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ENHANCING LONG-TERM SAVINGS CULTURE IN NIGERIA THROUGH THE NATIONAL SAVINGS CERTIFICATE

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INTRODUCTION

In Nigeria's economic history, the strides of the last five years, which have been internationally acclaimed, are unprecedented. The many reforms that have engendered the current success have largely included those in the financial sector, particularly, the positive policy shifts in the domestic money market as first steps towards a more robust and enduring facelift for the sector. Part of the expectations are that the improved enabling environment from the reforms would continue to make more investment funds readily available, as well as attract droves of foreign direct investment. The challenges that remain include the need to deliver on the remaining objectives, as well as build on and sustain the current achievements.

In this regard, an area of concern, which requires continued close consideration of the Nigerian policymakers is how to attain the level of long-term savings that would adequately service investment needs. More specifically, the type of investments that would drive the current economic reform agenda as enunciated in the National Economic Empowerment and Development Strategy (NEEDS) programme. But let it be known at the onset, that it is not for lack of good policies that past attempts by the monetary authorities have failed to correct the imbalance between the quantum and composition of available national savings and the demand for investment funds. Rather, many factors, including cultural and other social values have been major constraints. However, the recent proposal to introduce a National Savings Certificate could be seen as a welcome solution to this lingering problem.

Nonetheless, it is imperative that, within the current economic reform agenda, lending to long-term investments must attain a higher proportion of Banks' loan portfolios, if the on-going consolidation programme for banks and other similar reforms in the financial sector were to achieve the desired objectives. However, it would be inappropriate to ignore the concerns being expressed that small savers and investors might not be adequately catered for in the current consolidation arrangement, going forward. Similarly, the ongoing privatization programme can only be meaningful, equitable and supportive of the poverty reduction projects under the millennium development goals (the MDGs), if small investors are considered in the ownership arrangement for the privatized institutions. In addition, the drive for domestic long-term savings that will enhance long-term investment should be appropriately and timely undertaken.

It is within these perspectives that this paper will consider the operations of a National Savings Certificate as a panacea to the dearth of long-term savings for long-term investments, to justify the reforms and achieve accelerated economic growth. In this regard, the rest of this paper is divided into six sections. Section 1 considers the theoretical framework, while trend analysis of savings in Nigeria will be the focus of Section II. In order to appropriately focus modalities for the operation of the proposed National Savings Certificate and appraise its effectiveness, the features of the instrument will be x-rayed in Section III, using the lessons of experience of India and the United Kingdom. The challenges that will need to be tackled in addressing the problem of long-term investment will be highlighted in Section IV. The Policy Recommendations for operating the Nigerian scheme will be analysed in Section V, while the Conclusions in Section VI will draw largely from the analyses in Sections II and IV.

SECTION I
LITERATURE REVIEW-LONG-TERM SAVINGS IS AN INDISPENSABLE OIL TO THE ENGINE OF ECONOMIC GROWTH

a. What is saving and why save?
Saving means a surplus of production over consumption, which can be achieved in two ways: either by reducing consumption or by increasing production. The definition of savings as a reduction in consumption is aptly captured in the

popular parlance that a farmer who consumes the seedlings meant for the next planting season cannot expect to reap a bumper harvest the next time around. As such, in a real sense, the notion of saving has preceded modern man; entailing the logical division of available food over a specific period, in order to create a store of surplus for rainy days.

The motive for saving which has increasingly been influenced by religious and ethical teachings remain no longer logical when exposed to the cultural renaissance of rational, economic and societal development and when experiencing an economic expansion process. The logic of the new development trends affects the behaviour of the individual, and the consistency and security of traditional moral code are no longer valid. Saving decision has thus become a reaction of an individual's objectives, a desire of possessions in life. A saver possesses a variety of driving forces from all sides, which determine his behaviour. The saving process is in that context, an outcome of both the economic attitude, as well as his socio-cultural development. As a result, taken, a sustainable theoretical description of development of an absolute theory of the saving problem is, therefore, impossible.

b. Cultural influence on Savings - In old Greek literature, saving appears to be an ethical feeling and someone's duty towards oneself, friends and state. At the micro level, this saving behaviour fulfilled the need for security; at the macro level, people were encouraged to allow others to use the stored funds for a specific price (interest). Similarly, the appropriateness of storing and saving money was the focus of theological thought, as enunciated in most religious beliefs. Historical observation reveals that saving has always been a complicated process and saving motives have always remained under the influence of general standards in a society. The dogmatic history also shows a complete picture of the gradual and consistent building of motives and driving forces of saving, such that an idea is given of the respective historical situations and modifications in the ideology of the savers with the development of culture in different eras.

MANTEUFFEL (1900) distinguishes the saving motives from saving conditions. To him, economic behaviour and an expectation of profit count as saving motives, while the inborn instinct to save, upbringing and training to save from childhood constitute the saving conditions. In other words, motives represent the inner driving forces, while conditions represent the outer ones. MARSHALL (1905) also holds similar views and sees love in and affiliation with the family as a major inner drive which arouses a sense of development, as the expectation and progressiveness to come forward in life to ensure a better future to the family. The influence of culture is specially emphasized because he views the sense of saving as developing along with development of culture.

c. The Role of Savings in the Modern Economy - Over time, ethics and culture in savings have kept losing their significance with respect to society and economy, major attention is now diverted to economic factors. In the modern world, savings are as important to the corporate world and the general government, as they are to households, because savings provide independence and allow the saver to plan for the future, as well as secure investment for enhanced production and growth. In most economies, household savings constitute a substantial proportion of aggregate national savings and they play two key roles. First, they offer potential benefits to savers, such as security, if things go wrong and comfort in old age, as well as independence and opportunity throughout savers' lives. Secondly, household savings are an important source of capital to fund investment and growth in the economy.

d. The Savings Market - The savings market can be split into three broad segments-short and long-term saving markets. Short-term savings are intended to provide the saver with a readily accessible reserve of funds to cope with any household emergency. In that sense, for economic development considerations, real savings are long-term in nature, or at the least, medium-term in nature the money saved for a new car or a holiday would not be savings; that is short-term money designed to see the saver over a crisis or emergency. Savings are therefore designed to reflect the growth in the economy, preserve wealth against inflation and ensure that the saver can be independent. The need for ease of access to short-term savings means they are typically held in assets such as cash and deposit accounts. Long-term savings, in contrast, are often invested in assets that are relatively illiquid and relatively risky in that the saver may not get back the full value of whatever was invested, initially. These include savings in pension schemes, government bonds and stocks, and investment in endowment policies such as life insurance and mortgages. In between these sets of instruments are investments in savings that are somewhat of medium term tenors such as, corporate equities (company shares), savings with unit trusts and commercial papers.

The initial objective of long-term

savings is usually to enable the saver to accumulate a capital sum. The ultimate aim may be to use this capital sum to fund specific spending, such as paying off a mortgage for a house, or alternatively, to boost living standards by using the lump sum to provide an income, often by saving within a pension plan. Pension savings, either via a personal pension or via an occupational pension, are thus an important part of the long-term savings market.

e. Long-term Savings and Economic Growth - What relationship? - For rapid and meaningful economic development there is more to savings beyond maintaining an adequate level. It goes to the more important issue of the tenure of the savings; whether it is durable enough to accommodate the pattern of investment that will ensure stable employment of economic resources and withstand the usual vagaries of economic cycles. A simple illustration to drive this point home is to compare the tenure and returns on economic trees or cash crops with the tenure of and returns on common food crops. The rule of long-term savings and wealth creation are that, maturity of the savings demands time (waiting), but attracts compound interest, while the saver needs to understand growth and income and that nothing in life is risk-free.

f. Impact of savings on economic growth through the Multiplier - To put this in purely economic terms, a change in the amount of income or level of employment is, ceteris paribus, a function of the change in the amount or level of investment. This is the theoretical framework of the general principle for explaining the quantitative relationship between an increment of net investment and the associated incremental aggregate income, 1/s called the multiplier. In an equilibrium model where there are no lags in consumption or output, the Keynesian linear relationship indicates that the flow conditions of the product market equate planned investment and savings. In other words,

$Y = Z = C + I = C(Y) + I$; where
Y = National Income;
Z = National Expenditure;
C = consumption; and
I = Investment

This same identity makes Investment equal to Savings, i.e. $I = S$

The Linear Multiplier indicates that if the marginal propensity to save is a constant, s ($0<s<1$), then the equilibrium level of income Y is a multiple ($1/s > 1$) of autonomous expenditure; where

$Y = C + I$;

$C = C(Y)$ and $S = Y - C(Y)$ for the consumption and saving functions.

They are equivalent to the equality of planned investment and saving; $I = S$.

From these we obtain the equilibrium condition for income $Y \;\; C(Y) = I$.

In the linear consumption function,

$C = C° + cY$, where the marginal propensity to consume is a constant c at all income levels ($0<s<1$);

therefore: $Y = C° - cY = I°$;

$$Y = \frac{C° + I°}{1 - c} = \frac{C° + I°}{s}$$

(where $s = 1 \;\; c, 0 < s < 1$)

The constant C° of the consumption function, i.e that part, which is autonomous and not dependent on income, simply serves as an addition to the given autonomous investment in determining Y. Hence, autonomous consumption expenditure C° can be added to autonomous investment expenditure I° to give total autonomous expenditure: $A = C° + I°$

In this model A is given, and the consumption and saving function can be rewritten thus: $C = cY$ and $S = sY$ where $s = 1 \;\; c$

The equilibrium level of income follows $Y = A$ where $s = 1-c$ which produces the multiplier result that:

If the marginal propensity to save is a constant s (0 < s <1), then the equilibrium level of income is a multiple (1/s >1) of autonomous expenditure A, i.e. all forms of autonomous expenditure on consumption and investment get multiplied up into income.

g. Alternative Theory of Savings - A Study conducted by some economic theorists including Martin Kane Jensen of Brown University, tried to highlight the links theoretically between savings and growth and assess them empirically. The study was a follow-up to a certain *wealth evolution equation (WEE) theory in which the question, does savings cause growth (or the opposite)?*, was posed. The question is, a classical one dating back at least to the days of Keynes. This may be interpreted as evidence of causality running from the growth rate to the savings rate. However, the study submitted that it is far from clear how the savings side could enter in a conventional growth regression.

The study agrees that any growth model must begin by adopting a savings theory if it is to yield definite predictions as in the Solow model, which implies the inclusion of the savings rate as a right-hand side variable, and the correlation between income level and savings rate is found to be significantly positive. The Study posited that the savings rate may say much or say nothing about future prospects for economic growth. The easiest way to appreciate this is to note that the growth factor of a closed economy equals the savings-capital ratio. If the savings rate decreases what happens to the growth rate? The answer is clearly that this depends on the capital-output ratio. But the

capital-output ratio is intimately tied to savings behaviour since capital is wealth and wealth is the stock which savings flows into. In this way wealth, savings, and income together determine the outcome.

Their submission is also rested on the fact that, most, if not all macroeconomic theories of savings are long-run theories, which are likely to be upset by short-run (temporary) changes in, for example, labour income. Decline in savings rate has received enormous attention, simply because basic book-keeping combined with the fact that the great majority of domestic investment is financed by domestic savings (Taylor 1996), suggests that without savings there cannot be growth. Decreases in savings rates need not lead to lower wealth accumulation. However, the Study submitted that it is the latter which ultimately matters for long-run growth.

Yet, the link between savings rates and growth performance is not as simple as one may be led to believe. Carroll and Weil (1994) directly address the question of Granger causality. They find that growth Granger-causes savings, which means that causality cannot run in one direction from savings to growth (but it does not mean that causality runs from growth to savings). Levine and Renelt (1992) single out a positive relationship between the investment share in GDP and the growth rate as by far the most robust finding of cross-country regressions.

Furthermore, the study examines the effect of capital taxes on economic growth, and submitted that there is no significant negative correlation (at -0.10) between capital taxes and growth of savings. This is because the savings rate, however, measured is not an accurate measure of thrift; and stands in no simple relationship to the rate of accumulation.

SECTION II
THE SAVINGS CULTURE IN NIGERIA: TREND ANALYSIS

The availability of long-term investible funds will, ceteris paribus, depend on the availability of long-term savings. In other words, the availability of long-term investment funds in an economy can only take a cue from the centre of concentration of the tenure of savings in the financial market, since it would be ill-advised to apply short-term funds to finance long-term investments. This error was the bane of the distress conditions of finance houses, insurance outfits and some deposit money banks in the early 90s in Nigeria. An economy that is awash with short-term savings, but low on the long-term tenor, may not expect accelerated investment that should catalyse real gr owth.

Dearth of Savings: A global phenomenon - The dearth of savings had always been of grave concern to developed countries, as it has always been to developing ones. For instance, Great Britain and US displayed average net savings rates well below 10% since the beginning of the eighties. However, countries such as France, Germany, Sweden and Denmark have saved between 15 and 20% of GDP in the same period, while Norway and Japan are above 25% on average. The savings ratio defined as household savings as a percentage of gross household disposable income in the UK remained below 8.9% average, and there are particular concerns about the flow of savings into pension funds.

In Nigeria, the seriousness of the problem of low long-term savings may not have been greatly felt because of some peculiar environmental and cultural reasons. For most parts, the average Nigerian investor operates at the short-end of the business coupled with the fact that the enterprise is small, or at best medium-scale in size. Consequently, the money market has equally developed along the lines of the priority needs of the borrowers, while the economy is the worst for it. For lack of other avenues, the small and medium-scale Nigerian entrepreneur starts a business by borrowing from friends or relations, or taking credit at impossible interest rates from local thrift and saving societies, or the traditional daily saving arrangements, called by different names in different cultures.

Nonetheless, this is not to allude that the monetary authorities have done little to address the problem of savings, as many policy reforms had been introduced in the past, especially in the money market. Many factors, including failure to diversify the country's economic base, as well as cultural hindrances and lack of adequate exposure to modern business techniques have contributed substantially to the ineffectiveness of past reforms. On the other hand, vast sums of deposits have been lying idle for many years, especially public-owned insurance and mortgage institutions, begging for utilization.

Analysis of Savings Trend in Nigeria

In Tables 1 & 2, out of annual average savings of N197.2 billion for the ten year period, 1992-2001, long-term savings accounted for barely 10%, while short-term savings was about 56%, although medium-term saving did not perform poorly at 34%. However, the trend was not even in all the years, as the bulk of the figures were concentrated in the last four years, especially for long-tem savings which was as low as 0.4% and 0.3% for 1992 and 1993, respectively.

Total savings as a percentage of Gross Domestic Product (GDP) was very low at annual average of about 8% (the ratio was worse between 1995 and 1997), but trended upward as a percentage of Foreign Direct Investment (FDI) from 179% to 574%. The reason for the latter, was more for the declining rate of FDI inflow during the period than because the rate of savings was falling (see Table 3).

In terms of credit to the economy, the banking sector has progressively been lending higher proportion of total credit to the private sector, about 22% in 1993 to close to 98% in 2001, and as a ratio of GDP, the increase to the sector has been substantial such that it doubled from 8% in 1992 to about 16% in 2001 (see Table 4). However, the maturity structure of loans as revealed in Table 5 supports the earlier submission about the short-tenor of the investment business done by banks in Nigeria. Credits on call accounted for over 52% of total, while other short-term loans of up to one year accounted for 31%, with the balance of 17% for loans and credits of maturity of 3years and above.

Interest rate trends for deposits and loans and advances - Anything that hampers the smooth working of the savings market will have implications for the cost of capital to industry and commerce. It is therefore little surprise that the cost of capital in Nigeria has always been high and on the upward trend. In Tables 6 and 7, movement in the weighted average interest rates for deposits of up to 1year tenor and regular savings in the commercial banks (of between 9 and 13%) lagged behind the Central Bank's Treasury Bills rates of between 12% and 17% between 1998 and 2003. The implication of this state of affairs is that the deposit money banks could still be in business without much sweat of taking the usual risks that attend long-term investment by merely exploiting the premium available in the TB rates and the pittance, which they paid on short-term deposits.

In contrast, the weighted average lending rates were as high as 36% and 30%, respectively in 1993 and 1992, as against the deposit rates of about 24% and 21%, indicating a gap of 12 and 9 percentage points, respectively, or premia of 33% and 30% for those years. It should be noted, however, that those were the only years that deposit rates went as high, and those years witnessed the emergence of upfront interest payments of as high as 60% paid for deposits in finance houses. This could not be sustained, and it led to the crash of that segment of the financial sector and the distress of some banks.

SECTION III
OPERATING A NATIONAL SAVINGS CERTIFICATE SCHEME TO PROMOTE LONG-TERM INVESTMENT: LESSONS OF EXPERIENCE OF SOME COUNTRIES

It is widely acknowledged that lack of consumer confidence in parts of the financial services industry, has been deterring many households from saving as much as they might otherwise choose to. This deep-seated distrust of the financial services industry has manifested more in the banking sector, resulting in global bank failures in recent times, with dire and significant adverse long-term consequences, not just for savers and financial services industry, but also for the wider economy. More than that, in the other segments of the industry, repeated mistakes, misunderstandings, and misrepresentations in recent years about the risk attached to various savings products have severely damaged consumer confidence in the long-term savings industry. Coupled with that, is the failure by some firms to package their products appropriately, offer excellent service by treating their customers properly. Many of the factors that are eroding public trust in banks and long-term savings generally are similar to those that are undermining confidence of Nigerian workers in the recently introduced pension savings scheme for the Nigerian Civil Service.

Under this circumstance, the intervention of government would be required naturally to restore confidence and bridge the savings gap, much in the same fashion of government traditional intervention in similar economic disequilibrium conditions. Globally, the intervention has come by way of the introduction of various savings instruments to mobilize the much needed long-term savings for accelerated investment and economic growth. Nonetheless, the most common savings instrument employed by governments through public institutions in recent times, is the National Savings Certificate Scheme.

A case study of two countries, India and the United Kingdom will be the focus of this paper, to serve as lessons of experience for recommending appropriate logistics and policies in adopting the Nigerian version of the National Savings Certificate.

India

The National Savings Certificates (NSC) are issued by the Department of Post, Government of India, and are available at all post office counters in the country. The scheme is aimed at combining the growth in savings with reductions in tax liability. The duration of the National Savings Certificate is 6 years. The following are the other features of the Certificate:

- The Certificate could be purchased at a Post Office in the prescribed form either in person or through an authorized agent of the Small Savings Schemes.
- Certificate could be held individually, jointly, or on behalf of a minor. The Certificate could be purchased through an authorized agent of the Small Savings Schemes.
- The National Savings Certificate is issued in denominations of Rs100, Rs500, Rs1,000, and Rs10,000, and could be paid for in cash, cheque, or by surrendering a matured old certificate.
- There is no limit to the amount to be purchased.
- The Certificate will be issued immediately on purchase, or a provisional receipt will be given, which could be exchanged later.
- Certificates of lower denominations could be exchanged for a certificate of higher denomination of the same aggregate face value or vice versa, provided that certificates of different dates are not combined in such exchange. The date of the certificate issued in exchange will be the same as that of the original certificate surrendered and not the date on which the exchange is made.
- A Certificate may be transferred from a post office at which it is registered, to any other post office. The Certificate is transferable with the previous consent in writing of an officer of the post office, from a deceased holder to his heir, to a court of law or any other person under the orders of the court.
- Transfer is possible only after a period of at least one year from the date of the certificate, and only if transferee is eligible to purchase certificates. If a certificate is encashed within a period of one year from the date of the certificate only the face value of the certificate is payable.
- If a certificate is encashed after expiry of one year but before the expiry of three years from the date of certificate, the encashment will be at a discount, i.e. at an amount equivalent to the face value of the certificate together with simple interest. The difference between the simple interest and the interest accruing will be deemed to be the discount.
- Application for transfer will be made on a prescribed form by the transferer and the transferee; and transfer can be permitted only by the post-master.
- Transfer could be allowed as security to the government, central bank, any government corporation, or local authority.
- Interest on the Savings Certificates is liable to tax under the Income Tax Act, on the basis of the annual accrual, but no tax will be deducted at the time of payment of discharge value.

United Kingdom

National Savings Certificates are a United Kingdom Government security issued under the National Loans Act 1968. Savings Certificates are on sale all year round, meaning that National Savings & Investment (the institution charged with operating the savings scheme), always has fixed rate offers available to savers and investors. Currently, over £17 billion is invested in National Savings & Investment Savings Certificates. There are two types of Savings Certificates available Index-linked Savings Certificates and Fixed Interest Savings Certificates.

1. Index-linked Savings Certificate - This Certificate increases in value each year in line with inflation, as measured by the Retail Prices Index (RPI). Extra interest is also added on top at fixed rates meaning that savings are guaranteed to grow ahead of the rate of inflation, whatever happens. The investment has tax-free returns, including assured security choice of investment terms, because it is backed by HM Treasury, so any money invested in index-linked Savings Certificates is 100% secure. Index-linked Savings Certificates are sold in Issues, each of which has its own number. Whenever there are new guaranteed rates on offer, a new issue is released, and several issues are released every year for both 3-year and 5-year terms. New issues don't affect any existing index-linked Savings Certificate.

2. Fixed Interest Certificate or Reinvestment Certificate - This offers fixed rates of interest so that customers know at the start how much interest they will receive. They are tax-free and are available in 2-year and 5-year tenors. The Certificate is purchased from the proceeds of encashed National Savings Certificates or Ulster Savings Certificate of any issue or Yearly Plan Certificates.

Who may buy the Certificate? - Individuals, or jointly with one or more other individuals, and a person may buy on someone else's behalf. Trustees and Receivers can buy on behalf of mentally disordered persons, while registered friendly societies or any other body of persons

approved by the Director are also eligible. However, children under 7 years of age cannot buy, but the Certificate could be held on a child's behalf, or jointly for two or more children.

How to Apply - Application could be by the Internet, post, telephone, or in person at any post office which carries out National Savings & Investment business, and in all cases, application to purchase is subject to acceptance by the Director. If accepted, the date of purchase is the date the application and payment, or authority to pay, are received.

Regularity of Sales - Certificates of more than one term may be on sale at any one time, therefore, the purchaser is expected to specify choice of term when applying to purchase. A Certificate of investment that is issued will show the amount and date of purchase.

Purchase and Holding Limit - The minimum for each purchase is £100, except for reinvestment certificates where there is no limit. The maximum purchase is fixed at £15,000 (of purchase price) of that issue, but this is also not applicable to reinvestment where there is no maximum, nor do Reinvestment Certificates count in applying the limit to other holdings of the same issue. For Certificates held in the joint names of two or more persons the total value of the Certificates will be counted against each of the joint holders when reckoning the value of Certificates held by them for this purpose, and each Trust is treated separately.

Encashment and Reinvestment - At the end of the term, the purchaser can continue holding the investment for another term of the same length; reinvest in an index-linked Savings Certificate for a different term; reinvest in a Fixed Savings Certificate, or cash in the investment. No action is required for roll-overs for another term of the same length, but the purchaser can communicate his desire by telephone. However, to avoid fraudulent claims, customers wishing to repay part or all of their maturing Savings Certificates will need to give their consent in writing.

Certificates can be cashed in by completing the form on the back of the certificate of investment and sending it to NS&I. Payment will be made by direct credit to a bank account (including a National Savings Bank Investment Account) or any account nominated. Part of the current value of a Certificate may be cashed in or reinvested. The value repaid or reinvested will be made up of part of the purchase price of the Certificate together with any interest that part has earned. A replacement certificate of investment, showing the original date of purchase and the balance of the purchase price remaining, will be issued.

Retention after the fixed rate term - After the original term, a Certificate may be eligible to earn interest for a further term of the same length. The U.K. Government Treasury will decide whether this will apply and, if so, on what terms as to interest. The Director will write to the holder, at the last recorded address for the holding, shortly before the end of each term to tell them of the Treasury's decision. If such interest does apply it will be applied automatically and will be guaranteed for the whole of the further term but, the holder will remain free to cash in the Certificate at any time including for reinvestment into another issue or another NS&I product.

Interest and Tax relief - A Certificate earns interest at rates fixed for a specific period of time, which will not be for less than one year, starting on the date of the purchase. The rates of interest are graduated each year, because of the compound rate. Each period of time is called a “term”, and each term will have its own “issues” of Certificates issued in sequence and different interest rates apply to each issue within each term. Each term that is available and the interest rate that apply to each issue will be published in the London, Edinburgh and Belfast Gazettes.

Interest will be compounded annually on the anniversary date and all interest will be free of U.K. Income Tax and Capital Gains Tax. Savings Certificates cashed in within the first year of investing don't earn any index-linking or extra interest so, it is best to keep the investment for at least a year.

Recently introduced Savings scheme - In October, 2004, National Savings & Investment introduced a new savings scheme to allow customers to set up standing orders for Premium Bond purchases from £50 upwards, with no limit on how much can be invested each month providing the customer does not exceed the maximum holding of £30,000. It became available to buy online from January 2005.

National Savings and Investment is always looking for more convenient ways for customers to save. It has introduced a new telephone service, which makes it easier than ever for customers to reinvest in Savings Certificate, thereby removing the need to fill out lengthy forms.

SECTION IV
CHALLENGES IN THE NIGERIAN ENVIRONMENT FOR APPLYING THE NATIONAL SAVINGS CERTIFICATE SCHEME

Individual savers ought to be best

placed to decide how much and in what form they should be saving. To ensure that they are in a position to make such decisions, it is essential that savers can be confident both that they will be treated fairly by the long-term savings industry and that they will be given clear, readily accessible and factual information on savings related issues. In addition, like a rational economic man, the long-term saver would naturally consider the safety of his fund, expect an attractive return on investment, transparency of the investment managers, and fair treatment and excellent service delivery, in that order of priority. Indeed, these are the main areas of challenge for mobilizing the much-needed savings for investment and economic growth in Nigeria, but which will be addressed in a National Savings Certificate scheme. Each of these problems will be put under searchlight in the rest of this section.

Unsafe Haven for Savings - Long-term savings, in the form of bank fixed deposits, pension funds, insurance and mortgage endowments and other forms of savings constitute a fundamental part of the financial security of the Nigerian population. It is important both for savers as individuals and for the economy as a whole that the level of savings and the industry that manages them should be in a healthy state. There is no scope for complacency when it comes to public trust in the solidity and solvency of savings institutions. In this wise, savings institutions would be well advised to take responsibility for tackling the problems confronting them, especially in the area of rebuilding public confidence. It is little surprise that the newly introduced pension scheme in the civil service is meeting with silent protest from potential contributors for the same reason.

Unattractive Returns on Savings - One of the main priorities of the financial industry should be to ensure competitive returns to the saver. However, in Nigeria, the spread between the prime lending rate and deposit rate is quite substantial. While the deposit rate is very low and sometimes declining, the lending rate is on the high spectrum and keeps rising. Although, on balance, Nigeria's nominal interest rate regime could be adjudged competitive for investment when compared with what obtains internationally, the problem is that the real interest rate is negative, if the rate of inflation is taken into account. Naturally, a rational saver would rather save in a more competitive and positive interest rate-bearing instrument. In that context, it would be incontrovertible to conclude that the average Nigerian saves more out of necessity than because of the consideration of attractive returns. This is irrespective of the financial instrument in consideration, whether bank deposits, pension funds, insurance or mortgage endowment, or any other form of long-term saving. This could also explain the low inflow of portfolio investment and Nigeria's inability to internationalize its capital market.

Lack of transparency of Investment Managers - An important litmus test for investment managers should be to ask the following questions:

- how transparently or appropriately has the packaging of investment revealed the necessary information to the saver and supervisory agency on the returns and risks inherent in the savings product, especially for insurance and mortgage endowments?
- what is the extent of hidden insider abuse in the operations that may adversely impact on the business.
- what proportion of the total returns is accounted for by staff and management emoluments?

Poor service delivery - As a result of the make-up of the financial industry, unavailability of relevant consumer protection agencies, (until most recently), coupled with lack of consumer education on their rights, the Nigerian financial industry has turned into oligopolies of a sort, where they determine both the supply and the price of their products. For instance, for the fact that the bulk of deposit liabilities of deposit money banks is sourced from the public sector, some banks before the recent reforms, were in the habit of bluffing the patronage of individual small savers by demanding impossible amounts as minimum deposits for opening new accounts. Furthermore, with the exception of a few banks, customers of the banking industry spend hours for most transactions that should under normal conditions require just a few minutes. In other areas of the financial industry, the same condition obtains - genuine claims are denied or not promptly attended to, while high risk financial products are sold to the unwary customer.

SECTION V
NATIONAL SAVING CERTIFICATE SCHEME IN NIGERIA: THE JOURNEY SO FAR AND RECOMMENDED MODALITIES FOR ITS OPERATION

(i) The Journey So far in Nigeria: To frontally tackle the challenges highlighted above, and foster a culture of saving as a national priority towards addressing the macroeconomic conditions and development issues within the economy, it was imperative to introduce a new financial instrument. To this end, the Federal Government of Nigeria set up a steering committee to consider the

introduction of a national savings certificate scheme. In 2003 an approval was granted for the issuance of the National Savings Certificate (NSC) to promote savings culture in Nigeria and provide access to funds for industrialist, manufacturers, businessmen and other sundry users of cheap funds. The principal target of the instrument is the general public, particularly low and medium income group.

A National Savings Board was constituted by the Hon. Minister of Finance, comprising the Ministry of Finance, Central Bank of Nigeria, Debt Management Office and the Securities and Exchange Commission, with the Minister of Finance as the Chairperson of the Board. The proposals of the Board have been incorporated in the Central Bank of Nigeria's (CBN) Monetary, Credit, Foreign Trade and Exchange Policy Guideline for the fiscal year 2004/ 2005 circular No.37 of 2nd January, 2004..

The NSC is a long-term interest bearing instruments to be issued by the Central Bank of Nigeria on behalf of the Federal Government of Nigeria. The introduction of NSC is intended to broaden and offer alternative investment options to the investing public, with a view to facilitating savings and investment growth. Given that the interest rates on the coupon is at a rate substantially above the interest rates paid by banks on savings account deposits, it is expected that the NSC will provide low income savers a more attractive investment option.

Objectives of the NSC

- Mobilisation of long-term savings which the government could use to finance the rehabilitation of its ageing infrastructure.
- To provide long-term financial resources, which the FGN could use to refinance or repay its short-term obligations.
- To enhance the development of a domestic debt market, which will encourage long-term investment in the productive real sector.
- Mobilisation of long-term savings which can be applied for on-lending to small scale industries, through participating DFIs or deposit money banks.

(ii) Lessons of Experience in the Adoption of Modalities for Operating the NSC: It cannot be controverted that the introduction of the National Savings Certificate in Nigeria will adequately serve two major purposes: harness the vast idle liquidity in the informal sector, outside the banking system to complement liquidity management; and serve as a stop-gap for a sustainable process of long-term savings mobilization in the financial system. Without necessarily repeating the features of the country experiences of the UK and India analyzed in Section III, and with no prejudice to what the current NSC Board may have designed, the application of the NSC programme in Nigeria should take the following character:

1. A National Savings Certificate scheme implemented along the lines of the UK arrangement would encourage and assure savers of the security of their investments. The Index-linked Savings Certificate and the Fixed Interest or Reinvestment Certificate introduced in the UK are quite attractive and will help savers hedge against inflation, in addition to assuring security of investment.
2. There are some similarities between the implementation modalities in the UK and India which Nigeria could emulate. These are in the areas of easy accessible to institutions charged with the sales of the NSC, qualification to purchase, low denominations of the certificate exchange, ease of transfer, and the fact that the certificate could serve as security for credit.
3. In terms of limit of purchase, it is recommended that an admixture of the UK guideline, which places a limit, and the Indian rule which does not have a limit, be adopted. This is because caution should be applied in avoiding the latter set of purchases exploiting the good reforms to advantage and crowding out individual small savers. In this regard, purchases by individuals should not have a limit, while those by banks and other corporate organizations should be limited.
4. The programme should be made an ongoing concern and different tenors should be introduced as is the case in the UK.
5. The encashment and reinvestment rules in the UK are quite attractive and could be adopted.
6. The discounting rule to discourage encashment of the savings certificate before one year will help to sustain objectives of the savings scheme, of effectively mobilizing medium to long-term savings.
7. There is need to review tax regimes in promoting savings. The first step in this regard is to make returns on the National Savings Certificate introduced to be largely tax-free. For instance,

with respect to the taxation of returns, an admixture of the UK and India guidelines will be appropriate to encourage retention of the certificate to maturity. In this wise, Certificates discharged after one year, but before maturity should be taxed at the income tax rate on the basis of the annual accrual (the India rule), but the returns on the Certificate should be tax-free if discharged at the end of its tenor. (the UK rule).

SECTION VI
CONCLUSION

The need to fashion out a new instrument that would not only be attractive to the traditional investing public but would also attract the attention of the informal sector who are in control of the bulk of the over N500billion of currency in circulation has now not only become imperative but has also assumed an unprecedented urgency in the light of the anticipated success of this present Government economic reform agenda.

The introduction of the National Savings Certificate in Nigeria is expected to serve three major purposes; namely, harness the idle funds in the informal sector/outside the banking system to complement liquidity management; serve as a sustainable process of long-term savings mobilization; and inculcate savings culture, particularly the low income earners and the un-banked. It is, therefore, of great regret that the scheme is yet to take off after the policy pronouncement and the inauguration of the Board of the National savings certificate in 2003.

The National Savings Certificate, when implemented, offers a number of prospects that will justify its establishment. The CBN and the economy at large have benefits to derive from the product. The realities on ground demonstrate the need to implement the scheme. It is, therefore, not advisable to abandon the scheme. Fostering a culture of saving is a national priority and there is need for a national savings scheme, to raise public consciousness in saving, for a high level of domestic saving is necessary to sustain economic growth in the long run.

Beyond the usefulness of the National Savings Certificate for mobilizing long-term savings, the other segments of the financial system will still be expected to play their roles to complement public sector efforts. In this vein, the outstanding challenges in the financial sector cannot be ignored and will, therefore, need to be addressed frontally in the following areas:

The problem of natural suspicions and fear towards product providers in the banking, pension, mortgage and insurance industries could be effectively tackled if consumers receive clearer and more succinct product information to avoid misunderstanding and mitigate incidences of litigations. A simple risk indicator by investment products providers would help savers with their investment decisions.

Greater public knowledge of the roles of the respective regulatory authorities in the financial industry in protecting their interests would help restore confidence. A publicity campaign should be launched to educate the public in this regard.

From the expositions in the previous sections, it has been clearly highlighted that the current low level of consumer confidence in long-term savings largely reflects weak regulatory framework and industry practices. It is therefore recommended that all the major trade bodies in the long-term savings industry should have clear codes of practice and the Central Bank should be at the forefront in this regard to establish such a code.

On the issue of poor service delivery, the main challenge here is for the players in the market to re-orientate their corporate ideals to conform to the objective of playing the traditional roles of funding investment, away from the most recent unprofessional operational focus of cutting corners and benefiting mainly from the short-end of the market. This was the bane of the distress conditions in the 1990s of banks, finance houses, and some insurance companies, and it remained one of the main issues that informed the current ongoing reforms in the financial industry in Nigeria. The banking sector, for instance, could bluff investments in the real sector because of the lucrative transactions in the foreign exchange market.

A closer linkage between the investment returns for customers and executive remuneration may be beneficial in ensuring greater professional conduct. In this sense, management fees charged by providers should be linked to the investment performance of products in order to align interests of savers and the industry more closely. Full and easily understood disclosure of fees and commissions to savers is vital for an efficient market. In the same vein, regulated prices in the financial services industry should be set after clear and transparent analysis.

The possibility of granting access to a proportion of pension savings during periods of unemployment or sickness should be examined to encourage more investments in that segment of the industry..

Attracting long-term savings should entail incentives that simplify the process of documentations while investing in financial instruments. We can borrow a leaf from the UK's National Savings & Investment initiative of introducing a telephone service, which makes it easier for customers to reinvest in Savings Certificate, thereby removing the need to fill out lengthy forms. This becomes even more pertinent when it is considered that lengthy process of documentation in the formal sector is the bane of the flourishing informal markets in Nigeria. The simplicity of the traditional Esusu informal savings scheme cannot be matched in this regard.

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TABLE 1

SAVINGS IN NIGERIA (FROM 1992-2001)

(=N= Millions)

Year	Short Term Savings (Savings Account)						Medium Term Savings (Time Deposit Account)					Long Term Savings			
	Private Sector	Domiciliary Account	State Govt	Local Govt	FGN	Total	Private Sector	State Govt	Local Govt	FGN	Total	Debenture Bond	Notes & Deposit Certificate	Total	Grand Total
1992	26,033.40	-	16.30	21.40	160.70	26,231.80	13,333.30	2,007.90	371.90	488.90	16,202.00	171.80	-	171.80	42,605.60
1993	36,834.20	-	142.90	77.70	23.60	37,078.40	22,890.30	419.80	165.10	342.30	23,817.50	186.30	-	186.30	61,082.20
1994	49,295.30	1,698.20	162.20	143.60	309.80	51,609.10	25,114.00	639.60	135.90	327.40	26,216.90	285.30	2,638.60	2,923.90	80,749.90
1995	61,250.90	7,392.30	734.60	149.50	551.60	70,078.90	28,993.20	821.10	151.10	675.80	30,641.20	778.00	3,873.40	4,651.40	105,371.50
1996	68,471.10	5,679.10	248.90	56.90	531.60	74,987.60	43,278.30	612.50	109.00	2,044.00	46,043.80	486.30	4,646.50	5,132.80	126,164.20
1997	83,862.40	5,507.60	154.30	82.80	1,164.80	90,771.90	50,781.00	1,126.90	168.30	3,844.90	55,921.10	825.30	9,684.50	10,509.80	157,202.80
1998	100,889.50	9,414.70	359.80	124.20	335.10	111,123.30	58,679.20	2,471.50	112.50	6,028.40	67,291.60	475.70	5,855.60	6,331.30	184,746.20
1999	127,811.90	35,067.90	261.10	293.40	160.20	163,594.50	107,299.00	2,507.70	958.40	2,313.60	113,078.70	370.00	10,904.50	11,274.50	287,947.70
2000	163,963.90	39,072.90	391.10	269.20	6,122.90	209,820.00	145,871.20	7,493.80	1,041.00	18,021.00	172,427.00	290.00	12,132.50	12,422.50	394,669.50
2001	216,258.10	47,198.40	195.70	55.60	1,067.40	264,775.20	230,774.00	3,683.90	995.80	5,229.10	240,682.80	25,609.60	214.70	25,824.30	531,282.30
AVERAGE	93,467.07	15,103.10	266.69	127.43	1,042.77	1,100,070.70	72,701.35	2,178.47	420.90	3,931.54	79,232.26	2,947.83	4,995.03	79,428.60	197,182.19

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TABLE 2

DISTRIBUTION OF EACH TERM SAVINGS AS PERCENTAGE OF TOTAL SAVINGS IN NIGERIA

YEAR	SHORT TERM	MEDIUM TERM	LONG TERM
1992	61.57%	38.03%	0.40%
1993	60.70%	38.99%	0.30%
1994	63.91%	32.47%	3.62%
1995	66.51%	29.08%	4.41%
1996	59.44%	36.50%	4.07%
1997	57.74%	35.57%	6.69%
1998	60.15%	36.42%	3.43%
1999	56.81%	39.27%	3.92%
2000	53.16%	43.69%	3.15%
2001	49.84%	45.30%	4.86%
AVERAGE	59.00%	37.53%	3.49%

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Table 3

PERCENTAGE RATIO OF TOTAL SAVINGS TO GROSS DOMESTIC PRODUCT (GDP) AND FOREIGN DIRECT INVESTMENT

YEAR	TOTAL SAVINGS (=N=MILLIONS)	GDP (=N=MILLION)	FOREIGN DIRECT INVESTMENT (=N=MILLION)	TOTAL SAVINGS AS A % OF GDP	TOTAL SAVINGS AS A % OF FOREIGN DIRECT INVESTMENT
1992	42,605.60	532,613.80	13,150.00	8.00	324.00
1993	61,082.20	683,869.80	34,176.00	8.93	178.73
1994	80,749.90	899,863.20	36,375.00	8.97	221.99
1995	105,371.50	1,933,211.60	51,662.00	5.45	203.96
1996	126,164.20	2,702,719.10	54,128.00	4.67	233.08
1997	157,202.80	2,801,972.60	56,532.00	5.61	278.08
1998	184,746.20	2,708,430.90	70,457.00	6.82	262.21
1999	287,947.70	3,194,023.60	73,555.00	9.02	391.47
2000	394,669.50	4,537,640.00	74,992.00	8.70	526.28
2001	531,282.30	5,178,150.00	78,848.00	10.26	673.81
Average	197,182.19	2,517,249.46	54,387.50	7.83	362.55

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TABLE 4

PERCENTAGE RATIO OF BANKING SYSTEM CREDIT(BSC) TO GROSS DOMESTIC PRODUCT(GDP) & TOTAL CREDIT IN THE ECONOMY (=N= MILLIONS)

YEAR	BSC TO THE PRIVATE SECTOR	GROSS DOMESTIC PRODUCT	TOTAL CREDIT IN THE ECONOMY	BSC AS % OF GDP	BSC AS % OF TOTAL CREDIT IN THE ECONOMY
1992	43,298	532,614	138,270	8.13	31.31
1993	52,150	683,870	241,609	7.63	21.58
1994	117,669	899,863	411,679	13.08	28.58
1995	175,788	1,933,212	445,204	9.09	39.48
1996	216,781	2,702,719	332,302	8.02	65.24
1997	272,024	2,801,973	321,317	9.71	84.66
1998	336,886	2,708,431	485,690	12.44	69.36
1999	452,411	3,194,024	632,010	14.16	71.58
2000	587,486	4,537,640	667,622	12.95	88.00
2001	827,123	5,178,150	848,993	15.97	97.42

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Table 5
MATURITY STRUCTURE OF COMMECIAL BANKS' LOANS AND ADVANCES
(=N= MILLIONS)

			Maturing												
Year	On Call	%	Within 6 months	%	Between 6-12 months	%	within 12 months	%	Between 1-3 years	%	Between 3-5 years	%	After 5 years	%	Total
1980	3,246.0	50.95	822.70	12.91	727.0	11.41	197.7	3.10	663.2	10.41	408.1	6.41	306.1	4.80	6,370.8
1981	4,369.5	50.85	911.70	10.61	1,066.6	12.41	352.7	4.10	731.1	8.51	645.1	7.51	516.1	6.01	8,592.8
1982	5,157.1	50.20	1,540.90	15.00	996.5	9.70	390.4	3.80	852.7	8.30	749.9	7.30	585.6	5.70	10,273.1
1983	5,126.4	46.20	2,052.80	18.50	1,020.8	9.20	832.2	7.50	898.8	8.10	943.2	8.50	221.9	2.00	11,096.1
1984	5,448.3	47.50	1,885.00	16.43	1,091.9	9.52	678.2	5.91	954.0	8.32	781.6	6.81	632.2	5.51	11,471.2
1985	6,142.1	50.55	2,189.30	18.02	1,204.1	9.91	437.9	3.60	960.8	7.91	608.1	5.00	608.1	5.00	12,150.4
1986	8,026.9	49.42	2,976.90	18.33	1,574.2	9.69	732.5	4.51	1,153.4	7.10	1,013.1	6.24	763.7	4.70	16,240.7
1987	8,677.9	49.45	2,506.90	14.29	2,068.7	11.79	929.2	5.29	1,490.2	8.49	1,034.3	5.89	841.5	4.80	17,548.7
1988	10,421.3	51.32	3,222.90	15.87	2,376.8	11.70	853.2	4.20	1,564.2	7.70	1,076.7	5.30	792.3	3.90	20,307.4
1989	10,710.8	29.92	2,979.90	8.32	2,354.7	6.58	750.2	2.10	16,562.9	46.27	1,604.5	4.48	833.5	2.33	35,796.5
1990	12,370.9	49.58	4,772.00	19.13	3,060.3	12.27	259.4	1.04	1,841.9	7.38	1,322.7	5.30	1,322.7	5.30	24,949.9
1991	15,989.5	50.30	6,130.40	19.28	3,634.0	11.43	410.8	1.29	2,401.6	7.55	1,674.8	5.27	1,548.4	4.87	31,789.5
1992	22,739.0	54.13	7,670.90	18.26	3,975.6	9.46	336.6	0.80	2,839.3	6.76	1,993.0	4.74	2,453.8	5.84	42,008.2
1993	28,799.0	50.35	11,817.80	20.66	5,635.1	9.85	1,276.3	2.23	3,500.0	6.12	3,117.5	5.45	3,048.2	5.33	57,193.9
1994	46,673.1	47.71	17,957.20	18.35	8,975.6	9.17	8,970.6	9.17	6,282.9	6.42	4,487.8	4.59	4,487.8	4.59	97,835.0
1995	71,439.7	49.06	27,476.80	18.87	13,738.4	9.43	9,616.9	6.60	9,616.9	6.60	6,869.2	4.72	6,869.2	4.72	145,627.1
1996	85,978.0	52.03	33,030.00	19.99	16,515.0	9.99	1,651.8	1.00	11,560.5	7.00	8,257.5	5.00	8,257.5	5.00	165,250.3

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TABLE 6

YEAR	Central Bank			
	Minimum Rediscount Rates	Treasury Bills Rate	Treasury Certificate	
			One Year Maturity	Two Years Maturity
1992	17.50	21.00	22.00	23.00
1993	26.00	26.90	27.40	27.80
1994	13.50	12.50	13.00	13.00
1995	13.50	12.50	13.00	13.50
1996	13.50	12.25	-	-
1997	13.50	12.00	-	-
1998	14.31	12.95	-	-
1999	18.00	17.00	-	-
2000	13.50	12.00	-	-
2001	14.31	12.95	-	-
2002	19.00	21.38	-	-
2003	15.75	15.02	-	-
Average	16.03	15.70	18.85	19.33

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TABLE 7
WEIGHTED AVERAGE INTEREST RATE (PERCENT)

Year	Commercial Banks Deposit Rates				
	3 Months	**3 - 6 Months**	**6 - 12 Months**	**Over 12 Months**	**Savings**
1992	20.80	22.30	22.10	20.50	16.10
1993	23.60	23.26	23.99	28.02	16.66
1994	15.00	15.00	15.00	15.00	13.50
1995	13.62	13.65	13.96	14.27	12.61
1996	12.94	13.21	13.43	13.55	11.69
1997	7.04	7.49	7.46	7.43	4.80
1998	10.20	10.50	9.98	10.09	5.49
1999	12.68	12.75	12.59	14.30	5.33
2000	10.60	10.27	10.67	10.44	5.29
2001	10.20	10.50	9.98	10.09	5.49
2002	16.25	17.20	16.66	15.89	5.09
2003	13.82	12.24	12.04	11.15	4.15
Average	13.90	14.03	13.99	14.23	8.85

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TABLE 8
WEIGHTED AVERAGE INTEREST RATE (PERCENT)

Year	Commercial Banks Lending Rates			
	Prime 1	Produce Advance 2	Maximum	Federal Savings Bank 3
1992	29.80	30.80	31.20	16.10
1993	36.09	39.06	18.32	-
1994	21.00	-	21.00	-
1995	20.18	-	20.79	-
1996	19.74	-	20.86	-
1997	13.54	-	23.32	-
1998	18.29	-	21.34	-
1999	21.32	-	27.19	-
2000	17.98	-	21.55	-
2001	18.29	-	21.34	-
2002	24.40	-	29.95	-
2003	20.49	-	22.47	-
Average	21.76	34.93	23.28	16.10

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LIFE INSURANCE AS A SOURCE OF LONG-TERM SAVINGS IN NIGERIA: REGULATOR'S PERSPECTIVE

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1.0. INTRODUCTION

Life insurance is an insurance contract in which the insured transfers, and the insurer assumes, the risk of death for a specified period of time. As in other insurance businesses, the insured transfers the risk to the insurer, and receives a life insurance policy, upon payment of a premium. Apart from the insured and the insurer, there is usually a beneficiary who is the person (or persons) who is to receive the policy proceeds if the insured event (death) occurs within the policy period. One could also purchase a life insurance policy on the life of someone else. For instance, if a husband buys a life policy on behalf of his wife, he is the owner of the policy but she is the insured. It should be noted that the beneficiary of a life policy is not a party to the contract. He is only designated as such by the owner of the policy. The owner could even change the beneficiary subsequently if he wishes, except for policies that have irrevocable beneficiary designations. In an irrevocable insurance contract, the beneficiary must consent to changes in beneficiary, policy assignment, or borrowing of cash value before such changes can be effected.

A life insurance policy, like all insurance policies, is a legal contract which specifies the terms and conditions of the risk assumed. Special provisions apply, including a suicide clause which nullifies the policy if the insured commits suicide within a specified time from the policy date. Any misrepresentation by the owner or insured on the application is also a ground for nullification. The face value of the policy is normally the amount paid when the policy matures, although policies can provide for greater or lesser amounts. A life insurance policy matures when the insured dies or attains a specified age.

The most common reason for the purchase of a life insurance policy is to protect the financial interests of the owner of the policy in the event of the demise of the insured. The insurance proceeds, apart from paying for the funeral and other ensuing expenses, could be invested to provide income in replacement of the deceased's wages. Other reasons for taking out a life policy include real estate planning (mortgage protection) and planning for retirement. Since the death of the insured would be to the financial advantage of the policy owner, the policy owner must, by law, have an insurable interest in the insured's life. The "insurable interest" simply means the legitimate reason for insuring the other person's life. In fixing life insurance premiums, the insurer aims to cover claims to be paid, administrative costs as well as make some profits. Claims to be paid are determined by actuaries, using mortality tables. Actuaries are professionals who use actuarial science, which is based on mathematics (especially probability and statistics). Mortality tables are statistically based tables showing average life expectancies. Normally, mortality tables take into consideration certain factors, which include the insured's age, gender and lifestyles (e.g. such habits as the excessive use of alcohol and tobacco, etc). When an insurer collects the premiums from the policy owner, he invests the money using the time value of money and compound return principles to create a pool of money from which to invest, pay claims and finance the company's operations. Most of the money made by an insurer comes from direct premiums, while investment income supplements this. Rates charged for life insurance are sensitive to the insured's age because statistically, an insured person is more likely to pass away (and trigger a claim) as they get older. Since adverse selection can have a negative impact on the financial results of the insurer, the insurer investigates each proposed insured beginning with the application, which becomes part of the policy. Group life insurance policies are however an exception.

This investigation and the resultant risk evaluation are called underwriting. Health and life style questions are asked, answered and dutifully recorded. Certain responses by the insured will be given further investigation. Life insurance companies are never required by law to underwrite or provide cover for anyone. They should determine insurability and some people due to their health or life style are uninsurable. The proposal could be

declined or the premium rate could be loaded. Premium loading means increasing the premiums to provide for additional risks relative to that particular insured discovered in the underwriting process.

Upon the death of the insured, the insurer will require acceptable proof of death before paying the claims. The normal minimum proof is a Death Certificate and the completed Claims Form of the insurer. Proceeds from the policy may be paid in a lump sum or in regular installments over the life of a specified person or over a specified time period.

As has been pointed out, a life insurance policy provides cover for a specified period of time. If the worst were to happen within this period of time, then the insurance company would be required to pay out the agreed sum to the beneficiary. If the person outlives the term of the policy, then the insurance policy ceases and no payment will be made. However, the value of a policy could increase over time by combining an investment element along with the insured sum. If the life-insured were to die, then the insured sum would be paid out along with the investment bonuses that have accrued. If it becomes necessary to terminate the policy before the end of the specified term period, or death of life covered, then once an investment bonus has been added, the life assurance policy will have an encashment value. It is therefore possible to cash a policy earlier than its usual termination date, in order to collect the investment portion. Some insurance companies place penalties on early encashment of policies. The world of finance is extremely complicated and there are many factors to consider when choosing any financial protection product. When looking for a policy, one should be clear about what one requires vis-à-vis what is on offer. This is to enable one obtain the right cover for one's needs.

An aspect which some people find confusing is the use of the terms “insurance” and “assurance”. What is the difference? The term “insurance” generally, refers to providing cover for an event that may or may not happened while assurance is the provision of cover for an event that is bound to happen (e.g. death). In recent times, the distinction between the two terms has become blurred. This is principally due to many companies offering both types of policy and rather than refer to themselves using both insurance and assurance titles, they simply settle for one.

There are five major lines of business in the life insurance industry individual life, individual annuities, group life, group annuities, accident and health.

The most important lines of business in terms of both revenues and profits are those involving asset accumulation products i.e. individual life and individual and group annuities. Group life and accident and health insurance are mainly indemnity (rather than asset accumulation) products. The importance of asset accumulation products is particularly noteworthy because this is the market where insurance faces the most vigorous competition from banks and investment advisory firms.

2.0. OBJECTIVES AND MOTIVATION FOR THE TOPIC-THE INHERENT BENEFITS

The motivation for the topic is to outline the intrinsic benefits of life insurance, assess its performance in the Nigeria situation and examine what a regulator could do to facilitate its development. The inherent benefits of life insurance could be categorized into three, viz; benefits to the individual, benefits to the government and impact on economic development.

2.1. Benefits To The Individual

Human history reveals a universal desire for security. As we shall see later, early societies relied exclusively on family and tribe cohesiveness for their security. With industrial development, migration to cities and urbanization, this security service weakened and was augmented by privately purchased and government-provided security porgrammes. Among the private programmes, life insurance has emerged as a universal response. The benefits of life insurance to the individual are enumerated as follows:

(a) By guaranteeing to pay a stated sum to a family on the death of its bread winner(s), life insurance provides families a measure of protection against the adverse financial consequences of premature death, and gives individuals a greater sense of economic security. This helps to reduce worry and distress, and thereby increase initiative. No other privately purchased financial instrument can perform this function.

(b) Life insurance cash value can serve as a means through which individuals save. Many people who might not otherwise save consistently will, nonetheless, pay their life insurance premiums regularly. Thus life insurance could constitute a form of quasi-compulsory savings.

(c) Life insurance products, especially annuities, provide a

convenient and unique means by which individuals can make financial provisions for their retirement

(d) Life insurance can permit more favourable credit terms to borrowers (both individuals and businesses) and can decrease the risk of default. Life insurance can also minimize the financial disruption to businesses caused by the death of its key facilitators or promoters.

2.2. Benefits To The Government

The benefits of life insurance to the government (in addition to facilitating economic development as discussed below) is mostly in the area of easing the burden of government social welfare spending. Private life insurance can supplement, if not substitute for, benefits provided by government. This is why there is a significant negative correlation between social spending and life insurance premiums. The sharp rise in life premiums in the advanced countries may be attributed in great part to the mounting financial difficulties of pension schemes. Governments could concentrate their efforts on core social protection benefits, while allowing individuals to choose for themselves their desired level and type of additional protection.

2.3. Impact Of Life Insurance On Economic Development

Apart form the social role its plays by relieving government of some burden of meeting financial security needs, life insurance can assist economic development generally and the development of the capital market in particular. Because they have thousands of policyholders, insurance companies are able to amass a considerable quantum of funds that are important in supporting investment in an economy. They thereby serve as financial intermediaries between investors and economic agents that lack sufficient financing. These economic agents may be households, businesses and in some cases even governments. The emergence of life insurers as financial intermediaries, with features different from those of banks as regards the time frame of investments, makes a major contribution to the development of the financial markets. In the advanced countries, insurance companies are the largest institutional investors. Specifically, life insurance impacts positively on savings and development or investment financing in the following ways:

2.3.1. Quantitative And Qualitative Impact On Savings

Studies have shown that life insurance (just like contributory pension schemes) has a positive effect on aggregate savings. Where these contractual savings plans are instituted on compulsory basis (e.g. the new pension scheme in Nigeria will go along with compulsory group life assurance for employees), the resultant rise in the level of aggregate savings will be higher than the rate for which households would have opted voluntarily. Secondly, unlike banks, most of which specialize in deposit taking and short-term lending, contractual savings institutions such as life insurance companies usually adopt a longer-term perspective. Their long-term commitments and the stability of their cash flow provide ideal source of long-term financing for government and businesses.

2.3.2. Impact On The Development Of The Financial Markets

In supplying long-term financial products, life insurance triggers a series of effects which facilitates the development and structure of the financial markets in the following ways:

(a) It leads to specialization. If the banking sector makes adjustments in order to reap the benefits of its comparative advantage on short term products. This reduces the risk stemming from maturity differentials between bank assets and liabilities. The stability of the banking sector is therefore reinforced.

(b) It reduces the differentials between short-term and long-term interest rates. This prompts an improvement in the financial structure of business enterprises which take advantage of lower cost of long-term capital and a lessening of the risks of refinancing.

(c) It leads to, and facilitates, the development of the market for long term bonds. This greatly expands the options for government debt management.

(d) It enhances the efficiency of financial markets.It brings about a higher level of specialization and professionalism on the part of financial market players, making it possible to finance projects that are bigger or riskier (thus more lucrative), exploiting economies of scale, trimming transaction costs and encouraging financial innovation.

Considering these enormous benefits, the objective of this paper as stated earlier is therefore to evaluate the performance of life insurance in mobilizing long-term savings in Nigeria and determine what should be done at the level of a Regulator, to fast-tract its development and ensure that its great potentials are fully realized. But to put this in proper perspective, it is necessary to understand how life insurance evolved.

3.0. HISTORY OF LIFE INSURANCE

In China, insurance as a way of reducing the risk of traders began as far back as 5000 B.C. while early methods of transferring or distributing risks by Babylonian traders began in the 2nd millennium B.C. The Babylonians developed a system which was recorded in the famous code of Hammurabi in 1750 B.C. and practised by early Mediterranean sailing merchants. If a merchant received a loan to fund his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the ship be stolen.

A thousand years later, the inhabitants of Rhodes invented the concept of "general average". Merchants whose goods were being shipped together would pay proportionally divided premium which would be used to reimburse any merchant whose goods were jettisoned during storm or sinkage. The Greeks and the Romans originated health and life insurance in 600 AD when they organized guilds called "benevolent societies" which had the responsibilities of taking care of the families and funeral expenses of their members upon death. Guilds in the Middle Ages served a similar purpose. In ancient Rome "burial clubs" provided monetary benefits to survivors and also bore the funeral expenses of members.

However, modern life insurance started in England in late 17th century, originally as insurance for traders. Merchants, ship owners and underwriters would meet to discuss deals at Lloyd's coffee house, predecessor to the famous Lloyd's of London. In the United States, the sale of life insurance began in 1760. The Presbyterian synods in Philadelphia and New York created the corporation for relief of poor and distressed widows and children of Presbyterian Ministers in 1759 while the Episcopalian Ministers organized a similar fund in 1769. Between 1787 and 1837 more than two dozen life insurance companies were started, but less than half a dozen survived. Prior to the American civil war, many insurance companies in the United States insured the lives of slaves for their owners. Their trustees voted to end the sale of such policies 15 years before the Emancipation Proclamation.

In Great Britain there was a snag in the evolution of life insurance when gamblers developed the bad habit of betting on other peoples' lives. Hence in 1774, the life assurance Act was passed. This Act made it a crime for anyone who had no interest in another person's life or its existence, to effect a life insurance policy on such a life. The life assurance companies Act 1870 in Great Britain was further promulgated to introduce government control of life insurance companies. Since then there had been tremendous growth in life assurance. Today in any modern nation insurance (including life insurance) as a business is well developed and a vital arm of the financial service sector.

4.0. THE SPREAD OF MODERN LIFE INSURANCE TO NIGERIA.

The spread of modern life insurance to Nigeria and other African countries was mostly through the former colonial powers. The aim was to protect the interest of expatriates' clients who had moved or established businesses in the colonies. But prior to this, it has been the African tradition for the citizens to take care of each other in times of adversity, through the extended family system. It was common for members of the family of an adversely affected person to rally round and compensate the victim. If a breadwinner died prematurely, financial contributions would be levied on the family members for the upkeep of his dependants. If necessary, his children could be distributed among his relatives. Similarly, where a material loss occurred as a result of such misfortunes as fire outbreak or robbery attack, relations and friends of the victim provided some form of succour through contributions, either in cash or kind. Depending on the peoples' culture, different approaches were used in providing these covers. In the Eastern parts of Nigeria, the age grade groupings were used. In the Western part, the tendency was more towards occupational groupings. There was also what is known as "esusu" whereby individuals who belonged to a group contributed money into a common fund. The total collections in the fund are then handed over to individuals in turns, until "everyone" had collected. There were groups where members contributed a pool of funds to enable their dependants receive payments if, and when any member of the group died. These socio-cultural methods of insurance, though quite useful, had no proven scientific basis (such as mortality tables, actuarial valuation, medical reports, etc.), and often resulted in some contributors benefiting more than others. In certain instances, some did not even benefit at all

With the scramble for Africa, which commenced in the early 20th Century, the European merchants who came into the continent through the West Coast of Africa brought along with them their ancient tradition, among which was modern insurance. The establishment of commercial firms by the Europeans led to the opening in the continent and Nigeria of branches of insurance firms existing in England, though as agents initially. Some of these were later incorporated as

independent offices or companies with the basic objective of obtaining business for the parent bodies overseas.

4.1. Life Insurance As A Source Of Long-Term Savings In Nigeria Vis-À-Vis Other Countries

One could start by stating *ab initio* that life insurance has not made the required impact in the Nigerian economy but the potentials are very great. Appendix I shows the direct life and non-life premiums written in some selected countries (including Nigeria) for the year 2003. Six developed countries of the world and eight African countries were selected. To create a basis for proper comparison, the population and GDP of these countries have been included. It makes an interesting study. Firstly, it indicates that in the more advanced countries, the role of insurance as a mobiliser of long-term funds (life premiums) is very significant as compared to short-term funds (non-life premiums). Infact, in countries such as United Kingdom, Japan and France, the direct life premiums written in 2003 far outstrip the non-life premiums. The only African countries which exhibit this pattern, are South Africa and Zimbabwe. The reason is not far fetched. It is due to the presence of white settlers in those countries and their attitude towards life insurance, which is akin to a necessity. In the other African countries, the reverse is the case. It is disheartening to note the unimpressive performance of Nigerian in terms of insurance covers, as compared to other countries. In life insurance, apart from South Africa and Zimbabwe, which we had explained earlier, other countries such as Egypt with a population of 76 million, Morocco with a population of 32 million and Kenya (also 32 million persons) each generated long-term funds or life insurance premiums that far exceeds that of Nigeria. It is worthy of note that the GDP of both Kenya and Zimbabwe put together is about half of Nigeria's GDP. Yet each of these countries wrote more life premiums than Nigeria. This goes to emphasize our continued lamentation about the low level of life insurance penetration and awareness in Nigeria.

A look at appendices II & III shows that whereas non-life insurance premiums grew from N5.7 billion to N37.8 billion between 1993 and 2002, life premiums only increased from N812 million to N8.7 billion within the same period. Appendices IV and V examine the investment aspects of these funds. As at 2002, investment of life insurance funds in the various instruments amounted to N18.8 billion. This is out of a total insurance industry investment of about N40 billion for the same year. However, when it is considered that the figure for life insurance investment in 1993 was a paltry N2 billion, then it would be appreciated that even after making allowance for inflation the growth had commenced and only needed to be sustained. The task before us then is to create an enabling environment to sustain the momentum. Appendix VI shows the assets of both life and non-life insurance companies also for the period 1993 - 2002. We did state at the beginning of this segment that the potentials were great. Whereas life assurance companies' assets amounted to only about N3 billion in 1993, by 2002 it had jumped to over N34 billion. Hence, there is justification for optimism that the life aspect of insurance business in Nigeria is picking up and with time, would definitely get to the level where it would play a role similar to what obtains in the advanced countries. The reasons for such optimism are stated in a section below with the sub-heading "WHAT NAICOM IS DOING TO REDRESS THE SITUATION". But before then, it is appropriate to firstly consider the challenges or constraints.

5.0. CULTURAL BARRIERS, PUBLIC AWARENESS AND OTHER INHERENT CHALLENGES

Factors militating against life insurance in Nigeria and elsewhere include cultural and religious factors. A study carried out on insurance demand in Nigeria revealed some interesting features. Whereas some top executives, captains of industry and wealthy entrepreneurs, although had one form of insurance or another, they seemed to lack confidence in the local insurance industry.

However, in all the groups, there was religious bias. Some Muslims displayed bias against life insurance, especially as Allah was the giver of life; He alone could take or preserve life. Similarly, some Christians believed that once covered by the blood of Jesus, nothing really mattered anymore. For both groups, there was no need for insurance especially life assurance. Thus, the religious inclination of a population may affect its risk aversion and its attitude towards the institutional arrangement of insurance. Religious opposition against life insurance, while stronger in European countries before the 19th Century, still persists in several Islamic countries today. Muslims are known to disapprove of life insurance because it is considered a hedge against the will of Allah. These notions of religious fatalism are inimical to the development of life assurance with its attendant benefits. Assuming God or Allah had ordained that a particular individual, Mr. X would die at age 50. If he had a subsisting life assurance policy and actually dies at age 50, the proceeds or benefits accruing from his life policy would certainly provide some succor to his immediate family or dependants;

indeed anyone else depending on the wish and interest of the policy owner or initiator. Prejudice against life assurance on grounds of religious bigotry should be gradually overcome through vigorous education and enlightenment on the subject.

5.1. Low Level of Education And Lack Of Insurance Awareness

The level of one's education determines his or her ability to understand the benefits of risk management and savings. Hence there is a positive correlation or relationship between people's life insurance consumption and their level of education. In an emerging economy such as Nigeria with a relatively low level of education, most consumers know little or nothing about the working of life insurance or the formal financial markets. Aside from bank deposits, consumers are not familiar with saving products or precautionary cover. In the advanced countries, most consumers enjoy comprehensive cover, which guarantee universal access to health care, retirement benefits, annuities etc. To this end, there is the need for enlightenment campaigns in emerging economies to educate the public on life insurance as well as preparation of prospectuses that explain the main features of life insurance products available.

5.2. High Rate of Inflation

High inflation rate, which characterize developing countries, is a definite obstacle to the development of life insurance. As life insurance savings products typically provide monetary benefits over the long-term, monetary uncertainty has a substantial negative impact on these products' expected returns or yields. Moreover, when fluctuating interest rates cycles affect financial intermediation in the financial markets, it has a disruptive effect on the life insurance industry. The volume of premium income in life insurance is highly sensitive to high inflation. For instance, in Bulgaria, when the rate of inflation jumped from 123% in 1996 to 1100% in 1997, life insurance premiums fell significantly from US$42 million to US$13 million. This was at a time when the country's GDP grew from US$9.2 billion to US$10.1 billion.

5.3. Low Level Of Income

The low level of income and general poverty in emergent economies militate against life insurance. Life insurance consumption rises with the level of income. Steady rise in the income of an individual creates a greater demand for life insurance (mortality cover) to safeguard the income potential of the insured and the expected consumption of his or her dependants. Life insurance belong to the category of products or goods which Economists classify as “Superior goods” where the demand curve is positively correlated with the income level. Rising income results in increasing ability to direct a higher share of income towards retirement and investment related life insurance products. Moreover, the overhead costs associated with administering and marketing insurance make bigger size policies less expensive per Naira of insurance in force, which lower price of life insurance policies. Studies have shown that the positive relationship between demand for life insurance and income level is true irrespective of whether we use aggregate national income data or individual household income data.

5.4. Challenges on the Supply Side

The other constraints facing the development of life insurance in Nigeria as well as other emergent economies are problems or challenges facing the life insurance providers or companies. These are several but we shall just state a few. These include:

(a) Lack of Reliable Actuarial Data

Insurance companies in emergent economies suffer from lack of reliable data bases, on which to base their actuarial calculations and tariffs. In countries where statistical data on health problems and mortality or death are not recorded properly and in which ways of life are undergoing rapid change, the use of life expectancy data cannot provide a sufficient basis for computing life premiums, even if the most sophisticated actuarial methods were used. It is only by instituting a comprehensive and reliable system of data collection that this problem can be overcome. To set up such a system is probably a matter for the state, but private insurance companies can help by constituting their own data bases and pooling them. As long as data are still insufficient, substantial margins of error will have to be factored in to ensure that pricing does not cause a deficit; some of the resultant income should then be returned to the insured in the form of profit sharing.

(b) Underdeveloped financial markets

In order to do business effectively, life insurance companies need to be able to invest their assets in financial markets that are sufficiently well developed and efficient. In most emerging markets, financial markets still offer a choice of products such as bonds with a variety of maturities and issuers, shares in companies and auxiliary services such as auditing firms and rating agencies, that are limited. Where these are not well

developed and efficient, they inhibit extensive life insurance operations.

(c) Lack of experience and insurance techniques.
In most emerging economies, life insurance companies often lack experienced and qualified staff, which makes it difficult to estimate risks. Knowledge and skills are still lacking in risk management techniques, actuarial methods, risk selection methodology, new products design etc. This problem of lack of expertise is not peculiar to the insurance industry alone and it is an issue that would be gradually resolved over time as more professionals are turned out and more experience gained.

6.0. WHAT NAICOM IS DOING TO REDRESS THE SITUATION

Irrespective of which of the three standard measures of life insurance are used, the verdict is the same life insurance in Nigeria falls far short of expectation. The three standards measures are life insurance penetration, life insurance density and life insurance in force to GDP.

- Life Insurance Penetration is the ratio of premium volume to GDP. It measures the importance of life insurance activity relative to the size of the economy. Both numerator and denominator are in local currency.

- Life Insurance Density is defined as premiums per capita, expressed in US dollars. It indicates how much each inhabitant of the country spends on the average on life insurance in US dollars. To calculate this ratio therefore, we firstly convert the aggregate premium volume to US dollars and divide by the population size.

- Life Insurance In Force To GDP is the third measure of life insurance consumption, which is, the sum of the face value plus dividend additions of life insurance policies outstanding as a share of GDP. It is a quantity measure of life insurance consumption, the quantity being mortality risk underwritten plus savings accumulated. Life insurance in force thus contains both the cash value of policies, associated with the savings component of life insurance policies and the net amount of risk faced by life insurers.

As stated earlier, in all parameters, life insurance in Nigeria is nothing to write home about, as the contribution of the entire insurance industry premiums to GDP is less than 1%. So what steps are being taken, from the perspective of the regulator, NAICOM, to redress the situation?

(a) Insurance Sector Reforms

(i) Recapitalization and Consolidation
As a vital arm of the financial services sector, the insurance sector is currently undergoing a re-capitalization and consolidation exercise, which is being mid-wifed by NAICOM within the policy framework of government's reform agenda. Insurance companies are expected to beef up their capital base to a minimum of N2 billion for life insurance business, N3 billion for non-life business and N10 billion for reinsurance business not later than 28th February, 2007. With this increase, it is expected that there would be mergers and acquisitions (some have notified NAICOM actually) which would result in fewer but bigger and more solid insurance companies. NAICOM liaised with other regulatory agencies (e.g. SEC, CAC, NSE, FIRS, etc) and obtained some palliatives for the companies to facilitate the recapitalization and consolidation process. The benefits of the exercise would include increased domestic capacity, operational efficiency, sustainable earnings, growth and increased returns to stakeholders, elimination of insider abuses and better corporate governance. Others would include ability to engage highly qualified and experienced professional staff, adoption of modern technology (including ICT) etc. The exercise would yield a news insurance industry in Nigeria, which would be better positioned to contribute its quota to the development of the national economy.

(ii) The new pensions reforms makes it compulsory for employers to take out life insurance policies including group life and annuities for their workers. This will impact positively on the portfolios of life insurance companies and enhance their ability to mobilize long-term funds. Some life insurance companies have registered subsidiary companies as Pension Fund Administrators (PFAs).

(iii) Even the National Health Scheme has a life insurance element and the project cannot succeed without life insurance.

(iv) NAICOM is set to implement Section 72 of the insurance Act 2003, which provides for domestication of insurance businesses, including life insurance, emanating from the country. This is to stem the huge outflow of funds by way of

insurance and reinsurance premiums on businesses ceded abroad. Under the provision, no one shall place a domestic insurance business with a foreign insurer or reinsurer, but where, in exceptional circumstances it is necessary to do so, prior approval of NAICOM must be obtained. The guideline for the implementation of this, is ready and shall soon be issued by the Commission. It is believed that about N50 billion could be saved being the amount lost per annum in respect of oil and gas insurance as past study has shown. This is an amount (N50 billion) that could be ploughed back to the local economy to grow more jobs and create wealth for the country. This will lead to increase in the purchasing power of the work force which has positive correlation to ability to purchase more life insurance.

(b) NAICOM Guarantees The Solvency Of Insurance Companies.
Apart from the comprehensive reforms and consolidation of the insurance sector, which is presently in full gear, the first objective of NAICOM as a Regulator is to protect the consumer by:

(i) Ensuring, through close supervision, the solvency of the insurance companies. This is necessary because a life insurance policy represents a promise to pay a future benefit if and when certain stipulated events occur. The transaction is therefore based on the customer's trust and confidence that the chosen company will honour its commitment. This confidence is particularly necessary with regard to life insurance because the amount involved may be very large and moreover, the commitments span a long (if not a very long) period of time.

(ii) Ensure strict compliance with the law especially investment e.g. life insurance investment in property is limited to 35% of such funds.

(iii) Check viability of investments to avoid careless and frivolous investments etc.

(c) NAICOM Ensures A Level Playing Field
To ensure that policy holders are given a high quality of service, NAICOM, as the regulator, has laid the foundations for a competitive market by instituting a level playing field for life insurance service providers. All companies can now apply and vie for any risks without restriction provided NAICOM approves it. Only within such framework can market forces ensure that insurers offer competitive prices and products that correspond to the consumers' demands. All such practices which are detrimental to healthy competition are drastically reduced through encouraging better corporate governance, better performance and more responsible institutions and will apply appropriate sanctions to enforce compliance including cancellation of operating license.

(d) NAICOM Exercises Effective Supervision on Life Insurers.
NAICOM exercises effective supervision on life insurers as the complexity of life insurance contacts demands a special effort to ensure that the most salient features of policies (as well as the so-called small prints) are conveyed clearly. The Commission ensures compliance of life insurance companies with mandatory auditing procedures and certification by independent actuaries and auditors etc. Regular field inspections are carried out, while principles of corporate governance and fit and proper criteria for company executives are strictly adhered to by NAICOM.

(e) Insurance Education
The low level of life insurance penetration and life insurance density in Nigeria is partly attributable to lack of insurance education and awareness. To redress the situation, NAICOM has embarked on reform measures that involve both formal and informal education on the subject. The Commission is liaising with the relevant authorities in the education sector to ensure the inclusion of insurance as a subject in the nation's educational curriculum at the secondary school level. Informal education on insurance is taking place through awareness creation campaigns. Besides, an appropriate measure has been taken to further deepen life insurance penetration through a grassroots pilot project in the six geo-political zones. The project involves the establishment of operational out station offices in each of the zones which will ensure the success of the grassroots development programme, post consolidation.

SUMMARY AND CONCLUSION
This article has in simple, clear terms, explained what life insurance is all about. It examined the benefits of life insurance, its history in brief and its spread to Nigeria. It then considered the performance of life insurance as an instrument for long-term savings in Nigeria in relation to some other countries by comparing their premium income volumes for a particular year (2003) while taking cognizance of their population and GDP estimates for the same year. It was crystal clear that life insurance was not yet playing

its expected role as a major source of mobilizing long-term savings in the economy, but given the large population, the growing GDP, the increasing level of education and awareness, it was observed that the sector has very great potentials, which needed to be tapped. The inherent problems or challenges were outlined, culminating in some measures NAICOM is taking, as a Regulator, to redress the situation.

It was observed that there is an on-going recapitalization and consolidation programme which would boost the paid up share capital of life insurance companies to a minimum of N2 billion and this is expected to give rise to bigger and better companies. We noted that other reforms that would enhance mobilization of long term funds by the life insurance companies include the compulsory group life insurance policies for employees that come with the pension reforms and annuities. The domestication of insurance pursuant to Section 72 of the Insurance Act 2003 was noted to be of equal importance. Then there is the grassroot insurance pilot scheme by NAICOM, which would cover the various geo-political zones.

Although the level of life penetration in the country is still very low, NAICOM reform measures are strategically aligned to ensure promotion of long term sustained investments in the economy as against the current short term investments which are largely contributory to the poor penetration of life insurance in the economy. NAICOM has continuously obtained and is still receiving inquiries and indications from tested foreign life insurance companies, which are willing to go into partnership with local life insurance companies. This aspect is being critically examined with a view to screening them vigorously to ensure integration of our local market with those with tested capabilities. There is the need to improve the culture and practice of life insurance in the country.

The reform measures of NAICOM proffer active support for health providers as well as (PFAs) in respect of which several life assurance offices have been registered. These measures are also geared towards effective and adequate implementation of the national health insurance scheme. The necessary building blocks in this respect have been put in place. NAICOM has engaged appropriate regulatory measures to ensure sustainability, effectiveness and transparency in pursuit of national policy objectives in the life insurance sector. This will culminate in adequate and appropriate domestic capacity building and improved human capital in the sector. There is no iota of doubt that life insurance shall take its rightful place as a major mobilizer of long-term funds for national development in Nigeria sooner than is being envisaged. However, there a great and urgent need for all to come to realization of the enormity of the challenges ahead so that all hands shall be readily available on deck to ensure the actualization of our dream to bequeath to the nation a strong and reliable insurance industry and economy, the starting block of which is the adequate development of the life assurance sector.

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World Bank Economic Review: 2005.

APPENDIX I

DIRECT LIFE AND NON-LIFE PREMIUMS WRITTEN FOR SOME SELECTED COUNTRIES IN YEAR 2003

Country	Population	GDP	US $ Millions		
	(Million Persons)	(USD)	Life Premiums	Non-Life Premiums	Total Premiums Written
United Kingdom	60.3	1.666 trillion	154,842	91,891	246,733
United States	293	10.99 trillion	480,919	574,579	1,055,498
Japan	127.3	3.582 trillion	381,335	97,530	478,865
France	60.4	1.661trillion	105,436	58,244	163,679
Germany	82.4	2.271 trillion	76,738	94,073	170,811
Israel	6.2	120.9billion	3,052	3,840	6,892
AFRICAN COUNTRIES					
South Africa	42.7	456.7 billion	20,728	4,670	25,398
Nigeria	137.3	114.8 billion	77	345	422
Egypt	76.1	295.2 billion	179	386	566
Morocco	32.2	128.3 billion	361	927	1,288
Zimbabwe	12.7	24.03 billion	277	205	482
Algeria	32.1	196 billion	15	384	399
Ivory Coast	17.3	24.5 billion	53	109	162
Kenya	32	33 billion	107	304	411

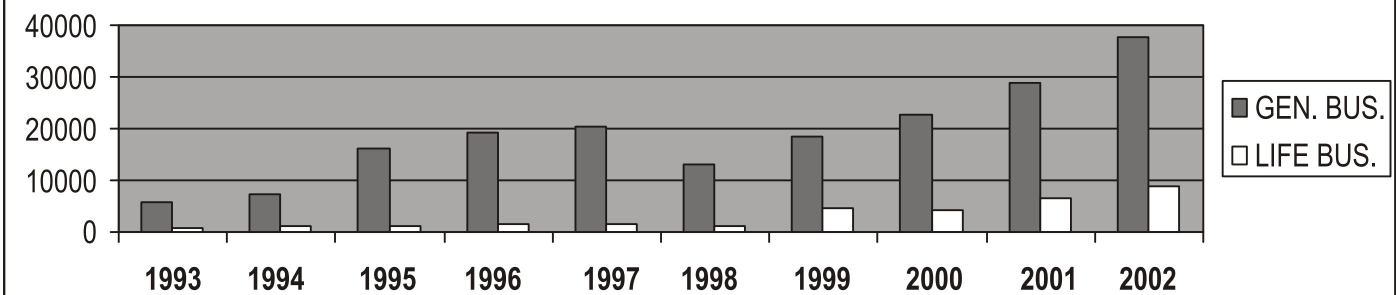
Source: International Insurance Fact Book: 2005

APPENDIX II

INDUSTRY TOTAL GROSS PREMIUM INCOME 1993-2000 (N MILLION)						
	YEAR	GEN. BUS.	LIFE BUS.	TOTAL GPI		
	1993	5,729.23	812.06	6,541.29		
	1994	7,393.86	1,004.98	8,398.84		
	1995	16,137.10	1,000.85	17,137.95		
	1996	19,086.47	1,514.50	20,600.97		
	1997	20,418.71	1,361.54	21,780.25		
	1998	13,152.85	1,322.53	14,475.38		
	1999	18,537.57	4,649.89	23,187.46		
	2000	22,531.46	4,396.33	26,927.79		
	2001	28,808.12	6,460.47	35,268.59		
	2002	37,765.89	8,708.90	46,474.79		

Source: Nigeria Insurance Statistics and Directory (NAICOM)

APPENDIX III



APPENDIX IV

LIFE INSURANCE BUSINESS INVESTMENTS 1993 - 2002 (IN MILLION NAIRA)

TYPE OF INVESTMENTS	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Govt Securities	545.98	450.54	415.89	731.03	1,045.01	2,241.71	607.59	981.88	967.49	763.35
Stocks & Bonds	752.1	895.81	1,510.91	2,237.68	2,123.25	1,952.68	2,233.73	2,532.18	3,491.45	4,319.33
Real Estate & Mortg.	284.62	583.15	1,203.87	1,184.25	1,204.81	84.85	168.56	145.83	222.97	627.68
Policy & Other Loans	138.53	188.65	335.11	511.55	540.67	1,459.18	3,021.55	2,913.78	4,652.91	6,307.20
Cash Deposits & Hand	289.98	378.9	451.78	609.25	868.05	279.75	1,754.61	1,587.95	712.79	1,025.49
Bills of Exch	18.39	50.42	191.73	21.04	64.90	708/07	2,566.70	3,642.84	4,704.66	5,775.73
Total Life Investments	**2029.6**	**2547.47**	**4109.29**	**5294.8**	**5,846.69**	**6,726.24**	**10,352.74**	**11,804.46**	**14,752.27**	**18,818.78**

Source: Nigeria Insurane Statistics and Directory (NAICOM)

APPENDIX V

TOTAL INSURANCE BUSINESS INVESTMENTS 1993 - 2002 (IN MILLION NAIRA)

Types Of Investments	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Govt Securities	818.07	784.28	1,076.81	1,546.16	2,012.01	4,145.88	2,987.21	35,558.95	3,942.71	3,752.08
Stocks & Bonds	1,423.76	1,825.38	2,623.84	4,047.81	4,095.38	3,633.17	4,174.04	49,992.87	6,786.26	8,350.85
Real Estate & Mortg.	791.94	1,200.44	2,516.91	2,523.20	2,682.50	211.95	332.65	282.34	359.33	960.31
Policy & Other Loans	789.07	373.61	563.12	795.98	842.11	2,301.22	4,124.47	5,212.08	6,706.40	7,901.01
Cash Deposits & Hand	1,198.21	1,569.95	1,743.77	3,347.06	3,815.91	1,993.19	4,184.16	3,844.37	4,284.55	4,095.40
Bills of Exch	34.93	107.99	1,555.53	119.30	164.17	3,371.47	5,780.93	7,302.03	10,178.02	11,881.22
Total Investment	5055.98	5,861.65	10,079.98	12,379.51	13,613.08	15,656.88	21,583.46	25,192.64	32,257.27	36,940.87

Source: Nigeria Insurance Statistics and Directory (NAICOM)

APPENDIX VI

TOTAL ASSESTS OF INSURANCE COMPANIES 1993 - 2002 IN MILLION NAIRA

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GENERAL BUSINESS	6,457.66	8,215.72	14,389.13	21,332.84	29,312.50	30,847.77	34,616.78	41,493.52	51,674.03	57,549.47
LIFE	2,901.71	3,847.39	5,841.79	7,602.09	8,615.68	10,603.45	15,514.87	20,104.48	26,386.46	34,141.48
TOTAL	9359.37	12063.11	20230.92	28934.93	37928.18	41451.22	50131.65	61598	78060.49	60963.95

Source: Nigeria Insurance Statistics and Directory (NAICOM)

IMPERATIVE OF NATIONAL SAVINGS: A CASE FOR ADOPTION OF APPROPRIATE BENCHMARK PRICE FOR CRUDE OIL

BY
MOSES F. OTU[1]

MOSES F. OTU

INTRODUCTION

Budgeting involves the design of plans that aligns expected financial resources and expenditure to accomplish specific national goals and objectives. It is usually time bound and ensures judicious use of resources for sustainable growth if the basic principles and discipline are adhered to. Nigeria's annual budget estimates are closely associated with the anticipated oil revenue flows dictated by oil prices and production targets as predetermined by Organization of Petroleum Exporting Countries (OPEC).

One of the naughty problems faced by developing oil economy like Nigeria is fluctuations of the nation's revenue resulting from volatile crude oil prices in international market. Consequently, sharp declines in oil revenue are not uncommon and it affects smooth implementation of the budget. The oil sub-sector contribution to the gross domestic product (GDP) is very significant in Nigeria (about 26.0 percent), as such a shock in international price of crude oil would adversely affect total revenue,(Nnanna and Masha,2003). Fluctuations in revenue invalidate most of the basic assumptions and projections usually made to facilitate the budgeting processes. This subsequently, creates challenges for policy makers, analysts and facilitators.

Recently in Nigeria, a benchmark price for crude oil was adopted for the purpose of estimating oil revenue to mitigate the unnecessary disruptions of the annual budgetary processes and stabilize the revenue. This strategy was initially experimented for the appropriation bill of 2002 and internalized in the subsequent years. The strategy of adopting benchmark price for crude oil below the market price presupposes that there was a consensus for compulsory national savings to build up a pool of funds which would cushion the effect of shocks that could result from unfavorable developments in the future as well as ensuring high quality spending.

However, method of arriving at the benchmark price for crude oil for the budget has been criticized as being highly subjective and lacking in transparency as it was not based on any acceptable and predetermined principle. This has often resulted in heated debates and intensive negotiations between the executives and the legislative arm of government which often results in delayed release of the appropriation bill and the attendant adverse impact on the economy.

It is the objective of this paper therefore to develop a simple framework for deriving an acceptable bench mark price for crude oil for budgeting purposes. It is hoped that this would remove subjectivity in budgeting process and promote understanding between all the stakeholders in order to fast track the process of passage of the appropriation bill. Following this brief introduction, the next segment of the paper examines the need for national saving fund and constitutional provisions for national savings, while section three focuses on the international experiences. Section four presents the framework for deriving appropriate benchmark price for the national budget and the last section concludes the article.

2.0 The Need for National Savings Fund and Constitutional Provisions:

2.1 Stylized Facts on Savings Behavior:

The subject of savings has attracted many empirical research works and comments in contemporary economic literature since the Keynesian era. In line with the presentation of Keynes most of the economic literature agreed that there are many varied reasons why people save. Keynes (1936) produced the following celebrated list.

Precaution: To build up a reserve against unforeseen contingencies;

Foresight: To provide for an anticipated future relation between income and the needs of the individual

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or family different from that which exists in the present;
Calculation: To enjoy interest and appreciation;
Improvement: To enjoy gradually increasing expenditure;
Independence: To enjoy a sense of independence and a power to do things;
Enterprise: To secure a masse de manoeuvre to carry out speculative or business projects;
Pride: To bequeath a fortune;
Avarice: To satisfy pure miserliness, i.e. unreasonable but insistent inhibitions against acts of expenditure as such.

Corresponding to these reasons for saving, Keynes provided a list of motives for consumption: Enjoyment, Shortsightedness, Generosity, Miscalculation, Ostentation, and Extravagance. From the above, it is clear that there are many reasons why an individual might save; and many reasons he or she might not. Similarly, for a nation as an entity, numerous factors come to bear on their savings behavior, such as political and social considerations. For instance, in Nigeria, several efforts had been made to establish national savings funds in the past, which were however, short lived with limited impact on the economy. A brief highlights on Nigeria's attempts to institutionalize national savings is given in the next section.

2.2 Nigeria's Experience in National Savings

Attempt at institutionalizing national savings crystallized in the establishment of stabilization fund in 1990s where proceeds of excess budgeted revenue were kept. The main objectives of the fund were to provide buffer financial resources to the budgeted revenue in the case that the oil prices fall below a specified level, and in addition, the scheme was meant to support and sustain long term growth initiatives and investments in the economy. Other efforts at establishing saving fund include the proposed national savings certificate. In the same mould as the stabilization fund, the proposed national saving certificate has remained on the drawing board till date. Currently, Nigeria is operating excess crude account, a semblance of the defunct stabilization fund with a new name.

Stabilization fund was initiated during the military era without the appropriate enabling laws, and therefore, the design of the scheme lacked key success features that could have sustained the scheme, such as a clear policy on determination of the appropriate benchmark price for the budget, and policy on withdrawal from the fund. Moreover, the schemes were established to address exigencies and meet urgent national concerns after which the zeal to continue waned as the situation normalized. The operations of the funds were therefore, perceived to encourage corruption and fiscal indiscipline and thus their operations were suspended. Furthermore, it appears that establishment of national savings contradicts the provisions of the 1999 Nigerian constitution. Section 162 of the constitution stipulates that all revenues collected by the Government of the Federation shall be paid into the Federation Account, and shared to the federating units, except the independent revenue of the Federal Government. Probably, the constitutional stance worked against the actualization of national savings which the Fiscal Responsibility Act would be expected to address.

2.3 The Need for Sustainable Source of Funds In Nigeria:

Given the Nigerian government's ambitious growth targets, and the need in the present global environment to generate investable resources internally, the desire to establish sustainable pool of funds becomes paramount. It therefore, follows that contemporary policy designs and research agenda directed at enhancing saving should occupy the front burner in the scheme of priorities.

A saving fund is designed to create a store of wealth for future generations by converting a deplorable revenue stream into a perpetual income flow (Devlin and Titman, 2004). Nigeria as a political entity needs such income flows for more than one reason, perhaps the following may suffice:

Recently, Nigeria went through horrific experience in external debt management; ranging from debt rescheduling; to debt repayment, and eventually securing debt forgiveness. It should be underscored that during the heydays of external debt burden, the political machineries as well as the treasury was fully stretched by accepting to pay a proportion of the total indebtedness which was a staggering lump sum to the foreign creditors, before the debt relief was secured. Following this bitter experience, the appetite to acquire foreign loans and advances as a nation in the nearest future would be dampened, as any move in this direction to secure foreign loans would be vehemently resisted by the citizenry, as well as the national assembly and the labour union. This implies that there must be a well structured mechanism to generate fund internally; to cushion the effect of shocks in the system, to enjoy sustained increase in expenditure as well as a sense of independence and empowerment to create wealth.
Savings funds would serve simply as

a place to bank excess crude oil revenues until they can be efficiently invested. Since our revenues are largely generated from a commodity with a very volatile price, implementing an investment plan that increases slowly and smoothly overtime becomes much more challenging. An important role of savings funds is to allow the country to smoothen out investment expenditures and this increases the efficiency of investment by minimizing cost adjustments. Fiscal surpluses tend to be more inefficient and create more distortions that are also more vulnerable to political economy pressures evidenced by the wasting of the revenue windfall realized from crude oil sales during “Operation Desert Storm” the Iraqi invasion of Kuwait.

2.3 Constitutional Efforts at Establishing National Savings:

The quest for a sustained funding of the national budget was reechoed in the National Assembly and crystallized into the drafting of the Fiscal Responsibility Bill. The bill proposed a shift from annual budgeting to a medium term expenditure framework (MTEF) of three financial years. MTEF is a rolling process repeated every year and aims at reducing the imbalance between what is demanded by ministries, departments and agencies.

The proposed Fiscal Responsibility Bill advocates for development of a macroeconomic framework for the economy which makes adequate provisions for national savings. It was entrenched in the Bill that the underlying assumptions as well as evaluation and analysis of the macro economy should be clearly stated. Furthermore, it was spelt out that where the reference commodity price rises above the predetermined level, the excess funds derivable should be saved in the Central Bank on behalf of all the federating units. An extension of this provisions barred access to the funds unless the price of the reference commodity falls below the bench mark level for a period of three consecutive months, and places the authority to release the fund on the national assembly.

Considering the deteriorating infrastructure, poor welfare facilities and other social indicators, the question that readily comes to mind is, do we really need to save for the future in the face of these decaying lots? We are aware that individuals as well as economic units have optimum absorptive capacity, a situation where there is too much money in the economy chasing few goods and services results in inflation pressure. Secondly, it has been established that too much resources in the hands of government promotes recklessness as most of the funds would be diverted, embezzled and at best spent on white elephant projects, which usually are abandoned when the sources of funding receded. The cost of completion of such projects on resumption normally escalates due to inflationary factors resulting from cost overrun.

3.0 International Experiences

Saving funds has been practiced in many economies with different variance and at different terms as dictated my economic environment. The pioneers in this field are Alaska, Alberta and Papua New Guinea in the 1960's and 1970's. Other countries that came into the scene in early 1990's are Algeria, Ecuador, Iran, Norway and Venezuela. In an attempt to ascertain the effectiveness of saving funds, Davis and others (2001), using a pooled cross-sectional and time series data for 71 countries for 1970 2000, suggests that the funds have a dampening effect on government spending as a percentage of the GDP. In the same study, they maintained that the funds appear to raise fixed capital investment as a share of GDP by nearly three percentage points and that there is a positive relation between the balances held in the fund and fixed capital investment.

In his study of commodity stabilization funds, Fiess (2002) reported a favourable outcome in Chile, Norway and Oman. They indicated that the fund moderated significant volatility in government spending and delivered higher shares of gross fixed capital investment. Based on their result, they concluded that country specific circumstances matter a lot, in particular the use of fiscal rules and targets to guide spending decisions over a longer time horizon.

Norway's success story could be linked to strong mechanisms that break the cord between oil price behaviour and fiscal expenditure, generally in a form of fiscal rule. The saving fund is treated as central governments net cash flow and transferred to the treasury to finance the non oil deficit. Linking the fund accumulation to fiscal surpluses would help to avoid the problem of an overall deterioration in the government's net asset position. In the case of Chile, withdrawals from the fund are subject to the fiscal rule with the structured balance calculated by factoring out the cyclical component of the copper price and other cyclical factors (Fiess, 2002). In both cases, transfers to and from the fund require parliamentary approval.

Concerning the optimal size of funds to be accumulated, results of studies conducted in this area appear to be inconclusive. However, Crain and Devlin (2002), indicated that larger

funds created management problem especially if the design of saving funds is not transparent. In addition, they maintained that political pressure on the government usually results in mismanagement of the funds and recommended that there must be an inbuilt mechanism for control reporting and evaluation of fund resources and operations. In his contribution on the management of the funds, Heilbrum (2002), stressed that the funds should be professionally managed with oversight by the Ministry of Finance or Central Bank. Cited the example of Norway, he indicated that the Ministry of Finance supervises the activities of the fund and sets guidelines or investments and reporting requirements.

Economic literature seems to be silent about the appropriate formula applied to determine the level of savings required. However, most studies mentioned in the passing the basis for deriving funds for national savings funds accumulation of excess above a target price as in the case of Chile's Copper Stabilization Fund; revenue contingent a set percentage of commodity revenues, as in the case of the Alaska's Permanent Fund; and a mixture of both, a set percentage of commodity revenue and a reference price as in the case of Venezuela's Stabilization Fund, are very common in the literature.

This study adopts price contingent to derive a scheme for benchmarking crude oil prices for the annual budgeting process and indirectly building up a pool of national savings funds. This would reduce the rancor that follows the annual ritual of fixing routinely this all important benchmark price.

4.0 Factors that Determines International Oil Prices and Trends of Spot Price:

4.1 Determinants of International Oil Prices

Temporary and permanent factors have been identified to influence crude oil prices in the international market. Oil prices fluctuate unpredictably because of temporary changes in global economic and political conditions that affect the supply and demand for oil. For instance, political crises in Nigeria, Iran, or Iraq could lead to temporary disruption of oil supplies, and cause prices to rise. In an attempt to stabilize prices, OPEC would direct their members to step up production quota in order to make up for the shortfall depending on the magnitude of the crises and the quantity of production involved in the trouble spot. Prices subsequently fall again as the problem is resolved. Similarly economic recession could lead to oil glut, a situation of over production resulting in a temporary oversupply that generates price declines.

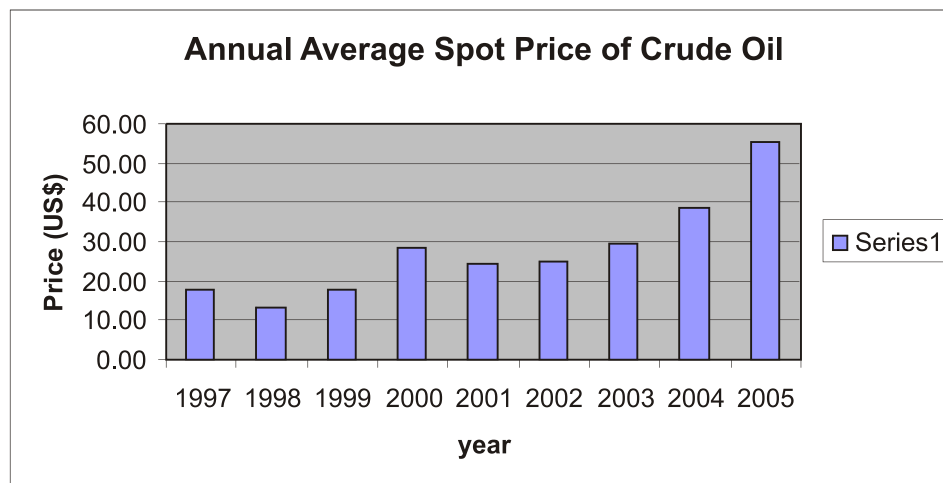
Permanent factors that influence oil price movement are development that culminated in sustained increase in demand or supply of crude oil in the market. Permanent changes can arise because of longer-lasting changes in demand arising from emergence of substitutes for fuel or stronger incentives for conservation of energy leading to less consumption of fuel. Other situations that could lead to sustained increased demand include technological changes and new discoveries that increase the supply of oil (Devlin & Titman, 2004). In summary, crude oil prices depend on the interplay of demand and supply as dictated by global politics, intricacies and perhaps technological advances and sometimes weather changes.

4.2 Trends in Oil Prices

Prices of crude oil fluctuate sometime with wide swings. For instance, the price of crude oil was as low as $10.0 per barrel in February 1997, however, at end-December, the same year, the price increased to $26.0 per barrel (Table 1).

The low price was traceable to economic recession in the Asian economy which resulted in suppression of demand for oil in the first of the year. While the extreme cold weather condition during the third and the forth quarters of the year increased demand for heating oil and thus the price of crude oil increased sharply.

Chart 1



On average, the price of crude oil was fairly stable at $17.96, $13.08 and $17.96 in 1997, 1998 and 1999, respectively.

Table 1 SPOT PRICE OF CRUDE PETROLEUM 1997-2005 (US$)

Months	1997	1998	1999	2000	2001	2002	2003	2004	2005
January	11.35	15.29	11.35	25.62	25.09	19.64	31.86	31.77	44.83
February	10.22	14.14	10.22	28.06	27.53	20.26	32.9	30.99	45.69
March	12.53	13.10	12.53	27.97	24.57	23.54	31.09	34.13	53.42
April	15.47	13.63	15.47	23.05	25.74	25.78	29.54	34.40	51.90
May	15.24	14.56	15.24	27.9	28.45	25.26	26.1	38.32	49.11
June	15.99	12.93	15.99	29.78	28.03	24.01	27.94	35.55	54.99
July	18.57	12.35	18.57	28.52	24.89	25.92	28.52	38.42	58.54
August	20.73	12.24	20.73	29.48	25.94	26.9	30.05	43.53	66.42
September	22.48	13.4	22.48	33.15	25.93	28.38	27.49	43.71	65.32
October	22.36	12.77	22.36	30.81	20.51	27.97	30.01	50.39	60.43
November	24.76	12.15	24.76	32.63	18.99	24.5	29	42.8	56.74
December	25.81	10.4	25.81	25.95	18.65	28.38	29.85	40.7	57.76
Average	**17.96**	**13.08**	**17.96**	**28.58**	**24.53**	**25.05**	**29.53**	**38.73**	**55.43**

Source: CBN Statistical Bulletin and Reuters

Similarly, in 2000, the average price increased to $28.55 per barrel from $17.96 in 1999, and edged upwards gradually to $25.05 and $29.53 in 2002 and 2003, respectively. The price of crude oil once again bounced back to $38.73 and $55.43 in 2004 and 2005 in the respective years. The recent increase in price of crude is attributable to increase in demand resulting from shortages precipitated by disruption of production in OPEC member states and in the Russian Federation.

4.0 Derivation of Appropriate Benchmark Price for Crude Oil

The process of arriving at acceptable price for crude oil is a contentious issue shrouded by political intrigue and interest. Several countries such as Chile and Russia have engaged in prolonged discussions and disputes over methods of determining appropriate benchmark price. In this study, a simple descriptive scheme which makes use of historical trends of prices of crude and the prevailing economic situation to arrive at the benchmark price. The strength of this approach is that inflationary factor can easily be built into the system as against the outdated incremental budgeting. The framework of the derivation is presented in the following equations.

$$\frac{(x_i ....x_N)}{N} * SF..........(1)$$

$$\frac{(x_{max}......x_{min})}{2} * SF......(2)$$

Where

X_i= Spot price of crude oil at month one,

X_N= Spot price of crude oil at end-December,

N = No of months,

X_{max} = Highest crude price obtainable in the period, and

X_{min} = Lowest crude price in the same period

SF = Saving factor whose value lies between zero and one.

This method assumes favourable price of crude oil in the international market and that the annual average crude oil price remains above the predetermined benchmark.

4.1 Saving Factor

The choice of saving factor depends on the fiscal stance and the level of savings desired by the nation. However, the drivers of the international price of crude could be a very reliable reference point for the choice of saving factor. For instance, if the global random process that determines the oil price in the preceding year is perceived to be temporary, it is a signal that the prices of oil may probably remain higher. The present value of future revenues is not very sensitive to changes in spot prices. A close watch of global dynamics would enhance fixing an appropriate level of the saving factor for a fiscal year.

Table 2

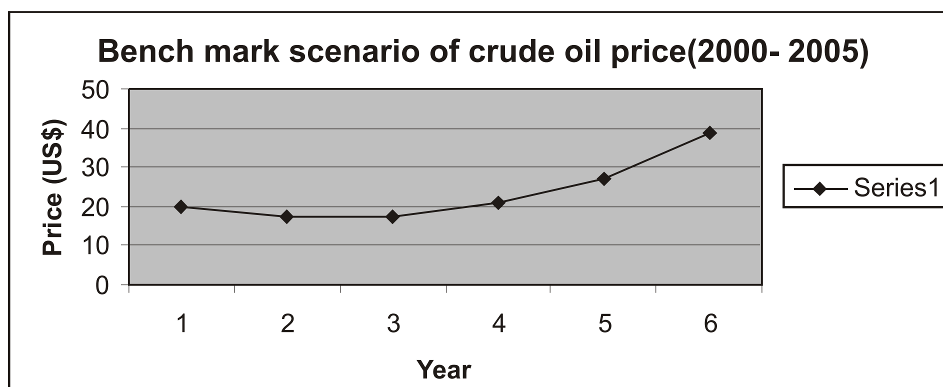
Price	2005	2004	2003	2002	2001	2000
Lowest	44.83	30.99	26.10	19.64	18.65	23.05
Highest	66.42	50.39	31.86	28.38	28.45	33.15
Average	55.63	40.69	28.98	24.01	23.55	28.10
S/Factor 1	0.60	0.60	0.60	0.60	0.60	0.60
Result 1	**33.38**	**24.41**	**17.39**	**14.41**	**14.13**	**16.86**
S/Factor 2	0.65	0.65	0.65	0.65	0.65	0.65
Result 2	**36.16**	**26.45**	**18.84**	**15.61**	**15.31**	**18.27**

Note: S/Factor = Sacrificial Factor i.e the present benefit foregone for future gains

Table 3

Price	2005	2004	2003	2002	2001	2000
Average Price	55.43	38.73	29.53	25.05	24.53	28.58
S/Factor 1	0.60	0.60	0.60	0.60	0.60	0.60
Result 3	33.26	23.24	17.72	15.03	14.72	17.15
S/Factor 2	0.65	0.65	0.65	0.65	0.65	0.65
Result 4	36.03	25.17	19.19	16.28	15.94	18.58

Chart 2:



Application of the Derived Formula

Application of the derived formula to the spot prices of crude oil from 2000-2005, is presented in tables 2 and 3. Results show that in 2000 using equation 1 and assuming that a saving factor of 65 percent was adopted the benchmark price for the budget should have been $16.86 per barrel, while the $14.13 and $14.41 per barrel for 2001 and 2002 respectively. In 2005 benchmark should be $33.38 per barrel in same scenario. However, a saving factor of 65 percent results in $36.16 per barrel in 2005 compare to the $35.0 which was eventually adopted for the 2005 appropriation bill. Similarly, application of formula two (Table3) indicates a benchmark price of $36.03 per barrel.

Comparing results (1-4), show that the result of each scenario (Saving Factor, 60,65 %) are similar with no significant difference. For instance, in 2005, the benchmark price using formula one is $33.38, while formula two gives $33.28 per barrel. This implies that any of the two formula could be used for the purpose of deriving appropriate benchmark price of crude oil for budgeting. However, formula one which incorporates the annual average price is more appealing in that a sharp increase in price in one period could result in a higher average price between the maximum and the minimum price implicit in equation one. Notwithstanding the bottom-line is adoption of a consistent framework which would reduce time wasting and rancor in the budgeting process.

Recommendations:

Attempt has been made to present a scheme for deriving a benchmark for crude oil price for the appropriation bill. It is envisaged that this approach will facilitate budgeting process and enthroned transparency. This strategy will lead to creation of a pool of funds that can absorb shock arising from unfavourable development in the international crude oil market. Adoption of this scheme will reduce wasteful spending and instill fiscal discipline as well as smoothening government revenue.

It is evident that previous efforts at institutionalizing national savings were not very successful because they were not backed by the enabling laws. It is apparent that constitutional provision does not favour national savings as such efforts should be made to address this issue. Probably, the passage of the Fiscal Responsibilities Act would address this and add value to this strategy as well as accelerate its implementation.

Concluding Remarks:

The nation has passed through bitter experience in the management and servicing of its external debt burden, it is about time we internalized national savings as a culture. The current favourable crude oil price could be a good starting point to build up national savings by setting aside a portion of our proceeds from oil sales. However, the method adopted to arrive at appropriate savings formula, has to be transparent and credible to earn acceptability by all the stakeholders.

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CONCEPTUAL ISSUES ON SAVINGS IN NIGERIA

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1. INTRODUCTION

It is often held that capital accumulation is necessary and sufficient condition for growth and capital accumulation is almost synonymous with saving, hence the route to growth is then one of raising savings and smoothing consumption (Deaton, 1991). Savings is one of the key relevant macroeconomic variables in any economy. Its impact on the rate of capital accumulation, productivity and the degree of dependency of a nation on foreign capital and foreign ownership of domestic assets cannot be over-emphasised. High level of domestic saving will accelerate the rate of investment, enhance productivity and hence, economic growth. A country's level of savings or its saving rate relative to other countries can be used as a yardstick for measuring its growth prospect. As noted by Summer (1986) raising domestic savings rate is sin-qua-non to enjoying rapid productivity growth and success in international competition. It is no accident that Germany, France, United States and Japan with savings rates three times ours have enjoyed very high productivity growth rates over the last fifteen years (Afolabi and Mamman, 1994).

However, the domestic level of savings in some countries is so low that foreign borrowing must be resorted to. If the elasticity of substitution of foreign for domestic savings is high then such a country suffers from a perpetual payments deficit. The debt-service burden may be such that the prospects for future economic growth are limited. A lot of developing countries have fallen into such financial crisis, they had to either repudiate their external debt or reschedule their debts at frequent intervals.

This paper is motivated by the economic reform programmes Nigeria is carrying out at the moment, which will have to be financed mostly with domestic resources. The current sharp drop in savings rates is also a source of concern. Thus, the need for increasing national savings is critical and it will be more so in the future. Sustained growth will require a significant increase in capital formation. Given the fact that the availability of foreign capital is dwindling and is likely to be scarce for developing countries in the future, these economies will have to rely heavily on higher domestic savings to fund the needed increase in investment in order for adjustment to be followed by sustained growth (Garvin, 1990).

There is little doubt that one important area a country needs to look into when faced with economic crisis is the saving-consumption behaviour. Consumption and saving have attracted wide range of theoretical and empirical research, nevertheless, the varied empirical tests on the impact of a number of economic factors have turned up largely with different results. This may be attributable to variety of reasons, prominent among which is the multiplicity of methodological approaches adopted by different researchers, different types of data utilized, as well as country-specific reasons. There is need to bridge the huge gap in the geographical spread of reported research findings on the behaviour of aggregate savings in Nigeria. This issue has, however, not received adequate research attention. Specific investigations into this area are sketchy (Pinto, 1987; Afolabi and Mamman, 1994; Ikhide, 1994; Nyong, 1997, Adam, 1998; and Odusola, 1999) and incidentally there is an inadequate understanding of the issues.

For Nigeria to sustain its current investment programmes and its' associated import needs, priority must be given to the expansion of domestic savings and exports as some of the main instruments for growth. The main question is, to what extent will it be possible to constrain consumption

sufficiently, to reach the target level of domestic savings, giving that consumption is also an important element for growth? What are the reasons for the weak saving performance in Nigeria? This paper is limited to the consideration of conceptual issues on savings in Nigeria. The specific objectives of the paper are stated below:-

- To review conceptual issues on savings behaviour in Nigeria.
- Analyse the factors that may have led to weak saving performance, as well as make some suggestions about future behaviour of savings through a review of the literature.

This paper is divided into four sections. Section one contains the general introduction. Section two focuses on the background issues on the economy and savings in Nigeria. Section three captures conceptual/theoretical issues and literature review. The last section contains the summary, conclusion and recommendations.

2. The Nigerian Economy and Savings Profile

In the 1980s and 1990s, for many developing countries including Nigeria, were years of macroeconomic upheavals. This manifested in the form of unprecedented debt crises, high international interest rates, low external resource transfers, mass unemployment, persistent increasing inflation, exchange rate crises, economic stagnation and so forth. The international financial institutions have provided financial assistance to help cushion the impact of the external shocks and to assist countries to restructure their economies to the path of sustained growth. So far, the policy environment has been characterized by 'stop and go' policies and increased administrative interventions, loss of fiscal control, little commitment to reform efforts, etc. This has led to fallen or marginal GDP growth, intensified capital flight, reduced foreign capital inflow and the countries are yet to witness a revival of satisfactory investment and saving rates.

During the past two decades, in order for Nigeria to maintain it consumption and investment levels, there has been rapid accumulation of external debt as imports exceeded exports. This has lead to the widening of the country's external current account deficits and exchange rate overvaluation. The government introduced economic stabilization Act in 1982 leading to ban on imports and foreign exchange rationing. The adoption of Structural Adjustment Programme (SAP) in 1986 was another response to the lingering economic crisis. Despite these measures government expenditure kept rising beyond its revenue, the Naira exchange rate has been depreciating, while output has been growing marginally. For instance, external debt rose from US$4. 1 billion in 1980 to US$24.6 billion in 1986 and moved to $28 billion in 1999. For most part of the late 1980s and 1990s, real GDP growth was less than 3% on the average. For instance, between 1993 and 1999 GDP growth averaged 2.5% while overall fiscal deficit/GDP ratio moved down from 15.4% in 1993 to 7.7% in 1994 and was 8.8% in 1999. In recent times, savings ratio (savings-GDP ratio) has been single digit and has been on the decline. For example, savings ratio fell from 23.5% in 1991 to 13.7% in 1993 and was -15.2% in 1995, thus it averaged 0.7% between 1995 and 1998. Moreover, investment/GDP ratio has been single digit from 1996 to 2003.

2.1 Trends in National Savings in Nigeria

In order to further enlighten the review, we present below statistical data on national savings in Nigeria. As can be seen on table 2.1, the stock of savings rose steadily from N341.6 million in 1970 to N1,815.2 million in 1975, by 1980 the figure trebled to N5,769.9 million, again moved to N12,521.8 million in 1985 and by 1990 it had reached an all time high of N29,651.2 million. The upward trend continued with the figure reaching N108,490.3 million in 1995, moved to N379,528 million in 2000 and climbed to N592,094.0 million in 2002 by 2004, it moved to N1,033, 400.0 million. Another way of looking at the national savings data is through an examination of its rate of growth. From 1.0 per cent in 1971, the growth rate reached an astronomical rate of 9.38 per cent in 1974, which is incidentally a period highest figure. The figure fell to 5.96 per cent the following year and further to 3.86 per cent in 1980 (see table 2.1). The trend fluctuated continuously, reaching a low of 2.46 per cent in 1990. An interesting point to observe is that the negative figure for 1995 notwithstanding, the growth rate was positive during the period 1995 1998 and averaged 1.15 per cent. The average growth rate from 1999 2004 was 3.19 per cent. The importance of this marginal performance is that as has been observed by Romer (2001), saving is future consumption. Thus a society that does not save will invariably be unable to raise its consumption as well as investment in the future, hence growth will suffer. Indeed, Romer (2001) posits that if individuals have problem saving at present it will mean that their future consumption prospects will be further impaired.

An analysis using national saving ratio (saving/GDP ratio) in table 2.1 shows

that between 1970 and 1975, national saving ratio averaged 6.3 per cent, 1976-80 (9 per cent), 1981-85 (12.4 per cent), 1986-90 (14.8 per cent), 1991-95 (10.2 per cent), 1996-2000 (7.8 per cent), 2001-2005 (13.7 per cent). The result shows that savings performance was more impressive during the present reform era (1999-2004), other periods of good performance were the SAP era and period just before the current reforms era. This fact tends to mask the rather dismal performance in the period after SAP as reflected by the low ratio of savings to GDP for the period. It can be observed that the figures for 1995, 1996, 1997 and 1998 are single digit, none up to 10 per cent. The figures were also low during the 1970-1978 periods under review. The 1980s were better, particularly the SAP period when there was an increase. The best performance has been recorded during the present democratic regime (2000-2005). The findings support Soyibo's (1997) that national saving rate increased after the year of reform. For example, from 1986 to 1991, the data show surplus savings which was not invested.

2.2 Financial Sector Reform and Savings

In the last two decades after independence, Africa was faced with a myriad of economic problems. Some of these were high inflation and unemployment, increasing poverty, low economic growth rates, high fiscal deficits, huge balance of payments deficits, financial sector repression and worsening terms of trade. The economic crises have been attributed to two main factors, i.e., domestic policy failures and inadequate institutional capacity (Afolabi and Mamman, 1994). This implies that the necessary conditions for growth and efficient economic management are the need for adoption of a consistent and appropriate macroeconomic policy framework and the existence of high quality institutions. The introduction of Structural Adjustment Programme (SAP) in July 1986 was an effort to set the macroeconomic policy framework right. One of the components of SAP was the reform of the financial sector, aimed at increasing its efficiency.

In Nigeria, SAP was introduced to alter and realign aggregate domestic expenditure and production patterns so as to minimise dependence on imports; diversify the revenue base away from oil export, increase efficiency of financial sector, among others. The basic policies constituting the SAP programme included revenue expansion and public expenditure stabilization financial sector deregulation, privatization and commercialization, among others. Part of the financial sector reform involves efforts aimed at setting the sector free from any repression, such as freeing the interest rates. The observed low level of savings may have become endemic due to the prevailing high level of financial repression and low income. With financial repression, a country will experience a gap between domestic savings and the desired level of investments. Moreover, the higher the degree of financial repression, the further away is that economy from attaining efficiency in resource allocation and management (McKinnon, 1988). The regulatory controls with its' fixed interest rates regime, inhibited growth, competition and efficiency in the financial system. This is because the real rates became negative in some instances.

Therefore, the period of financial deregulation (1986-94) in which the government assigned an increasing role to the market forces in the allocation of resources witnessed increasing number of financial institutions in the system. For instance, between 1986 and 1990, about 66 new commercial and merchant banks were created, particularly between 1988 and 1990, the number of banks increased from 66 to 107, while the number of commercial banks branch offices increased from 1,665 to 1,939 (Adam, 1998). The resulting competitive pressure brought about by the reforms while encouraging financial intermediation in the banking industry have also tended to raise risks, sharp practices and hence, led to distress in the system (Afolabi and Mammam, 1996).

The period of deregulation witnessed radical policy changes in banks operations and regulatory environment in Nigeria. Some of these policy changes include liberalisation of the foreign exchange markets and interest rates, the introduction of prudential guidelines/accounting standards, increase in minimum paid-up capital, creation of regulatory/supervisory institutions, relaxation of mandatory sectoral allocation of credits, enhanced autonomy and supervisory responsibilities for the Central Bank of Nigeria (CBN) and so forth.

The banking policy reforms were introduced sequentially. With the creation of the Nigerian Deposit Insurance Corporation (NDIC) in 1988, bank depositors were assured of immediate cash payments of up to a maximum of N50,000.00 in case of any bank failure. One important development during this period was the promulgation of two banking laws with effect from June 1991, the CBN Act, No. 24 of 1991 and the Banks and Other Financial Institutions Act (BOFIA), No.25 of 1991. This repealed the CBN Act of 1959 and the Banking Decree of 1969 respectively.

Following a further amendment of CBN Act of 1991, in 1998 and 1999, the Decree and amendments significantly enlarged the powers of the CBN with regards to the maintenance of monetary stability and a sound financial system. The amendments further granted autonomy to CBN in the formulation and implementation of monetary and financial policies. Furthermore, the BOFID seeks to introduce changes in regulations that can promote the development of the financial sector in a deregulated environment.

As a result, the number of commercial banks which stood at 14 in 1970 moved to 29 (107%) in 1986 and by 1993, it was 66 (128%), but dropped to 51 (-22.7%) in 1998 as a result of bank failures, only to climbed to 92 by 2004. Merchant banks also grew from 1 in 1970 to 6 in 1980, through to 12 (100%) in 1986 and peaked at 54 (366.7%) in 1993 but dropped to 38 (-26.6%) in 1998. Banks branches also increased tremendously during this era. For instance, commercial bank branches increased from 273 in 1970 to 740 in 1980 (171.1%), and moved to 1367(84.7%) in 1986 and further to 2258 (65.2%) in 1993 only to drop to 2107(-6.7%) in 1998. The observation indicates that financial variables under study radically changed during deregulation era compared to the regulation era; and accounted for the upward trend in savings explained in section 2 above.

The other financial institutions apart from the banking sector also increased in number and size, they include: the insurance companies, the pension funds, discount houses, finance companies, cooperative societies, among others. For instance, in Nigeria, community banks rose from one in 1990 to 753 in 2004, stock brokerage firms rose from 10 in 1980 to 162 in 1995 and Bureau de Change increased from 52 in 1985 to 293 in 2004 (table 2.2).

Interest rate development in table 2.3 shows that deposit rate on normal savings was single digit from 1970 to 1984 and became double digits from 1985 to 1995, mostly during the SAP era, only to return to single digit from 2000 to 2004. Lending rate as represented by minimum rediscount rate (MRR) shows that the rate became double digit from 1985 to 2004, thus revealing a large spread between lending rate and saving rate since 2000 to 2004 (table 2.3). The conclusion from this exercise is that there is a high positive correlation between the interest rate and savings. For example, 2000-2004 was a period of high savings and moderate interest rate stance.

3. Conceptual Issues and Literature Review

The English Chambers Study Dictionary define savings as money set aside for future use, while Pan Dictionary of Economics and Commerce view savings as the converse of consumption, that is an individual may either consume or save his/her disposable income. Saving becomes available when an individual refrains from consumption. Thus, saving is a sacrifice of current consumption for capital accumulation which leads to investment and subsequently additional output that can be used for consumption in future. It is important to clarify that saving does not necessarily means making deposits at banks or financial institutions. It is sufficient to increase one's cash holding by refraining from consumption.

Gross national savings is also defined as the residual of what is consumed from gross domestic income. In a simple income-expenditure model, the economy is in equilibrium when investment is equal to saving. Furthermore, there is need to distinguish between saving and savings. Saving is a flow while savings is a stock. This means that saving is the rate of change in savings per time period. Savings, being a stock is cumulative amount put aside over time. In symbolic terms if S is equal to savings, is change, while t is time, then saving (s) is equal to:

$$\text{Saving (s)} = \triangle s/dt,$$

There are many conceptual/ theoretical approaches to savings however; the important and common ones are the absolute income hypothesis due to Keynes (1936) which assumes that saving is simultaneously determined with consumption, in the consumption function framework. It posits a positive relationship between savings and income through marginal propensity to consume/save. The second known as the permanent income theory postulates the view that consumption/savings is a function of permanent income (current income plus future income, wealth, etc.). Another theoretical approach is the *life-cycle* hypothesis which postulates that every individual spends in relation to what he conceives his normal income to be. In a particular year he may regard his income as low, in the good years he will save the excess and in the bad years he will run down his accumulated savings (Stiegeler and Thomas, 1982). The second and last approaches can be combined into one because they are similar; jointly referred to as the life cycle/permanent income hypothesis

Kuznets (1942) first documented the stability of the saving/income ratio, and in particular, that the saving ratio appeared to be independent of real income. This stood in contrast to the

rigid dependence implied by the simple Keynesian consumer behaviour. Kuznet's conclusion implied that consumers may be smoothing consumption and savings in the face of fluctuations in real income. After all, there emerged a number of rival hypotheses which include the relative income hypothesis (Duesenberry, 1949 and Modigliani, 1949); the life cycle hypothesis (Modigliani and Brumberg, 1954; Modigliani, 1957); and the permanent income hypothesis (Friedman, 1957). These studies dwell on different theoretical notions of income as the plausible determinant of aggregate consumption/saving behaviour. At another level, there are numerous empirical researches that extend the argument of the basic consumption/saving model to make the theory mirror the data set and some have included additional explanatory variables of consumption/saving behaviour such as inflation, liquid assets and wealth (see Zeller et al, Deaton, 1972; Davidson et al. 1978).

The permanent income hypothesis and life-cycle hypothesis distinguish between the consumption (and saving) effects of changes in permanent and temporary income using aggregate data. In its simple and extreme form, permanent income shocks should be entirely consumed, whereas temporary income shocks should be entirely saved. The permanent income hypothesis is typically rejected by the evidence. However, the evidence also shows that the positive impact on savings on the temporary increase in real per capita income is greater than that of a permanent rise in income (Loayza, Schimidt-Hebbel, and Serven, 2000). Uncertainty may help to explain why consumption/saving follows income so closely, thus contradicting the simple permanent income hypothesis (Zeldes, 1989).

According to the life-cycle theory, demographic focus play a role in predicting saving, because saving is high at middle age and low at young and old ages. This proposition points to the concentration of growth in households with high saving rates like the rich or middle age household. The higher saving rate may be induced by the desire to leave bequests to heirs. This framework points to the link between savings and economic growth. However, this view has been challenged by other economists, for instance, according to Deaton and Paxson (1994), and Poterba (1995) elderly people save or at least do not dissave as much as predicted by the life-cycle hypothesis. Loayza, Schmidt-Hebbel and Serven (2000) provide supporting evidence for this view.

Empirical evidence suggests that inflation has positive influence on household's saving in physical assets. For instance, Davidson et al., (1978) and Rutayisire (1980) assert that individuals tend to substitute financial assets for physical assets in high inflation economies, thus, inflation is inversely related to financial saving. While the motives to smooth consumption may be strong, households may be restricted to their ability to transfer resources across time; both by inability to borrow against future earnings, by high debt-burden and low international credit ratings and by very low real returns on current savings (Lehmussari, 1990). The sharp drop in the household saving rates is attributable to the widening external current account deficits of these countries. Deaton (1989) attributes decline in national savings to falling real income, negative public sector saving (fiscal deficits) as well as small decline in private sector's saving.

Furthermore, Montiel (2000) observes that saving/consumption booms have been common in both industrialized and developing countries and the explanations for their occurrence include economy-wide wealth effects associated with favourable movement in the terms of trade, surges in capital inflows, the implementation of market-oriented structural reforms (especially trade and financial liberalization), etc. Using a large cross-country study, he found that wealth effects linked to favourable movements in the terms of trade and anticipated improvements in macroeconomic performance seem to have been more important empirically. On theoretical grounds, it is postulated that a relaxation of liquidity constraints will be associated with consumption boom and a decline in aggregate saving (Reinhart and Tokalidis, 2000). Hence, no analysis of saving and consumption is complete without an assessment of the pervasiveness of liquidity constraints.

In Nigeria, there exists a few numbers of studies in the area of aggregate saving-consumption behaviour. The studies on aggregate consumption-saving behaviour are scanty (see Pinto, 1987; Afolabi and Mamman, 1994; Ikhide, 1994; Nyong, 1997; Essien and Onwiodukit, 1998; Adam, 1998; Obadan and Odusola, 1999). Recently, Afolabi and Mamman (1994), examine the determinants of consumption and the effect of deregulation on saving in Nigeria by adopting cointegration and Error-Correction Model (ECM) for both Pre and Post-Structural Adjustment Programme (SAP) periods (1970-1994). They estimated the equilibrium value of the marginal propensity to save (MPS) before deregulation at 0.12 and 0.23 during the SAP period. They also generated long-run

Marginal Propensity to Consume (MPC) which confirmed the observed high consumption-income (low saving-income) ratio for a developing country like Nigeria. They also found that SAP policies relating to savings mobilization had positive effects on the saving behaviour of individuals in the economy. These results, apart from the limitation that the model contains fewer explanatory variables, cannot be reconciled with the fact that deregulation has led to declining real disposal income of the average Nigerian. Moreover, their results may be regarded as tentative because of the use of approximate values of real disposable income and real consumer expenditure.

In an extension of Afolabi and Mamman (1994) work, Nyong (1997) re-examined if SAP and deregulation have led to increased savings in Nigeria. He added additional explanatory variables to the estimated consumption function, i.e., demographic, liquidity constraints, financial deepening and other variables. Based on the multiple regression and ECM model used for the period 1970-94, the study provides results in direct opposite to those advanced by Afolabi and Mamman (1994). He found that consumption (or saving) was responsive to changes in income but not to changes in interest rate. The MPC was higher during SAP era than during the Pre-SAP period and that the long-run marginal propensity to save (MPS) fell during the SAP era including deregulation, contrary to the empirical evidence presented by Afolabi and Mamman (1994). He concluded that consumption in Nigeria is more related to subsistence considerations and liquidity constraints than to intertemporal consumption smoothing. And that the major determinant of savings is changes in income. The problem of this study is that the author used aggregate data only for the SAP and pre-SAP era which is too short for any meaningful results between the two eras. This may explain the conflicting results obtained by the two studies.

Obadan and Odusola (1999) examine the linkages between savings, investment and growth in developing and developed countries with the aim of drawing important lessons and to articulate policies for the future. Nigeria is used as a developing country case study. The study based on Granger causality model for the period 1970 1998, finds support for bi-directional relationship between saving, investment and growth. It however observed that the linkages will hold if, there is an increase in the volume of real savings, and a means of collecting and channeling the savings, for investment. Furthermore, there must be some effective means of transforming savings into productive capital. An important lesson emerging from the study is that the level of financial development and integration are crucial conditions for saving, investment and growth correlations. The problem with this study is that, it is not a detailed country-specific study and the model used is very simple. Essien and Onwioduokit (1998) examined empirically the effects of financial liberalization on savings mobilization in Nigeria and ascertain the existence of a long-run equilibrium relationship between them, using co-integration technique. They found financial liberalisation to be a significant factor and that the long-run equilibrium relationship is non-existent. A summary of past related studies is presented in table 3.1 (see appendix).

4. Summary, Conclusion and Recommendations

With the review thus far, the main findings are as follows:

(i) Savings is an important macroeconomic variable which impacts on capital accumulation, productivity, economic growth, and the dependency or otherwise of a country on external resource inflows;

(ii) The foreign debt that the country accumulated in the 1980s and 1990s are attributable to the low domestic savings, high consumption, among other factors;

(iii) Although a relatively large number of studies have been done on the subject by other scholars, those by Nigerians on Nigeria are rather few; and their results regarding the determinants of saving are contradictory;

(iv) Though the savings figures for Nigeria are relatively low especially when viewed in regard to international standards, the cumulative stock per year, the growth rate and the saving/GDP ratio; the trend is nevertheless in the upward posture;

(v) The contending theories (hypotheses) on saving (consumption) point to the tendency for the community to want to smooth out their consumption over the long-run, however, subsistence considerations and liquidity constraints still plays vital role.

(vi) Studies on Nigeria indicate that the level of financial development and integration are crucial conditions for saving; thus, financial liberalisation enhances domestic saving

4.1 Conclusion and Recommendations

The study found that even though the number of financial institutions has increased, saving mobilisation has not increased appreciably. The need to enhance investment and economic growth potentials calls for measures to mobilise savings both in the short-run and long-run. First, the constraints to mobilisation of savings has been identified to include financial repression, fiscal deficits, scanty saving instruments, near non-monetisation of the economy, externalities, negative deposit rates, among others. Consequently, measures suggested to stimulate savings include financial liberalisation and removal of all distortion to savings, savings enlightenment programme and adopting positive savings culture attitude, introduction of more savings instruments, development of the money and capital markets, reduction of fiscal deficits, macroeconomic stability, and continuation of democracy to ensure stability. Consequently, the area of future research interest can be identified as follows

- Analysis of the financial sector interest rate structure and how to improve on it
- Relationship between saving, investment and growth during regulation and liberalisation
- Building relevant legal, institutional and human capacity to ensure success of financial liberalisation
- Promoting collaboration between academic researchers and policy makers in ensuring both parties have inputs into policy research

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APPENDIX

TABLE 2.1: Trends in National Savings, 1970 - 2004

Year	Nat. Saving / GDP Ratio	Nat. Savings (NS) NBn	Growth Rate of NS
1970	0.07	0.34	-
1975	0.08	1.82	5.96
1980	0.11	5.77	3.86
1985	0.17	12.52	1.40
1990	0.11	29.65	2.46
1995	0.05	108.49	-2.2
1996	0.05	132.80	2.24
1997	0.06	177.65	3.38
1998	0.03	198.65	1.18
1999	0.12	272.01	3.70
2000	0.13	379.52	3.95
2001	0.11	488.04	2.86
2002	0.15	592.09	2.13
2003	0.14	840.4	4.19
2004	0.15	1033.4	2.31
2005	Na	Na	Na

Source: CBN Statistical Bulletin(Various Issues)

Table 2.2: Number of Financial Institutions in Nigeria(1970-2004)

FIs	1970	1980	1985	1990	1995	1999	2000	2004
Com.Bks	14	20	28	58	64	54	54	92
M. Bks	1	6	12	49	51	38	38	Na
C. Bks	-	-	-	1	1355	1014	881	753
P. Bks	-	-	-	169	278	Na	278	Na
Mo. Bks				169	280	Na	194	83
St. Bro.	-	10	19	80	162	Na	Na	Na
Fin. Co.				45	276	280	280	107
Ins. Co.	43	70	88	103	145	104	57	Na
Disc. H.				3	4	5	5	6
B.de Ch			52	92	223	260	na	293

Source: CBN Statistical Bulletin(Various Issues)
Note: Com. Bks. - Commercial Bank, M. Bks - Merchant Banks, C. Bks - Community Banks P. - Peoples Banks, Mo. Bks - Mortgage Bank, St. Bro. Stock Brokerage firm, etc.

Table 2.3: Deposit Interest rate Trend in Nigeria (1970 - 2004)

Year	Deposit Rate	Inflation Rate	MRR
1970	3	13.8	4.5
1975	4	33.9	3.5
1980	6	9.9	6.0
1985	9.5	5.5	10.0
1990	18.8	7.5	18.5
1995	12.6	72.8	13.5
2000	5.29	6.9	14
2001	5.49	18.9	20.5
2002	4.2	12.9	16.5
2003	3.5	14	15
2004	4.4	15	15

Source: CBN Statistical Bulletin (Various Issues)

Note: MRR - Minimum Rediscount Rate

Table 3.1: Empirical Studies on Savings/Consumption Behaviour

AUTHOR/YEAR	OVERAGE/ METHOD	OBJECTIVE/COMMENT	RESULT
Adam (1998)	(1970-98) / Econometrics	i) To analyze the efficiency and effectiveness of the financial intermediation process.	The result shows that the financial intermediation process is sub-optimal and caused by high lending rate, high inflation, low per capita income, and inadequate bank branches.
Ghosh and Ostry (1994)	(1965-91)/ Econometrics	i) To test whether precautionary saving is present in developing countries that have uncertain export earnings. ii) To consider the effect of export instability on the external balance.	The precautionary motive has significantly influenced saving behaviour and external balancing of developing countries. This was done through the institution of stabilization funds, accumulating foreign assets and so forth. The precautionary saving effect is stronger for countries with an export base more heavily concentrated in a few commodities than for countries with a highly diversified export structure.
Spatafora and Warner (1996)	(1965-89)/ Econometrics	i) To examine the impact of long-term movement in external terms of trade on savings, economic growth and macroeconomic variables	They found that permanent terms-of-trade shocks have no impact on savings, a strong positive impact on investment, and a negative impact on the current account. There is evidence of a long-run effect on output, particularly of non-tradables. Real exchange-rate appreciation is a key mechanism in

			appreciation is a key mechanism in triggering the resource reallocation. Finally, the response of expenditure to terms-of-trade shocks is not very sensitive to whether the expenditure comes from the public or private sector.
Fuhrer (1992)	(1960-91)/ co integration/Error-correction model	i) To examine if consumers behave as the life-cycle/permanent-income theory of consumption predicts.	In the long-run, unlike in short-run, movements in consumption, income and wealth are roughly consistent with the life-cycle/permanent income theories of consumption, although consumption does not equal current resources period by period. Consumers who do not follow a rule of thumb appear to deviate from the life-cycle path because of adjustment in the short-run.
Ikhide (1994)	(1979-91)/ macro econometric Model	i) To examine the effect of the external shocks on savings,	External shocks particularly oil price shocks have a major effect on domestic production, export, saving, investment, government finances and credit sourcing.
Afolabi and Mamman (1994) a	(1970-92)/ ECM and Cointegation	i) To examine the determinants of saving and consumption in Nigeria. ii) To investigate the effect of SAP on savings mobilization	They found a high consumption - income (low saving-income) radio for Nigeria. They also found that SAP had positive effects on saving behaviour of individuals in the economy.

Akano (1988)	1960-1994/ECM	i) To explore the determinants of long-run consumption behaviour in Lesotho	Inflation was not a significant factor of long-run consumption adjustments, but its short -run impact on consumption is significant. Per capita income elasticity of consumption over the period was approximately unity. Consumption behaviour over the period was not significantly influenced by past income and consumption habits exceeding a one year period.

FINANCIAL LIBERALIZATION AND SAVINGS MOBILISATION IN NIGERIA

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Financial liberalization involves the elimination of credit controls, deregulation of interest rates, easing of entry into the financial services industry, development of capital markets, increased prudential regulation and supervision, and liberalization of international capital flows. Reforms are expected to increase competitive efficiency within the financial market in at least three ways. Number one, the elimination of regulations and price distortions allow savings to be directed into highest-yielding (risk-adjusted) forms of investment (improved allocative efficiency). Number two, increased competition reduces the cost of financial intermediation (higher operational efficiency). Number three, the reform measures generate an improved range of financial products and services adaptable to changing consumer needs (dynamic efficiency). Although financial reforms can increase the efficiency by channeling resources into productive use, its impact on the quantity of savings is theoretically ambiguous.

From an analytical point of view, the impact of financial reform on savings includes a direct, short-term, and an indirect, long term, effect. The direct effect works through the price and quantity channels. The price channel reflects the impact of reforms on savings through changes in the real interest rates. Fry (1978, 1995) reports that, across a sample of fourteen Asian countries, the gross national savings rate is positively affected higher real interest rates. However, the positive response is small and diminishes in later years. (Reynoso, 1989) finds that savings increase rapidly as real interest rates move from sharply negative to just below zero, but that the effect levels off at low positive real interest rates and becomes negative as interest rate rises. This raises the possibility of a nonlinear relationship between interest rates and savings, perhaps involving threshold effects.

The quantity channel affects savings by expanding the supply of credit to credit-constrained consumers. A number of studies have argued that the high level of savings evident in the East Asian countries and Japan can be attributed not to high interest rates but to bank expansion in rural areas and the availability of low-yielding but safe deposit instruments (Loayza et al., 2000).They estimated that a one percentage point increase in the ratio of private credit flows to income reduces the long-term private saving rate.. This seems to indicate that the expansion of credit reduces private savings as economic agents are able to finance increased consumption at their current income level.

Financial liberalization, which leads to large capital flows, can also have short term implications for savings. Bandiera et al. (2000) have argued that the impact on savings of financial liberalization comes through the related changes in the availability and cost of credit, expected income growth, and increased wealth due to higher property values.

Stulz (1999) and Mishkin (2001) assert that financial liberalization promotes transparency and accountability, reducing adverse selection and moral hazard while alleviating liquidity problems in financial markets. These authors argue that international capital markets help to discipline policy makers, who might be tempted to exploit an otherwise confined domestic capital market. The prime benefits that the literature associates with liberalised financial system to the users of the financial services include; the reduction in the cost of services to both savers and borrowers with the introduction of more competition and improvements in services from more efficient, customer friendly financial institutions. Savers expect to receive higher rates of return, a broader choice of saving instruments and easier access to financial products. Borrowers benefit from more accurate appraisal of risk; reduced waiting period and expanded access to funds through more sophisticated lending instruments available in a wider range of maturities. The benefits of financial

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liberalization can therefore be grouped into increased access to domestic and international capital markets, and increased efficiency of capital allocation.

However critics of financial liberalization policies have contended that the efficient markets concept is fundamentally misleading when applied to capital flows. In the theory of the second best, removing one distortion need not be welfare enhancing when other distortions are present. If the capital account is liberalized while import competing industries are still protected, for example, or if there is a downwardly inflexible real wage, capital may flow into sectors in which the country has a comparative disadvantage, implying a reduction in welfare.

If information asymmetries are rife to financial markets and transactions, in particular in countries with poor corporate governance and low legal protections, there is no reason to think that financial liberalization, either domestic or international, will be welfare improving (Stiglitz, 2000). Furthermore, in countries where the capacity to honour contracts and to assemble information relevant to financial transactions is least developed, there can be no assumption that capital will flow into uses where its marginal product exceeds its opportunity cost. Stiglitz (1994) argues in favour of certain forms of financial repression. He claims that repression can have several positive effects such as: improving the average quality of the pool of loan applicants by lowering interest rates; increasing firm equity by lowering the price of capital; and accelerating the rate of growth if credit is targeted towards profitable sectors such as exporters or sectors with high technological spillovers. However, these claims can be doubtful given that they increase the power of bureaucrats, who can be less capable than imperfect markets, to allocate financial resources. The key argument is that the government is, to all intents and purposes, the insurer of the financial systems, and hence a financial failure can have significant fiscal repercussions.

Overall, although financial reform promises immense benefits, it could also set in motion a process of change that imposes some costs, which if not covered carefully can result in a crisis. The path toward greater efficiency in financial services, like the path toward freer trade, implies the closure of those firms that remain unproductive and the gradual emergence of new practices. These new practices include modern supervision and regulation and the abandonment of the special relationships and poor lending practices that bear so much responsibility for the dismal state of financial sectors in most developing countries. Like trade in goods, competition will bring net benefits, but those who enjoyed protection will suffer and will try to oppose change.

Since the 1980s many emerging economies, including Nigeria embraced financial sector reforms and have had mixed results (Akyuz and Kotte, 1991). Starting in 1986, Nigeria's financial system began to be deregulated and by 1992 substantial changes had taken place. Consistent with trends in other developing countries, institutions and markets are growing and developing, leading to an increasing role being played by the financial system in the development of Nigeria's economy.

The main objective of this paper is to assess the impact of financial sector reforms on savings mobilization in Nigeria. Accordingly, the remaining part of the paper is organized as follows; part two dwells on theoretical issues and brief review of literature. Part three contains a brief analysis of financial sector reforms in Nigeria, while part four assesses the impact of the reforms on savings. Summary, conclusion and recommendations are presented in part five.

2.0 Theoretical Issues and Review of Literature

One element of the Mackinnon-Shaw thesis is that abolition of ceilings on interest rates stimulates savings. Increased interest rates, however, may reduce rather than increase the volume of savings for a number of reasons. First, the negative income effect of increased interest rates might offset the positive substitution effect between consumption and savings. Second, an increase in the real interest rate may merely reallocate the existing volume of savings in favour of financial savings as opposed to other forms of savings and leave the total volume of savings unchanged (Gupta 1984, Rangarajan 1997). Such a reallocation may also occur if reforms provide a new range of financial instruments such as shares, mutual funds, postal savings and pension funds.

Third, at very low levels of income interest rates are unlikely to stimulate savings since the totality of incomes would be devoted to consumption. Statistical evidence on the issue suggests that a one percent increase in the real interest rate raises the saving rate by only about one-tenth of one percentage point in the relatively poor countries, where as this coefficient is about two-thirds of one percentage point in the relatively rich countries (Ogaki et al 1996). Fourth, even at relatively high levels of income, financial reforms which ease borrowing constraints may stimulate consumption rather than savings (Hall

1978, Jappelli and Pagano, 1989, 1994).

Finally, increased interest rates may restrict the ability of the corporate sector to restructure production methods and hence its productivity and growth. And if the savings propensity of the household sector is lower than that of the corporate sector total savings may decline (Singh, 1993).

On theoretical grounds, it has been postulated that a relaxation of liquidity constraints will be associated with a consumption boom and a decline in aggregate saving. More specifically, Campbell and Mankiw (1990) postulated that there are two types of households in the economy: the first type of household, x, is liquidity constrained and their consumption is entirely determined by the evolution of current income, while the second type (1 -x), has free access to capital markets and can smooth their consumption inter-temporarily. Such a theoretical development led these authors to challenge the implicit McKinnon-Shaw assumptions that were based on a homogenous household set in which it was assumed that all relevant households had free access to capital markets within the domestic economy. This argument stemmed from the Stone-Geary utility function where the inter-temporal elasticity of substitution, which determines the sensitivity of consumption to real interest rates, is determined by permanent income and subsistence consumption. Thus, increases in real interest rates will affect consumption/saving decisions in varying degrees. In countries where the representative household is close to subsistence consumption (and saving), they may not be sensitive to changes in the real rate of interest. Only in wealthier countries would consumption decline (and saving increase) following an increase in real interest rates. Hence, in this analysis the magnitude of the increase in saving following the higher real interest rates associated with financial liberalization will depend on the level of income.

Financial reforms, however, may stimulate financial savings in other ways than through an increase in interest rates. A reduction in controls on the financial system along with increased competition and improved customer service may result in increased savings. Access to savings instruments may not only enhance the willingness to save but also result in the substitution of financial savings for investments in assets such as gold and jewellery. One other aspect of financial reforms, which may influence household savings, is taxation. Reforms which reduce high marginal income tax rates and increase disposable incomes may not only serve to eliminate tax evasion but also stimulate savings. Tax reforms designed to reduce tariffs on trade and excise duties, however, may encourage consumption and reduce savings.

Yet another issue which has aroused considerable discussion relates to the impact of reforms on public savings defined to include current surpluses of public administration and publicly owned enterprises. The seemingly obvious proposition here is that reforms which tend to reduce the profligacy of the public sector would increase public savings and hence total savings. The much discussed Ricardian equivalence theorem, however, argues that an increase in public savings may be offset by an equivalent reduction in private savings leaving the total volume of savings unchanged. The Ricardian equivalence theorem rests on a number of assumptions such as well-functioning capital markets, perfect information, an independent banking sector free of government imposed restrictions, none of which may hold in developing countries. In any case, empirical evidence in support of the theorem is weak. Most studies detect a very weak negative relationship between public and private savings (Edwards 1995, Corbo and Schmidt-Hebbel 1991). Indeed, increased public savings may promote total volume of savings. The experience of the East Asian countries suggests as much.

Most studies on economic liberalization analyze the impact of exports and foreign direct investment on growth, but not on savings (Greenaway et al 1997). It is likely that relatively liberal foreign trade regimes promote savings. Typically, the savings rate tends to be high in relatively open economies such as the East Asian economies. Liberal foreign trade regimes may promote savings for a number of reasons. Import competition may serve to reduce the prices of consumer durables, so too would increase flows of foreign investment in these industries. The resulting increase in real incomes may promote savings, provided both the income and substitution effects of a growth in income work in favour of savings as opposed to consumption. Liberalization of the foreign trade regime may promote competition and efficiency with a benign impact on growth and hence savings. Also, increased exports may result in increased savings if the propensity to save from export incomes is relatively high. Equally remittances from expatriates abroad may increase with economic reforms, as has happened in Nigeria, and promote savings.

The empirical results, however, have not been consistent across countries. Hussain (1996) estimated that, in the

three years following reforms, savings in Egypt increased by about 6 percent of GDP over the level that would have occurred in the absence of financial liberalization. However, Bayoumi (1993a) showed that financial deregulation in the United Kingdom led to a decline in the personal savings ratio of 2.3 percentage points over the 1980s. Chapple (1991) also reported a decline in both household and corporate savings in New Zealand following liberalization. Evidence from Turkey during the 1970s and 1980s demonstrated that a negative income effect from higher interest rates outweighed the positive substitution effect on the private savings rate (Uygur, 1993).

Financial liberalization has also been shown to lead to consumption boom and consumer lending in a number of countries, including, the United Kingdom (Bayoumi, 1993b), Mexico, and Thailand. Using the overlapping generation framework, Bayoumi (1993b) has shown that a move from a financially regulated to a deregulated system will make savings more sensitive to changes in income, wealth, demographics, and real interest rates. In addition, there will be a transitional decline in savings associated with higher real interest rates and a larger current account deficit. While transitional, the duration of this effect depends upon overlapping generations within the economy. In summary, there is conflicting evidence in the literature regarding the impact of financial liberalization and savings mobilization.

In sum, there are no settled conclusions on the impact of financial liberalization on the savings rate. The one proposition which seems to be robust is that liberalization is likely to promote savings because of its impact on growth and not the other way round. Nigeria's experience provides an opportunity to test this proposition. Unfortunately, not all of the propositions in the literature on economic liberalization and savings can be empirically tested. Some of the variables cannot be quantified, and for some others data in the required form are not available. This study utilizes available data for Nigeria to assess the impact of financial sector reforms on savings mobilization.

3.0 Financial Sector Reforms in Nigeria[2]

At the commencement of comprehensive financial sector reform in Nigeria in 1987, the sector was highly repressed. Interest rate controls, selective credit guidelines, ceilings on credit expansion and use of reserve requirements and other direct monetary control instruments were archetypal characteristics of the financial system. Access into banking business was limited and government-owned banks dominated the industry. The reform of the foreign exchange market which until then was also controlled began in 1986. Indeed the financial sector reform was a component of the comprehensive economic reforms programme, Structural Adjustment Program (SAP) which was adopted in 1986.

The main financial sector reform policies applied were deregulation of interest rates, exchange rate and access into banking business. Other reform measures included, establishment of Nigeria Deposit Insurance Corporation, strengthening the regulatory and supervisory institutions, upward review of capital adequacy standards, capital market deregulation and introduction of indirect monetary policy instruments. Some distressed banks were liquidated while the central bank took over the management of others. Government share holdings in some banks were also sold to the private sector. (See Nnana, 2002 for the details and the sequencing of the reform measures)

The Central Bank of Nigeria made attempts at restructuring the financial system prior to the introduction of open market operations in 1993. Bank deposit and lending rates were deregulated at the beginning of the structural adjustment programme in 1987. In 1991, the CBN in a reaction to rising nominal lending rates in the market for loans prescribed a maximum margin between the bank's average cost of funds and their maximum lending rates as well as a minimum level for their savings deposit rates. Interest rate determination was still supposed to be market-related through its link to the cost of funds.

In order to promote competition in the money market, the procedure for licensing new banks was streamlined and liberalised. Consequently, the number of banking institutions increased from 50 in 1987 to 120 in 1993, dropped to 115 in 1996. By 1998, the number of banks surged to 155, however in 2004, the number plummeted to 89. An auction-based system for issuing treasury bills and certificates (both government debt instruments) and the issue of these instruments as Treasury bearer bonds to enhance tradability was introduced. This delinking of the treasury bill rate from the MRR was aimed at improving the efficiency of public debt management and the conduct of monetary policy, enhancement of investor interest and involvement in the holding of government debt

[2]This section benefited immensely from Onwioduokit and Adamu (2005).

instruments, promoting greater reliance on market forces in the determination of yields on the instruments and encouraging the development of the secondary market for government short-term debt instruments.

The CBN Decree No. 24 and The Banks and Other Financial Institutions Decree (BOFID) No. 25 were promulgated in 1991. The Decrees enhanced the central Bank of Nigeria's independence in the conduct of monetary policy, augmented the CBN's regulatory and supervisory power over banks and brought under the purview of the CBN the licensing and supervision of other non-financial institutions like Discount and Finance Houses. The Decrees empowered the central bank to apply indirect monetary policy instruments such as open market operations (OMO), reserve requirements, stabilisation securities and special deposits to achieve the objectives of monetary policy.

Furthermore, prudential guidelines regarding ample provisions for bad and doubtful debts and loan classification, interest capitalisation, capital adequacy and limits on loan concentration were put in place in 1990. In order to mitigate the adverse effects of the implementation of the guidelines on banks' balance sheets, the central bank later allowed banks to write off accumulated bad and doubtful debts over a phased period of four years. Steps were also taken to strengthen the capital bases of banks. The minimum paid-up capital of banks was increased from N20, 000,000 to N50, 000,000 million in the case of commercial banks and N12, 000,000 to N40, 000,000 million in the case of merchant banks with effect from June 1992. In 2001, the central bank of Nigeria adopted the universal banking policy, thereby abrogating the classification of banks by the nature of their business that existed hitherto. Again to ensure that banking contribute to the real economy and not just serve as trading post, the Central bank of Nigeria increased the required capital of banks to N25.00 billion effective December, 2005.

In order to facilitate the development of a secondary market for government debt instruments so as to reducing government dependence on the CBN financing of its deficit, three discount houses were licensed in 1992. In addition to intermediating funds among financial institutions, the discount houses were also expected to promote primary and secondary markets for government securities.

In 1990, the central bank in conjunction with the Nigerian Deposit Insurance Corporation (NDIC) commenced the process of bank restructuring. At first, six insolvent banks were identified and were allowed self-restructuring under the close supervision of the two supervisory authorities, the CBN and NDIC. In late 1992, a joint committee of the CBN and NDIC involving a sector of the BOFID assumed greater control over distressed banks. Banks thus taken over by the CBN had their board of directors dissolved and an interim management board appointed to exercise powers normally vested in a board of directors of a bank and some turn-around measures, including the down-sizing of operations through rationalisation of staff and branch-network. The Boards are also empowered to appoint independent firms of auditors to ascertain the true financial condition of each of the banks. Thereafter, appropriate restructuring or liquidation options were to be adopted.
However, in September 1992, credit ceilings on banks that are adjudged healthy by the CBN were lifted. A bank was considered healthy if it met CBN guidelines on certain specified criteria in the preceding three months. These criteria were; cash reserve, liquidity ratio, prudential guidelines, statutory minimum paid-up capital, capital adequacy ratio, and sound management. With the application of these criteria about 80 banks were endorsed as healthy and exempted from credit ceilings. These same criteria were applied for determining banks that qualify to participate in the official foreign exchange market.

An intriguing element of Nigeria's foreign exchange market was the irregularity in policy implementation. The reform of the foreign exchange market for instance started in 1986 with the abrogation of exchange controls and establishment of a market-based autonomous foreign exchange market, including the licensing of Bureaux de change in 1988. However, a fixed official exchange rate existed alongside the autonomous market. In 1993 the plodding market-based depreciation in the official exchange rate was abridged by a sharp devaluation in a bid to close the gap between the official and the autonomous exchange rate. Discontented with the gap between the official and autonomous exchange rates, government prohibited the autonomous foreign exchange market and reintroduced exchange controls in 1994. But after a full year of exchange controls, the autonomous market was reintroduced in 1995. A foreign exchange subsidy of about 300 per cent, representing the gap between the official and autonomous market rates existed for some government-preferred consumption, including pilgrimage and sporting events. The continued operation of the official exchange rate exerted distortions in the domestic allocation of resources in the public

sector. Fiscal gains thus appear to be an incentive factor in retaining the current structure of the foreign exchange market. A similar pattern of policy somersault was apparent in the interest rate reforms policy. First introduced in 1987, the market-determined interest rates operated until 1991 when interest rates were capped. However, a year after, deregulation of interest rates policy was once again re-introduced in 1992 and 1993. Although indirect monetary instruments (open market operations) were initiated in 1993, some measures of controls such as sectoral credit allocation guidelines continued to be applied in 1994.

Regarding bank licensing and regulation, the reform commenced with the deregulation of bank licensing in 1987. This resulted in the establishment of many new banks. However, when prudential measures such as, the increase in the required banks paid up capital in 1989 and the reform of their accounting procedure (1990) appeared insufficient to restrain the immoderation of the sector, government placed total embargo on bank licensing in 1991. Privatization of banks was suspended after applying the measure to a few banks. Some of the issues highlighted above point to the disorderly manner in which the reform has been implemented in Nigeria. Thus, Nigeria's financial sector reform has not been a smooth sailing process. This in itself could obscure the appraisal as well as its outcome.

4.0 IMPACT OF FINANCIAL SECTOR REFORMS ON SAVINGS IN NIGERIA.

A fascinating exercise is to assess the effects of liberalization on the measures of financial development that in turn are regarded as correlating with economic growth. Development of the financial sector requires a set of indicators that can be used for effective policy formulation, implementation and evaluation. As such, there is no precise definition in the literature of 'financial sector development'. However Fry (1978) observes that the key to financial sector development is the reduction, and ultimately unification, of the fragmented financial markets. This involves a complete set of indicators mainly covering credit intermediation, liquidity management and the risk management characteristics of the financial system. Goldsmith (1969) used a set of measures, which he called the 'financial interrelations ratio', in tracing the close relationship between the financial sector and economic development. In many other studies, the ratio of the broad money (M2) to GDP is taken to observe the changes in the size of the financial system relative to the size of the economy.

It is hard to find 'an indicator' that can directly measure the development of the financial sector. We therefore analyse the roles of the indicators that are studied in the recent literature and then choose ten indicators that encompass all the qualities of a well-developed financial sector. The six measures are explained as follows: Broad Money as a ratio of Gross Domestic Product (GDP), Private Credit as a ratio of GDP, Currency Outside Bank as a ratio of Broad Money (M2), Interest Rate Spread, Real Interest Rate, and Gross Savings as a ratio of GDP. The data for the analysis were essentially sourced from the central bank of Nigeria. The assessment period is broken into two segments 1980-1986 representing the pre-reforms era, while 1987-2005 represents the post reforms era.

TABLE 1: FINANCIAL SECTOR REFORMS INDICATORS IN NIGERIA: 1980-2005

	Pre-Reforms 1980-1986	Post-Reforms 1987-2005
M2/GDP (%)	26.7	22.8
Private Sector Credit/GDP	16.8	14.4
Currency outside Bank/M2	23.0	25.7
Interest Rate Spread	1.8	10.7
Real Interest Rate	-8.1	-15.5
Gross Savings/GDP	7.1	12.6

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One of the expected effects of financial sector liberalisation according to theory and some empirical findings is what have been known in the liberalisation literature as Financial Deepening, usually measured as the ratio of broad money to the GDP. In Nigeria the ratio worsened from 26.7 per cent in the pre-reform era to 22.8 per cent in the reform era. This clearly indicated that financial sector reforms in Nigeria did not achieve the purpose of financial deepening that is purported by theory. This outcome is consistent with the findings of Nissanke and Aryeetey (1998) who observed that expected positive effects from liberalisation, in savings mobilisation and credit allocation had been slow to emerge. The use of both the M2/GDP ratio and the private credit/GDP ratio to measure financial deepening showed no clear upward trend in any of those countries. In Nigeria, both indicators worsened considerably in the reform period. Indeed, in most countries, credit as a proportion of GDP declined in the reform years, even if the share of credit to the private sector rose.

The ratio of credit to the private sector to GDP has been classified as a measurement of financial sector widening (De Gregorio and Guidotti (1993). Thus, the higher the ratio the more widened the financial sector is assumed to be. The reasoning underpinning such assumption is that the private sector utilisation of credit is usually more efficient than the government sector. In the pre-reform period, the ratio stood at 16.8 per cent. However the ratio deteriorated to 14.4 per cent during the post reform era, indicating relative narrowing of the financial sector in Nigeria. This is very instructive as it contradicts the much-touted impact of Nigeria's financial sector in economic development. Confirming what some researchers, including Onwioduokit, (2002) refers to as nominal growth in the numbers of banks that did not affect the financial sector positively, much less the economy.

This ratio measures cash intensity in the economy. One of the expected gains of the financial sector liberalisation was the development of the financial system that would improve banking habits and by extension the development of the payments system. The performance of the Nigeria's financial reforms under this criterion indicated a deteriorating trend. During the pre-reform period, this ratio was 23.04 per cent. This performance was broadly in line with the Africa average of 23.5 per cent by 1985. However, post liberalisation ratio at 25.71 per cent in 2003 did not only indicate a worsening trend compared to the pre-liberalisation level but was also more out of line with Africa's average of 22.5 per cent in 2003 than in 1985 (see Lindgren and Odonye, 2003). Overall, the results showed that cash intensity in Nigeria in 2003 was more severe than in 1985. The worsening trend could also be adduced to central bank of Nigeria's policy of introducing higher currency denominations supposedly to keep pace with inflation. Indeed between 1985 and 2003, about four different higher naira denominations ranging from N50 to N500 were introduced. Furthermore the absence of relevant legal regulations to which issues such as dud cheques, until very recently could have contributed to the observed outcome.

The financial sector reforms and liberalization was expected to narrow the spread between deposit and lending rate as a result of competition that was expected to ensue in the financial sector. The interest rate spread (lending savings margins) has been dramatically high in Nigeria in the post reform period than in the pre- reforms era. The prevalence of very high lending rates and systematic increase in the lending-deposit rate margins in the post reforms period is essentially unacceptable. Under the reform programmes, an initial increase in the spread between lending and deposit rates was expected, as banks needed time to adjust their cost structures during the changing environment. The spread was expected to narrow as more efficient business practices were embraced sequence to increasing competition and as credit demand stabilised. But more than a decade after reforms were started, the spread between the two continue to widen in Nigeria. The problem of continual increases in lending rates and low deposit rates during the post reform period is one of the most attention-grabbing effects of financial sector reforms in Nigeria. For instance the spread widened by over 8.9 percentage points on the average from 1.8 per cent during the pre-reforms period to 10.7 per cent in the post reform period.

Real Interest Rate

Real interest rate is usually used to proxy the efficiency of financial intermediation. Financial liberalization is expected to deliver higher real interest rates, reflecting the allocation of capital toward more productive, higher return projects owing to a shift to more productive uses of financial resources and enhanced financial intermediation. However in Nigeria the average real interest rate deteriorated from negative 8.1 per cent during the pre-liberalisation period to negative 15.5 per cent during the post liberalisation era. Thus during both pre and post liberalisation era in Nigeria, the real interest rate were negative, reflecting the high rate of inflation associated with fiscal

prolificacy of the military government that dominated most of the period of both pre and post liberalisation in Nigeria. However the post liberalisation era as noted earlier recorded a worsening trend than the pre liberalisation period.

Gross Savings as a ratio of GDP

Gross savings as a ratio of GDP is a direct measure of savings mobilisation in an economy. It is expected that the ratio should improve with improvement in financial intermediation activity of the financial system. On the average the ratio was 7.12 per cent in the control period, but improved to 12.62 per cent during the deregulation era. This was one of the few dividends of deregulation of the financial system in Nigeria.

5.0 SUMMARY AND CONCLUSSION

The main objective of this paper was to assess the impact of financial sector reforms in Nigeria, especially on the development of the financial sector. Accordingly, this paper dwells on theoretical issues and brief review of literature and presented a brief analysis of financial sector reforms in Nigeria. Attempt was also made to assess the impact of the reforms. The paper analyzed the roles of the indicators that are studied in the recent literature. Ten indicators that encompass all the qualities of a well-developed financial sector were selected to measure the impact of financial sector deregulation on the economy. The six measures included: Broad Money as a ratio of Gross Domestic Product (GDP), Private Credit as a ratio of GDP, Currency Outside Bank as a ratio of Broad Money (M2), Interest Rate Spread, Real Interest Rate, and Gross Savings as a ratio of the data for the analysis were essentially sourced from the central bank of Nigeria. The assessment period is broken into two segments 1980-1986 representing the pre-reforms era, while 1987-2003 represents the post reforms era. The assessment based on the chosen indices showed that Nigeria's financial sector reforms only impacted positively on two out of the ten indicators compared with the pre-reforms era.

A battery of explanations has been advanced for the obvious failure of financial liberalisation programmes to address the problems of Nigeria's financial system. The most recurrent rationalization is the incompleteness of the reforms. It is argued that the persistent poor financial performance was due to lack of progress on some of the reform measures. Blame was placed on the continued use of financial systems to finance public sector activities, which was made possible by the continuing public sector ownership of a large part of the financial system (World Bank, 1994).

Soyibo (1996) opines that improper pace and sequencing in the initial reform years led to the crisis and eventual collapse of the financial system, necessitating several policy reversals in Nigeria. The crisis made policy consistency and credibility critical issues. It is obvious that Nigeria's difficulty in sustaining a consistent policy stance was partly attributable to unstable general economic and political conditions. Stein and Lewis (1996) have ascribed the failure of financial liberalisation in Nigeria largely to the political and institutional setting of reforms. The argument for this position is that the abrupt financial liberalisation led to the development of opportunities for speculative rent seeking that replaced traditional forms of rent-seeking that are based on political patronage. In sum, the faulty design of the reform programme, with respect to timing, pace and sequencing led to instability. World Bank (1994) notes that complete interest-rate deregulation should only be attempted when certain stern criteria are satisfied. Thus, in addition to stable macroeconomic conditions and adequate regulatory and supervisory arrangement, it is important that more sophisticated and solvent banking institutions with positive net worth in contestable financial markets are present. It is expected that interest rate deregulation will be ineffective where these conditions are not met. In the absence of such an environment, interest rates may be managed in the interim, moving to market-determined rates within a longer time frame.

In conclusion it is obvious that the financial system will continue to flourish without adequately affecting the real economy even in the era of deregulation if the banks in particular, continue to trade in foreign exchange and finance trading activities at the expense of the manufacturing sector. Again the fiscal operation of government that resulted in persistent deficits mainly financed by the central bank in most of the liberalisation era that resulted in very high inflation, adversely affected macroeconomic stability, setting in motion a vicious cycle of external and internal imbalances. The consolidation of the banking system currently embarked upon by the central bank should be pursued to a logical conclusion if the financial sector in Nigeria is to develop appropriately.

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A PRO POOR FRAMEWORK FOR ENHANCING MICRO-SAVINGS IN NIGERIA

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1.0 INTRODUCTION

Nigerians generally do not seem to have what is usually referred to as "the saving culture". This ascertation may not entirely be true as it based on information from the formal banking system without recourse to the savings activities at the informal sector of the economy. It is a fact that the informal sector of the economy is large with unrecorded transactions. The sector of the economy is large with unrecorded transactions. The sector consists of petty traders, artisans, market women e.t.c., a number of whom constitute the low income group of the economy.

Much effort at encouraging and mobilizing savings is directed at the formal sector. Though these efforts can be argued to be open to both the formal and informal sectors, it is pertinent to state that the design of savings products automatically locks out those in the informal sector. For instance, the various savings products of commercial banks are not attractive to informal sector operators and the low income group because of excessive documentation. In addition, government efforts like the National savings certificate and the pension scheme may not win the patronage of petty traders and artisans.

Given the level of saving activities at the informal sector and among the low income group, it is obvious that Nigerians do not lack the culture to save but need encouragement and design of formal products that would enhance commitment to saving. The kind of savings that take place in this sector is short term in nature and is targeted at events or certain purchases. These if pooled together can form a good base for development of the economy in general and better the long-term welfare of individuals in particular.

This paper, therefore, attempts to examine the fundamental issues in saving and thereafter design a formal savings habit of the populace, especially the low income group. The framework is designed to mobilise micro-savings, hitherto kept with thrift collectors and roll it over gradually till old age. The paper is divided into six sections. Following the introduction, section two expounds theoretical issues in savings and presents all relevant theories on savings. Section three describes the experience of other jurisdictions in encouraging and mobilising micro savings. The need for enhanced savings is analysed in section four, while a framework for enhancing micro-savings among the low income group is proposed in section five. Section six concludes the paper.

2.0 THEORETICAL ISSUES

Savings fundamentally is about choosing between current and future consumption. Savings theories traditionally predict that current consumption is related not to current income, but to a longer-term estimate of income. According to the theory presented in 1936 by the great British economist John Maynard Keynes, it is a 'psychological law' that when their incomes increase, people increase their saving to such an extent that the saved share of their incomes increases. This putative law was rooted in empirical observations of saving in various income groups, and Keynes concluded that, in a period of economic growth, the share of national income that constitutes aggregate saving steadily rises.
Keynes' theory of saving was generally accepted by his contemporaries. But, in 1942, the American economist Simon Kuznets showed that Keynes' theory was contradicted by statistical data: in the United States saving's share of national income had not undergone a long-term increase - despite an enormous increase in personal incomes. This contradiction was seen as a paradox, and it soon became the

object of a number of studies. One of those studies resulted in a work, published in 1954, in which Franco Modigliani and his assistant, Richard Brumberg, presented an entirely new theory of household saving: the life-cycle hypothesis.

The life-cycle hypothesis derives from the simple idea that people save for their own retirement and that they therefore accumulate savings during their active years in order to be able to consume those savings during their retirement. A stringent, mathematical formulation of this hypothesis led to a number of conclusions that could not be drawn from earlier theories, for example, that a person's saving is not determined only by his income, but also by his wealth, his expected future income, and his age. The hypothesis also made possible a rational explanation of the Keynes-Kuznets paradox. As Modigliani and Brumberg showed, in the life-cycle model there is no unique correspondence between the cross-section and the time-series saving-income relationships.

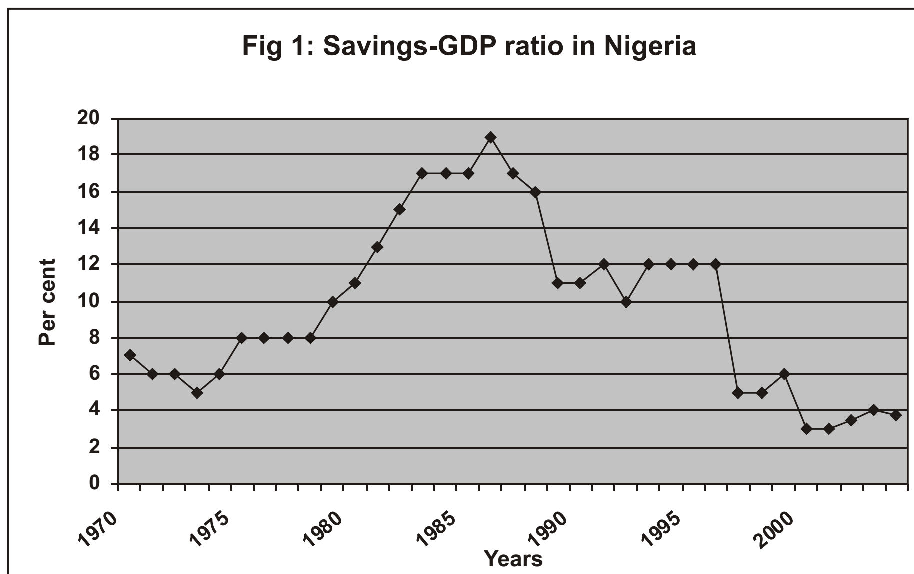
In its original formulation, the life-cycle hypothesis was a theory of saving behavior on the part of the individual. But Modigliani has expanded the perspective of the hypothesis and in a number of writings dealt with the issue that is far more interesting from an economic-political standpoint: the conclusions the theory provides regarding aggregate household saving. Here, he has shown that the theory implies, among other things,

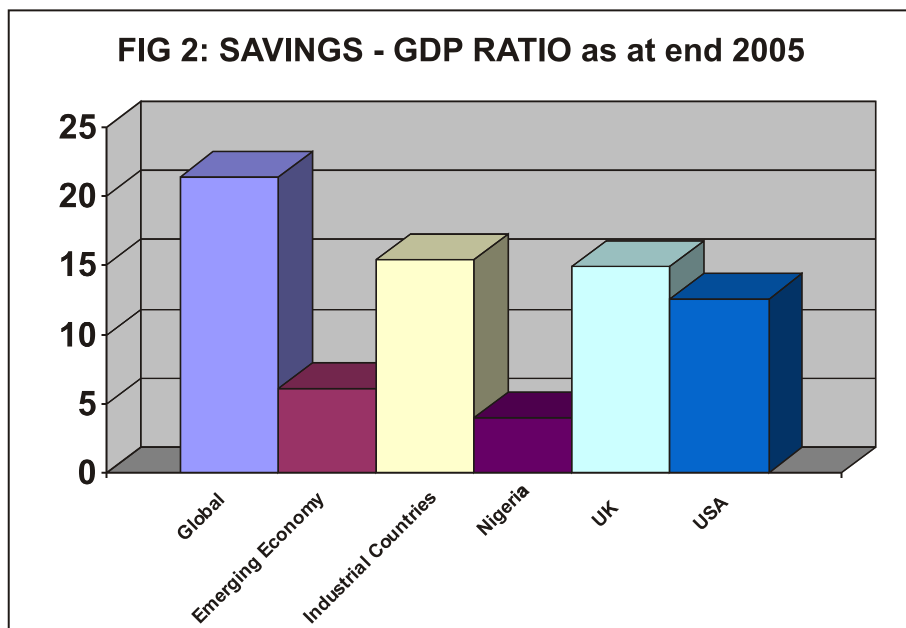
- that saving is not determined, as earlier theories have suggested, by households' income level, but rather by the rate of increase in that income level,
- that saving is affected by population growth as well as by population age structure,
- that saving is affected by households' aggregate wealth and hence also by the interest rate in its capacity of capitalization factor, and finally
- that the multiplier effect of an autonomous expenditure increase approaches the inverted value of the marginal tax rate.

With the life-cycle hypothesis, Modigliani has created a wholly new theory of household saving - a theory that has proved to be of major significance to research into consumption and saving. It has constituted the basis of theoretical and empirical analyses of many different types of problems - chiefly those involving the effects of economic-political measures. Among other things, it has been used for analyses of the effects of various social-insurance systems and the consequences of budget deficits on the economic situations of various generations.

3.0 OVERVIEW OF SAVINGS IN NIGERIA

High savings rates and a strong, competitive financial sector are vital to the success of any developing economy, yet on both counts Nigeria lags far behind a lot of countries. Available Statistics shows that savings in Nigeria have been low and inadequate to fund and sustain the level of investment that is consistent with the country's economic growth targets and potentials. The savings rate which was 7.0 per cent in 1975 rose consistently to 19.0 per cent in 1986 because of the then prevailing economic climate as reflected by the growth of economic activities. Thereafter, the performance of the savings rate has been very dismal. During the period 1986 to 1989, domestic savings averaged 15.7 per cent of GDP. However, with emergence of financial sector distress in the 1990s the rate of aggregate savings declined significantly. The distress syndrome resulted in a significant fall in domestic savings in the period 1990 to 1999 as the savings-GDP ratio dropped to 6.0 per cent and had continued to fall. By 2005, the savings-GDP ratio was approximately 4.0 percent which was relatively when compared to the figures for some other countries like Canada (23.7 per cent), France (19.7 percent), Japan (27.5 per cent), UK (14.90 per cent), East Asia (24.3 per cent), China (43.2 per cent) Emerging economies (6.1 per cent) and USA (12.6 per cent).





3.1 COUNTRY EXPERIENCES

Across the continent, getting those informal sector savings out from under mattresses and into banks - where they can contribute to economic growth - has long been blocked because of the high fees banks charge and the extensive paperwork needed to open an account. Convincing banks that they can profit from serving the poor has required a change in mindset in an industry long comfortable with high profit margins and low competition.

In **Malaysia**, the Merdeka Savings Bond is used for mobilizing savings The bond is for retirees who are 55 years old and above, and who do not have a full-time job. Armed Forces personnel who opted for mandatory retirement below the age of 55 are also eligible to purchase the bonds. The Merdeka Savings Bond provides investors with the benefit of early redemption without any penalty in terms of forgone profits. Investors can redeem the full amount of their initial investments at any time after the first profit payment. Profit payments will then be based on the number of days the bond is held. This feature gives investors the option and flexibility to withdraw their savings at any time to meet unanticipated expenses.

In **Japan**, a savings culture based on a virtue of thrift was developed. The Japanese government had used the promotion of savings as a means of achieving national goals. Savings were viewed as an important funding source of new industries and the power to support the government to catch-up with the growth rates of the

most advanced economies of the world. Savings were encouraged as a means of rehabilitating the economy and eliminating high inflationary levels. The establishment of the Central Council for Saving Promotion (CCSP) in 1952 intensified promotional activities, which centred on lectures and the distribution of housekeeping account books to housewives throughout the nation.

South Africa launched the Mzansi scheme to cut banking fees and paperwork. Mzansi, meaning 'south' in Nguni languages, is a collaboration between the big four banks (Absa, First National Bank, Nedbank and Standard Bank) and the Post Office's Postbank. Seven months after its launch, a million people had opened new low-cost accounts, the first access to formal banking for many. The Banking Association says the accounts have brought an extra 4% of the population into the banking system, placing the country at the same level as Argentina and a step away from Malaysia. Mzansi accounts have reduced fees and are available to customers who have low incomes or erratic incomes or are not in formal employment. They can use automated teller machines at any of the big four banks or Postbank to draw money at a much lower cost than for traditional accounts. The Banking Association estimates that Mzansi accounts are between 15% and 40% cheaper to use than normal bank accounts. The association believes that most of the million Mzansi customers were previously outside the banking system, rather than switching from an older account, although they cannot at this stage be precise. Yet, even if they are all new bank customers, Mzansi will have to continue growing at the same rate to reach its target of attracting 8 million new customers in three years.

In **Bolivia**, the FFP FIE is a private financing fund (fondo financiero privado) that serves 7,262 clients in peri-urban and urban parts of Bolivia. FIE conducted a market survey that revealed an interest among their clients for a programmed savings account. In 2000 they launched their first programmed savings account Pasanaku, which has witnessed a great decrease over the last year. The decrease in number of accounts is believed to stem from the product's delivery rather than lack of demand for the product.

The SANASA Thrift and Credit Cooperative Societies is a federation representing affiliated credit unions that serve approximately 10 million clients in rural, periurban and urban areas of **Sri Lanka**. Common savings products offered by SANASA's affiliates include Passbook Savings Term Deposits and Children's & Youth Savings. Deposit collectors are available to all clients regardless of the type of savings product they have chosen. Term deposit accounts have an additional commitment feature since this product is designed to restrict the timing of withdrawals until the account has matured by imposing a fee to early withdrawals.

Bangladesh uses Safesave which is a cooperative serving approximately 6,800 clients in urban **Bangladesh**. Central to Safesaves' Savings and Loan Account is a daily door-to-door collection from clients. From the perspective of savings, the frequent visits by deposit collectors can facilitate clients to commit to saving more today. In particular daily deposit collection provides discipline without the obligation and compulsion that goes with the established fixed instalment model. The Savings and Loan Account is reported as their only savings product.

First State Community Loan Fund is a non profit organization that manages the matches of Individual Development Accounts (IDAs) in 3 counties of **Delaware, USA,** covering urban, tourist and agricultural areas. The program has 450 IDA accounts allocated to them, of which 143 are used to date. This IDA program started in November 2001 and witnessed a growth in accounts in June 2002. IDAs are savings accounts that are matched 1:1 or 1.5:1, depending upon the population served. They require minimum monthly deposits of $25 to a maximum of $1,500 that will be matched. The minimum savings term is 6 months. Furthermore, IDA contracts are governed by restricted use; savers must commit to save for a specific goal, which has been defined by this program to be:

- post-secondary education
- homeownership for first time home-owners
- small business start-up or expansion

IDA accounts are joint accounts between the saver and First State Community Loan Fund. These accounts are held in commercial banks. When the account matures a check with the account's money is made out to the provider of one of the three allowable savings goals. For example, a check is made out to a post secondary educational institution.

Banefe- Banco Santander is a commercial bank operating in **Chile's** urban areas serving approximately 750,000 total clients. Its Superahorros account allows the client to save without noticing due to its automatic transfer feature. The client can specify a fixed monthly amount that is then deducted from his/her credit card or checking account, wherever his/her

salary is deposited. These monthly deductions are placed in the Superahorros account. The Superahorros account is one of Banefe's most popular accounts, serving approximately 90,000 clients. The product is targeted to micro entrepreneurs and salaried employees but does include a variation that is targeted to children, which has a lower monthly deposit requirement. Also in Chile Bandesarrollo Micro empresas is a bank serving approximately 36,000 clients in urban and rural areas of Chile. Its Cuenta de Educación offers clients a long-term savings plan to meet the future expenses of their children's educational fees. The account has restricted withdrawals (a maximum of 6 per year). It also assists with devising an appropriate savings plan for the client by calculating how much one has to save to meet the future educational expenses.

Other high performing economies in **Asia** created a secure bank-based financial system through storing financial regulation, good supervision and industrial reforms. Some governments used a variety of interventionist mechanisms to increase savings. While **Singapore** guaranteed high minimum private savings rate through mandatory product fund contributions, countries like **Korea** imposed stiff taxes on conspicuous consumption and mortgages. The republic of Korea encouraged voluntary savings of the household sector by developing an attractive long-term savings scheme while increases in corporate savings also resulted from varied forms of incentives from the government.

In **UK**, the system of savings revolves around tax relief. There is generous tax relief for pension contribution especially for high earners, and there is a large range of tax free or tax favoured products. The free lump sum in the pension is a very valuable benefit to a higher rate tax payer. However, the largest benefits accrue to those who were higher rate tax payers in retirement. They receive five times the amount for the lower income group.

4.0 THE NEED FOR ENHANCED SAVINGS

Saving portends many benefits for the society and the individual. As contained in the theoretical literature, the importance of savings to the economy can be positive or negative. This depends principally on the condition of the economy. For a depressed economy savings can exacerbate the harsh conditions of the economy. This is because savings would deprive such an economy of consumption expenditure needed to revive the economy. This thinking is better understood with the paradox of thrift propounded by John Maynard Keynes. The paradox states that if everyone saves more money during times of recession, then aggregate demand will fall and will in turn lower total savings by the population. Its argument is that if everyone saves, then there is a decrease in consumption which leads to a fall in aggregate demand and thus leads to a fall in economic growth.

The proponents of this idea, however, did not completely refute the importance of savings in an economy. Rather, they belief that it is virtuous only up to a point. It is laudable up to the point businessmen in the economy wish to borrow for investment. A number of economists [particularly the classical school of economists] are of the view that since what was saved was later invested, there could not be excessive saving. Thus, savings would ensure economic growth and its flow needs to be encouraged and sustained.

The benefits of savings are not limited to the macroeconomy. In fact, saving accrues more benefit to the individual than to the overall economy. It is critical to households both in developing and developed countries. This is because savings smoothens consumption in the face of volatile income. In addition, it supports household investments in human and physical capital. Accumulated savings can also buffer expected or unexpected spikes in household expenses due to childbirth, school fees, home repairs, life-cycle celebrations, etc. Savings may also cushion familiar risks [due to illness, theft, or job loss] or structural risks [due to war, floods, or fire]. It may allow people to take advantage of unexpected investment opportunities. In summary, savings are often simply a hedge against uncertainty.

As stored resources, savings are useful for wide range of purposes. Without it income shocks could leave permanent scares on households. Thus, it is prudent to sacrifice to some quantity of current consumption in order guarantee some level of future consumption. There are some life-events that require planning and savings: retirement, home purchase, tertiary education, etc. While household savings are not only directed at these life-events, they are the ones that can be predicted far enough in advance to warrant planning and saving arrangements specific to the task.

In Nigeria, like in many other developing countries, owing to the absence of efficient credit and insurance markets, household savings are a crucial determinant of welfare. Though there are many benefits to savings Nigerians have been considered not to save enough.

Individuals often do not seem to understand how or why they should save and this is particularly the case for the less well-off members of the society. A greater amount of low income groups and those in the informal sector of the economy have no savings at all. Those of them that save maintain only short-term thrift collection which can only be used to finance day-to-day needs. It is pertinent to mention that poverty does explain the saving habit among the low income group. The explanation lies in the lack of financial education in the society as a whole reinforced by inadequate incentives to save.

4.1 BARRIERS TO SAVINGS IN NIGERIA

Given the many benefits (both to the individual and to society as a whole) that savings can bring there must be serious reasons why people do not save enough. Some of the factors accounting for the low level of savings in Nigeria include:

- Many people feel that the risks and difficulties of saving outweigh the risks and difficulties of not saving.
- People often do not seem to understand how or why they should save when their income barely solve their problems.
- Lack of confidence in the financial institutions
- Possessing the necessary identification required to open an account may also be a hindrance.
- High Incidence of poverty and low nominal disposable income
- Underdeveloped capital markets
- Financial sector distress
- Conspicuous consumption
- Unfavourable economic environment characterized by high unemployment and inflation.
- Finding savings boring and difficult
- Not wanting to pay for financial advices

In order to improve the overall welfare of Nigerians there is the need to enhance savings. The government might have to go beyond moral suasion in its attempt to promote savings and come out with a saving programme with adequate incentives. There may also be the need to develop a credible framework which would enable people save all through their lifetime. A sustainable savings culture would go a long way in giving people assurances about their future. This could ensure that life expectancy is elongated and would improve the good of the overall economy.

5.0 A FRAMEWORK FOR ENCOURAGING SAVINGS IN NIGERIA

According to Nnanna (2003), savings culture can be influenced by institutions and regulatory agencies that direct the decisions of households, firms and governments. In line with this assertion, the Nigerian government have made efforts to promote savings in the country. These include the introduction of the National Savings Certificate (NSC), floatation of the Federal Government bond, the introduction of the new contributory pension scheme, among others. In addition to these, financial institutions within the country have designed formal savings products to sooth the perceived needs of their clients. Some of these products, though available to all, are not accessible to those in the informal sector and the low income group. Operators at the informal sector consider these efforts rather too formal and too expensive. The framework for enhancing savings is discussed below in two folds: the [informal] micro-savings and the lifetime savings framework.

5.1 THE MICRO-SAVINGS FRAMEWORK

Micro-savings have always existed in Nigeria but have usually been mobilised informally. Individuals use this informal micro-savings structure to smoothen consumption, prepare for emergencies and fund large purchases. The existence of this mechanism suggests the willingness of Nigerians to save. Households and individual use the financial services to turn small, frequent cash flows [such as daily proceeds from food vending] into usefully large sums [perhaps to buy a deep freezer]. Research on informal savings mechanisms suggest that participants accede to it because they want low transaction costs and assistance with deposit discipline.

Transaction costs are non-price costs of financial services. It may include waiting time [opportunity cost of time to make deposit or withdrawal], transportation, etc. For the poor, these costs, which are usually indirect and incalculable, may offset all other factors in the choice of savings mechanism. Deposit discipline comes with the social obligation to save a stipulated amount over a given period. Cash at hand or at home is easier to "withdraw" and spend than cash at a "bank". To maintain this savings people would have to resist short-term wants and consumption pressures. These pressures weigh less if cash is out-of-sight and out-of-reach.

The major forms of informal micro-savings mechanisms currently existing in Nigeria are: door-to-door thrift collection, rotating savings, and savings clubs. These are discussed below.

a. Door-to-door thrift collection

Under this arrangement, poor people often pay others to collect and to keep their savings. Deposit collectors visit their clients often at their doorstep, market stalls, workshops, etc., to pick up a small but fixed amount. The practice is that the clients make daily deposits for a month [usually for 30 days]. At the end of the month, the collector retains two days deposit [as his charges] and returns the balance to the contributor. The process starts off again immediately and continues cyclically until either party gets tired or loses interest in the transactions for any reason.

These transactions are usually attractive to the low income group and operators in the informal sector because it is almost devoid of transaction costs. Exchanges take a few seconds and occur where savers live or work. Furthermore, the presence of the collector may prompt the saver to find a way to save something, even when it is not convenient. The saver willingly submits to this pressure because taking the easy way out in the short-term might be detrimental in the long-term.

b. Rotating Savings

In Nigeria, small groups could come together and make fixed contributions at intervals. The membership of these groups on the average usually ranges from four to twelve. The contribution is gathered into a pool which is then collected by a member. In turns, each member gets the pool. Technically, those who are yet to receive the pool are savers, while members who have already collected the pool are debtors. Like in thrift collection, rotating savings offer low transaction costs and the pressure to save regularly. Transaction costs are low because members constitute people who know and trust each other and who already meet regularly or live or work close to each other. There is always the pressure to save [contribute] because failure to do so reduces the pool for other members.

c. Savings Clubs

This arrangement could be described as a large-scale rotating savings or small scale credit unions. It is usually run by religious groups, social clubs, or trade unions. It has low transaction cost because members make deposits at regular meetings. The public nature of the deposits imposes external pressure to save. This arrangement is more flexible than the rotating savings because each member chooses the amount to deposit and the interest might be paid on deposit balance. The cycle usually starts and ends near major events [such as Christmas or harvest] that require or produce large cash flows. The contributions are usually invested or kept in banks by the custodian for the funds to earn returns pending the end of the cycle. At the end of the cycle, each member collects the total amount deposited sometimes with interest.

5.1.1 Formalising micro-savings mobilisation in Nigeria

Though informal savings mechanisms are useful, they, however, do not remove the need for formal services. It is true that the mechanisms has a few advantages [especially low transaction cost] over the formal system, it nonetheless has its own disadvantages. For instance, formal savings services offer greater safety, higher rates of return, anonymity, etc. It may be useful to combine the strength of the informal with the strength of the formal to ensure enlarged micro-savings. If this suggested hybrid version of savings is adopted it would go a long way in enhancing savings in Nigeria.

One attempt to combine the merit of formal and informal savings mechanism is the SafeSave concept introduced in Dhakar, Bangladesh. The central innovation was to hire door-to-door collectors to visit clients daily. This keeps transactions costs low but adds the safety and positive returns of a formal savings institution. Clients may make deposits of any size [including no deposits] or request a withdrawal, to be delivered next day. SafeSave as operated in Bangladesh does not provide much social assistance with savings discipline nor are its savers hidden from public view.

In Nigeria, this could be modified to suit the needed purpose. It could begin with the monetary authorities enacting a regulation which would make financial institution mobilise [compulsorily] a certain amount of micro-savings from the informal sector. These financial institutions might then deploy its staff to go door-to-door collecting thrift or they might outrightly contract a known and established deposit collector to undertake the task on their behalf. The thrift collectors or officials of the financial institutions, in order to win the unflinching trust of savers, would need to relate with the contributors in a very informal way. To ensure the entrenchment of savings discipline, mild penalties might be introduced for withdrawal outside the scheduled time.

The proposed framework has many sides and features and should target the low income group, artisans and operators at the informal market of the economy, who would need assistance with their savings. One feature is that its benefits and contributions are defined in order to ensure depositors' commitment. The objective of the scheme is to enhance the long-term welfare of the low income group. Given the fact that most people want to save more than they currently are doing, but would typically leave the savings till tomorrow, there is the need to introduce deadlines. Deadlines are sometimes needed in order to inspire the savings to occur. The threat of losing the benefit must be sincere and the consequence to missing the deadline must be significant enough to inspire depositors to make the savings payment. Without deadlines, an individual might prefer to postpone saving in hope of saving more later to make up for the immediate shortfall. The deadline ensures that savings is regular; this regularity arguably leads to higher overall savings.

In this framework, deposits could be designed to coincide with periods of expected rise in income. Individuals who expect a windfall or wage increase in future could commit now to save a certain proportion of that increase. The idea is simply that if the individual waits until the increase is realised to form a new savings plan, then the immediate urge to consume that increase will dominate and no additional savings will occur. This mechanism can target a group [e.g. farmers, traders, etc.] and the expected cyclical rise in income [e.g. harvest, festive seasons, etc.]. Farmers, for instance, might be willing to save a certain percentage of income from increased proceeds from harvest season crop sales. Unless the transaction is prearranged, it could be difficult to get the farmer to save when proceeds of the harvest are received. By incorporating the commitment to save with the payment, even if the commitment is not totally binding, savings might eventually be found to increase. This could be applied to all low income professionals or artisans.

For this micro-savings framework to be successful there must be unwavering commitment. Perhaps the most common and straightforward commitment savings feature is the restriction on the use of funds. Savings could be purpose specific and withdrawals tied to expected future needs such as education, health care, and old age. It is believed that money saved for a particular purpose is likely to be spent on that purpose and hence will affect savings and consumption decisions. This is to the extent that individuals want to save for particular purposes but have difficulty doing so with their normal savings account. A special account for that purpose in fact could inspire increased savings towards that purpose. Ensuring the success of target savings might require more than moral suasion. The programme should, in fact, try to enforce the direct use of funds. Releases of funds to vendor [e.g. schools or hospital] should be monitored and verified in order to encourage savers to utilise the funds as planned.

Withdrawal of savings outside targeted periods should be discouraged as much as possible and could be allowed based on its merit and should also be on a case-by-case basis. The target group of this scheme needs to be given financial enlightenment in order to understand its importance to them. In order for this micro-savings mobilisation scheme to be successful, there is need for external support and rewards which might be in the form of higher and tangible interest rate or even a matching donation. This is where the impact of the government is required. Financial institutions can not be made to reward micro-savings depositors from their coffers. They should bear the operating cost of collecting the deposits while the government pays the reward. The announcement of a matching donation of a certain amount of naira for every, say one thousand naira, contributed fortnightly would go a long way in enhancing the micro-savings mobilisation.

5.2 A framework for establishing a lifetime savings Culture

It is becoming increasingly necessary to encourage long-term savings and ensure sustained welfare of people throughout their lifetime, especially in old age. In order to get more people [of all income group] to save for more years it is necessary to change the social attitude and establish a framework that would ensure a life time savings culture. Individuals should be encouraged to save in various forms including the formal micro-savings framework, government bonds, NSC, and patronage of the new pension scheme. A form of lifetime savings which, though already existing in Nigeria, suffers low patronage [especially from the low income group] is life insurance. Individuals sometimes do not want to [or are not able to] take the perceived risk of locking their money for many years. This notwithstanding, they may be advised and encouraged to save in other vehicles. If individuals are scared to put their money in a "locked box" [away from their access] they could be encouraged to save in medium term or shorter term vehicles first, and later transfer to longer term savings [with saving for old age as the ultimate terminus]. There is the need to make savings easier to understand,

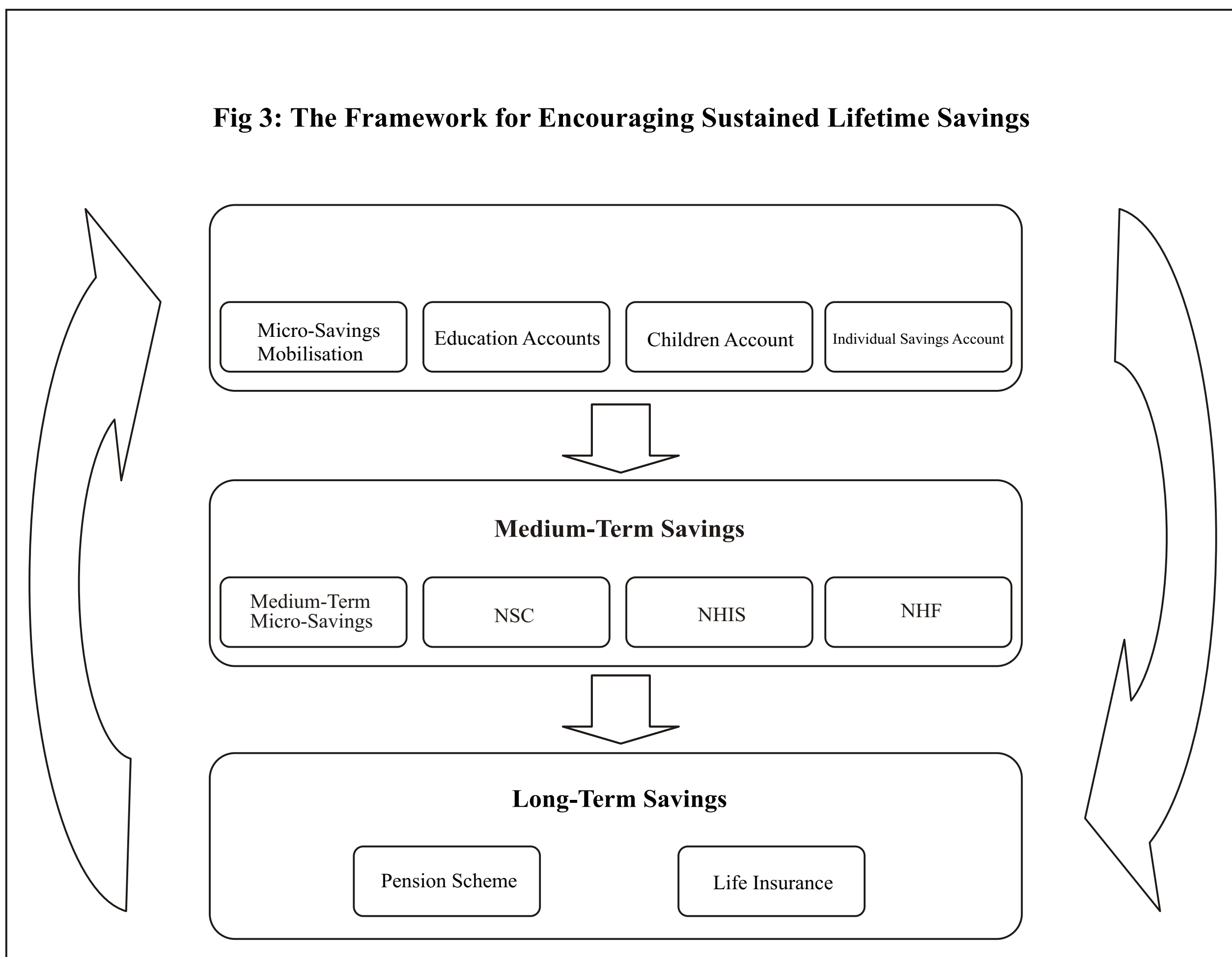
with better incentives and a more integrated coherent system.

A lifetime savings system can address this. It could be designed as a one-stop shop for lifetime financial needs of both the low, medium and high income groups. The starting point of this framework would be the opening an individual savings account. For the low income group this could be in form of the formal micro-savings account described in the preceding section. In addition, special target savings account [e.g. education, health, children, etc.] could also be operated. Currently in Nigeria many deposit money banks operate these special savings products. Patronage has, however, not been optimal especially among low income groups owing largely to lack of awareness reinforced by low incentive. Thus, financial education, fair incentive and cooperation of the banks are integral for the success of the framework.

After establishing the individual savings there is the need for medium term savings such as purchases of medium-term government bonds, subscription to the NSC, the National Health Insurance Scheme (NHIS), the National Housing Fund (NHF), etc. An important feature of this phase is that individuals should be able to borrow short-term against the funds especially in cases of emergency. The last stage of the framework would include the incorporation of life insurance and the pension's scheme. This framework if well managed would ensure continuous and sustainable savings especially for the low income group who are constantly in need of guarantee for old age welfare. The matching donation could be adopted in the first phase and increased in subsequent stages to encourage further saving.

The figure below shows a complete picture of the framework for mobilising and encouraging lifetime savings, especially for the low income group. This framework could be used to ensure smoothening of consumption in the face of volatile income flows and also to enhance the welfare especially later in life.

Fig 3: The Framework for Encouraging Sustained Lifetime Savings



6.0 CONCLUSION

The informal sector of the economy consists mainly of low income group who desire to save for different reasons. These could include saving to finance a specific project, to ensure smoothened consumption, or to guarantee quality welfare at old age. Most of these individuals, however, make only very short-term informal savings either with deposit/thrift collectors or through rotational savings. This is basically due to low transaction cost and the pressure which ensures deposit discipline. It is a fact that most people, in the absence of any pressure to save today, would postpone saving until later, leading to a viscous trend of savings procrastination. Informal savings mobilisation in its current form has its disadvantages. The merits of the informal savings scheme could be combined with that of the formal savings system to produce a somewhat hybrid savings framework which could serve the needs of low income and poor groups. There is also the need to provide a framework that would ensure that micro-savings mobilisation is projected into a longer-term. For this framework to be successful there is need for a credible system of reward and incentives for saving. Thus, the paper presents a lifetime framework to show how micro-savings could be integrated with other existing products and government initiated programmes [e.g. NSC, NHF, NHIS, etc.]. This integration, if successful, would ensure that the low-income group maintains smoothened consumption and also have assured welfare in old age. This could have a positive effect of elongated life expectancy and would improve the overall good of the economy.

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NIGERIA'S EXTERNAL TRADE AND THE NEW PERSPECTIVES FOR ITS ENHANCEMENT

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1.0 INTRODUCTION

Trade has been universally acknowledged as indispensable tool to rapid economic growth and development. This is because increased participation in trade is associated with higher inflows of foreign investment and new technologies which can be adopted to transform the economy through appropriate policy. This view is corroborated by the recent development in China, the fastest growing economy in the world, where trade potentials have been effectively harnessed to achieve higher growth rate of gross domestic product (GDP) as well as increase the general welfare of the populace. However, most developing economies such as Nigeria have not benefited much from trade owing partly to policy inconsistency and lack of access to global markets occasioned largely by inadequate and low quality of exportable.

The Import Substitution Industrialization policy (ISI) policy was embraced by developing countries during the 1960's and 1970's following the influential thought of Prebisch and Singer in the 1950;s, which propagated protection as a means to industrial development. However, ISI was criticized on the ground that excessive protection of local industries stifled productivity growth, encouraged inefficient industrialization at the expense of agriculture and exports (Ndulu and Ndungu 1997). In the early 1970's for instance, Nigeria adopted ISI policy in line with the global trend with the belief that, in due course, imports would be substantially reduced as they were expected to metamorphose to exports through the positive impact of the attendant technology associated with the ISI policy. Thus, many companies, both foreign and indigenous, sprang up. However, due partly to harsh macroeconomic environment, most of the companies went under, perpetuating the dependence of the Nigerian economy on imports. This situation culminated in huge trade deficit as well as chronic balance of payments problem. Consequently, the Structural Adjustment Programme (SAP) was introduced in July, 1986 to correct structural distortions in the economy and ensure rapid growth and development through trade. It was also aimed at diversifying the export base of the economy and reduce the over dependence on crude oil. To date, this objective has not been achieved

Trade liberalization policy was embarked upon as an integral component of SAP, and was aimed at encouraging exports and liberalizes imports. The SAP was also intended to achieve the realistic value of naira exchange rate through liberalization of foreign exchange market. It was hoped that this will enhance the competitiveness of exports and facilitate the diversification of the economic base away from oil exports the largest foreign exchange earner for the Nigerian economy. In spite of the adoption of trade liberalization policy as canvassed by the Bretton Wood Institutions and the World Trade Organization (WTO), the problem of unsatisfactory performance of non-oil exports in the global market still persists, thus exports of crude-oil continued to be dominant. This implies that Nigeria will not be able to avail itself of the opportunities provided by trade unless a refocus of Nigeria's trade policy is carried out. The issues therefore are what can be done to arrest this trend and optimize gains from global trade.

The objective of this paper is therefore, to analyze Nigeria's foreign trade with a view to examining the composition and direction as well as the impediments to the growth of trade, and to proffer suggestions for enhancing Nigeria's foreign trade. The paper is divided into five sections. Following the introduction are the theoretical issues. This is followed by the analysis in section three of the trend, composition, and direction of Nigeria's foreign trade. Section four

The views expressed in this paper do not represent the views of the Management of the Central Bank of Nigeria (CBN). The authour wish to acknowledge the immense contributions of Messers A.S. F Atoloye and O.O.Ogunlana of the Research and Statistics Department of CBN, Abuja

examines the problems confronting external trade, while section five discusses the policy issues for strengthening Nigeria's foreign trade. Section six is on recommendations and it concludes the paper.

2.0 Conceptual and Theoretical issues

Conceptually, international trade can be defined as exchange of goods and services between the residents of one economy and another. Trade has been recognized by both the classical and neo-classical economists as an "engine of growth". This is because trade promotes growth and development through technology and foreign investment flows and other benefits associated with global capital movements. Trade can be divided into visible trade and invisible trade. The visible trade is trade in tangible items such as capital gods, manufactures, machinery and equipment and raw materials. The invisible trade relates to trade in intangible items such as communication services, financial services, postal services, transportation services, insurance services and other business services that enhance the production and exchange of physical goods. Krugman and Obsfeld (1999) posit that countries engage in trade for two basic reasons, each of which determines the extent to which a country gains from trade. First, countries trade because they have different resource endowment and can benefit from trade by making an arrangement in which each country specializes in those activities it does relatively well. Second, countries trade to achieve economies of scale of production. That is each country can produce more efficiently if it specializes in the production of those goods it has relative advantage, rather than producing all the products it needs.

The theoretical basis of trade dates back to the time of Adam Smith (1776) and David Ricardo (1817), when they propounded the principles of absolute and comparative advantages that a country stands to gain from trade if it specializes in the production of goods and services in which they have an economic advantage. Economic advantage/disadvantage may arise from differences in greater and quality of resource endowments such as labor, capital, technology or entrepreneurship. Thus, subsequent classical trade theories expanded these theories to justify need for trade.

The neo-classical trade theory represented by the works of Heckster Ohlin (1933) and Paul Samuelson gave reasons for the varying comparative advantages among countries. To them, the differences in competitive advantage among countries are due to differences in factor endowment and factor returns in the domestic economy, but factor mobility among countries will in the long-run cause the varying factor returns among trading countries to equalize. They argue that a country stands to gain from trade if it specializes in the production of goods that use more intensely, a cheaper factor relative to other factors of production and import from other countries those goods that can be produced more cheaply by another country. However, in the long-run the return to all factors will equalize and both countries would gain from trade. This theory has been used by modern trade theorists to lend credence to trade liberalization as a means of increasing market share in the global trade.

The neo-classical trade theory was based on the assumption of factor intensity non-reversal, but the issue is whether factor intensity is irreversible. Empirical studies have shown that factor intensity can be reversed through the criss-crossing effect of trade such that imports of a country can through application of modern technology and development of human capital become an export. The experience of newly industrializing countries such as China, Malaysia, Taiwan and South Korea has supported this assertion and shown that trade can be beneficial to a country.

The factor proportion theory for instance, provides explanation for differences in competitive advantages exhibited by trading countries. According to this theory, countries will tend to generate and export goods and services that harness large amounts of abundant production factors that they possess, while they import goods and services that require large amount of factors which may be relatively scarce. The product Life Cycle theory explains how a product (intermediate product) may emerge as a country's import and work through the life cycle to become an export (Ukeje 2000). The essence of this theory is that technological innovation and market expansion are critical issues in explaining patterns of international trade. That is, technology is a key factor in creating and developing new products, while market size and structure are influential in determining the extent and type of international trade.

The benefits derivable from trade are well documented in the literature and these benefits can be static, or dynamic. Static gains are benefits arising mainly from international specialization or the effect of comparative advantage in which a country expands its export due to the comparative minimum cost of production (Robert and David 1999, Oputa 2000). On the other hand, dynamic benefits are benefits

associated with trade flows among countries such as the acquisition of raw materials for industrial development, acquisition of new skills and technology and the attraction of foreign direct and portfolio investments. These benefits usually have a lasting effect on the economy.

Trade among countries enhances the welfare gains thereby increasing the standard of living of the citizenry. This is because trade makes it possible for countries to access new technologies that increase the overall productivity. However, the benefit of trade is being constrained in developing countries due to lack of openness to trade. Sachs and Warner (1995) observed that lack of openness to trade among African countries constrained them to exploring opportunities to trade, and stifles efficiency and technological progress associated with engaging in trade openness. Trade liberalization is thus seen by many trade theorists and international organizations as means to encourage developing nations to participate and increase gains from global trade.

3.0 Analysis of Nigeria's Foreign Trade (1981-2004)

Trade comprising imports and exports, ensures that a country secures the required goods and services for increased domestic output, as well as for consumption, while earning income from the rest of the world in the form of export receipts.

Nigeria's foreign trade is dominated by oil export for which she is the 6th largest exporter in the world. However, other products in her export list include cocoa, cotton, rubber, fish shrimps, timber etc. In contrast she imports both capital and consumer goods. These include machinery and transport equipment, beverages, chemicals, drugs, laboratory equipment among others.

Available data showed that the ratio of the foreign trade (Visible items) to the gross domestic product (GDP), which described the extent to which Nigerian economy is open or integrated to the global economy, depicted an irregular pattern from 1981 through 2004. The ratio of trade to GDP which was 44.0 per cent of GDP in 1981 declined to 38.3, 26.4, and 24.7 per cent, respectively, in 1981, 1982, 1983, and 1984. The declining trend was traceable to the harsh domestic economic environment as well as global economic crisis occasioned by the oil glut of early 1980's. However, the ratio rose from 25.3 per cent of GDP in 1985 to 27.7, 42.0, 53.2 and 60.3 per cent in 1986, 1987, 1990 and 1991, respectively owing to the adoption of the SAP in 1986 which ensured the liberalization of both the current account and the foreign exchange market. Consequently, the naira depreciated against the major trading currencies. Trade however, nosedived to 17.6, 18.6, 14.3 and 7.1 per cent in 1996, 1997, 1998 and 2001, respectively. Although the ratio of trade to GDP increased to 55.3 per cent from the level in 2001, it declined further to 52.7 per cent in 2004.

The total value of trade was highest at US$37.36 million in 1981, but declined to US$22.7, US$10.3, US$11.7 and US$11.6 million in 1983, 1986, 1987, and 1989, respectively. This was due to the crash in oil prices which adversely affected earnings from oil exports as well as the slow growth in the non-oil sector occasioned largely by high cost of production resulting from decaying infrastructure and high cost of funds. Trade however increased to US$20.0, US$27.9, US$32.4, and US$33.7 million in 1991, 2000, 2003 and 2004, respectively (see table 1).

Analysis of imports from 1981 through 2004 showed that Nigeria incurred the highest import bills of US$19.2 billion in 1981 and the lowest of US$3.9 billion in 1986. From 1986, total imports depicted upward trend. For instance, it increased from US$3.9 billion in 1986 to US$7.76, US$8.85, US$9.21 and US$11.05 billion, respectively in 1991, 1993, 1998 and 2004. The upward trend in total imports particularly from 1999 to 2004 was influenced largely by the deregulation of the communication and downstream oil sub-sectors as well as the current efforts of the three tiers of government to tackle the decaying infrastructure. Although, total import is dominated by the non-oil sector component owing to surge in aggregate demand, the increasing activities in both the upstream and the downstream oil sector have made oil sector imports significant

Further analysis showed that foreign trade recorded trade surpluses for most part of the period under review with the exception of 1981, 1982, 1983 and 1998 when the surpluses were reversed to deficits of US$1.2, US$4.0, US$1.7 and US$0.2 million, respectively. The weak performance of crude oil export as reflected in its average realized price dropping from US$19.4 in 1997 to a low of US$12.9 per barrel in 1998, coupled with sustained high level of imports, were responsible for the deficit recorded in 1998 (Table 1).

Conversely, the international trade in services, which include transportation, communication, postal and courier, construction, as well as computer and information, operational leasing and technical services, had continued to record deficits during the period under review. Available data showed that Nigeria has continued to record deficits in her services account though

declining. For instance, She recorded deficits of US$4,094.3 US$3,925.3 US$2,496.2 and US$2,968.5 million, respectively, in 1996, 1997, 1999, and 2001. It further declined to US$2,390.12 U S$2,239.19 and US$1,625.19 million in 2002, 2003 and 2004 respectively (see table 2). These deficits reflected in most cases huge out-payments in respect of travels and freight charges. The continued deficits in trade in services were largely traceable to low participation of Nigerians in international services.

Traditionally, non-oil exports compromised mainly of agricultural products, namely cocoa, cocoa products, palm produce, rubber, wood products, hides and skin, coffee and cotton as well as some slid minerals such as cassiterite (tin ore), coal and precious stones The performance of the non-oil exports from 1980 to 2004 is shown in table 3

Analysis of exports statistics as shown in table 3 showed that the value of oil exports in total exports have maintained an upward trend while the value of non-oil exports in total exports depicted irregular pattern from 1980 to 2004. The value of oil exports increased from US$ 7,448.7 million in 1980 to US$8,003.2 and US$10,031.7 million, respectively in 1982 and 1985 but fell to US$5,977.4 million in 1986. It however, increased from the level in 1986 to US$7,469.8 US$13,265.6 US$15,829.8 US$18897.2 US$21,869.5 and US$22,697.1 million, respectively in 1987, 1990, 1996, 2000, 2003 and 2004 owing to positive of terms of trade shock. Conversely, the value of nonoil exports which stood at US$302.9 million in 1980 declined to US$209.1, US$203.2 and US$189.2 million in 1981, 1982 and 1984, respectively. The value of non-oil exports however rose from US$189.2 million in 1984 US$444.3, US$538.0, and US$612.7 million, respectively in 1985, 1987, and 1988. This trend was reversed as the value fell below the level in 1987 to US$227.8, US$285.7, US$211.2 US$244.2 million in 1993, 1995, 1999, and 2000. From 2001, the value of non-oil exports has maintained upward trend.

However, in terms of contributions to total exports, oil exports have contributed over 96.0 per cent of foreign exchange earnings for most part of the period under review while the non-oil exports contributed less than 4.0 per cent. The relative poor performance of non-oil exports to oil exports was attributable to a number of factors which included the high cost of production occasioned by weak infrastructure, high inflation and interest rates, fuel price hike and power outages as well as the slow pace of diversifying non-oil export base from commodities to manufactures and low international demand for primary products. It is however pertinent to note that in recent times some commodities especially cassava have started making in-road into the global market On regional basis, imports from industrial countries constituted more than 60.0 per cent of total imports with the United Kingdom accounting for the bulk of total imports to Nigeria. This was followed by imports from United States of America. The Americas has been the major buyer of Nigeria's oil with United States of America accounting for the highest share. Withn Africa, exports to ECOWAS as a group dominated the region's share arising mainly from bilateral agreements aimed at promoting trade within the sub-region. Imports from industrialized countries such as China, USA, Germany, and Malaysia constituted the highest share of imports. Imports from African countries have remained low over the years.

3.1 A Brief Review of Nigeria's Trade Policy

In order to enhance the performance of exports and earn higher foreign exchange from the global market, the government regularly reviewed the country's trade policies. These policies could be discussed under two broad regimes. These are the period before the introduction of Structural Adjustment Programme (SAP), and the period after the SAP. Generally, the major objectives of Nigeria's trade policies included among others: increase in domestic production through the use of local raw materials, protection of local industries against stiff competition, promotion of exports through formulation and implementation of sound export policies, attraction of foreign investment as well as enhancing the competitiveness of domestic products through the creation of conducive macroeconomic environment.

The Pre-SAP policies were aimed at accelerating development of the economy through expansion in the nation's industrial base. The idea was to make the country self sufficient in the production of consumables and in effect reduce dependence on external sources for the supply of such items. A major objective then was to protect the local industries against foreign competition. This prompted adoption of discriminatory tariff structure and stringent exchange control measures were put in place while foreign exchange budgeting was introduced to regulate aggregate foreign exchange expenditure (Analogbe 2000).

However, the introduction of SAP in i986 commenced the liberalization of external trade and the deregulation of the foreign exchange market. The

liberalization of trade and exchange procedures effectively commenced with the abolition of import licensing and the introduction of foreign currency domiciliary account in which exporters could retain their export proceeds and use them to finance eligible imports.

The Second- tier - Foreign Exchange Market (SFEM) was introduced in September 1986 for managing the exchange rate and allocating foreign exchange resources under a market-based system. The commodity boards were also abolished and exporters were free to market their products directly. The list of banned imports was reduced from 25 to 13 items as at the end of 1995. In the same period, only 4 items of exports were banned. The tariff structure was streamlined and other restrictions on imports were dismantled. The Nigerian Export Promotion Council (NEPC) and Nigerian Export and Import Bank (NEXIM) were established in 1987 and 1990, respectively, to encourage production for export and ensure effective administration of export incentives. The export free zones (EPZ) were established to encourage production for exports. It was hope the establishment of EPZ would attract inflows of foreign capital into the export sub-sector, Other measures introduced included provision of the Export Adjustment Scheme Fund, meant to serve as supplementary export subsidy to offset the high cost of production arising mainly from infrastructural deficiencies, the Duty Drawback Scheme, and the Manufacture -in -Bond Scheme and Export Expansion Scheme. The Duty Drawback Scheme provides for refunds of duties/surcharges on raw materials including packing and packaging materials used for the manufacture of products upon effective exportation of the final product. The Duty Draw Back Scheme ensures automatic refunds of 60.0 per cent on screening by the Duty Drawback Committee and upon the presentation of a Bond from a recognized bank, Insurance Company or any other financial institution. The Export Expansion Grant Scheme was meant to stimulate exporters to expand the volume of their exports and diversify export product and market coverage. Exporters of duly processed products are entitled to 4.0 per cent grant on their total annual export turnover subject to the receipt of confirmation of repatriation of export proceeds from the Central Bank of Nigeria and subject to a performance Bond from any of the recognized Banks Insurance Company, NEXIM or financial institution.

In the 1990's, the Nigeria's economy was deregulated, new incentives were provided to enhance the earnings from exports. The Dutch Auction System was introduced to achieve stable exchange rate for the naira and enhance the competitiveness of exports. In spite of all these measures, the export policies and the institutional arrangements for administering the policies have failed to achieve the goal of diversification given that the oil sector still accounts for the bulk of foreign exchange earnings. The share of non-oil exports in total export has remained insignificant. The non-diversification of the economy is a serious impediment to the growth of the non-oil exports sub-sector.

As a member of WTO, Nigeria is expected to embrace measures that would promote free trade among nations using tariffs only when necessary to check domestic consumption of goods that could be competitively produced locally. Specifically, the tariff regimes that were in place between 1995 and 2001 were amended and simplified to make them conform to the international best practices. Thus, the new tariff regime reduced average nominal protection rate from 33.0 per cent in 1994 to 24.3 per cent, while the tariff peak dropped from 300.0 per cent in 1994 to 150.0 per cent in 1995/1996 and further to 100.0 per cent thereafter.

Customs and excise tariffs system has remained an instrument for promoting economic growth and development. For instance in 2001, the duty rates were reduced on major raw material inputs for the manufacturing, agricultural production and animal husbandry imposed while higher duty rates were imposed on some finished goods. Also, zero duty rates applied to essential machinery and spare parts for the productive sectors of the economy.

From 1999, trade and investment policies were geared towards enhancing the de-regulation of the major sectors of the economy. Thus, the current and capital accounts were further liberalized and inefficient government parastatals were privatized. The tariff structure was reviewed to encourage domestic production of some banned items. On March 10, 2004 the federal government announced the list of banned items and a grace period of 90 days was allowed to enable all importers who must have entered into irrevocable trade agreements before the release of banned items to allow them process and clear the goods at the prevailing duty rates. Such banned items included textiles fabrics of all types but excluding nylon tyre, mattress tickings, fishing nets etc., soap and detergents, fresh fruits, tooth pastes, pork and pork products as well as vegetable oils, corrugated boards, and live or dead birds. Other

measures introduced included destination policy and pre-shipment inspection. The pre-shipment inspection was introduced following cases of importation of banned goods and malpractices in the declaration of the value of imports, because of rent-seeking activities. The exporters were allowed to open a domiciliary account and to be paid in the same currency in which the deposit was made. This policy ensures easy access to foreign exchange. The Pre-shipment Inspection policy with the main objective of controlling the influx of banned products is also aimed at increasing government revenue from exports and imports. Consequently, the Nigerian Custom Service (NCS) was reorganized to meet the challenges of the new policy.

To further increase the gains of several trade and investment policy reforms, the government introduced a broad reform agenda under the aegis of the National Economic Empowerment and Development Strategy (NEEDS). The strategy is a holistic home grown economic programme which touches every aspect of the economy including the trade and investment sub-sector. In this regard, the Nigerian Customs Service (NCS) and the Nigerian Ports Authorities (NPA) were reorganized to meet the challenges of NEEDS. Some other measures were undertaken under NEEDS and directed at enhancing Nigeria's foreign trade. Specifically, the ports were privatized.

4.0 PROBLEMS OF NIGERIA'S EXTERNAL TRADE

The problems confronting Nigeria's external trade can be traced to internal and external factors. The internal factors are those factors that are peculiar to the Nigerian economy, which include structural rigidity, weak infrastructure, inconsistent policies, poor implementation of incentives, high cost of production, and weak industrial base, etc. The external factors determine the extent to which the Nigerian economy is susceptible to external shocks. Some of these factors include Nigeria's membership of Organization of Oil Producing Countries (OPEC) and World Trade Organization (WTO), adverse terms of trade, stiff competition from industrialized countries and globalization.

The first and major constrain to the growth of Nigeria's foreign trade is the nature of the Nigerian economy. The Nigerian economy is dominated by the activities in the oil sector. The oil export contributes the highest share of total trade. The neglect of the non-oil export sub-sector has contributed to the lower share of Nigeria's trade in global trade. The narrow productive base of the economy and the slow pace of diversification of the economy away from oil have resulted in low productivity and exports. Consequently, Nigeria could not maximize enough gains from trade which impedes trade expansion to the other countries.

Nigeria is endowed with many solid minerals, which are scattered across the country but only crude-oil and gas are being developed thereby limiting the number of tradable products that can be traded in the global market. Consequently, the share of Nigerian exports in the global market, which is determined by the number of tradeables, remained low compared with the varieties of products from her trading partners. This implies that Nigeria is not optimizing the full potentials of trade. There is no doubt that Nigeria can gain competitive advantage in the world market if resources and foreign direct investments are mobilized towards the development of a few of them. The recent in road made by cassava traders is a commendable one. More of these products if developed can penetrate several overseas markets if an aggressive market strategy is embarked upon by individuals and agencies responsible for managing foreign trade and investment. Nigeria can also use the advantage of its size to create more trade in Africa and the West Africa sub-region

The macroeconomic conditions are unfavorable to domestic production in view of the high level of inflation and interest rates, while access to finance by investors from the banking sector has been very difficult and costly. Where funds are available, they are given at high rates of interest. All these have tended to undermine the competitiveness of domestic exports in global market.

In addition, Nigeria's exports are subjected to the vagaries of external market conditions because the demand and prices of export commodities are exogenously determined. This means that Nigeria does not have any control over the prices of its export commodities, but accepts whatever price that was dictated by foreign consumers. This implies that Nigeria is basically a price taker for both her exports and imports. More so the value received per unit of her agricultural exports such as cocoa and cotton were lower than the value paid per unit of imports of finished goods owing to worsening terms of trade. Consequently, the foreign exchange earnings from foreign trade have continued to fluctuate, with the resultant significant impact on government finances for developmental programmes as well as the resources going to local producers. The instability of earnings from foreign trade is partly responsible for low participation of Nigerians in international trade.

The nature of bilateral and multilateral trade agreements between Nigeria and trading partners and the extent to which these agreements have been implemented combine to hinder the growth of Nigeria's foreign trade. Multilateral trading arrangements have tended to create environments in which the most competitive countries gain the benefits of openness and globalization. Thus, without technical and financial supports to upgrade the productive capacities and strengthen the competitiveness of Nigeria's exports, access to foreign markets would continue to be a problem.

Related to the above is the issue of trade negotiating capacity. This relates to say whether Nigeria's trade negotiators have the requisite capacity to negotiate and achieve favorable and workable trade agreements for the country. These include capacity for interpreting and implementing WTO rules and regulations. Capacity building in these areas would enhance the quality of trade policy reforms and the impact on the economy.

External trade is also undermined by the fiscal policy regimes of successive governments in the country. In most instances, fiscal policy concerns are frequently cited for delay in trade reforms in Nigeria. There is often a conflict between using the fiscal policy to achieve balanced growth on one hand, and higher revenue on the other hand. The choice has always tilted towards increased tarrification at the expense of overall growth of the real sector. This is because some category of imports which should have been banned to encourage domestic production of such products for exports were allowed into the country through payment of high tariffs. In addition, the tariff systems are also not well structured to achieve the objectives of encouraging domestic production, raising revenue and discouraging imports. Sharer (1997) noted that the fiscal impact of liberalizing the trade system could be positive, negative, or neutral, depending on the reforms introduced and the specific circumstances of the country concerned. Scholars have also argued that excessive tariffication and protection have been the major factors limiting the growth of exports from developing countries. They canvassed for more trade openness. Therefore, inappropriate fiscal policy could be counter productive to trade expansion for countries that have liberalized their capital and current accounts.

The Nigerian capital market has not been fully integrated into the international financial market. Although, the capital market was recently internationalized, its impact has not been felt. For instance, how many foreign companies are quoted on the Nigerian Stock exchange? How many Nigerian companies are listed on overseas financial markets? This implies that the number of financial instruments tradable on the stock exchange are limited, thus affecting the total volume of trade as well as gains that could accrue from globalization of capital market. In most developed and emerging markets, trading on financial instruments and financial derivatives account for a substantial proportion of their trade and gross domestic product. Nigerian capital market is not fully internationalized to allow trading in such financial instruments, which means the benefit of greater capital and trade flows associated with such internalization of financial markets would continue to elude the country.

External debt service payments have also contributed to the slow growth of the Nigeria external trade sub-sector. It is a well known fact that most of these debts are private-sector debts contracted through trading activities in the 1970's and early1980's. Moreover, the subsequent repayments of these debts created undue pressure on the available financial resources and crowded out resources meant for building productive capacity as well as development of infrastructure in the economy. Thus output growth both for domestic use and exports were greatly impaired.

The low participation of Nigerians in the international trade in services affected the volume of trade. Such services include shipping, telecommunication, air transportation, computing and financial services. Experience from emerging economies such as China and India has shown that the services sub-sector possesses the potential for growth. India for instance has made an impressive landmark in software development and the foreign exchange earned from it has been utilized to transform Indian economy. China has also used the e-commerce facility to make more inroads into many economies.

The emergence of globalization with the attendant hi-technology has revolutionized all facets of economic activities including foreign trade. The emergence of e-commerce for instance, has rapidly changed the economic fortunes of Japan, China, Malaysia, and Taiwan. Nigerian traders are yet to change in line with the global trend. They have not appreciated need to move away from orthodox trading pattern to the use of e-commerce, which is the trend worldwide. They have also not devised strategy to partake in the e-commerce warfare that has been on in the last decade.

Nigeria has consistently maintained trading relationship with some countries such as Britain and United States of America but these age-long relationships have not transformed into growth in her market share as well as domestic productivity. In this respect, there is the need to strengthen bilateral relationship with the fast growing emerging markets such as China, learn from them, and adapt those technologies that are suitable to our environment. This will impact positively on tradeables and in turn enhance gains from trade.

In addition, the activities of some industrialized countries contravene the agreements and rules of World Trade Organisation (WTO) and these activities impact negatively on the performance of both primary and manufactured exports of developing countries. Some of the anti-WTO activities of include the scrapping of subsidies to farmers, dumping and media campaign against exports from the developing countries

Another problem confronting the growth of non-oil exports is inadequate funding. Due to long gestation of agricultural produce, deposit money banks have been reluctant to lend to the real sector. This is because banks by their nature are interested in the areas where they can easily recoup their invested capital. Access to funding is also compounded by the documentation requirements which could not be met by most prospective exporters.

Effective marketing strategies have been recognized as indispensable to increased productivity. The abolition of commodity boards in 1980's has created a vacuum which is yet to be filled in the marketing arrangement for exports. The absence of appropriate marketing institutions has resulted in under pricing of Nigerian products in the international market (CBN/NEXIM 2003).

There is also lack of data to enable researchers assess the impact of the various policies on foreign trade. Exporters of all categories require accurate and timely information on markets, prices, quality standards and export procedures in making investment decisions. This information is often not readily available to most exporters in Nigeria. Other problems include policy inconsistencies, bad weather conditions, political instability and decaying social values.

5.0 Policy Issues for Strengthening Nigeria's Foreign Trade

It is universally acknowledged that trade is an important instrument for achieving rapid growth and development. However, in order to benefit adequately from trade there is the need to address factors constraining output growth and increased domestic supply of exports. With a positive supply effect that enhances the competitiveness of exports, Nigeria will experience an increase in demand for its exports that will fully offset increase in demand for imports thus trade will be able to meaningfully contribute to growth and development of the Nigerian economy. This is because the supply factors emanating largely from weak infrastructure and low technology are the bane of real sector development in Nigeria. Given the current conditions, Nigeria cannot realistically expect rapid economic growth unless there is high productivity of domestic factors. This implies that factors like qualitative technological education, good infrastructures, and credible, reliable and secured legal and political institutions are factors that should be given equal priority as trade liberalization. These issues are clearly addressed by the endogenous growth theories.

Endogenous growth theory predicts positive externalities and spill-over effects from development of a high valued-added knowledge based economy which is able to develop and maintain a competitive advantage in growth industries in the global economy. The theory further emphasizes that private investment in research and development (R&D) and human capital development are the key issues in the transformation of any economy.

Rodrick (2001) also argued that no country has developed simply by opening itself up to foreign trade and investment but the trick has been to combine the opportunities offered by the world markets with a domestic investment and institution building strategy to stimulate local entrepreneurship. What is required to achieve sustainable growth and development and higher share in global trade include support for research and development, international marketing assistance and most importantly improving educational system. In the long-run productivity of labor and human capital will increase and this will translate to increased output and higher exports.

The participation of Nigerians in international trade in services sub-sector is very low, whereas these are the means by which a country can increase its market share from the trading system (Owolabi 2004). The world trade statistics showed that international trade in services constitute more than 70.0 per cent of the gross domestic product (GDP) of developed countries, 50.0 per cent of middle-income countries and it is less than 35.0 per cent for developing

countries. For Nigerians to actively involve in the international trade in services there is the need to invest in human capital and research and development (R&D).

Nigeria has abundant resources. She should be able to identify her potentialities and attract foreign investment for their development. This will increase productivity, encourage specialization and facilitate the diversification of the export base away from oil.

Government should urgently address the problem of supply bottlenecks. This will involve fast tracking the rehabilitation of the weak infrastructure, and ensuring access to export financing. It is in this regard that the on-going consolidation in the banking sector should be commended. The consolidation exercise should be extended to other segments of the financial system such as insurance, and offshore financial centres to enable them effectively carry out their functions in the economy. The consolidation exercise would help to reduce the cost of funds- a development that would encourage many entrepreneurs to go into productive ventures.

Empirical studies have shown that foreign trade cannot grow under a serious external debt crisis as resources meant for development would be use to service debt. It is in this regard that the recent debt forgiveness of US$18.0 billion by the Paris Club of creditors is a welcome development. Government should therefore ensure that the expected savings from the debt forgiveness is channeled to the development of infrastructure in the country as these would in turn positively impact on productivity.

Investment in infrastructure (both physical and human) is important in reducing barriers to trade and the high costs of marketing, especially for small producers such as Nigerian farmers. Some of the most critical investments necessary to achieve effective trade policy reform include trade-related infrastructure and institutions. Development of real sectors particularly the agricultural and industrial sectors and effective marketing infrastructure are essential for trade expansion to the rest of the world. It is also important to consider the imperativeness of adding value to primary exports by converting the primary products to semi-manufactures. This will enable such products to gain access into other markets thereby increasing gains from trade. Tariff reduction is needed to improve market access for products.

In the same vein huge investments are needed to build networks of trade support institutions that are capable of providing key services to both exporters and importers in the areas of trade policy formulation and commercial intelligence, export promotion and marketing, product development and financial services, and training. These should also include developing national institutional capacity for international negotiation through adequate funding of such institutions as well as encouraging public private sector dialogue. There is the need for collaboration between the public and the private sectors for the development of the educational sector to enhance the productivity of human capital.

It has been identified from the preceding section that the existence of trade capacity gap hinders trade policy reforms as well as the ultimate benefit of such reforms. In this regard, it is essential to identify the various capacity gaps required for sound policy and fill these gaps through appropriate training. Besides, trade officers should be allowed to participate in both local and international seminars to acquaint them on contemporary trade and issues. This would enable them to offer useful policy advice to the Government.. In addition government can mobilize financial resources from local and international donor agencies for the funding of skill acquisition programmes.

The tariff on imports should be well structured to prevent trade diversion to other countries in the sub-region. This has the advantage of enhancing revenue from tariff on imports as more goods will come into the Nigerian ports. Moreover, a good tariff system will impact positively on the foreign exchange market as importers are likely to conduct their businesses through the official window. It is therefore essential that the tariff should be in line with international best practices. Soludo (1997) noted that the emerging consensus on trade reform favors a more graduated approach to liberalization, which usually starts with a tarrification of all trade restrictions, and then followed by simplification of tariffs. He argues that the speed of liberalization should be consistent with the learning and adjustment cost that are required, and tariffication should be determined by the speed of response of the export sub-sector to the existing conditions in the economy.

There is also the need to take a closer look at the factors inhibiting the full integration of Nigerian capital market into the global financial market, and appropriate steps should be taken to address these factors, otherwise the benefits of global capital market will continue to elude the country. Integration into the global financial

market will provide opportunity to raise medium and long term funds for the financing of rehabilitation of decaying economic and social infrastructures. Consequently, domestic productivity will be enhanced and this will in turn increase the number of goods available for exports.

Nigeria can use the advantage of its biggest market size in the West African sub-region to create more trade for those products which are not being tapped, such as extractive solid minerals. There are tremendous opportunities in this area. Outstanding among them are coal, gypsum, barites, kaolin and talc. Nigeria has one of the best quality coal deposits in the world. There is therefore the need for public-private sectors collaborations for the development of these solid minerals as well as attracting more foreign investors into the sectors. In order to achieve this government should continue to guarantee conducive macroeconomic environment to attract more foreign capital inflows into the economy. However, there is the need to prioritize projects and ensure foreign capital is attracted to areas where the country has competitive advantage.

Trade statistics is an important instrument for monitoring trade flows and also serves as a guide to formulation of trade policy. There is the need therefore for adequate funding of all agencies responsible for the collection of trade data. In the same vein, there is the need for regular collaboration among these agencies to ensure harmonious and reliable data.

The existence of free trade zone within the West African sub-region has continued to expose member countries to different crimes such as smuggling, robbery, arson etc. In this regard, there is an urgent need to embark on massive disarmament of warring groups within the continent to limit the risks associated with trading in free zones.

Regional initiatives can be an effective additional instrument to accelerate economic growth and facilitate the integration of Nigerian economy into the world economy. But to play this role, regional arrangements must emphasis broad liberalization of domestic policies, promote the transmission of good policies through peer pressures, and nurture efficient domestic and regional institutions. Francois and Subermanian (1997) enumerated the following danger paths that must be surmounted to effectively utilize regional integration to achieve faster trade growth and development. These are overambitious goals, over bureaucratization, multiplicity of overlapping initiatives, and weak political will and vision. These problems have been the hiccups to the realization of the objectives of West African Monetary Zone (WAMZ) since its conceptualization in 2000. Thus, a sound and coherent regional trade policy and the reforming of trade impeding zone wide distributional/ allocation arrangements are sine qua non to trade expansion by WAMZ member countries. The experience of Association South East Asian Nations (ASEAN) deserved mentioning. The ASEAN, which was not deliberately designed to create trade, increased trade in its region by 98.0 per cent between 1980 and 1984 owing to consistent and coordinated exchange rate policy. In addition, the ASEAN members have established strong internal networks for business consultation and software cooperation without surrendering national sovereignty with respect to major economic policies. Given the experiences of the ASEAN countries, Nigeria should take a lead to ensure the realization of a formidable integration in the sub-region and Africa.

African countries have been confronted with incessant conflicts. Economic integration would not be achieved under this situation. Tackling governance and conflicts issues through good governance, transparency, democracy and rule of law should precede economic integration. In this respect, there is the need for sound legal framework that would promote good neighborliness and unity among member states. Such rules and regulation must evolve through democratic process by involving member countries.
African countries should be cautious in opening their economies to the outside world because they did not possess competitive advantage that would make them to benefit from globalization. They should think of trading among themselves before exporting to other countries. If they are able to capture the markets within the sub-region, they would have succeeded in increasing their market share of global trade. Nigerian exporters should therefore explore the opportunities of the markets within the sub-region before expanding to other regions.

Trade issues have gone beyond mere physical exports and imports of goods and services to include business practices, transparency, creativity and international politicking. Nigeria should therefore use its long standing relationship with major economic blocs to strengthen her trade relationship. She should also court new friends especially with the new emerging markets from whom new techniques in international trade warfare can be learnt. There is increasing evidence that those countries that have been most

successful in achieving and sustaining high growth are the ones that avail themselves the opportunities provided by trade. There is therefore the need to refocus Nigeria trade strategy towards increasing its global share of the world trade.

Summary and Concluding Remarks

The paper x-rays the importance of trade to growth and development, review Nigeria's trade policy during the period of study and highlights major problems confronting the growth of trade as well as providing some policy measures for tackling them.

In conclusion, the ability of Nigeria to enhance and optimize gains from foreign trade depends on the extent to which she is able to increase her level of production of goods and services. In this respect, efforts should be directed towards harnessing and greater utilization of the vast human and material resources in order to derive greater benefits from them. In addition, the current efforts to rehabilitate socio-economic infrastructure in the country should be sustained for enhanced productivity and competitiveness of Nigeria products in the global market.

Table 1
NIGERIA'S FOREIGN TRADE 1981 - 2004 ($MILLION)

YEAR	EXPORT	IMPORT	TOT. TRADE	TRADE BAL.	EXPORT/ IMPORT	GDP	EXPORT/ GDP	IMPORT/ GDP	T. TRADE/ GDP
1981	18,070.98	19,224.26	37,295.24	-1,153.28	94.00	84806.2	21.31	22.67	43.98
1982	12,962.55	16,993.02	29,955.57	-4,030.47	76.28	78256.7	16.56	21.71	38.28
1983	10,512.77	12,218.62	22,731.39	-1,705.85	86.04	80048.8	13.13	15.26	28.40
1984	11,881.29	8,874.62	20,755.91	3,006.67	133.88	84097.7	14.13	10.55	24.68
1985	12,547.33	8,266.84	20,814.17	4,280.49	151.78	82280.2	15.25	10.05	25.30
1986	6,371.80	3,911.90	10,283.70	2,459.90	162.88	37071.3	17.19	10.55	27.74
1987	7,590.10	4,098.10	11,688.20	3,492.00	185.21	27853.6	27.25	14.71	41.96
1988	7,364.00	5,064.60	12,428.60	2,299.40	145.40	32609.9	22.58	15.53	38.11
1989	7,870.90	3,693.10	11,564.00	4,177.80	213.12	30636.3	25.69	12.05	37.75
1990	13,671.10	4,948.00	18,619.10	8,723.10	276.30	35028.3	39.03	14.13	53.15
1991	12,264.30	7,755.70	20,020.00	4,508.60	158.13	33207.6	36.93	23.36	60.29
1992	11,886.10	7,203.70	19,089.80	4,682.40	165.00	32109.6	37.02	22.43	59.45
1993	9,924.40	6,655.90	16,580.30	3,268.50	149.11	32435.7	30.60	20.52	51.12
1994	9,415.10	6,612.60	16,027.70	2,802.50	142.38	43203.5	21.79	15.31	37.10
1995	11,734.40	8,221.50	19,955.90	3,512.90	142.73	91408.0	12.84	8.99	21.83
1996	16,116.90	6,438.40	22,555.30	9,678.50	250.32	127891.0	12.60	5.03	17.64
1997	15,207.30	9,501.30	24,708.60	5,706.00	160.05	132806.9	11.45	7.15	18.60
1998	8,971.20	9,211.40	18,182.60	-240.20	97.39	128684.7	6.97	7.16	14.13
1999	12,876.00	8,587.80	21,463.80	4,288.20	149.93	35733.3	36.03	24.03	60.07
2000	19,141.40	8,721.30	27,862.70	10,420.10	219.48	46200.7	41.43	18.88	60.31
2001	17,884.10	11,030.10	28,914.20	6,854.00	162.14	407217.3	4.39	2.71	7.10
2002	14,777.40	10,840.56	25,617.96	3,936.84	136.32	46313.6	31.91	23.41	55.31
2003	21,869.53	10,487.64	32,357.17	11,381.89	208.53	55590.9	39.34	18.87	58.21
2004	22,697.12	11,045.08	33,742.20	11,652.04	205.50	64067.7	35.43	17.24	52.67

Source: Central Bank of Nigeria Annual Report/Statistical Bulletin and National Bureau of Statistics

Table 2

Value of Trade in International Services (US$ Million)

Year	Services (net)	Services (credit)	Services (debit)
1996	-4,094.30	732.60	-4,826.90
1997	-3,925.30	786.50	-4,711.80
1998	-3,282.20	883.70	-4,165.90
1999	-2,496.20	979.60	-3,475.80
2000	-1,468.00	1,833.80	-3,301.80
2001	-2,968.50	1,643.40	-4,611.90
2002	-2,390.12	2,515.60	-4,905.72
2003	-2,239.19	3,469.42	-5,708.61
2004	-1,625.19	3,320.71	-4,945.90

Source: CBN Annual Report/Statistical Bulletin

Table 3

Performance of Non - Exports (1980 -2004)
(US$ Million)

Year	Oil exports	Non-Oil exports	Total exports	% of oil in total exports	% of non-oil in total exports
1980	7,448.7	302.9	7,751.6	96.09	3.91
1981	6,515.1	209.1	6,724.2	96.89	3.11
1982	8,003.2	203.2	8,206.4	97.52	2.48
1983	5,214.4	218.2	5,432.6	95.98	4.02
1984	6,762.2	189.2	6,951.4	97.28	2.72
1985	10,031.7	444.3	10,476.0	95.76	4.24
1986	5,977.4	394.4	6,371.8	93.81	6.19
1987	7,052.1	538.0	7,590.1	92.91	7.09
1988	6,319.0	612.7	6,931.7	91.16	8.84
1989	7,469.8	401.1	7,870.9	94.90	5.10
1990	13,265.6	405.5	13,671.1	97.03	2.97
1991	11,792.4	472.0	12,264.4	96.15	3.85
1992	11,641.7	244.4	11,886.1	97.94	2.06
1993	9,696.6	227.8	9,924.4	97.70	2.30
1994	9,170.7	244.4	9,415.1	97.40	2.60
1995	11,448.7	285.7	11,734.4	97.57	2.43
1996	15,829.8	287.2	16,117.0	98.22	1.78
1997	14,850.1	357.2	15,207.3	97.65	2.35
1998	8,564.7	406.5	8,971.2	95.47	4.53
1999	12,637.1	211.1	12,848.2	98.36	1.64
2000	18,897.2	244.2	19,141.4	98.72	1.28
2001	17,633.8	250.3	17,884.1	98.60	1.40
2002	14,777.4	785.7	15,563.1	94.95	5.05
2003	21,869.5	735.1	22,604.6	96.75	3.25
2004	22,697.1	852.0	23,549.1	96.38	3.62

Source:CBN Annual Report/Statistical Bulletin

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IS THE NIGERIAN CURRICULA IN ECONOMICS RELEVANT FOR THE NIGERIAN ECONOMY OF THE 21ST CENTURY?

BY

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1.0 INTRODUCTION

The loopholes in Nigeria's educational system have created a death of capacity in the Nigerian economy. No nation can develop without qualitative education. This is because qualitative education stimulates economic growth by increasing efficiency of labour, improving health standard, increasing the standard of living, and more importantly, education is a background for good governance, (Gylfason, 2001). Qualitative education triggers an intergenerational process of poverty reduction, because educated people are more likely to ensure the education of their children. Thus, the impact of education on income distribution and social equity cannot be over emphasized.

Since independence in 1960, the Nigerian economy has pursued economic growth policies with various economic reform programs, yet the problems of price stability, high unemployment, sustainable economic growth and external sector viability have remained. This is explained by the fact that some economic policy makers in the past have pursued conflicting economic policies a resultant inadequacy of our economics education curricula.

Economics as a discipline has become a pre-requisite for successful growth and development, thus, economics curricula are designed to meet the challenges of changing times. Consequently, there has been a reawakened consciousness in almost all countries concerning the improvement of economics curricula. This notion has been echoed by the World Bank and United Nations through their various educational programs.

The study of economics is very essential in understanding, forecasting, and formulating policies necessary for sustainable development.

In view of the above, it is necessary to examine the Economics curricula in Nigerian tertiary institutions and the focus of growth and development in Nigeria. The main objectives of this study therefore are:

- To examine the relevance of the economics curricula in Nigeria's tertiary institutions in meeting the challenges of 21st century.
- Highlight its problems and examine the efforts of NUC and the Ministry of Education in meeting the challenges of economics education in Nigeria.

The paper is structured into five sections; following the introduction is section two, which discusses the historical developments in the economics curricula in Nigeria. Section three focuses on country studies on the subject. Section four appraises the economics curricula. The paper is concluded in section five.

2.0 Historical Developments in the Economics Curricula

2.1 Foundation of Economics, Degree in Nigerian Universities.

The foundation of university education in Nigeria was laid in January 1948, when 104 students of the prestigious Government Higher College, Yaba moved to form the pioneer students of the University College, Ibadan, now known as University of Ibadan. This was in line with the recommendations of the Asquit and Elliot commission which was set up by the British government. The University College was affiliated to the University of London, and prepared its students for London Degrees. According to the university's 1965-66 academic calendar, Economics was one of the earliest faculties of the University up to 1963. Economics discipline was known as the Faculty of Economics and Social Studies (now Social

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Sciences). The relevance of the Economics discipline in understanding macro and micro economic analysis for a developing country like ours, informed its being carved out as a discipline for greater attention by the then senate of the University.

The commencement of economics department at the University College, Ibadan was saddled with a lot of issues, particularly the content of the curricula of the discipline. Consequently the World Bank economist who visited Nigeria to find out possible ways of developing the economy advised the Nigerian government to develop economics curricula that can explain economic issues in Nigeria. However, as an affiliate of the University of London, the academic standard of the University College, Ibadan, came under the eye of the University of London through a scheme of special relation. Under the scheme, the college was encouraged to develop in various subjects, while special syllabus was initiated to suit the local environment. The college teachers did not only prepare the first drafts of all examination papers, but also gave a first marking of all the students' scripts; the University of London examiners retained full responsibility for guaranteeing the standard of degrees and had final word on any decision. The University of London did not consider it expedient to step down its economics curricula which was developed and focused on the British economic environment. Thus, the senate of the University College inherited to an extent foreign economics curricula and was advised to complement the curricula with issues in the Nigerian local environment

The University of Nigeria Nsukka which was established in 1960 had its curricula fashioned after that of Michigan State University, USA. Economics was one of its major courses. However it is pertinent to say that all first tier, second tier and state universities that have emerged since the inception of university education in Nigeria had economics department as one of their core departments.

2.2 Course Contents of Economics Curricula then?

At inception the Economics course contents at the University College, Ibadan, in 1965-66 academic calendars, were the following

Economics Theory

(1) Applied Economics
(2) Economic History
(3) History of Economic Thought
(4) Economic development
(5) Economic History of Nigeria 1830 - 1960
(6) Public finance
(7) Monetary Economics
(8) International trade
(9) Elementary statistical method and theory
(10) Economic and social statistics and sources
(11) Agricultural Economics
(12) Industrial economics
(13) Business and social Accounting
(14) Statistical theory and method

There was a different Economics curricula at the University of Nigeria Nsukka which started in 1960 as the second Nigerian University. This was attributable to the growth in the study of Economics all over the world during the 1960s. The economics curricula at the University of Nigeria were very elaborate. See Appendix I

2.4 The purpose of Economics teaching then?

The purpose of economics teaching was to raise skilled manpower to man the administration in the public sector and enhance economic development in the private sector. Consequently, the World Bank economic mission, which visited Nigeria in 1952, recommended that the University College, Ibadan should fashion its economics curricula so that Nigeria could have enough manpower to drive the wheels of economic progress. The mission recommended the addition of Applied Economics in Economics department as many of the economics graduates would become economic policy makers and administrators. They recommended that the purpose of Economics teaching was to produce better equipped graduates who can deal with practical problems in the macro economic environment. They maintained that some knowledge of accounting and economics was very essential for economic analysis as Nigerian economic problems required a special body to advice on economic policy and co-ordinate public investment programs. The mission proposed that an economic committee of the council of ministers be set up to be charged, particularly, with the responsibility of administering financial and economic issues of the Federal government Contrarily, at the university college, Ibadan the purpose of Nigerian economics teaching was not adequately captured in the curricula, the reason being that students preferred to go to University of London as it was more prestigious to have a degree in University of London, in other to induce students to patronize the University college, the economics

curricula of the University of London was partly merged with the economics curricula of the of the University college thus the curricula mirrored a western economy. Consequently the University of Nigeria, Nsukka, Ahmadu Bello University Zaria and University of Lagos developed economics curricula that were rooted in western culture. It is pertinent to point out that despite the western curricula taught in the Nigerian Universities, the purpose of economics teaching was not strictly adhered to.

2.6 Current Economics Curricula and Economic policies in Nigeria.

The Nigerian Economics curricula are orthodox and static and deeply linked with neoclassical economics, as it is silent on the critical policy moves of the government. The curricula are more theoretical than practical. Research shows that Nigerian economics curricula are based on old western curricula. The Nigerian economics curricula, which was first introduced in the University College, Ibadan, started on a wrong premise though it was fashionable as at that time, the economic challenges of the 21st century have uncovered many loopholes in the economics curricula.. These western curricula have been modernized over the years but Nigeria has failed to develop with the universities which it earlier borrowed from. Appendix (II) below contains list of the current economics courses recommended by NUC. An Economist who graduates from these curricula is not yet an economist because employers of labour will have to invest on him by way of in-service training to bring him up to acceptable standards. There is no mention of some critical 21st century external and domestic challenges in the curricula such as

External Challenges

- Globalization,
- Financial contagion
- Trade liberalization

Globalization puts the world's vulnerable, hungry and hurting poor at my doorstep. The curricula must not ignore their cries.
We need to understand certain global forces in order to ensure they work to benefit the lives of people living in poverty. Globalization and especially the promotion of trade liberalisation, remains a 'hot topic' internationally, due to its sheer size, speed and impact on billions of people's lives.

Positive effects of Globalization trade Liberalization and Financial Contagion

- Allows countries to gain from trading those goods and services which they produce most efficiently and have 'comparative advantage' relative to other countries.

- Competition stimulates efficiency and productivity. Mass production can bring the price of goods down, making them affordable to more people and therefore increasing their real incomes and improving their quality of life.

- Wealth creation boosts the economy and may create 'ripple' or 'trickle down' effects that benefit the poor.

Negative effects of Globalization trade Liberalization and Financial Contagion

- Unfair trade practices discriminate against the poor. For example, the richer countries secured Trade Related Intellectual Property Rights (TRIPs), which give companies a monopoly on knowledge beyond the useful life of most new technologies. This widens the knowledge gap between richer and poorer countries, undermines technology transfer and limits the availability of cheap, essential drugs to tackle pandemics such as HIV/AIDS.

- A lack of confidence in an economy can mean that investors move their money out of an economy (capital flight), leading to the collapse of that economy. This crisis of confidence can spread to other countries or regions, a process known as contagion. For example there is concern that the current Argentinean economic crisis will spill over into Brazil and other Latin America countries.

Domestic Challenges

- Price Stability,
- Unemployment,
- Poverty Reduction
- Corruption
- Due process,
- Monetization,
- Bank Consolidation,

More importantly our home grown National Economic Empowerment and Development Strategy (NEEDS) and MILLENNIUM DEVELOPMENT GOALS (MDGS) in the above curricular. It is pertinent to assert that NEEDS would achieve its desired goal if left in the hands of capable and vibrant economists.

According to Nnanna (2004), the structure of the Nigerian Economy in particular and the global economy in general has changed and will continue

to change ad-infinitum. Consequently, economics syllabus should not remain static. The curricula have remained relatively unchanged over the years. At the introduction of economics curricular in University College, government policy was that people should go to school and become enlightened so as to fill the vacuum created by the exit of the expatriates. The course curricula at this point did not matter. However there has been a massive advancement in the world's economy today, our economics curricula should not remain underdeveloped. To mention but a few, Nigeria has been indebted for decades, we have moved from an agrarian economy to an oil driven economy, we have millions of poor Nigerians of which thousands die daily. It is alarming that the curricular has no mention of these areas. More than half of the labour force is unemployed; the entrepreneurial economics thought in the universities cannot support the challenges of the 21 century. The curricula are devoid of the millennium development goals with little mention of privatization and commercialization.

Government economic policies and economics curricula have no relationship, a situation which tends to point out the irrelevance of our economics curricula in meeting the economic challenges of the 21st century. Before the current administration of Chief Olusegun Obasanjo, government polices rely more on federal character rather than Economic research findings. Thus, curriculum planners are discouraged to offer the desired economics curricula needed for policy. However capacity build up has not been achieved because of the federal character. The issue stands that economic policies have followed federal character at the expense of economics research. At present the Nigerian economics curricular lack the capacity to support and sustain the economic policies of government. Thus, the present curricular have rendered economics graduate marginally unproductive and lazy because they do not meet the demand of the labour market. Students can reproduce nothing but their handouts when confronted with economic challenges but entirely lacking with appropriate and real life economics. Very little interest has also been shown on environmental degradation and the decline in the quality of life and economic activities in the rural communities of the oil producing states.

3.0 COUNTRY EXPERIENCES

This section would examine economics curricula of four universities, selected from both developing and developed countries. The challenges of these universities will be discussed under developing countries economics curricula and western countries economics curricula. A brief analysis of the Harvard University Economics Curricula would be made and lessons for Nigeria and other developing countries would be pointed out.

3.1 INDEX OF TAUGHT UNDERGRADUATE ECONOMICS COURSES AT THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE.

See Appendix III.

The aim of the LSE economics Curricula is to;

(a) Provide a course in basic economic theory and techniques

(b) To show the application of the above to practical examples and policy questions.

(c) To provide the basis for further study of applied economic and policy issues as well as to undertake more technical theory courses.

At the end of the course students should be able to

(a) Discuss economic issues applying the analytic framework developed in the course.

(b) Read the economic policy literature and follow current economic debates.

3.2 INDEX OF TAUGHT UNDERGRADUATE ECONOMICS COURSES IN HARVARD UNIVERSITY

See Appendix IV

3.3 INDEX OF TAUGHT UNDERGRADUATE ECONOMICS COURSES IN UNIVERSITY OF CAPE TOWN.

See Appendix V

3.4 INDEX OF TAUGHT UNDERGRADUATE ECONOMICS CURRICULA IN TUNISIA *Common Core Courses*

See Appendix VI

The challenges faced by these Universities in their economics education will be discussed under western and developing countries Economics curricula.

3.5 THE WESTERN ECONOMICS CURRICULA

The western economics curricula

have undergone dramatic changes since early 1990s. It has expanded from teaching a few thousand students annually to teaching tens of thousands in 2004. The reason is that their governments consider economics education as playing a key role in their economies. The economics curricula of the western countries were centered on a market economy which is devoid of central planning. This accounts for the quality of economists in the developed countries. In spite of the high academic standard of economics education in the western countries, they have a lot of challenges facing their curricula formation. A Student movement for the reform of economics teaching started in France in May 2000, Iona (2001) and has since spread throughout the world particularly the western countries where the issue raised by the students include;

> Irrelevance of undergraduate and graduate economics teaching for understanding real life economics problems. The open letter launched on the OECD observer website on June 2000 shows how imaginary worlds are imposed on students. This they called "autism", and it has led to the creation of the post- autistic movement. The gap between what students wants to be taught and what the universities have to teach has almost become a hard nut to crack. The students argued that the western economics curricula are usually devoid of any empirical data, be it statistics, case studies, historical illustrations or institutional considerations. The core of the course is made up of purely mathematical models. The students do not criticize the use of mathematics as a tool for understanding, but they do object to mathematics becoming an end in itself. Unfortunately this is frequently the case as cute models are cut off from real world concerns and taught as an independent view.

Another challenge in the economics curricula of the western countries is that, there is no room left for theoretical and methodological pluralism. This becomes questionable when one considers the many controversies that occur in economics and their social and political importance.

The picture described above might seem exaggerated; it is true that situations might vary across different universities and countries. The problems raised above are present to some extent in almost all universities in the western countries. However, the different student movements for improvement of economics curricula have contributed to the improvement of western economics education as a model for developing economies.

3.6 DEVELOPING COUNTRIES ECONOMIES CURRICULA UNIVERSITY OF CAPE TOWN.

Economics curricula in developing countries have a major loophole, the need to march the government policies with school curriculum. Developing countries economics curricula is actually lacking in modern economics. The curricula are orthodox and not flexible. There is yet to be clearer understanding of the concept of modern economics discipline among developing countries. More importantly, the curricula are not research based unlike the western economics curricula. Economists of the developing countries graduate from the universities as job seekers while economists of the western countries graduate as job creators.

In Africa, education Funding is still very low. The poor infrastructural facilities in the universities do not make the course attractive to the students, as most students prefer to cope with the poor teaching and learning environment with related courses other than economics. There is little or no improvement in knowledge as research for new ideas is entirely lacking. This leaves developing countries in a circle of distorted economics knowledge.

3.7 A CRITICAL ANALYSIS OF THE DEVELOPED COUNTRIES ECONOMICS CURRICULA, USING THE HARVARD UNIVERSITY AND LESSONS FOR NIGERIA AND OTHER DEVELOPING COUNTRIES.

One remarkable issue is the methodology of teaching and the response of economics to social and political needs of the people.

Western economists believe that a wide variety of social issues can best be understood by using the tools of constrained optimization. Some applications of this technique are well know. Consumers maximize welfare subject to a budget constraint, while firms maximize profit given price and wages. Yet economists have recently begun to analyze a larger set of issues within the context of incentives and maximization. New areas of study include the decision to marry, divorce or have children, the effect of democracy and inequality on economic outcomes, the importance of self control in saving for the future, the effect of potential education reforms.

Thus, the economics department of the Harvard University aims to bring its concentration to a point where they can use their understanding of maximization and incentive to think about a larger number of important social phenomena that are crucial to the well being of society.

Students' concentration in economics begin ordinarily in their freshman year with social analysis 10, a full year introductory course in economics, concentrators ordinarily take four or five half courses in economics in their sophomore year. Two half courses make up the intermediate theory sequence viz one of 1010a or 1011a, microeconomics and one of 1010b or 1011b, microeconomics. These courses teach the analytical tools that economists use. The 1011 sequence assumes a more advanced background in mathematics than the 1010 sequence sophomore also take an introduction to statistics: the ability to interpret quantitative data and to understand statistical arguments is essential to understanding the economy. The fourth half course taken here is economics 970, the spring term sophomore tutorial taught in small groups of about eight students. The sophomore tutorial is an intensive experience aimed at helping concentrators develop the ability to present economic arguments both orally and in writing.

Beyond these foundational courses, all concentrators are required to take at least three additional half- courses in economics. Honors concentrators can choose either to write a senior thesis or take advanced course work and these course works reflect various sectors of the American economy and various government actions. The additional courses must be chosen to build on the intermediate theory courses and further develop the students writing skills and skills in statistical and quantitative analysis. In Harvard University many economics concentrators have chosen to write senior theses which usually spring up interest raised in the field of study. Thus, the four year study of economics is research based on different issues; however, concentrators may still graduate with honors in economics without writing a thesis by participating in the advanced course work. The methodology of teaching and learning of economics is based on research, seminar and tutorial. The curricula are heavily centered on core economics courses with relevant borrowed courses.

Lessons for Nigeria and other developing Countries.

It is pertinent to state here that African leaders should note that, Good education is a sinequanon for economic development. Therefore Economics curricula should not only be seen as a process of education by Government but as an important element of government economic policies. To develop the study of economics and maintain an efficient economic environment, economic policies must be consistent with economics research findings. Africa needs to relate economic theories with the realities of our time. To achieve this objective there is need to ensure that students acquire the relevant analytical skills to enable them cope with the demands of the work place upon graduation. The economics curricula should be reviewed to accommodate the following;

- Courses in economic theory should be organized around real problem like development and not merely based on Macro and Micro models that are largely taught for their own sake.
- Application of economics theories should be carefully dealt with, emphasis on how economic theories can affect political and economic policies should be sustained.
- The curricula should include more descriptive economics such as economic history, economic geography, and the study of national and international institutions.

The history of economic theories and a course in moral and political philosophy would foster understanding of modern economic problems. Economics curricula should emphasize on today's global problems of unemployment, migration, poverty and price stability etc, to achieve these objectives the following courses prevalent in the economics curricula of Harvard University which facilitate an understanding of the society should be introduced into the Nigerian economics curricula. Viz:

Psychology and Economics

Applications of psychology and Economics

Economics 1330 one way or many

Economics of Crime Moral perspectives on Economics growth

Macro economics and politics

American economics policy

International financial Macro economic policy

Economics of E-commerce

Environmental and Recourse economics and policy

Capital Markets

Topics in Investment management

Economics of the Indebted Society

Social problems of the American Economy

Economics of Discontinuous Change

Economics of Education

3.8 EFFORTS BY NUC AND MINISTRY OF EDUCATION TOWARDS IMPROVING THE ECONOMICS CURRICULA

The National Universities Commission (NUC) as the regulatory agency of Nigerian Universities is empowered to among other things establish minimum academic standards (MAS) for Nigerian Universities as well as accredit their degrees. In 1989, the commission produced MAS for all undergraduate program including economics curricula.

Since the development of the 1989 MAS, there had been other studies, workshops conferences and comments on the university curricula of which economics curricula is at centre focus. In 2000 the World Bank commissioned a study on labour market expectations of Nigerian graduates, to assess the effect of Universities curricula on the performance of Nigerian graduates. This research was done by the NUC as one of its efforts to advance knowledge in the discipline. The major conclusions of that report were

(a) The supply of University graduate continues to increase in the face of declining absorptive capacity of the economy's labour force.

(b) The production of graduates with critical skills had not been met with the required needs of the economy.

(c) The prospects of employment for Nigerian university graduates were bleak and would worsen with the passage of time.

In view of this report, in 2001, the National University Commission hosted the stakeholders' conference on curricula review for university education in other to reposition the curricula to respond to current and future requirements of Nigerian economy. The communiqué of the curricula workshop recommended the inclusion of entrepreneurial education, practical skills and other critical skills in university curricula of which economics curricula is the centre of focus.

In 2004 the NUC carried out a research on the labour expectation of economics graduate. This survey was to identify the skills gap, in the existing curriculum and fulfill expectations.

Finally the 2005 Benchmark minimum academic standard for economics is a great attempt towards improving the economics curricula by the NUC.

4.0 PROPOSED COURSE CONTENTS OF THE NIGERIAN ECONOMICS CURRICULA BY THE NUC

The National University Commission, (NUC) recently reviewed the Nigerian Educational Curricula, which was tagged “Benchmark Minimum Academic Standards. In the Benchmark Minimum Academic Standards for economics curricula, has 5 credits including English and Mathematics at 0-level and acceptable passes in Joint Matriculation Examination (JAMB) as entry requirements for the discipline. The four year duration of the course did not change.

See Appendix VII

Additional Courses Suggested in the New Economics Curricula Benchmark include

(i) Introduction to Social Accounting

(ii) Introduction to Environmental Economics

(iii) Principles of Accounting

(iv) Economics of Public Institutions

(v) Computer Applications for Economics

(vi) Economics of Marketing

(vii) Health Economics.

4.1 THE WEAKNESSES OF THE NEW COURSE CONTENTS TO THE NIGERIAN ECONOMY OF THE 21ST CENTURY

Policy makers, businessmen, and ordinary citizens generally rely on economic forecasts and advice form economists in order to minimize and downsize risks associated with policy implementation and business operations. Economics is generally defined as the “Social science which studies human behavior as a relationship between ends and scarce means which have alterative uses” Robbins (1932)

From this Definition, we can readily infer that economics is a dynamic and an indispensable social science although, it is not every economic forecast or advise from economists that humanity should take seriously. Indeed some Nigerian economic forecasts and prescriptions are sometimes better ignored, or taken with a pinch of salt

The answer to the question above lies on the quality of economics graduates that had been produced in the past and the quality of the university Staff

(including academic and non academic staff, infrastructural facilities and the teaching and learning environment.

These variables are very essential for effective teaching and learning, following Jean Jockos Russo's assertion that “where a child appears not to be learning more often than not the fault is that of the teacher and not the child” Russo (1972).

However, a comparative analysis of the US economics curricula stated in section 3.2 above with the new Benchmark minimum academic standard for economics in Nigeria, will give us an explanation on the weakness of the economics curricula to the Nigerian economy.

- ***Too many Electives***
  On the average an economics graduate in Nigeria is required to accumulate between 120-140 credit units of which 40 units or 33 percent represent are core elective courses, while a significant proportion of 70 percent of the credit units are free electives. In the sample of Harvard University, the mix is biased in favour of core economics courses and required electives. The selection of liberal arts subjects and free electives are generally fewer in comparison to Nigerian universities.

- ***Under Developed***
  The Benchmark Minimum Academic Standards for economics by the NUC, is a slight upgrade from the economics curricula of University of Nigeria Nsukka in 1965. Although the curricula have been reviewed in 2005, the same issues such as poor research, poor funding, too many electives, that have made the Nigerian economics curricula static and underdeveloped are still prominent. The Economics curricula are not research based, and are undersized, and the thesis supervision is not effective because there too many students for one supervisor or professor to supervise. The problem of linking theory and real world problems has continually created a widening gap in the Nigerian economics. These deficiencies show up in the long run by the quality of economics teachers teaching various economics programs, as graduating students carry along this deficiency to the work force.

- ***There is a wide gap between the Economic Policy makers and Curricula Planners***
  Another striking weakness of the curricula is the gap between economic policy makers and curriculum planners; the teaching of macro economics in Nigerian universities is grossly inadequate to meet the needs of public sector employers. The typical curriculum covers topics incorporating national income accounting, consumption and investment theories, classical and Keynesian models of employment, monetary and fiscal policies including issues on stabilization and structural reforms. In American curricula, in addition to these topics, the typical university curriculum covers topics on “Market oriented” economy, based on the dynamic mundell-flemming model. Less emphasis is also placed on partial equilibrium analysis.

- ***The Teaching Methodology is Grossly Inadequate***
  The methods of teaching in the two systems also differ. In Nigeria, the teaching methodology is focused on lecture and hand-outs and pass your exam, without preparing the student to become a problem solver in the society but certificate carrier. In the American system, the methodology of teaching is a combination of Lecture, seminar tutorials, and research work. Students are exposed to current and standard textbooks.

- ***It is lacking in Modern Economics of 21st century Trend***
  In the 21st century of information technology, where most of today's business transactions are based on IT, for Nigerian Economics curricula to remain lost in courses like, Economics of E-commerce, Energy Economics, Economics of Social Problems, Economics of Indebted Society, Economics of Education, Economics of Asset Pricing
  Economics of Aggregate Implication of household and firm behaviors, Mortgage Economics, and Economic Analysis of Pension Funds almost makes the curricula irrelevant in meeting the challenges of the 21st century.

- ***It is silent on Environmental problems and natural hazards***
  The orthodox curriculum associated with the Nigerian universities, have over the years ignored environmental problems inherent in industrialization and oil exploration. Nigeria has been an indebted country for over 40 years, yet the curricula does not consider it necessary to study the variables of an indebted economy; more importantly, the value of education to the growth of the economy is not a priority to

Nigerian economics curricula even in the 21st century, thus the massive illiteracy in the country. The curricula have never considered the efforts of the household in reality, to the day-to-day economic activities of the country. The issue is clear; the curricula should not remain silent on these critical issues that can improve the life of the citizens.

4.2 HAVE ECONOMIC POLICIES IN NIGERIA BEEN CONSISTENT WITH ECONOMIC RESEARCH FINDINGS OF ECONOMISTS?

The Nigerian factor has not allowed economic policies to follow the part of research findings. The reason being that the absence of rule of law in our polity has not encouraged economics research work. The 30 years of military role in Nigeria, to some is referred to as a dark period, in the Nigerian history. It was an era, government economic policies were subject to the whims and caprecies of dictatorship. During this period, the voices of some seasoned Nigerian economists could not be heard as such economic polices were made by people who did not understand how the economy worked. A situation where a historian could be a central bank governor, while an engineer is minister of finance could not encourage economics research.

However, with the advent of Democracy there have been a dramatic change; some government policies have become fairly consistent with economic research finding of economists. The evidence at hand is not enough to say that economic policies in Nigeria have been consistent with economic research finding. Even under democracy the disagreement between the government policy makers and the economics curriculum planners have not created a level playing ground for these research findings to go into policy consideration. In economic matters politicians prefer to use their discretions, or listen to economists in the developed countries for advice rather than Nigerian Economists. That is why most of western assumption of the classical and Keynesian economists will not work in most developing countries until a level playing environment is enabled for such policies to function. There is a big gap between Economics research findings and Economic policies, for examples in the Research and Statistics department of the Central Bank, the best of the seminars and research work, are contained in the Economic and Financial Review (EFR), if half of the economic research findings in the EFR can go into policy, Nigeria will become a better place. Though the EFR is a public document its circulation is greatly limited thus most students and some policy makers are left in ignorant of the research findings contained in the document.

4.3 DOES NIGERIAN ECONOMIST HAVE AN ANSWER TO ECONOMIC PROBLEMS OF NIGERIA?

The orthodox economics assumption by Adam's smith of “all things being equal” has always being an escape route for economists on critical economic issues. Since all things cannot be equal, the question is what do we do?

The Nigerian economy is moving faster than the economics curricula; a few Nigerian economists who are aware of this situation have aligned themselves to international standards in economics knowledge, through various training and retraining programs, in other to meet the challenges of their work places

There have been several dimensions as to find out if Nigerian economists can really move the economy to the expected economic boom. Some people believe that there is nothing wrong with the economy and that the Nigerian economist has what it takes for economic growth and development given the various achievements since 1960. However in my own view economics curricula was very fashionable when it was first introduced in Nigerian Universities. However, Nigerian economic behavior today has shown that the discipline started on a wrong premise, the graduates were tailored as gap fillers and not policy makers as the curricula was shallow and the government needed people urgently to fill up the gaps left by the departing expatriates.

Research has shown that the current curricula is still shallow and may not produce economists that would have solutions to the economic woes of Nigeria. The curricula does not reflect the policy and life of the people, the curricula and economic policies have not worked together and therefore, most economists are limited in proffering the necessary economic forecast that can lead the country to a safe haven. This is buttressed by the fact that there is no accurate data base available for the Nigerian economists to work with, thus an economist cannot perform or forecast without accurate statistical data as such the Nigerian economist is lost in his economy. Nigerian economist will only have a solution to the economic problems of the country if they make their economics curricula to meet international standards and also reflect the Nigerian polity.

5.0 RECOMMENDATIONS

- Economics curricula should be restructured to mirror the economic policies and targets of the Nigerian economy.

- Curriculum formation should not be left in the hands of NUC rather it should be a team work of stakeholders, government agencies like the CBN, Ministry of Finance and other financial institutions not excluding stakeholders in the private sector. This is to enable the planners know priority areas that are relevant for an economist to be gainfully employed. This will reduce the orthodox nature of our curricula.

- Economics curricula should be enhanced with modern day trends in economic development. This will add value to knowledge and make Nigerian economists vibrant in national and international issues.

- The methodology of economics teaching should be reviewed in accordance with the lessons learnt from the developed countries economics curricula above. Economics is not history; it is a participatory discipline, which needs regular active student's participation through research work on key economic issues that boarder the policy.

- There should be regular tutorials, seminars and workshops to enable students showcase what they have discovered in their research work.

- The assessment of students should not only be based on 70 percent class attendance and examination, but the student's contribution to knowledge should also be considered as this is a motivating factor to work harder.

- Stakeholders like the Nigerian Economic Society should expand their responsibilities to supervise and evaluate periodically activities of economics lecturers and students in Nigerian Universities. The Nigerian Economic Society is the only recognized economics body therefore, it should be seen alive in undergraduate economics education.

- For economics to remain relevant in Nigerian economic policy, Government should finance economic researches and should listen to and implement such research findings.

- The Research and Statistics Department of Central Bank in conjunction with other economic and financial institution should develop theories and economic models of the Nigerian Economy and this should be included into the economics curricular.

- Research on economics curricula should cover public finance especially Nigeria's Fiscal Federalism and its implications on National Unity and the ability of the three tiers of government to deliver the millennium development goals.

- In other to develop undergraduate economics, economics lecturers need to be retrained, to equip them with modern trends in the teaching of economics. Nigerian lecturers pioneer handouts and discourage textbook because of economic gain. This should be deemphasized.

- In other to increase knowledge of economics, inter-university economics competitions should be encouraged and same should be sponsored by stakeholders, NES and the government. This will inculcate reading and research habits in both lecturers and students.

- Government should encourage university exchange programs as this gives the students exposure, and will enable them to evaluate themselves. Developed economics have encouraged exchange programs and this has greatly enhanced the development of economics knowledge.

- There is need to ensure that students acquire the relevant analytical skills to enable them cope with the demands of the work place upon graduation.

- Lecturers must refrain from indoctrination and must extend the theoretical frontiers developed in the late nineteenth century to the ones of the 21st century.

- Nigerian economics curricula should address the problems of poverty, Debt, Youth empowerment, rural development, millennium development goals and lots more as these factors are militate African development.

Finally economics curricula will be very relevant in the Nigerian economy of the 21st century if key elements of our homegrown economic policy NEEDS are addressed in the curricula. This is because Nigerian economists have so much to do to sustain the success of NEEDS.

CONCLUSIONS

We need to relate economic theories with the realities of our time particularly as it affects our country Nigeria. Economics Curricula Plan should not be left only in the hands of National University Commission (NUC) rather it should be a collective responsibility of Government financial economic agencies such as Federal Ministry of Finance, National Planning Commission, Security and Exchange Commission, Central Bank of Nigeria, private sector stakeholders and the Nigerian Economic Society. This will be a roadmap to strategic, practical and realistic economics curricula which can reflect a true Nigerian economic environment. The Research and statistics department of the CBN should actively participate in the growth of the discipline through adequate communication of its research findings to the government and universities. This will supply reliable data for students' research on economic issues.

Finally the Nigerian Economics curricular is critically under developed and does not follow government economic policies, but if all the recommendations are adopted the Nigerian economics curricula will develop to acceptable international standards and will be very relevant in meeting the Nigerian economic challenges of the 21st century.

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APPENDIX I

First Year		**Credits**
GS.101	Use of English	9
GS 103	Social Science	15
Math 101	Pure Mathematics	12
Econ 101	Introduction to Economics	6
An Elective		9
Total		**51**
Second Year		
GS 105	Natural Science	12
GS 207	Humanities	12
Econ 201	Principles of Economics	9
Econ 231	Comparative Economic History	12
Sta 201	Introduction to Statistics	6
Geo 341	Economic Geography or	
Geo 361	Geography of population and settlement	6
Total		**57**
Third Year		
Econ 321	Intermediate Economic Analysis	9
Econ 301	Applied Economics	12
Econ 331	Economic History of West Africa	9
Econ 332	Principles of Public Finance	6
Econ 351	Monetary Economics	6
Econ 341	History of Economic thought-1	9
Econ 352	International Trade or	9
Pol.sc. 301	political Theory -1 or	9
French 100	Elementary foreign language or	9
Law 101	Introduction to Nigerian law or	6
Soc. 101	Introduction to sociology or	9
Sta. 346	Elements of probability and Statistics	12
Total		**63**
Fourth Year		
Econ 470	Advanced Economic Analysis	9
Econ 471	Comparative Economic Systems	6
Econ 472	Economic Development	12
Econ 473	A Research paper on a selected topic in the special area of study selected by the student and	

Two courses from one of the following groups of subjects:

Group 1	**Economics Analytical and Descriptive**	
Econ 474	Introduction to Econometrics	12
Econ 451	History of Economic thought II	9
French 100	Elementary French	9
B.A 405	Nigerian Trade and Commerce	9
Phil 202	Logic	9
Total		**48**
	Econ 474 is compulsory in this group	

Group II	Economic History	
Econ 441	Advanced Economic History	12
Econ 451	History of Economics thought II	9
Hist 301	History of Nigeria	9
B.A 405	Nigeria Trade and Commerce	9
French 100	Elementary French	9
Total		**48**
	Econ 441 is compulsory in this group	

Group III	Public Finance and Monetary Economics	
Econ 421	Advanced Public Finance	12
Econ 422	Comparative Banking and Financial Institutions	12
B.A 425	Industrial Management	9
B.A 405	Nigerian Trade and Commerce	9
Econ 451	History of Economic thought II	9
Total		**48**
	Econ 421 or 422 is compulsory in this group	

Group IV	Labour Economics	
Econ 461	Labour Economics and Industrial Relations	12
B.A 421	Industrial Management	9
PSY 370	Industrial Psychology	9
Soc 101	Introduction to Sociology	9
Total		**48**
	Econ 461 is compulsory in this group	

Group V	International Economics	
Econ 475	Advanced International Trade theory and problems	12
B.A 405	Nigerian Trade and Commerce	9
Pol. Sc. 331	International Relations 1	9
Law 404	Public International Law	9
Law 301	Mercantile Law	9
Total		**48**
	Econ 475 is compulsory in this group.	

APPENDIX II.

1989 National University recommended courses for economics department shows:

Fist Year

S/N	100 Level	Credit 1st	Unit 2nd	Total
1	Economic theory/ principles	2	2	4
2	Introduction to statistics	2	2	4
3	Introductions to mathematics for Economics	2	2	2
4	Introduction to Accounting	-	2	2
5	General Studies	6	4	10
	Elective courses			
6	Introduction to Management	2	2	4
	Two elective courses from the departments in the faculty and one out side the faculty.	17	17	34
	Second year:			
1	Micro Economics	2	2	4
2	Macro Economics	2	2	4
3	Structure of the Nigerian economy 1 &11	2	2	4
4	History of Economic thought 1	-	3	3
5	Introductory statistics	2	2	4
6	Mathematics of or Economics	2	-	2
7	Principles of finance	2	-	2
8	Total General Studies	4	2	6
	Electives:			
	Two Electives from any of the following (4units)			
	Theories of human resources labour economics, basic accounting, Urban and Regional Economics Monetary Economics			
	One elective from any other department	2	-	2
		18	17	35
	Third year			
	Compulsory			
1	Micro Economics	4	-	4
2	Macro Economics	-	4	4
3	History of economics thought 11	2	-	2
4	Introductory Econometrics	-	2	2
5	Applied statistics	2	2	4

6	Developmental economics	2	-	2
7	Public	-	2	2
8	Public Finance	2	-	2
9	General			
	Electives			
	Any 4 of the Following			
1	International trade			
2	Operations Research	4	4	8
3	Political Economy			
4	Applied Monetary Economics			
5	Management Accounting			
6	Mathematical Accounting			
7	Financial Institutions			
	Fourth Year			
1	Advanced Micro Economics	2	2	4
2	Advanced Macro Economics	2	2	4
3	Project Evaluations	2	2	4
4	Comparative Economics system	2	-	2
5	Economics Planning	2	2	4
6	Problems and Policies of development	2	-	2
7	Taxation and fiscal policy	2	-	2
8	Economics of production	-	2	2
9	Applied statistics 11	2	-	2
10	Research project/original essay	-	6	6
	Electives			
	Three Electives from below			
1	Industrial Relations and personnel management			
2	Petroleum economics	4	2	6
3	Advanced Mathematical Economics			
4	Banking finance			
5	Econometrics			
		2	18	38
	1	17	17	34
	2	18	17	35
	3	18	17	34
	4	20	18	38
		73	68	141

APPENDIX III.
Index of Taught Undergraduate Economics Courses in the London School of Economics and Political Science.

Economics Curricula

EC	100	Economics	A
EC	102	Economics	B
EC	200	Economics of Social Polity	
EC	201	Micro Economic Principles	I
EC	202	Macro Economic Principles	II
EC	210	Introductions to Principles	
EC	220	Principles of Econometrics	
EC	221	Principles of Econometrics	
EC	230	European Economics Policy	
EC	301	Advance Economic analysis	
EC	303	Economic Analysis of the Eu	
EC	305	Comparative Economic Systems	
EC	307	Development Economics	
EC	309	Econometric Theories	
EC	311	History of Economics How theories change	
EC	313	Industrial Economics	
EC	315	International Economics	
EC	317	Labour Economics	
EC	319	Mathematical Economics	
EC	325	Public Economics	
EC	331	Quantitative Economics Project	
EC	333	Problem of Applied Econometrics	

APPENDIX IV
Index of Taught Undergraduate Economics courses in Harvard University

Primarily for Undergraduates

Social Analysis	10	Principles of Economics,
Economics	910	Supervised Reading and Research
Economics	970	Tutorial-Sophomore Year
Economics	980	Tutorial Junior Year

General Economics; Economic Theory; History of Economics

Economics	1010a	Micro Economic Theory
Economics	1010b	Macro Economic Theory
Economics	1011a	Micro Economic Theory
Economics	1011b	Macro Economic Theory
Economics	1017a	Libertarian Perspective on Economics and Social Policy
Economics	1025	Theory of Capital and Income
Economics	1030	Psychology and Economics
Economics	1035	Policy Application of Psychology and Economics
Economics	1051	Game Theory in Economics
Economics	1052	Introduction to Game Theory

Econometrics and Quantitative Methods

Economics	1123	Introduction to Econometrics
Economics	1126	Quantitative Methods in Economics Economic History/ Development Economics

Economic History; Development Economics

Economics	1315	Economic Development in East Asia
Economics	1320	The Latin American Economy
Economics	1320	One way or Many
Economics	1335	Private Enterprise in the Developing World
Economics	1340	Globalization and History
Economics	1357	Historical Perspectives on the American Economics Ascendancy
Economics	1375	Gender Issues in Economic dev.
Economics	1385	Introduction to Global Health and Population
Economics	1386	Health, Education and Development
Economics	1393	Poverty and Development

Monetary and Fiscal Theory and Policy Public Sector Economics

Economics	1410	Public Sector Economics
Economics	1420	American Economic Policy
Economics	1430	Macro Economics and Politics
Economics	1471	Economics of Crime
Economics	1480	Moral Perspectives on Economic Growth.

International Economics

Economics	1530	International Monetary Economics
Economics	1535	International Trade and Investment
Economics	1540	Topics in International Trade
Economics	1542	International trade Policy
Economics	1545	International financial and Macro Economic Policy

Industrial Organization and Regulation Environmental Economics

Economics	1625	Economics of E- Commerce
Economics	1640	Industrial Organization: Theory and Application
Economics	1661	Environmental and Resource Economics and policy

Financial Economics

Economics	1723	Capital Markets
Economics	1733	Topics in Investment Management
Economics	1745	corporate Finance
Economics	1750	Canadian Financial History
Economics	1760	topics in financial Economics

Labour, Human resources, and Income Distribution, Urban economics

Economics	1812	the US Labor Market
Economics	1813	the Indebted Society

Economics	1815	Social Problems of the American Economy.
Economics	1818	Economics of Discontinuous Change
Economics	1822	Economics of Education
Economics	3000	Research Paper

APPENDIX V

Index of Taught Undergraduate Economics Courses in University of Cape Town.

Eco	106F	Economics for non Specialists
Eco	110F	Micro Economics
Eco	10H	Micro Economics
Eco	110S	Micro Economics
Eco	111F	Macro Economics
Eco	111S	Macro Economics
Eco	203F	Intermediate Micro Economics
Eco	204S	Macro Economics
Eco	207S	Cooperation and Competition
Eco	208S	Development and Trade
Eco	309F	Natural Resources Economics
Eco	320F	Advanced Macro Economics and Micro Economics
Eco	321S	Quantitative Methods in Economics
Eco	322S	Advanced Labour Economics
Eco	323S	Public Sector Economics
Eco	324F	International Trade and Finance
Eco	325S	Applied International Trade Bargaining

APPENDIX VI

Index of Taught Undergraduate Economics Curricula in Tunisia

Common Core Courses

See Appendix VII

1st year

Term	Course	N°	Title	Credit
1st Semester	ECO	1120	Microeconomics	3
	MTH	1131	Mathematics for Business1	3
	ACC	1101	Intermediate Accounting 1	3
	LAW	1101	Principles of Law 1	3
	MGT	1121	Fundamentals of management	3
	COM	1101	English composition 1	3
	BIS	1101	Business information Systems 1	3
Total				21
2nd Semester	ECO	1210	Macroeconomics	3
	QAN	1211	Business Statistics	3
	BIS	1201	Business Information systems	3
	COM	1203	English composition	3
	MTH	1205	Mathematics for Business	3
	ACC	1209	Intermediate accounting 11	3
	LAW	1210	Business Law	3
Total				21

2nd year

Term	Course	N^{o}	Title	Credit
	MKG	2130	Introduction to Marketing	3
	ACC	2131	Cost and Management accounting	3
	FIN	2111	Financial Management 1	3
1st Semester	ACC	2111	Income Tax 1	3
	MGT	2140	Production and Operation Management	3
	MGT	2200	Management	3
Total				18
	MKG	2220	Human Resource Management	3
	LAW	2201	Business Law	3
	ACC	2212	Income Tax 11	3
2nd Semester	LAW	2216	Corporate Law	3
	ACC	2230	Corporation Accounting	3
	ECO	2215	Monetary economics	3
	FIN	2235	Financial Management 11	3
Total				21

Department of Economics

Concentration in Operational Research

3 rd year

Term	Course	N^{o}	Title	Credit
	STT	3110	Quantitative Analysis Decision Making	3
	STT	3120	Date Analysis	3
1st Semester	STT	3130	Operations Research 1	3
	ECO	3140	Econometrics	3
	STT	3150	Modeling and Optimizations	3
Total				15

4th year

Term	Course	N^{o}	Title	Credit
	ECO	4100	Econometrics 2	3
	ECO	4110	Managerial Fore Casting	3
1st Semester	MKG	4120	Marketing Management	3
	ECO	4130	Advanced Topic in Economics	3
	MGT	4140	Managerial control	3
Total				15

APPENDIX VII

Proposed Course Contents of the Nigerian Economics Curricula

S/N	100 Level.	1st semester	2nd semester	Total
	Compulsory			
1	Economic Principle	2	2	4
2	Introduction to statistics	2	2	4
3	Introductory Mathematics for Economists	2	2	4
4	Introduction to Accounting	-	2	2
5	Total General Studies	6	4	10
	Required Elective course Introduction to			
6	Management	2	2	4
	Two Electives Courses from chosen Department in the faculty and one outside.	3	3	6
		17	17	34
	200 Level Compulsory	1st	2nd	Total
1	Introduction to Micro- economics	2	2	4
2	Introduction to Macro Economics	2	2	4
3	History and Structure the Nigerian Economy 1&11	2	2	4
4	Applied Statistics	2	2	4
5	Mathematic for Economics	2	2	4
6	Principles of Finance	2	-	2
7	Total General Studies Electives	4	2	6
	Two Electives from any of the following (4Unit)			
1	Theories of Human Resources			

2	Labour Economics	2	2	4
3	Financial Accounting			
4	Urban and Regional	-	2	2
	One Elective from any other Department			
		18	16	34
S/N	300 Level.	1st semester	2nd semester	Total
	Compulsory			
1	Intermediate Micro-Economics	2	2	4
2	Intermediate Macro-Economics	2	2	4
3	History of Economic Thought. I and II	2	2	4
4	Introductory Economics	2	2	2
5	Economics of Development	2	2	2
6	International Economics I & II	2	2	2
7	Public Studies	2	2	4
8	General Studies Electives.			
	At least any 4 Units from the following			
1	Operations Research	-	2	2
2	Political Economy	2	-	2
3	Applied Monetary Economics			
4	Management Accounting	4	4	8
5	Economics of Public Sector Economics			
6	Mathematical Economics 1			
7	Financial Institutions			
8	Monetary Economics 1 & 11			
		20	20	40
	400 Level Courses	1st	2nd	Total
	Compulsory			
1	Advanced Micro- Economics	2	2	4

2	Advanced Macro-Economics	2	2	4
3	Project Evaluation	2	2	4
4	Comparative Economic system	2	-	2
5	Economics Planning	2	2	4
6	Problems and Policies of Dev.	2	-	2
7	Taxation and fiscal Policy	2	-	2
8	Economics of Production	-	2	2
9	Applied Statistics II	2	-	2
10	Research Project/Original Essay	3	3	6
	Electives			
	Three Electives from below			
1	Industrial Relations and Personnel Management	4	2	6
2	Petroleum economics			
3	Advanced Mathematical Economics			
4	Banking and Finance			
5	Econometrics			