodological foundation of these arguments. In particular, Rodriguez and Rodrick (2001) and Winters (2004) question the accuracy of “openness” or 'globaliser' measures, the basis for determining causality, and the validity of econometric methods popularly used in cross country regressions. Case studies focusing on individual country experiences of successful outward-oriented growth have circumvented many of the problems of cross-country comparisons and strengthened arguments for trade liberalization (Kehinde Ajayi and Philip Osafo - Kwaako 2006). Moreover, a study that raises the fundamental questions on the role of liberal trade and exchange rate policies in the development of the Nigerian economy (covering four Nigerian non-oil export cocoa, beans, palm kernel, cocoa butter and rubber which accounts for over 75% of non-oil exports in Nigeria) during the periods 1986 1992, shows that the policy was unsustainable (Kwanashie et al, 1998).

These models are based on some restrictive assumptions that make the final solution of the problem less realistic and inapplicable to real world situations. However, they provide us with clues into the process of economic growth. Yet, today international policy makers and apostles of international trade has continued to advocate that high rate of economic growth are the results of open trade policies. Rodrick stated that the tendency in policy discussion to claim that open trade policies produce significant boost in economic growth rate, a claim apparently supported by large crossnatural empirical literature is unrealistic. An extension view of the said literature on the relationship between trade policy and growth produce the conclusion that there is significant gap between the facts and the impressions created by this body of literature. These gaps are said to emerge from a number of factors, one of which is that the indicators of openness used by the researchers are often problematic as measures of trade barriers are highly correlated to other sources of poor economic performance. Furthermore, in often cases, the empirical strategies used to ascertain the link between trade policy and growth have serious shortcoming and once these shortcomings are removed, the results shows significantly weaker findings. In this regard, one common shortcoming has been the misattribution of either macroeconomic phenomenon e.g. overvalued currency or macro instability or geographic determinants to trade policy proper.

Rodrick has therefore argued that practically, all of today's advance countries have earlier embarked on their growth behind tariff barriers and reduced tariff protection subsequently only offers clue of sort. There is however an acknowledgement that no country has developed successfully by turning its back on international trade and long-term capital investment. In practice, the most compelling mechanism that is said to link trade with growth particularly in developing countries is that imported capital goods are likely to be significantly cheaper than those manufactured at home. Policies, which restrict import of capital equipment will concomitantly, raise the price of capital goods at home and thereby reduce real investment, output and trade levels.

The strong conclusion drawn in Rodrick forceful argument is that no country can develop by simply opening itself up to foreign trade and investment. The trick observed in successful cases has been to combine the opportunities offered by world market with domestic investment and institutional building strategy, to stimulate the domestic entrepreneurs. While the process of generalizing these specific results is problematic, some scholars generally accept that trade liberalization can generate economic benefits, with yet others strongly advocating the need for adopting other policies to sustain trade reform gains in the long-term. Almost all outstanding cases in East Asia, as well as in India, China etc. since the early 1980s involved partial and gradual opening up to imports and foreign investment, i.e. they used protective practices to kick-start growth in their economies before later taking advantage of trading opportunities through a combination of export-promotion strategies. Consequently, international market failures such as asymmetric information and perception problems, market segmentation and marginalization owing to the relatively small transaction size of the Nigerian market (A. Aremu, 2005), shows that a sound principle of commercial policy would be to strike some balance between the need for rapid expansion of liberalization with some certain or sequential approach to liberalization (Briggs I.N, 2005).

Explaining difference between countries in their long term economic growth rates is a complex matter and the scientific literature on the subject is filled with controversies both technical and ideological in nature. Many of the theoretical determinants of long term growth rates are difficult to measure very adequately and many of the least imperfect measurements available for testing the various theories have been systematically collected in much of the world only for a relatively recent historical period roughly the last 20 to 30 years. Nevertheless, recent surveys of the published professional literature came up with over 60 different variables that have been put forward by theorists as enhancing or retarding long term economic growth. There is broad support in virtually all empirical studies of a strong positive impact on output, trade and economic growth by the investment rate (in plants and equipment), savings and by various measures of human capital (such as literacy rate, school enrolment ratios, technological progress and average life expectancy),

technological innovation as well as sound commercial policies by improving productivity and expanding output. While economic theory has so far not been fully successful in reflecting the underlying economic interactions in consistent, closed form models, the notion that saving and investment plays a fundamental role in the process of output growth and economic development continues to dominate present day economic thinking.

3.0 A REVIEW OF TRADE POLICIES IN NIGERIA AND OUTCOMES

Until recently, trade policy formulations and implementation in Nigeria, even though conditioned by the global context, was dominated by government and intergovernmental agencies and due to weak public sector institutions, the policy process is diffused and lobbying and ad hoc interventions tend to be the preferred means of influencing policy. The non-governmental or civil society sector was generally looked upon with suspicion and invariably became the target of repressive measure by state administrative machinery, an intolerant of alternative viewpoint among the citizenry (Akindele, 1988).

3.1 The 1960s: From Independence to End of Civil War

At independence in 1960, the nationalist rulers aggressively pursued ISI as part of the response to the miniature industrial base handed down by the colonial masters. In the first three years of independence, value-added in manufacturing grew by an average of 11.4% per annum. Rapid growth of manufacturing and diversification of industrial activity were major objectives of industrial sector development as articulated in the national development plans (NDPs) 19621968, (with a repeated case in the 19701974, and 19751980 NDPs). By 1965, manufacturing as a share of GDP had grown to 6%, up from 5% at independence. Between 1967 and January 1970, Nigeria was plunged into a civil war. Despite the war, the decade of the 1960s could still be described as the golden era of Nigeria's industrialization effort and the dominant strategy was ISI.

3.2 The 1970s: Indigenization Policy and the Oil Boom

The decade of the 1970s was the decade of the first oil boom which put enormous financial resources in the hands of the government enough to prosecute whatever development programs they fancied. The Nigerian Enterprises Promotion Decree of 1972, which reserved certain categories of industrial activity, mostly services and manufacturing for Nigerians, failed in a number of respects. The 1977 revision of the decree turned out to be an abortive attempt at using a single policy tool to achieve three distinct objectives of indigenization, diversification and Nigerianisation of management simultaneously in one fell swoop (Adejugbe, 1980). Basically, ambiguities arose in the role of the state on account of its attitude to foreign capital which has been variously described as “ad hoc” and “compromising” (Collins, 1980). Following the end of the civil war, was also a decade the government earmarked for reconstruction, rehabilitation and reconciliation. It was a decade of massive direct government massive investment in a number of industries. Actual outcomes, however, contradicted all rosy expectations despite the oil boom and the indigenization program. Thus, oil boom and irrational investment interacted to produce an economically illogical reaction to the oil-boom in Nigeria. A particular property of this scenario is that oil casts a smokescreen over a country's real problems. Symptoms such as forex problems and fiscal inadequacies were temporarily concealed.” The “smokescreen” induced Dutch courage, which emasculated the agricultural and industrial sectors.

From the mid 1970s and onward, Nigeria's main trade policy instruments shifted markedly away from tariffs to quantitative import restrictions, particularly import prohibitions and import licensing. The pervasive use of import prohibitions as an instrument of trade policy in Nigeria derives from a long-standing import policy regime which was designed to protect and promote domestic industry, employment and BOPs objectives in the context of an ISI strategy (Oyejide, 1975). Besides protection of domestic industries, import restriction were sometime necessitated by unfavorable external circumstances, including a deterioration in terms of trade and sharp decline in the nations oil revenue and forex reserves. The pervasive use of import prohibitions in Nigeria has another perhaps equally important reason, it is administratively easier. Restrictive trade policies began to emerge between 1976 and intensified in the period between 1978 and 1980.

While economic development has suffered from inadequacy of capital flows which has made it difficult for farmers to innovate, the Agricultural Credit Guarantee Scheme (ACGS) was established in 1977 to guarantee unpaid loans. It has been expanded to a Scheme Fund where each state contributes to the fund for disbursement to farmers in their locality. Before the introduction of SAP, exchange rate and forex allocation policies acted as a major source of price distortion and disincentive towards farming enterprises. The extent of overvaluation of the local currency was put at 100% between 1970 and 1975; 200% between 1976 and 1979 (and about 700-900% during the 1980-85 periods - CBN/NISER, 1992). The over-valued exchange rates altered the competitiveness and profitability of farm business in favor of other activities. A wide array of export incentive schemes have failed to offset the anti-export bias resulting from Nigeria's import regime, failing infrastructure and cumbersome export procedures that are designed to ensure

repatriation of export proceeds than facilitate exports. ISI policies however continued through the early 1980s until Nigeria's adoption of SAP in 1983.

3.3 The 1980s and the Structural Adjustment Program

Prior to liberalization, the trade regulation in Nigeria included Marketing Board (1960 1977) through which all exportable agricultural products were purchased by government at prices lower than world prices. Incentives were given to farmers to increase their acreage and adopt some imported technology (Okuneye 1985). Food imports were limited, but crop production for exports (cocoa, rubber, roots and tubers etc.) was intensified during the period of liberalization. The experience of the 1980s amply underscores the impact of the objective conditions of an economy on the policy choice. If the oil boom of the 1970s induced and nurtured a commanding height economy, the failures of that regime as well as the objective conditions of the 1980s foisted a necessity for fundamental reforms. The year 1982 signified the end of an era, with the collapse of the international oil market. With this collapse, Nigeria's structural defects, which had been concealed by the oil boom, came to the fore. Forex difficulties became acute, and the entire manufacturing sector (based on ISI strategy and heavy dependence on imported inputs) was in serious trouble. The manufacturing sector still manifested a litany of problems such as concentration on the light and elementary industrial groups, low local value-added; high import intensity, and undue government involvement, especially in heavy industry (Oesterdiekhoff, 1991). The most dramatic feature of this era was the adoption of the SAP policies in 1983. The key objectives of the SAPs with respect to industrial policy were to; encourage the accelerated development and use of local raw materials and intermediate inputs rather than depend on imported ones; develop and utilize local technology; maximize the growth in value-added of manufacturing activity; promote export-oriented industries, i.e. diversification away from oil; generate employment through the encouragement of private-sector small and medium scale industries; remove bureaucratic control/bottlenecks and constraints that hamper industrial development and trade, including infrastructural, manpower and administrative deficiencies; and liberalize controls to facilitate indigenous and foreign investment. But Nigeria sorely needs to negotiate debt rescheduling with the Paris Club of Creditors (which requires certification from the IMF as an eligibility criterion), the country has had little room to maneuver even though it was supposed to be “home-grown”. During this time, a deregulated exchange rate market was a prime policy instrument, while a liberalized trade policy regime and the development of a workable rural infrastructures and efficient markets were the keys to the success of SAP (UNEP Country Project Round II, A Synthesis Report).

The SAP period (1983 1986) through trade liberalization, enhance export price partly due to the devaluation of the Naira in 1986 (Paul Collier, 1994). The import licensing system together with exchange control on all current transactions and Commodity Marketing Boards were abolished immediately and the numbers of prohibited imported items was drastically reduced. In 1987, a new export financing facility was introduced by the CBN. It was a financing and rediscounting facility to assist private exporters by providing refinancing for the export of agricultural and industrial produced. A duty drawback/ suspension scheme was also introduced to enable exporters import raw materials and intermediate products for use in the manufacturing of export products.

Although, results from studies on the impact of trade reform in Nigeria were mixed, in most cases, trend analysis suggested that liberalization was associated with negative effects, particularly on the manufacturing sector. For example, the manufacturing value-added growth rate fell from a pre-SAP average of over 10%, to 5% under SAP, and both output and real profits decreased (Akinlo, 1996). Moreover, decreases in nominal tariff rate tend to be associated with decreases in employment, capacity utilization, and local sourcing of raw materials, with positive effects only resulting from decreased production costs (Akinlo, 1996; and Adenikinju 2005). Results from ordinary least squares regression analysis for 1970 to 1999 indicated that tariffs had a positive and significant effect on output, but no effect on growth of exports or imports (Adenikinju 2005). However, Ajakaiye and Soyibo (1999) adopted a slightly different approach to standard time series analysis by identifying four episodes of trade liberalization between 1970 and 1993 (1970-76, 1986-87, 1989, and 1992), based on policy account, tariff index, and trade intensity measures. Using regression techniques, the authors found that only the first instance of liberalization (1970-76) increased real imports, while none of the four episodes had a significant effect on real GDP.

Likewise, liberalization in the agricultural sector was found to generate increases in total welfare, export revenue, and government revenue from agricultural tariffs (Ogunkola, 2005). Altogether, the unconvincing link between tariffs and economic performance indicates that Nigerian producers are sensitive to more than just trade policy. One leading factor that probably contributed to the manufacturing sector's weak performance is the exchange rate (Akinlo, 1995; Adewuyi, 2005; Adenikinju, 2005). Additionally, producers' high dependence on imported inputs and the lack of local technology are also significant (Akinlo, 1995; Adewuyi, 2005).

3.2 The Investment and Trade Policies in the Era of the 1990s

If the dismal performance of the manufacturing sector under the ISI strategy necessitated a fundamental change of policy through SAP, the outcomes under the new policy regime have not been better. Since the 1990s, manufacturing value added as a share of GDP has stagnated, and as at 2000 was 4.9% of GDP (less than the 5.3% at independence in 1960). Capacity utilization has remained at around 35%, and manufacturing employment has declined, despite the fact that raw materials and capital goods imports gulp about 60% of Nigeria's forex earnings. Early in 1989, the government of the day launched the first formal Industrial Policy of Nigeria, and in 1990, the first trade policy was also launched.

In the 1990s, some micro finance concept institutions such as Peoples Bank and Community Bank were established to increase rural access to credit. Micro credit financing is thus balancing the credit flow between the rich and the poor as well as rural and urban centers through the new re invigorated efforts of the government. The financing of rural economic development programs which centered on agricultural and rural infrastructural development could not yield the envisaged results of reducing rural urban migration as well as enhancing other economic benefits. The CBN specifically put in place the Micro Finance policy and regulatory framework which provides for the establishment of Micro Finance Banks (MFBs), which are to be community based banks or local government based with a minimum paid up capital of N20million. They are to run financial services that take into consideration the peculiarities of the rural poor who lack collaterals to back up loans. But, micro credit given by the ACGS Fund is small compared to the need (Appendix 4).

The Nigerian Export Promotion Council (NEPC), actually created in 1987 and the Nigerian Export Import Bank (NEXIM) 1990, were established to encourage production for export and to administer industrial export incentive programs, tax concession, Export Expansion Grants (EEG), Export Development Funds, Capital Assets Depreciation allowances and foreign currency retention programs. In an effort to attract investment in exportoriented industries, the FG established the Nigerian Export Processing Zones Authority (NEPZA) in 1992. Out of the five zones established under NEPZA, only the Calabar (later converted into Free Trade Zone FTZ, in 2001) and Bonny Island EPZs functions.

Since the last trade review in 1991, the driving force of economic policy has been to promote greater transparency and accountability in the economic management of the country. The central objective of this drive is to restore confidence in the Nigerian economy so as to stimulate both local and foreign investment. The overall objective of Nigeria's trade policy is to diversify the country's export base and to continue to liberalize the import trade. It was during the 1990s, that the economy was deregulated, while new incentives to enhance forex from export were introduced. The Dutch Auction System (DAS) introduced was therefore to achieve a stable exchange rate of the Naira and to enhance the competitiveness of Nigeria's export. However, this policy failed to achieve the envisaged results since oil still accounted for the bulk of the nation's forex earnings.

In 1995, the Nigerian Investment Promotion Commission (NIPC) was established through Decree 16 of 1995. NIPC absorbs and replaces the Industrial Development Co-ordinating Committee (IDCC). It provides for a foreign investor to set up a business in Nigeria with 100% ownership of firms outside petroleum sector, which is limited to existing joint ventures or production sharing agreements. Before the NIPC, foreign equity participation in Nigerian businesses was limited to 40%. NIPC also eliminated the need to apply to the Ministry of Finance for "approval-in-principle". Under the NIPC, foreign investment is guaranteed against nationalization or expropriation by government except in cases of national interest. Compulsory ceding of shares by an existing holder to another person, as for example, under the Indigenization Decree of 1972, is not allowed. Foreign companies are free to invest in any sector of the economy except for sectors in the "negative list" (such as manufacturers of firearms, ammunition, military and paramilitary apparels). Between 1990 and 1996, Nigeria's import structure changed significantly, with the share of food and petroleum products returning to its level of the early 1980s. This recorded trade, however, excludes prolific informal commerce with neighboring countries (Appendix 7). During the 1990s, the commitment to structural reforms weakened and economic growth has slowed to an average of 2.5% a year in 1991-94 from 5.3% during 1986-90.

Beginning from 1996, the FG created a number of committees to help formulate economic policy. In particular, the Vision 2010 Committee was set up in November 1996 to analyze why Nigeria's economic performance was far below potential and to develop a blueprint to realize such potential by the year 2010. The Committee concluded that improvements in economic conditions would require a reduction in the dominant role of the public sector in the economy, the development of a viable and dynamic private sector, and foreign investment, as well as economic stability and social justice. Thus, to provide for long-term perspective on economic development, the FG introduced a market-oriented economic development program to the year 2010 known as "Vision 2010". Crucial to the success of Vision 2010 is a programmed share of responsibilities between the public and private sectors of the economy. Government is expected

to devote resources to the creation of an enabling environment, the provision of infrastructure, the development of human capital, the formulation and implementation of stable and consistent economic policies and effective and transparent governance in order to stimulate private sector savings and investment. GDP is expected to grow steadily front 6% to 10% per annum during this period.

In 1998, the FG announced a "Guided Privatization and Commercialization Policy" under which the Government would retain at most 40% of the equity in the privatized enterprises. All excise duties levied on domestically produced goods were abolished in January 1998. The operations of the Nigerian Customs Service as well as documentation procedures were computerized with effect from 1998. The valuation data base within the Customs, using the Automatic System for Customs Data Entry (ASYCUDA) was introduced to correctly assess import duties. In addition, the X-ray Scanning Inspection System was installed at Apapa and Tin Can Island Ports and later Port-Harcourt, Calabar- and Warri Ports. FG defines guided privatization as "a carefully planned and systematically implemented program of government withdrawal from the control of business enterprises which can be more effectively and efficiently run by private sector operators. The import of this policy is that sectors previously closed to private sector participation, such as petroleum refining, are being removed from the negative list for private sector investment.

3.5 The 2000s: The National Economic Empowerment and Development Strategy (NEEDS)

Beyond the immediate trade policy regime of 1998 is an overall economic development package adopted as a medium term economic development package in 2002, the National Economic Empowerment and Development Strategy (NEEDS) which will guide government program of development for the period 20032007. To achieve its ambition, NEEDS focuses on four key strategies i.e. reorienting values, reducing poverty, creating wealth and generating employment. These key visionary goals are again built into three major macroeconomic frameworks, namely, empowering people, promoting private enterprises and changing the way government does it work.

Specifically, in the trade policy agenda, NEEDS seeks to deepen Nigeria's integration with the rest of the world and to maximize the benefit of strategic integration. Thus, regional integration and trade are the two instruments identified by NEEDS for maximizing the benefits of globalization. The trade policy objectives under NEEDS is to lay a solid foundation for fully exploiting Nigerians potential in international trade and helping to become the gateway to West and Central Africa. It goes to highlight a number of constraints that were identified as challenges namely, high costs of doing business, inadequate/weak infrastructure, poorly implemented incentives, especially, fiscal and tariff regimes, massive smuggling, counterfeiting and dumping of products, lack of standardization required for products to compete internationally and unfavorable international rules.

The strategies and instruments which government seek to deploy in achieving the objectives of trade Policy include drastic reduction in domestic cost structure, especially infrastructure cost, to enhance competitive investment climate necessary for production, aggressive promotion of exports and economic diplomacy, harmonization of tariff with the West African Monetary Union (UEMOA) and others, to create the Common External Tariff (CET), continue to use special series of import restrictions in particular circumstances to protect industries and critical sectors against unfair competition, rationalization and strengthen institutions responsible for trade facilitations, cooperation with other African and developing countries to ensure that the WTO trade negotiation address the concerns and interest of Nigeria and including propriety leadership in the negotiation of Economic Partnership Agreement (EPA), reform customs and ports to drastically reduce turn around time in the ports, enhance the prompt collection of government revenue and ensure custom clearance within 48 hours, develop deep-sea port, inland container depots, FTZs and ship building facility to enhance coastal shipping, international trade and regional integration.

In 2003, Nigeria made a commitment of economic reform aimed at improving the country's economic growth, reducing dependence on the oil sector, generating employment, and increasing investments in the economy for the period 2003 2007. This commitment was made possible by the appointment of an Economic Management Team (EMT). An ambitious reform program was outlined by the reform team, aimed at ensuring macroeconomic stability, improving efficiency of public expenditure management, tackling corruption, and improving the domestic investment climate. To achieve these goals, the EMT embarked on various macroeconomic and structural reforms programs (IMF 2005). The macroeconomic reforms were broadly successful, resulting in improved macroeconomic indicators (strong growth rates, reduced levels of inflation, and increased level of forex reserves), the successful completion of a debt relief package, and the first ever sovereign rating of the Nigerian economy at BB by two external agencies, Fitch and Standard and Poors (FMF, 2006).

4.0 PROBLEMS AND CHALLENGES OF EXPANDING TRADE IN NIGERIA

Nigeria's agricultural and industrial declines are the result of the combination of interrelated factors:

4.1 Misplaced Priority: Agriculture versus Oil

The discovery of oil and the subsequent neglect of agriculture since the 1970s have created the breeding ground for corruption and economic mismanagement in Nigeria, with the later, reinforcing the former. The unfortunate side of the unfolding events, with its attendant grand corruption in high places, few Nigerians became stupendously rich, while the majority went under in abject poverty. The resultant frightening wide gap between the rich and the poor took its toll on the state of the nation. To join the elite millionaire/billionaire clubs, many Nigerians abandoned agriculture, their profession and overnight, turned oil speculators and merchants. With this ugly development, the once ebullient Nigerians became lazy always longing and looking out for cheap and easy means of “making it”. While greed, corruption and crave for instant gratification thrived and took the centre stage, the urge for agricultural activities crashed to the lowest ebb.

4.2 Poorly Designed Liberal Trade Policies

Generally, the process of trade liberalization involves the reduction of tariff or trade barriers. In this context therefore, trade liberalization has become a common policy prescription for increasing trade flows. However, this has not always worked out and empirical evidences has shown that trade liberalization cannot be counted on to balance export and import of an economy. To think mechanically in terms of liberalization programming models taught in training seminars or the university, a model in which trade policy variables are shifted to balance export and import is to call for disaster. This is more so as the factors which determine imports may differ from those that determine exports. In this regard, although a developing country may be able to control how fast it liberalizes imports, it is on the other hand much less unable to influence the rate of growth of its export, at least in the short run. Consequently, agricultural and industrial output could not grow due to factors attributable to the indifferent standard of policy implementation by the various governments, absence of executive capacity at the national level etc. All these grew into a culture robbing the Nigerian society at large the moral fiber to stand up for the development of a self reliant economy.

Moreover, the failure of the export sector to grow more rapidly in Nigeria reflects a reluctance to commit investment to the export sector. Labor moves because such relocation is reversible, whereas, capital does not move because it would be irreversible. Thus, the weakness of the export sector is, at the root, a reflection of the inability of the FG to the maintenance of policies other than through the fragile device of donor conditionality. Consequently, agricultural and industrial expansion for export in Nigeria continued to be generally impaired by low effective demand for locally made goods, occasioned by the continued influx of cheaper and better quality imported products, lack of institutional framework to grow and develop these sectors and the poor state of infrastructure (such as power and water supply).

4.3 Uncompetitive Investment Climate

Empirical literature from successful cases has shown that foreign investment is needed not to substitute but to complement local investment for accelerated growth and development. Moreover, foreign investment flows to countries and regions where the right enabling environment exists and to an economy where its inhabitants have stakes in their nation's development projects. Foreign investor is not a philanthropist or an “altruist”, but a profit maximizer with a responsibility to his shareholders to obtain the best returns on any investment from an economy where the market has a good potential for profit to be realized.

Consequently, the lack of results in FDI inflow into Nigeria was and still is, partly due to the characteristics of Nigerian investment climate and image from foreign investor perception of Nigeria. Clearly, evidence from various empirical studies suggests that Nigeria must offer a supportive investment climate to capture the growthenhancing opportunities inherent in FDI. Hence, the impact of FDI will to a large extent depend on the institutions and conditions prevailing in the domestic economy, chief among which are the level of domestic investment, the mode of entry, the sectors involved as well as the country's' ability to negotiate and regulate the impact of FDI.

4.4 Unfavorable International Trade Policies and Asymmetric Information

The WTO rules have national implications on developing countries' sustainable development agenda. The present paradigm of investment governance (represented by the international investment agreement entered into by these countries) does not capture the principles of sustainable development. These agreements do not take into account the economic vulnerability of these countries. A number of scholars and strategies specialists have produced literature that yields important conclusions about the new roles and implications and the relationship between powers, threats, and purpose of international investments. These account raises questions about the moral and professional obligations of economists in government and international organizations. Asymmetric information is at the forefront of these debates. As the phrase implies, it is a situation in which some economic agents have more information than others and this affect the outcome of bargain between them. Among the theories are some that yield important insight into the operations of the financial markets and international trade. Cooper once observed that:

The structure of the world of nations lies far from what could be required to meet the conditions of perfect competition. There are only 160 members of the committee of nations, many of which are large enough to influence some of the markets in which they operates, a few of which are large enough to influence all the market in which they operates. In short, the committee of nations exists in the presence of extensive monopoly power…. The attempt to exercise this limited monopoly in the pursuits of national objectives---violates the conditions of competitions and gives rise to the pervasive possibility of pushing economic policy towards a global sub-optimality. That in turn give rise to the possible gains from collusion or as it is more politely called in the context of economic policy "cooperation and coordination" in order to enhance the attainment of national economic objectives (Cooper 1984, Pg1221).

If Coopers observation is correct, then the current global economic interdependence is asymmetrical, skewed in favor of the West. Consequently, for nations to benefits from such an economic order, they must reorganize their house from the inside.

5.0 RECOMMENDATIONS AND CONCLUSION

5.1.0 Recommendations

Investment is the main engine of growth in any economy. Moreover, it is believed, (at least from theoretically compelling evidence) that increased openness to trade and investment would play a facilitating role in accelerating growth and poverty reduction (World Bank 2000). Investment is important to an economy just like blood is important to the body system. According to Giwa (1997), investment to a "depressed economy is just like blood transfusion to an anemic patient". As Giwa further stressed, without investment, income generation and distribution will be on the decline as old assets and industries wear out and are not replaced or renewed. Investments are thus critical to an economy, but far more critical to an ailing economy like Nigeria. In the current global economic order, Nigeria needs large investments, both local and foreign if it is to maximize its economic potentials and reach the stage where they can compete globally. Without such investments, Nigeria will be unable to develop its human and material resources effectively, expand its output and trade, increase the income of its citizens and its access to transferred technology will be more restricted than what it would otherwise be. Policy response required will include:

5.1.1 Establishing Industrial Clusters

There is the tendency that building institutions to meet the above demand in the current global economic order of privatization and international financial institutions "conditionalities" may seem to be a herculean task to Nigeria. One better way to achieve that however is for the government to establish industrial clusters on Built, Operate and Transfer (BOT) basis. To a large extent, BOT of industrial clusters cannot be left entirely to private organizations and individuals who are themselves profit maximizers at the beginning of the development stage of any nation. Unless the government has a stake in its economy, private organizations/ individuals, both local and foreign, may be skeptical of any move by the domestic government to induce them to invest. The option of establishing industrial clusters becomes necessary in view of the fact that they have the potentials for rapid inducement of FDI as well as industrial and economic development of the nation. Indeed, clusters are not planned intervention, yet states has a role in promoting it because it is a significant form of industrial organization for small and large scale manufacturing, with a consequent promotion of different types of inter-firm linkages. It is also identified with diverse form of social networks which are associated with personal ties and the notion of trust and reprocity in competitive behavior. Key success factors are backward linkages with local suppliers of input for machinery and services as well as forward linkages between producers and buyers. The aim is to meet higher products standards required by the exports market, employing good manufacturing practices and the imitation and assimilation of foreign technologies.

However, the rules for their establishments must highlight the entrepreneurial dimension of export venturing. It must make a case for greater policy focus on strengthening the entrepreneurial foundation and capacities of both small and big firms. Industrial clusters have the potentials to reduce unemployment and check the unnecessary influx of people into the neighboring states and consequently arrest the root cause of poverty. Moreover, since almost all aspects of a country's institutions can foster or deter the efficient use of a societies natural and human resources, Nigeria needs to transit from subsistence and resource based economy to production and consumption-based economy. Thus, policies that encouraged the development of small and medium sized enterprises (SMEs) are important to Nigeria's development strategy. SMEs tend to be locally owned and to be the vehicles by which know-how and best practices are transferred from Multinational Companies (MNC) to the local economy. Much of the growths of Western economies in the post-medieval world are the result of the development of new institutions such as Joint Stock Company and limited liability companies. Institutions are as important today as they were in the past. Hence, societies that are most successful in developing the new institutions that are needed in today's knowledge intensive world of "globalized" competition will be those that are at the forefront of output growth, and hence and economic growth and income generation for those at the low and middle income cadre.

5.1.2 Reform the Agricultural Sector

The industrial sector cannot survive or thrive in the absence of a vibrant agricultural sector and vice versa. Consequently, the development of the agro allied economy has multi dimensional benefits: it will increase the food supply for the teeming population, raw material needs of the industrial sector, increase in the exportable cash crops to boost non oil revenue and forex earning capacity of Nigeria. Thus, the long-run effect of the expansion of the agricultural output and productivity is the stimulation of expansion in the secondary and tertiary sectors towards high profit, which in turn increase the rate of capital formation for development. When the agricultural sector is developed, it will have positive effects on the industrial and other sectors of the economy. A rise in rural income as a result of increase in agricultural output is a great stimulus to individual savings and to industrial development. Expansion of the industrial base can stimulate demand for farm inputs such as fertilizers, tractors, irrigation facilities, industrial consumer goods etc. Specific areas for output and trade expansion for sustainable development would therefore include improving agricultural practices, provision of good roads to ease the transportation of farm inputs and outputs etc.

5.1.3 Demands for Market Accessibility to the Global Market

Nigeria should work hard in pressing for the post-Doha declaration agenda initiated in 2001 through the WTO framework, demand for fair and just rules in international trade exhibition and to promote its integration with the global economy. Nigeria should restructure its economy to maximize its economic potentials and gains if and when the markets of the rich northern countries are opened. It is a truism that Nigeria, just like any other poor nation lacks the power for effective trade negotiation. Nigeria's market access negotiation should therefore include products of particular interest to allow her boosts its exports of these products. Nigeria should even be better reflected not only in the current WTO-rulebook, but also in the new areas of increase domestic investment, increase capacity for domestic and international competition, trade facilitations and transparency in public procurement.

Without functioning international competition rules however, it is all too easy for Nigeria to be victimized by hard core cartels or succumbs to domestic or foreign pressures to discriminate. Rules giving greater transparency and predictability for investment will obviously help to attract increased levels of both domestic and foreign investment, thus creating jobs, output expansion and economic growth.

5.1.4 Consistent Improvement in Macroeconomic and Production Capacity

A superior arrangement to the present aid relationship that has been there since independence is to enhance Nigeria's partnership towards market access for our commodities. It behooves Nigeria to learn how to trade its way out of poverty instead of relying endlessly on foreign aid and concessional assistance. Domestic resource mobilization should therefore supercede and if anything, precede aggressive pursuit of foreign aid, if such goals are to be achieved. To emphasize, aid is desirable but ultimately can never be enough. A US$10 billion aid to Nigeria next year or two or even the following, does not go far to make a dramatic mark, yet, it is a relatively large amount in the eyes of the taxpayers! The discourse about just how much to contribute and on what conditions obscures a far more basic point. If reforms fails, large amount secured notwithstanding, the economy will continue to tumble downhill if strategic macroeconomic policies or reforms are absent.

Furthermore, if Nigeria wants to attract FDI, grow and have high living standard, it must be ready to compete with the best in terms of production capacity. In today's world, a country's product must stand up to international competition if they are to survive. For Nigeria to gain access into the rich northern markets, it must transform its raw materials into value-added products, to improve quality and ensure consistency in its production capacity. Beyond market access therefore, there must be something to sell. In this regard, quality (assurance) has been universally recognized as one of the key strategic elements of product competitiveness in both local and international markets. It is the prerequisite for successful market access and for achieving continued customer satisfaction. Quality assurance is however the results of continuous technological change which in turn is the result of innovation.

Technological change is a critical factor for growth that stems from Research and Development (R & D) and from innovative activities that put the results of R & D into practice. Managing innovations better than one's competitors is one of the most important objectives of any modern economy that wants to grow, survive and thrive. Nigeria's attempt to make impact in the global economy failed because they could not keep up with their competitors in the race to convert their raw materials into value-added product, develop new and improved products and techniques of industrial production. Success in real world competition often depends more on success in managing innovations than in adopting the right pricing policies or in making the right capacity decision from already known technological possibilities. Innovations typically take place in different part of the productionuser, manufacturesuppliers' chain in different industries (Eric von Hippel, 1998). Unless these differences are appreciated, public policy designed to encourage innovation geared towards expansion in production and hence output and income can go seriously wrong.

5.1.5 Public Sector Role

The method of building industrial R & D capacity include the much needed public sector investment in infrastructures, human capital, provision of financial schemes to favor investment in physical and intangible assets, procurement and tax incentives, provision of technical and marketing information, consulting services for assisting firms in industrial restructuring and in adoption of new technologies and organizational techniques, support services in design, quality assurance, schemes for training and retraining personnel, and facilities for start-up firms. Linkage among firms and between firms and between firms and university and research institutes both within the country and in the rest of the world are all important.

Moreover, for the success of any commercial policy, the government need to provide the framework for the market economy, that is given by such things as well developed property rights, secure from arbitrary confiscation, security and enforcement of contracts, law and order, a sound money and robust financial system and the basic rights of individuals to locate, sell and invest where and how he decides. Others are favorable tax treatment on savings, investment and capital gains policies to encourage some fraction of the large pools of financial capital held by DMBs, pension funds and insurance companies to be used to finance innovation and capacity building. It is also important to focus on the guarantee of human security with the basic norms of justice as a pre-condition for human development. This is the more reason why the establishment of industrial clusters across the nation's geopolitical zones should be viewed as inevitable to Nigeria's effort to sustainable development. Industrial clusters through BOT have the potentials to reduce unemployment and check the unnecessary influx of people into the neighboring states and consequently arrest the root cause of poverty, urban congestion, crime etc.

To this end therefore, for sustainable development in Nigeria, the kind of public assistance that were provided in varying degrees by the government of Asian Tigers should be experimented. Experience suggests however that the appropriate set of polices are usually country specific. What worked in one environment may fail in another. As a result, many local details need to be assessed before appropriate polices can be designed for one country.

But how can Nigeria meet up to these challenges of erecting the needed institutions to become competitive? It is imperative in the process of time, that Nigeria:

- Return to agriculture by providing technical input and financial support (perhaps through guaranteed prices for preferred crops). This will require an overhaul of the land tenure system to facilitate easy access to land. Re-introduction of the Commodity Marketing Boards to support the export of traditional commodities such as cassava cocoa, rubber, palm produce, cotton, groundnuts, etc. The Boards is to provide for price support, storage, marketing facilities, market information, export financing, grading, quality control and other services for small-scale producers and exporters;

- Strengthen manufacturing through tax incentives and infrastructure development by way of public-private sector partnership. Non-tariff barriers to support domestic manufacturing should be tenured, targeted and reviewed from time to time;

- Move away from the current high tariff based on 'ISI-development" mindset to low tariff, with particular emphasis on "competitive exports sector". The idea is to lower the costs of doing business and to translate the industries into a globally competitive type;

- There should be a significant shift away from direct to indirect taxation as well as efforts to reduce taxes on businesses to a minimum. The resulting lower cost of doing business and incentives for savings (rather than consumption) is to stimulate both local and foreign private sector investment;

- Policies aimed at addressing some of the constraints to private business in Nigeria including poor infrastructure (electric power supply, public water supply, roads, railway, ports, airports, etc), bureaucratic customs system, dangerous security situation, for instance the Niger Delta scenario, poor telecommunication, etc should be reviewed and consistently improved;

- Reactivation and expansion of existing EPZs and establishment of new ones as well as reactivation of moribund inland ports, e.g. Sapele, Koko, Warri, Onitsha, Calabar;

- While privatization is to be emphasized along with prudence in limiting public sector commitment for health, pensions, and welfare spending, priority should be placed on poverty reduction, general and trade education and individual savings. Moreover, high productivity and competitive labor costs are based on literacy, general and trade education and those technical skills most in global demand. Consequently, education and training systems should be focused on relevant skills particularly those needed in a modern society;

- Moreover, both rules and trade policies and the applications of such policies should be made more investor friendly, thereby fostering investment and contributing lower costs on government expenditure. The aim is to reduce inconsistent

micro and macroeconomic decisions and to eliminate or at least minimize the incidence and opportunities for corruption. Consequently, accountability, corporate governance and responsibility should be cultivated as core values by all the stakeholders in all sectors;

- Active exchange rate policy that avoids over-valuation or excessive depreciation of the Naira and ensures competitiveness of tradable goods, relative price stability or low inflation as well as avoiding inconsistent fiscal policies;

- Inflation acts like a tax (falling heaviest on the poor), with the consequence of turning-off potential investors away from the economy and undermining the level of domestic investment, and thus output. There is therefore the need to implement fiscal and monetary systems which keeps inflation to a single-digit level, ideally below 5%;

- If inflation is controlled and trade gradually opened up, financial systems, particularly, the banking sub sector and the forex market are then progressively freed up, thereby eliminating forex control, to permit liberal inflows for long term investment and making currencies freely convertible. These measures will greatly stimulate investment and trade with little risk for currency and banking crises, as long as forex rates are allowed to float freely and macroeconomic discipline is consistently and systematically, but overtly maintained;

- Distortions and high cost funding of the economy by both the public and private sectors can easily lead to financial crisis, especially if banking systems are protected, standards compromised, operations subsidized or even over-regulated. As long as macroeconomic policies are in place, the economy will thrive best with a banking system that is opened, well capitalized, intensely competitive and well supervised but lightly regulated;

- The case of Nigeria since the late 1980s to date shows that capital will not go to where it is unsafe. Consequently, great emphasis should be placed on security of lives and property, legal right and judicial process to allow potential investors to invest where and when they want to;

- Moreover, economies thrive best when there is little room for an underground economy such as informal sector. Conditions which creates the informal sector (high taxes, official corruption, excessive regulations etc) should be consistently and overtly restricted while the factors which sustain them (policy inconsistencies and time lag in policy design/implementation) are systematically and ultimately eliminated. With this, the distinction between formal and informal sector will disappear causing synergies to occur between small, medium and large business enterprises and resources will flow naturally to the most productive use;

- Aggressive and effective reactivation of the non-oil export sector to broaden the tax base for all tiers of government and increase employment opportunities, with efforts to take advantage of existing international export incentives inherent in the ongoing multilateral pact.

- Finally, conditions of competition should be designed by the government to prevent firms from "merging unnecessarily" as well as engaging in certain "anti competitive practice" such as colluding to command monopoly advantages. Such policies should seek to create the "competitive market structure" possible and to prevent firms from "reducing" or even "eliminating" competition by engaging in certain forms of "cooperative behaviors". Thus, the challenges before public policy makers is to keep "Oligopolists" competing rather than colluding and using their competitive energies to improve products at lower costs of production and hence lower prices to consumers rather than merely to "erects" entry barriers. The aim of this is to expand employment, production, income, output and trade.

5.2 CONCLUDING REMARKS

Although the world's poorest countries, including Nigeria, have not always been able to benefit fully from trade opportunities offered by the ongoing multilateral trading systems embedded in trade liberalization, this paper examines how Nigeria can expand production, output and trade for its sustainable development through drastic reforms in its agricultural and industrial base. Indeed, multilateral trade agreements boast increased revenue wages and economic development for poor countries but rarely deliver on these promises. The detrimental effects of exports instability are as a result of both price instability of primary products in the international market and the resulting fluctuations of exports proceeds in the domestic economy. In addition, the low level of net (especially private) savings worsened and external perception of Nigeria's investment climate, poor level of infrastructure, inconsistent fiscal policy etc. further worsened the trade situation. This is why since the end of the Nigerian civil war, plethora of development plans and industrial policies have massively failed in making Nigeria industrialized and developed. Moreover, the discovery of oil in the 1970s and the consequent neglect of agriculture did not help matters. Consequently, Nigeria's inability to attract substantial FDI despite

various incentives is because Nigeria has failed to give itself what it requires from the international economy. This paper has established the benchmark or rules that will help foster development and increase Nigeria's opportunities to take advantage from further trade liberalization.

Several lessons can be drawn from Nigerian experience; perhaps, the must general of these is that the coherent and consistent pursuit of good trade policy requires not only a robust and appropriate domestic institutional framework and process for trade policymaking but also a supportive and institutionalized domestic settings (and a strategic multilateral arrangement) for favorable expansion in agricultural and industrial output expansion, trade rules and negotiation. It then follows that policies designed to expand output and trade, increase employment, reduce allocative inefficiencies or redistribute income need to be examined carefully for any effects they may have on growth, while policies designed to affect growth need to be examined for the effects they may have on trade, employment, economic efficiency and income distribution. A policy that reduces growth may be a bad bargain even if it increases the immediate efficiency of the economy or creates a more equitable distribution of income. Of course, not all distribution policies have unfavorable effects on the growth rates. Some may have no effects, and others, by raising the health and educational standards of the ordinary workers, may raise growth rates. The point is that policies have multiple effects, and in assessing them, it is necessary to look beyond their designed effects to consider the often unintended side effects on other policy goals. Consequently, the blind opening of trade in the absence of a revamped domestic institution like agriculture, industrial clusters and workable macroeconomic framework capable of sustaining a little tempo so attained, can actually do more harm to Nigeria than good. The end result of course is a decline in the level of overall output, trade and economic development and consequently the living standard of the populace. To this end therefore, there is need for a vigorous pursuit of long-term development objectives and structural change, and not just economic growth. This significant departure from past economic management performance can only be achieved if there is greater commitment to economic development, and also a change in the development strategy of the Nigerian state.

Appendix: 2
Nigeria: Visible Trade in Percentage (%)

Sector	1970	1996	1998	2000	2002	2003	2004
Oil	32.9	77.3	67.3	72.9	64.6	72.4	69.7
Non – oil	67.1	22.7	32.7	27.1	35.4	27.6	30.3

Source: Central Bank of Nigeria, Changing Structure of the Nigerian Economy (2000) and Annual Report & Statement of Accounts (2002 and 2004).

The above structural issues can be summarized as follows with respect to the oil sector in the last decade and half. It accounts for:

- Over 95% of export earnings (the lowest during the 1990's was 95.47% in 1998);
- About 40% of GDP;
- About 70% of Federal Government revenue; and
- Above 90% of new investments

Appendix: 3
Nigeria: Oil and the Structure of the Economy (2004-2005)

Sector	Export Earnings	GDP	FG Revenue	Investments
Oil	98.5%	43%	76%	Over 90%
Non –oil	1.5%	57%	24%	Less than 10%

Source: Central Bank of Nigeria (CBN), Annual Report & Statement of Accounts (2004, 2005).

Appendix: 4
Agriculture: GDP and Financial/Credit flows in Nbillion from 1990 - 2004

Year	Total GDP	Agric. GDP	% Contribution to GDP	Capital Expenditure on Agric. (FGN)	Credit to Agric.	
					Public and Private Sector	Community Banks
1990	257.87	35.80	13.9	1.60	6.93	-
1991	320.25	36.50	11.4	1.22	8.00	-
1992	544.33	37.30	6.9	0.94	11.00	-
1993	691.61	37.80	5.5	2.18	25.00	-
1994	911.09	35.60	4.2	2.18	25.00	-
1995	1960.69	40.00	2.0	2.41	35.00	-
1996	2740.46	41.70	1.5	3.89	44.00	-
1997	2835.00	43.50	1.5	6.25	37.00	-
1998	2721.51	45.60	1.7	4.33	19.00	-
1999	3250.67	47.60	1.5	8.88	31.00	-
2000	4547.10	48.99	1.1	6.91	41.00	1.61
2001	5187.90	51.47	1.0	5.76	50.50	0.08
2002	5465.30	64.41	1.2	32.36	NA	0.39
2003	7191.10	68.02	0.9	8.57	NA	0.63
2004	8553.30	72.20	0.8	38.67	NA	0.48

Sources: CBN (2003). Contemporary Economic Policy Issues, edited by Nnanna et al Pp198 and 214;
CBN Annual Report 2004 Pp114 and 131; CBN Statistical Bulletin Vol. 2, 1999 Pp119:; Eshiobo Samuel Shola (2006)

Appendix: 5
Nigeria: trends in some socio-economic indicators (1975 2006)

Year	Equality (wages/ profits in national income)	Real Per capita income	P0	Total (Local and foreign) Debt/ GDP (%)	Manufa -ctured and other non-oil Exports as %age of exports	Real Non-oil Exports Index (1981 output =100)	Real Manufact uring Output index 1981=100	Manufacturing Capacity utilization	Federal Govt finances : surplus/defi cit (Millions)	Nominal Imports Growth Rate	Exchange Rate (Naira /$1)	BOP (Millions)
1975		13903		9.4	7.36	289		76.6	-427.9		.61	157.5
1976		13929		11	6.36	299		77.4	-1090.8		.63	-339
1977		14123		15.3	7.31	356		78.7	781.4		.65	-527.2
1978		13029		20.1	10.9	357		72.9	2821.9		.61	1293.6
1979		13628		20.5	6.18	305		71.5	1461.7	-9.00	.59	1868.9
1980	36.4	14820	27.2	19.9	3.9	225		70.1	-1975.2	21.72	.54	2402.2
1981	36	11353		26.7	3.11	100	100	73.3		41.16	.60	-3020.8
1982	35.8	11223		46.1	2.48	58	113	63.6		-16.11	.68	-1398.3
1983	36	9753	57.4	4.02	74	80	49.7		-17.33	.75		-301.3
1984	32.1	7189		63.6	2.72	52	71	43		-19.38	.77	354.9
1985	30.8	7561	46.3	62.5	4.24	100	85	38.3		-1.61	.90	349.1
1986	33.8	7061		95.7	6.19	114	81	38.8		-15.28	1.27	-5667.7
1987	27	7248		126.4	7.09	298	86	40.4		198.51	3.81	-18264.8
1988	19.2	7637		124.6	8.84	314	97	42.4		20.07	4.61	-20795
1989	19.9	8832		127.9	5.1	232	98	43.8		43.90	7.14	-22993.5
1990	20.2	9245		146.8	2.97	239	106	40.3	-22116.1	48.15	7.96	-5761.9
1991	18.2	9882		137.1	3.85	289	116	42	-35755.2	90.34	11.05	-15796.6
1992	12.6	11253	42.7	128.4	1.91	149	110	38.1	-39625.3	67.68	18.44	-101404.9
1993	12.4	12506		128.3	2.28	151	105	37.2	-107735.3	13.84	21.89	-42060
1994	10.4	1274		108.2	2.6	124	105	30.4	-70270.6	-1.99	21.89	-42623.3
1995	4.7	2417		53.5	2.43	255	99	29.3	1000	363.87	21.89	-195216.3
1996	5.2	2630	65.6	34.0	1.78	190	100	32.5	37049.4	-25.49	21.89	-53152
1997				32.5	2.35	237	100	30.4	-5000	50.32	21.89	1076.3
1998				41.3	4.53	291	96	32.4	-133389	-0.98	76.81	-220671.4
1999				100.5	1.64	147	100	34.6	-285104.7	2.47	92.34	-326635
2000		39851		80.2	1.08	129	103	36.1	-103777.3	12.22	101.65	314148.7
2001		44228		74.4	1.32	126	107	39.6	-221048.9	39.93	111.90	24729.9
2002		45317		86.4	5.05	449	112	44.3	-301401.6	-7.28	121.0	-525691.5
2003		57992	-	10.6	-	-	-	45.6	-	40.5	129.36	-12718.8

Sources: Federal Republic of Nigeria (1999) , Aigbokhan [1998] , Central Bank [2000, 2001 ,2002] , Ajakaiye and Adeyeye (2001) and Produced by Nwafor Manson **:**
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Appendix: 6
Nigeria's External Trade: 1981 2006 ($billions)

Year	Export	Import	Trade Balance	GDP
1981	18.07	19.22	-1.15	84.80
1982	12.96	16.99	- 4.03	78.26
1983	10.51	12.22	- 1.71	80.04
1984	11.88	8.87	3.01	84.10
1985	12.55	8.27	4.28	82.28
1986	6.37	3.91	2.46	37.07
1987	7.59	4.10	3.49	27.85
1988	7.36	5.06	2.30	32.61
1989	7.87	3.70	4.18	30.64
1990	13.67	4.95	8.72	35.03
1991	12.26	7.76	4.51	33.21
1992	11.89	7.20	4.68	32.11
1993	9.92	6.66	3.27	32.45
1994	9.42	6.61	2.80	43.20
1995	11.73	8.22	3.51	91.41
1996	16.15	6.44	9.68	127.89
1997	15.21	9.50	5.71	132.81
1998	8.97	9.21	- 0.24	128.68
1999	12.88	8.59	4.29	35.73
2000	19.14	8.72	10.42	46.20
2001	18.88	10.03	6.84	47.22
2002	14.78	10.84	3.94	46.31
2003	21.87	10.49	11.38	55.59
2004	22.70	11.05	11.65	64.07
2005	22.80	9.45	13.35	-
2006	23.95	-	-	142

Sources: CBN Annual Report and Statement of Account (First Half of 2005, 2006) Statistical Bulletin (2004); National Bureau of Statistics and Ganiyu Kayode Sani (2006) CBN Bullion

Appendix: 7
Performance of the Export Sector: 1980 2006 (US$ Billions)

Year	Oil Exports	Non – oil Export	Total Exports	% of Oil in Total Exports	% of Non - oil in Total Export
1980	7.45	0.30	7.75	96.09	3.91
1981	6.52	0.21	6.72	96.89	3.11
1982	8.00	0.20	8.21	97.57	2.48
1983	5.21	0.22	5.43	95.98	4.02
1984	6.76	0.19	6.95	97.28	2.72
1985	10.03	0.44	10.48	95.76	4.24
1986	5.98	0.39	6.37	93.81	6.19
1987	7.05	0.54	7.59	92.91	7.09
1988	6.32	0.61	6.93	91.16	8.84
1989	7.47	0.40	7.87	94.90	5.10
1990	13.27	0.41	13.67	97.03	2.97
1991	11.79	0.47	12.26	96.15	3.85
1992	11.64	0.24	11.87	97.94	2.06
1993	9.70	0.23	9.92	97.70	2.30
1994	9.17	0.24	9.42	97.40	2.60
1995	11.45	0.29	11.73	97.57	2.43
1996	15.83	0.29	16.12	98.22	1.78
1997	14.85	0.36	15.21	97.65	2.35
1998	8.56	0.41	8.97	95.47	4.53
1999	12.64	0.21	12.85	98.36	1.64
2000	18.90	0.24	19.14	98.72	1.28
2001	17.63	0.25	17.88	98.60	1.40
2002	14.78	0.79	15.56	94.95	5.05
2003	21.87	0.74	22.60	96.75	3.25
2004	22.70	0.85	23.55	96.38	3.62
2005	**22.93**	**0.75**	23.68	96.83	3.17
2006	**23.02**	**0.93**	23.95	96.12	3.88

Sources: CBN Annual Report and Statement of Account (First Half of 2005, 2006) Statistical Bulletin (2004) ; National Bureau of Statistics and Ganiyu Kayode Sani (2006) CBN Bullion

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Dr. Shamsuddeen Usman	-	**Deputy Governor (Operations)**
Mr. Ernest C. Ebi	-	**Deputy Governor (Corporate Services)**
Mr. Tunde Lemo	-	**Deputy Governor (Financial Sector Surveillance)**
Dr. (Mrs) Sarah O. Alade	-	**Deputy Governor (Economic Policy)**

CENTRAL BANK OF NIGERIA