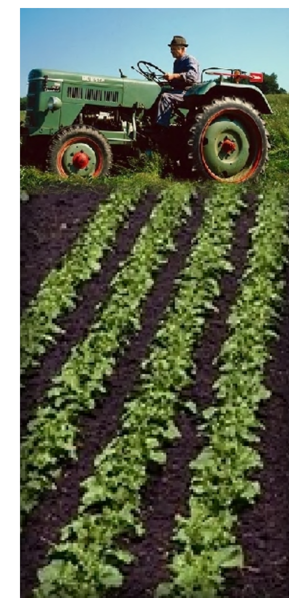
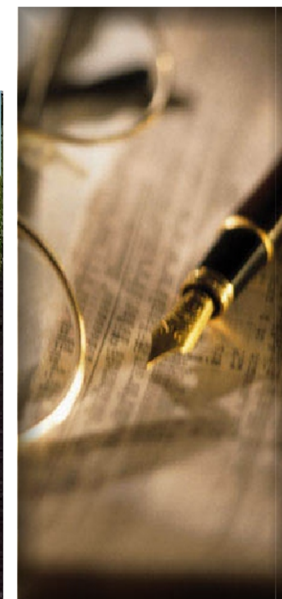
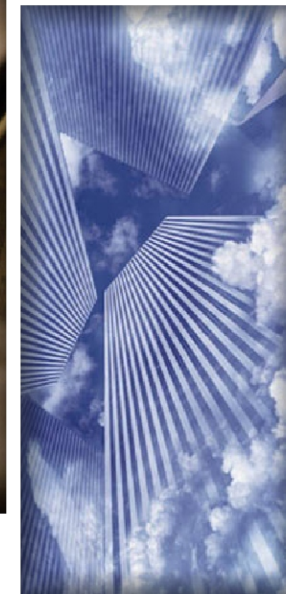
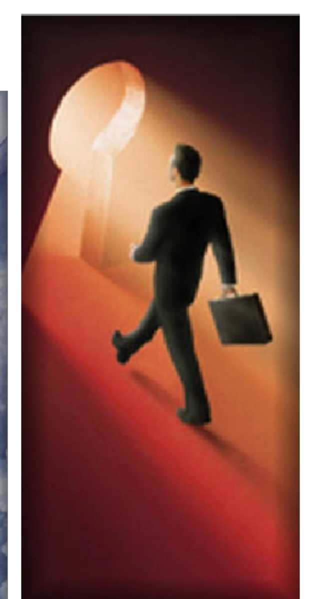
KAS ARTS SERVICE LIMITED ☎: 08056124959, 08023220459-60, 01-7201049

BULLION

PUBLICATION OF THE CENTRAL BANK OF NIGERIA

Volume 29, No. 4 Oct./Dec. 2005

- A CONSISTENT MACROECONOMIC FRAMEWORK FOR THE AGRICULTURE SECTOR UNDER THE NATIONAL ECONOMIC EMPOWERMENT AND DEVELOPMENT STRATEGY
  - by E. A. Essien
- THE LOGICAL FRAMEWORK APPROACH TO AGRICULTURAL PROJECT DESIGN AND COSTING IN A REFORMED ECONOMY
  - by P. N. Omanukwue
- MAINSTREAMING NIGERIA-SOUTH AFRICA BI-NATIONAL COMMISSION (BNC) INTO NIGERIA'S NATIONAL ECONOMIC EMPOWERMENT AND DEVELOPMENT STRATEGY (NEEDS)
  - by O. O. Duke (Mrs.)
- SMALL AND MEDIUM ENTERPRISES EQUITY INVESTMENT SCHEME (SMEEIS): PRO OR ANTI-INDUSTRIALISATION
  - by B. I. Adamu
- THE SELF-HELP GROUPS (SHGS) LINKAGE BANKING PROGRAMME: CONCEPT AND PRATICE
  - by S. F. Mohammed.
- FOREIGN DIRECT INVESTMENT (FDI) FLOWS TO NIGERIA: ISSUES, CHALLENGES AND PROSPECTS
  - by M. U. Yakub.
- INTRA-ECOWAS TRADE: PROGRESS, CHALLENGES AND PROSPECTS
  - by N. A. Onyewuenyi
- RECENT ECONOMIC REFORMS AND POLICIES IN NIGERIA: ISSUES AND REALITIES
  - by F. A. Faniran

BEHIND THE SCENE

EDITORIAL ADVISORY COMMITTEE

Mr. P. A. H. Atama	-	Chairman
Dr. O. J. Nnanna	-	Member
Mr. O. Olatunde	-	Secretary

EDITORIAL BOARD

Dr. O. J. Nnanna	-	Chairman
Mr. F. O. Odoko	-	Alternate Chairman
Mr. J. Alegieuno	-	Member
Mr. C. N. O. Mordi	-	Member
Mr. C. O. Odiaka	-	Member
Mr. R. H. Abarshi	-	Member
Mr. O. Olatunde	-	Member
Mr. A. Balogun	-	Member
Mr. A. O. Adenuga	-	Secretary

EDITORIAL STAFF

SENIOR MANAGER
O. Olatunde

EDITOR
S. A. Okogbue

ASSISTANT MANAGERS
Austin Belonwu
Sunday Sorungbe

EDITORIAL ASSISTANT
Mu'azu Waziri

BULLION is published every three months by Central Bank of Nigeria. Views expressed therein do not necessarily reflect the thinking of the Bank's Management. Copies of the journal are available without charge through formal request to the Editor. Articles appearing in the journal may be reproduced only with the expressed permission of the Editor or the article's author.

BULLION ISSN - 0331 - 7919

BOARD OF GOVERNORS

Prof. Charles C. Soludo	-	Governor (Chairman)
Dr. Shamsuddeen Usman	-	Deputy Governor (Operations)
Mr. Ernest C. Ebi	-	Deputy Governor (Corporate Services)
Mr. Tunde Lemo	-	Deputy Governor (Financial Sector Surveillance)
Mrs. Wahir A. Mshelia	-	Deputy Governor (Policy)

Volume 29 No. 4 Oct./Dec. 2005

CONTENTS PAGE

PAGE 1 - A CONSISTENT MACROECONOMIC FRAMEWORK FOR THE AGRICULTURE SECTOR UNDER THE NATIONAL ECONOMIC EMPOWERMENT AND DEVELOPMENT STRATEGY (NEEDS)
E. A. ESSIEN

PAGE 13 - A LOGICAL FRAMEWORK APPROACH TO AGRICULTURAL PROJECT DESIGN AND COSTING IN A REFORMED ECONOMY
PHEBIAN N OMANUKWUE[1]

PAGE 26 - MAINSTREAMING THE NIGERIA-SOUTH AFRICA BI-NATIONAL COMMISSION (BNC) INTO THE NATIONAL ECONOMIC EMPOWERMENT AND DEVELOPMENT STRATEGY (NEEDS)
O.O DUKE (MRS)

PAGE 32 - SMALL AND MEDIUM INDUSTRIES EQUITY INVESTMENT SCHEME (SMEEIS): PRO OR ANTI-INDUSTRIALIZATION
B. I. ADAMU

PAGE 43 - THE SELF-HELP GROUPS (SHGs) LINKAGE BANKING PROGRAMME: CONCEPT AND PRACTICE IN NIGERIA
S. F. MOHAMMED

PAGE 54 - FOREIGN DIRECT INVESTMENT (FDI) FLOWS TO NIGERIA: ISSUES, CHALLENGES AND PROSPECTS.
M. U. YAKUB

PAGE 65 - INTRA - ECOWAS TRADE: PROGRESS, CHALLENGES AND PROSPECTS
N. A. ONYEWUENYI

PAGE 75 - RECENT ECONOMIC REFORMS AND POLICIES IN NIGERIA: ISSUES AND REALITIES
FANIRAN, F.A.

opportunities for the people to grow. All Nations, not only Nigeria are intimidated by globalization. Nigeria as Nation faces challenges, both internal and external. Nigeria needs open and technologically driven economy with a good partnership between the government and private sector. The role of the government is to play a frontier role by setting models, standards and making available the necessary infrastructural facilities for the smooth take off of industrialization.

CONCLUSION

One can concur with Melodi (2004)'s paper on "Ensuring continuous flow of stock in both public and private sector". The availability of stock of factor inputs is a sine-qua-non to industrialization as a policy reform that will push up the aggregate supply. Pushing up the aggregate supply of goods and services within the economy by way of direct production should be undertaken, and not importation of final goods and services, should be the focus of all our economic reforms. One should also take note that the developed countries are working on substitutes for our exportable primary products through biotechnology.

"Think ye Economics first, the subject of wisdom, for the whole World to be at our fingers' tips"

If all the foregoing points are considered, the sky will be our foundation and the space will be our limit in terms of growth and development.

REFERENCE

Brainard, W.C. and J. Tobin (1968) "Pitfalls in Financial Model- Building" American Economic Review Paper and Proceedings vol 58, May pp 99-122

Brunet, A and B. Weder(1997) "Investment and Institutional uncertainty: A comparative study of Different uncertainty Measure" IFC Technical paper 4, Washington D.C The World Bank

CBN (2004), Circular on Import Prohibition Order March 10 .

Iyoha, M.A. (1998) "Rekindling Investment for Economic Development in Nigeria: The Macro Economic Issues in Rekindling Investment for Economic Development in Nigeria, Nigerian Economic Society by selected papers for the Annual conference

Melodi, G.O. (2004), "Ensuring continuous flow of stock in the production", Journal of economic and financial studies, Adekunle Ajasin University, Vol. 1.

Qayum, A (1972) Techniques of National Economic Planning, Indian University Press, Bloomington/London P.4

Prefferemanu, G.P and A. Madarassy (1992)" Trends in Private Investment in Developing Countries 1993 International Finance corporation Discussion paper, No 16, Washington D.C The World Bank

Pindyck , R (1991) " Irreversibility, Uncertainty and Investment" Journal of Economic Literature vol xxix September pp110-1148.

A CONSISTENT MACROECONOMIC FRAMEWORK FOR THE AGRICULTURE SECTOR UNDER THE NATIONAL ECONOMIC EMPOWERMENT AND DEVELOPMENT STRATEGY (NEEDS)

Essien Abel Essien

BY

E. A. ESSIEN[1]

Abstract

Macroeconomic stability and economic growth is anchored on a forward looking regime of economic management and contingent on effective implementation of economic reform. This paper describes the macroeconomic framework used for projecting the targets for real sector variables, particularly, agricultural output growth in the medium term. Because, it is important that the targets are consistent with the overall objective of economic policy, within a forward looking time frame, the paper also shows empirically, that the targets possess both behavioural and accounting consistency. The paper calls for the need to revise the targets from time to time, taking into account changes in the external environment.

INTRODUCTION

Most countries of the world have undertaken one form of economic reform or another at a time in their history. The goals of these reforms may differ from country to country; nevertheless, they are all closely aligned towards putting their economies on a path of sustainable growth and development. In developing economies, such reforms have characterized the development strategy, in recent times and in virtually all cases, structural weaknesses in the economy, high debt service burden, spatial and sectoral unevenness and poor growth performance have been some of the most compelling reasons for their implementation.

In the last two decades, Nigeria has witnessed various economic reform programmes aimed at fostering economic growth and development. For instance, following the collapse of the world oil market in the late 1970s, there was a drastic reduction in earnings from crude oil from N4.2 billion, representing 47 per cent of total earnings from 77 per cent between 1974 and 1976, and the economy began to experience a severe downturn. Consequently, in 1981, government adopted various austerity measures such as price control and demand management policies. However, by December 1985, it became evident that austerity measures without a proper structural adjustment were an inadequate response to the fundamental economic problems confronting the Nigerian economy. Thus, in July 1986, Nigeria embarked on the structural adjustment programme (SAP). Its major objectives were to stimulate domestic production, diversify the economic base, achieve fiscal and balance of payments viability, reduce the size of government as well as improve its efficiency and intensify the growth potential of the economy.

SAP was an internationally-designed and endorsed economic reform package, which suffered from low degree of ownership and participation and hence widespread public resistance. Under the SAP, the economy continued to tether on the brink of collapse with volatility in virtually all major macroeconomic aggregates. The economy was characterized by infrastructure inadequacy, widespread corruption, inefficiency in the public sector and low degree of private sector participation in economic activities. With these features, the hope of meeting the internationally agreed Millennium Development Goals (MDGs) of reducing poverty by half by 2015 continued to diminish.

Borrowing from this experience, the present administration decided to adopt a wholly homegrown programme, the National Economic Empowerment and Development Strategy (NEEDS). A homegrown economic reform program entails the promotion of the ownership of a reform package, with grass roots and community based participation, national awakening, sustained commitment by the political leadership, consistent support from development partners, wide participation and consultations, as building blocks. Homegrown programs provide the government space to test, learn, and adapt reform measures to country circumstances and to minimize alienation of support

[1] *Essien is a Principal Economist and Head of Modeling and Forecasting Office in the Research and Statistics Department, Central Bank of Nigeria. The views expressed in this paper are entirely those of the author and does not reflect the views of the organization to which he is affiliated.*

groups. In addition, it also helps to build confidence needed by government to scale up the reform measures, while also reducing the likelihood of policy reversals once the measures have made the desired impact.

The major objectives of NEEDS include employment generation, creation of wealth, poverty reduction, elimination of corruption, and value re-orientation. It rests on four (4) key pillars: reforming the way government and its institutions work; growing the private sector; implementing a social charter for the people and re-orientation of the people with an enduring African value system. Thus, the programme is a developmental strategy anchored on the private sector as the engine of growth. In other words, the private sector is expected to drive productivity, generate employment and ultimately enhance the quality of life of the people. In this programme, policy thrusts, targets and strategies are set out for the key sectors of the economy of which agriculture remains core to the developmental process, with a target of 6.0 per cent growth on an annual basis.

The emphasis on agriculture is predicated on the fact that before the advent of crude oil, agricultural production was the mainstay of the Nigerian economy as about 70 per cent of the working population made their living from Agriculture. It has also accounted for 35.0 per cent of the country's Gross Domestic Product (GDP) in the last 5 years. Consequently, increasing agricultural output is necessary if Nigeria is to attain the Millennium Development Goals (MDGS) of eradicating extreme poverty.

Embedded in the economic reform programme is a macroeconomic framework that links the four sectors of the economy and is based on a comprehensive set of coordinated policy measures designed to achieve macroeconomic stability. The framework is used to derive quantitative macroeconomic and sectoral targets, which are internally consistent.

An issue that has persistently been agitating the minds of Nigerians is the derivation of the macroeconomic and sectoral targets for NEEDS. This paper critically examines this issues with a view to putting this issue to rest. The main objective of this paper, therefore, is to describe the framework used in projecting these targets. Emphasis, however, would be on the consistency of the agricultural output growth targets with the assumed growth in real GDP and the overall objective of economic policy under NEEDS. The paper analyses consistency under two distinct categories: accounting and behavioural consistency. Following this introduction, section II discusses some conceptual and theoretical issues in economic reforms. In section III, the agricultural reform agenda under NEEDS is adumbrated. Section IV is devoted to the methodology in the macroeconomic framework, while section V covers consistency analyses. Concluding remarks are made in section VI.

2.0 Issues in Economic Reforms

Economic reforms are classified according to their purpose and the sequence in which they are typically implemented (Holden & Rajapatirana, 1995; Essien and Onwioduokit, 1997). Thus, we have first-generation and second-generation reforms. First-generation reforms are geared towards opening the economy to foreign competition, giving market forces the leading role in allocating resources and reducing the public sector's role in productive activities. First-generation reform efforts typically start with trade reform to open the economy to international markets. This process requires reducing tariffs, eliminating non-tariff constraints, diminishing differences in tariff structures across sectors, and eliminating artificial incentives to promote exports. The second-generation reforms, on the other hand, aim at a complete transformation of the role of the state and the setting up of government institutions that will guarantee the rule of law, while supporting private sector initiatives and activities. They include reforms to the judicial and regulatory systems, and thus increase confidence that contracts will be enforced and that rights and property will be protected, while ensuring equal access to markets.

There are several types of reforms targeted at achieving broad or specific objectives. These reforms may be implemented selectively or comprehensively, depending on the economic problems facing a country. Accordingly, we have: institutional reforms, which are mainly concerned with making public institutions, like law enforcement agencies, ministries and parastatals, financial sector, the judiciary, etc more transparent and accountable. This type of reform is necessary, as Bates and Krueger (1993: 462) observed, since economic reforms may lead to increase in the power assumed by the government, at least at the initial stage and thus help to ward off pressures from different interest groups and free government from implementing the reforms in a non-partisan manner.

There is also the stabilization programme. This involves keeping inflation in check through fiscal and monetary policies. This is based on

code 0603.1000-0603.9000, 6702.1000-6702.9000

6. fresh fruit - H.S Code 0801.1100-0814.0000
7. cutlasses, Axes, Pick, axes spades, shovel- H.S code 8201.1000-8201.9000
8. wheel barrows- H.S. code 8716.8000.8100
9. Pork and Pork products beef and beef products, mutton, lamb and Goat meat-H.S. codes 0210.1900,1602.49000, 0202.2000, 1602.5000, 0204.4200,0204.4300,1602.900 0,0204.1000,0204.220,0304.300 0,0210.7900,0204.5000,0208,02 08.9000,0210.9900 and 1602.9000
10. Tooth pastes -H.S code 960.9.1000-9609.900
    Ball points pens-H.A code 9608.1000
11. Plastic plates, Knives, Spoons, forks, cups, Buckets, Boals, bias containers and hangers- H.S code 3924.1000-3924.900
12. Baryted and Bentonites- H.S. code 2508.1000.1100, 2508.1000.1900
13. Vegetable oils - H.S. Codes 1507.110-1516.2000
14. Corrugated Boards and Carton - H.S. 4808.1000; 4819.1000-4819.6000
15. Live or Dead Bird- H.S. code 0106.3100-0106.9000; 0208.9000,0210.9900

Hollow Glass (Bottles)
Source: CBN, March 2004

The rationale behind the ban on importation of the above items could be to conserve our foreign exchange. **Can this ban policy solve the problems of the domestic industries in these lines of production?** This is a question for thought!

The financial institution reform is equally ongoing. One observes that domestically the ownership structure will change in such a way that Nigeria will have few Banks with numerous branches. Externally, especially within the West Africa region, there may be only one Central Bank when the West Africa Monetary Institution is fully operational. The model of this type of policy is being copied from European Monetary Union (EMU).

MATTERS ARISING FROM THE POLICY REFORMS: THE ISSUES

The main issue of our economic problems in Nigeria is that the aggregate demand for goods and services is greater than the aggregate supply of goods and services in all sectors of the economy. This is the core of Nigerian economic problems. All the policy reforms that have been introduced and implemented have contributed in one way or the other, if out of 10% of unsolved problems and now 9% have been solved through these economic policy reforms, the remaining 1% is a challenge to us as economists. After all, Jesus Christ left 99 sheep behind in order to look for the one that lost. The remaining 1% of the problem is how to solve the problems of rigidity and bottlenecks in the supply sector of the economy.

One can say that government is aware of this problem and thus the reason for clamoring for industrialization. Industrialization entails massive investment in industrial sector of the economy. Another likely issue that can crop up in the process of industrialization is the choice of investment. It is advisable for the government to take note of the fact that Nigeria needs a type of investment that will be complimentary and ensure vertical integration production process, with both forward and backward linkages.

THE STATE OF THE NIGERIAN ECONOMY: THE REALITY

The reality of the state of the Nigerian economy is that it focuses on selling its primary resource (oil in particular) for imported items. Our economy is the one that creates employment for outsiders instead of insiders through its patronage of imported items. It is good to import capital goods, but it is not good enough to import consumers' goods.

Nigeria needs a highly talented and creative person who can transform the economy to produce for its domestic market and then export the excess. The country needs to revive the economy of 1960s and 1970s by using modern technology. There is need to identify the missing links in Nigerian industrial development. National Economic Empowerment and Development Strategy (NEEDS) emphasizes participation, seek for change in a positive and proactive manner. Its emphasis is that, INPUTS should be empowered, especially labour, therefore there is need to redefine the role of public and private sector. Where are the two sectors met? Where is the one overtaken the other? Our problems is the lack of, or insufficient of the capacity or willingness to produce. To move the Nigerian economy forward is in consonance with the objective of NEEDS. NEEDS emphasizes industrialization with the use of modern technology that will ensure mass production of goods and services and creation of employment.

There is need for Nigerian economy to be self-reliant not that one advocates for a state of Autarky, but the one that has positive net export. Self -reliance creates sense of belonging and

population. It shows the average income that is accrued to an individual over a particular period of time usually twelve calendar months. Development takes place when the increase in per capital income is equitably shared among the citizens in such a way that they move from there lower indifference curve to higher indifference curve and thus signifies an improvement in their welfare. Therefore, one can submit that the panacea for solving Nigeria economic crisis is massive investment in the supply sector of the economy as this will yield positive multiplier effects on all other sectors, both internal and external of the economy.

RECENT POLICY REFORMS IN NIGERIA

National Economic Empowerment and Development Strategy (NEEDS) and the New Economic Partnership for African's Development (NEPAD) are the most recent economic policy reforms in Nigerian. One is more concerned about NEEDS since NEPAD goes beyond the boundary of Nigeria. NEEDS is all embracing but one is interested in the economic aspect of it.

NEEDS is formulated on the following macro economic framework: The real sector; Fiscal Operations and policy (Budget, Tax reforms and public expenditure management, balance of payments, monetary and exchange rates Policies) with the aim of achieving the objective of growing the economy, making the private sector the basic engine of this growth and fighting unemployment and reducing poverty. As indicated in the NEEDS document (March 2004), NEEDS is rooted on the lessons of experience of past failed plans, articulation of a clear national purpose or vision and realistic appraisal of what is feasible within the medium to longer term framework. It is stated in the document further that NEEDS, as an action plan is now the basis for budgeting.

Its policy thrust is to reduce government participation in the economic activities in the country. Government is doing this by embarking on private-led policy within the framework of NEEDS. At this juncture one can assert that government cannot disengage itself totally from the economic activities due to the existence of public goods, its consumption is to improve the level of welfare of the individual and it cannot be handled by private investors, since its provision would be at exorbitant prices.

We are in the era of economic globalization, liberalization where barriers to international trade and finance have almost been removed. This is still in consonance with the agenda of NEEDS to create a competitive environment for all economic activities. One observes that recently, some of our domestic industries like textile are closing down. Government thought that the reason for their closing down could be as a result of keen competition from the imported goods. Along this line of thought, government invoked imported prohibition order on the following item:

a. Nylon tyre core- H.S. Code 5902, 1000-5902,900
b. Multifilament nylon chafer fabric and tracing cloth - H.S code 5111.2000 and 590.1.9000
c. Mattress Tickings - H.S. code 5903.1000-5903.9000
d. Narrow Fabric- H.S. Code 5806.1000-5806.4000
e. Trimmings and linings - H.S. code 590.9.000; 61117.9000; 5808.9000;6003.3000,6307.900
f. Made-up fishing nets - H.S. code 5608.1100
g. Mosquito netting materials- H.S code 5608 code 5608.19000 and 5608.9000
h. Gloves for industrial use- H.S. code 6116.1000-6116.9900
i. Canvas fabrics for manufacture of Fan belts- H.S. code 5907.0000,5908.00
j. Moulding cups H.S. code 6212.9000
k. Elastic Band - h.S. code 5604.9000
l. Motifs - H.S. code 5810.1000-5810.9000
m. Textile fabric and articles for technical use - H.S. code 5911. 1000-5911.900
n. Transmission or conveyor belt or belting of textile materials - H.S. code 5910.900
o. Poly propylene primary backing materials - H.S. code 5512.1100-5512.900
p. Fibre rope - H.S. code 5607.1000-5607.9000
q. Mutilated rags- H.S. code 6310.1100
r. Sacks and bags - H.S. code 6305.1000 and 6305.2000

2. Man's foot wear and bags of leather and plastics (excluding lad's) - H.S. code 3926.2000, 6401.1000-6405.9000, 4202.1100-4202.9000
3. Soap and detergents - H.S. code 3401.1100-3402.9000
4. Furniture - H.S. codes 9401.1000-9401.9000; 9403.1000-9406.0000 Assembled bicycles (excluding CRD) - H.S. code 8712.0000
5. Flowers (plastic and Fresh) H.S.

the anecdotal and empirical evidence that inflation frustrates investment and hence growth. Fiscal policy aims at achieving a sustainable fiscal position, while monetary policy is needed to keep money growth at a level consistent with output growth. Product and labour market reforms are other types of reforms. In the case of the product market, a major area of concern is industrial policy. This usually involves the protection of local industries. Privatization of public sector industries to ensure efficiency, as well as technology liberalization, whereby favourable terms are provided for global partnership are other categories under product market reforms. Labour market reform, on the other hand, involves evolving policies that seeks to promote the welfare of workers. It entails providing a conducive work environment and adequate incentives for the workforce. It may involve restructuring, re-engineering, and/or right sizing by offloading unproductive workers, albeit with a severance package.

In almost every economic reform programme, the primary objective is to achieve high and sustainable growth. In doing this, the major drivers of growth such as agriculture, manufacturing, and services are given adequate attention. However, for the reform to have the desired impact on agriculture, the financial sector reform is a key consideration. This is because of its role in the mobilization of financial resources and because it acts as a major conduit of monetary policy actions to the real economy.

There are two alternative paths to economic reform for any economy. These paths have been referred in literature as "gradualism" and "big bang" (Felsteing, 2003; Nsouli, et al, 2002; Magbagbeola, 2004). In the first path, the country moves gradually by selectively introducing reforms and spacing them over time, while in the second, the country pursues a "big-bang" approach, by which the government immediately and simultaneously introduces all the reforms. Tied to the path of reform are issues relating to the speed of adjustment and sequencing. The former refers to the time elapsed between the move from an initial set of macroeconomic variables, economic system or economic structure to a pre-determined set. For instance, it could be the time involved in moving from, say, a current real GDP growth to targeted number, from a centrally planned to a market-oriented economy, or establishing new and relevant institutions. Sequencing, on the other hand, refers to the order in which either macroeconomic policy actions or specific reforms are introduced across sectors (for example, whether fiscal adjustment or stabilization should precede introducing current account liberalization or liberalizing prices) and the order in which reforms are undertaken within sectors (for example, whether in the case of capital account liberalization, foreign direct investment or short-term capital flows should be liberalized first) (Magbagbeola, 2004). It is pertinent to note that, sequencing, whether across sectors or within sectors would depend to a large extent on time, and this will necessarily impact on the speed of adjustment.

Proponents of the big bang base their prescription on four major arguments. First, big bang increases the incentives to relocate resources and, therefore results in lower adjustment costs than if the relocation was prolonged. Second, it affords better coordination in the implementation of the reforms. Third, full-scale reforms implemented rapidly help establish credibility in the reform process, leading the private sector to re-allocate resources and enhance investment. Fourth, it can overcome the political resistance to prolonged reforms, leading to an effective implementation of the reform package (Mussa, 1984; Hiemenez et al, 1992; Funke, 1993).

The views of the gradual reformers are also based on equally valid arguments. First, in contrast to the view of the big bang proponents, resources cannot be moved instantaneously and without cost to different sectors of the economy in the real world. Furthermore, different markets adjust to policy changes and price signals at different speeds. Thus, gradualism does not necessarily imply addition to costs and hence adjustment cost may not be too significant and can be spread out. Second, to the extent that the use of certain instruments can be incompatible with certain targets, a gradual approach to reforms is needed. For instance, the use of exchange rate policy conflicts with the simultaneous introduction of trade and capital account liberalization, as the former requires depreciation and the latter an appreciation (McKinnon, 1973). Third, credibility can be enhanced by gradual and successful reforms, while broad and drastic reforms carry the danger of overall failure if problem arises in any one area. Fourth, to the extent that the costs of adjustment can be spread out, there is likely to be more political support for a gradual approach. Finally, it is just not practical to try to introduce many reforms at once and, even then, it takes time to implement them (Little, Scitovsky, and Scott, 1970; Rodrik, 1987 1989; Fishcer and Gelb, 1991).

In the economic literature, there is no consensus as to which of the paths is superior or more likely to yield the desired result. It all depends on the objectives being sought, the time

frame, and the sustainability of the macroeconomic situation. Nonetheless, an overall conclusion that can be drawn from results emanating from empirical studies (Feltenstein and Nsouli, 2003) is that in looking at complete policy packages, the big-bang approach is better from a welfare point of view. Piecemeal approach to reform may not only fail to improve welfare significantly, but may reduce it.

Irrespective of the approach to reform, the agricultural sector is known to be a catalyst for improving welfare, particularly in the rural welfare, and reducing poverty. Consequently, the implication of a broad-based reform on the agricultural sector has received considerable attention in the literature (FAO, 1998; Essien, 1999, 2000). The major conclusion has been that a market-oriented and stable macroeconomic environment engendered by a well implemented economic reform programme was important for the growth of the sector.

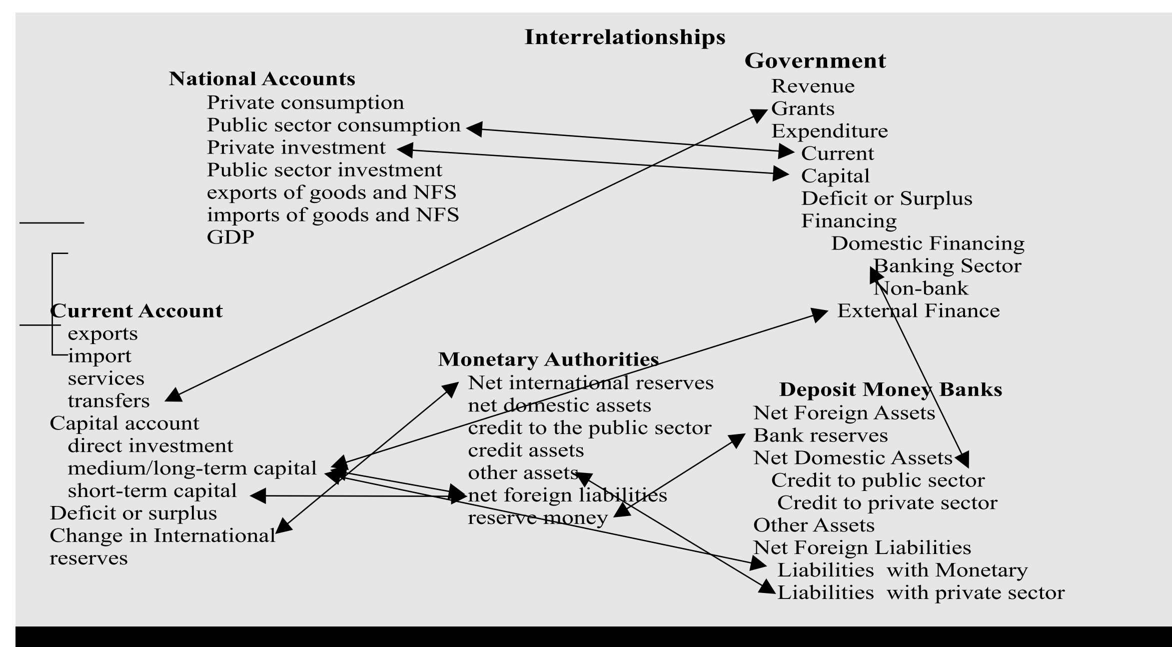
3.0 Structure of the NEEDS Macroeconomic Framework

3.1 The Financial Programming Framework

A financial programme is a set of comprehensive and consistent set of policy measures aimed at achieving certain desired macroeconomic objectives. It is built from a baseline scenario that assumes that policies in the previous and current periods are going to remain unchanged, within a forward-looking time frame, usually in the medium term. From the baseline scenario, key policy changes are considered and used in determining what the targets for the various macroeconomic aggregates would be. This is called the programme scenario. It makes use of an accounting framework and key behavioral relationships, all of which identify appropriate policy targets and instruments to help countries bring their claims of resources in line with the available resources.

For most countries, a financial programme aims to restore equilibrium between aggregate domestic demand and supply. When this equilibrium is threatened, a country may experience problems with its balance of payments, rising inflation, or slow output growth. This equilibrium, it must be noted, cannot be restored within a short term, say one year. It may not even be realistic assuming it could be done. Consequently, the programme is couched in a medium term context. There are various policy measures available to a country. These include: demand management policies (monetary and fiscal policies), designed to influence the level of domestic expenditure of an entire economy, either to raise or to lower it. When these policies are aimed at, say, reducing an external current account deficit or lowering inflationary pressures, they are often called expenditure-reducing policies. We also have expenditure-switching policies designed to influence the composition of domestic expenditure, like the exchange rate policy which changes the relative prices of foreign and domestic goods from the perspective of a country's residents.

Because a financial programme is comprehensive, it deals with the four sectors of the economy: the real sector, the external sector, the government sector, and the monetary sector, as shown below.



capital exceeds its replacement cost or rental values. In this neoclassical framework, investment is perceived to be linearly dependent on changes in output, expected returns on investment, and cost of capital. A variant of the traditional framework is that of Brainard and Tobin (1968), Tobin (1969) which see investment as a positive fraction of the ratio q-defined as the market value of capital to its replacement cost. The conclusion of q-theory is that the rate of investment should be greater than the value of q. In the neoclassical wisdom, whenever the expected benefits from an investment exceed the cost, such investment is desirable and should be undertaken.

A departure from the neo classical model for the explanation of investment behaviour particularly in developing countries has been noticed in the literature of late. Recent theories suggest that investment with particular reference to private investment can be significantly affected by such factors as macro-economic instability. Macro economic policy such as monetary, fiscal and exchange rate; the incentive structure and the response to it; uncertainty and irreversibility and credibility of policy reforms (see Pindyck 1991 Brunnet and Weder, 1997) among others. Iyoha (1998) argues pointedly that uncertainty is a common phenomenon in developing countries. He identifies some of the sources of uncertainty to include the following:

- High and unpredictable inflation and price variability
- Uncertain demand or fluctuating in real output
- Exchange rate variability
- Interest rate volatility
- Foreign debt burden
- Macro economic instability arising from external shocks
- Incomplete credibility of policy reforms
- Social / political instability.

The prevalence of high external debt and debt service is also believed to impair investment in developing countries through the " debt-overhang" effect, the " crowding out" effect and credit rationing. The debt overhang situation is bound to discourage investment by the private economic agents who will view the accumulated debt-stock as a tax on future income and production. The crowding out effect revolves around the consideration those resources, which could have been used for investment, particularly by the public sector in crating enabling environment for private sectors' investment, must be diverted to service debt. In case of credit rationing, this represents a situation whereby a highly indebted country is likely to be constrained in international capital markets and hence leading to reduce investment potential in such economy.

Apart from direct economic related factors, it is believed that institutional factors also inhibit private investment. Notable institutional factors including corruption, bureaucratic red tapes, and weak judicial system and frequents government interference in business. Institutional factors discourage private investment in that they increase transaction costs and engender uncertainty.

Prefferemann and Maderassy (1992) took interest in explaining factors behind the flow of Foreign Direct Investment (FDI). They reasoned that whenever these factors, by their disposition, create an environment that is not conducive to FDI, the chances are for the affected economy to suffer from capital flight.

Within the context of a closed economy, domestic savings both public and private, remains the only source of investments and by convention, the two must be equal in a national income accounting. The interdependent nature of all the economies has made available, unique source of investment financing which is external to all economies i.e. investment financing by borrowing from, abroad foreign equity or accumulation of trade arrears. Economics logic however suggests that investment would be constrained greatly in the face of inadequate domestics saving. This will be so because no Nation can afford to build up foreign liabilities indefinitely, as such practice will make such economy to be highly vulnerable to both economic and political insecurity. At any rate however, domestic investment is classified into public and private. Public investment is particularly important in developing economy like Nigeria where market failure and weak institutional arrangements are often prevalent.

Private investment covers expenditure in acquisition of machinery and equipment to increase firms output. It is not surprising therefore, that public investment is often perceived as catalyst to private investment. This idea of government involvement in playing a frontier role in investment activities in Nigeria is well discussed in most of the paper presented during the recent seminar organized by Nigeria Economic Society in Abuja (N.E.S. 2004).

GROWTH AND DEVELOPMENT:

Once there is a positive net investment, the aggregate supply of goods and services is bound to increase and thus, economic growth will take place. One of the tools for measuring growth is per capital income, which is a ratio of income to

problems and thus giving rise to the birth of Structural Adjustment Programme (SAP) in 1986.

During this economic crisis in Nigeria, there was a disequilibrium in all sectors of the economy, both internal and external, where aggregate demand is greater than aggregate supply (DD>SS). The immediate effect of this economic scenario is the co-existence of hyper-galloping inflation and unemployment (Stagflation). The focus of SAP is to restructure this development through demand management approach and supply-side economic policy. Due to the nature of our demand for imported goods which is demand inelastic, the demand management approach (i.e. devaluation of domestic currency) failed the Nation. In the same vein, the supply side approach such as the establishment of Directorate for Food, and Rural infrastructure (DFFRI) was set up to provide public infrastructural facilities that can enhance production. This policy too failed the Nation due to Nigerians' negative attitude.

Therefore, the Nation is now at cross road gulping for solution. The latest package on ground now is National Economic Empowerment and Development Strategy (NEEDS).

METHODOLOGY

Essentially, this article takes qualitative approach to review, evaluate and chart out the path to growth and development as laid down in theory. Therefore, one's major methodology is based on theoretical exposition for ideal economies. The methodology for this article will be serialized along this line of thought.

THEORETICAL FRAMEWORK /REVIEW OF LITERATURE

The role of theory is important in everything we do. Theory is valuable, and more importantly, to a group of disciplines known as Decision Sciences to which economic belongs. Theory allows the development of a set of principles that can be used to untangle the web of different forces involved in social problems. Principles that emerged therefore constitute framework for thinking. In economics, the established ways of thinking is often called the economic approach.

Economic thought is commonly induced by the need to solve policy problems. This (solving policy problems) has remained pre occupation of development economics which deals directly with activities in search of intellectual framework. Investment, growth and development are principal concepts in the realm of development economics. None of these concepts, if perceived as phenomenon, is a spontaneous or automatic affair. To this effect therefore, attempts have always been directed principally to build model, and establish empirical relationships that exist between and among them with a view to providing basis for policy fine-tuning.

Investment, in common usage, denotes using money to buy stocks or to open savings account. To economists however, investment means production of durable capital goods. Put differently, investment is capital formation involving the acquisition or creation of resources to be used in production. Implied in the economists' conception of investment is that it must represent additions to the stock of the durable capital good such as to increase production possibilities in the future. It is along this conception that investment is believed to involve the sacrifice of current consumption to increase future one.

Investment can be bifurcated into two parts: replacement investment and net investment. Maintaining the current level of output requires that an economy is able to keep up the existing means of production. Replacement investments does exactly this by replacing what has been used up in existing capital stock into the course of production processes. This variant of investment is equally known as capital consumption allowance or simply depreciation. Gross investment less replacement investment is net investment. Positive net investment increases the economy's total stock of capital.

In capitalist economy, where attention is focused on business investment in physical capital notably: buildings, equipment and inventories. This focus suggests why most theories of investment behaviour refer to the business-fixed investment. Yet, investment is also undertaken by government, non profit institutions, and households, whose conception of involvement then goes beyond physical capital to include the acquisition of human and intangible capital as well. In principle, it is suggested that investment should also include improvement of land or the development of natural resources and the relevant measure of production should include non-market out put as well as goods and service produced for sales.

The literature on the theories of investment behaviour recognized revenue costs and expectations as traditional determinants of investment. The neo classical investment theory, which has its root in accelerator principle reveals that a representative firm is always out to maximize, expected future profit. To such a firm, investment decision will be guided strictly by one condition; that the discounted returns of a unit of

The interrelationships described above only provide information about the main economic aggregates or variables. How each account is put together following conventional accounting identity is shown below.

Basic Sectoral Relationships

Gross Domestic Product Y= C+ I+ (X-M) Y-A = X-M Government Budget Revenue -Expenditure = Change in NCG	Balance of Payments (BOP) Curreent Account (X-M) + Capital Account = Change in Reserves/NFA
	Monetary Survey
Monetary Authories	M2=NFA + NDA OR M2=NFA + NDC + OAN Liabilitiey
Assets Net foreign assets (NFA) Net Domestic Assets (NDA) Domestic credit Claims on gov't Claims on DMB(CDMB) Economis sector(CPS) Other items (net) OIN	Base Money Currency outside banks(COB) DMB Reserves Gov't Deposits

For most countries, including Nigeria, real GDP growth and inflation are policy targets from where other macroeconomic aggregates are derived as shown above. To build a useful financial programme, we need to analyse the behaviour of the main aggregates or their components in a consistent way. This is described for real GDP and consequently for agricultural output in the next section.

3.2 The Financial Programming Model

This section presents a simple simulation model that may be used to formulate a consistent growth oriented medium term programme. It introduces the financial programming exercise into the framework of a model so that changes in programme assumptions (revised historical data, new projections of variables determined outside the model, and changes in the programme objectives) could be easily analysed and the implications for the various sectors would easily be detected.

The basic structure of the model is formulated in terms of the demand and supply of goods, money, and foreign exchange. The money and foreign exchange market are assumed to clear always, while long-term considerations are introduced for the goods market where short-term demand may be different from the long-term supply of goods[2]

Typically, the domestic supply of goods in the long term is determined according to the neoclassical production function. That is;

$$\Delta \ln q_{1t} = a_1 \Delta \ln k_t + \Delta \ln l_t + a_3 \text{ -----(1)}$$

$$k_t = i_t + (1-0)k_{t-1} \text{ -----(2)}$$

$$i_t = i_{gt} + 1pt_{pt} \text{ -----(3)}$$

$$\Delta \ln q_{1t} = \ln(1 + g_{lt}) \text{ -----(4)}$$

In equation (4), qlt is the domestic output (real GDP) in the long-term, while glt is the real GDP growth, which in the NEEDS macroeconomic framework is treated as an exogenous growth target. This long term growth rate is the rate at which the actual growth rate tends to fluctuate given the changes in factor inputs and total factor productivity. The demand side of the goods market or short-term growth, on the other hand, is determined from consumption, investment and net exports of goods and services. That is,

$$q_t = C_{Pt} + C_{gt} + i_{pt} + i_{pt} + x_{pt} - x_{pt} - m_t \text{ -----(5)}$$

[2] *This implies that the aggregate supply curve is non-vertical in the short-term and vertical in the long-term and also means that fiscal and monetary policies can influence output in the short-term but not in the long term (a typical Keynesian prediction). See Mikkelsen, J. G. (1998) for detailed discussion.*

Ideally, fiscal and monetary policies are directed to ensure that output growth in the short-term stays around the long-term rate. Consequently, the short-term growth rate cannot be determined independently of the exogenous inflation target, which is linked to the fiscal and monetary requirements.

The link between aggregate demand in the short-term and the long-term output is represented by the Philips curve relationship. Thus,

$$\pi_{t\partial} = \pi_t + K(q_t / q_{lt} - 1) \text{ --------------(6)}$$

Where π is the rate of domestic inflation at period t, π* is the rate of expected inflation during the period t, and qt and qlt are short and long term output, respectively, as defined in (4) and (5). The parameter, k that adjusts inflation to its expected path in the absence of any excess demand is expected to be greater than zero. Thus the last term of (6) reflects inflationary pressure coming from excess short-term demand. It is assumed that

$$\pi_t^* = \omega \pi_t^{prog} \quad \text{foro} < \omega < 1,$$

for , indicating that the expected rate of inflation during the period t is determined by a weighted average of the actual rate of inflation in the previous period and the programmed inflation target. A case where ω=0 represents a situation of perfect knowledge and credibility of the programme target, while in the case where ω=1, expectations are formed adaptively and equal to observed inflation in the previous period. The relationship between output in the long-term and in the short-term is more clearly seen by assuming inflation expectation is adaptive and that for programming purposes that . $=\pi_t^{prog}$. Thus, rewriting (6) as:

$$qt = [(\pi_{t\partial} - \pi_{t-1})\omega/k + 1]q_{lt} \text{ --------(7)}$$

Equation (7) implies that short-term output determined from the demand side must converge to long-term output to obtain a stable rate of inflation in the long term. Under this situation, dynamic equilibrium is reached at the rate of inflation where the economic wide demand and the short and long term supply curves coincide.

Given this framework, the equilibrium agricultural output supply in the long and short term can also be projected to be at the stable food inflation rate. However, food inflation is not a target, rather the contribution of food to the consumer price basket is known and this can be used to determine the food inflation that would be consistent with the overall inflation under the programme.

3.3 Programme Consistency

There are three major types of consistency in a financial programme. There is accounting consistency, which ensures that the accounts of the various sectors reflect the same developments and are not contradictory. There is also behavioral consistency. This implies that economic variables behave in accordance with economic theory and the structure of the economy. The last is consistency between the use of policy instruments and the objectives of economic policy set by the policy makers. The first two are of interest in this paper.

Behavioural Consistency

In checking for behavioural consistency, equation (7) would be used to project both real GDP growth and agricultural output growth. Consistency would imply that the programme short-term real GDP output converges to its long-run value at the programme rate of inflation from 2004 to 2007.

Accounting Consistency

Real GDP is the sum of the oil and non-oil output, the sum of the primary, secondary and tertiary sectors output, or the sum of agricultural, manufacturing, secondary and the tertiary sectors. Accounting consistency, therefore, implies that any of this method would yield non-contradictory values for the projected real GDP growth, from 2004-2007. Thus, the formula for consistent projections of real GDP growth and hence agricultural output growth is given as follows:

Equation (10), in particular, indicates

$$y_t = y_t^{oil} * con_t^{oil} + y_t^{non\text{-}oil} * con_t^{non\text{-}oil} \text{----------------(8)}$$

$$yt = y_t^{primary} * con_t^{primary} + y_t^{secondary} * con_t^{seconday} + y_t^{tertiary} * con_t^{tertiary} \text{---------------(9)}$$

$$yt = y_t^{agric} * con_t^{agric} + y_t^{manufacturing} * con_t^{manufacturing} + y_t^{secondary} * con_t^{secondary} + y_t^{tertiary} * con_t^{tertiary} \text{---------------(10)}$$

RECENT ECONOMIC REFORMS AND POLICIES IN NIGERIA: ISSUES AND REALITIES

BY

FANIRAN, F.A. *

Faniran, F. A.

Abstract

The paper reviews the policy reforms in terms of Development Plans, structural programmes, and policy interventions. It examines the theoretical postulates of macro economic policy reforms and finds out that investment plays a crucial role in solving the problems of structural imbalances in Nigeria. It concludes by offering a proposal on how to solve Nigeria economic quagmire by focusing on the supply sector of the economy, as this will have positive multiplier effects on all other sectors of the economy, both internal and external.

INTRODUCTON

One can start by asking questions on what policy is, what economics is, and what economic policy is.

From the economist's point of view, a policy is a general plan of actions. Economics as a subject focuses on human behaviour as regards to production and consumption. Therefore, economic policy is a set of actions that are targeted to control human behaviour as regards to production and consumption in the process of realization of stated macro economic objectives, such as full employment of all factor inputs, high rate of growth of per capita income, stable price level, balance of payment equilibrium, equitable distribution of income and so on.

It follows therefore, that in order to achieve the foregoing objectives, there is need for economic planning. A national economic plan is a systematic and integrated programme of actions covering a definite period of time, approved or sponsored by the State, to bring about a rational utilization of resources in order to achieve certain national targets, using direct and indirect means, with or without, substantial State ownership of resource (Qayum, 1972).

These are well specified in all our National Development Plans that are ever made so far. The first National Development Plan covered 1962-1968, a second, 1970 - 1974 the third, 1975-1980, the forth, 1981-1985. Thereafter, Structural Adjustment Programme (SAP) was introduced on 27thJune, 1986. Furthermore, Rolling Plans were introduced: 1990-1992,1991-1993, 1993-1995,1994-1996,1995-1997. In the same Vein, Vision 2010 (Perspective Plan): 1997-2010, was also introduced.

In each plan document, there are stated objectives and Policy instruments to accomplish them.

To complement the National Development Plan and Annual Budget, a Rolling Plan was also introduced in 1990. All these policies /strategies are on ground for implementation by the government technocrats.

The structure of Nigerian economy from independence in 1960, showed that agricultural sector was the major contributor to the Gross Domestic Product (GDP) and it represented the engine of economic growth. Towards the late 60s and early 70s, oil was discovered in large quantity and the sector became to flourish at expense of agricultural sector. Thus, there was a change in the locus of engine of economic growth. The Nigeria government paid much attention to this sector more than any other sectors because it contributed the highest percentage of Gross Domestic Products viz-a-viz other sectors.

The supply and demand of Nigeria's oil products are being controlled by organization of Petroleum Exporting countries, OPEC, and therefore indirectly controlling our budgetary system. Nigeria started having economic problems when the oil sector, in the early 1980s, went into slump. There was a reduction in its output and price, and thus a reduction in total revenue to the government. Having realized this economic scenario, Nigeria government woke up and started panicking on how to salvage the situation. At this point, the government had to run to Bretton Wood institutions (i.e. International Monetary Funds- IMF, and the World Bank) for solution. These Institutions gave conditions for solving the

*Faniran, F.A. * Department of Economics Adekunle Ajasin University. TEL: 08033350785, E-mail: faniranfa2004@yahoo.co.uk*

REFERENCES

Cambridge University (1972). "Trade Strategies for Development", edited by Paul Streeten. Papers of the Ninth Cambridge Conference on Development Problems, edited by Paul Streeten, Great Britain: Western Printing Services Limited, Bristol.

Chibuike U. Uche (2001). The Politics of Monetary Sector Cooperation among the Economic Community of West African States Members. Policy Research Working Paper, World Bank, Washington, D.C.

Ghana (2001). Trade Policy Reviews: First Press Release, Secretariat and Government Summaries.

Haque I., et al (1995). Trade Technology and International Competitiveness. Economic Development Institute of the World Bank, Washington, D. C., December.

Paul Kalenga (2000). Regional Trade Integration in Southern Africa: Critical Policy Issues. DPRU Working Papers.

Peter Oesterdiech Hoff (2004). Regional Integration in Africa with Particular Reference to the Southern African Development Community.

Sheila Page and Sanoussi Bilal (2001). Regional Integration in Western Africa. Report prepared for and financed by the Ministry of Foreign Affairs, the Netherlands.

Thayer Watkins (2004). The Economy of Ivory Coast.

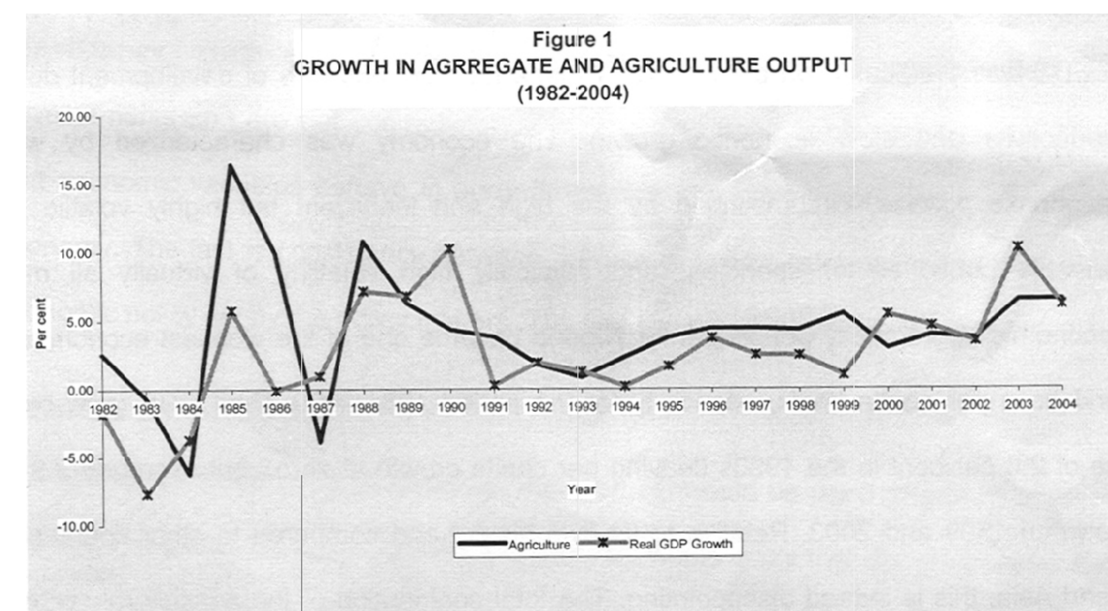
agricultural output growth projection consistency with the real GDP growth projection.

4.0 Overview of Nigeria's Agricultural Reform Programme under NEEDS

Background

The NEEDS was predicated on the fact that Nigeria had lost decades of development due to low productivity and slow economic growth. The economy was characterized by weak macroeconomic policies, circumscribed by the high and inefficient but highly volatile and unsustainable public sector spending, and a typically high volatility of virtually all major macroeconomic aggregates. Consequently, Nigeria became one of the weakest economies in the world on a per capita basis, especially for the period 1981-2000. Real GDP grew by an average of 2.8 per cent in the 1990s (leaving per capita growth at zero), but averaged 3.6 per cent between 1999 and 2003. Relative to its own history and compared to other countries in Africa and Asia, this is indeed disappointing. The total contribution of the agricultural sector to the Gross Domestic Product (GDP) averaged 32.1 per cent during the same period. However, only 34 per cent of the total arable land of 92.4 million has so far been cultivated. This development has made the sub-sector fail to keep pace with the needs of a rapidly growing population, resulting in a progressive rise in import bills for food and industrial raw materials. The potentials of the agro business sector as a major employer of the growing labour force and earner of foreign exchange had also been undermined. As a result, a large majority of the population, many of whom live in the rural areas remained poor.

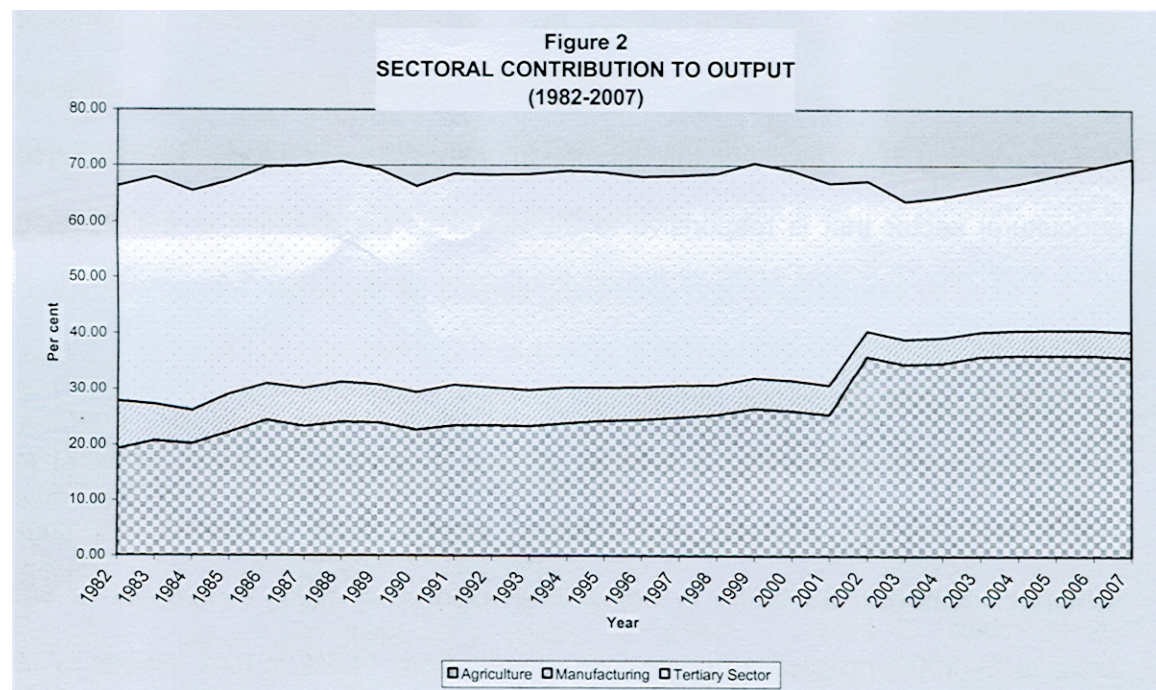
The private sector was completely alienated from participating in the transformation of the agricultural sub-sector. Several reasons accounted for this. First, lack of funds, inadequate processing and storage facilities as well as inefficiencies in input supply and distribution. Secondly, there was inadequate incentive framework, like price support mechanism and pervasive distortions in macroeconomic and sectoral policies including misaligned exchange rates, heavy explicit taxation of agricultural exports. Thirdly, the land tenure system inhibited the acquisition of land for mechanized farming. Fourthly, there was inadequate agricultural extension services and lack of indigenous capacity or technologies responsive to local conditions. Lastly, there was absence of political commitment to agricultural and rural development.



The message from the brief diagnosis above was that the agricultural sector of the Nigerian economy was facing enormous challenges and a bleak future. Steps to redress the legacies of the past, therefore, were becoming more compelling. Consequently, the consensus among the key stakeholders in the economy and the new political leadership pointed to the need to jump-start the economy. Against this background, the need to embark upon a strategic economic reform programme became imperative. This came in a form of the National Economic Empowerment and Development Strategy (NEEDS) in 2004, with the agricultural sector as a central focus.

Agricultural Sector Policies under NEEDS

Under the NEEDS, agricultural development is pursued vigorously



with the aim of achieving food security and poverty reduction as well as creating a responsive, modern and globally-competitive sector. The specific policy thrusts include: providing the right policy environment and vigorously targeted incentives for private sector investment in the sector; implementing a new agricultural and rural development policy aimed at addressing the foregoing constraints; fostering effective linkage with industry to achieve maximum value addition/processing for export; creation of more agricultural and rural employment opportunities to increase the income of farmers and rural dwellers through the modernization of production and creation of an agricultural sector that is responsive to the demands and realities of the Nigerian economy; striving towards food security and generating surplus for the export market; among others.

In specific terms therefore, agricultural polices under NEEDS will target the following: developing and implementing a scheme of land preparation services to increase cultivable arable land by 10% annually and fostering private sector participation through incentive schemes; achieving $3 billion in agricultural exports, a major component of which will be cassava by 2007; drastically reduce food imports from 14.5% of total imports to 5% by 2007; and achieving minimum annual agricultural growth rate of 6% per annum within the context of a macroeconomic framework.

TABLE 1: REAL SECTOR TARGETS UNDER NEEDS (In per cent)

Macro aggregates	2003	2004	2005	2006	2007
Real GDP	10.23	5.0	6.0	6.0	7.0
Oil	15.0	0	0	0	0
Non-oil	5.83	7.27	8.54	8.34	9.52
Agriculture	7.0	6.0	6.0	6.0	6.0
Inflation Rate	11.0	10.04	9.5	9.5	9.0

the haulage of goods along the transnational roads has often been militated by the customs related duties and documents. It is hoped that the harmonization of trade documents and the removal of import duties will reduce the road blocks along the way and enhance the flow of goods among the countries. It is pertinent to note that some members of the ECOWAS have printed and put into use some of the harmonized customs documents namely, certificate of origin, customs nomenclature (HS) declaration, customs declaration and transit certificate (ISRT) logbook.

SECTION VI SUMMARY AND CONCLUSION SUMMARY

In this paper, an attempt has been made to examine the issues relating to the formation of regional integration arrangement to enhance sub-regional trade. The paper examined the limitations found in literature that militated against such attempts in other regions. The paper traced past efforts at regional integration from the colonial era to the present period and highlighted the challenges that militate against successful integration. The paper reviewed the new efforts in the region to deal with potential constraints to sub regional trade integration especially now that regional trade blocs and multilateral institutions are promoting inter-regional trade negotiations at the global level.

CONCLUDING REMARKS

The outcome of ECOWAS intra-regional trade arrangement is difficult to predict given some underlying limitations namely weak industrial base of country members, similar geographic commodities, indispensability of customs revenue, and the ECOWAS/EU free trade negotiation arrangement.The removal of trade barriers will make for the free trade flow of goods within the regional market. It is, however, pertinent to state that production complementarity between the economies would enhance trade value and volume when barriers are removed. If the economies are not complementary there will not be significant changes because the composition of import and export cannot change drastically. The pattern of trade between ECOWAS has been such that industrial goods are largely imported from European Union and the US, the removal of trade barriers cannot alter that pattern. Consumer goods consumption may increase, but industries engaged in light production within the ECOWAS market may face competition and the less efficient firms may go out of production.

The economic and social consequences of such an outcome should be considered given the unemployment and other social problems that may arise. In view of the anticipated outcome, trade and investment laws have to be reviewed to allow for mergers and acquisition of enterprises. This evolution is necessary for industries to merge and become economically viable to compete with foreign firms in the production of goods and services. This transformation is necessary because the concept of using the regional market as “training ground” would be defeated if industries cannot successfully operate at regional level. If trade and investment laws are not altered to accommodate changing economic environment “the fallacy of transposition” which African governments are usually accused of would result. Analysts contend that mere policy transposition without fundamental existence of favourable complementary factors makes programme implementations to fail in Africa. So, for market integration to succeed as in EU, trade and investment laws must be modified to favour mergers and acquisition as they were done in the European Union to enable strong and competitive industries to emerge.

Finally, the absence of regional competitive enterprises would mean further set back to industrial development in the zone when the EU/ECOWAS free trade agreement becomes operational in January 2008. The Economic Partnership Agreement (EPA) with EU would be predicated on common external tariff, a development that would give EU goods access into the market of ECOWAS and thus aggravate the weak position of the domestic industries.

TARIFF

One of the issues affecting intra-regional trade is the tariff-rate. The UEMOA Zone has a lower tariff band and the average tariff rate for the zone is lower than in the non-UEMOA countries. For some countries of the ECOWAS, the loss of revenue arising from the implementation of common tariff is of concern to them. For such countries, the compensation for revenue loss is critical to their participation in any trade arrangement. The Heads of State of ECOWAS have accepted in principle the conversion of community levy into solidarity fund to finance the compensation budget for customs revenue losses due to trade liberalization. This is very important because the customs revenue loss to some states is in the range of between 50% 70%.

COMMON DOCUMENTATION

Harmonization of documents is also necessary for trade facilitation in the sub-region. Trade harmonization is being canvassed at WTO level to eliminate constraints to free flow of goods. Some countries in the sub-region have not fully complied with preliminary request of trade facilitation documents. However, discussions are still in progress for eventual removal of all constraints and harmonization of all trade documentations., The European Union scheduled negotiation with the ECOWAS for Economic Partnership Agreement has heightened the urgency for the resolution of customs -related issues to ensure their common applicability in the sub-region.

COMMON CURRENCY

The drive towards a common currency in the sub-region will aid intra-regional trade. . The evolution of a common currency or two currencies in the sub-region via ECOWAS Monetary Cooperation Programme would facilitate trade and payment transactions in the Sub-region because the delays associated with current mode of transfers in the sub-region would have been eliminated.

CIVIL SOCIETY

The involvement of the civil society in the ECOWAS regional programmes has increasingly gained recognition. There is now a marked departure from the old practice of government functionaries acting in absolute disregard of the civil society in the guise of NGOs or economic agents. The recent meeting of ECOWAS members states in Ghana to adopt a Road Map for economic partnership agreement between ECOWAS and EU involved the civil society.

INVOLVEMENT OF THE PRIVATE SECTOR.

The beneficiaries of government policy measures are the members of the civil society. The need to take cognizance of their support to ensure policy success has been recognized and most engagements involve their inputs at both national and regional levels. Feedbacks from dialogue between the private sector entrepreneurs and policy makers at national level constitute new inputs for policy articulation or finetuning to ensure ultimate programme implementation success. In addition, bilateral negotiations between governments now include business groups or promoters of projects to ensure successful implementation, owing to the general desire to ensure private/public cooperation to move the economy forward.

POLITICAL WILL

Political will to move the Sub-region forward has been recognized, given that the global dimension of economic relations has been fully recognized by the political leadership of ECOWAS. As more countries in the region embrace democratic institutions and practices, it will be easier for regional governments to take collective decision on economic related issues, including those on trade. The free trade arrangement dialogue both between ECOWAS and EU, and the drive towards market access for developing countries vis-à-vis industrial countries are issues that is galvanizing the various governments in the Sub-region into collective positive actions. It is for this reason that the position of developing countries either as a regional bloc or developing countries group has been consistent at WTO or ECOWAS/EU. At individual levels the goals may not be realized but only a group, as evidenced by recent developments.

ADDRESSING INFRASTRUCTURAL LIMITATIONS

Infrastructural constraints in the economic development of West Africa are being addressed. One of the major infrastructural problems is energy. The West African Gas Pipeline (WAGP) projects which is to provide cheap energy for industrial use has commenced. The provision of cheap energy supply will enable producers to be competitive because of lower energy cost of industrial production.

Although, rail links between UEMOA and Non-UEMOA countries to enhance the movement of goods are non existent, road links between the Francophone and Anglophone countries do exist to move goods across national frontiers. However,

5.0 Analysis and Discussion

5.1 Accounting Consistency

At the time of drafting the NEEDS document, actual data for 2003 were not available, hence the estimate for real GDP from 2004 -2007 relied on a provisional figure for 2003. The table below shows the estimates derived in the case of accounting consistency.

As can be seen, whichever component we look at, the results closely approximates the programme targets. Overall, the projections were very consistent across sectors.

The projections for agricultural output under NEEDS were generally consistent with the projections for real GDP growth. The implication of this result is that the growth in agricultural output necessary to yield the desired growth in aggregate output over the medium term is 6.0 per cent on an annual basis. Actual agricultural output in 2004 was 6.51 per cent and was higher than the projected 6.0 per cent. This outcome resulted from a higher growth in real GDP of 6.1 per cent instead of the 5.0 projected. Thus, apart from achieving consistency across sectors, there was also consistency across the years.

Table 2: CONSISTENT FORECAST FOR THE REAL GDP (%)1/

	2003	2004	2003	2004	2005	2006	2007
Real GDP	10.24	6.10	4.28	5.00	6.00	6.00	7.00
Real GDP[2/]	10.96	11.04	4.39	5.11	6.14	6.13	7.16
Real GDP[3/]	10.55	6.13	4.42	5.06	6.13	6.12	7.20
Real GDP[4/]	10.99	6.14	4.48	5.12	6.19	6.17	7.25

1/ Real GDP, current actual 2003/2004 in the first two columns and provisional for 2003in column 3 as at the time of drafting the NEEDS
2/ Real GDP derived from the component Oil and Non-Oil Sectors
3/ Real GDP derived from the components Primary, Secondary, and Tertiary Sectors
4/ Real GDP derived from the components Agriculture, Manufacturing, Secondary, and Tertiary Sectors

5.2 Behavioural Consistency

Using equation (7), by first estimating long-term aggregate supply as in equation (4) and assuming adaptive expectation for inflation, estimates for the short-term output that would converge to its long-term value are derived from 2004-2007. Table 3 below shows clearly the consistency in the projections. Indeed, the deviation was almost zero for 2005. Thus, the projection possessed the attribute of behavioural consistency and it would be shown that there was also behavioural consistency for agricultural output projections (table 5).

TABLE 3: ESTIMATING SHORT-TERM REAL OUTPUT 2/

	2003	2004	2005
Long-Term Output		4.88	5.83
Programme Output		5.00	6.00
Programe Inflation		10.00	9.50
Previous Year's Inflation	23.80	10.00	
Parameter K 1/		7.18	7.14
Short-Term Output		**4.79**	**5.82**

1/ K is derived from a log linear estimation of the Philips curve for Nigeria.

2/ This analysis requires actual inflation for 2005, 2006 to be able to project 2006 and 2007, respectively.

Estimating Food Inflation

In order to apply the equation (7) in the case of agriculture, we need to set a target for inflation resulting from agriculture. In this connection, food inflation is a suitable proxy as it accounts for over 80 per cent of agricultural output. Recall that inflation has two main components, namely, core and non-core. Core inflation is mainly demand driven, while non-core inflation is supply driven (Essien and Eziocha, 2002). For Nigeria, non-core inflation is food inflation, while core inflation constitutes the remaining and is regarded as the component of inflation after all the observed variability has been removed (in the Nigerian case-Food). In this estimation, use would be made of the fact that food constitutes about 70 per cent of CPI basket, while non-food accounts for the balance. Thus, the food inflation target that is consistent with the inflation target is given as:
The result is presented in table 4 below.

$$\pi_t = \pi_t^{NON\text{-}CORE} * con_t^{non\text{-}core} + \pi_t^{CORE} * con_t^{core} \text{--------------------(8)}$$

TABLE 4: PROJECTING TARGET FOOD INFLATION

	2003	2004	2005
Inflation Target	10.00	10.00	9.50
Food Contribution		70.00	70.00
Non-food Contribution		30.00	30.00
Core Inflation Target [1/]	19.42	11.50	
Estimated Non-Core Inflation Target		**5.96**	**8.64**

1/ Core Inflation was projected using the GDP deflator. 2003 figure was the provisional at that time

From table 4, the short-term agricultural output is projected for 2004 and 2005.

As in the case of real output, the agricultural output projections were very close to that derived using equation (7). Thus, both real output and its component, agricultural output behaves in a consistent manner in accordance with economic theory and the structure of the Nigerian economy.

TABLE 5: ESTIMATING SHORT-TERM AGRICULTURAL OUTPUT [2/]

	2003	2004	2005
Long-term Agric. Output		5.83	5.83
Programme Output		6.00	6.00
Programe Food Inflation		5.96	8.64
Previous Year's Inflation	15.4	12.1	
Parameter, K 1/		2.59	2.58
Short-Term Agric. Output		**5.61**	**5.75**

1/ K is derived as the parameter contribution of the sector
2/ This analysis requires actual inflation for 2005, 2006 to be able to project 2006 and 2007, respectively

foreign organizations. The populace which is supposed to be the ultimate beneficiary is usually not abreast of the progress and development on these issues. This communication gap seems to make end users of agreed programmes ignorant of the issues and the potential benefits, thereby undermining the programmes at the level of utilization or operation.
It must be stressed that lack of political will on the part of leaders is predicated on the balance between immediate revenue loss and anticipated future gains. Most often, gains of integration lie within medium to long term, especially for countries that are not regionally competitive. For a country that is not likely to benefit in the short run, the leadership will increasingly be slow in the acceptance and application of integration programmes for obvious reasons. Little wonder that some countries have not implemented certain aspects of the integration programmes.

POLITICAL INSTABILITY

In addition to the foregoing, political instability in the region has also affected the integration process. The civil wars in some countries undermine political and economic development of the country. Countries involved in civil wars or emerging from civil wars cannot implement economic reforms because their economies are usually devastated. A programme of reconstruction and economic reforms cannot be implemented against the backdrop of revenue limitations arising from removal of tariffs.

LACK OF INFRASTRUCTURE

Infrastructural constraints also militate against regional trade and integration. Transport network in the sub-region is not adequate and the landlocked countries are not adequately linked to the coastal countries. The cost of transport and checkpoints along the road impose a lot of constraints on trade because of poor distribution rail lines, roads and air routes. The delays and damages to transit cargoes impose additional burden on trade. The disruption is more amplified between the Anglophone and Francophone countries because of glaring differences in their economic strategies. For instance, the Francophone Rail line-Senegal-Mali group has a long tradition of trade flows among them in contrast to the Anglophone countries. The success of the former could be attributed to the contiguous boundaries and the common external trade policy which was promoted by the former colonial power and its sustenance by the succeeding governments in the zone. All of these have also impacted adversely on trade integration.

LACK OF COMMON TRADE POLICY

Harmonization of trade policies within the region will lead to the elimination of trade restrictions and barriers. The trade liberalization scheme which member countries of the group want to achieve runs counter to import substitution strategy of development which many countries had embraced. It is, therefore, difficult to promote trade liberalization when the domestic strategy is inefficient. Recently, Nigeria imposed import prohibition on certain goods, a development that was not welcome in some of the neighbouring countries. It is, therefore, imperative to harmonise trade and development policies in the region if the acceptance by all countries is to be assured.

INEFFICIENT PAYMENT SYSTEM

The absence of an efficient payment system in the sub-region also supports the promotion high volume of trade between the countries in the region and the European and Asian countries. The failure of sub-regional institutions to promote the use of financial instruments in trade transaction due to delays and other institutional constraints have led to growth of informal trade and patronage of external markets. Financial transfers within the region take much longer time than transfers between the region and Europe. It is, therefore, imperative that importers prefer dealing with institutions in Europe than those in West Africa.

SECTION V PROSPECTS FOR INTRA SUB-REGIONAL TRADE: THE WAY FORWARD

Although intra-regional trade has been low, developments in the sub-region which are likely to bring about changes are underway. The gradual restoration of political stability in the sub-region and the macroeconomic convergence programme of ECOWAS, common aspiration of developing countries at WTO and the dialogue between ECOWAS and European Union for the evolution of Economic Partnership Agreement are likely to lead to positive reappraisal of some of the factors which impede trade flows in the sub-region. The ongoing trade dialogue at multilateral fora are generally to be creating a common platform for developing countries as a group vis-à-vis developed countries. The common platform positions now form the bases of policy articulation at the national level to ensure integration of the domestic economy into global economy. As a result of the foregoing developments, regional cooperation is becoming more effective than before when national policies seem not to converge.

cooperating countries are equally advanced. In other regions of the world, where customs union or common market exists, member countries of a union have inter-industry linkages. The absence of the preliminary conditions for inter-industry linkage fits into the "fallacy of transposition" of African governments, which expect results similar to European integration programme when the enabling environment is absent. Inter-industry linkages make for trade creation between the industrial sectors of member countries of a trade bloc, but where industrial development is low or at similar levels countries resort to trade diversion. Trade diversion is not welfare enhancing and thus it only promote policies that seek to protect and advance individual country objectives. Such a development undermines regional trade integration.

LOW VALUE OF INTRA-REGIONAL TRADE

Intra-regional trade in ECOWAS sub-region is very low. The volume and value of trade among member countries seem to be very low. Available statistics (1998 -2002) indicated that intra-regional exports and imports averaged US1250 million and US.212million respectively. In contrast, the region's total imports and exports to Europe Union averaged $8260 million and $8000 million for the same period. Industrial development has remained low among the countries and this has accounted for low intra regional trade, which has created dichotomy in ECOWAS cooperation. The leading economies in the region namely Nigeria, Senegal, Cote d'Ivoire, and Ghana are sustaining respective national economic development momentum and thus prefer linkages with developed countries outside the region. The drive underscores the various concessions offered to potential investors by various countries in the Sub-region for trade. Currently, some countries in the Sub-region have entered into free trade or preferential trade with countries outside the region.

EXISTENCE OF MANY CURRENCIES

The existence of many currencies in the sub-region is another drawback to trade and integration. About eight different currencies are in use and therefore involve different exchange control regimes. The French-speaking West African countries that constitute UEMOA have a strong monetary union via the CFA franc through the Union Economique et Monetaire l'Ouest Africaine. The currency was linked to the French franc before it was replaced with the Euro. Despite the demise of the French franc, the CFA still enjoys the support of the French Government. The common currency of the French speaking states promotes their trade and financial transactions with France readily than with its West African neighbours because of the absence of efficient payment mechanism between the countries of West African Sub-region.

SIMILAR GOODS

The production structure of member countries does not complement each other, because of the similarity in goods.Most countries in the sub-region are primary producers of agricultural products and solid minerals. The capital goods and intermediate goods needed by some countries for industrial production are usually imported from outside the trade bloc. The trade needs of the various countries have sustained the direction of and higher composition of trade between the region and European markets than the intra-regional trade despite the proximity of the countries in the Sub-region. Industrial and capital goods have therefore continued to come from Europe, Asia and America to the region.

TARIFF BARRIERS

Lowering or entirely dismantling tariffs while promoting intra-regional trade within the region, it will seriously affect custom revenues of some countries. The revenue loss constitutes an immediate effect of establishing a preferential trade area or free trade area or a customs union given that 50%-70% of public revenues accrue from custom duties. Countries which are less competitive, therefore, find it difficult to lower or dismantle tariff barriers unless commensurate compensation fund will be provided to make up for the revenue loss. It is for this reason that compensation schemes and solidarity funds are crucial concomitants of market integration. It is pertinent to state that primary exports attract free duty in EU and OECD countries, hence the continued attraction of some of these markets for countries in the Sub-Saharan Africa. Some of the grants in aid by OECD countries constitute an attraction to the countries which would experience revenue loss due to tariff removal. It is mandatory that any arrangement which precludes compensation cannot be attractive to the poor countries of the Sub-region.

NON-INVOLEMENT OF THE CIVIL SOCIETY

The non-involvement of the civil society in the regional integration programme has its negative consequences. Regional integration seems to be consigned to the political elite, bureaucrats and in some cases

It would be interesting to see whether the actual inflation for 2005, which is expected to be higher going by the actual inflation rate of 26.1 as at July 2005 and the annualized growth rate of 44.7 per cent would result in a lower short-term real output growth.

6.0 Concluding Remarks

The financial programme presented here is a systematic way of looking at Nigeria's macroeconomy so that effective policy choices can be made. Indeed, an evaluation of Nigeria's economic problem helped in a very significant way to understand the nature, sources, and seriousness of economic imbalance, which called for drastic adjustment measures. Despite the fact that we make sectoral forecast on the basis of economic policies as well as on information about other exogenous variables, linking the sectoral forecast in the way discussed in this paper helps in making the forecast of one sector to be interrelated with the forecast of other sectors. It should however be noted that there are no accurate numbers in a programme of this nature, rather of outmost importance is the consistency of the forecast. This paper has clearly shown that the forecast under the NEEDS are consistent across sectors and across the year, both in an accounting sense and in a behavioural sense.

Finally, it is important to also note that sometimes in this type of analyses, there may be data problems, impact of policies may be subject to unknown lags, and changes in external environment that may conflict with exogenous assumptions earlier made in the programme. When this happens there is always need to revise the programme. For the NEEDS, the time is now.

References

Bates, R.H., and Krueger, A.O. (1993). Political and Economic Interactions in Economic Policy Reform: Evidence from Eight Countries. Cambridge: Blackwell.

Central Bank of Nigeria (1999). Issues in Agricultural Input Policy: An Empirical Evaluation of Fertilizer Production, Distribution and Price Subsidy in Nigeria. Abuja: Central Bank of Nigeria

Coffey, E. (1998). Agricultural Finance Revisited, Why?. Getting the Policies Right. FAO: Agricultural Finance Revisited.

Essien, E.A. (1999). Enhancing Productivity in the Nigerian Rural Community: Options For The Next Millennium. In: XIth World Productivity Congress. Edinburg, Scotland: Academy of World Productivity Science.

--------------------(2000). Enhancing Societal Welfare in the Rural Communities through Co-Operative Societies. In: Alleviating Poverty Through Co-Operative Groups. Abuja

Essien, E. A., and Onwioduokit, E. A. (1997). Economic Development in a Deregulated Economy: The Nigerian Experience. Journal of Economic Management, Vol. 4 No. 1, 67-74

--------------- and Eziocha, M. U. U. (2002). Identifying the Trends of Core Inflation in Nigeria". Central Bank of Nigeria Economic and Financial Review, Vol. 40. No. 2, 61-67.

Feltenstein, A., and Nsouli, S.M. (2003). "Big Bang" Versus Gradualism in Economic Reforms: An Intertemporal Analysis with an Application to China. IMF Staff Papers Vol. 50. No. 3, 458-478

Fischer, S. and Gelb, A. (1991). The Process of Socialist Economic Transformation, Journal of Economic Perspectives, Vol. 5, No. 4 (Fall).

Funke, N. (1993). Timing and Sequencing of Reforms: Competing Views and the Role of Credibility. Kyklos, Vol. 46, pp. 337-62.

Hiemenenz, U. and Nunenkamp, P. (1992). The International Competitiveness of Developing Countries for Risk Capital. Kieler Studien, Vol. 242.

References

Bates, R.H., and Krueger, A.O. (1993). Political and Economic Interactions in Economic Policy Reform: Evidence from Eight Countries. Cambridge: Blackwell.

Central Bank of Nigeria (1999). Issues in Agricultural Input Policy: An Empirical Evaluation of Fertilizer Production, Distribution and Price Subsidy in Nigeria. Abuja: Central Bank of Nigeria

Coffey, E. (1998). Agricultural Finance Revisited, Why?. Getting the Policies Right. FAO: Agricultural Finance Revisited.

Essien, E.A. (1999). Enhancing Productivity in the Nigerian Rural Community: Options For The Next Millennium. In: XIth World Productivity Congress. Edinburg, Scotland: Academy of World Productivity Science.

--------------------(2000). Enhancing Societal Welfare in the Rural Communities through Co-Operative Societies. In: Alleviating Poverty Through Co-Operative Groups. Abuja

Essien, E. A., and Onwioduokit, E. A. (1997). Economic Development in a Deregulated Economy: The Nigerian Experience. Journal of Economic Management, Vol. 4 No. 1, 67-74

--------------- and Eziocha, M. U. U. (2002). Identifying the Trends of Core Inflation in Nigeria". Central Bank of Nigeria Economic and Financial Review, Vol. 40. No. 2, 61-67.

Feltenstein, A., and Nsouli, S.M. (2003). "Big Bang" Versus Gradualism in Economic Reforms: An Intertemporal Analysis with an Application to China. IMF Staff Papers Vol. 50. No. 3, 458-478

Fischer, S. and Gelb, A. (1991). The Process of Socialist Economic Transformation, Journal of Economic Perspectives, Vol. 5, No. 4 (Fall).

Funke, N. (1993). Timing and Sequencing of Reforms: Competing Views and the Role of Credibility. Kyklos, Vol. 46, pp. 337-62.

Hiemenenz, U. and Nunenkamp, P. (1992). The International Competitiveness of Developing Countries for Risk Capital.

Francophone countries. Barring the cross border or informal trade, most countries in the sub-region conducted flourishing trade with the colonial powers in Europe and little or insignificant trade with neighboring countries in the sub-region. Many factors were adduced for the low level of cross border trade, namely, the similarity in products or non complementarity of the economies, historic attachment to Europe, trade facilitation problems, inefficient payment mechanism and infrastructural constraints.

However, the ECOWAS was established in 1975 with the aim of promoting economic cooperation and integration among the countries in the sub-region. The Economic Commission for Africa (ECA) was a catalyst towards the creation of four regional bodies including ECOWAS in Africa. It envisaged a functional economic cooperation among Africa countries as part of overall strategy towards achieving industrial development on the continent. The ECA perception was premised on the belief that integration measures like liberalization of international trade, adoption of a common tariff for member countries of a regional body and the coordination of investment policies would make the regionalization of import substitution policies more viable. The main objectives of ECOWAS were the eventual elimination of all tariffs and trade barriers between members, the establishment of a customs union, unified fiscal policy and coordination of regional policies in transport, communication, energy and other infrastructural facilities.

In pursuance of trade promotion in the Sub-region, the West African Clearing House arrangement was established in 1972. It involved the use of national currencies in the payment for goods while the foreign exchange was utilized to settle national transaction balances between the participating countries. The patronage of WACH was short-lived. The volume of transactions channeled through West African Clearing House (WACH) fell drastically from the peak of West African Unit of Accounts WAUA 224 million in 1984 to WAUA 15 million in 1990, thereafter the volume declined progressively over the years. The low patronage led to the transformation of WACH to West African Monetary Agency (WAMA) in 1994. The arrangement which was aimed at promoting monetary cooperation included payment instruments like ECOWAS Travellers cheque. It was envisaged that economic activities in the sub-region could be facilitated by the payment instrument. The patronage of ECOWAS Travellers Cheque was poor and culminated in its suspension; however, there are efforts ongoing to privatize the operation of the facility.

Another programme which ECOWAS members undertook to promote trade in the sub-region was the ECOWAS Trade Liberalization Scheme (ETLS). The ETLS was aimed at the removal of tariff barriers on intra-community trade in goods and services. The scheme provides for categorization of goods into three: namely, unprocessed, traditional handicraft and industrial products. The unprocessed and traditional goods (animal, mineral and plant products) enjoyed total relief from duties and entry charges without restrictions on quality, as well as compensation for loss of revenue due to their importation. In contrast, industrial goods were subjected to rules of origin regulation. The rule of origin provides a threshold of value added which must be attained for the product to enjoy duty free entry within ECOWAS region.

CHALLENGES TO TRADE INTEGRATION IN THE SUB-REGION

Although ECOWAS region has made some attempts to promote regional economic integration, some challenges still abound. The major problem of ECOWAS is that it is not a customs union, consequently, individual countries in the sub-region impose different tariff rates on imports emanating from third countries. For the UEMOA countries, there exists a common external tariff for imports originating from a third country, while the Anglophone group of ECOWAS has different tariff rates. This situation goes to the heart of regional trade and integration arrangement. The tariff differences among the countries usually lead to trade creation and trade diversion which form the basis of discontent among cooperating countries in a regional trade arrangement. Since the individual countries want to advance their economic growth and development, as well as promote trade, they have put in place policy measures to ensure that their national interests are promoted either in their bilateral trade or in attracting investments to their country. Tariffs on imports are used to discourage foreign goods and thereby ensure the survival of domestic industries which could provide local substitutes. This trade policy is more pronounced in the non-UEMOA countries because the solidarity fund used to cushion the adverse impact of imported goods has no equivalent provision in the non-UEMOA countries (Anglophone).

Similarly, the absence of common external tariff in the ECOWAS makes inter-industry linkage which could occur in an economic entity or sub-region to be absent. Inter-industry linkages occur in trade arrangements in which industrial sectors of the

represented a net reduction in average tariff from 13.2% to 11.6% (Procco, 2000).

TRADE POLICY IN THE ANGLOPHONE

For the Anglophone countries, the common Currency Board of the British West Africa which made available common currencies for commercial transactions ended at independence. Each country established its national currency at independence and conducted national trade policies to suit domestic development strategy. For the Anglophone zone, Nigeria and Ghana are the major countries when account is taken of their political and economic roles in the Sub-region. The trade policies of Nigeria and Ghana constitute the major position of the group.

Guinea left the CFA group it has identified with the Anglophone countries in the monetary cooperation programmes and it will therefore be considered alongside the Anglophone group.

Ghana operates a liberalized trade regime (import/export) within the spirit and principle of the World Trade Organization (WTO). The use of tariff remains Ghana's main trade policy instrument, which is applied on a non discriminatory basis, granting at least Most Favoured Nation (MFN) treatment to all its trading partners, while expanding its bilateral arrangements and deepening regional integration to maximize trade benefits, and help guard against any possible trade diversion.

Ghana's trade is relatively concentrated in both commodities and manufactures. Primary products, and overwhelmingly gold, account for most exports while non traditional exports including processed food, timber and aluminum products account for 20% of exports.

Ghana's main trading partner remains the EU, accounting for 50% of exports and imports. Ghana's regional trade with members of the Economic Community of West African States (ECOWAS) accounted for 17% of exports in 1999, up from 13% in 1994. It grants tariff preferences on many products to other members of the Economic Community of West African States (ECOWAS), in the spirit of regional integration subject to Rules of Origin. Ghana eliminated tariffs on most trade with ECOWAS members by 1996 under the Community's Trade Liberalization Scheme. A Custom's Union and ultimately a Common Market among the ECOWAS members are being envisioned by Ghana under the regional economic perspective.

Guinea

The total policy reforms carried out by Guinea since 1985 have enabled it to significantly liberalize its economy and its trade. Quantitative restrictions were abolished on most products with the exception of potatoes whose import is prohibited from February to June each year in order to encourage local production.

A wide range of taxes and duties are levied on imports to Guinea, namely: an import customs duty (DDE) of 2% or 7%; a fiscal import duty (DFE) of 6%, 8%, 22% or 23%; a clearance fee (RTL) at a single rate of 2%; a community levy (PC) of 0.5% on all imports from countries outside ECOWAS; and an additional centime (CA) of 25% paid to the Chamber of Commerce.

Nigeria's Trade Policy

Nigeria's trade policy has been the subject of frequent changes, through the employment of tariffs, levies, surcharge and import prohibitions. Nigeria invoked GATT Article XVIII: B on restrictions for reasons of balance of payments in 1982, to restrict the import of certain goods. In addition, it also invoked the safeguard provisions to further impose import restrictions on certain imports. The abrogation of import prohibition and return of prohibition have serious economic implications for trade and investments in Nigeria.

On export trade, Nigeria has put in place export incentives to make local manufacturers competitive in offshore market penetration vis-à-vis their foreign counterparts. The incentives include export development fund, export expansion grant, duty drawback scheme, retention of export proceeds, export credit guarantee scheme, etc.

In addition to the foregoing, trade support infrastructure in Nigeria include trade information services provided by Nigeria's Trade Desks abroad, valuation of goods online specifically by the custom services. This requires the operationalisation of the Automated System of Customs Data (ASYCUDA) entry and the services of Standard Organization of Nigeria and National Agency for Food, Drug Administration and Control to ensure quality of commodities and products.

SECTION IV
PROGRESS AND CHALLENGES IN THE INTEGRATION OF TRADE IN THE ECOWAS SUB-REGION

PROGRESS

Prior to the establishment of ECOWAS, official trade in the sub-region was conducted along the historic divide of Anglophone and

A LOGICAL FRAMEWORK APPROACH TO AGRICULTURAL PROJECT DESIGN AND COSTING IN A REFORMED ECONOMY

BY
PHEBIAN N OMANUKWUE[1]

Phebian N Omanukwue

Abstract

Development planners are constantly initiating policies, programmes and projects that would aid in national development objectives. In doing this, an appropriate design and costing of the project is needed to ensure that objectives are met. This paper describes the logical framework approach to agricultural project design and costing in a reformed economy. Constraints to effective project design and costing, such as non-diversification of the production base of the economy, corruption, delays in budgetary allocations were identified. The paper recommends a participatory approach and commitment to the agricultural project design and costing process.

1.0. INTRODUCTION

Agriculture has become a complex activity, more so in the light of dynamic changes and innovations that have pervaded the global economy. In a developing economy like Nigeria, this becomes much more challenging given the desire and need to compete both domestically and internationally. Consequently, Government in 2004 launched an economic reform programme, the National Economic Empowerment and Development Strategy (NEEDS). The NEEDS has as its key targets for agriculture, an annual growth rate of 6 percent, achieving $3 billion in agricultural exports by 2007, and a reduction in food imports to 5 percent in 2007. With these targets and the identified strategies necessary to achieve the objectives, it is no gain saying that the NEEDS signals a change in the planning and budgetary approach and processes in the agricultural sector of the economy. This is more so as agriculture is the major sector of the economy, after oil, contributing about 35 percent and 52 percent respectively, to the Gross Domestic Product (GDP) and non-oil GDP in 2004. The sector also employs about 70 percent and 80 percent of the labor force and the rural population, respectively and sustains the growing population, provides raw materials for the agro allied industry, amongst others. The sector has also grown modestly from 4.25 percent in 1997 to 6.5 percent in 2004, (CBN 2004) and following from this is the fact that resources (time, financial & material) are limited and the need to utilize appropriate tools in agricultural projects design, selection and management becomes all the more necessary and important.

In order to sustain the benefits of agricultural production, it is important that these projects are formulated in a concise manner. In other words, an appropriate project design approach and costing must be identified. The significance of proper agricultural project design and costing of any project in an economy undergoing reform cannot be overemphasized.

The focus of this paper, therefore, is to present a logical framework that could be adopted in the design of agricultural projects in a reformed economy. The paper also highlights some pertinent issues to consider in the costing of agricultural projects. The rest of the paper is organized thus: Section 2 presents an overview of literature. Section 3 describes the logical framework process/matrix. Section 4 describes the project costing process and highlights some pertinent factors to consider

[1]*Phebian is a staff of the Research and Statistics Department, Central Bank of Nigeria, Abuja. The views expressed in this paper are entirely those of the author and does not reflect the views of the organization to which she is affiliated.* *The author also acknowledges the comments, contributions and suggestions of the anonymous reviewer(s) and colleagues of the Department.*

when costing agricultural projects. Section 5 identifies some constraints to effective project design and costing, while section 6 concludes the paper.

2.0. LITERATURE REVIEW

There are various ideas on what an agricultural project constitutes. From an economic development viewpoint, UNIDO (1980) describes a project as an investment with the aim of creating, expanding and or developing certain facilities to increase production of goods and services in a community within a finite period of time. On a different perspective, a project of any kind can be seen as a strategy, which arises from the need to solve a problem. An agricultural project involves large scale development over large areas of land and may not be restricted to a particular location. For instance, a production project of crop production, animal husbandry or poultry farming are often not restricted to one place. This distinction becomes clearer when we consider aquaculture (fish) farming which by its nature is restricted to areas of expansive water resources. Suffice to say that an agricultural project describes a proposal, a scheme or a plan which requires concerted effort, mobilization of different skills and resources to achieve a desired objective, which would translate to value added or social economic or financial benefits. A common feature of these conceptual issues presupposes that a developmental project should relate investment activities (resource flows) to a stream of benefits (output) within a definite time frame and should be seen as an instrument for accelerating the pace of economic development under a given development framework.

A growing consensus in the literature is that an agricultural project, like any other, must be clearly defined, planned/coordinated, have a predetermined objective, a budget, consist of interrelated activities and must be time bound, (Akintunde, 2002, Ayodele, 2002, Sagay, 2005). In other words, before a project of any type can be effectively managed, there must be a clear understanding of its objectives, scope, funding and mandate. This would mean that all stakeholders to such a project (planners, executors and target groups (beneficiaries)) must be fully involved in the project process.

There are various classifications of agricultural projects. While some agricultural projects could originate from the public sector (economic, social or administrative) or private sector with direct or indirect productive benefits, (Sagay, 2005), others could be urban or rural, donor specified and financed resulting from a mission by an external aid agency.

Many organizations and institutions utilize various techniques in the design and costing of identified projects. Some of these techniques are the Management Information System (MIS), Constraint trees, critical path analysis, variance analysis, Analytic Hierarchy process, (AHP), logical framework analysis, participatory rural appraisal, scenario analysis and simulation models. The use of these techniques varies depending on the objective. In designing and planning an agricultural project, it is considered appropriate that where there are distinct sub-sectors such as fishing and forestry, different climatic and geographical regions, the design and costing of agricultural projects must necessarily differ from each other, (Mcconnell, 2002). However, of all these project design tools, the logical framework process and matrix (logframe) appears to be more popular and is now regarded as the standard tool for project design, (Australian Government, 2003)

The logframe is a planning and management tool used to complement the conventional project design procedures with the objectives of establishing a logical approach by which aims are achieved, identifying the assumptions and risks associated with achieving the predetermined objectives, analyzing existing situations, monitoring and reviewing projects during the implementation stage as well as presenting a summary of the project in a standard format, (Coleman, 1987; Sartorius 1996; Australian Government, 2003).Ê

Key components of the logframe process include problem analysis, stakeholders' analysis,

experience of industrialized countries can be easily replicated in developing countries as “fallacy of transposition”. They argue that “many initial conditions conducive to integration” in Europe have been overlooked by governments of developing countries (e.g. high level of intra regional trade). Similarities in income and industrialization levels allowed for intra-industry specialization, political congeniality in foreign affairs and capability and willingness to provide compensation payments. The French policy in the countries of West Africa promoted unity among the French speaking countries which is not found in the English speaking countries of West Africa. Macroeconomic stability of member countries in a regional integration arrangement is considered a pre-requisite for long term success. Instability tends to provoke the imposition of controls on imports or capital flows which can ultimately undermine a regional integration arrangement. The initial drive towards integration in ECOWAS did not include macroeconomic convergence programme. Serious macroeconomic cooperation programme was introduced in 1987 under ECOWAS Monetary Cooperation (EMCP). The West African Monetary Zone (WAMZ) countries have since started to grapple with macroeconomic variables stipulated in the convergence criteria to ensure smooth integration of their economies.

SECTION III
HISTORICAL EVOLUTION OF THE TRADE POLICY REGIME IN THE ECOWAS SUB-REGION

The economic and political history of the sub-region is linked to its colonial connections. France and Britain were the major colonial powers, while the Portuguese and Spanish influences in the Sub-region were peripheral. The Francophone countries of West Africa include Senegal, Cote d'Ivoire, Mali, Burkina Faso, Niger, Togo and Benin. The Republics of Guinea and Mauritania were formerly in the group, but pulled out at various times. Guinea pulled out of the group at independence and operates a trade policy independent of UEMOA. Similarly, Mauritania has withdrawn and now operates an independent policy in trade as distinct from UEMOA. The colonial history of the sub-region can therefore be divided into two broad categories, namely, the Anglophone and the Francophone, and these two, between them constitute over ninety five per cent of the regional land area and population.

FRANCOPHONE TRADE POLICY

The Francophone countries of West Africa have been members of regional groups since independence in the 1960s. The individual countries have never been completely independent in national trade policies, and at no point was the decision taken to integrate them in what is now known as the UEMOA. The UEMOA can be traced to UMOA of 1962, extended in principle to trade as the UDEAO in 1966; this became the CEAO in 1973, and UEMOA in 1994, at which point it was merged with the monetary union. The UDEAO and CEAO in spite of being regarded as “custom union” and “economic community” respectively provided a preferential trade zone rather than a free trade zone because there was no common external tariff. The CEAO, however, introduced free trade for raw materials in 1973. It also added a central fund and compensation mechanism (with the richest members contributing more to financing the implied loss of tariff revenue from internal preferences) and developed a strong institutional centre. Led by Cote d”Ivoire, the CEAO was transformed into UEMOA in 1994.

UEMOA had targets of free internal trade and a common external tariff and, in the longer term, free movement of services, capital and people, and the harmonization and mutual recognition of technical standards. Trade policy in most UEMOA countries was seen as an instrument of national development, more specifically of industrialization, to be used to encourage or discourage specific sectors, principally industry. The tariff structures of individual countries and the common external tariff have both reflected this. At the country level, tariffs were major policy variables because of the general economic strategy of industrialization and import substitution.

Prior to the 1990s, the UEMOA countries had high tariffs with Cote d'Ivoire and Senegal being at the forefront because of their industrial sectors. The tariffs were combined with a variety of specific taxes which gave effective protection of about 50% (World Bank, 1995). In 1995, UEMOA agreed to end internal tariffs on unprocessed agricultural goods and handicrafts, and reduce tariffs on some industrial goods (products). The tariff loss arising from the action was compensated by 0.5% raised to 1.0% levy imposed on non regional imports. The UEMOA external tariff regime which was established in 2000 remains complex with custom duty, a statistical levy and the solidarity levy, reflecting the pre-common external tariff system under which individual countries had several superimposed import taxes. The normal common external tariff rates are 0% for some essential goods, 5% for raw materials, capital goods, and some inputs, 10% for most intermediate goods and 20% for final consumption goods. UEMOA calculates that the common tariff

arrangement which provides more trade creation than trade diversion is considered as welfare enhancing and beneficial. Trade creation occurs if the trade after the regional arrengement is higher than the initial trade between members before the arrangement, thus, indicating global comparative advantage in some sectors or products. Trade diversion is likely to be less if members of an RIA have similar tariffs.

Regional Integration Arrangement could result in dynamic gains if they are designed as an intermediate step towards global integration rather than an end itself. The conceptual perspective is that the firm can progress from being domestically competitive to being regionally or globally competitive. The assumption of this "training ground" argument is that extending protection on a regional basis will have beneficial impacts on quality control, marketing techniques, and management capabilities that will enhance the capacity of firms to eventually compete on global markets (Laughammer & Hiemeric 1990). Kingman (1984) referred to this strategy as "import protection as export promotion" provided the country governments can distinguish "infant" industries from "sunset" industries. The need to end the protection of domestic industries in order to make them competitive has generally been accepted but the difficulty is to establish the threshold for domestic industries to compete. Economists vary on the threshold and the difficulty makes some industries to remain perpetually as "infant industries" when they infact should be "sunset industries".

Regional Integration Arrangement has some non economic benefits, such as improving the collective bargaining power of members' vis-à-vis non member countries. Members can demand access to other markets or withstand demands from non members for access to the region or increase their voting power in international fora. RIA also facilitates regional dialogue to diffuse potential regional disputes or engender mutual political support at times of serious political disputes in international fora.
Regional Integration Arrangement is inferior to full liberalization. In this respect, regional integration is seen as establishing a long term dynamic system towards more complete global integration, and thus, is likely to be beneficial in the long run (Summers, 1991). It is easier to negotiate because they involve fewer members, and entails some loss of sovereignty which can be either positive or negative. By committing to a schedule of tariff reduction, governments effectively give up some of their policy options to the supranational organization. Laughammer, (1992) stressed that the larger the share of intra-regional trade to total trade for member countries before the RIA the more likely that trade creation will dominate trade diversion. This observation suggests that neighbouring countries may be logical candidates for RIA. However, Bhangwati (1992) has pointed out that it is not necessarily the case that neighbouring countries form natural trading partners. Other factors such as geo-strategic alliances, former colonial links and complementarity of production can play far more important roles in determining trade flows. For instance, francophone West Africa fits into a group held together by the colonial history of the region. Dissimilar countries may make better partners because their economies are potentially complementary rather than competitive (de Melo and Panagariya, 1992). The South African economy is complementary to other economies in the South African Development Community (SADC).

This argument agrees with the survey of Laughammer and Heimenz (1990) that RIA made up solely of developing countries did not make significant achievement in terms of trade expansion or economic development. Rather RIAs with a composite of developed and developing countries were observed to have grown rapidly (e.g. APEC, NAFTA). On the other hand, countries with similar income levels and consumer demand patterns may be better able to reap gains from intra-industry specialization and product differentiation. This arrangement is common among industrialized countries (de Melo and Panagariya, 1992). It is for this reason that production of certain components used in manufacturing are located in other countries.

Intra regional trade is also inhibited by weak infrastructural linkages (Stern and Gugerty, 1996), poor port facilities, weak communications links and under-developed road networks limits the potentials for expansion. In some developing countries, most of the road and rail links and port facilities were designed to strengthen trade ties with the former colonial power, and the condition has remained largely so. This was the case in the Francophone and Anglophone countries of West African countries. The rail lines were designed for evacuation of produce and not really for mass movement of the population to various regions.

Favourable environment and complementary policies enhance the success of regional integration. Langhammers and Heimenz (1990) referred to the tendency of governments from developing countries to assume that the

objective analysis, identification of risks, developing a hierarchy of objectives and selecting implementation strategies, (Australian Government, 2003). The underlying principles guiding the logframe is that it must be concise, comprehensible (avoid acronyms and ambiguous words), constantly reviewed and amended as the project changes course. The logframe process is one that:

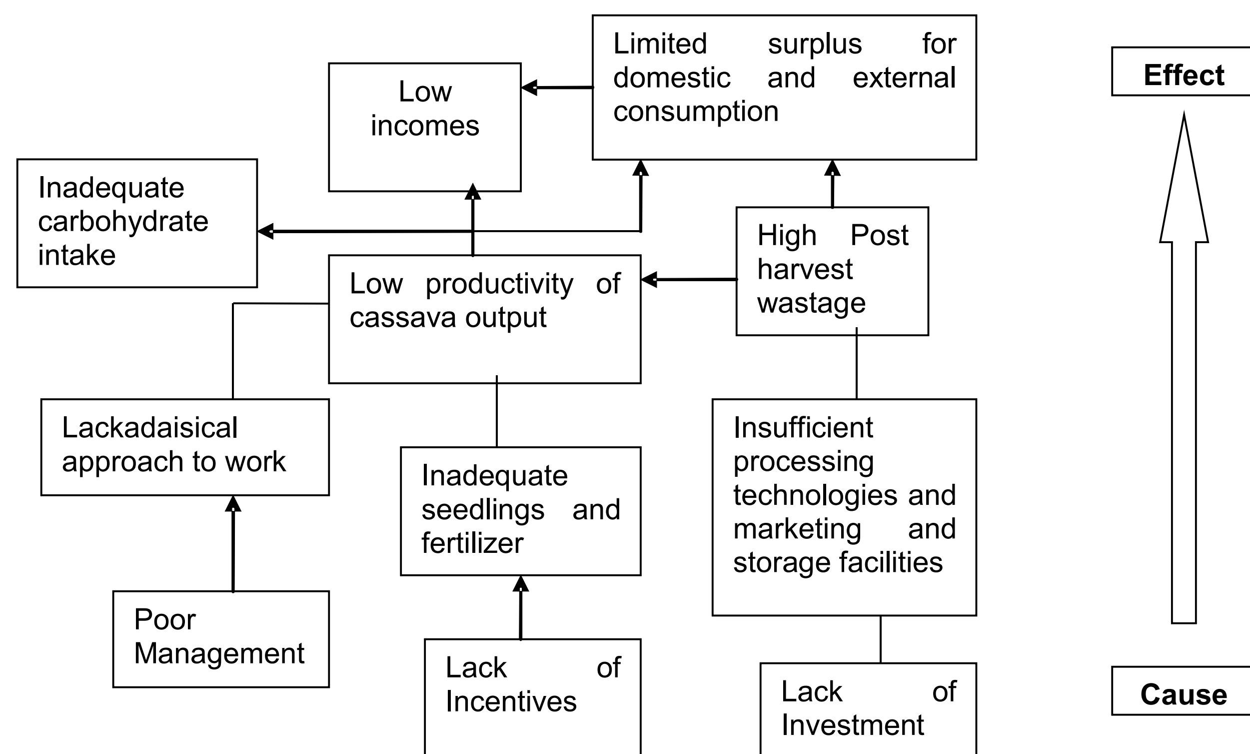
- Encourages a multi-disciplinary approach to project design, monitoring, evaluation and supervision by identifying indicators of success, and means of quantification or assessment.
- Acts as a valuable tool for projects with quantitative and measurable outputs, such as production projects as it ensures that planners can identify the factors related to the success of the project.
- Consolidates all the key components of a project (this is particularly helpful when there is a replacement of staff)
- Presents the project components in a systematic, concise and coherent way, thus clarifying and exposing the logic of how the project is expected to work
- Separates out the various levels in the hierarchy of objectives, helping to ensure that objectives are reached, inputs and outputs are not confused with each other or with objectives and that long term objectives are not overlooked
- Clarifies the relationships which underlie judgments about likely efficiency and effectiveness of projects.
- Aids in monitoring and reviewing projects during implementation

Like any methodology, the logframe is not without its own limitations. Top among the list is that such a framework may not be suitable for a wide range of projects, with qualitative objectives, such as research and training as well as institutional building capacity. Some other researchers like Odame (2001) have criticized it for not taking into account gender roles. In spite of these issues, the logframe continues to be in high demand as an analytical tool for project design and indeed approval by donor organizations. For instance, the Kenya Agricultural Research Institute (KARI) is currently required to complete a logframe for at least three-quarters of all research proposals submitted to donors each year. The Institute also uses the logframe as a work plan to structure and monitor its project activities in a continuous manner. A brief description of the logframe process is highlighted in the following section

3.0 Logical Framework Process

Problem Tree Tool

The first step towards constructing a logframe is to perform a situation or problem analysis (This is a cause and effect model). It is sometimes called sector analysis. Usually, this stage is done using a "problem tree" tool. Figure 1 below is a simplified problem tree structure of a hypothetical agricultural project.



There are two approaches that could be used with the problem tree tool. The first approach is the focal problem and the second approach is the objective oriented method. The focal problem identifies the core problem and a cause and effect logic is pivoted around the central problem, while the objective oriented method identifies broad development objectives (DOs) and the constraints in achieving this objective are then analyzed into a cause and effect logic. Either of the two can be used, but basically before developing a problem tree, one has to have a basic understanding of the development problems, gather existing information on the problem area as well as form a comprehensive stakeholder group that is well informed not just about the problem, but also the objective of the analysis.

Stakeholder Analysis

The second step is the stakeholder analysis. The stakeholder group could be individuals, communities, government and or private agencies at various levels (national, state or local) that have an interest and or a responsibility for addressing the identified problems. The stakeholder group must of necessity include the "target group" of the intended project. All members of the group must be well informed and exhibit a willingness to participate in the analysis. The principal purpose of the analysis is to identify the impact of the problem as well the target group (beneficiaries of the intended project). The stakeholder analysis ensures that both problems and potential project objectives are analyzed in details.

INTRA - ECOWAS TRADE: PROGRESS, CHALLENGES AND PROSPECTS[1]

BY

N. A. ONYEWUENYI

N. A. Onyewuenyi

Introduction

International trade has been sustained globally on the generally accepted belief that it makes variety of goods available and prices of goods comparatively cheaper because of the competitive production techniques. The technological advantage which a country has vis-à-vis other countries would enhance her market control and the revenue from export trade. The more revenue a country earns from trade the greater will be her capacity to command goods and services from other countries and the higher will be the standard of living of its people. It is in recognition of these outcomes that trade has come to be recognized as the engine of growth and development in any economy. Most countries achieved their status of industrialization and development through the export of manufactured goods and services. All countries, both developing and industrialized continue to seek new export markets to sustain the development of their economies.

However, multilateral trade has been hampered by the competing interests of countries. It was the attempt to enhance multilateral policies trade that led to the established of General Agreement on Tariffs and Trade (GATT) in October 1947 Nonetheless, protectionist trade policies have continued to exist between countries, especially between developing and developed countries. Industrial countries have not provided market access to the product of developing countries. Access to the market of industrial countries has been constrained by an array of barriers. In addition to tariffs, non tariff barriers have been on the increase such as anti-dumping measures, health and safety standards, labour abound to restrain market access to developing countries. Global trade has therefore been polarized into two: developed and developing countries. Developing countries as a group have continuously engaged developed countries in trade dialogue at international fora , especially within the framework of World Trade Organisation [WTO] to request market access to their products in order to boost their global share of world trade and income.

It is the attempt to promote trade and development among developing countries that gave rise to regional trade arrangements similar to the trading blocs found in Europe and the Americans. It was in this context that West African countries comprising of Anglophone and Francophone constituted themselves into an economic bloc under the name of Economic Community of West African States (ECOWAS). The ECOWAS was aimed at uplifting political, economic and social benefits of members. Originally, ECOWAS comprised of sixteen countries, but Mauritania opted out of the Community in 2002.

This paper intends to examine Intra-ECOWAS trade. To facilitate the discussion, the paper is subdivided into sections. The introduction serves as Section I while Section II will provide the Literature Survey; Section III examines Historical Evolution of Trade Policy Regime in the Sub-region; Section IV deals with the Progress and Challenges while Section V and VI highlights the Prospects and Summary and the Concluding Remarks, respectively.

SECTION II
LITERATURE REVIEW

Regional Integration Arrangements (RIA) generally are aimed at removing discrimination between foreign and domestic goods, services and factors of production (Balassa, 1976). Essentially, there are four types of regional arrangements namely, preferential trade area, customs union, common market and economic union. Economic literature provides evidence to support unilateral and multilateral trade liberalization as the best policies for a country to follow in terms of static comparative advantage. Unfortunately, theory does not say much on the impact of regional trade arrangements. However, economists believe that regional trade arrangement can be analyzed from a static perspective by considering the effects of trade creation and trade diversion. An

[1]Mr. Onyewuenyi is an Assistant Director, Monetary Policy Department of the Central Bank of Nigeria. The views expressed are entirely those of the author and do not represent the opinions of the Central Bank of Nigeria.

REFERENCES

Balasubramanyam, V.N., M.A. Salisu and D. Sapsford (1996), "Foreign Direct Investment and Growth in EP and IS Countries," *Economic Journal*, 106, 92-105.

Barrell, R., and N. Pain (1997). 'FDI, Technological Change, and economic growth Within Europe', Economic Journal, 107, pp. 1770-1776.

Barry, F. (ed) (1999), Understanding Ireland's Economic Growth, MacMillan Press, London.

Blomström, M. (1986). 'Foreign investment and productive efficiency: the case of Mexico.' Journal of Industrial Economics, vol. 35, pp. 97-110.

Blomström, M. and F. Sjöholm, (1999), 'Technology transfer and spillovers: does local participation with multinationals matter?', European Economic Review, vol. 43, pp. 915-923.

Blomstrom, M. and H. Persson (1983), "FDI and spillover efficiency in an underdeveloped economy: evidence from the Mexican manufacturing industry.", World Development, 11, pp. 493-501.

Blomstrom, M., S. Globerman and A. Kokko (2000b),."The Determinants of Host Country Spillovers from FDI" CEPR discussion paper 2350.

Borensztein, E., J. De Gregorio, and J-W. Lee. (1998), "How Does FDI Affect Economic Growth?", Journal of International Economics, 45, pp. 115-135.

Caves, R.E. (1974), "Multinational Firms, Competition and Productivity in Host-Coubtry Markets", Economica, May 1974, 41(162), pp. 176-193.

Cohen, W.M. and D.A. Levinthal (1989). Innovation and learning: the two faces of R&D. Economic Journal, 99, pp. 569-596.

Dunning, J. (1993) , Multinational enterprises and the global economy, Addison-Wesley Publishing Company.

Globerman, S. (1979), "FDI and "Spillover" Efficiency Benefits in Canadian Manufacturing Industries", Canadian Journal of Economics, 12, pp. 42-56.
Aremu J. A. (1991) Industrial Development Coordinating Committee(IDCC) and Foreign Private Investment(FPI) in Nigeria, CBN, Economic and Financial Review Vol.29, No.4 December.

Lall, S. (1995), "Industrial strategy and policies on FDI in East Asia", Transnational Corporations, 4(3), pp. 1 26.

Lall, S. (2000), "FDI and development: research issues in the emerging context", Policy Discussion Paper 20, Centre for International Economic Studies, University of Adelaide.

Moosa, Imad A. Foreign Direct Investment, Theory, Evidence and Practice. Palgrave, Macmillian, 2002.

Moran, T.H. (1998), FDI and Development, Institute for International Economics, Washington, DC.

Markusen, J.R., "The Boundaries of Multinational Enterprises and the Theory of International Trade," Journal of Economic Perspectives, 9, 169-189.

Investment Incentives in Nigeria, NIPC, 1999

Oman, C. (2000), Policy Competition for FDI: A Study of Competition among Governments to Attract FDI, OECD

Figure 2: Stakeholder Analysis Matrix

The Effects of the Problem

Stakeholder	Effects of the problems on Group	Ability to participate in addressing the problems	Synergy with other stakeholders/conflict of interest

Figure 3: Stakeholder Analysis Matrix

The Expected Impact/benefits of Proposed Project

Stakeholder	Stakeholders principal objective	Positive impacts/benefits	Negative Impact	Net Impact

Source: Australian Government, AusGUIDElines, 2003

Objective Tree

Unlike the problem tree which is a cause and effect relationship between problems, the objective tree is a means - end relationship between objectives and thus provides a spectrum of actions that could be taken to address the problems. It has the same structure as the problem tree. A clear analysis of the objectives enables the planners to develop the project(s) narrative summary in the logical framework.

Alternate strategies

Here, various possible actions that can be embarked on are analyzed and assessed against each other based on the identified objective(s). When analyzing alternative interventions/ strategies, potential risks and assumptions associated with achieving the stated objectives are identified and discussed by the design team. Some of the usual questions asked and answered during this stage include: Are all the identified problems tackled at once or in a sequential manner, or just select a few, what are the capital and cost implications of different possible interventions? How realistic and feasible are the objectives? On the basis of the answers to such questions, a choice of the most appropriate option under the circumstance is chosen. The chosen project is then translated into a logical framework matrix.

3.1 Constructing a Logical Frame Matrix

The logframe matrix is usually a four (r) by four (c) matrix, depending on the number of objectives identified in the objective tree. As noted earlier, the logical framework matrix is used for the design of programmes/projects with clearly identified inputs, project deliverables (outcomes), monitoring and evaluation tools, performance indicators, development objectives and overall goals. It also indicates the assumptions and risks associated with the achievability of the desired goals. (Elliott, 2000 as cited in Odame, 2001) suggests that the logframe provides an interface between the macro-levels and micro-functions of a project, with policy in the interface of rows A and B, while rows B and C represent project design. Rows C and D imply project delivery and strategy. Thus, it helps to interpret policy through its implementation and at the same time provide information, guidance, decisions, or complementary inputs to engender acceptability and consensus from those who will be responsible for delivering the project. In summary, it is a matrix that serves as the core reference document throughout the entire project management cycle and integrates projects with program and strategies, (Okunmadewa, 2005). The log frame matrix is a combination of all the steps discussed in the previous section. It, therefore, incorporates three (3) essential elements

- Development objectives
- Project deliverables (measurable output)
- Key Assumptions/Risks

An important point to note when constructing a log frame matrix is to review the logic in the matrix as it is

being completed and reading of the log frame should be bottom up to ensure that its logic is intact. Columns 1 and 4 clearly distinguish between the project deliverables, project impact, component activities and objectives and identified the key assumptions and risks (uncertainties) at different levels beyond the project manager's control. These columns are sometimes called the vertical logic or "if then" analysis. Columns 2 and 4 identify the performance indicators and targets for each of the levels as well as the means by which the performance indicators will be verified. These columns provide the background for project evaluation and monitoring. When completing a log frame, the project description is completed first, followed by the assumptions, indicators and means of verification, respectively. (See Appendix A for a summarized content of a logframe). It is important at this stage to emphasize that the log frame is not a linear process that is mechanically done from one stage to the next. It is an iterative and creative process that is constantly reviewed as new information is available. (See Appendix B for a hypothetical example of a cassava production project design using a logframe matrix)

Box 1: Alternative Formulations of the Logical Framework System

- A training manual produced by USAID in 1980 described eight possible variations in the logical framework system such as additional columns for verifying assumptions and for specific quantified targets and additional rows for intermediate outputs and subsector goals.
- A training manual produced by FAO in 1986 with activities as a row between Input and Output, creating a matrix with 5 rows and 4 columns.
- ZOPP replaced inputs by activities in the bottom row (GTZ, 1988).

The above three variants considers activities as a crucial feature of the logical framework whereas inputs could be specified elsewhere in the project documentation.

- The NORAD matrix has only three columns - the middle column combines a description of indicators with the means of verification.

Although they differ in detail, these alternatives all maintain the matrix layout of the logical framework system as developed by PCI.

Source: USAID (1980). Design and Evaluation of Aid-Assisted Projects. Training and Development Division, Office of Personnel Management, U.S. Agency for International Development, Washington DC.

4.0 Project Costing

This involves the processes necessary to ensure a timely completion of the project. Usually, project costing entails a resource planning, cost estimating (project and non-project costs), cost budgeting and cost control stages, (Ayorinde, 2002). Resource planning involves determining the physical resources needed for the project. For an agricultural project, the design team must be familiar with local conditions, inputs sources and project objectives.

Cost estimating entails preparation of alternative estimates of costs of needed resources to achieve project objectives. In some cases, historical trends, parametric costing (e.g. cost per meter), bottom-up estimation (Individual activity costing) and analogous costing (actual cost of similar projects as a basis for current costs) are some of the techniques used in cost estimation. Cost budgeting allocates the total cost estimates to various individual activities to establish a baseline cost for measuring project performance, while cost control involves revising and monitoring the baseline cost, preventing unauthorized changes in the baseline costs and ensuring that future cost performance are in line with project plan.

4.1 Agricultural Project Costing Under a Reform Economy

Under the NEEDS, project costing involves a detailed preparation and analysis of the capital expenditure budget for each project in all sectors of the economy. This would be done

FDI flow to Nigeria over the period under this analysis has grown, but unfortunately, Nigerian economy has continuously missed substantially. The problem is not lack of international contacts as the economy has long established trading and investment relationships with the industrialized countries of the world. A look at the trend of FDI in Nigeria since 1990 will provide reasons why the economy has lagged in FDI inflows. As it has shown in terms of sectoral composition, FDI inflows into Nigerian economy lacks production-oriented investment that could help integrate the economy into international production chains Aremu, (2001). Even though, Flow of FDI into Nigerian economy have undergone tremendous shift in terms of the level of inflow and outflow; the components of the net flow, the source of the flows and the economic sectors where the flows are concentrated had not change.

Nigeria's attraction of more FDI and diversify to other sectors has continue to be a problem .There is little consensus as to how this may be achieved in practice with many years of abortive and ineffective policies. The economy has been advised by scholars, World Bank, IMF, multilateral development agencies and so on to improve on the investment climate. The improvement should be particularly with respect to achieving macro-economic stability, liberalizations and generally removing barriers within Nigeria's economic, political and administrative systems that had created severe disincentives to FDI. To this end, the NIPC was

REFERENCES

Balasubramanyam, V.N., M.A. Salisu and D. Sapsford (1996), "Foreign Direct Investment and Growth in EP and IS Countries," *Economic Journal*, 106, 92-105.

Barrell, R., and N. Pain (1997). 'FDI, Technological Change, and economic growth Within Europe', Economic Journal, 107, pp. 1770-1776.

Barry, F. (ed) (1999), Understanding Ireland's Economic Growth, MacMillan Press, London.

Blomström, M. (1986). 'Foreign investment and productive efficiency: the case of Mexico.' Journal of Industrial Economics, vol. 35, pp. 97-110.

Blomström, M. and F. Sjöholm, (1999), 'Technology transfer and spillovers: does local participation with multinationals matter?', European Economic Review, vol. 43, pp. 915-923.

Blomstrom, M. and H. Persson (1983), "FDI and spillover efficiency in an underdeveloped economy: evidence from the Mexican manufacturing industry.", World Development, 11, pp. 493-501.

Blomstrom, M., S. Globerman and A. Kokko (2000b),."The Determinants of Host Country Spillovers from FDI" CEPR discussion paper 2350.

Borensztein, E., J. De Gregorio, and J-W. Lee. (1998), "How Does FDI Affect Economic Growth?", Journal of International Economics, 45, pp. 115-135.

Caves, R.E. (1974), "Multinational Firms, Competition and Productivity in Host-Coubtry Markets", Economica, May 1974, 41(162), pp. 176-193.

Cohen, W.M. and D.A. Levinthal (1989). Innovation and learning: the two faces of R&D. Economic Journal, 99, pp. 569-596.

Dunning, J. (1993) , Multinational enterprises and the global economy, Addison-Wesley Publishing Company.

Globerman, S. (1979), "FDI and "Spillover" Efficiency Benefits in Canadian Manufacturing Industries", Canadian Journal of Economics, 12, pp. 42-56.

FDI flow to Nigeria over the period under this analysis has grown, but unfortunately, Nigerian economy has continuously missed substantially. The problem is not lack of international contacts as the economy has long established trading and investment relationships with the industrialized countries of the world. A look at the trend of FDI in Nigeria since 1990 will provide reasons why the economy has lagged in FDI inflows. As it has shown in terms of sectoral composition, FDI inflows into Nigerian economy lacks production-oriented investment that could help integrate the economy into international production chains Aremu, (2001). Even though, Flow of FDI into Nigerian economy have undergone tremendous shift in terms of the level of inflow and outflow; the components of the net flow, the source of the flows and the economic sectors where the flows are concentrated had not change.

Nigeria's attraction of more FDI and diversify to other sectors has continue to be a problem .There is little consensus as to how this may be achieved in practice with many years of abortive and ineffective policies. The economy has been advised by scholars, World Bank, IMF, multilateral development agencies and so on to improve on the investment climate. The improvement should be particularly with respect to achieving macro-economic stability, liberalizations and generally removing barriers within Nigeria's economic, political and administrative systems that had created severe disincentives to FDI. To this end, the NIPC was established to market the attraction of the economy through its 'one stop shop' to investors. This development had equally proved ineffective to radically change the competitiveness of the economy in the market place for appreciable FDI inflow.

Generally, attempts at attracting FDI into Nigerian economy had been based on the need to maximize the potential benefits derived from them; and to minimize the negative effects their operations could impose on the country. Therefore, the next section would attempt to address the major challenges and prospects that Nigeria faces.

6.0 Challenges and Prospects to Attract FDI into Nigeria

The challenges and prospect of FDI inflow to Nigeria depends on a number of **pull factors**. Generally, these factors include the country's economic structure favoring its attractiveness to foreign investors amongst others. In Nigeria, the current pull factors that influenced FDI flows are those of:

- abundant human and natural resources,
- openness of the economy
- current economic reforms
- restoration of macroeconomic stability
- financial sector reforms
- institutional reforms
- privatization, oil sector deregulation
- External sector reforms.

The current National Economic Empowerment and Development Strategy (NEEDS) initiative by government which rested on four key strategies, namely:

- reforming the way government works and its institutions;
- growing the private sector;
- implementing a social charter for the people; and
- re-orientation of the people with an enduring African value system.

These philosophies would go a long in reorientation of the system and re-professionalize and strengthen government and public institutions to deliver effective services to the people. It also aims to eliminate waste and inefficiency, and free up resources for investment in infrastructure and social services by Government. A key aspect of the institutional reforms is to fight corruption, ensure greater transparency and promote rule of law. For the purpose of growing the private sector, the NEEDS aims to anchored the private sector as the engine of growth, wealth creation, employment generation and poverty reduction. The government is the enabler, the facilitator, and the regulator. The private sector is the executor and the direct investor and manager of businesses.

The consolidation of the banking industry is another challenge Nigeria is facing to boost the banking sector in line with the NEEDS document. The consolidation is aimed at strengthening and consolidating the banking system to ensure a diversified, strong and reliable banking sector which will ensure the safety of depositors' money, play active developmental roles in the Nigerian economy, and be competent and competitive players in the African regional and global financial system. The goal of the reforms is to help banks become stronger players, and in a manner that will ensure longevity and hence higher returns on investment and greater impacts on the Nigerian economy. The consolidation is a veritable way of strengthening the banking system in the country, reducing fear of systemic

within the context of a medium term expenditure framework, (MTEF) using a commodity based fiscal rule. The medium term expenditure framework is a plan that catalogues all fiscal expenditure over a medium term frame. The commodity based fiscal rule ensures that economic priorities are properly streamlined and costed. They both serve as a major tool for the ratification and implementation of budgets to deliver significant benefits to the people.

4.1.1. Issues to Consider when Costing Agricultural Projects

The costing of any project must take into consideration the sub sectoral projects, economic issues, intended benefits, as well as the geographical location. For example, in the costing of technical and physical projects, projected changes in prices of labor and materials during the implementation must be considered, the likely variations in exchange rate and other physical contingencies should also be considered.

Land: The valuation of the land must be done properly, more so with market conditions that arise in the process of transferring from one person to another. In some cases, the purchaser price, rental value or productive capability are utilized.

Human Capital/Internal Capacity Building/Services: Costing of labour during the project may raise issues of valuation, which may call for the use of shadow prices. Other issues that would arise would be how to value skilled, semi skilled and unskilled labour. In most agricultural projects where labour is not applied all year round, the peak season wage rate is applied. In cases, where the internal capacity may not be sufficient, there could be a requirement for external technical support

Seasonal Fluctuations: Prices for agricultural commodities generally are subject to substantial seasonal fluctuations. Hence, some decision must be made about the period in the seasonal cycle at which to choose the price to be used for the costing of the project. Prices also vary among different grades of product and picking the proper price for project costing may involve making some decisions about quality of the product. In many agricultural projects, however, one objective is to upgrade the quality of production as well as to increase the total output. For instance, better pruning will increase the average size of the oranges that Nigerian farmers can offer European buyers. In such cases, the proper price to select is the average price expected for the quality to be produced.

Physical Goods: Goods such as fertilizer, insecticides, silos, cement, equipment/machines, and energy raises concern of how much will be needed for the project and at what frequency. For instance, the relative price of energy-intensive agricultural inputs is likely to continue to rise over the next several years, given past trends. Thus, planners may decide on a weighted average (conversion factor for import components) for the cost of fuel for tractors, for transporting the harvested crop, for drying grain, and for petroleum-based inputs as fertilizers and chemical pesticides.

Project Management/Contingency Allowances: Provisions must be made for the recurrent component of the project. Also, it would be unrealistic to make estimates for a project based on assumptions of complete price stability or favorable physical conditions. Thus, there should also be provisions for contingency allowances that allow for variations in domestic and foreign prices, inflation, changes in weather conditions or geological formations that would add to the baseline costs. It is pertinent to note when making provisions for inflation, constant prices should be used. This ensures comparability between alternative projects. However, if expected inflation is significant, then it is necessary that adequate provision be made in the project financing plan in order to obtain an adequate budget.

4.1.2. Finding the Market Prices for Agricultural Project Inputs/Outputs

Market Survey: The first step in valuing costs (benefits) is finding the market prices for the inputs(outputs). Here, the analyst must inquire about actual prices in recent transactions and consult sources such as farmers, small merchants, importers and exporters, extension officers, technical service personnels, government market specialists and statisticians, and published or privately held statistics about prices for both national and international markets. From these sources, the analyst can come up with a figure that adequately reflects the going price for each input or output in the project.

Farm Gate Price: For many agricultural projects in which the objective is increased production, the best point of first sale to use is generally the boundary of the farm. If the farm is in a relatively competitive market, then the price at which the commodity is sold in this market is probably a relatively good estimate of its value in economic as well as financial terms. If the market is not competitive, the price may have to be

adjusted better to reflect the opportunity cost or value in use of the commodity.

Pricing Intermediate goods: Imputed prices should be avoided for intermediate goods in project costing. An intermediate good is an item produced primarily as an input in the production of another good. To avoid most of the problems that might be introduced by trying to impute values for intermediate products, agricultural projects are based on a comprehnsive budget instead of on budgets for individual activities. A frequently encountered intermediate good in agricultural projects is irrigation water. The "output" of an irrigation system is really intended to produce agricultural commodities. Usually, the price farmers are charged for the water is generally determined administratively, not by any inter play of market forces. If the project designer/analyst were to separate the irrigation system from its output, he would be faced with a nearly impossible task of determining the value of irrigation water. Hence, it is not surprising that the economic analyses of most irrigation projects take as a basis for the benefit stream, the value of the agricultural products that are offered at the farm boundary.

Intangible costs: Though they may not be entirely subject to valuation, intangible costs such as increased pollution, ecological imbalances, loss of scenic beauty which may arise in the course of the project should be properly identified and if possible quantified as they can be significant and can further reduce the benefits/objectives of the intended project.

4.1.3 Project Costing Techniques and Selection Criteria

There are various project costing techniques and selection criterion that can be used. These include marginal costing, job costing, historical costing, standard costing and activity based costing, (ABC). In line with the logical framework, the activity based costing is the most preferred. Here the steps would normally involve an estimation of the sectoral (agriculture) resource profile, specification of sectoral targets/strategies and establishing the resource gap.

Some project selection tools include the Internal Rate of Return (IRR), Economic Rate of Return (ERR), Benefit- Cost Ratio analysis, Sensitivity Analysis. For brevity sake, we examine the benefit cost ratio analysis. The benefit-cost ratio allows us to identify and price the costs and benefits of a project. The spread is the marginal net benefit, which if positive, then it is advised that the project should commence and vice versa. (See Appendix C for a detailed hypothetical discussion on the Benefit-Cost Ratio of a typical farmer). From a local farmer to the macroeconomy, the same principles apply. In a highly competitive market, every economic commodity would be priced at its marginal value product, since every farmer will expand his fertilizer use to where its marginal value product equals its price, and the same will have happened for every other item in the economy. That is, the price of every good and service would exactly equal the value that the last unit utilized contributes to production, or the value in use of the item for consumption would exactly balance the value it could contribute to additional production. When this price system is in "equilibrium," the marginal value product, the opportunity cost, and the price will all be equal. Resources will then have been allocated through the price mechanism so that the last unit of every good and service in the economy is in its most productive use or best consumption use.

5.0 Constraints to Effective Project Design and Costing

In line with the need to adopt a project framework, the following are some identified potential and immediate impediments to an effective project design and costing.

Untimely release of budgetary allocations to the various ministries/parastatals

A late release of budgetary allocations leads to a delay in the commencement of the project design and costing process, as agencies may not be able to determine the funding gap needed for project objectives to be achieved.

Lack of closer collaboration between Relevant Ministries/Parastatals

The absence of synergy between participating and line ministries/parastatals in terms of a clear understanding of duties and responsibilities in the project design and implementation process creates a lack of co-ordination and delays in terms of achieving the development objective of the project within a specified time frame.

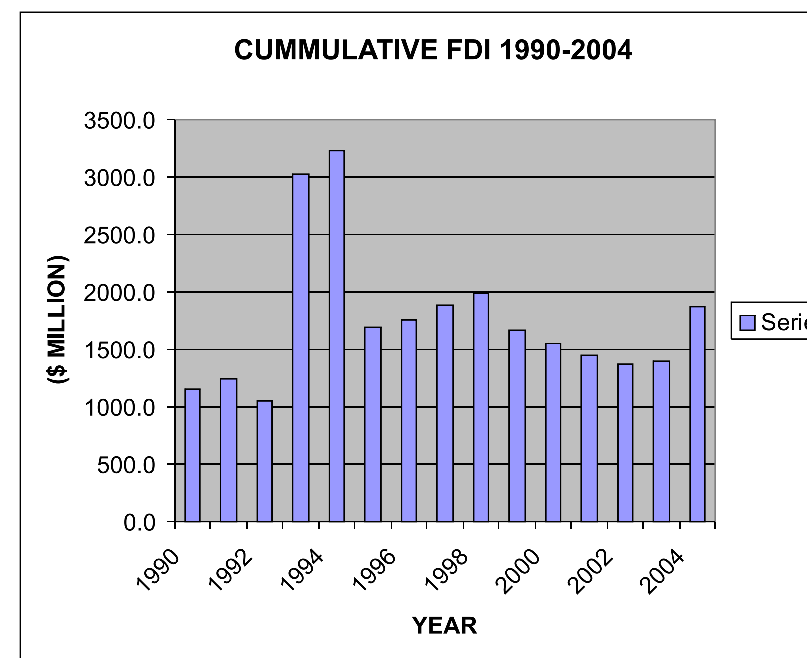
Monocultural Economy

An economy that is highly dependent on only one source of government revenue is further susceptible to boom and burst cycles in its capital expenditure. This creates with it the potential for a series of overambitious, uncompleted or abandoned projects.

Macroeconomic Instability

Without an extensive explanation, a country fraught with incessant instability and volatility in almost all its macroeconomic aggregates such as inflation can actually create a situation of continuous revision of the project

FIGURE 4



FDI flow to Nigeria over the period under this analysis has grown, but unfortunately, Nigerian economy has continuously missed substantially. The problem is not lack of international contacts as the economy has long established trading and investment relationships with the industrialized countries of the world. A look at the trend of FDI in Nigeria since 1990 will provide reasons why the economy has lagged in FDI inflows. As it has shown in terms of sectoral composition, FDI inflows into Nigerian economy lacks production-oriented investment that could help integrate the economy into international production chains Aremu, (2001). Even though, Flow of FDI into Nigerian economy have undergone tremendous shift in terms of the level of inflow and outflow; the components of the net flow, the source of the flows and the economic sectors where the flows are concentrated had not change.

Nigeria's attraction of more FDI and diversify to other sectors has continue to be a problem .There is little consensus as to how this may be achieved in practice with many years of abortive and ineffective policies. The economy has been advised by scholars, World Bank, IMF, multilateral development agencies and so on to improve on the investment climate. The improvement should be particularly with respect to achieving macro-economic stability, liberalizations and generally removing barriers within Nigeria's economic, political and administrative systems that had created severe disincentives to FDI. To this end, the NIPC was established to market the attraction of the economy through its 'one stop shop' to investors. This development had equally proved ineffective to radically change the competitiveness of the economy in the market place for appreciable FDI inflow.

Generally, attempts at attracting FDI into Nigerian economy had been based on the need to maximize the potential benefits derived from them; and to minimize the negative effects their operations could impose on the country. Therefore, the next section would attempt to address the major challenges and prospects that Nigeria faces.

6.0 Challenges and Prospects to Attract FDI into Nigeria

The challenges and prospect of FDI inflow to Nigeria depends on a number of **pull factors**. Generally, these factors include the country's economic structure favoring its attractiveness to foreign investors amongst others. In Nigeria, the current pull factors that influenced FDI flows are those of:

- abundant human and natural resources,
- openness of the economy
- current economic reforms
- restoration of macroeconomic stability
- financial sector reforms
- institutional reforms
- privatization, oil sector deregulation
- External sector reforms.

The current National Economic Empowerment and Development Strategy (NEEDS) initiative by

The aggregate flow which includes equity capital, reinvested earnings and other capital showed steady increment. (Table1). The table equally showed the corresponding outflows decreasing over the years and particularly in 1995, 1997 and 2001. This is an indication of investors' confidence in the economy which showed by the level of the reinvested earnings flows.

Since the important reason why countries attract FDI is to developed local capabilities and sectoral composition, the services and manufacturing sectors in Nigeria now do attracts FDI substantially. The cumulative FDI in the manufacturing sub-sector had increased consistently from 393.1 million dollars in 1999 to 771.5 million dollars by 2004, which is 41.3 percent of the total inflow of FDI to Nigeria in 2004. In the same vein, the trading and business services equally had increased from 118.4 million dollars in 1999 to 151.6 million dollars in 2004. (Table 2)

FIGURE 2

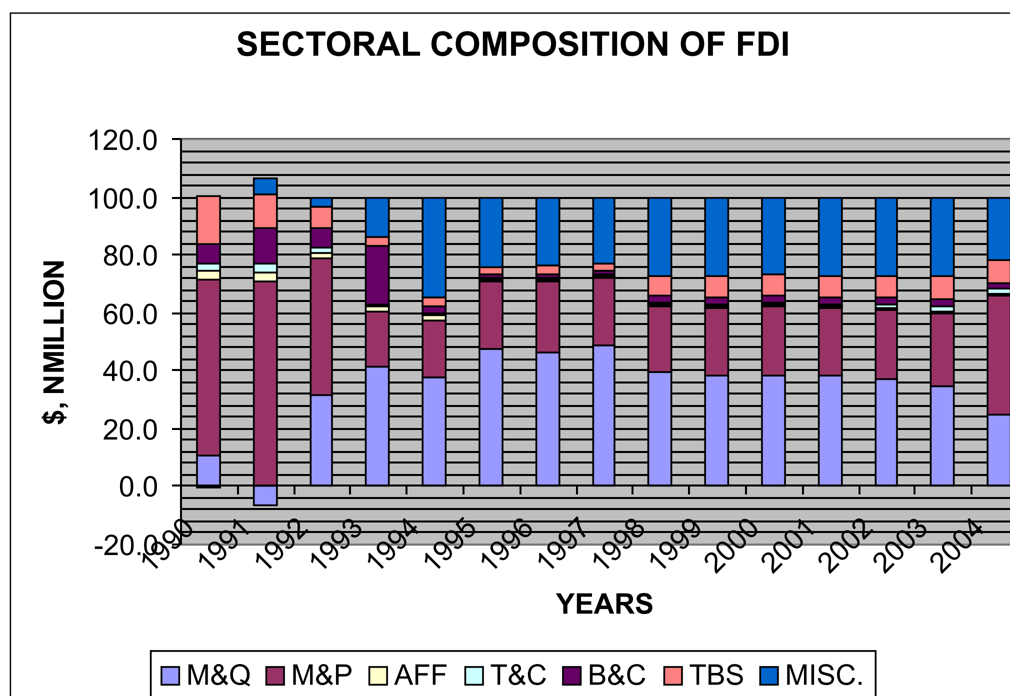
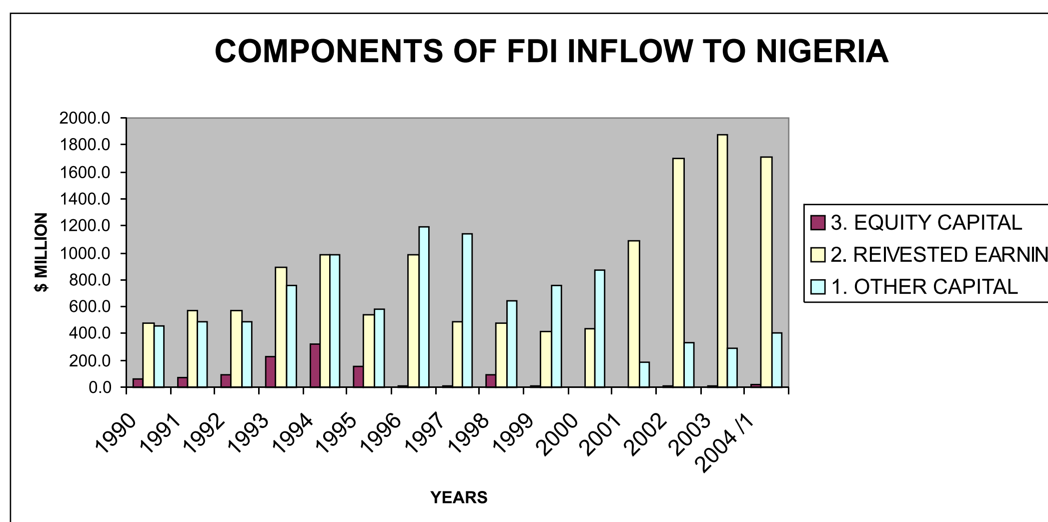


FIGURE 3



design and cost that commitment to the project process may begin to wane.

Policy Reversals and Inconsistencies

A situation whereby policies are reversed at every change in the leadership does not augur well for effective project design, as it leads to wastage of resources, lowers the morale and confidence of the design team. All these could hinder the "product" of whatever design they may eventually come up with.

Low capacity for project design

The absence of highly skilled and qualified personnel with a clear understanding of the problems and objectives of a project inhibits a proper design and costing of projects. Perhaps, this situation explains the request for external assistance/consultants by some agencies in the project design and costing process.

Widespread corruption

Corruption in all its ramifications leads to a huge waste of resources that could have been redirected to other productive sectors or sub sectors. The face of corruption could be in the form of rent seeking and over bloated costing, among others.

6.0 Conclusion

This paper has examined the logical framework approach to agricultural project design and costing under a reformed economy. The analysis has shown that project design and costing is not a kettle of fish. It is a creative and iterative process that should be participatory. Given the participatory nature of the logical framework, those at the micro end of the approach such as farmers and the local communities are expected to take part in the stakeholders' analysis to ensure adequate representation of views. The small scale and local farmers in the rural areas can also be taught in local dialects of what is expected of them, especially at the implementation stage of the project. This can be done by the agricultural extension officers or the farmers' education publicity officers at the various state levels to engender widespread acceptability and participation. An important point to note is that the logical framework is not a mechanical process (stage by stage), but rather a continuous process, which requires review.

Over all, policy makers and planners need to take note of the following:

- ☞ The need to ensure timely release of budgetary allocations in order to avoid or at best minimize cost distortions in project(s) costing arising from price changes.
- ☞ There is an urgent need to strengthen the institutional capacity of staff at the relevant and participating Ministries/Parastatals. This can be done through the training and retraining of public servants whose job descriptions entails project design. This would serve to expose in-house staff to current practices and developments in project design. This becomes all the more necessary as the current practice for most agricultural project designs takes into consideration gender needs/issues in agricultural development.
- ☞ There is also need to engender consistency and sustainability of government policies. This is because inconsistencies in policies inhibit progress at all levels of the design stage and further impede the path towards achieving the overall development objectives.
- ☞ To the extent that policy makers and planners are dependent on the information available to them, the need to improve on the statistical database as it relates to the agricultural sector is also significant as it contributes to a large extent to the outcome of the project
- ☞ The need to fast track the diversification of the production and export base of the economy would greatly reduce the country's dependence on a highly volatile primary commodity for revenue to embark on relevant projects.

Above all, there is need for value reorientation in order to entrench the principles of moral rectitude, honesty, hard work and ethics in government ministries and parastatals.

References

Akintunde, A (2002). *Framework for Project Management*. Paper presented at a workshop on Project Management organized by National Centre for Economic Management and Administration, (NCEMA).

Australian Government, (2003). AusGuidelines, *The Logical Framework*, Commonwealth of Australia.

Ayodele, A.S. (2002). *Policy Issues in Project Management In Nigeria*. Paper presented at a workshop on Project Management organized by National Centre for Economic Management and Administration, (NCEMA).

Ayorinde, S.A. (2002). *Project Time and Cost Management*, Paper presented at a workshop on Project Management organized by National Centre for Economic Management and Administration, (NCEMA).

CBN (2004). *Central Bank of Nigeria, Annual Report and Statement of Accounts*.

Coleman, G. (1987). Logical Framework Approach to the Monitoring and Evaluation of Agricultural and Rural Development Projects. *Project Appraisal* 2(4): 251-259.

Farrington, L., & Nelson, J. (1997). Using Logframe to Monitor and Review Farmer Participatory Research. *ArGen Network Paper No. 73. U.K.: Overseas Development Institute.*

Mcconnell, K.E. (2002). *Issues in Valuing Agricultural Externalities*, {Electronic version}, Department of Agricultural and Resource Economics, University of Maryland, In Theoretical Notes of Roles of Agriculture Project, Socio-economic Analysis and Policy Implications of the Roles of Agriculture in Developing Countries, 19-30.

Odame H.H, (2001). *Engendering the Logical Framework,* Extract from the Session 5 of the training module Gender Analysis for Monitoring and Evaluation: The engendered logframe approach {Electronic version} organized by International Service for National Agricultural Research, (ISNAR).

Okunmadewa, F (2005). *Introduction to Logical Framework*, Paper presented at a workshop on The National Economic Empowerment Development Strategy, (NEEDS) Programming Process organized by the National Planning Commission.

Sagay, A (2005). *Introduction to Project/Programme; Preparation and Techniques*, Paper presented at a workshop on The National Economic Empowerment Development Strategy, (NEEDS) Programming Process organized by the National Planning Commission.

Sartorius, R. (1996). The Third Generation Logical Framework Approach: Dynamic Management for Agricultural Research Projects, *European Journal of Agricultural Education and Extension.* 2(4): 49-62.

UNIDO, (1980). *Manual for Evaluation of Industrial Projects.* New York, United Nations Organization.

the activities of public bodies, where such practices may aid corruption.

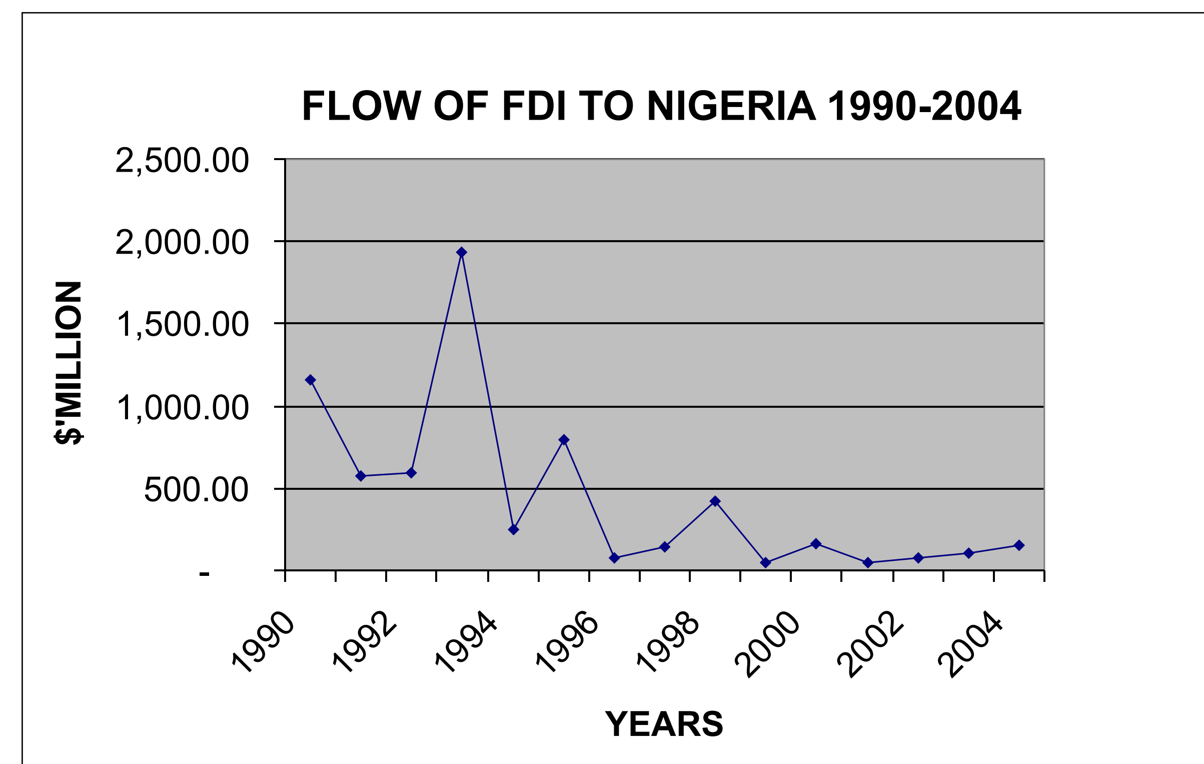
Economic and Financial Crime Commission (EFCC) 2002

The preponderance of economic and financial crimes like Advance Fee Fraud Money Laundering, etc has had severe negative consequences on Nigeria, including decreased Foreign Direct Investments in the country and tainting of Nigeria's national image. The menace of these crimes and the recognition of the magnitude and gravity of the situation led to the establishment of the Economic and Financial Crimes Commission (EFCC). The legal instrument backing the Commission is the EFCC (Establishment) Act 2002 and the Commission has high-level support from the Presidency, the Legislature and key security and law enforcement agencies in Nigeria. The Commission is charged with the responsibility of investigating and the enforcement of all laws against economic and financial crimes in all its ramifications. The Commission is also the designated financial intelligence unit (FIU) in Nigeria, which is charged with the responsibility of coordinating the various institutions involved in the fight against money laundering and enforcement of all laws dealing with economic and financial crimes in Nigeria.

5.0 Trends on FDI into Nigeria

Based on survey of FDI by the CBN between 1990- 2004, and covering over 250 establishments which were either fully owned or in partnership with Nigerian revealed that , non-oil FDI flow into Nigeria from 1990 to 2004 ranged between US$1.0 to US$2.1 billion, with an aggregate investment totaling US$23.9 billion at the end of 2004. It is generally known that non-oil FDI into less developed countries, like Nigeria, increased substantially in the 1990s. Thus by 1994, non-oil FDI to Nigeria hit a record high of US$2.2 billion which was 0.2per cent of world's total of US$865 billion, and 1.1 per cent of developing country's total of US$207 billion and 24 per cent of Africa's US$9.0 billion. This makes Nigeria one of the major recipients of FDI to Africa. However, from 1995 to 2001 the position was mixed. By 2002 owing to the new democratic development and policy initiative, flow of FDI to Nigeria had showed significant improvement.

FIGURE 1



domestic technological research institutions and the industrial sector.

4.2 Institutional Framework

Debt Conversion Committee(DCC) 1988

Under Nigeria's Debt Conversion Programme (DCP), a Debt Conversion Committee (DCC) was put in place and by 2001 the DCP's objectives were reviewed as follows: to reduce the stock of outstanding foreign currency denominated debt in order to alleviate the debt service burden; to create an attractive avenue for the importation of foreign capital; to serve as an additional incentive for the repatriation of capital; to stimulate investments that will generate employment opportunities; to achieve industrial development in the economic growth through significant dependence on local inputs; to encourage the creation and development of export oriented industries thereby diversifying the export base of the Nigerian economy; and to increase access to appropriate technology, external market and other benefits associated with foreign investment.

National Office for Technology Acquisition and Promotion, 1992(NOTAP)

To effectively achieve the policy measures and functions of NOIP, the office was transformed and changed to National Office for Technology Acquisition and Promotion (NOTAP) in 1992 for a better focus by ensuring that the name adequately reflects the entire function of the office as contained in the NOIP Decree 90 of 1979; and to remove any ambiguity or misconception that may arise in relation to the office for registration of patents and trademarks, the function which is allocated to the Federal Ministry of Commerce and Tourism. In addition to the above, NOTAP was to offer Technology Advisory Services on confidential basis to companies in the country on issues like licensing, joint-venture agreements, industrial financing and other related matters. Unfortunately, with over two decades of existence, it is difficult to point out how much technology, in its real meaning of core technology, had been negotiated and attracted.

Industrial Development Coordinating Committee (IDCC) 1989

The World Bank recommended the establishment of the Industrial Development Coordinating Committee (IDCC) in n1989 to act as a one-stop agency to regulate investment environment. IDCC would as well be responsible for the granting of all necessary approvals which were hitherto scattered in various government departments with resultant overlapping of jurisdiction, red-tapesm and opportunities for fraudulent practices.

Nigerian Investment Promotion Commission (NIPC) 1995

The Nigerian Investment Promotion Commission (NIPC) was established as successor to Industrial Development Coordination Committee (IDCC) in 1995. Nigerian Investment Promotion Commission (NIPC) is the agency that co-ordinate, monitor, encourage and provide necessary assistance and guidance for the establishment and operation of enterprises in Nigeria. The agency equally involve in promoting investments in and outside Nigeria through effective promotional means among others. The NIPC suppose to collect, collate, analyze and disseminate information about investment opportunities in Nigeria and sources of investment capital and advice on request, the availability, chance or suitability of partners in joint-venture projects. It equally advises the Federal Government on policy matters, including fiscal measures designed to promote the industrialization of Nigeria or the general development of the economy. The principal laws regulating foreign investments are the Nigerian Investment Promotion Commission Decree No.16 of 1995 and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree No.17 of 1995. Effectively, the Nigerian Enterprises promotion (Repeal) Decree No. 7 of 1995 has abolished any restrictions, in respect of the limits of foreign shareholding in Nigeria registered/domiciled enterprises except in arms production and production of narcotic drugs and psychotropic substances.

Independent Corrupt Practices Commission (ICPC) 2000

Corruption is another problem deep seated and complex in Nigeria. It is so pervasive that both the public and private sectors are affected. Corruption now permeates every aspect of Nigerian Life especially in the transactions of Government at various levels which also has negative effect for FDI. Corruption is a constant topic of conversation; everybody talks about it, everybody complains about it, and everybody appears to be involved in it. In order to address the problem the ICPC was inaugurated on September 29, 2000 by the Nigerian President. The commission is at the hub of Nigeria's fight against corruption. The main duty of the commission is to receive complaints, investigate and prosecute offenders. Other duties include education and enlightenment of the public about and against bribery, corruption and related offences. The commission also has the task of reviewing and modifying

APPENDIX

A. Summary Contents of a logical framework

Country/Region		*Project No*	
Project Title		*Project Manager*	
Partner Organization/Date		*Project Team Members*	
Narrative Summary	***Objectively Verifiable Indicators (Performance Targets)***	***Means of Verification (Monitoring Mechanisms)***	***Important Assumptions and Risks***
Goal (Development Objectives): What does the project want to achieve?	*What are the quantitative ways of measuring, or qualitative ways of judging, whether these broad objectives are being achieved? Proof of evidence that project has achieved development output (estimated time)*	*What sources of information exists, or can be provided cost-effectively?*	*What external factors are necessary for sustaining objectives in the long run?*
Purpose (Immediate Objective(s)):	*What are the quantitative measures or qualitative evidence by which achievement and distribution of impacts and benefits can be judged (estimated time)*	*What sources of information exists or can be provided cost-effectively? Does provision for collection need to be made under inputs-outputs?*	***(Purpose to Goal):*** *What conditions external to the project are necessary if an achievement of the project's purpose is to contribute to reaching the project goal?*
Outputs: *Indicate each of the outputs that are to be produced by the project in order to achieve project purpose*	*What kind and quantity of outputs, and by when will they be produced? (quantity, quality, time)*	*What sources of information?*	***(Output to Purpose):*** *What are the factors not within the control of the project which, if not present, are liable to restrict progress from outputs to achievements of project purpose?*
Activities(Inputs): *Indicate each of the activities that must be undertaken in order to accomplish the outputs.*	*It is recommended that VI's are included against all activities. This is essential for projects reporting and monitoring against the Logical Framework.*	*What are sources of information?*	***(Activity to Output):*** *1) What external factors must be realised to obtain planned outputs on schedule? 2) What kind of decisions or actions outside the control of the project are necessary for inception of the project?*

Source: Farrington and Nelson (1997), Canadian International Development Agency, CIDA, (2002), Odame, (2001).

B: Logical Framework for a Hypothetical Cassava Production Project

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
Goal: ? *Increased contribution of cassava output to GDP and Foreign reserves of $X billion*	*Increased contribution of Cassava to Agric GDP and foreign reserves by X percent above the level at X_{t-1}*	*National Bureau of Statistics*	*Prices of primary commodities at the international market*
Purpose: ? *Increased exports and earned foreign exchange of $\$X_t$ Billion above $ X_{t-1} billion for the economy*	*Increased tonnes of cassava exported by X percent beyond the export lev el of X percent at X_{t-1}*	*National Bureau of Statistics*	*(Purpose to Goal):* ? *Real Exchange rate depreciation by X percent* ? *Favorable Prices of not less than $X for cassava at the international market*
Outputs: ? *Xt million tonnes of cassava produced above X_{t-1} million*	*Increased production of Xt tonnes of cassava by X percent above X_{t-1}*	*National Bureau of Statistics*	***(Output to Purpose):*** ? *Utilization of fertilizer*
Activities: ? *Increased supply and distribution of fertilizer*	*Number of farmers with access to fertilizer.*	*Sample survey of farmers*	***(Activity to Output):*** ? *Fertilizer Subsidy* ? *Non-diversion of products* ? *Improved monitoring of distribution of fertilizer channels*

C. Hypothetical Example using the Benefit-Cost Ratio Approach

Consider a local farmer in Delta State who uses fertilizer in his cassava farm. In the 1980s, the cost of fertilizer was N 3.98 per kilogram of elemental nitrogen (N), and he received N 1.50 for every tonne of cassava he sold. Table C shows the responsiveness of his cassava to fertilizer. At low levels of application, fertilizer has a great effect on cassava yield. Increasing the fertilizer application from zero to 10 kilograms increased the farmer's yield from 3,442 kilograms to 3,723 kilograms per hectare and increased the value of his output by N 295, from N 3,614 to N 3,909. Thus, for every additional kilogram of elemental nitrogen the farmer applied at this level, he received N 29.50 in return [(3,909 - 3,614)/ 10 = 29.50]. The additional revenue from increasing the quantity of input used, all other quantities remaining constant, is the marginal value product, (MVP) of the input. Therefore, the marginal value product of a kilogram of fertilizer is N 29.50.

at an annual rate of 2.9 per cent between 1990 to 1998. Generally, the sector remains the largest contributor to the Nigerian economy, accounting for over 38per cent of the non-oil foreign exchange earnings, and employing about 70per cent of the active labor force of the population.(NIPC, Report 2002) The government over the years had initiated number of specialised development schemes to enhance agriculture and investment. These includes

Farm Settlement Schemes

National Accelerated Food Production Programme (NAFPP), 1972.

Operation Feed the Nation, 1976;

River Basin and R uralDevelopment Authorities, established in 1976;

Green Revolution Programme, inaugurated in (1980); and

The World Bank-funded Agricultural Development Projects (ADP).

Similarly, Nigeria has witnessed the establishment of several agricultural research institutes and their extension research liaison services to enhance agricultural development. Nevertheless the diversification of the non-oil export required had no achieved significant result.

In order to diversified the export base of the economy, government established in 1991 Export Processing Free Zone Scheme (EPFZS). This scheme allows for interested persons to set up industries and businesses within demarcated zones known as Export Processing Zones, (EPZs) principally with the objective of exporting the goods and services manufactured or produced within the zones. The scheme operates in a fashion that cuts off the bureaucratic delays that are synonymous with government agencies by allowing the Nigerian Export Processing Zones Authority (NEPZA) to administer, manage, control and coordinate the quick approvals for participating foreign investors while its supporting agencies handle almost all phases of operations in the zone independent of government. These include issuing application forms and approval, company registration and construction licensing among others

.

4.0 Institutional Development to Attract FDI into Nigeria

The Federal Government over the years initiated number of economic reforms aimed at increasing the flow and role of foreign investment and the private sector. Government had embarked on many reforms in public corporations, restoration and maintenance of macroeconomic reforms, improving regulatory frameworks for FDI by permitting profit repatriation and providing incentives to attract foreign investment. Nigeria has signed many multilateral agreements dealing with the protection of FDI such as the convention establishing the multilateral investment guarantee agency (MIGA) in 1990, World Intellectual Property Right Organization in 1963 among others. The economic climate in Nigeria, though had not been conducive to FDI in the past, has improved considerably since 1999. Nigeria's laws on investment have been friendly and notable institutions and regulatory statutes were created towards their promotion since in the 70s. These include the following:

4.1 Regulatory Frameworks

Industrial Inspectorate Act, 1970

The Industrial Inspectorate Act, 1970 was enacted to establish the Inspectorate Division as an integral part of the than Federal Ministry of Industry (i.e. Industrial Inspectorate Division). Section 2 of the Act empowers the division to investigate proposed, new and existing establishment involving any proposed capital expenditure, and especially for purposes of determining appropriate valuation particularly with respect to actual capital (whether foreign or local) employed or proposed to be employed in the undertaking among others. The Act further empowers the Inspectorate to obtain necessary information on economic trends in Nigeria.

National Industrial Property Act of 1979 (NIP)

In the late 1970s the National Office of Industrial Property (NOIP) was established in 1979 by the NIP Act of 1979. Created initially as a defensive measure to protect negative effects of undesirable technologies into Nigerian economy, NOIP thereafter was expected to stimulate flows of technology into preferential or priority areas of the economy; ensure that the imported technologies were obtained on fair terms and conditions; improve the process of adapting and absorbing imported technology into Nigeria; and develop indigenous technological capabilities. NOIP was expected to perform its mandate through participating in FDI negotiation particularly at entry stage; intimating government with other alternative sources and conditions of a particular technology; identifying the domestic technological gap and putting in place measures to develop domestic technological capabilities; conducting sector-based analysis of previously registered agreements and re-negotiating them in line with national priorities and objectives; and establishing linkages between the

thinking on FDI by analyzing it from the perspectives of host countries as well as investors. It integrates those dependency and modernization concepts that are applicable to current FDI analysis. Accordingly, integrative theories account for the multiplicity of heterogeneous variables involved in the FDI process. An integrative FDI theory considers micro and macro-economic variables that determine FDI. The macro-level envelops the entire economy; the micro-level denotes firms and institutions that link the two. However, what distinguishes integrative FDI theory from its predecessors is that it accords more importance to the micro-level, the sphere where macro- and micro-variables meet, and public and private sectors interact. It is in this arena that public policies are established and implemented. Thus, the mico-level is pivotal to the successful implementation of public policies.

It is important to note that, the depencia theory address FDI determinants from the viewpoint of the firm. The theories examine FDI from the perspective of free trade. The integrative theory shed more light on the perspective of the institutional arrangement in the host nation and view FDI at the micro-level and that is where the day-to-day challenges in FDI policy implementation occur and structural rigidities revealed. Structural rigidities may be expressed in phenomena such as corruption, nepotism, ignorance among others. According to this school, despite its importance, the micro-level, has not received the attention it deserves because theorists are not always aware of the daily challenges that developing countries encounter in implementing economic and investment reforms. At the same time policy-makers often hesitate to speak out due to local sensibilities. It is based on the integrative school this paper intends in explaining FDI in Nigeria. Since, it integrates all the FDI determinants that are beginning to gain recognition, but have not been thoroughly analyzed due to the difficulty in quantifying them.

3.0 Overview of the Nigerian Economy

With a Gross National Product, GNP, of some $38 billion, (World Bank 2002) the size of the Nigerian economy is undeniably small. Given a population of 123 million according the per capita income comes down to $310 in 2002. Nigeria's economy depends heavily on the oil sector, which contributes 95 percent of export revenues, 76 percent of government revenues, and about a third of gross domestic product (GDP). With its large reserves of human and natural resources, Nigeria has the potential to build a prosperous economy, reduce poverty significantly, and provide the health, education, and infrastructure services its population needs. Despite the country's relative oil wealth, poverty is widespread (oil revenue is only about .50c per capita), and Nigeria's basic social indicators place it among the twenty poorest countries in the world. About 57 percent of the population now falls below the poverty line of roughly one U.S. dollar a day.

The Nigerian economy is characterized by dualistic production of formal and informal systems. The industrial sector is characterized by a large number of informal and small enterprises and a few formal modern firms. The financial sector is predominated by the formal financial institutions. Structurally it includes the CBN, commercial banks, the Nigeria Deposit Insurance Corporation, development banks, community banks, finance companies, foreign exchange bureaux, mortgage and insurance companies as well as other specialized institutions and the stock exchange. In addition, there exists an array of informal financial institutions, where deposit mobilization and lending are done on a small scale. However, the credit market is not fully developed to allow for availability and easy access to funds for investment purposes.

There are over 2000 industrial establishments in the country among these are multinational oil companies, iron and steel complexes, steel rolling mills, pharmaceutical industries, food processing and car assembling. Others include agricultural production and agro-processing industries, manufacturing and export production industries.(NIPC Report 2002). There are four Industrial Sectors, which are considered priority areas of development because of their linkage effects on the other sectors and their catalytic role in the overall growth of the industrial sectors. These priority areas, which are most favored in the government industrial policyincentives, are:

- Metallurgical/Engineering Industries
- Agriculture (Forest-based and agro allied activites)
- Chemical/Petrochemical Sector
- Construction Sector
- Solid Minerals
- Energy.

In Nigeria, Agriculture (including hunting, forestry and fishing) contributed an estimated 34 per cent of Gross Domestic Product (GDP) in 2003 to the Nigerian economy. An estimated 35.2 per cent of the labour force was employed in the sector in that year. According to World Bank estimates, agricultural GDP increased

Table C: Hypothetical Cassava Response to Nitrogen Fertilizer in a Local Farmer in Delta State

	Cassava		
Nitrogen (kgs/ha)	*Yield (kg/ha)*	*Value*	*MVP*
0	*3,442*	*3,614*	
10	*3,723*	*3,909*	*29.50*
20	*3,971*	*4,170*	*26.10*
30	*4,187*	*4,396*	*22.60*
40	*4,370*	*4,588*	*19.20*
50	*4,520*	*4,746*	*15.80*
60	*4,637*	*4,869*	*12.30*
70	*4,721*	*4,957*	*8.80*
80	*4,772*	*5,011*	*5.40*
90	*4,791*	*5,031*	*2.00*
100	*4,777*	*5,016*	*-1.50*

If the farmer could buy fertilizer for N 3.98/kilogram and use it to increase the value of his output by N 29.50, it would pay him to apply more. But as the application increases, each additional kilogram of fertilizer has less and less effect on production, (diminishing marginal returns). If the farmer had increased his application from 80 to 90 kilograms per hectare, he would have increased the value of his production by only N 20, from N 5,011 to N 5,031, and the marginal value product of a kilogram of fertilizer would have fallen to N 2.00 [(5,031 - 5,011)/ 10 = 2.00]. Since he would have had to pay N 3.98 per kilogram, it clearly would not have been worthwhile to apply fertilizer at this rate. In fact, it would only have paid the farmer to apply fertilizer up to the rate at which the marginal value product equaled the price. For this local farmer, it would have paid him to apply approximately 80 kilograms of nitrogen fertiliser, since between 70 and 80 kilograms, the marginal value product of each additional kilogram was N 5.40, whereas between 80 and 90 kilograms it fell to N 2.00. Thus, the farmer would have expanded his fertilizer use until he reduced the marginal value product of the fertilizer to its market price, and the market price, therefore, is an estimate of the marginal value product of the fertilizer.

Note that the optimal amount of fertilizer to use will change when the price of fertilizer changes relative to the price of cassava. If the relative price of fertilizer were to rise, the farmer would respond by reducing the amount of fertilizer he applies, increasing the marginal value product of the fertilizer (but reducing the total amount and value of production) until the marginal value product of the fertilizer again just equals its price. Suppose fertilizer were to double in price to N 8.00 per kilogram and cassava prices remained unchanged. Then, table C indicates the farmer should reduce the amount of fertilizer applied per hectare from 80 kilograms to 70 kilograms, since between 60 and 70 kilograms the marginal value product was N 8.80 but between 70 and 80 kilograms it was only N 5.40.

In reality, because of risk and limited resources, the farmer would probably not have applied the amounts indicated here. Even in the face of those factors, the principle remains the same: the farmer equates the expected marginal value product less some risk discount to the price of fertilizer.

MAINSTREAMING THE NIGERIA-SOUTH AFRICA BI-NATIONAL COMMISSION (BNC) INTO THE NATIONAL ECONOMIC EMPOWERMENT AND DEVELOPMENT STRATEGY (NEEDS)

BY
O.O DUKE[1]

O. O. Duke

Introduction

The role of states in the application of diplomacy as a tool for the promotion and protection of the interest of their nationals is critical, particularly in the sphere of economic relations. Indeed, countries are gradually changing their foreign policy priorities and placing emphasis on issues of economic benefits. Often, States advance their national interests through the establishment of Bi-National Commission (BNC) with other countries. Essentially, a BNC is an arrangement established by two countries to allow for the regular exchange of views at the cabinet level, on a wide range of issues of mutual benefit in identified areas of cooperation. Such an arrangement usually creates a consultative mechanism through which issues of economic, scientific, social and political cooperation are discussed periodically. The focus of a country under a BNC often reflects the priority areas of both its public and private sectors that will enhance its national development strategies. Nigeria maintains bilateral cooperation with over 30 countries, including the United States, United Kingdom, Japan, Brazil, Ghana, China, Niger, South Africa, etc. The Nigeria-South Africa BNC, which was inaugurated in 1999, has significantly improved trade between the two countries. However, it has been observed that while, Nigeria's major export to South Africa has been principally crude oil, South African's exports to Nigeria are largely diversified (see table 1), consisting mainly of manufactured goods. Nigeria, despite its abundant natural resources has continued to lag behind in the achievement of export-led growth. The pertinent questions to ask therefore are how Nigeria can develop her trade and investment position in line with its national development priorities? What support should be given to the private sector in Nigeria to enable it play the expected role?

The aim of this paper therefore, is to examine how the Nigeria-South Africa BNC can be used to contribute to Nigeria's national development objectives, especially in the areas of trade and investment. Following the introduction, Section II gives an overview of National Economic Empowerment and Development Strategy (NEEDS). The review of the Nigeria-South Africa BNC is discussed in Section III, while Section IV articulates strategies for integrating the BNC programme into development programme. Section V contains the summary and conclusion.

II. The National Economic Empowerment and Development Strategy (NEEDS)

NEEDS is Nigeria's home-grown, medium term Poverty Reduction Strategy Programme (PRSP), that is derived from the country's long term goals of poverty reduction, wealth creation, employment generation and value re-orientation. NEEDS builds on the progress made during the transitional phase of the new democratic dispensation (1999 2003). The programme is anchored on four key pillars. These include, Reforming Government and its Institutions, Growing the Private Sector, Implementing a Social Charter, and Value Re-Orientation.

✍ **Reforming Government and Institutions:**

The objectives here are to right size and professionalize government and public institutions for effective service delivery to eliminate waste and inefficiency as well as free up resources for investment in infrastructure and social services by government.

✍ **Growing the Private Sector:**

This involves increasing the role of the private sector in economic activity, while reducing government dominance. The policy would be promoted through more deregulation

[1]Mrs. O.O Duke is a Senior Economist, Research and Statistics Department, Central Bank of Nigeria (CBN). The views expressed in the paper are strictly personal and do not necessarily reflect the views of the Management of the CBN.

oriented countries than in imports substitution countries. Borensztein et al (1998) opined that the effectiveness of FDI depends on the stock of human capital in the host country. He argued that, countries where human capital is above a certain threshold, FDI does positively contribute to growth and development in such country. In addition, he presented a growth model in which technical progress drives growth and is transmitted through different technical progress is in itself determined by FDI as foreign firms encourage adoption of new technologies and increases the production of capital goods, hence increase variety. Thus, FDI leads to growth via technology spillovers that increase factor productivity. Certain host country conditions are necessary to ensure the spillover effects. In particular, human capital (an educated labour force) is necessary for new technology and management skills to be absorbed.

2.2 Theoretical Issues

There are three traditional schools of thought on FDI, namely: the dependency, modernization and the integrative schools. The dependency school comprises dependencia (neo-Marxist) and structuralist theories; the modernization school is reflected in the perfect market approach as represented by the neoclassical theories, while the integrative school represents the combination of the diverse FDI and negotiation paradigms. Generally, the theories argued that, flow of FDI requires profitable opportunities and a regulatory framework that facilitates investment transactions. It requires policies that ensure general macroeconomic stability, integrate markets and open sectors to private enterprise that can help to expand the range of profitable investments.

The Dependency School

The dependency school comprises dependencia (neo-Marxist) and structuralist theories which flourished between the 1960s and 1980s, seeks to achieve more equal wealth, income, and power distributions through self-reliant and collective action of developing nations. Dependency theories see the cause of underdevelopment primarily in exploitation by the industrialized nations. The school's major contribution to the FDI studies is its focus on the consequences of FDI in developing countries and its critical analysis of western development paradigms that regard FDI as explicitly positive. The dependencia or neo-Marxist sub-school states that developing countries are exploited either through international trade which leads to deteriorating terms of trade or through multinational corporations transferring profits out of developing economies. The sub-school posits that industrialized countries extract resources from the peripheries, namely the poor countries, Cardoso, et-al (1999). The school does not criticize capitalism outright but rather points out that the peripheries do not gain from capitalism as much as the center does. According to this view, modernization, capitalization, and industrialization are limited to the export driven economy and other sectors of the economy would deliver according to export needs of the centre Packenham, 1992. However, it is widely accepted that foreign FDI is indispensable for economic growth and development. Dependency theories have kept their appeal in the developing world because compared with modernization school; they strive for more radical change in the global economy. According to paul Salem, (1993) it may be hypothesized that more radical theories tend to be adopted by the underprivileged, who have a higher incentive for changing the status quo, but less to lose in terms of capital and other international resources than industrialized economies.

The Modernization School

The modernization school is reflected in the perfect market approach as represented by the neoclassical theories remains widely influential to the present day, proclaim that there is a natural order through which countries ascend to what is seen as higher developmental stages. The theorists recommend barriers to exogenously motivated development through industrialization, liberalization, and opening up of their economy. Their ability to overcome these barriers will depend on how endowed the country is with production factors such as labor, capital, and natural resources.

The modernization school views FDI as a prerequisite and catalyst for sustainable growth and development. For FDI to fulfill its crucial role, economies have to be freed from distorting state interventions and opened to foreign investment and trade. The perfect market approach of the modernization school rests on both neoclassical and perfect market theories. According to Moosa, (2002), three hypotheses fall under the perfect market approach: these are the differential rates of returns hypothesis, the diversification hypothesis, and the output and market size hypothesis. While, the depencia and modernization school offered two extreme positions on FDI, the integrative school offered a more subtle position.

The Integrative School

The integrative school is represented by the diverse FDI and negotiation paradigm and it attempts to transform

FOREIGN DIRECT INVESTMENT (FDI) FLOWS TO NIGERIA: ISSUES, CHALLENGES AND PROSPECTS.

by

M. U. YAKUB [1]

M. U. Yakub

1.0 INTRODUCTION

FDI refers to the flow of capital and personnel from abroad for investment in another country. The ownership of such capital can be either an individual or a corporate body or a government. Basically, the denominator of FDI is that, a foreign firm or individual must control a certain amount of shares of such firm. However, FDI flow to a country depends largely on the presence in that country, of a certain critical minimum requirements. Among the requirements is the presence of economic, political and social stability as well as rules regulating entry and operation of business. Others are standard of treatment of foreign affiliates, business facilitation, investment incentives, market size, growth, structure and accessibility, raw materials, low cost but efficient labour force and physical infrastructure in the form of ports, roads, power and telecommunication.

FDI has over the years proved to be a major stimulus of economic growth in developing countries through its contribution to transfer of technology, enhancement of balance of payments ability, employment generation and diversification of the industrial base of an economy among others. The emphasis on these resources for economic growth has made FDI the focus of policy-makers in many low income countries. By and large, Nigeria has the potentials to attract FDI but has not been successful in attracting it despite her efforts of liberalizing its FDI regime and intensified its enabling environment. Even though, Nigeria had embarked on policies and structural reforms leading to increased openness, lowed barriers to trade, liberalized its domestic financial markets and removed restrictions on capital movements, FDI flows has been mainly in the oil sector of the economy where the country derives over 90 per cent of her export. In terms of diversification of FDI to other sectors of the economy, Nigeria has not benefited commensurate to her potentials.

The objective of the paper is to review the FDI policies and challenges in Nigeria over the years, particularly from 1990 to 2004 with a view to examining the impact of policies on stimulating FDI. The paper is divided into seven parts. Following the introduction, Part two reviews the literature on FDI. Part three dwells on the overview of the Nigerian economy. Institutional development to attract FDI into Nigeria will be examined in part four, while part five discusses the trends on FDI to Nigeria, while part six discusses the challenges and prospects to attract FDI into Nigeria. Policy recommendations and conclusion are given in part seven.

2.0 Literature Overview

2.1 Empirical Issues

The contribution of FDI to economic growth has been debated quite extensively over the years. The 'traditional' argument has been that; an inflow of FDI enhances economic growth by increasing the capital stock in the host country. Surely, recent literatures points to the role of FDI as a channel of international technology transfer and particularly empirical evidence by Borensztein et al. 1998 showed that the development of local capabilities is also crucial in benefiting from flow of FDI. Markusen, (1995) argued that, there is growing evidence that FDI enhances technological change through technological diffusion and also generate technological spillovers for local firms. The empirical study by Saggi, (2000) confirmed that, FDI generates positive spillovers for local firms. Similarly, studies by Caves,(1974), Globerman,(1979), Blomstrom and Persson,(1983), Blomston and Person,(2000) on whether there are intra-industry spillovers from capital goods available in an economy. Largely, FDI, showed that measure of FDI flows is positively related with per capita GDP growth or productivity and there is positive correlation between FDI presence and productivity. Balasubramanyam et.al, (1996), and Barrel and Pain, (1997) also showed that the effect of FDI on real GDP are greater in export

[1] M.U.Yakub is a staff of the Research and Statistics Department of the Central Bank of Nigeria. He wishes to acknowledge the comments of A. Bamedele, B.O.N.Okarfor and E.A.Essien of the same department. The views expressed in the paper are strictly those of the author and do not represent that of the Central Bank of Nigeria.

and liberalization of the economy as well as renewed efforts at the privatization and commercialization of government commercial economic activities. The government would gradually divest from public enterprises to encourage entrepreneurship within the country. The private sector is identified as the engine of growth for wealth creation, employment generation and poverty reduction. These are achievable partly through the provision of employment in labour intensive sectors for which developing countries such as Nigeria has comparative advantage. The government would however, provide the role of enabler, facilitator and regulator. Government is also expected to rehabilitate as well as provide infrastructure that would stimulate the activities of the private sector by lowering the cost of transactions as well as facilitating market access. In addition, it will mobilize long term capital for investment at competitive interest rates, provide coherent and consistent trade policy as well as promote the development of Small and Medium Scale Enterprises (SMEs).

✍ **Implementing a Social Charter**

This involves the provision of welfare in the areas of health, education, employment generation, poverty-reduction, economic empowerment and security. NEEDS also emphasizes investment in and the development of water resources which would provide for over 50 per cent of the poor population in agriculture.

✍ **Value-Re-orientation**

The objective here is to discourage rent-seeking behaviours of the citizens in public and private life and encourage professionalism, selfless service, and efficiency in service delivery. Consequently, efforts would be geared towards reducing social ills and achieving greater transparency in public and private sector financial transactions thereby promoting accountability. At the forefront of these reforms would be the National Orientation Agency (NOA) and its state counterparts. Government will also encourage Civil Society Organizations, Community-Based Organizations, Non-Government Organizations (NGOs), Private Sector Organizations, Religious and Socio-Cultural-Traditional Organizations, etc, to provide leadership in the campaign for a new value system.

II.I Trade Development under NEEDS

A major thrust of NEEDS is to promote an export-led growth through exploiting the avenues which regional and international trade/economic integration arrangements offer. This would encourage the development of industries whose growth had hitherto been hampered by narrow domestic market opportunities, promote technological innovation and diversify the sources of foreign exchange earnings.

Strategies for the Development of Trade under NEEDS

"NEEDS identified the following strategies to promote the development of international trade:

(i) Regular hosting of Trade Fair in the sub-region where Nigeria's business community would be assisted to participate.

(ii) Establishment of Nigeria Trade Promotion desks in Nigeria's Missions in selected countries.

(iii) Facilitate the establishment of a regional Stock Exchange that would be private sector driven.

(iv) Promotion of Regional Trade Associations, such as Federation of West African Manufacturers Association (FEWAMA).

(v) Promoting direct investment in some sectors of the economies of other African countries, such as cement, plastic, food and beverages, by the Nigerian private sector.

(vi) Encourage the building of refineries in some of the countries under the proposed deregulation of downstream sector.

(vii) Promote the concept of regional security integration as distinct from the regular peacekeeping force of ECOMOG, to provide security and facilitate business linkage.

(viii) Encourage the learning of a second language (French or Portuguese) through compulsory courses at the Primary and Secondary School levels.

(ix) Stipulation of minimum domestic value added for commodities/ manufactured goods to be traded within ECOWAS under existing protocols."

I.II Broad Objective of Nigeria's Trade Policy

The broad objective of Nigeria's trade policy is to develop an external trade regime where exports will constitute an important engine of growth and sustainable job creation for the domestic economy. Nigeria's foreign trade has been hindered by inter-regional barriers and bureaucracy in the implementation of trade

incentives, long delays in business registration, competition from imported sub-standard goods and cumbersome customs procedures. This has seriously limited the ability of domestic producers to compete effectively in foreign markets. Many domestic businesses do not have long range export strategy while some have never explored their export potentials. The reasons for these failures are variously attributed to the size of the domestic market, real and perceived complexities of export procedures, limited executive time to focus on exports, lack of experience/knowledge of the exporting processes and the array of existing federal, state and local export assistance programme. Other constraints to export trade include: (i) Unfavourable international trade rules, (ii) High cost of domestic production due to weak infrastructural base (cost of alternative power, water, cost of funds, etc.), (iii) Absence of adequate incentives and leakages in the implementation of fiscal and tariff laws, and (iv) Massive smuggling, faking/counter-feting and dumping of products.

III. A Review of the Nigeria/South Africa BNC

The inaugural session of the Nigeria/South Africa BNC was held in October 1999 in Abuja, Nigeria. The BNC has since been held each year with the sixth BNC hosted by South Africa in Durban, September, 2004. Since inauguration of the BNC, economic relationships and trade between the two countries have improved significantly. Nigeria had become South Africa's largest trading partner in the West African sub-region and the 4th largest in the continent. Available data indicate that Nigeria's exports to South Africa rose significantly from =N=136.4 million in 1996 to =N=78.7billion in 2004, with a corresponding increase in imports from =N=3.7 billion in1994 to =N= 65.7 billion in 2004 from South Africa, (see table 1). Although Nigeria has generally recorded trade surpluses with South Africa, the main item of export is crude oil as against the highly diversified imports from South Africa. The increase in trade can be adduced largely to the agreements reached by the working groups of the BNC. The BNC has six working groups namely: Trade, Industry and Finance; Mineral and Energy; Agriculture, Water Resources and Environment; Foreign Affairs and Cooperation; Social and Technical; as well as the Public Enterprises and Infrastructure Working Group.

The Trade, Industry and Finance Working Group under the BNC facilitated the signing of the reciprocal Investment Promotion and Protection Agreement (IPPA). Others are Bilateral Trade and Avoidance of Double Taxation Agreements as well as an MOU between South Africa's Financial Service Board (FSB) and Nigeria's Securities and Exchange Commission (SEC). There has been an exchange of various Investment and Trade Promotion Missions by both sides. In addition, the Nigeria-South Africa Chamber of Commerce was established in 2001 to promote business between the private sectors of the two countries.

Under the Mineral and Energy Working Group, the Nigeria National Petroleum Company (NNPC) and South Africa's SASOL signed an agreement on a joint project in 2001 with the commissioning planned for 2005.

The Agriculture, Water Resources and Environment working group facilitated the signing of a cooperation agreement in agriculture in 2001. The group is presently working on further areas of cooperation.

At the 5th BNC, the Working Group on Culture and Tourism facilitated the signing of a Program of Co-operation on Arts and Culture. The Co-operation Agreements achieved under education are the negotiation and signing of the Protocol on Education as well as exchange of visits by the Ministers of Education of both countries. Cooperation agreements have also been reached in the areas of Health, Sports and Recreation. Several other negotiations are on-going between the two countries under the BNC.

IV. Strategies for Integrating the Nigeria/South Africa BNC into NEEDS

Trade has been accepted globally as the engine of growth and national development, because of the benefits accruable from export trade. The extent to which Nigeria would benefit from the Nigeria-South Africa BNC therefore, would depend on its ability to mainstream the objectives of the BNC into NEEDS.

Trade liberalization and deregulation as well as investment in social, legal, infrastructural and institutional areas are necessary for successful participation in both bilateral and multilateral trade, and effective pursuance of export promotion as a development strategy. These are largely in place in Nigeria. However, in order to take full advantage of the BNC and all the benefits it provides, the following measures are proposed to facilitate the mainstreaming of Nigeria/South Africa BNC into NEEDS.

i. Representation of Nigeria at the BNC

The Nigerian delegate must at all

TABLE III: LOANS GUARANTEED UNDER ACGS (1984-2004)

YEAR	LOANS GUARANTEED		% CHANGE	
	NO	VALUE	NO	VALUE
1984	1,642	24,654,900.00		
1985	3,337	44,243,600.00	103.2	79.45
1986	5,203	68,417,400.00	55.9	54.64
1987	16,209	102,152,500.00	211.5	49.31
1988	24,538	118,611,000.00	51.4	16.11
1989	34,518	129,300,300.00	40.7	9.01
1990	30,704	98,494,400.00	- 11.0	- 23.83
1991	22,014	82,107,400.00	- 28.3	- 16.64
1992	21,206	88,031,800.00	- 3.7	7.22
1993	15,514	80,845,800.00	- 26.8	- 8.16
1994	16,572	103,186,000.00	6.8	27.63
1995	18,079	164,160,000.00	9.1	59.09
1996	19,036	225,502,500.00	5.3	37.37
1997	17,840	242,038,200.00	- 6.3	7.33
1998	14,637	215,697,200.00	- 18.0	- 10.88
1999	12,859	246,062,500.00	- 12.1	14.08
2000	14,102	361,450,400.00	9.7	46.89
2001	20,298	726,545,400.00	43.9	101.01
2002	23,681	1,051,589,800.00	16.7	44.74
2003	24,303	1,164,460,400.00	2.6	10.73
2004	34,779	2,041,000,000.00		
TOTAL	**356,292**	**5,337,551,500.00**	**-**	**-**

Source: Development Finance Department, Central Bank of Nigeria

Table 2: COMMUNITY BANKS' ACTIVITIES (1991 – 2004)

YEAR	NO. IN EXISTENCE	NO. REPORTING	DEPOSIT LIABILITIES Nm	LOANS AND ADVANCES Nm	AVERAGE DEPOSIT LIABILITIES Nm	AVERAGE LOANS & ADVANCES Nm
1991	66	60	76.7	15.9	1.28	0.27
1992	401	250	474.6	132.2	1.90	0.53
1993	879	611	2,188.2	708.2	3.58	1.16
1994	970	813	2,721.2	1,147.8	3.35	1.41
1995	1,355	1,132	3,344.6	1,366.4	2.95	1.21
1996	1,368	796	3,356.4	1,480.1	4.22	1.86
1997	1,015	491	2,730.4	1,501.2	5.56	3.06
1998	1,015	569	3,870.8	1,972.5	6.80	3.47
1999	1,014	471	5,102.8	2,631.0	10.83	5.59
2000	881	506	7,689.4	3,666.6	15.20	7.25
2001	747	128	3,294.0	1,314.0	25.73	10.27
2002	769	316	9,699.2	4,310.9	30.69	13.64
2003	774	564	18,075.0	9,954.8	32.05	17.65
2004	753	615	21,407.9	11,343.8	34.81	18.44

Source: ***CBN Annual Reports and Statement of Accounts, various issues***

times be made up of a formidable team of negotiators, particularly, trade specialists with strong negotiation skills to marshal demands without being offensive.

ii. Funding of Pre-BNC Activities

There should be adequate funding for all BNC preparatory meetings and other related activities to ensure high level participation of stakeholders, most especially, the Organized Private Sector. This is to ensure that Nigeria is well equipped to engage in BNC negotiations.

iii. Private Sector Participation

Empirical evidence has shown that the major needs of small, exporting companies come under assistance with the specifics of how to market overseas and complete export transactions; timely and specific market intelligence; quality of overseas business contacts; and trade finance to deal with the cost and risk of exporting. The BNC therefore, must be structured to ensure that the private sector actively participates in the investment forum held during the BNC to promote their goods and services, and familiarize with the potential market. There is also the need to synchronize the activities of the Nigeria-South Africa Chamber of Commerce with the BNC. It has been observed that a lot of activities occur outside the BNC that could benefit from government export promotion assistance.

iv. Support for Exports

The BNC should facilitate the development of export service offices in South Africa. It is important to develop support structures to ensure market access. These offices must work closely with the domestic trade related offices in Nigeria to form a global network. Services to be provided especially for new entrants into export as well as experienced firms would be targeted towards increased sales and market presence. These offices should be equipped to provide business services like telephone, fax, translation (Afrikaans), conference and counseling services exclusively for Nigerian firms.

v. Promotion of Developmental Issues

NEEDS identifies amongst others: education, health, employment, and development of infrastructure, as areas to promote development. Projects presentation during the BNC therefore, should be tailored towards securing cooperation with South Africa in these areas.

vi. Trade Information Service

There should be up-to-date information on the BNC, particularly, the economic opportunities in Nigeria and South Africa for use by potential investors. Within the country, agencies such as the Nigeria Export Promotion Council (NEPC), Nigeria Investment Promotion Commission (NIPC), and Nigeria Export-Import Bank (NEXIM) should collectively provide information to trade centers the execution of BNC projects. The trade center could be located within the Federal Ministry of Commerce. In addition, there should be regular workshops, seminars, newsletters to educate all stakeholders on the opportunities that are available in the BNC

vii. Aggressive Market Promotion Drive and Economic Diplomacy

Economic diplomacy must focus on export drive, market access and foreign investment promotion. The closeness in the working relations of the ministries, parastatals and agencies that are trade related must be emphasized. In order to enhance the achievement of national economic gains in bilateral trade negotiations, as well as ensure that Nigerian firms and workers are able to take advantage of market openings created from the BNC, the BNC should through the Nigeria Embassy in Johannesburg, South Africa, promote Nigerian exports, encourage foreign investment in Nigeria, encourage technological transfer and improve bilateral relationship between Nigeria and South Africa.

viii. Advocacy Services

The BNC should focus on providing advocacy for Nigerian firms to further concretize gains of cooperation agreements. This could be in the form of visits to key South African officials, in addition to phone calls or letters to foreign decision makers to facilitate economic relationships.

ix. Creation of a Trade Compliance Office

This office created within the BNC would be designed to systematically, comprehensively and proactively monitor both domestic and foreign compliance with BNC trade agreements.

x. Creation of a Nigeria-South Africa BNC Website

A website would offer information that is accessible 24 hours a day on export assistance as well as current commercial information on promising markets under the BNC. The website would be designed to be interactive, handling enquiries on trade and investment, export financing, industrial trends, tariffs, regulations, business and cultural practices.

Furthermore, there should be multiple options for export promotion, including match making seller-buyers via portals that specialize in industry and product segments. Another method used internationally is the “virtual business delegation”, where foreign counterparts are encountered via special portals on the web. This affirms the genuineness of the business participants where credibility issue is a major concern in remote contacts. Meetings of this nature could be facilitated through the BNC. It would reduce the cost of breaking into new markets for the Nigerian exporter.

xi. Access to Foreign Capital

The Industry Development Corporation of South Africa finances foreign investments at an attractive interest rate. The BNC should seek ways of accessing this fund for the benefit of Nigerian organizations through joint ventures. The latter would facilitate transfer of new technologies which lowers the cost of research.

xii. Capacity Building

South Africa has a more developed and diversified economy when compared with Nigeria and as such, there are ample opportunities for Nigeria to benefit from the expertise the country has developed over the years. Therefore, Nigeria should seek through the BNC process cooperation agreements on capacity building in all areas of its economy.

V. Summary and Conclusion

This paper has identified that the Nigeria-South Africa BNC could serve as a forum where Nigeria can actively pursue its national development objectives to achieve economic gains. Nigeria and South Africa both occupy a unique position in their respective sub-regions. Nigeria is the largest economy in West Africa, while South Africa is the leader in the Southern African Development Community (SADC). Besides, the South African economy is relatively more developed, with a wide range of both industrial and agricultural exports. For Nigeria to benefit from trade and investment with South Africa, the government as the facilitator, must ensure that the supportive infrastructure such as electricity, roads, communication, e.t.c; are improved to drastically reduce production cost and achieve export competitiveness.

In addition, the role of the private sector as the engine of growth must be brought to the forefront of the BNC project. Government as the enabler must ensure that economic diplomacy is deployed to capture market access for Nigerian firms and promote exports with the objective of achieving poverty alleviation and economic growth .

TABLE 1

TRADE BETWEEN NIGERIA AND SOUTH AFRICA

YEAR	IMPORT [/1] (N million)	EXPORT [/2] (N million)	BALANCE OF TRADE (N million)	EXCHANGE RATE (N/US$)	BALANCE OF TRADE (US$)
1996	3,721.98	136.40	(3,585.58)	21.886	(168.83)
1997	2,879.40	4,643.60	1,764.21	21.886	80.60
1998	3,696.91	1,648.12	(2,048.79)	21.886	(93.61)
1999	6,790.68	28,751.12	21,960.44	92.513	237.37
2000	6,909.58	27,084.06	20,174.48	102.04	197.71
2001	25,741.06	21,987.09	(3,753.97)	111.97	(33.53)
2002					
2003	37,563.77	76,163.33	38,599.56	129.44	298.20
2004	65,747.38	78,658.54	12,911.16	133.49	96.72

Source: Trade data, National Bureau of Statistics, formally Federal Office of Statistics
Exchange Rate, Central Bank of Nigeria

TABLE I: SUMMARY OF SELF HELP GROUPS ACTIVITIES IN NIGERIA AS AT DECEMBER 31, 2004

S/No	State	No. of SHGs	No. of Members	No. of Banks	Actual Savings	Amount of Loans Granted	Loans/ Savings Ratio
1	Abia						
2	Adamawa	5	26	1	-	1,440,000.00	
3	Akwa-Ibom	16	186	4	56,224.17	1,542,000.00	27.43
4	Anambra	2	51	2	55,805.31	920,000.00	16.49
5	Bauchi						
6	Bayelsa	9	132	2	941,316.40	3,158,000.00	3.35
7	Benue	8	193	1	477,028.26	1,872,000.00	3.92
8	Bornu						
9	Cross River	20	190		684,769.00	1,831,000.00	2.67
10	Delta	4	40	1	415,714.65	900,000.00	2.16
11	Ebonyi						
12	Edo	3	30	1	408,793.22	1,190,000.00	2.91
13	Ekiti						
14	Enugu	7	98	2	103,917.07	1,750,000.00	16.84
15	Gombe						
16	Imo						
17	Jigawa	11	110	1	701,567.65	7,688,000.00	10.96
18	Kaduna	9	95	1	195,443.95	720,000.00	3.68
19	Kano	75		2	653,348.22	5,008,000.00	7.67
20	Katsina	39	727	4	2,146,994.93	12,170,000.00	5.67
21	Kebbi	10	100	1	255,000.00	1,000,000.00	3.92
22	Kogi						
23	Kwara	11	316	0	220,672.00	686,000.00	3.11
24	Lagos						
25	Nassarawa						
26	Niger	73	1,011	4	1,481,782.32	9,181,000.00	6.20
27	Ogun	3	30	1	86,573.37	355,000.00	4.10
28	Ondo						
29	Osun	54	1,004	1	346,014.33	1,503,000.00	4.34
30	Oyo	13	230	1	298,667.62	1,300,000.00	4.35
31	Plateau						
32	Rivers	18	1	300	2,515,502.24	6,806,000.00	2.71
33	Sokoto	16	300	2	351,699.32	1,650,000.00	4.69
34	Taraba						
35	Yobe						
36	Zamfara	7	200	1	121,563.27	1,160,000.00	9.54
37	FCT						
	TOTAL	413	5,070		12,518,397.30	63,830,000.00	

Source: Development Finance Department, Central Bank of Nigeria

REFERENCES

AFOLABI, J. A. & H. MAMMAN (1994): The Dynamics Of Savings In A Deregulated Economics: The Case Of Nigeria. NDIC Quarterly Vol. 4, No. 4, December, 1994.

AMALI, E. (1996): Financing Agriculture In A Depressed Economy. Lead Paper presented at the 17th Annual Conference of Agricultural Credit Officers of The Central Bank of Nigeria, Hill Station Hotel Jos, October, 1996.

EVBUOMWAN, G. O (2001): A Review of the Activities of Community Banks in Nigeria. The Bullion, Vol.25, No2, (April June).

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT: A Handbook On Forming Self-Help Groups (SHGs) NABARD, Mumbai, India.

ODERA, R. A. (1998): Linkage Banking: Definition, Concept, Objectives, Dimensions, Guiding Principles, Advantages, Risks and Pitfalls. Paper presented at Linkage Banking Workshop organized by AFRACA, Kaduna, Nigeria (23rd 26th March, 1998).

OGBUNKA, U. M. (2003): The Future of Community Banks In Nigeria: Emerging Challenges. The Bullion, Vol.27, No.2 (April June).

OTU, M. F. et al (2003): Informal Credit Market and Monetary Management in Nigeria. Central Bank of Nigeria, Research Department Occasional Paper No. 29, (October).

RUTOSI, J. (1988): Savings Mobilization and Techniques: The Role of Savings In Economic Development. Mimeograph, FOA, Rome.

SANUSI, J.O (2001): Micro-Credit and Agricultural Credit Guarantee Scheme (ACGS). A paper presented at All Farmers' Forum in Commemoration of the 2001 World Food Day held at Ibro Hotel, Abuja, 15th -16th October.

SUMMER, L. H. (1986): "Issues in National Savings Policy" In Savings and Capital Formation, ed. by F. Gerard Adams et al; Lexington, Massachusetts; D. C. Health.

[/1] ***Some Major Imports from South Africa***

Frozen fish and sardines
Coffee husks and skin, coffee substitutes
Semi-milled or wholly-milled rice
Maize (corn) starch
Saturated/unsaturated monohydric alcohols
Printed books, brochures and leaflet
Fruit juice, milk and cream
Auto engine and kitchen utensils
Chemicals and fabrics
Women, Men and Babies wear

[/2] ***Some Major Exports to South Africa***

Petro. oils and oils obtained from bituminous minerals and crude-oil
Palm nuts and Kernels
Textured yarn
Lead oxides
Natural rubber latex in primary form

REFERENCES

Hilaire, Alvin., and Yang, Yongzheng, 2003, "*The United States and the New Regionalism/Bilateralism",* IMF Working Paper WP/03/206, pp 1-9

Sok, Siphana., 2004, *"Mainstreaming Trade for Poverty Alleviation: A Cambodian Experience."* World Bank Development Outreach, March 2004 available via the Internet at http://www.worldbank.file://A:\article.htm

Economic Commission for Africa (ECA), 2004, *"Mainstreaming Trade in National development Strategies"*, A Issues Paper

World Trade Organization, 2001, *"The Policy Relevance of Mainstreaming Trade into Country Development Strategies: Perspectives of Least development Countries",* WTO News, Geneva, 29-30 January 2001.

Federal Ministry of Commerce, 2002, *"Trade Policy of Nigeria"* Federal Republic of Nigeria, January 2002, Federal Ministry of Commerce, Abuja

National Planning Commission (NCP), 2004, *"The National Economic Empowerment and Development strategy,* National Planning Commission, Abuja

World Trade Organization (WTO), 2003, " *Integrating Trade Development Strategies: The Role of Policy, Technical assistance and Capacity Building,"* Report on the mainstreaming Seminar II, WT/IFS/2, WTO, Geneva

SMALL AND MEDIUM INDUSTRIES EQUITY INVESTMENT SCHEME (SMEEIS): PRO OR ANTI-INDUSTRIALIZATION[1]

BY
B. I. ADAMU

B. I. Adamu

INTRODUCTION

The history of industrial revolution in developed and developing countries have shown that small and medium scale enterprises are the driving force of industrial development. The attentions of the national governments all over the world have, therefore, focused on funding and supporting SME activities.

A major characteristic of small and medium scale enterprises (SMEs) worldwide is that they are generally managed by their owners either as sole proprietorship or partnership. SMEs are also largely local in their areas of operation. They depend on internal sources of capital and are relatively small size within the industry.Small and medium scale enterprises predominate in the private sector of the Nigerian economy, but almost all of them are starved of funds. The relative importance of the small and medium scale enterprise, however, differs considerably from one type of business to another. The major areas of business enterprise activities[2] are in manufacturing, distribution of products and rendering of services, some of which may involve the use of products.

Baumback (1983) showed in his publication on "Basic Small Business Management" that more than one-third of all the manufacturing firms in Nigeria employ fewer than five persons, or none at all, and that close to two-thirds employ fewer than twenty workers. On the whole, his study revealed that 95 percent of none-farm businesses of all kinds employ fewer than fifty workers each.

The above characteristics of SMEs largely constitute the very basis of their problems and special needs that have attracted the attention of the authorities in the past four decades.

The Federal government of Nigeria, therefore, has been adopting monetary, fiscal and industrial policy measures at the macro level to support SME activities and at the same time, specific financing arrangements are being made in respect of funding programmes at the micro level, to boost SME activities in Nigeria.

The Small and Medium Enterprises Equity Investment Scheme (SMEEIS) is one of the funding programmes for SMEs introduced in 2001 to support the existing programmes and compliment other new programmes. Examples of the other funding programmes are: the agricultural credit guarantee scheme fund (ACGSF), the trust fund model (TFM), the interest drawback programme (IDP), the refinancing and rediscounting facility (RRF) and many others.

If SMEEIS is a support funding programme, can it then be said to be anti-industrialization in Nigeria? The objective of this paper, therefore, is to highlight the achievements of SMEEIS programme to industrial growth in Nigeria. Particularly, the paper attempts to clear the impression that SMEEIS is anti-industrialization in Nigeria.

In order to address this objective, I have highlighted the contributions of the SMEEIS Program to the industrialization effort in Nigeria through equity funding of SME projects. The paper is divided into five parts. Part II following this introductory section, reviews the concept of SMEs and SMEEIS as used in Nigeria, examines the state of SME investment and the successive efforts of Governments since independence to increase funding to SMEs in Nigeria. Part III shows SMEEIS as a funding program, why it was introduced, its objectives, operations and policy making bodies under the programme for industrial growth in Nigeria. Part IV critiques the view held by some antagonists that SMEEIS Programme is anti-

[1] Mr. Adamu is a Deputy Director, Development Finance Department of the Central Bank of Nigeria. The views expressed in this paper are those of the author and do not represent the opinions of the Management of the Central Bank of Nigeria.

[2] Business enterprises under SMEEIS Programme are categorized into two broad groups: (i) real sector; comprising manufacturing, construction, agro-allied and solid minerals and (ii) services; comprising information technology& telecommunication, tourism & leisure, educational establishments and other services.

Implement the micro-credit component of Small and Medium Enterprises Equity Investment Scheme (SMEEIS) set aside funds so that community banks could access funds for on-lending to micro-entrepreneurs.

Create a sustainable window or any other suitable funding intervention to increase the access to loanable funds by the community banks or any modified version of it.

5.2 CONCLUSION

The Self Help Groups Linkage Banking is a regional programme formulated to increase the access to finance by rural dwellers and microentrepreneurs. The model seeks to attain a merger of the indigenous "*esusu*" or "*adashi*" practice with the formal banking system under which the bank becomes part of the esusu system and plays the role of the treasurer of the group. The objective was to integrate the unorthodox rural financial activities into the formal financial system for better, effective and sustainable delivery of financial services to the rural dwellers and other microentrepreneurs.
kage Banking is a regional programme formulated to increase the access to finance by rural dwellers and microentrepreneurs. The model seeks to attain a merger of the indigenous "*esusu*" or "*adashi*" practice with the formal banking system under which the bank becomes part of the esusu system and plays the role of the treasurer of the group. The objective was to integrate the unorthodox rural financial activities into the formal financial system for better, effective and sustainable delivery of financial services to the rural dwellers and other microentrepreneurs.

The grass-roots orientation of the Community Banks made them the most suitable for the linkage banking programme. In Nigeria in particular, the current consolidation initiative among the deposit money banks and their total reliance on collaterals for lending coupled with the Nigerian Agricultural, Co-operatives and Rural Development Bank (NACRDB)'s low credit capacity and capability made the Community Banks to be the best channel for the linkage banking programme.

As a nation playing a lead role under the AFRACA initiative, the current trend where only 314 SHGS were adopted in 12 years points to need to take urgent and conscious efforts to revive, reinvigorate and sustain the linkage banking programme for the betterment of our teeming credit-constrained rural dwellers and other micro-borrowers.

For us to start singing tunes of success in the Linkage Banking programme, we have to get back to the drawing board: set ambitious but achievable targets, identify and motivate the relevant stakeholders, empower the linkage agencies, then monitor and review the progress. In specific terms, the community banks or any modified version of it need to be mobilized, empowered and adequately trained to assume this important assignment.

from N1.2 million in 1991 to N6.8 million in 1998 and further to N34.81 million in 2004. In the same wise, the average loans and advances of the community banks increased from 0.27million in 1991 to N3.47 million in 1998 and progressively rose to N18.44 million in 2004 as itemized in T*able 2* attached.

The problems with community banks are low capital base, inadequate skilled manpower, intense competition from conventional banks, general unconducive operating environment, low technology base and more importantly, paucity of loanable funds.

4.1.2 The Potentials of Community Banks

Community banks are unit institutions owned by the communities, located within and usually staffed with local people. By design, it recognizes the delivery of credit facilities on non-collateral basis. Community banks have low level of start up capital requirement.

The Directorate for Food, Roads and Rural Infrastructure (DFRRI) identified over 100,000 communities in Nigeria where community banks could be sighted. Though this target may not be feasible in the near future, there is clear prospect of establishing more community banks or any modified form of it, in the future.

4.2 THE TEASER

4.2.1 Scenario1:

Suppose each of the 753 community banks adopts 100 SHGs with 15 members each and that each member saves N100.00 weekly. Each community bank could generate more than N7.8 million deposits annually. Collectively, the 753 community banks could generate over N5.8 billion in deposits in a year.

4.2.2 Scenario 2:

Nigeria's population now stands at approximately 130 million. It is assumed that 80 percent or 104 million of these represent rural dwellers, urban petty traders and artisans. Suppose the community banks targeted 5% or 5.2 million of these to mobilize deposits of N100.00 weekly. The total deposits to be mobilized in a year could reach about N20.4 billion.

If the community banks disburse thrice the amounts saved as loans, the quantum of loans to these target customers could range from N17 billion from the first scenario to about N60 billion from the second scenario. This clearly depicts the power of savings.

4.3 THE NON-GOVERNMENTAL ORGANIZATIONS (NGOs)-SHGs-COMMUNITY BANK LINKAGE MODEL

The proposed linkage model as explained below was proffered to take care of the inadequacies of the approach adopted in the past that has not yielded the desired result. The steps of the model suggested are:

- Identification of a viable community bank;
- '*Selling*' of the linkage banking principles to the community bank;
- Obtaining actual commitment from the community bank's management;
- Identifying jointly local partners in the area, namely NGOs or community-based associations (CBAs) who would assist in SHGs identification/ formation;
- Agreeing on the number of SHGs to formed in a certain period;
- Arranging the necessary intervention model based on specific peculiarities;
- Preparing and signing of Memorandum of Understanding (MOU) among the parties (i.e. the CBN, NGO/CBA, Community Bank);
- Undertaking the necessary trainings/ capacity building activities to ensure success;
- Monitoring, advising and reviewing the progress.

5.0 CONCLUSION AND SUGGESTIONS

5.1 SUGGESTIONS

Considering the issues highlighted in this paper, it is hereby recommended that:

- The Development Finance Department of the CBN, in conjunction with other stakeholders develop clear guidelines for the SHGs linkage banking programme in Nigeria.
- The stakeholders should agree on clear targets with respect to the number of SHGs to be formed and financed annually.
- Entrust Self-Help Groups formation and nurturing to the officials of the community banks or non-governmental organizations (NGOs) or community-based associations (CBAs). An arrangement could be worked out where the NGOs or CBAs would be entitled to some token amounts to cover their expenses after satisfying certain criteria.
- Review the nation's Cooperative Laws to make SHGs and cooperative societies more responsive and purposeful.
- Advances to SHGs should form part of the Reporting requirements for Community Banks to serve as incentive.

industrialization, while Part V concludes with the way forward and proffers some recommendations for policy.

2.0 THE CONCEPT OF SMEs

According to Baumback (1983), attempts made to define "small business" in terms of employment, asset value or sales volume have proved unsatisfactory because, a firm in one industry may loom large relative to its competitors, yet be small in employment, assets and sales relative to firms in other industries and in some circumstances, the firm may be small on the basis of employment and large in assets and sales, or vice versa.

The concept of Small and Medium Enterprises (SMEs) also vary from one country to another, depending on the scope and range of activities covered by them and the amount of capital required of them to finance their operations in a particular market economy they are set up. Particularly, the level of a country's development largely determines the scope and range of activities and the capital base requirement of the SMEs operating therein.

2.1 Enterprises Classified As Small And Medium Scale In Nigeria

Prior to 1992, there was no common definition of what constituted small and medium scale industries in Nigeria. However, in 1996, the National Council on Industry (NCI) classified industrial enterprises in Nigeria into four groups as revised in their meeting held at Lokoja in 2003:

Cottage Industry

Enterprise with total cost (including working capital but excluding cost of land) not more than N1.5 million, with a labour size of not more than ten workers.

Small Scale Industry

Enterprise with total cost (including working capital but excluding cost of land)
Above N1.5 million but not exceeding N50 million with a labour size of between eleven and one hundred workers.

Medium Scale Industry

Enterprise with total cost (including working capital but excluding cost of land) above N50 million but not exceeding N200 million, with a labour size of between 101 and 300 workers.

Large scale Industry

Enterprise with total cost (including working capital but excluding cost of land) above N200 million and a labour size of over 300 workers.

2.2 The SMEEIS Definition of SME

Section 6 of the Bankers' Committee Guidelines for Beneficiaries of Small & Medium Enterprises Equity Investment Scheme (SMEEIS) proffered the following definition of SMI in 2001:

"..... a small and medium industry is defined as any enterprise with a maximum asset base of N200 million, excluding land and working capital; and with the number of staff employed by the enterprise not less than 10 and not more than 300."

The revised current SMEEIS Guidelines[3] have, however, modified this definition by removing the upper restriction on the number of employees and expanding the capital base of SMEs to N500 Million. Also, the emphasis on "industry" has been removed and replaced with "enterprise" to remove rigidities in investment on projects under the scheme.

2.3 What is SMEEIS?

SMEEIS is acronym for the "Small and Medium Enterprises Equity Investment Scheme". SMEEIS is a voluntary initiative of the Bankers' Committee approved at its 246th meeting held on 21st December, 1999. The Scheme requires all banks in Nigeria to set aside ten percent (10%) of their profit after tax (PAT) for equity investment and promotion of Small and Medium Enterprises (SMEs) in Nigeria. SMEEIS is not a credit-granting scheme.

Under the revised Guidelines, the emphasis on "industry" in the initial name "SMIEIS" (i.e. small and medium industries equity investment scheme) - has been replaced with "Enterprise" to read "SMEEIS" (i.e. Small and Medium Enterprises Equity Investment Scheme.) The emphasis on "enterprise" was effected to remove the rigidities associated with investment under the programme.

2.4 Historical Background of SME Investment Policy In Nigeria.

Before independence, there was no legacy of investment policy on SMEs by the colonial masters. As a matter of fact, industrial investment was believed to be in the exclusive competence of the multinationals.

In order to encourage the growth of small and medium scale enterprises after independence, successive

[3] *The guidelines were revised by the Bankers' Sub-committee on SMEEIS headed by the Managing Director of one of the banks and approved by the Bankers' Committee in April, 2005*

Governments in Nigeria over the years had employed both monetary, fiscal and industrial policy measures at the macro level and financing arrangements at the micro level, to assist the development of SMEs in Nigeria. For example, the Central Bank of Nigeria Monetary Policy Guidelines directed the banks to allocate a minimum stipulated credit to sectors classified as "preferred", including the SMEs whose allocation increased from 10% in 1979/80 fiscal year to 16% and 20% of total loans granted to domestic borrowers in 1980 and 1990 respectively[4]. In the same manner, generous tax incentives were offered to investors in industries in the fiscal policy measures of the Federal Government announced with the Federal Government annual budgets. The Nigeria Export Promotion Council was also established by the Federal Government to assist investors in the export sector. Most of the targeted beneficiaries of these policies were SMEs.

However, the provisions in the monetary and fiscal policies were abolished in 1985 at the introduction of the Structural Adjustment Programme (SAP) which liberalized credit operations of banks.

The problem of credit purveyance to the real sectors of the economy prompted the Federal Government to establish Development Finance Institutions (DFIs), specifically charged with the responsibility of administering long-term credit to the real sectors. The DFIs established by the Federal Government in collaboration with the Central Bank of Nigeria were Nigerian Industrial Development Bank (NIDB), Nigeria Bank for Commerce and Industry (NBCI), Nigerian Agricultural and Co-operative Bank (NACB), the Federal Mortgage Bank of Nigeria (FMBN), the Nigeria Export-Import Bank (NEXIM); the Urban Development Bank (UDB), the Nigeria Education Bank (formerly Students Loans Board) and Peoples Bank of Nigeria. By CBN Decree No.24 of 1991, all development banks are under the supervisory authority of the Central Bank of Nigeria.

In order to enhance and facilitate the credit granting services of the financial institutions in Nigeria, the Federal Government also established some funding programmes to assist the development of SMEs in Nigeria. These included:

(i) Small Scale Industries Credit Scheme (SSICS) set up in 1971 by the Federal Ministry of Industry.

(ii) National Economic Reconstruction Fund (NERFUND).

(iii) Facilitating and guaranteeing external finance through the World Bank, African Development Bank and other international institutions willing and capable of assisting SMEs in Nigeria; e.g. World Bank SME II Loan Scheme.

(iv) The Agricultural Credit Guarantee Scheme Fund (ACGSF) - operated by CBN, approved by Decree No. 20 of 1977.

(v) The Trust Fund Model - by CBN, introduced in 2001.

(vi) The Interest Draw Back Programme by CBN, commenced in 2002 with initial capital of =N=2.0 billion.

(vii) The Small and Medium Industries Equity Investment Scheme (SMIEIS) - an initiative of the Bankers' Committee, which commenced operation in 2001.

(viii) Family Economic Advancement Programme (FEAP).

(ix) Better Life for Rural Women Programme (B.L.P.), etc.

Detail examination of the DFIs and the funding programmes highlighted above is beyond the scope of this paper, since the topic of our discussion today is on SMEEIS. However, it is pertinent to note that during the current democratic dispensation, some of the Development Finance institutions were consolidated through mergers. Some of the funding programmes were scrapped and some new ones were introduced. For example, the small scale industries credit scheme (SSICS) operated by the Federal Ministry of Finance is no longer in operation. The Nigerian Agricultural and Co-operative Bank (NACB), Peoples Bank of Nigeria (PBN) and the Family Economic Advancement Programme (FEAP) were merged in year 2001 to form the Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB). Also, the Nigerian Industrial Development Bank (NIDB) was restructured and renamed Bank of Industry (BOI). The Better Life for Rural Women Programme (BLP) was scrapped.

The restructuring of these institutions was intended to achieve a clearer focus for the new institutions and to address the issues of development financing through capital restructuring

[4] *O.J. Nnanna : Financing Small Scale Businesses under the new CBN directive and its likely impact on industrial growth of the Nigerian economy: BULLION Vol.25, No.3, July/Sept. 2001.*

other stakeholders. Ordinarily, the programme ought to have involved several other stakeholders such as the Federal Department of Cooperatives, State Registrars of Cooperatives, State Ministries of Youths and Social Development, the banks, National Orientation Agency (NOA), Non-Governmental Agencies (NGOs), Community-Based Associations (CBAs) and other related institutions and organizations. This was because the roles to be played by each of these stakeholders were not properly identified, evaluated and assigned. The absence of that synergy had negative impact on the linkage banking programme as well.

The identification and formation of SHGs is supposed to be a professional activity to be carried out by specialized grass root agencies like the Cooperative Officers, Social Mobilization Officers, Non-Governmental Organizations, Community-Based Associations, etc. This is because principally, group formation is a gradual process that attains full maturity at the cooperative society level. Available literature and practice showed that group formation typically followed three distinct but unclearly separated levels. These are: forming, storming and norming stages.

At the **forming** stage, the group is just being formed and confidence is generally lacking. At the **storming** stage, the group is usually characterized by high instability and this represent the stage where unserious members dropped out and potential leaders are groomed. The group attains full maturity at the **norming** stage and members tend to show high level of cohesion. This is the stage where the group ought to be qualified for financial assistance from formal institutions and is the stage that is hardly attained in practice. Experience had shown that SHGs that evolved from Youth/Social Clubs tend to be more cohesive and reliable than those hurriedly formed just to obtain credits from formal financial institutions. Groups often promoted by financial institutions tended to be weak and show tendencies to over rely on the promotion institutions for support.

3.3 THE CURRENT THREAT TO THE LINKAGE BANKING PROGRAMME IN NIGERIA

The main threat to the SHGs linkage programme and indeed all forms of micro-lending by deposit money banks is the issue of consolidation. The CBN directive for banks to raise their minimum capital base would result in fewer but stronger banks in the future. More over, there is also the fear that the consolidated banks might close down more rural branches so as to concentrate in corporate/strategic markets for obvious reasons. The greatest fear therefore is that these "*big*" but *"leaner"* banks may not have the desire to engage in micro-financing.

While the consolidated banks might benefit the real sector at mega-level, majority of the rural population and urban small-scale borrowers are likely to be edged out in the lending process. The above necessitated a proactive search for funding alternatives for the rural farmers, petty traders, artisans and promoters of small and medium enterprises in the country.

4.0 THE WAY FORWARD

For the linkage banking programme to make appreciable impact in Nigeria, there is need to re-examine the *modus operandi* and develop a strong grass-root base for its sustenance. In the light of the weaknesses highlighted in the preceding section and the apparent inability of the conventional banks to imbibe the programme, it is strongly recommended that the community banking institutions be utilized as the pivot point to propel the linkage banking forward. The suitability of these institutions forms the subject of this section.

4.1 THE COMMUNITY BANKS OPTION

Community Banks are self-sustaining financial institutions owned and managed by a community or group of communities, for the purpose of providing credit, receiving deposits and rendering banking and other financial services, to their members, largely on the basis of self-recognition and credit worthiness.

The objectives for establishing community banks in Nigeria were to mobilize rural savings, promote rural development and stimulate productive activities through the establishment of micro-enterprises, especially in the rural areas, to enhance rural incomes and alleviate poverty.

4.1.1 A Review of the Performance of Community Banks in Nigeria (1991 2004)

The number of community banks has been fluctuating in recent years due to the reforms in the financial sector and the need to ensure that only sound and adequately capitalized banks remain in the system. Their number rose from 66 in 1991 to its peak of 1,368 in 1995. The number progressively dropped to 747 in 2001 before marginally rising to 753 as at the end of 2004.

The average deposit liabilities of the community banks increased steadily

than to the impact of the linkage banking programme.

3.2 REASONS FOR DISMAL PREFORMANCE OF SHGs LINKAGE BANKING PROGRAMME IN NIGERIA

3.2.1 Lack of clear operating guidelines

The SHGs linkage programme was introduced without clear guidelines for group identification, formation/adoption and mainstreaming to formal financial institutions. Each Development Finance Office of the Central Bank of Nigeria (CBN) was allowed to determine its mode of operation. This resulted in lack of standardized procedure in group formation, while the assumptions for linkage to banks were grossly under-estimated.

3.2.2 Lack of Set Target

At the inception of the programme in Nigeria in 1991, no targets were set for either the number of groups to be formed or the amount of savings to be pooled within a specified time frame. This oversight contributed to the blurred vision and resulted in low performance.

3.2.3 Lack of Interest by Deposit Money Banks.

Prior to January, 2004 when community banks were granted approval to grant loans under the ACGS, deposit money banks were the only players under the agricultural Credit Guarantee Scheme (ACGS). These banks, including the AFRACA* members among them, did not exhibit any enthusiasm in fully adopting the SHGs linkage programme as none had any explicit criteria for implementing the programme. Only the CBN Development Finance Officers were saddled with the responsibility of promoting the SHGs activities. The number of groups actually linked to banks for credit was presumably very low. Available record showed that the 5 banks that participated in the programme since its inception, were of the old generation class.

It is pertinent to note that the lending policies of the few banks that still lend under the ACGS favour the salary earners as against the self help groups/ farmers cooperative societies' members. Cases abound where SHGs introduced to banks for financial assistance were either rejected or disqualified from enjoying credit facilities on technical grounds.

3.2.4 Macroeconomic reasons

In an economy that witnessed inflation rates ranging between 10 and 15 percent and savings deposit rates of 3-6 percent, it became apparent that the motive to save is defeated. Most farmers preferred to invest in kind than to save in a bank and earn negative real returns. The problem was further compounded by the high lending rates that ranged from 19-35 percent.

3.2.5 Unreliability of SHGs

Since the introduction of the Family advancement Economic Programme (FEAP) in the mid 1990s, the formation of self-help groups/ farmer co-operative societies was politicized and abused. Under FEAP, millions of cooperative societies were registered without regard to due process or any established criteria. Political and some times fraudulent groups were haphazardly formed by people with no common interest but just to obtain loans under the programme, thus discouraging them from participation in SHGs credit.

3.2.6 Proximity to Banks.

With the suspension of the Rural Banking Scheme and subsequent closure of rural bank branches by some banks due to non-viability and related factors, the distance between rural farmers and banks continued to widen. This development serves as disincentive to the regular savings philosophy upon which the linkage banking was hinged. Considering the poor condition of most rural roads and the high cost of transportation, regular remittance of deposits to the bank was greatly hampered. This was supported by *Mohammed (1999)* in his study conducted in Katsina State which showed that catchment areas of a bank that participated in the linkage banking programme span up to 160 kilometers.

3.2.7 Late Processing/ Disbursement of Loans

It was observed that where SHGs managed to meet the lending bank's demands, often there were delays in the processing/ disbursement of loans to the members. In most cases, the banks rarely attempted to shorten the processing time of applications, thus discouraging potential farmers or groups. The non-response of banks led to low morale among the savers and subsequent loss of interest in the programme.

3.2.8 Poor Cooperation with other Major Stakeholders

One of the major issues that contributed to the dismal performance of the linkage banking programme in Nigeria was poor coordination with

**AFRACA Member Banks In Nigeria are: Central Bank of Nigeria, First Bank of Nigeria Plc, Afribank Nigeria Plc, Nigeria Agricultural, Cooperative and Rural Development Bank (NACRDB); United Bank for Africa Plc; Bank of The North Ltd; Union Bank of Nigeria Plc and National Board for Community Banks.*

as well as achievement of professionalism, customer focus and leadership competence.

The inability and/or unwillingness of the deposit money banks to administer long-term credit to the real sectors of the economy, in spite of the government measures highlighted above, prompted several restructuring processes of the financial sector.

In spite of the reforms, the persistent cry for increased funding to SME sub-sector exacerbated. The introduction of SMEEIS programme was therefore part of the financial sector restructuring processes aimed at enhancing access to banking system investment funds through equity financing programme for the promotion of micro, small and medium scale enterprises.

3.0 SMEEIS: A FUNDING PROGRAME FOR INDUSTRIAL GROWTH

3.1 Why SMEEIS Was Introduced

The persistent lack of finance for establishment and operation of SMEs occasioned by the inability and/or unwillingness of the deposit money banks to grant long-term credit to the real sector of the economy led to the establishment of development finance institutions and the introduction of numerous funding programmes for the development of SMEs, particularly in the post independence era.

In spite of these institutions and funding programs highlighted in part 11 of this paper, there continued to be a persistent cry against inadequate finance for the development of SME sub-sector. The deposit money banks that were expected to grant adequate credit to the sector were hampered by the fact that they borrowed short and had to lend short as well. Apart from this, the risk associated with credit administration to small group of uncoordinated producers that lacked adequate collaterals was capable of diminishing the asset base of the deposit money banks.

Consequently, the newly installed President of the democratic Federal Government in May 1999 called on the members of the Bankers' Committee, chaired by the Governor of the Central Bank of Nigeria, to find ways and means of providing adequate financial services for the development of the real sector of the economy.

Pursuant to this Presidential call, the Bankers' Committee at its 246th meeting held on 21st December, 1999 approved the introduction of SMEEIS Programme with its secretariat at the Central Bank of Nigeria.

Credit must be given to the former governor of the Central Bank of Nigeria, Chief (Dr.) J. O. Sanusi, who tabled the SMEEIS initiative before members of the Bankers' Committee and later took some selected chief executives of some banks on study tour to Indonesia and Malaysia to find out how they funded and sustained SME operations in their countries. The result of that study tour led to the commissioning of the SMI Baseline Economic Survey and the development of the SMI - Nigeria Website, solely funded by the Central Bank of Nigeria.

3.2 Objectives of SMEEIS

SMEEIS programme was designed to promote small and medium industries as vehicle for rapid industrialization, sustainable economic development, poverty alleviation and employment generation. The scheme requires all banks in Nigeria to set aside 10 per cent of their profit after tax (PAT) for equity investment and promotion of small and medium industries in Nigeria. SMEEIS funds set aside are accessed by investors for equity investments in eligible industries.[5]

To be eligible for equity funding under the scheme, a prospective beneficiary is required to:

(i) register as a limited liability company with the Corporate Affairs Commission and comply with all relevant regulations of the Companies and Allied Matters Act (1990) such as filing of annual returns, including audited financial statements;

(ii) comply with all applicable tax laws and regulations and render regular returns to the appropriate authorities; and

(iii) engage in any legal business except trading and financial services.

Banks' investment in the Scheme is in the form of equity participation in ordinary shares and non cumulative preference shares with zero coupon rates, through fresh cash injection and/or conversion of existing debts owed to participating banks by the moribund companies they invest to resuscitate.

3.3 Policy making Bodies under the Programme

There are several policy making organs under SMIEIS programme designed to ensure continuous free flow of ideas that will guarantee the smooth operation and successful implementation of the Scheme.

The Bankers' Committee

The Bankers' Committee is the general assembly of all the Managing

Directors/Chief Executive Officers (CEO) of the deposit money banks operating in Nigeria. The membership of the assembly also includes the Chief Executive Officers of the Chartered Institute of Bankers of Nigeria (CIBN) and Financial Institutions Training Centre (FITC). The Governor of the Central Bank of Nigeria is the Chairman, supported by the four Deputy Governors and Directors of relevant Departments in the Central Bank of Nigeria. The Bankers' Committee is the highest policy making organ of the SMEEIS programme.

The Bankers' Committee Sub-Committee on SMEEIS

Since the Bankers' Committee has a wider scope of determining issues affecting the financial sector generally, specific issues concerning SMEEIS programme are referred to the Bankers' Committee Sub-Committee on SMEEIS, chaired by the Chief Executive Officer of one of the banks, for determination and presentation to the Bankers' Committee for approval.

The Sub-Committee handles policy issues that affect the day-to-day operations of the programme by the SMEEIS Secretariat at the Central Bank of Nigeria.

The Presidential Advisory Consultative Committee On SMEEIS (PCC)

The PCC was set up by the Presidency to monitor the progress of the SMEEIS and advice the Federal Government on all crucial issues concerning the administration and/or implementation of the SMEEIS programme. The PCC is therefore an inter-ministerial committee comprising the Presidency, the organized private sector and the relevant Agencies involved in the operation of the SMEEIS development in one way or the other. The Consultative Committee is chaired by the Director of Development Finance Department of the Central Bank of Nigeria.

The SMEEIS Secretariat

The activities of the various sub-committees of the Bankers' Committee on SMEEIS are co-ordinated by the SMEEIS Secretariat at the Central Bank of Nigeria. The Secretariat takes the minutes of the various sub-committee meetings, arranges the meetings and receives the investment reports and monthly returns from the banks. The Secretariat also conducts constant project verification visits to confirm the investments made by the banks under the programme.

3.4 SMEEIS Operations Investment by banks

The 10% of each bank's profit after tax (PAT) is set aside and invested within twelve (12) calendar months. The investments by banks are made directly or through appointed funds managers or venture capital companies. Banks' investments are made through equity participation on ordinary shares and non cumulative preference shares bearing zero coupon rate in partnership with the SME promoters of new projects or existing ones for expansion or resuscitation of moribund projects. Promoters wishing to access SMEEIS funds from a particular bank are expected to provide good feasibility studies of the projects acceptable to the bank that is participating in the Company's equity investment.

After the banks have made the investments and released the funds, details of the investments are made by reporting them to the SMEEIS Secretariat at the CBN.

Project Verification by SMEEIS Secretariat

After banks have reported details of their investments in any project, the Secretariat of SMEEIS arranges a joint visit comprising the investing bank, the SME promoters, the venture capital company (VCC) or fund managers as the case may be. On the factory site, relevant questions are asked and evidence of the release of funds is obtained from the bank and receipt/utilization of the funds from the promoter. After these, the inspection of the facilities acquired with the invested capital is carried out before the investment is confirmed or rejected as the case may be and the bank is notified.

Withdrawal of Uninvested SMEEIS Funds by CBN

At the expiration of twelve (12) calendar months from the date of setting the funds aside after approval by the banks' Annual General Meeting (AGM), the uninvested funds are debited directly by the CBN and invested in Nigerian Treasury Bills for six months. Thereafter, if the bank cannot still get investment outlet, the fund is bided for by other qualified banks.

3.5 SMEEIS Investment Update

Total Funds Set Aside since Inception of SMEEIS

The SMEEIS programme has made significant progress, especially in terms of growth in the total fund set aside, since the commencement of

[5]*Eligible industries are those under agro-allied; information technology; manufacturing; educational establishments; solid minerals; construction; tourism & leisure, and services*

2.2.1 Objectives of the SHGs Linkage Banking Programme (LBP)

The objectives of the SHGs Linkage Banking Programme are to:

- inculcate regular contributions/savings habit in SHGs members and depositing same with formal financial institutions;
- build up business relationships between banks and rural entrepreneurs;
- enhance the viability/ liquidity of rural bank branches through sustained deposit accumulation;
- reduce the transaction costs to both borrower and lender through the adoption of group lending approach;
- reduce the burden of interest charged for loans as the effective amount paid would be the difference between interest on savings and borrowing;
- reduce loan delinquencies as savings mobilized could be used to off-set outstanding loans when the need arises;
- progressively increase the amount of loans as the amounts granted are tied to level of savings;
- reduce collateral requirement as the accumulated savings serve this purpose.

3.0 AN APPRAISAL OF LINKAGE BANKING PROGRAMME IN NIGERIA:

3.1 IMPLEMENTATION UNDER THE ACGS

The Agricultural Credit Guarantee Scheme Fund (ACGSF) was established in 1977 to provide guarantee in respect of agricultural loans granted by banks in Nigeria

The SHGs Linkage Banking Programme was launched under the Agricultural Credit Guarantee Scheme (ACGS) in 1991 and became operational in 1992. The basic assumptions for its operation were that:

- farmers were to be encouraged to form themselves into groups of between 5 to 15 on the basis of common purpose;
- the groups were to be encouraged to undertake regular savings which are to be deposited in a partner bank of their choice;
- after operating such savings programmes for a certain period of time, the members could apply for bank loans;
- bank loans to the groups are to be in multiples of the balance of their savings accounts at the time of loan application;
- the bank applies commercial rate of interest on the savings account and on the loans granted;
- lending banks to hold the group savings as security, which would not be drawn until the loan is fully repaid;
- regular savings by the group members should continue by the members while enjoying the credit facility such that with the retirement of the loan, the group should be ready for another loan of higher amount proportionate to the enhanced savings level.

3.1.1 Number of SHGs Formed

A review of the programme in Nigeria showed that by the end of 1993 eight of the 66 commercial banks with 54 out of 2,305 branches in 22 states participated in the programme. The number of self-help groups involved was 313 out of which 51 were reported to save regularly. Total savings mobilized stood at =N=1.16 million while total loans outstanding were =N=9.95 million (*AFRACA, 1994).*

As at the end of 2003, the total number of SHGs adopted in 22 states of the federation marginally increased to 413. This represents an increase of only 100 groups or 32 percent over a period of 11 years. The performance in terms of actual savings mobilized in the 11 year period was however, more successful. The savings figure rose to =N=12,518,397.30, representing about 980 percent increase compared to the 1993 savings figure. The loan to savings ratio ranged from 2.16 in Delta State to as high as 27.43 in Akwa-Ibom State *(Table 1).*

The above statistics showed that only 413 groups were formed/adopted in 12 years since 1992, giving an average group formation of 34 per annum. In India, a developing nation with similar characteristics with Nigeria, a total of 682,575 new SHGs were formed in 2002/03 alone, while the number of new groups that were financed in the same period stood at a whopping 255,882 *(NABARD, 2003).* Considering the observed trend, it would take Nigeria much longer time to attain the feat achieved by India in a single year.

3.1.2 Impact on ACGS

It is evident that the adoption of the SHGs linkage programme has not resulted in increase in the number of loans guaranteed under the ACGSF. The number of loans guaranteed in fact dropped from 30,704 in 1990, a year before the commencement of the programme in Nigeria, to 22,206 in 1991 and further down to 15,514 in 1993 *(Table III*). In the same manner, the amount of loans guaranteed also dropped from N98.5 million in 1990 to N82.1 million in 1991. Thereafter, the amount steadily rose but more due to the depreciating value of the Naira

by the Central Bank of Nigeria in 1991. Under the programme, group members are expected to save on a regular basis an agreed sum of money with a partner bank of their choice over a reasonable period of time. The partner bank on its part, lends on a timely manner to the group members in multiples of their savings. The group members are equally expected to continue with their regular savings simultaneously with loan repayment so that they would be qualified for higher loans form the bank. The advantage is that borrowers are able to overcome their collateral problem, catalyze savings mobilization and promote group synergy.

The aim of this paper is to define the concept and relevance of the linkage banking programme, review its implementation in Nigeria, especially its impact on the ACGS and suggest ways of improving its efficacy and effectiveness. The paper is presented in five parts. Part 2, following this introduction, explains the basic concepts often encountered in the Linkage Banking parlance. Part 3 reviews the implementation of the Linkage Banking Programme in Nigeria while the way forward was presented in part 4. Part 5 concludes the paper.

2.0 CONCEPTUAL FRAMEWORK

2.1 SELF HELP GROUPS (SHGs)

A Self help Group (SHG) is a voluntary association of people at the grass roots level formed to cope with the challenges of conducting economic and business activities in the rural economy. The members are held together by common objectives usually focused on addressing economic and/or non-economic challenges affecting their well-being. SHGs are formed on the principles of *unity is strength* and the popular adage of *"united we stand, divided we fall"*.

SHGs have long been in existence in Nigeria as informal or semi-formal associations known in different tribes as *Esusu, Adashi, Ajo, Bam, Awana Ntem, etc*. (*Otu, et al, 2003*). They may also be formal if they are registered as cooperative societies. The commonest and the most wide spread forms of SHGs are the Rotating Savings and Credit Association known in the financial parlance as *ROSCAS*. There are usually no gender, occupational, religious or ethnic discrimination in membership of these associations.

The SHG is essentially a sub-set of the informal sector which covers a wide spectrum of economic activities including farming, fishing, petty trading, arts and crafts, local processing and the likes that serve as source of livelihood of millions of Nigerians living in both rural and urban areas.

2.2 LINKAGE BANKING

Linkage Banking is the formal business and financial relationship that exists between SHGs and formal financial institutions with the objective of improving rural, micro, and small-scale financial intermediation. The concept seeks to combine the positive elements of the informal and formal sectors for the benefit of both sides. Linkage Banking was first advocated by the Africa Regional Agricultural and Rural Credit Association (AFRACA) in 1987 and was promoted as a regional strategy to address the wider objective of effective and sustainable delivery of financial services to the rural dwellers and microentrepreneurs.

The programme seeks to "*link banks with self-help groups for savings mobilization and credit delivery*". The savings mobilized contributes to self-sustainability of the lending institution by providing attractive source of deposits while linkages with self-help groups address the problems of transaction costs in rural and micro credits. The viability of the programme was to be enhanced by using real interest rates and also by incorporating all the costs of intermediation in the loan package.

The history and development of Linkage Banking in Africa dated back to the early 1980s when it was observed that many financial institutions could not deliver sustainable financial services to the poor effectively due to factors such as high transaction costs, low repayment rates and declining funding from governments and international donors. AFRACA, which is an association of banks, many of which are development and agricultural banks, initiated the search for strategies and financial products that could serve the rural poor in a sustainable manner and thus transform rural areas for the better. Members of AFRACA, then organized series of workshops aimed at promoting self reliance by rural dwellers through savings mobilization. One of the key workshops which preceded the introduction of the programme in Africa was the one held in Harare, Zimbabwe in October, 1987 with the theme "*Role of Informal Groups in Rural Financial System"*. A follow up workshop was later held in Abidjan, Cote d'Ivoire in 1989 (*Odera, 1998)*. These workshops, and other successive studies on the informal sector paved way for Linkage Banking. Nigeria was the first country in Africa to initiate a pilot Linkage Banking Programme in 1991.

the scheme in 2001. As at end of May, 2005, the total funds set aside by 82 banks under the programme accumulated to N30.998 billion. Since the SMEEIS Programme is on-going and with the raising of capital base of banks to N25.0 billion, the fund set aside under the programme is expected to increase tremendously.

Investments by Banks

While SMEEIS set aside funds continue to grow in leaps and bounds, the investments under the programme are hampered by a number of teething problems. First and foremost, most of the banks entered into the programme at the time they were ill-prepared, especially in terms of expertise in equity investments. The banks generally lacked the required manpower to embark on such a programme that required detailed analysis of numerous project ideas proposed by small scale entrepreneurs who themselves were mostly illiterates and incompetent in the areas of project feasibility preparation and report writing for banking system equity financing. The infrastructural facilities that were to be provided by the government, such as power supply, access roads, public water supply in addition to stable macro-economic policy that could guarantee steady economic growth are still lacking.

Consequently, total investments made by 58 banks since the inception of the Scheme stood at N10.018 billion in 196 projects as at end of July, 2005. The sectoral spread of these investments showed that the real sector accounted for N6.581 billion invested in 132 projects compared with the service-related enterprises which accounted for N3.437 billion invested in 64 projects while micro-enterprises which are assigned 10% of SMEEIS funds in the Guidelines are yet to record any investment since the inception of the Scheme (table1). Investment in micro-enterprises through the micro-finance institutions is deterred by the non-release of the micro-finance policy and regulatory guidelines which are being prepared by the Central Bank of Nigeria.

The geographical spread of the investments on the other hand shows that Lagos enjoys the lion share of 126 projects valued =N=5.852 billion or 64.3% of the total projects and 58.4% of the total value as at the end of July, 2005 (table 2).

4.0 IS SMEEIS ANTI-INDUSTRIALIZATION?

4.1 Arguments Against SMEEIS Provisions

The introduction of SMEEIS programme was received with open hands when it was announced in December, 1999. However, four years after the commencement of the programme in year 2001, the funds set aside by 82 banks operating the scheme kept on accumulating, whereas disbursement and investments have not increased proportionately.

The frustration encountered by many SME investors who are aware that there is money for investment but could not access it easily for one reason or the other led them to conclude that the SMEEIS programme is anti-industrialization.

Some of the arguments made by the antagonists of the SMEEIS programme are discussed below:

Capital Structuring

The initial Scheme guidelines provided that only ordinary shares could be accepted for equity participation in the Scheme. Many had argued that this provision was anti-investment policy under equity programme since equity shares comprised both ordinary and hybrid of preference shares ranging from deferred, cumulative to participatory stocks. However, the proponents of the provision argued very strongly that the preferred stock should not be accepted because they were un-equitable in the sharing of profit and losses. Besides, the nature of premium charged on the preferred stock conjured the attribute of mortgages whose interests placed overhead burden on the investors; and this was the very reason why SMEEIS was introduced to relieve investors of the overhead burden on interest payments. However, the revised guidelines now permit non-cumulative preference shares bearing zero coupon rate as part of capital structure for the SMEEIS operating companies.

Activities covered by The Scheme

Before the review of the guidelines was effected, activities that were eligible for equity participation in the Scheme were highly restrictive. Many antagonists of the Scheme argued that the activities selected for funding under the Scheme were too selective and rigid and therefore, anti-investment. However, the guidelines were recently reviewed and approved by the Bankers' Committee and published by the SMEEIS Secretariat on April 1, 2005. The new guidelines has therefore provided for "every legal business activity" except trading, merchandising and financial services, as eligible activities to be funded under the programme.

Definition of Small & Medium Enterprise

The provisions in the old guidelines had placed minimum and maximum number of employees to be engaged by participating companies under the programme. Also, maximum limit was

placed on the amount of capital to be employed. These provisions were considered to be highly rigid and anti-investment. However, the provisions have now been relaxed in the new guidelines and the restriction on the number of employees has been removed and the capital base expanded from N200 million to N500 million to boost investment expansion under the programme.

Sectoral Allocation of Investment

The dichotomy between the real sector and services which hitherto was 60% for real sector and 30% for services in the old guidelines has now been removed to allow for free investments unimpaired on account of sector. This was another source of complaint against the SMEEIS programme. Both sectors are now to receive a combined investment ratio of 90% with micro-finance investments taking the remaining10% of the total set-aside funds.

Limit of Equity Investment

The current guidelines limit investment by banks in any one project to 40% of project capital subject to a maximum limit of N200 million. This provision is still a subject of controversy among the banks and especially venture capital companies appointed to manage the banks' funds. However, the provision was made to ensure wide spectrum participation, instead of allowing few projects to take the whole programme fund.

The above controversies are, therefore, not enough reasons for anyone to conclude that the SMEEIS programme is anti- industrialization. SMEEIS has come to complement other funding programmes for SMEs, such as the development finance institutions, agricultural credit guarantee scheme, the trust fund model, interest Drawback Programme, refinancing and rediscounting facilities, etc.

4.2 SMEEIS Impact assessment

The summary of what we have been discussing in this paper is that, no matter how small SMEEIS contribution may be considered to be, it has come to compliment the contributions of the other funding institutions, agencies and programmes. It has, indeed, provided an equity funding of =N=10.018 billion and created additional employment of well over two thousand workers in twenty-four states of the federation within a period of four years. Besides, there is a pool of funds already set aside as at 31st July, 2005 that is yet to be invested by the participating banks under the programme in the tune of =N=20.980 billion. Of this amount, =N=6.135 billion had been withdrawn from the banks by the Central Bank of Nigeria and invested on Nigerian Treasury Bills as penalty to the owners who did not invest them as and when due. The debiting of banks' uninvested funds by the CBN is expected to ginger the banks to invest the funds. The Bankers' Committee Sub-committee on the SMEEIS is currently working on the modalities for investing all the un-invested withdrawn funds.

To ease the rigidities associated with equity investment and assist the participating banks to invest their funds as at when due, the Bankers' Committee approved the revised SMEEIS operating guidelines presented to it in April 2005 by the Sub-committee appointed to review the guidelines. The Central Bank of Nigeria has placed the revised guidelines on its website for the benefit of all the stakeholders. Arrangements are being made to print hard copies of the revised guidelines for creative use by the banks and circulation to stakeholders.

It is expected that the above steps taken by the various policy making organs of SMEEIS will greatly improve investors' access to SMEEIS funds in the near future.

5.0 THE WAY FORWARD

There is no doubt that SMEEIS is a useful tool for industrialization in Nigeria through increased funding of the SME Sub-sector. However, the slow rate of investment of the set-aside funds calls for concerted effort to step up the pace of meaningful investment of the funds. Some of the proposals to move the scheme forward are discussed below:

5.1 Baseline Economic Survey on SMEs

The developing countries that are now on the threshold of industrialization are known to have conducted baseline economic survey to provide investment information on SMEs as tool for industrial growth. Countries such as China, Taiwan, South Korea and India have strong information network on their SME activities. The recent case studies on SME operating countries focus on Indonesia and Malaysia.

Borrowing from Indonesia, the Central Bank of Nigeria has concluded her study on the baseline economic survey of SMI in Nigeria which has identified and provided useful information on industrial raw materials and solid minerals, their locations, uses and quantities available for industrial production. Efforts should therefore, be made to disseminate these information to the stakeholders. Also, there is need for continued maintenance of the SMI database to assist investors wishing to establish SMEs with the necessary information

THE SELF-HELP GROUPS (SHGs) LINKAGE BANKING PROGRAMME: CONCEPT AND PRACTICE IN NIGERIA[1]

BY
S. F. MOHAMMED

S. F. Mohammed

1.0 INTRODUCTION

The provision of affordable financial services to the rural population has been a key component of development strategy for the past decades. Direct intervention in rural financial markets through targeted credit programs, interest subsidies and other government controls became widespread in the post - independence era, when *Keynesian* economic thinking inspired public intervention as a development strategy.

In Nigeria, among the policies employed to make credit available by formal institutions to rural and micro entrepreneurs were the sectoral allocation of credit and concessionary interest rate. Since 1969, when the first monetary circular was issued to banks by the Central Bank, banks were compelled to lend at least a minimum percentage of their loanable funds to agricultural sector. The stipulated minimum grew from 4.0 percent in 1972 to 18.0 percent in 1996. Interest rates chargeable on agricultural lending were compulsorily set at 3-5 percentage points below the rates charged for other economic activities. These policies were abandoned under the economic reforms of the structural adjustment programme (SAP).

Programmes and Schemes introduced to enhance credit flow to the rural sector included the establishment of the Nigerian Agricultural and Cooperative Bank (*NACB*) in 1972, the Rural Banking Scheme *(RBS)* and the Agricultural Credit Guarantee Scheme *(ACGS)* both in 1977. The NACB was established specifically to deliver credit for agricultural production and marketing and for development of agro-allied industries. The Rural Banking Scheme was introduced to enhance banking habits among rural dwellers and increase their access to formal credit from banks while the ACGS was designed to encourage banks to increase lending to the agricultural sector by providing some form of guarantee against the risk of default. The Peoples' Bank and Community Banking and the Family Economic Advancement Programme (FEAP) were also established to facilitate easier access to institutional credit by micro-entrepreneurs and rural farmers. The NACB, Peoples' Bank and the Family Advancement Economic Programme (FEAP) were merged to form the Nigerian Agricultural, Co-operatives and Rural Development Bank (NACRDB) in 2002 to streamline the channels for credit flow to the rural sector.

Despite all these initiatives, studies have shown that micro-entrepreneurs and rural farmers source a sizeable proportion of their capital requirement from the informal sources such as money lenders, relatives and friends as opposed to the formal financial institutions such as banks and other public sector credit agencies. A survey on sources of credit to rural entrepreneurs carried out by *Amali* (1996) showed that friends, relatives and neighbours constituted the highest source of credit to rural dwellers with 63% followed by money lenders with 29%. Sources from Co-operatives amounted to 7% while banks constituted only 1%. The same studies concluded that the factors militating against the effective performance of the formal sources of credit to rural farmers were lack of sufficient loanable funds, high administrative costs and low repayment rates by the rural farmers. The farmers in turn indicated that bureaucratic and cumbersome loan procurement procedures and delay in disbursement of loans were the cause of their apathy to formal credit sources (*Mohammed, 1999*).

As part of its development promotion roles, and as the managing agent of the Agricultural Credit Guarantee Scheme Fund (ACGSF), the Central Bank of Nigeria (CBN), sought to evolve a viable and sustainable credit strategy with a built-in growth factor that would improve the level lending under the scheme. This led to the introduction of the concept of **" Self-Help Groups Linkage Programme"**

[1] *Mr. Mohammed is a Manager, Development Finance Department, Central Bank of Nigeria. The views expressed in this paper are entirely those of the author and do not represent the opinions of the Management of the Central Bank of Nigeria.*

TABLE 2

GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS BY BANKS AS AT JULY 31, 2005

STATE	NUMBER	AMOUNT(N'MILLION)	% TOTAL NUMBER	% TOTAL AMOUNT
ABUJA FCT	4	255,000,000.00	2.0	2.5
ABIA	5	434,000,000.00	2.55	4.33
ADAMAWA	-	-		
AKWA IBOM	1	45,000,000.00	0.6	0.5
ANAMBRA	4	191,196,000.00	2.0	1.9
BAUCHI	1	68,400,000.00	0.55	0.75
BAYELSA	-	-		
BENUE	1	30,000,000.00	0.55	0.33
BORNO	-	-		
CROSS RIVER	4	192,456,000.00	2.04	1.92
DELTA	4	415,890,000.00	2.0	4.2
EBONYI	-	-		
EDO	4	242,700,000.00	2.04	2.42
EKITI	1	12,600,000.00	0.55	0.14
ENUGU	1	90,000,000.00	0.6	0.9
GOMBE			-	-
IMO	1	66,600,000.00	0.55	0.74
JIGAWA	1	30,000,000.00	0.55	0.33
KADUNA	4	140,000,000.00	2.0	1.4
KANO	6	238,539,000.00	3.06	2.38
KATSINA	-	-		
KEBBI	-	-		
KOGI	-	-		
KWARA	1	15,440,000.00	0.51	0.15
LAGOS	126	5,851,953,465.04	64.3	58.4
NASARAWA	1	102,000,000.00	0.51	1.02
NIGER	-	-		
OGUN	9	407,060,000.00	4.59	4.06
ONDO	2	48,200,000.00	1.0	0.5
OSUN	-	-		
OYO	5	175,000,000.00	2.6	1.7
PLATEAU	2	53,446,000.00	1.0	0.5
RIVERS	6	835,000,000.00	3.1	8.3
SOKOTO	1	27,665,000.00	0.51	0.28
TARABA	-	-		
YOBE	-	-		
ZAMFARA	1	50,000,000.00	0.55	0.55
TOTAL	**196.00**	**10,018,145,465.04**	**100.00**	**100.00**

required to access SMEEIS funds. The CBN SMI Nigeria website has been developed and would be launched on 13th September, 2005 at the Muson Centre, Lagos. Also, plans have been concluded by the CBN to print hard copies of the SMI Nigeria information in the forms of brochures and CD Rom for creative use by the banks and distribution to other stakeholders. This will help SME operators to co-ordinate and organize themselves into credible and formidable bodies that will enable their members have un-impaired access to SMEEIS fund in particular and banking system credit in general, to boost their output.

5.2 SME Industrial Clustering

The government should urgently provide industrial demarcation areas with the entire necessary infrastructure such as access roads, electricity, communication, water supply etc. as a necessary condition for efficient and effective industrial clustering of SMEs in the country.

5.3 Sensitization Campaigns on SMEEIS

Many SME operators are unaware of the basic requirements needed to access SMEEIS funds from the banks. These requirements may vary from bank to bank. Therefore, there is the need for the individual banks to publicize their individual requirements for the benefit of their customers. The Bankers' Committee Sub-committee on the SMEEIS has been discussing ways and means of harmonizing the requirements from individual banks for the information of SME investors.

The Central Bank of Nigeria, in liaison with the Sub-committee on SMEEIS, has continued to publicize the activities of SMEEIS through paid adverts on radio jingles, electronic and print media as well as organization of workshops and seminars on SMEEIS as stipulated in the SMEEIS guidelines. The Bank has also concluded plans to organize this years' campaign on zonal basis, involving all the states of the federation. The states commissioners in charge of ministries of industry and commerce, agriculture, finance and economic planning are particularly invited to participate with their staff in the campaigns.

5.4 Capacity Building For SME Operators

Training and exposure at seminars and workshops on SME operations for the entrepreneurs and banks is critical for the smooth operation of SMEEIS. Particularly, the promoters of SMEs are expected to be enlightened in the areas of feasibility study preparation and report writing for banking system equity participation. Many SME promoters do not understand the basic requirements of setting up a business organization and therefore cannot meet up with the requirements of the banking system equity funding. They also need to be empowered to fund this preliminary aspect of SME operation, since SMEEIS fund do not cover this initial aspect.

We therefore recommend that the Universal Basic Education and Poverty Alleviation Programmes of the government should be seriously and honestly implemented by the Federal and State Governments as they are crucial to the success of the SMEEIS programme.

5.5 Maintenance of Stable Price and Exchange Rate

The macro-economic indices in the last four years showed that there was high instability in the prices of products, especially petroleum products, such as diesel and petrol, which are extensively used by micro-enterprises. This led to high cost of transportation, raw materials, power generation, wages and lower standard of living. The exchange rate for the Naira also depreciated, leading to high cost of import on raw materials used by the manufacturers of SME products. Government should ensure that these prices are stabilized through effective and efficient implementation of fiscal and monetary policies. We must acknowledge the effort of the Central Bank of Nigeria in managing the liquidity overhang, and the on-going consolidation, in the banking system. These efforts, as laudable as they are, will achieve the desired effect only if the fiscal authorities align their efforts in tandem with the monetary policies.

5.6 Infrastructure Development

Our discussion on the way forward will be meaningless without noting the poor state of infrastructural facilities, particularly electricity, access roads, and public water supply. Our experience in the field inspection of SMEs show that the persistent cry for inadequate funding is due, in part, to the fact that a good portion of the funds is used in generating power and for transportation of raw materials and finished goods. No nation can move forward towards industrialization with comatose power supply, ineffective transport system and poor public water supply. The three tiers of government should therefore take urgent step about these facilities.

5.7 Conclusion

The question as to whether SMEEIS is pro or anti-industrialization should not arise, if we are conversant with

the background of the scheme, its objectives, operations, constraints and achievements.

SMEEIS is a support funding programme to the other numerous channels of investment on SMEs. It has not come to reduce investment on SMEs; rather, it has contributed, even if modestly, to the pool of investible funds available to SMEs.

If we understand the constraints facing the scheme, we could then appreciate the achievements of the scheme within four years of its introduction. For example, the programme was introduced with the understanding that the governments at all levels would be able to play their own part, especially by providing the basic infrastructural facilities required for the execution of the programme. The most critical of these facilities are constant power supply, access roads and transportation, which should be addressed.

REFERENCES

CBN Briefs. Series No. 2002 3/01.

C. M. Baumback. Basic Small Business Management; Prentice-Hall, Engelwood Cliffs, N. J. 1983.

John O. Udeh. Entrepreneurship in the 21st Century;A training guide on Entrepreneurship Studies for small and medium-scale Enterprise development & management, 1999.

Nnanna, O. J. Financing Small Scale Businesses Under the new CBN directive and Its likely impact on industrial growth of the Nigerian economy: *Bullion* Vol. 25, No. 3, July/Sept. 2001.

SMIEIS Guidelines for Beneficiaries. An initiative of The Bankers' Committee, June 19, 2001.

SMEEIS Guidelines (Revised). An initiative of the Bankers' Committee, June 19, 2005.

TABLE 1

SECTORAL DISTRIBUTION OF INVESTMENTS BY BANKS

AT JULY, 2005

S/NO	SECTOR	ENTERPRISE	INVESTMENT		% TOTAL	% TOTAL
			NO.	AMOUNT	NUMBER	AMOUNT
1	REAL SECTOR	Agro-allied (including wood-work& water bottling)	23	736,683,000.00	11.73	7.35
		Manufacturing (including printing &publishing)	96	4,673,556,466.00	48.98	46.65
		Construction (including quarrying)	10	1,111,288,000.00	5.10	11.09
		Solid Minerals	3	59,440,000.00	1.53	0.59
		SUB-TOTAL	**132**	**6,580,967,466.00**	**67.35**	**65.69**
2	SERVICE-RELATED ENTERPRISES	Information Technology & Telecommunications	16	1,314,762,999.04	8.16	13.12
		Educational Establishment	4	133,935,000.00	2.04	1.34
		Services	39	1,730,260,000.00	19.90	17.27
		Tourism & Leisure	5	258,220,000.00	2.55	2.58
		Others	0	0.00	0.00	0.00
		SUB-TOTAL	**64**	**3,437,177,999.04**	**32.65**	**34.31**
3	MICRO-ENTERPRISES	Micro-Enterprises			**0.00**	**0.00**
	GRAND TOTAL		**196**	**10,018,145,465.04**	**100.00**	**100.00**