

# Nigeria's economy at the crossroads

New government faces a legacy of mismanagement and decay

## Country in focus



## Nigeria

Nigeria's newly elected government presides over an economy with vast oil wealth and plentiful labour and skills. But it also inherits a stricken giant. For Africa's second largest economy to realize its full potential, its new leaders need to tackle a host of difficult and complex challenges: encouraging broader-based wealth creation, improving basic infrastructure and services, combating corruption, and avoiding crippling sectarian political disputes. Besides more efficient domestic resource mobilization, they also must secure greater external financing and debt relief and attract more foreign investment to sectors other than oil.

By **Tunde Obadina**

After a decade and a half of military rule, Nigerians are embarking on their third effort since independence in 1960 to achieve the twin goals of sustainable democracy and economic prosperity, both of which have proved elusive for Africa's most populous nation. But the new civilian government of President Olusegun Obasanjo, inaugurated on 29 May 1999, faces a tough job in turning around an ailing economy crippled by decades of mismanagement, corruption and political instability. Nigeria's economy, moreover, is burdened by the biggest external debt in Africa, while its heavy dependence on oil revenue left it vulnerable to the plummeting prices of the past two years.

Ranked for a time as a middle-income country, Nigeria rejoined the category of low-income countries from the mid-1980s. According to the World Bank, its per capita gross national product (GNP) was \$260 in 1997, compared with an average of \$500 for sub-Saharan Africa as a whole and \$350 for low-income countries. Nigeria's per capita income in 1997 was below the 1960 level in real terms. In recent years economic growth has barely kept pace with population growth, estimated at 2.8 per cent per annum. Despite the country's immense human and natural resources, little social progress has been made. Two-thirds of a population of more than 100 million live below the poverty line, and one-third survive on less than a dollar a day. Over 40 per cent of the adult population is illiterate. Life expectancy is 53 years, a decade below the average for developing nations, and less than half the population has access to safe water and adequate sanitation.

Many ordinary Nigerians blame the military for this state of affairs. "Military rule over the past 15 years has left the nation in ruins," Mr. Gbenga Adefaye, editor of the independent Lagos-based *Vanguard* newspaper, told *Africa Recovery*. "The soldiers cannibalized the economy and they ruined us politically and psychologically. We are hoping to sort out our lives after they leave."

## Oil price shock

Circumstances have been worsened by the collapse of world oil prices, knocking the bottom out of government revenue and leaving the economy in its worst crisis since independence. In January, the military administration projected that there would be an overall budget deficit of N34 bn (\$395 mn) by the end of 1999, but the deficit had already reached N38 bn (\$442 mn) during the first quarter of the year. During the first quarter, external reserves had fallen from \$7.1 bn to \$4.2 bn, equivalent to about four months of imports; by the time of President Obasanjo's inauguration on 29 May, reserves had fallen further, to \$3.3 bn. Although the world price for Nigerian crude oil climbed up to \$15 per barrel in May, higher than the \$9 per barrel on which Nigeria's budget was based, the increase in export earnings is unlikely to be sufficient to prevent a current account deficit at the end of 1999.

In these conditions, it will be difficult for the country's gross domestic product (GDP) to grow in 1999 by 3 per cent, the official target. Assuming an average \$11 per barrel oil price in 1999, the International Monetary Fund (IMF) in January projected that Nigeria's GDP would fall by 1.6 per cent, after modest growth of 2.4 per cent in 1998. However, with the oil sector accounting for about 40 per cent of Nigeria's GDP, sustained improvement in world oil prices could bring positive growth in 1999, although probably not in per capita terms.

Some analysts fear that the difficult conditions bequeathed by the military could undermine the new democracy led by President Obasanjo, himself a former military ruler. Certainly, there is likely to be little money in the state coffers to give the new government much room for manoeuvre.

"It is an inheritance which is scary, in terms of magnitude and complexity," Professor Adebayo Adedeji, former Executive Secretary of the UN Economic Commission for Africa, told a press conference in February 1999. "Indeed, without doubt, Nigeria's

## Nigeria at a glance

Population, 1997	118 million
Population growth rate, 1990-97	2.9%
GNP per capita, 1997	\$260
Naira exchange rate, March 1999	N90 = \$1
GDP, 1997	\$36.5 bn
of which: agriculture	45%
industry	24%
services	32%
Oil share of export earnings, 1997	97.6%
Total foreign debt, 1997	\$28.5 bn
Debt service/export ratio, 1997	7.8%
Labour force, annual growth, 1990-97	2.8%
Life expectancy at birth, 1996	53 years
Infant mortality, 1997 (per 1,000 live births)	112
Access to safe water, 1995	39%
Literacy, 1995 (age 15+)	57%

Sources: World Bank, UNICEF, Economist Intelligence Unit



Voters in the February presidential poll brought in Nigeria's first elected government in 15 years.



free us from the tyranny of bureaucracy," said Mr. Olu Falae, who, as Secretary to the Federal Government in 1986, was closely associated with the introduction of the programme and who was Mr. Obasanjo's main rival in the 1999 presidential election. Mr. Falae blamed the failure of the adjustment programme on mismanagement, stemming from incompetence and corruption.

By contrast, others blame the IMF and World Bank prescriptions for Nigeria's current ailments. "They [the international financial institutions] said we should open up our markets and that investments would come in immediately. We opened up our markets, investments stopped coming in," former justice minister Chief Richard Akinjide said at a public lecture in Lagos in late January.

"We foolishly listened to them when they asked us to devalue the naira. Now, we don't have a middle class. What we have are the very rich and the very, very poor. No nation can develop without a middle class," said Mr. Akinjide. It is a common belief among ordinary Nigerians that structural adjustment has worsened poverty. However, the 1996 World Bank poverty study said that the percentage of the population in poverty in fact declined between 1985 and 1992, from 43 per cent to 34 per cent. But the report also noted that poverty worsened for people with the lowest 20 per cent of incomes.

political well-being will for some years be haunted by the state of its economy, unless immediate corrective measures are taken to arrest and reverse the steep downward slope," he said.

Given the sheer size of Nigeria's economy, how it fares in this effort will have repercussions far beyond the country's own borders. The conclusion of a 1996 World Bank report on poverty in Nigeria still rings true: "How Nigeria now addresses its economic and social problems will not only determine its own fate but will also have a major impact on the success or failure of the region."

#### Mixed record of reform

Since embarking on an IMF-style structural adjustment programme (SAP) in 1986, after decades of economic regulation, Nigeria has had a mixed experience with market reforms. Lack of national consensus on the need for extensive liberalization made governments often circumspect and hesitant in carrying out tough reform policies. Poor implementation or the failure to observe conditionalities in the adjustment programmes led to a deterioration in relations with multilateral financial institutions, particularly the IMF and World Bank, from the early 1990s.

Opinion in Nigeria is divided on whether the failure of the reform process to turn the economy around was due to weak implementation or the inappropriateness of the policies, which included currency devaluation, the abolition of import licensing, dismantling of commodity boards and deregulation of banking.

"SAP was designed to

#### Nigeria's economic indicators

	1991	1992	1993	1994	1995	1996	1997	1998*
GDP at current market prices (naira bn)	324.0	549.8	697.1	911.4	1,977.4	2,833.2	3,129.2	3,720.0
Real GDP growth (%)	4.8	2.9	2.2	-0.6	2.6	6.4	3.9	1.6
Merchandise exports (\$ bn)	12.1	11.9	9.9	9.4	11.7	16.1	15.2	9.7
Merchandise imports (\$ bn)	7.9	8.9	8.3	6.5	8.2	6.2	9.3	9.8
Current account balance (\$ bn)	1.2	2.3	-0.8	-2.1	-2.6	3.5	0.6	-3.1
Government deficit/GDP (%)	-7.1	3.3	-2.7	-4.9	4.3	5.1	1.4	n.a.
Total external debt (\$ bn)	33.5	29.0	30.7	33.1	34.1	31.4	28.5	n.a.
Debt service/export ratio (%)	21.9	28.7	12.5	17.9	13.8	14.0	7.8	n.a.
Total external debt/GNP (%)	134.9	97.5	161.5	155.3	131.7	95.0	75.6	n.a.
Net FDI (\$ mn)	588	714	581	588	677	760	1,145	n.a.
Oil exports (\$ bn)	11.8	11.6	9.7	9.1	11.5	15.8	14.9	9.8
Food production per capita (1989-91 = 100)	100	103	100	86	97	98	n.a.	n.a.
Foreign reserves (months import coverage)	4	1	2	2	2	9	2	n.a.
Inflation rate (%)	13.0	44.6	57.2	57.0	72.8	29.3	10.2	15.0
Official exchange rate (naira per dollar)	9.9	17.3	22.1	22.0	79.2**	82.4**	83.5**	85.0**

\* estimate  
\*\* autonomous exchange rate; the official rate, which remained fixed at N21.9=\$1 between January 1995 and January 1999, applied to selected government transactions.

Sources: World Bank, International Monetary Fund, Economist Intelligence Unit.

n.a. = not available

### Macroeconomic achievements

Despite the difficulties and hesitancy in implementation, there has been movement on the policy front. Trade liberalization undertaken from the mid-1980s, particularly since 1995, has significantly reduced tariff rates and reliance on import quotas. The economy has been opened up to foreign investors. Laws that conferred monopolies on public enterprises in important sectors, such as petroleum, power and telecommunications, have also been scrapped.

World Bank officials distinguish between the early years of adjustment, when the government made an effort to implement the programme with some positive results, and the period after 1990, when it began raising public spending to unsustainable levels following a mini-oil boom brought on by the

Persian Gulf crisis. During 1987-92, Nigeria's annual GDP growth averaged about 5 per cent, well above an average decline of 2 per cent during 1980-86 and also double the average 2.5 per cent growth rate during 1993-97.

Although the growth rate has been mediocre in recent years, other macroeconomic indicators have demonstrated a degree of stability since 1995. Inflation fell to 10-15 per cent in 1998 (according to varying estimates) from 72.8 per cent in 1995. The naira, Nigeria's currency, has been relatively stable since 1995, trading between N80-86 to the US dollar at the "autonomous" (market-influenced) rate for most of the time, in contrast to previous turbulent years. However, pressure on the naira increased in early 1999, in tandem with increased demand for foreign exchange, resulting in the currency's devaluation in March from N86 to N90 to the dollar. Until last year, when the unexpected slump in oil prices slashed government income, Nigeria ran budget surpluses, ending an era of deficits before 1995.

However, some analysts have argued that this macroeconomic stability came with a price: low growth in the non-oil economy, from which demand and liquidity had been squeezed by fiscal contraction imposed by the federal government.

Others believe that economic policy changes in Nigeria have not translated into much higher economic growth because the country has not really shifted to a market-based economy. "Nigeria is currently at a crossroads in its economic and trade policies," concluded the World

Trade Organization's 1998 trade policy review of Nigeria. "While steps have been taken towards trade and investment liberalization and macroeconomic stabilization, policy priorities remain divided between dependence on the public sector and import substitution strategies on the one hand, and greater reliance on the private sector and market-based reforms on the other," said the report.

Relations between Nigeria and the international financial institutions have slowly improved since 1995, when the government announced its strategy of "guided deregulation," which included the introduction of a more market-based system for foreign exchange allocation for all transactions except those of the government. Since then the authorities tightened fiscal and monetary policy and declared support for private sector-led growth. In January 1999, the IMF agreed to a "staff monitored programme" for Nigeria. This came after the government of General Abdulsalami



### Oil a mixed blessing for Nigerian economy

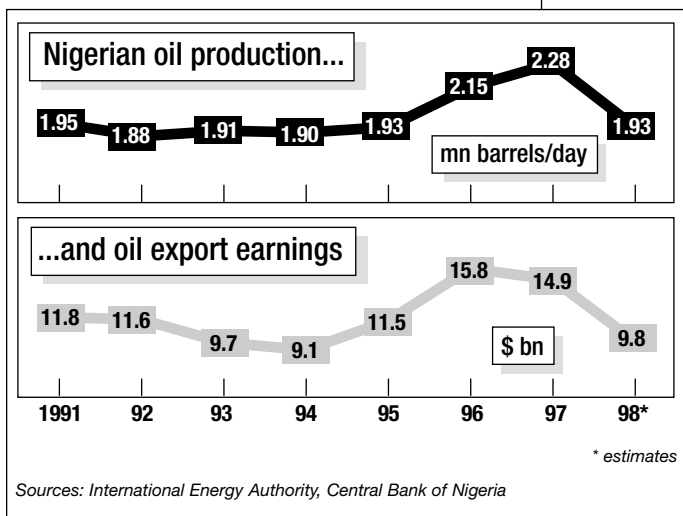
Nigeria is a major world supplier of crude oil, producing about 2 mn barrels per day, and is an influential member of the Organization of Petroleum Exporting Countries (OPEC). Sales of oil account for more than 90 per cent of the nation's total foreign-exchange earnings, and therefore, the lion's share of the funds Nigeria puts into its multi-faceted development programmes. Because of this substantial contribution, Nigeria could well be described as an oil-based mono-cultural economy, and the country's fortunes often rise and fall with the price of oil.

Based on an exchange rate of 86 naira to the dollar, Nigeria expects to earn N454 bn from oil resources in 1999, more than double the N216 bn it earned in 1998, although the latter was at a much higher official exchange rate, N22 to the dollar. Non-oil revenues (customs duties, company tax, value-added tax, independent revenue) accounted for N167 bn in 1998, while N214 bn is projected to be earned from outside the oil sector in 1999.

Nigeria's vulnerability to oil market shifts is well illustrated by the outcome of the 1998 federal budget, which recorded a whopping deficit of N59.8 bn, due largely to the decline in international crude oil prices, the cut in Nigeria's OPEC quota, as well as the closure of many oil wells in the troubled but oil-rich Niger Delta (see page 15). Oil-related revenue had been projected to reach \$9.8 bn, but fell short by 28 per cent, reaching only \$6.3 bn. The government's budget assumptions had proved way off the mark. They were based on a \$17 per barrel selling price, while oil prices for the year actually averaged only around \$12.5 per barrel. The 1999 budget, based on a forecast of \$9 per barrel as the average price for the year, is considered somewhat more realistic.

The impact of the slide in oil prices also was felt in the nation's public service, with potentially serious consequences for the country's political stability. In September 1998, the government raised the salary of public employees by about 300 per cent, to N5,200 per month. But three months later, it had to go back on its promise and slashed the amount by almost half because of declining oil earnings. Then in March it reached agreement with the unions on a new monthly minimum wage, N3,500 for federal workers and N3,000 for those employed by the 36 states. But in April workers in three-quarters of the states went on strike when most state governments failed to implement the new wage for lack of funds.

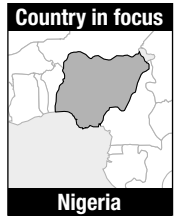
— Kingsley Kubeyinje and Tony Neziyana





Jide Ademil-Jones

Nigeria over the presumed virtues and shortcomings of privatization, and it is unclear whether the new administration will be keen to implement a sweeping divestment programme. "I believe in privatization," Mr. Obasanjo told trade unions some days before the 27 February presidential elections, "but I don't believe in privatization as the solution to all our problems."



### **Pervasive corruption**

Whatever direction the new government takes, the greatest threat to the success of public policy is likely to be corruption. Nigeria has been dogged by corruption since before independence, but the abuse of power and lack of transparency reached mind-boggling proportions in the 1990s. An official probe ordered by Gen. Sani Abacha soon after coming to power in 1993 reported that \$12.2 bn of oil revenue placed in special accounts between 1988 and 1994 was spent on non-priority items and without proper accounting, in what the report described as "a gross abuse of public trust."

Similarly, soon after assuming power following President Abacha's death in June 1998, Gen. Abubakar ordered an investigation of the alleged theft under his predecessor's administration of some \$2.3 bn from the central bank. In November 1998, the government announced it had recovered more than \$750 mn

from the family and close aides of Gen. Abacha, shortly after former finance minister Anthony Ani publicly charged that \$1.3 bn had been irregularly withdrawn from state coffers between January 1997 and May 1998. In another stunning disclosure, a government spokesman said in December that the administration was investigating an alleged \$2 bn fraud by some members of the previous regime. This involved the withdrawal in 1996 of \$2.5 bn of public funds to settle debts owed to Russia for the construction of the Ajaokuta steel plant, but which in reality had been discounted to only \$500 mn in a secretly negotiated debt buy-back deal. Local and foreign media reports have speculated that Gen. Abacha may have had more than \$3 bn stashed away in overseas banks.

Corruption, however, is not found only at the apex of govern-

Abubakar, which came to power in June 1998, had abolished the dual exchange rate, deregulated the domestic fuel market and promised speedy privatization.

### **Ambitious privatization programme**

In October 1998, Gen. Abubakar's government launched a wide-ranging privatization programme (see *Africa Recovery*, December 1998). If fully implemented by the new civilian government, it will be one of the biggest sell-offs of state assets in Africa. Over three dozen enterprises, including some of Nigeria's largest public corporations, such as the telecommunications company, electric power utility, a fertilizer company, an aluminium smelter and four oil refineries are up for sale in the multi-billion dollar plan.

Under the programme, 40 per cent of government equity will be sold to "strategic investors" (foreign companies) which will then manage the privatized enterprises. A further 20 per cent will later be sold to the Nigerian public, leaving the state with a 40 per cent stake. In early 1999, the government appointed foreign and local technical and financial advisers to help it prepare 37 public enterprises for privatization.

Poor performance by the public sector was the major reason given for the privatization drive. According to the government, inefficient state enterprises cost the country about N200 bn (\$2.3 bn) annually in subventions, transfer waivers, tax exemptions and other subsidies.

As with the broader structural adjustment reforms, however, opinion is sharply divided in

## **Africa's biggest debtor nation**

Nearly 70 per cent of Nigeria's roughly \$29 bn external debt is owed to the Paris Club of government creditors. With its annual debt service obligation at over \$4 bn, more than a third of its export income, Nigeria has in recent years pegged its annual budget allocation for actual debt servicing at \$2 bn. Lower export earnings forced it to cut this to \$1.5 bn in the 1999 budget. Nigeria has met its debt service obligations to its multilateral and commercial creditors but has fallen well behind on Paris Club debts since its last rescheduling deal with the Club expired in 1992. About 60 per cent of the total debt is in arrears, nearly all owed to Paris Club creditors.

In January 1999, the government lifted a 1994 embargo on external borrowing, in the hope of gaining access to highly concessional loans and credits from both multilateral and bilateral sources to help close the financial gap in the budget.

Despite its low per capita income, Nigeria is now not included in the list of 41 countries potentially eligible for the Heavily Indebted Poor Countries (HIPC) initiative developed jointly by the IMF and World Bank. Nigeria was on the original list, but was dropped because it is not an "IDA-only" country, eligible for concessional assistance only through the World Bank's International Development Association, one of the prerequisites for HIPC consideration.

ment, but permeates every level of the state. The culture of kick-backs, bribery and embezzlement has encouraged mismanagement and wasted huge amounts of limited national resources.

It also has fuelled political instability by placing a high premium on the control of state office. President Obasanjo, one of the few Nigerian leaders to leave office with a reputation untainted by corruption scandals, has vowed to set up an agency to combat corruption and recover stolen public funds. "You cannot have the type of investment [needed] to lift ourselves up economically in an atmosphere of corruption," Mr. Obasanjo declared a few days before his election.

Just two days after his inauguration, President Obasanjo froze all government contracts — worth hundreds of millions of dollars — signed since the beginning of the year. He said a panel would be set up to review their "propriety and relevance."

#### Controlling ethnic tensions

Nigeria, like most countries in Africa, is an amalgamation of some 250 different ethnic groups with varying cultures. Competition for power and resources between the three main ethnic groupings — the Hausa-Fulani in the north, the Yoruba in the

Cassava farming in Lagos State: agriculture employs 60 per cent of Nigeria's workforce.



Jide Adeniyi-Jones

southwest and the Igbo in the southeast — has contributed to a turbulent political history that has helped to stall national economic development.

In recent years, a fourth dimension has been added to Nigeria's tripartite competition. Smaller ethnic groups in the Niger Delta, where most of the country's oil reserves lie, have become increasingly restive, demanding political self-determination and a greater share of Nigeria's oil revenue. Despite the billions of petrodollars collected by governments over the past decades, little has been done to improve living conditions in the oil-producing areas, where inhabitants are among the poorest people in Nigeria. Angry at their neglect and the environmental degradation of their land, growing numbers of communities in the Niger Delta have

## Deterioration in education and health services

During its first decade of independence, Nigeria made considerable progress in education, but standards have since plummeted. Enrolment in primary schools grew from about 3.5 million in 1970 to 20.4 million in 1997, while attendance in tertiary institutions leapt from 15,600 to about 862,023. Though successive governments have accorded education high budgetary priority, funding increases have not kept pace with student expansion, resulting in a sharp decline in quality. Poor maintenance has worsened the problem, and many public education institutions lack basic facilities, including textbooks and libraries, and the size of classes is growing. Many schools are housed in dilapidated buildings, lacking water and electricity.

Only 57 per cent of adult Nigerians are literate, matching the rate for sub-Saharan Africa, compared with 71 per cent for all developing countries. The literacy level in Nigeria has changed little in the 1990s, though the number of women able to read and write rose from 23 per cent in 1980 to

47 per cent in 1995.

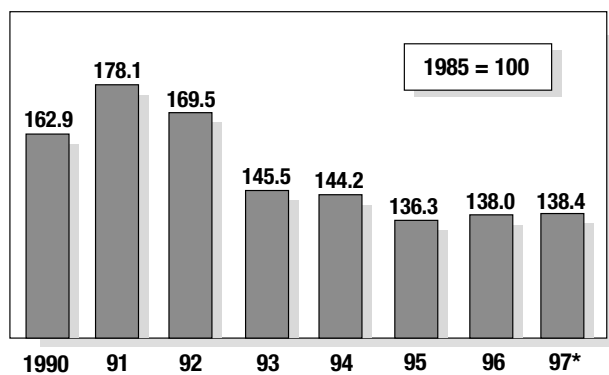
The challenge facing the authorities is not only to provide more and better educational facilities despite inadequate revenues, but also to persuade the poor to attend school in times of sluggish economic growth and high unemployment. In recent years, a growing number of children have dropped out to work to boost meagre family incomes or to survive on their own. Urban streets are full of children doing all sorts of odd jobs, from hawking food to working in sweat shops. According to UNICEF's *The State of the World's Children 1999* report, the number of boys dropping out of school in four states in eastern Nigeria rose from 51 per cent in 1994 to 58 per cent in 1996.

Healthcare also suffers from inadequate funding. Over 1994-97, government health spending averaged just 4.5 per cent of the budget. Most public health institutions lack basic facilities such as medicines and dressings. Nigeria has done well in terms of providing doctors and nurses relative to the size of

the population. Its population per physician ratio of roughly 3,780 is considerably better than the average for sub-Saharan Africa. But it could be a lot better still: then health minister Ikechukwu Madubuike estimated in 1995 that no less than 21,000 Nigerian doctors were practising in the US alone, roughly the same number that were working in Nigeria. The exodus has been stimulated, in part, by the low pay and ill-equipped facilities facing many health workers.

Despite critical shortages in its hospitals, Nigeria has sustained key primary health care initiatives, including childhood immunization, oral rehydration therapy and iodization of salt. Nevertheless, Nigeria still suffers from an array of preventable or curable killer diseases, including diarrhoea, respiratory infections and malaria, worsened by the fact that less than half the population has access to safe water. More recently, the human immunodeficiency virus (HIV) has become a growing threat, with one estimate suggesting that 5 per cent of the population now carries the virus.

## Manufacturing output



Source: Central Bank of Nigeria

\* provisional

attacked the installations of multinational oil firms operating in their midst, causing serious and costly disruption to oil production (see page 15).

At a time when the new government needs to concentrate its attention on the economy, there is a danger that it could become bogged down in complicated and divisive debates over equitable revenue allocation among competing ethnic interests. "Every day you have the proliferation of ethnic groups demanding the devolution of power, the decentralization of the control of natural resources and an end to tokenism," notes Mr. Adefaye, the *Vanguard* editor. "The new government will have to address these issues."

It will not be easy producing a formula for sharing shrinking state income in a way that can support national economic development, address glaring regional disparities and satisfy disgruntled communities, especially in the Niger Delta.

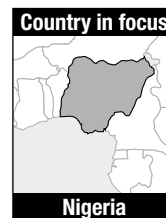
### Infrastructure in decay

Views may differ on the value of market-oriented reforms, but everyone agrees that the deterioration of services provided by badly managed and corruption-ridden public enterprises is a major obstacle to economic recovery. Vital state-run facilities, such as the electrical utility and public roads, have been decaying for years, causing billions of dollars in economic losses.

The state-run National Electric Power Authority (NEPA) now produces below half its generating capacity of nearly 6,000 megawatts. Years of neglect have pushed the power supply system to the verge of collapse, resulting in frequent and long power outages that have made NEPA the butt of jokes by its frustrated and angry customers — the authority is commonly referred to as "Never Enough Power Available" or "No Electric Power At all." But NEPA officials say the problem is not simply one of incompetence, but mainly the lack of funds, running into billions of dollars, needed to repair faulty and ageing facilities, especially the utility's four thermal power plants.

Private companies spend huge sums to install and maintain private electric generating plants, but this does not guarantee power either, since fuel supplies have been perennially short since 1994. Nigeria's four state oil refineries, with a combined capacity of 445,000 barrels per day, have in recent years produced less than half that amount due to constant breakdowns.

Royal Dutch/Shell is planning \$8.5 bn in new investments in the energy sector both to increase production and reduce environmental degradation. The project, to be financed by Shell and its joint venture partners in Nigeria, will boost oil output by around one-third and shift activity from the Niger Delta to far less politically sensitive offshore enclave development, thus avoiding the worsening of relations with disaffected communities in the Delta. The investment will also enable Royal Dutch/Shell to end the wasteful flaring of gas by converting it to liquefied natural gas for export (see page 16).



### Shrinking industrial job market

Nigeria's failure to diversify its economy stems in part from weaknesses in the nation's small and insular private sector. Few local entrepreneurs have drawn on the international market in ways producers in some other developing countries, including Kenya, have done. At less than 1 per cent, the share of manufacturing in Nigeria's exports is minuscule.

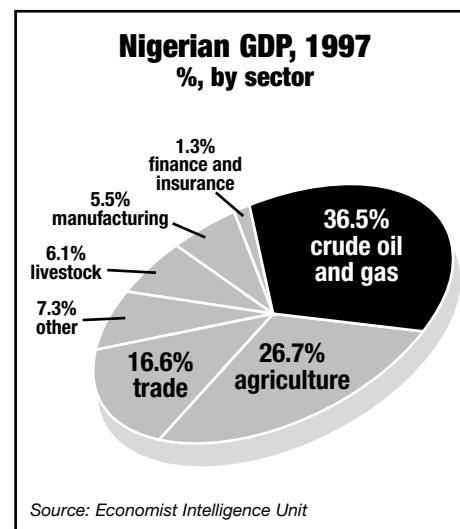
Most industries are struggling to survive, with capacity utilization in manufacturing down from 34 per cent in December 1997 to about 28 per cent in the first half of 1998. Industries using local inputs, such as breweries, cement, soap and textiles, tend to perform better than those highly dependent on imports, like radio and vehicle assembly. But the manufacturing sector as a whole has been in decline in recent years, marked by an average growth rate in 1993-97 of minus 1.2 per cent.

According to Nigeria's Federal Office of Statistics, the national unemployment rate rose from an average of 1.9 per cent in 1995 to an estimated 4.5 per cent at end-1997. However, these figures grossly understate the slack in the labour market in a country where there are few, if any, incentives for jobless people to register with the authorities. With a workforce estimated at 800,000, Nigeria's bloated public sector is in no position to accommodate more workers.

On the contrary, the new administration is likely to come under pressure from the IMF to implement a retrenchment programme following the previous government's decision to raise the minimum monthly wage for federal government workers to N3,500 and for state and local council employees to N3,000 from N800.

### Stimulating small-scale business

With hundreds of small companies forced to close in recent years by the deterioration in economic conditions, especially inadequate credit, rising production costs and diminishing consumer demand, the capacity of the economy to provide full-time employment has diminished. One vital challenge facing the new



Source: Economist Intelligence Unit

government, therefore, will be to stimulate new businesses and support the development of the many small enterprises that exist in the informal sector, which accounts for most employment but lacks capital investment.

It is difficult to estimate the size of Nigeria's informal sector, since virtually all of its activities are unrecorded, but a walk through the streets of any Nigerian city reveals people busy scratching a livelihood from micro- and small-scale enterprises. The apparent resilience of this sector, which provides a wide range of services and goods for the poor and the pauperized middle classes, sharply contrasts with the fragility of the formal sector. According to the International Labour Organization, small- and medium-scale enterprises and particularly informal sector undertakings account for over 60 per

cent of economic activities in Nigeria and over 35 per cent of urban employment.

In addition to technical and other forms of assistance, such businesses will need access to appropriate sources of credit. Though interest rates have stabilized in recent years, with lending rates ranging between 18 and 21 per cent in 1998, many banks are still reluctant to extend credit to small- and medium-scale producers and prefer to lend to big businesses and engage in foreign-exchange related transactions. The Central Bank of Nigeria has said that the large spread between bank deposits and average lending rates has discouraged savings and borrowing to the detriment of the economy. Moreover, few banks operate in the rural areas, with most concentrating their activities in Lagos and other urban centres. In 1997, three-quarters of the 2,472 branches of commercial and merchant banks in Nigeria were in the cities and towns.

In addition to the mainstream banks, community banks operate throughout the country. But many of these small institutions — set up under licence from the government to provide limited financial services to the rural poor — have run into trouble recently, with 353 losing their licences in 1997, bringing the total number of community banks down to 1,015.

#### International financing needed

With limited domestic opportunities to generate the enormous funds needed to reinvigorate the economy, President Obasanjo's administration will seek to increase the flow of foreign capital into Nigeria and reduce the country's debt service payments. Foreign direct investment in Nigeria has been running at about \$1.3 bn a year, small for a country of Nigeria's size. Foreign portfolio investment is minuscule, standing at \$49.7 mn in 1998, although

up from \$9.4 mn the year before. Nigerian leaders expect that after years of international isolation, the return to democracy will be amply rewarded by the industrial powers with increased investment.

The Lagos-based *Newswatch* magazine quoted a close ally of Mr. Obasanjo as saying that the new leader

aimed to attract at least \$10 bn in foreign investment to Nigeria in his first year in office. Government officials and some bankers also hope that Western governments, which account for most of Nigeria's roughly \$29 bn foreign debt, will write off about half of the country's debt.

President Obasanjo's government may face



### Agriculture lags, despite potential

Nigeria's soils and climate allow cultivation of a wide variety of food crops, including cassava (of which Nigeria is the largest world producer), millet, sorghum and maize. Agriculture is Nigeria's biggest employer, accounting for about 60 per cent of the workforce, working mainly in small-holdings using basic tools. Together with livestock raising, it provides a third of gross domestic product.

Growth in agricultural output averaged 3.5 per cent over 1993-97, higher than the population growth rate. This compares with a period of stagnation in the first half of the 1980s when growth averaged just 0.5 per cent, due to low producer prices, marketing restrictions and a drought. Agriculture picked up after the economic reforms introduced in 1986, which included trade liberalization, dissolution of price-fixing marketing boards and improved producer prices facilitated by devaluation of the naira. Growth in the sector averaged 3.8 per cent in 1986-92, and there was a burst of activity in the cash crop sector, with many farmers returning to previously abandoned fields. But the renewed interest was not sustained, nor did it result in increased investment in cash crop production, mostly carried out by smallholders. Improved food crop production contributed to a sharp fall in food imports, from 19.3 per cent of total imports in 1983 to 7.1 per cent in 1991, although this crept back up to 13.1 per cent in 1996.

Much of the increase in agricultural output in recent years has resulted from expansion of the area under cultivation, rather than from increased productivity. The sector has been hampered by lack of investment in improved farming technology. Over-farming of fragile soil has worsened the problem of soil degradation.

The share of agricultural products in total exports has plummeted from over 70 per cent in 1960 to less than 2 per cent today. The decline was largely due to the phenomenal rise of oil shipments, but also reflected the fall in the output of products like cocoa, palm oil, rubber and groundnuts, of which Nigeria was once a leading world producer. For example, production of cocoa, currently Nigeria's biggest non-oil export earner, has remained around 160,000 tonnes per year since 1995, compared with an annual average of 400,000 tonnes at its peak before the oil boom. The government has made some effort to encourage private investment in agriculture and agro-industries by providing incentives, including tax breaks, finance credit and extension services, but without much success.



*Improved production of cassava and other crops has brought a decline in food imports in recent years.*

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# Delta communities protest neglect

Press for government aid, oil company compensation

By Kingsley Kubeyinje and Tony Nezianya

Lagos

**A**ngered by years of perceived neglect by the Nigerian government and multinational oil companies, communities in Nigeria's oil-rich Niger Delta have periodically erupted in protest in recent years. Again, beginning in October 1998, youths in the Delta began a new round of widespread protests, including occupations of oil installations and even kidnapping of oil workers, sometimes leading to violence and loss of life. Through such dramatic action, they hope to attract the government's attention and win compensation from the oil companies.

Nigeria gets about 90 per cent of its petroleum from the sprawling Delta in the south, an area inhabited by "minority" ethnic groups such as the Itsekiris, Urhobos, Ijaws, Ibibios, Ogonis, Kalabaris, Efiks, Ikwerres, Ilajes and Ibibios.

In spite of the enormous resources it generates for the national coffers, the Niger Delta is perhaps the least-developed area of the country. Less than 5 per cent of federal oil revenue is spent directly on the oil-producing areas. The Delta therefore lacks good roads, electricity, potable water and good schools. Communication facilities are few and far between. Unemployment is high because the rivers, creeks and streams which provide people with their main source of livelihood — fishing — have been extensively polluted through the activities of the more than a dozen oil companies operating in the area.

## Poverty and neglect

"The producing areas are mosquito-infested swampy farmlands, where the villagers eke out a living on fishing and farming," explains Mr. U.J. Itsueli, chief executive of a Nigerian company, Dubri Oil. "Often, the rivers they fish and the land they farm are disturbed or even polluted. Yet, this is an environment that produces the nation's wealth, that has been driving the engine of this country's development."

And when inhabitants leave their impoverished villages, adds Mr. Itsueli, they see "smooth multi-laned highways, skyscrapers and mansions. They know the wealth that produced these comes from them and they are not sharing in it. They are not stakeholders."

Mr. Bloke Booboo-Thomson, a human rights lawyer in the oil city of Port Harcourt, told *Africa Recovery*, "It is unbelievable that in this area, there is no potable water, no road to many of the communities from where crude oil, the main foreign exchange earner for the country, is derived."

As a result of massive gas flaring, the Niger Delta also is afflicted by acid rain. "The effects of acid rain are very much evident on roofs, cars and metallic objects in the area," says Mr. Tombara Aye, a leader of the Ijaw community in Bayelsa State.

## Troops and promises

In the face of the widespread protests in the Delta region, the previous military governments cracked down hard, imprisoning — and in the notorious case of acclaimed writer and Ogoni

leader Ken Saro-Wiwa — executing leading political activists. More recently, thousands of troops have been dispatched to the Delta.

Over time, however, the Nigerian government also has come to appreciate the enormous problems facing the oil-producing communities and has made some efforts to address them. In 1989 the government created the Oil Mineral Producing Areas Development Commission (OMPADEC) as an agency responsible for development in the oil communities. OMPADEC gets 3 per cent of the federal allocation (N13.6 bn in 1998).

The government also set up the Petroleum Trust Fund (PTF) to finance infrastructural projects. The PTF gets a certain percentage of the profits from the local sale of refined petroleum products. Unlike OMPADEC, the PTF was not set up exclusively to cater for the oil communities, but undertakes projects in all parts of the country.

The oil communities themselves, however, clearly do not consider OMPADEC and PTF to be sufficient. OMPADEC in particular has been criticized for its wastefulness, massive mismanagement and corruption. In its less than 10 years of existence, OMPADEC has been re-organized three times. And the future of the PTF looks uncertain since the death last year of former President Sani Abacha, the fund's founder.

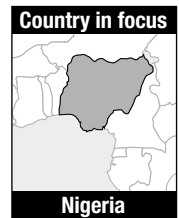
## Company projects

Nigeria lacks legislation compelling oil companies to contribute to the development of their host communities. General guidelines on maintaining safe environmental practices lack teeth and are merely appeals to the major oil firms to be socially responsible. Nevertheless, the government, through appeals, has had some success in making oil companies appreciate the need to be "good corporate citizens." The protests of the communities in the Niger Delta also have had an impact.

Royal Dutch/Shell, which experienced numerous disruptions in production at its facilities in Ogoniland during the crisis there in 1993, has now come to acknowledge that the oil-bearing communities are critical to its overall operations. The company put the value of its community assistance programme at \$32 mn in 1997, and argues that among other expressions of its commitment, 57 per cent of its total workforce is recruited from among the local communities and it gives preference to indigenous contractors.

The company also has set up the Shell Community Development Initiative, under which oil communities now have a say in deciding projects to be sited in their localities, according to the company. Among other oil companies, Chevron likewise has executed a number of community-based projects, such as cottage hospitals, school construction and equipment, potable water, town halls and jetties, and scholarships for children from the host communities.

In 1995, Shell and the other oil companies set up the Niger Delta Environment Survey to assess the level of environmental degradation and potential of the area. ■



# Harnessing abundant gas reserves

Nigeria alone could provide the power needs of all West Africa

By **Tunde Obadina**



Every day in southern Nigeria, almost 2 mn cubic feet of natural gas is burnt during crude oil production, more than is flared anywhere else in the world. In fact, Nigeria is endowed with the tenth largest proven natural gas reserves, and according to the World Bank, gas flared in Nigeria is equivalent to total annual power generation in sub-Saharan Africa.

Gas flaring not only wastes a valuable resource, but is also a major cause of environmental pollution in the Niger River Delta, where most of Nigeria's oil output is produced. There is growing anger among local inhabitants at the damage caused to their health and ecosystem by oil production activities, especially gas flaring and crude oil spillage (see page 15).

"Currently, there are about 100 gas flaring sites," wrote Mr. G.G. Darah, a Nigerian commentator, in the Lagos-based *Guardian* newspaper in early November 1998. "Some of them have been burning ceaselessly for 40 years. Each one of these bonfires has been killing human beings and the natural environment since it was lit."

The extent of human damage attributable to gas flaring is unclear but doctors have found an unusually high incidence of asthma, bronchitis, and skin and breathing problems in communities in oil-producing areas. Moreover, flaring is a global source of greenhouse gas emissions, contributing to global warming. The World Bank estimates that gas flaring in the Niger Delta releases some 35 mn tonnes of carbon dioxide annually into the air.

## Oil spills and local poverty

Oil companies contend that oil community activists and environmentalists grossly exaggerate the negative impact of oil production in Nigeria, and reject the charge that gas flaring is a major contributor to acid rain in the Niger Delta. They also point out that although the figure for carbon dioxide emission by Nigeria's oil industry seems high, it is minuscule on a global scale. Increased frequency of hazardous crude oil spills in the Delta in recent years, oil operators explain, is mainly caused by sabotage carried out mostly by aggrieved communities hoping to extract compensation payments. According to Shell, which accounts for about half of Nigeria's 2.2 mn barrels per day oil output, almost 80 per cent of all oil spilled from the company's facilities in 1997 was due to sabotage, adding up to more than 60,000 barrels. Other causes of oil spills include equipment failure, accidents and corrosion of ageing pipes.

Oil companies believe that the root cause of the growing unrest and discontent in the Niger Delta is the poverty of inhabitants who feel cheated out of what they consider their rightful share of the wealth extracted from their land. Beleaguered oil

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*Gas flaring at a Nigerian oil well: waste of a valuable resource and cause of environmental pollution.*

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Jide Adeniyi-Jones

multinationals have in the 1990s increased their spending on community development, but argue that they cannot assume the state's role as the prime provider of social amenities.

The government and its joint-venture oil partners acknowledge the need to clean up oil-production activities, including substantially reducing the proportion of associated gas that is flared. Most of Nigeria's oil comes from reservoirs containing gas, so associated gas is produced with the oil. Though current levels of gas flaring remain unhealthily high, Nigeria has made some progress in reducing flaring since the early 1970s, when less than 2 per cent of the country's gas production was utilized.

The government now aims to eliminate unnecessary gas flaring in Nigeria by 2010. Using a carrot-and-stick strategy with the oil companies, the government's 1998 annual budget expanded fiscal incentives for investment in gas production, and at the same time raised the penalty paid by oil companies for gas flaring from N0.50 to N10 (12 cents) per 1,000 cu ft.

All the major oil companies operating in Nigeria have resolved to reduce gas flaring. Their programmes include increasing the volume of associated gas re-injected into oil reservoirs, reducing oil production from wells with high ratios of gas to oil, and fitting more efficient flare tips to flares.

### Lack of facilities, markets

Nigeria faces a number of difficulties in harnessing its abundant gas reserves, which are estimated at 120 trillion cubic feet, but could total 300 trillion cubic feet. It lacks gas utilization infrastructure. When most of its oil facilities were built in the 1960s and 1970s, at a time when gas was not a popular energy source in the world, little thought was given to gas collection facilities.

Associated gas, which is produced at low pressure and must be compressed and treated in facilities specifically built for the purpose, is one of the most difficult and expensive gas sources to harness. In Nigeria, it requires an expensive network of compression facilities and pipelines to link scattered fields that do not produce sufficient quantities of gas to be commercially viable on their own.

Probably the biggest constraint to gas development in Nigeria is the lack of ready markets for the commodity. Domestic gas demand is a meagre 300 mn cubic feet per day, in a country where few households have modern cooking appliances and most still use traditional, cheaper forms of energy. Exports of Nigerian gas involve high transport costs because of the distance to the major international gas markets of Europe and Asia.

### Liquefied gas project

Despite the difficulties, there are several projects, started in recent years, to boost the commercial use of Nigeria's natural gas. Most are being undertaken by multinational oil firms, operating as minority equity partners in joint ventures with the state-owned Nigerian National Petroleum Corporation (NNPC).

The most ambitious project is the \$3.8 bn liquefied natural gas (LNG) facility under construction on Bonny Island. The 7.15 bn cubic metre per year plant is owned by Nigeria Liquefied Natural Gas Company, with the NNPC holding 49 per cent of the equity, Shell 25.6 per cent, Elf 15 per cent and Agip 10.4 per cent. Work on the plant is more than 80 per cent complete and the project is on schedule to begin producing and exporting in October 1999. Orders have already been placed by buyers in Italy, Spain, Turkey, France and Portugal, with the biggest being the Italian electric

**Nigeria is endowed with the tenth largest proven natural gas reserves, and according to the World Bank, gas flared in Nigeria is equivalent to total annual power generation in sub-Saharan Africa.**

power utility ENEL, which has agreed to buy 3.5 bn cubic metres per year of LNG for just over 22 years. Work on the plant, probably the biggest single industrial project in Africa, started in 1996, after more than a decade spent raising the funding and lining up firm buyers. The consortium decided in March 1999 to invest a further \$1.8 bn to expand annual production capacity from 5.9 mn tonnes to 8.7 mn tonnes by 2002.

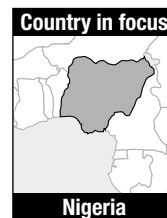
LNG production will diversify Nigeria's exports, currently based almost totally on oil. It will also boost the utilization of a hitherto wasted resource. Though initially the LNG plant will process mostly non-associated gas, the proportion of associated gas used is expected to increase and eventually account for the entire supply, resulting in a 25 per cent reduction in gas flaring.

### West African pipeline

Nigeria also is trying to develop a regional market for its gas. The government is working on a plan for the construction of about 600 kilometres of new pipeline to carry gas to Benin, Togo and Ghana by the year 2001. The governments of the four West African nations agreed in 1995 to build the pipeline, which, with existing pipeline, would stretch about 960 km.

After doubts were raised about Ghana's commitment to the project, the proposal got a boost in October 1998 when Chevron and NNPC signed an agreement with a consortium led by KMR Power to supply Nigerian gas for its power plant under development in Tema in Ghana. Chevron/NNPC agreed to provide 40 mn cubic feet of natural gas per day from its Escravos Gas Plant in western Nigeria, to be carried through the proposed West African pipeline. Shell is also involved in the pipeline project which, according to World Bank studies, could save West African countries importing the gas about \$500 mn in primary energy costs over 20 years.

Nigeria is potentially capable of fuelling the power needs of the whole of West Africa. The pipeline will not only provide markets for Nigeria's natural gas, thus earning hard currency for the country's economic and social development. It will also make possible a reduction in gas flaring, leading to a safer environment in Nigeria, and will contribute to the long-desired economic integration of the region. ■



## Nigeria: economic crossroads

*from page 14*

some disappointments. The experience of other indebted poor nations shows that obtaining debt relief is a long process, taking several years. During his visit to Nigeria in March, IMF Managing Director Michel Camdessus said that if Nigeria adhered to the "staff monitored programme," the Fund would transform it into a three-year loan arrangement, which would pave the way for the Paris Club to consider debt relief for Nigeria. Nigerian officials expect to reach agreement with

the IMF on a three-year economic strategy during the second half of 1999.

Nigeria's economy also could gain substantially if the government is able to persuade Nigerians with funds abroad to repatriate their capital to boost investment and demonstrate confidence in the new order. Nigerian capital flight is estimated at around \$2 bn a year, especially since the eruption of the 1993 political crisis. As two senior World Bank officials, Mr. Thomas Hutcheson and Mr. Gianni Zanini, told a conference in Abuja in 1995: "Only when Nigerians themselves begin voting for Nigeria with their foreign chequebooks can new foreign investors in substantial numbers be lured to the country." ■