

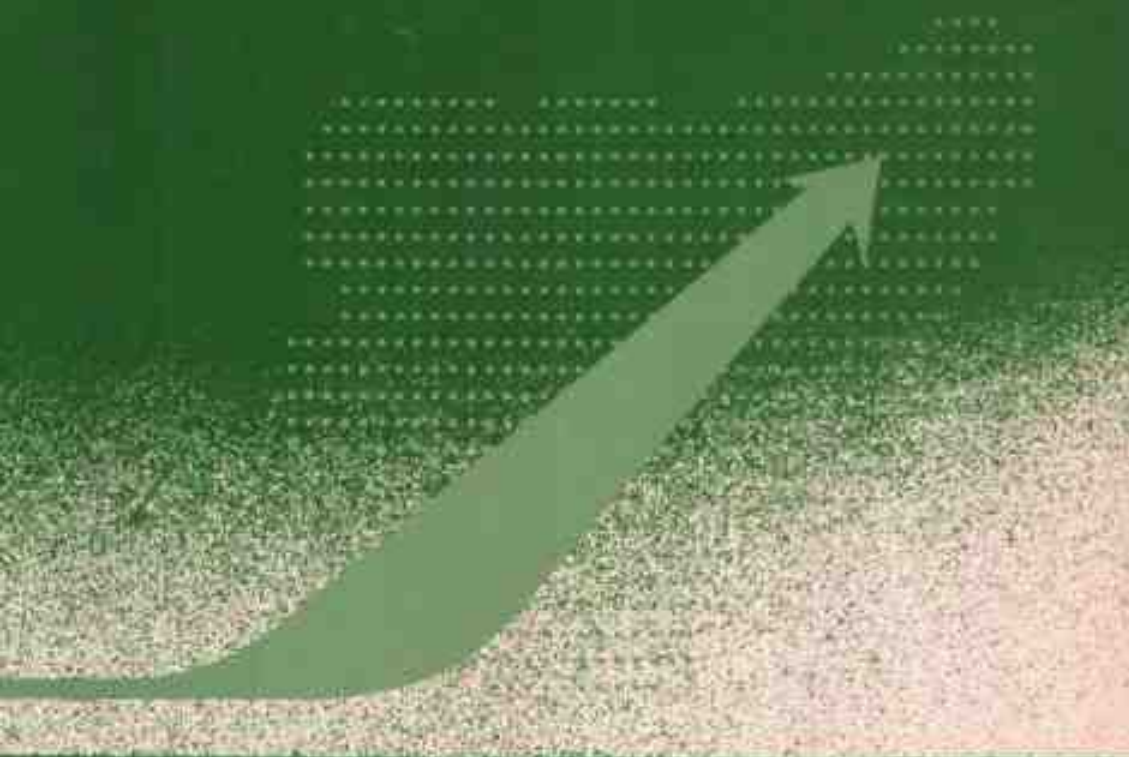
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REPORT ON THE

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THIRD  
NIGERIAN  
ECONOMIC  
SUMMIT

1996



# **Report on the Third Nigerian Economic Summit**

**17 - 20 September, 1996  
Abuja**



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**Report on the Third Nigerian  
Economic Summit**





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# Introduction

At the time of Nigeria's independence in 1960, the agricultural sector dominated the economy, accounting for more than 63% of GDP and more than 85% of total exports. However, the impact of the oil boom of the early 1970s resulted in an exodus of people from the rural to the urban areas and a dramatic increase in the importation of food products, all of which severely affected the agricultural sector. The result was that, by 1980, agriculture accounted for less than 26% of GDP and only a little over 2% of total exports.

The problems were made worse when the oil prices dropped in the early 1980s and Nigeria's external debt increased, resulting in the introduction of the Structural Adjustment Programme (SAP) in 1986. While this programme was laudable, it was never properly implemented and the situation was made worse by fiscal indiscipline and rampant corruption. Meanwhile, the population growth rate remained a significant factor in the quantum of problems to be overcome if the quality of life of all Nigerians was to be improved.

Thus, in spite of its wealth of largely untapped raw materials, together with its entrepreneurial and energetic people, not to mention its vast agricultural potential, Nigeria continued to fall behind so many other countries in the struggle to compete effectively in an increasingly global economic system.

The progressively worsening situation called for a new initiative. The concept of using an Economic Summit as a forum for the public and private sectors to engage in dialogue, with a view to charting a new course for the Nigerian economy, was initiated by Chief E. A. O. Shonekan in February 1993, shortly after his appointment as Chairman of the Transitional Ruling Council.

The First Economic Summit not only broke down the barriers which had previously constrained the relationship between the public and private sectors, it also defined those economic issues which should be accorded priority and these were clearly articulated in an Economic Action Agenda. This Agenda detailed specific measures for immediate implementation and prioritised other measures covering both short and medium-term reforms.

While the main thrust of the recommendations from the First Nigerian Economic Summit centred on the need to develop a deregulated free market economy, the change of Government in November 1993 resulted in a policy of regulation and these were the principles applied in the production of the 1994 Budget.

However, although there was no Economic Summit in 1994, it soon became apparent that the new policies were not working and, by September 1994, the economy was in deep recession. The Government then took a bold decision to alter course and set about introducing many of the measures proposed in the 1993 Economic Action Agenda. Thus, the 1995 Budget announced a new economic strategy based on free enterprise. In his 1995 Budget address, the Head of State, General Sani Abacha, acknowledged that the private sector was to be the "engine" of the new economic thrust with the public sector creating the enabling environment in which private sector initiatives could thrive. Subsequently, with the active encouragement of the Head of State, the Second Economic Summit was held in May 1995.

While the recommendations of the First Economic Summit laid the foundation for economic recovery, the Second Economic Summit developed them still further - looking at short, medium and long-term strategies with particular emphasis on the implementation of already articulated policies. The Second Summit also reviewed the investment climate and argued the need for Nigeria to identify a national vision for the future, to be used as a focal point for social and economic planning.

The 1996 Budget confirmed the intention of Government to sustain the thrust of the overall policies introduced in the 1995 Budget which had resulted in falling inflation, increased transparency and budgetary discipline as well as a much more conducive investment climate. We had also seen the relative stability of the Naira, the removal of budget deficits and considerable efforts to stem corruption in both the public and the private sectors.

In order to capitalise further on the achievements of 1995 and early 1996, the Head of State agreed to the Third Nigerian Economic Summit to be held in September 1996 with the aim of providing input into the 1997 Budget as well as "fine tuning" the medium and longer-term policies already developed through

the first two summits. It was also decided that efforts would be made to define more clearly a vision for Nigeria's future.

The stage was, therefore, set for the Third Nigerian Economic Summit which was held in Abuja between the 17th and the 20th of September 1996. The Third Summit was structured somewhat differently than its two predecessors in that there were fewer working groups - although more time was allocated for group discussion than to plenary sessions. The proceedings of the Summit clearly reflected the continuing development of the public sector/private sector partnership and the determination of all participants to work together in the best interest of the Nigerian economy.

The theme of the Third Nigerian Economic Summit was *"Unlocking Nigeria's Economic Potential"* and its aim was to capitalise on the policies articulated in the 1995 and 1996 Budgets to ensure that the 1997 Budget could build on the foundation already in place, to "kick start" the economic recovery and to ensure sustained growth beyond the turn of the century.

The Third Summit also aimed to develop still further the visioning concept, outlined in the Second Summit, with a view to establishing specific economic and social targets to meet the aspirations of all Nigerians by the year 2010.

## Section 1:

# Third Nigerian Economic Summit

*The Third Nigerian Economic Summit was held at the Nicon Noga Hilton Hotel, Abuja from Tuesday, 17 September 1996 to Friday, 20 September 1996. Like its predecessors, the Summit provided another opportunity for joint deliberations between leaders of the organised private sector, senior government officials and policy makers, members of the diplomatic corps and representatives of private development agencies and international institutions. The following is a summary of events and proceedings held at the Summit.*

**Tuesday, 17 September 1996**

## Setting the Stage

*"Unlocking Nigeria's Economic Potential" was the central theme of the Third Nigerian Economic Summit. To set the stage, and put the theme in proper perspective, Mr. Adedotun Sulaiman, Country Managing Partner, Arthur Andersen/Andersen Consulting, made a presentation on "Unlocking the Potential - The Case for Change" at the opening dinner hosted by the Honourable Minister of Finance, Chief Anthony Ani. The presentation developed the visioning process initiated at the Second Summit held in 1995 which concluded that by 2025:*

*"Nigeria will be a well ordered, well governed, just and prosperous nation, united in sustained endeavour. The country will continuously increase in wealth for the benefit of all citizens and will be a country highly respected in the world community of nations".*

Mr. Sulaiman went on to argue his "case for change" by claiming that:

- Nigeria is a poor country with low quality of life even when compared with other less developed countries; and

Nigeria's environment is inhibitive to economic growth. He supported his thesis by use of the following statistics:

	Nigeria	Egypt	Indonesia	Malaysia
- Real GDP per capita (\$) - 1992	1,560	3,540	2,950	7,790
- Total External Debt/GNP (%) - 1993	110	70.5	58.5	37
- Adult Literacy/Total Population (%)	52.5%	49.1	82.5	81.5
- Infant Mortality Rate (per 1000 live births) - 1992	84	67	58	13
- Life Expectancy (years) - 1992	50.4	63.6	62.7	70.8
- Industry Growth Rate (%) - 1980/1993	0.8	1.6	6.3	8.2

He went on to highlight statistical movements in inflation and interest rates in Nigeria between 1985 and 1995 showing a wide disparity between inflation rate and nominal interest rate which peaked at 73% and 21% respectively in 1995 culminating in a 52% negative nominal interest rate. This was a marked departure from the situation in 1986 when the nominal interest rate was 11% with a 6% inflation rate resulting in a 5% positive real interest rate. He pointed out that international investors considered Nigeria to be one of the most corrupt and riskiest countries in which to do business.

The graphs presented by Mr. Sulaiman showed a downward trend in Gross Domestic Savings and Investments as a percentage of GDP between 1970 and 1994 in Nigeria. This compared unfavourably with developments in Indonesia, Chile and Malaysia which had witnessed consistent growth over the same period. Industrial capacity utilisation fell sharply from 74% in 1981 to 27% in the first half of the year 1995. Generally, Nigeria ranked behind certain countries identified as "2nd Division Countries". According to Mr. Sulaiman, this should not be the case given Nigeria's vast endowment of natural and human resources, geographical location and its good climate allied to the fact that it is not prone to natural disasters. He concluded by suggesting the need for Nigeria to establish a vision for the future, pointing out that other countries like Malaysia, Chile and post-war Japan had benefitted from a similar experience. He proposed that the target date of 2025, as developed in the 1995 Summit, should be changed to 2010, when Nigeria would be 50 years old and shifting the focus from the general to more specific issues. He identified the top twelve (12) critical success factors



(CSF) for Nigeria and the related targets for each. He then proposed that the way forward for the visioning process should be:

- After the Third Economic Summit, the Federal Government should call a National Vision Conference comprising representatives of major Nigerian stakeholders;
- Commitment to and support of the visioning process by the Head of State who would adopt the vision on behalf of the Nation; and
- Implementation of the vision after thorough planning and organisation at all levels of society through publicity campaigns, slogans and implementation of the supporting reforms.

**Wednesday, 18 September 1996**

## **Welcome Address - Pascal G. Dozie**

The Summit participants were formally welcomed by Pascal G. Dozie who noted that since the First Economic Summit held in February 1993, it had become evident that to move the Nigerian economy forward, there must be a general consensus on the basic thrust of our national economic policy. He argued that this could only be achieved through a forum where key leaders in the public and the private sectors could dialogue with each other to develop agreed positions on vital economic and social policies. He identified the aims of the Summit as analysis of the state of the economy, prioritisation of the main economic and social issues and provision of practical and workable solutions. The Summit should review the implementation of earlier recommendations, with a view to re-evaluating them and thus improving future policy implementation. He mentioned the gains of the First Economic Summit, some of the recommendations of which were implemented by the 1995 Budget. Examples being the efficient pricing of foreign exchange and petroleum products, foreign investment liberalisation and the elimination of deficit spending.

The Second Economic Summit held in May 1995 drew additional participants from both the public and the private sectors and considered medium-term

economic development strategies while also exploring the development of a vision for the country for the year 2025. He applauded the Head of State, Commander-in-Chief of the Armed Forces, General Sani Abacha, and senior government officials for their encouragement and support of the Summit process, particularly through the utilisation of Summit recommendations in the formulation and implementation of economic and social policies. Specific reference was made to the retention in the 1996 Budget of the basic thrust and objectives of the 1995 Budget as well as measures directed at stimulating domestic production to bring down inflation. He also referred to other policies initiated by Government such as fiscal transparency; thorough, complete and comprehensive accounting for all revenues; and the creation of a conducive investment climate. He urged the Government to ensure the sanitisation of all sectors of the economy by extending the prosecution of offenders from the failed banks to failed insurance companies, government parastatal organisations and contracts. He considered the challenges facing the country to include: expanding the productive base of the economy, stimulating agricultural production and increasing investment in solid mineral exploitation. This would create gainful employment for our people and boost the external value of the Naira. To achieve these goals would require the country to lay the foundation for an efficient market economy while also improving our technological capability through formal and on-the-job training. This was the rationale for selecting *"Unlocking Nigeria's Economic Potential"* as the theme of the Third Economic Summit.

Mr. Dozie went on to highlight some welcome developments in the economy through the interplay of market forces, which twelve months ago would have been thought impossible. These included a reduction in borrowing rates to between 16% and 18% and the ability of banks to pay only 5% for call money, due to a huge surplus liquidity in the system. This achievement, coupled with the drop in inflation rate, had been realised through consistent policies, effective implementation and a stable environment. This should be continued in order to strengthen the private sector and sustain its confidence in the economy. The economic recovery process must therefore start in 1997 to achieve sustained economic growth thereafter. He stressed that the private sector, as the engine of growth, should be allowed to operate in all the key sectors of the economy including telecommunications, power and oil refineries, so as to create competition and improve service quality.

Using the recent Olympic victory as a living testimony of what it takes to conquer the world through teamwork, sacrifice, vigorous implementation and an unflinching commitment to the unity and progress of the country, he urged fellow Nigerians to resolve their differences through dialogue and develop a common long-term vision and strategy that would be supported with 'one voice' and total commitment. He concluded by reminding participants that their task was consistent with the challenge thrown down by the Head of State, Commander-in-Chief of the Armed Forces, General Sani Abacha in his keynote address to participants at the Second Summit where he stated that *"Our goals are the same, so Nigeria and Nigerians will be better off if we join forces, not only to talk, but also to act"*.

## **Keynote Address - General Sani Abacha**

In his keynote address, the Head of State, Commander-in-Chief of the Armed Forces, General Sani Abacha, GCON, welcomed participants to the Third Nigerian Economic Summit. He chronicled the evolution, objectives and achievements of the Summit process starting with the First Nigerian Economic Summit held in 1993. He noted that the Second Nigerian Economic Summit was held in the wake of Nigeria's emergence from the shadows of the socio-political problems under which the economy operated in 1993. In the face of declining growth in the productive sector of the economy and total disequilibrium in the nation's balance of payments, the Government was constrained to look for ways and means to check inflation, strengthen the Naira value, encourage savings and productivity, stimulate investments and curtail deficit financing. A "guided deregulation" policy was introduced and the following macro-economic reforms were introduced:

- repeal of the Exchange Control Act 1962 and its replacement with the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree, 1995;
- the repeal of the Nigerian Enterprises Promotion Decree 1989 and its replacement with the Nigerian Investment Promotion Commission Decree, 1995;
- the sanitisation of the financial system, involving a stronger commitment to resolve distress in the banking industry;

- the reduction of deficit spending by the Government and the introduction of fiscal incentives; and
- port reforms aimed at enhancing government revenue and promoting greater accountability and transparency.

These initiatives were continued in 1996 with the introduction of generous tax incentives to encourage manufacturers to improve capacity utilisation and the licensing of private sector enterprises to participate in economic activities (particularly petroleum refining) erstwhile under government exclusive control. The cumulative effect of these measures can be seen in:

- the on-going relative macro-economic stability through the continuous fall in inflation, stable exchange rate and fall in bank lending rate helped by the injection of funds into the economy through the Petroleum (Special) Trust Fund;
- a budget surplus of ₦8 billion as at 30 June 1996;
- a current account surplus as at 30 June 1996 recorded for the first time in the last three years;
- a net foreign exchange inflow and an overall increase in external reserves; and
- enhanced non-oil export earnings;

The Head of State used the opportunity to announce the following far reaching reforms to move the economy and the nation forward:

- with effect from 1st January 1997, the Central Bank of Nigeria will disengage from retail banking activities; and
- a campaign code-named "Vision 2010" is hereby established *"to enable us to realise the dream of an economically prosperous, a politically stable and socially harmonious nation. The vision will be articulated by a carefully chosen group of*

*eminent intellectuals of proven calibre from all walks of life who can think freely and are politically non-partisan”.*

The visioning process is to last for between nine and twelve months. The Head of State hopes that the recommendations of the visioning group will be ready for intensive review and public debate at the 1997 Nigerian Economic Summit. The vision itself will be entrenched before the transition to democratic rule.

Acknowledging that there is no better forum for cross fertilisation of ideas and opinions on various issues than the Summit, he urged participants to make optimum use of the opportunity to discuss freely among themselves the way forward for the economy. In this regard, he assured the participants that their recommendations and proposals would be given the necessary consideration. He called for reciprocity in the relationship between the Government, whose responsibility it is to provide the enabling environment for business, and the private sector whose co-operation and support the Government needs for the mutual benefit of both parties. By the same token, he said that whilst the Government will pursue policies to take it out of business, the private sector must not fold its arms and look up to the Government for all the infrastructure needed for business activities to thrive. He ended his speech by expressing the deep appreciation of the Government to those who have contributed to the success of the Summit process since its inception and those foreign business partners and friends who have kept faith in the Nigerian economy. On this note, he declared the Summit open and wished the participants fruitful deliberations.

## **Nigerian Economy and the Way Forward - Chief Anthony Ani**

The Honourable Minister of Finance, Chief Anthony Ani (MON) presented a paper titled *“Nigerian Economy and the Way Forward”*. He prefaced the paper by doing a post-mortem examination of the economy under the 1995 Budget, when the rate of inflation rose from the 1994 level of 57% to 72.5% in the first half of the year. The rates, however, fell consistently from July to December 1995, in response to the economic policies initiated at the beginning of the year. He attributed the poor performance of the economy in 1995 to the weak structure of the economy, noted to be largely import-dependent, and lack of new

investments. To address this, he highlighted the basic elements of the economic policies and reform measures introduced by the Government between 1995 and 1996. Amongst the positive steps taken by the Government was the repeal of the Exchange Control Act, 1962 and the Nigerian Enterprises Promotion Decree, 1989 which were replaced by the Foreign Exchange (Monitoring and Miscellaneous) Provisions Decree, 1995 and the Nigerian Investment Promotion Commission Decree, 1995 respectively; sanitisation of the banking system; port reforms; study of the insurance industry and the capital market with a view to reforms; introduction of fiscal incentives, freezing of new external loans and cancellation of approved credit lines; and gradual withdrawal of the Government from businesses that can be better done by the private sector. He identified the following as the cumulative effects of the foregoing policies:

- stability in the value of the Naira for the past 20 months, which is good for investment planning;
- reduction in fiscal deficit - from ₦103 billion in 1993 to ₦81 billion in 1994 to a modest budget surplus of ₦1 billion in 1995 which increased to ₦8 billion for the first half of the year ended 30 June 1996;
- reduction in inflation rate from 72.8% in December 1995 to a projected 40.3% in August 1996;
- fall in interest rate with the banks currently lending at about 15%;
- increase in non-oil export earnings by 102% in 1995; and
- drastic curtailment of extra-budgetary expenditure.

The Honourable Minister acknowledged that for the economy to expand, there must be substantial growth in private investment, both domestic and foreign, and sustenance of improvements in the business environment. In his words, *"we must continue to open up our economy and continue to create a conducive investment atmosphere for investment to flow into the country"*.

It was against this background that the Honourable Minister defined the way forward for the Nigerian economy as follows:

## **Agriculture and Food Production**

He described the misfortunes of the agricultural sector following the discovery and commercial exploitation of oil since independence. He emphasised the need to restore agriculture to its past glories, particularly as the rising food prices were the only major obstacle to the reduction of inflation to the desirable level. Indeed, he said that the rate of inflation would not fall drastically, unless and until the pricing of the food component of the inflation basket was addressed and solved once and for all through increased output. To boost agricultural production, he recommended the following measures:

- a strong liaison and co-operation between the Federal Ministry of Agriculture (FMA) and States and Local Governments to increase food production;
- the merging of NALDA with the FMA with responsibility for NALDA to assist small and large scale farmers in agricultural land preparation and development;
- assistance to small scale farmers through access to farming equipment in the form of animal traction, hand tools and irrigation equipment;
- research by the Universities of Agriculture and Technology into modern, but simple and inexpensive, systems of agricultural production that will eventually mechanise agriculture and ease the scarcity of labour;
- discontinuance of fertiliser subsidy and alternative subsidisation of agriculture through easy access by small scale farmers to farming equipment on a cost recovery basis; support for agricultural land development through NALDA; establishment of a commodity exchange where farmers can sell their goods at competitive prices. A decree setting up the exchange should be signed soon; purchase and storage of excess farming products by the Government to serve as a buffer stock to stabilise prices during the period of low output; and provision of insecticides, etc., to small scale farmers.

In the final analysis, he urged the Federal Ministry of Agriculture through NALDA to facilitate the expansion, planting and re-planting of cash crops by

projecting and planning for the expected output of cocoa, rubber, palm produce, cotton and groundnuts in the next fifteen years.

### **Rural Development, People's Bank and NDE**

The Honourable Minister addressed the issue of rural development from the point of view of promoting economic activities, particularly agricultural production and cottage industries. He urged the National Directorate of Employment (NDE) to extend its training programmes to the rural areas. Additionally, he proposed:

- a meeting between the Federal Ministries of Agriculture, Industries, Labour, Science and Technology, Finance and National Planning to produce a national integrated rural economic development plan before the 1997 Budget; and
- provision of repayable loans by the Federal Government to the rural areas for productive ventures through annual grants for the People's Bank and the Community Banks.

### **Solid Minerals**

On solid minerals development, the Minister recommended more investment by the Federal Government to survey and ascertain the extent of solid minerals in Nigeria, to pave the way for the licensing of Nigerian and foreign investors to exploit the mineral deposits subject to payment of royalties and taxes. He noted that gypsum, barytes, kaolin and talc are now fully locally sourced, saving scarce foreign exchange, while for the first time in 21 years, Nigeria recently shipped its first coal consignment.

### **Steel**

The Honourable Minister argued that the steel sector should not be privatised. He recommended that, given the importance of flat sheets to technological development, the Ajaokuta Steel Mill should be modified to enable it to produce more flat sheets than billets, for which it was originally designed. He did not believe that any industrialist not familiar with Nigeria's programme would want



to invest in our steel industry as there is surplus capacity in the steel industry throughout the world. However, he recommended the invitation of suitable investors "from abroad to participate in the completion and management of our steel industry since this is a *sine qua non* for industrial revolution".

## **Energy**

In spite of the investment of up to \$10 billion in energy supply, the Honourable Minister noted the erratic supply of electricity in Nigeria. As part of the measures to remedy the problem, he recommended:

- the connection of the Kainji, Shiroro and Jebba dams into the national grid on the one hand and the connection of Afam, Egbin and Sapele power stations into the second grid on the other; and
- joint venture between the private sector and the Government on power generation and complete privatisation of power transmission and distribution systems.

## **The Petroleum Sector - Joint Venture Operations**

Against the backdrop of 57% equity ownership of joint venture operations in the upstream sector and contribution of \$2.3 billion as cash calls between 1995 and 1996, the Minister proposed:

- the increased use of Production Sharing Agreements and gradual but systematic divestment by the Government of the 57% equity ownership of joint venture operations; and
- limitation of the interest of the Government in the upstream sector to collection of appropriate rents, royalties and petroleum profits tax.

## **The Petroleum Sector - Downstream Activities**

The Honourable Minister's proposals on this sub-sector are:

- crude oil processing by Nigerian or foreign investors for export;

- establishment of outlets outside Nigeria for disposal of finished petroleum products;
- privatisation of refineries and petrochemical plants under an arrangement whereby private investors would have responsibility for management; and
- overseas investments by Nigeria, the earnings from which could be used to cushion economic hardship in the country, payment of debt, investment in agriculture and solid minerals.

### **Natural Gas**

The Honourable Minister recommended the provision of incentives to ginger private sector active involvement in the sector.

### **Monetary Policies - Interest Rates**

Recent developments in the banking sector, particularly the fall in the bank lending rates, called for a review of the fixed interest rate regime, according to the Minister. He suggested the re-introduction of the Minimum Rediscount Rate (MRR) which would be adjusted from time to time after due consultations.

### **Monetary Policies - Sectoral Credit Allocation**

The Honourable Minister urged a shift from mandatory sectoral credit allocation to the provision of incentives to encourage voluntary lending by banks to the preferred sectors of the economy.

### **Exchange Rate Policy**

Regarding the dual exchange rate system, the Honourable Minister acknowledged the need to unify the official and the autonomous foreign exchange rates.

Overall, the Honourable Minister stated that the relative macro-economic stability experienced since 1995 had created the environment for long-term perspective plan for growth and development. Looking into the future,

particularly as the world stands on the threshold of the 21st century, the Honourable Minister concluded that:

*"As the methods of yesterday collide with the visions of tomorrow, only those societies which have prepared for the future will survive. It means the candour to own up today to yesterday's mistakes. It means the courage to choose foresight over hindsight. It means the capacity to become more than the sum of all our many parts. At the very least, it means the identification of a National Purpose ... It is all about doing the right thing at the right time in the right way. It is all about a covenant for the future between the leadership and the led. We are talking about goals, innovation, discipline, determination, dedication and synergy. And the basis of all these is the orderly release of the extra-ordinary human potential that abounds in this beautiful corner of the globe ... The future is indeed here. Let us embrace it and make it our ally because there is no place to hide".*

## **Non-Government Perspectives and Presentations**

Dr. Vincent Cable, Chief Economist of Shell International, made a slide presentation titled "*Scenarios for Nigeria and the World*". Underlying the global scenarios is TINA, meaning "There Is No Alternative". TINA finds meaning in the context of the irresistible forces of technological change, global economic integration ('globalisation') and liberalisation which are pushing the world forward. Within the constraints of TINA, it is possible for either of the following two models of capitalist development to emerge as the most successful:

- The world of "*Just Do it*" which stresses individualism, over wider social obligations, and creates a policy framework characterised by intense competition and rapid change; and
- The world of "*Da Wo*" that stresses the value of social cohesion, fairness and creating a long-term strategic vision.

In spite of the influence of TINA in the 1995 and 1996 Budgets and the liberalisation of the foreign investment regime, the outside world is not yet

impressed by Nigeria. In between the two worlds identified, Dr. Cable conceptualised Nigeria's position as follows:

- **Just Do It:** In this world, Nigeria faces a very tough ride with low oil prices and intense international competition forcing the Government to cut expenditure and divest itself of state assets. In spite of the pains of radical reforms which this world entails, with courage and patience, this scenario could eventually produce a strong and diversified economy; or
- **Da Wo:** In this world, Nigeria will benefit from strong global growth in oil demand from Asia. There is an attempt to create reforms based on consensus and building a sense of national cohesion and long-term political stability. Although increasing oil prices and oil production allow early growth in GDP, there are dangers of complacency and the 'curse of oil' returning.

In between the two worlds is the possibility of no reform when Nigeria retreats into a world of isolation and economic controls. If this happens, things could get worse with declining investments, falling living standards, lawlessness and a beleaguered regime as in Zaire.

Lessons for Nigeria from the above are that whatever the scenario, Nigeria will have to respond to TINA. *"Economic (and political) reform must happen. Reform involves privatisation, refocusing of public spending on social priorities, economic diversification and consistent support for the private sector leading to the repatriation of foreign capital and new foreign investment ... considerably increased oil production and investment will also be necessary".*

## Chile's Success Story

Mr. Hernan Buchi, Chile's former Minister of Finance, made a presentation on *Chile's Success Story*. He started on a note of assurance that Chile's evolution and turnaround experience showed that the ingredients for success exist in every society, developing and developed alike. The presentation, replete with statistics, was structured into three parts, namely, general reform issues; a survey of Latin American countries; and Chile's reform programme.

He identified *stability*, *structural reform* (i.e., market economics) and *savings mobilisation* as the three broad ingredients for success to achieve economic growth. He stressed the importance of coherence and attention to details as the *sine qua non* for successful reform. To achieve stability, there must be correct monetary policy, fiscal policy and exchange rate policy, all at the same time. If the reverse happens such as if there is fiscal stability in a way that crowds out the private sector and savings, there will be no growth or savings. Structural reforms are about national economic integration with the rest of the world. This is achieved by opening up the economy to the inflow of goods, services and capital. This will not necessarily damage local industry if the structural reform is coupled with the right exchange rate policy. Lastly, Mr. Buchi noted that in addition to the three ingredients identified above, a society needs to perceive that change is necessary and it must have the will to reform using a critical mass of technocrats who can complete the required task.

In his survey of selected Latin American countries, he highlighted a number of economic indicators showing the performance of the economies before and after commencement of reforms. He considered Mexico to be close to achieving stability (after the difficult times that followed the devaluation of the Peso in December 1994) through budgetary control. Although significant progress had been made with exports with \$95 billion projected as export earnings in 1996, he opined that the country had not done enough yet to mobilise savings. Argentina's savings profile was no better than Mexico's. However, unlike Mexico's 52% inflation rate at the end of 1995, Argentina has had six months of deflation in the last twelve months. Using the yardstick of the three ingredients of success, Peru appears to have stabilised, after suffering from hyper-inflation in 1990, but requires more structural reform and needs to save more. Bolivia has stabilised and is growing after recovering from a 20,000 per cent inflation rate in 1984. However, the country needs a sustained growth rate of between 8% and 9% to support a 3.5% annual population growth. Bolivia is also a low performer on structural reforms. Brazil did not rate highly in Mr. Buchi's analysis. He was, however, optimistic that if the country stabilises and carries out enough structural reforms, it could recover. Venezuela, perhaps ranked lowest, in Mr. Buchi's estimation, amongst the countries selected. Venezuela tried to reform but failed because the will was not there. The system collapsed, and led to capital flight and increased unemployment and an inflation rate, which has been consistently double-digit for ten years.

From the statistics presented by Mr. Buchi, Chile had an exceptional record of resounding success in economic reforms amongst Latin American countries. Chile's macro-economic policy aimed at *growth, stability and savings*. Since 1984, it has achieved an average growth rate of 6.7% per year with a population growth of 1.3%. This translated to a per capita growth of 5.4% and a per capita income of \$5,000, or \$8,000 in terms of purchasing power. Over the same period, exports have grown from \$3.5 billion to \$16.5 billion.

In the area of structural reforms, Chile fully opened up its economy, capped the tariff rate at 11% on all imports, fully deregulated pricing including house rent, provided direct subsidies to the poor populace, liberalised land and property rights and investment in the mining and telecommunications sector, and privatised its ports and electricity. Chile also promoted exports by providing easy access to credit, tax exemption and establishment of a State agency which helped exporters to reach the market; and co-operation between the Government and the private sector in funding and acquiring new technology. The focus of the Government cut across all sectors of the economy - industry, agriculture, transportation, energy, etc., - not one at the expense of the other.

The privatisation process in Chile was achieved through public flotation of the equities of public companies. This allowed a broad based ownership by the public including former employees of the government companies. The capital market, which was non-existent in 1960, has developed mainly through privatisation. The capital market provided an avenue for mobilising long-term funds and savings through pension funds. Now a company in Chile can borrow money for as long as twenty years, and good companies can issue bonds in the market, which is quite sophisticated with a number of pension funds and institutional investors. Pension funds represent 45% of Chile's capital market, while about 4% of the GDP is saved annually in pension funds managed by private institutions. In spite of this achievement, Mr. Buchi noted that to maintain its growth rate in the future, Chile must continue with reforms and increase its savings rate to a typical Asian economy record of 34% per annum. He considers poverty alleviation to be the end result of growth and highlighted Chile's achievements in this regard. He noted the improvement in Chile's infant mortality rate from 66 per 1,000 in 1973 to 12 per 1,000 live births in 1996. Advancement has also been recorded in access to safe water in urban areas from 67 in 1973 to 98 in 1991 while live expectancy at birth increased from 64 to 72

years over the same period. Overall, in slightly over twenty years, Chile reduced extreme poverty level by half from 21% in 1970 to 11.9% in 1992. Concluding, Mr. Buchi argued that the principles used in Chile are applicable anywhere. In his words, *"I believe that any developing country can become a developed economy in a generation ... If you do things right, you will notice a difference in 10 years, as it has been noticed in Chile. The reforms will generate not only better economic performance but also political stability, and allow successful political transition, if desired or needed ... What is required is conviction and the perception that the changes are necessary. The key element is allow free expression of capacity of the people. That is the final, and in a sense, the real resource of humanity."*

## **Discussion Groups**

By mid-day, the Summit participants broke into sixteen groups for brainstorming and discussions. The sixteen groups were structured into two broad classifications as follows:

### **Track A - Implementation and Continuing Reform**

This track focused on the reforms needed to further reduce inflation, upgrade productivity and capacity utilisation and ensure job creation. The track comprised ten groups assigned with the following tasks:

- I. Macro-Economic Framework
  1. Monetary Systems
  2. Tax Reform
  3. Capital Markets
  
- II. Trade
  4. Customs and Imports
  5. Exports and Tourism

**III. Investment**

6. Petroleum Trust Fund
7. Infrastructure
8. Savings and Pensions
9. Petroleum Sector Funding

**IV. 10. Policy and Implementation Process**

- Planning and Budget Cycles
- Transparency and Accountability
- Performance Measurement

**Track B: Medium to Long-Term Economic Development**

Track B made up of Groups 11 to 16 addressed the pervasive economic issues affecting:

**I. Governance**

11. Privatisation
12. Medium-Term Economic Plan/Debt Relief
13. Law and Order/Security/Human Resources

**II. Investment Climate**

14. Industry Strategy/Policy
  - Energy
  - Rubber, Sugar, Solid Minerals, etc.
  - Agriculture and Agric Business
  - Local Sourcing and Exports
15. Infrastructure
  - Telecommunications
  - Power
  - Transportation



16. Long-Term Funding

- Domestic Funding through the Capital Markets, Insurance and Pensions
- External Funding through Foreign Direct Investment, Return of Nigerian Flight Capital, Loans and Official Development Assistance.

## **Industrial Strategy for Development: The New Paradigm**

The day's programme was concluded by a dinner hosted by the Chief of General Staff, Lt-General Oladipo Diya, FSS, PSC. Over dinner, Prof. Pankaj Ghemawat of the Harvard Business School spoke on "*Industrial Strategy for Development: The New Paradigm*". He started the speech by making a general statement to the effect that countries with natural resources, which disallow competition and have not liberalised, are more prone than others to productivity spiral. Productivity spiral is like a vicious cycle, when currency devaluation and downward pressure on prices, wages and profits lead to a chain of undesirable consequences, namely higher relative cost of imports and loss of foreign investor confidence. These in turn make productivity improvements more difficult and eventually yield lagging productivity. Throughout the whole gamut of the cycle is a worsening poverty experience. There was a time, according to the Professor, when it was thought that natural resource endowments almost automatically led to development. And that with market controls, countries with large population could develop on their own without depending on the outside world. Events in the emerging economies, however, have proved these theories false. Indeed, he argued that the experience of a few countries (e.g., Argentina and Venezuela) had shown that the availability of cheap natural resources could obstruct development. Resources, broadly interpreted to include infrastructure, institutions, education and training, information, etc., must be used more efficiently, renewed (particularly in the case of cash crops like cocoa, rubber and cotton) and upgraded over time. He cited the Indian steel industry, established in 1906, as an example of inefficient resource management. In spite of the huge investment of the Indian Government on the industry since independence, its engineering sector remains a disaster. In spite of low materials cost, productivity is low and the products are high priced and low in quality. Producing at market capital cost of \$586 per ton of hot strip coil, the Indian steel maker is not

competitive compared to an international steel maker producing at \$330 per ton. The story is not different in the Indian power sector where efficiency is extremely low.

The speaker affirmed that competition is generally better than controls. Amongst the ways a government can obstruct competition are through restrictions on foreign investment, tariffs and import controls, levies and transaction costs, price and non-price controls, high marginal tax rates, public ownership and sectoral reservations. The results of these restrictive policies, demonstrated by reference to the case of Indian Agricultural Pumps, were low energy efficiency, high prices, poor durability and corruption. However, he acknowledged that the government has a role to play in the markets through anti-trust policy, prescription and enforcement of standards, demand (government as buyer) and supply (government as supplier) management, and policy stability.

On the demand side, the speaker's view was that a large home demand can initially work against competitiveness in developing countries. He posited that any nation thinking of international competitiveness must target foreign demand. He cited the example of the Indian textile industry where the domestic and foreign demand conditions varied as follows:

Domestic Demand	Foreign Demand
Relatively small	Focus on cotton
High price sensitivity	Dependent on quotas
Focus on synthetics	Heavy reliance on simple-to-manufacture
Fashion differences	Ladies outerwear, which are fad sensitive and highly seasonal
Different standards	

The speaker summarised the implications of the foregoing for Nigeria as follows:

- *Nigeria's abundant natural resources will not, by themselves, lead to development;*
- *Nigeria needs to harness the power of competition;*
- *Nigeria must explicitly focus on areas where Nigerian-based companies can be internationally competitive; and*

- *These "islands of competitiveness" must be cultivated by internationalist managers and a responsive government.*

He advised the adoption of the following as the mechanisms for change:

- Nigeria is to work on *competitive upgrading*, without focusing exclusively on *macro-economics*;
- Success is *action initiatives*, not reports or committees;
- *Champions* should drive change, not be driven by *financial ministries or diffused debate*;
- Solutions require a *systematic long-term view*, and not *partial short-term solutions*;
- The best way to effect systems reform is to be *needs/demand-driven*, not *supply-driven*; and
- Ultimately, demand comes from *citizens* and the *private sector*, not *government alone*.

**Thursday, 19 September 1996**

The sixteen discussion groups re-grouped into six enlarged groups (namely, Macroeconomic Framework; Trade; Investment; Policy and Implementation Process; Governance; and Investment Climate) to agree on the positions reached a day earlier in the individual discussion groups. Thereafter, the group leaders made up of the Co-chairmen and Rapporteurs in each of the six enlarged groups stayed behind in the discussion rooms to finalise their group presentations. Meanwhile, the remaining Summit participants reconvened in plenary session for two presentations.

## **Nigeria: Economic Overview**

Mr. Atedo Peterside, Chief Executive Officer, Investment Banking and Trust Company Limited, reviewed Nigeria's actual and projected economic performance between 1993 and 1997 by reference to ten selected macro-economic indicators all of which confirmed Nigeria's closeness to attaining macro-economic stability. He regretted, however, that in spite of this, the misery indices - real GDP growth rate, population growth and GDP per capita - had not improved. Indeed, there had been no appreciable growth in GDP per capita since 1993, confirming that the plight of the ordinary Nigerian had not improved at all in three years. "Because macro-economic stability does not necessarily generate and/or sustain rapid growth (though lack of it can hinder growth), the real challenge ahead of us is to double our GDP per capita in a record time". Given the proven ability of the recently developed countries and today's fast developing countries to double their per capita output much more quickly than others before them, he believed the options for Nigeria were to do it in a new record time of five years or equal China's 10 year record.

Doubling GDP per capita transcends macro-economic stability. It calls for a complete paradigm shift and implementation of the following:

- encourage significant private sector-led new investment activity;
- mobilise savings to finance investments;
- raise existing capacity utilisation;
- ensure surge in productivity;
- restore and improve margins;
- allow market to determine exchange rates;
- upgrade infrastructure - electricity, water, telecommunications, roads, etc.;
- create enabling environment;
- privatise and make no U-turns;
- improve national image;
- eliminate "toll" gates;
- inspire confidence;
- be credible, keep promises, make your words your bond; and
- eliminate white elephant projects.

The cost of doing business in Nigeria must be brought down drastically to reduce the price that the consumer presently pays for levies, taxes (including import duties, port charges, VAT, excise duties, 1% levy by inspection agents and cost of obtaining the various government approvals in Abuja, which ordinarily should have been decentralised and therefore granted close to the point of trade or production). Cutting down these costs significantly and passing the benefit to the consumer will enable us to move from the present Low Output Trap (where consumers pay, for example ₦15,000 for 100 output at ₦150 per unit) to a Higher Output Scenario (where due to lower costs, consumers can pay the same ₦15,000 for 150 output at ₦100 per unit).

With charts developed by Mr. Mark Tennet of Chase Manhattan Bank, the speaker showed Nigeria's departure (largely through stop-go approach and policy reversals) from the path followed by many emerging markets moving progressively through a sequence of reforms aimed at modernising their economies. Nigeria does not even compare favourably with Ghana on a few selected economic indicators:

	Ghana	Nigeria
Real GDP growth (1993 - 1995)	4.43	2%
Real GDP growth target (1997-2000)	8.0%	?
Non-Oil Exports (1995)	\$1.43 billion	\$0.285 billion
Corporate tax (Non traditional exports)	8%	30%
Gross Investment as % of GDP (1995)	25%	<20%

The speaker listed the following "do nots" which Nigeria must avoid:

- inflating while pretending to reflate the economy;
- misguided regulation as in 1994, and other policy inconsistencies and U-turns in the wrong direction;
- policies that inhibit long-term savings and or investments, e.g., diminishing returns and increasing risks;
- curtailment of new investment activity in the oil sector;

- unsustainable Naira appreciation that will hurt and/or inhibit non-oil exports;
- failed or prolonged political transition; and
- additional white elephant projects sponsored by the Government.

In conclusion, the speaker admitted that there were some tough choices ahead. *"The pressures on Nigeria in the immediate future would include political transition - democratisation, tolerance of human rights' activists and environmentalists. Nor can we afford to ignore DRUGS. The challenge is to cope with all the genuine pressures while initiating an economic recovery programme to double per capital GDP in record time"*.

## **The Economic Dimensions - The USA and Nigeria**

This is the title of a publication by the Corporate Council on Africa (CCA) distributed to Summit participants by Ambassador David C. Miller. The CCA, established in 1992, is a non-partisan, tax exempt, non-profit membership organisation of eighty American companies and individuals who support the philosophy that the development and growth of the African private sector is the key to Africa's economic, social and political progress.

Members of the CCA believe that the American private sector can provide leadership and assistance to develop the African private sector, encourage necessary policy reforms and create the enabling environment for free markets that will sustain and accelerate economic growth and development.

In October 1995, the CCA established a Working Group on Nigeria. The initiative was designed to keep the membership of the CCA up-to-date on political and economic developments in Nigeria, seek to better educate the public about the positive role of the private sector in Nigeria, and to provide a forum to improve the understanding about Nigeria within the US private sector and the public at large. The publication profiled the economic relations between the US and Nigeria and highlighted the role of US companies in Nigeria.

In his brief presentation, Ambassador Miller commended the Nigerian Economic Summit Group initiative in providing a forum for candid discussions between the

private and the public sectors in Nigeria. He argued that it was absolutely critical that the country should establish a democratic civilian government. He believed that the issue of corruption, which featured prominently during discussions among Summit participants, could be resolved by the business community. He highlighted the following areas of possible co-operation between the CCA and the Nigerian Economic Summit Group:

- investment inflow and achievement of target growth;
- organisation of joint trade missions; and
- promotion of ethics in business by fighting corruption.

## Group Presentations

After lunch, the participants reconvened in plenary session for the Tracks A and B Group presentations followed by questions and answers from group leaders and participants respectively.

**Friday, 20 September 1996**

## Closing Ceremony

The closing ceremony was marked by a gala dinner hosted by the Head of State, Commander-in-Chief of the Armed Forces, His Excellency, General Sani Abacha, GCON. The programme started with a powerful and thought provoking speech titled *"Team Spirit - Going for Gold"* delivered by Mallam Mohammed Hayatu-Deen, Managing Director, FSB International Bank Plc. The speaker chose to talk on the subject because it was current and topical, coming a few weeks after Nigeria's Olympic record performance; it touched the heart of every Nigerian; it was infectious and infused national unity; and, above all, underscored the very essence of the Economic Summit - the need to build a lasting partnership between the public and the private sectors. Gold itself, represents excellence, a mark of highest quality and distinction. The speech was woven around Nigeria's golden performance at the Atlanta Olympics and the subsequent Sydney Paralympics. In his view, Nigeria was able to do the unthinkable by humbling such formidable

football nations as Brazil and Argentina through a clear vision, sound strategy, motivation, passion for excellence, willingness to take risks and self-confidence as displayed by the Nigerian contingent. To drive home the lessons from the high sense of mission and purpose demonstrated by our Olympic heroes, he asked the following soul searching questions:

- Is it not time for us to bury our differences and work together to reach a common agreement as to what kind of Nigeria we would like to see in fifteen, twenty or thirty years' time?
- Should we not stop gliding from one economic experiment to the other and choose a coherent set of economic policies which, if consistently implemented, will make us a major economic power in the 21st century?
- Should we not establish simple long range economic goals against which our children and grandchildren can measure our performance?
- Should we not set targets for raising our quality of life in all spheres (income per capita, literacy rate, infant mortality rate, population growth rate, etc.) and work consciously towards achieving these goals?
- Should we not set a time frame and a strategy for breaking the vicious cycle of capacity under-utilisation in the real sector and make our farms and factories overflow with goods and services?
- Can we not aim to occupy a position of pre-eminence in the larger African market within fifteen to twenty years?
- Do we therefore all understand that the Economic Summit is not an annual ritual or talk shop, but a major platform for formulating and implementing long range economic policy for Nigeria?

The speaker recognised that apart from vision, the Olympic heroes had a brilliant strategy carefully executed by the quality people - the best and brightest - that made up the team. He further enumerated the following as the lessons of the Olympic victories for the Nigerian nation:



Getting the right skills for the right job represents a major part of the winning formula for success. This means that we must find the best possible talents to run our various institutions;

We need to equip ourselves in all facets of national life with the best skills and resources. This is because, in the global arena, where competition is intense, the nations that succeed are those that use the skills and ingenuity of their workforce to export goods of quality and distinction;

By the same token that we were able to come from two goals down against Brazil and win the semi-final, and the dogged determination and self-confidence by which we crushed Argentina, leading by one goal in the final, we can come from behind and win as a nation. In this regard, he expressed his conviction that "if we can capitalise on the national unity and harmony engendered by sports, we can become the next economic miracle. If we can harness all our latent strengths - our huge market, our diverse resource base, our commercial ingenuity and our vantage location - we can flush away our problems into oblivion";

We live in a highly interactive and inter-dependent world and cannot therefore be an island unto ourselves. We should move away from the mindset that the rest of the world hates us. The Dream Team, is a fully indigenous team, born and bred in Nigeria. Yet, the hearts and minds of millions of people around the world warmed to them because they embodied excellence. They are winners, and the world loves winners. Just as China is a market of choice for foreign investors today, not for any other reason than that China has created an investor's paradise that is most conducive to foreign investments;

The young athletes also set the pace for the entire nation on the need for honesty and transparency and efficient allocation of resources. If our resources are more efficiently allocated, we will be able to bake a bigger national cake for everyone to cut enough for himself and his family;

We have to compete in a global market characterised by level playing fields, where the same global standards apply to all countries and strong performers win, while the weak performers lose. We can only hope to win

**“gold” in the world market if we produce goods that meet the highest quality standards, delivery schedules and where all the stages of the transaction are guided by total transparency;**

- **Consistency and resilience in the implementation of policy reforms. “Once we adopt a rational economic blueprint, we should be patient and give it time to work ... When our plans run into a hitch, we should not condemn our Government and begin pointing accusing fingers. Rather, we should investigate the underlying cause of the problems and take remedial action”, he asserted; and**
- **Team Spirit, otherwise known as harmony, cohesion or unity which calls for co-operation among members of a team to achieve a common goal.**

**By the application of the quality of team spirit demonstrated by the Dream Team, he enjoined everyone in Nigeria to play his own role well and to contribute to the success of the team. When a team member makes a blunder, he should not be blamed, but encouraged. In the final analysis, every team member has a leadership role to play. He defines a leader as anyone in a position to influence the course of events (like players in a soccer team) which includes each and everyone of us irrespective of our social standing, not just the Head of State or his cabinet.**

**Going forward, he expressed his belief that Nigeria is destined for greatness if it emulates the excellent example of discipline and teamwork demonstrated by the Dream Team. To achieve this, he enjoined the citizenry to:**

- **de-emphasise the things that divide us and emphasise those that unite us. We should identify and embark on major National initiatives which will engender in our people a high sense of patriotism;**
- **adopt a social agenda that will bring all our communities into the big tent without leaving anyone hanging on the fringes of the nation; and**
- **the public and the private sectors should increasingly close ranks and come closer together; they should remove all the remaining vestiges of suspicion and distrust, treating each other with respect and dignity and recognising**

that both sides are equally concerned with Nigeria's rapid economic development. Differences between both parties must be addressed with a sense of goodwill, conciliation and compromise.

In conclusion, he asked the Summit participants to choose between sitting down as spectators and taking credit for the toil and sweat of the Olympic gold medalists, or rising up to the challenge to look for their own gold medals. After commending the Summit participants for having willingly donated their energies to brainstorm and formulate a comprehensive and practical blueprint for unchaining Nigeria from the shackles of poverty and propelling it to become a great industrial society, he ended by stressing that:

*"We must therefore collectively demonstrate the nerve and the will to transform the Summit blueprint from thin paper into thick action. The Olympic torch is now in our hands as the Summit leaders go for "gold" in building Nigeria's economic miracle".*

## **Speech by Chief E. A. O. Shonekan**

Chief (Dr.) E. A. O. Shonekan, CBE, former Head of the Interim National Government, started his speech on a note of nostalgia as he remembered the First Nigerian Economic Summit in which he played a central role in 1993. He noted that the Nigerian Economic Summit had succeeded since then in bridging the gulf of misunderstanding and lack of dialogue between the public and the private sectors. He was particularly pleased that the relationship between the two sectors and, indeed, new policy measures for improving the performance of the economy had been building on the solid foundation laid in 1993. He thanked the Head of State, Commander-in-Chief of the Armed Forces, General Sani Abacha for keeping the Summit process alive and commended his courage in addressing Nigeria's economic problems head-on.

Chief Shonekan further thanked the organisers of the Third Summit and challenged them to come up with carefully crafted and credible economic strategies based on a free enterprise economy at this moment of Nigeria's political evolution. He mentioned that the theme of the Summit assumed that Nigeria had an enormous growth potential. The challenge was how to actualise this potential. He enumerated the response shown by the economy to the tight

monetary and fiscal policies being pursued by the Federal Government in terms of declining inflation rates, fall in lending rates below the 21% ceiling, and stability of the foreign exchange market. He highlighted our problems such as widespread poverty, import dependence, a fragile non-oil production and export base, as well as the debt burden, and unstable oil prices. He highlighted the need for public sector reform, accelerated privatisation and enhancement of private sector initiatives. To resolve the problems threatening our medium and long-term macro-economic stability, he urged Nigerians to make more sacrifices for the country to achieve non-inflationary growth, sustainable development and poverty alleviation. He advised the Government to muster the courage to take the hard policy decisions that need to be taken in the overall interest of the present and future generations of Nigerians.

He stressed the need for continued dialogue between the public and private sectors, and urged participants to ensure that the contact made did not begin and end with each Summit at Abuja. Specifically, he called on the Government to consult the private sector on the 1997 Budget, the Medium-Term Economic Strategy and the long-term vision for Nigeria to demonstrate that both parties are truly partners in progress. He thanked General Sani Abacha for inviting him to the Summit, whilst looking forward to the next Summit in 1997.

## **Closing Address - General Sani Abacha**

In his closing address, General Sani Abacha, GCON, Head of State and Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria, congratulated and thanked the Summit participants on the successful completion of the Summit. He summed up their efforts as a demonstration of the new spirit of "partnership in progress" between the private and public sectors in Nigeria. He reaffirmed the establishment of the VISION 2010 Campaign announced in his Keynote Address delivered at the opening ceremony of the Summit. He further noted that, whilst definite terms of reference of the Campaign would be worked out by a Committee to be appointed by the Government, the guiding objectives would be the need to:

- strike an optimum balance between the goals of economic growth and equity;
- ensure a balanced development of the major sectors of the economy to bring about optimum growth;
- reduce and ultimately eliminate social and economic inequalities and imbalances to promote a fair and more equitable sharing of wealth;
- promote and strengthen national integration by reducing the wide disparities in economic development between people in the urban and rural areas of Nigeria;
- develop a progressive society in which all the citizens will enjoy greater welfare that will engender a sense of national consciousness and pride;
- promote human resources development and create a productive and disciplined workforce to meet the challenges of a purposeful society;
- make science and technology integral components of socio-economic planning; and
- ensure that in the pursuit of economic development adequate attention is given to the protection of the environment and ecology to maintain the long-term substance of the country's development as well as the quality of life of the people.

The Head of State acknowledged the developments around the world, particularly the growing international trade and financial flows. He cited Malaysia, India, Chile, Taiwan, Singapore and South Korea as examples of countries without mineral resources that had recently had breakthroughs in international trade as major exporters of industrial products. This strengthened his conviction that we could achieve the same feat in Nigeria and become a leader in the modification and application of technology in Africa. He found the presentations of Dr. Vincent Cable and Mr. Hernan Buchi particularly interesting and mutually reinforcing. He stated that their analyses of the Nigerian situation depicted an optimistic scenario for the future of the country in terms of socio-

economic development and prosperity. The challenge to us was to come up with plans for tapping our enormous resources so as to correct the apparent paradox of our poverty in the midst of plenty. However, he acknowledged that economic prosperity cannot come overnight as there is a gestation period between aggregate growth and individual prosperity. This goes to reinforce the relevance of VISION 2010. It is an important signpost, a pillar of hope and a deadline to achieve substantial improvement in the quality of life and economic prosperity of our people. For this reason, the Head of State acknowledged the need for us to take definite steps to embark on a mission to uplift the material condition of our people. In this regard, he emphasised the need for team spirit, co-operation and commitment by all and sundry because development is a joint responsibility of the Government and the people.

The Head of State also acknowledged that the Government had learnt a lot from the presentations and this would encourage the Government to forge ahead with on-going reforms. Courage and the will to act were what it takes to move a nation forward, he stated. The Government was therefore not discouraged that sufficient credit had not been given for its efforts in social engineering, but was strengthened in its conviction that leadership imposed on it a duty to leave the society much better than it had found it. He urged foreign-based Summit participants to help in correcting the largely erroneous impression about Nigeria, and confirmed to them that Nigeria was safe for foreign investors, and generous incentives existed to attract investment flows.

Finally, to institutionalise the Summit process, the Head of State announced the Government decision that the Nigerian Economic Summit will henceforth be an annual event. In this connection, he urged the Summit organisers in the private and public sectors to commence preparations for the 1997 Fourth Nigerian Economic Summit in earnest, the timing of which should coincide with the submission of the VISION 2010 report. He thanked all the Summit participants both from home and abroad for honouring the invitation to attend the Third Summit and assured them that their recommendations will give the Government a flying start and equip it adequately to meet the challenges of VISION 2010 lying ahead. TINA ("There Is No Alternative"), the name of the literary girl and the lesson it teaches, will be borne in mind by the Government always. On this note, the Head of State declared the Summit ended.

## Section 2:

# Implementation and Continuing Reforms

*For two consecutive years (1995 and 1996), the Federal Government has ensured continuity and consistency of policy reforms and implementation. This is desirable in 1997 and beyond. To this end, Track A, made up of 10 discussion groups, focused on the policy reforms for the Federal Government to embark upon in the short-term to reduce inflation, upgrade productivity and capacity utilisation and ensure job creation so as to lay the foundation for Nigeria's long-term economic recovery.*

## Monetary Systems

### Introduction

The group started with a review of the recommendations of the Second Nigerian Economic Summit (NES). It identified those recommendations adequately addressed by Government, and then went on to make recommendations for this Summit. These included outstanding recommendations from the Second NES as well as those emanating from the Third NES. The group limited its discussions and recommendations to the short-term as another group was billed to make proposals for the long-term or perspective period (2010AD).

### Issues Discussed

The group reappraised the monetary systems objectives as stated in the Second NES report and decided they were all still relevant with a few amendments. The objectives were therefore reiterated as follows:

1. Mobilise and channel resources from surplus to deficit areas effectively and efficiently.
2. Assist the real sector manage domestic/external financial risks and shocks.
3. Enhance efficiency of the payment system

4. Promote appropriate and effective monetary policies aimed at macro-economic stability and growth.

The group then considered the list of recommendations of the Second NES and identified those that had already been addressed by the Government especially through the 1995 and 1996 Budgets. These included:

- Sanitisation of the banking sector which is progressing well through the Failed Banks Decree;
- Weekly foreign exchange intervention which has assisted predictability in supply of foreign exchange;
- Credit Bureau Process commenced though not yet running well;
- Commencement of repayment of stabilisation securities to merchant banks;
- Change in the required maturity profile of merchant banks loans;
- Elimination of cash reserve for merchant banks; and
- Publication of guideline on trading in stabilisation securities.

The group commended the Federal Government for the bold initiatives in putting in place the above measures and enjoined that the Credit Bureau Process should be made to run efficiently and effectively.

The group then identified issues from the Second NES that it felt were still relevant and necessary to enhance the performance of an efficient monetary system. The group therefore decided to restate and reiterate the recommendations for NES-3. The recommendations are as follows:

1. Freer environment for opening and closure of bank branches;
2. Streamlining banking supervision by simplifying reports/regulatory requirements;



3. Removal of cap on interest rates. (OMO, interest rate to be purely market driven not fixed);
4. Reduction in settlement delays of up-country transfers;
5. Repayment of public sector debt;
6. Review of requirement for State Governors' consent to mortgage or foreclose property;
7. Greater bank and police co-operation on fraud issues;
8. Sanitisation of insurance sector;
9. Introduction of higher Naira denominations;
10. Resolution of bank ownership problem (Golden Shares);
11. Full, immediate and free convertibility of the Naira;
12. Adoption of universal banking;
13. Appropriate review of NDLEA Decree for effective compliance;
14. More autonomy to be given to CBN on implementation of monetary policy; and
15. Deregulation of interest rates.

## **Recommendations**

The group considered and agreed on the underlisted recommendations for adoption. In making the recommendations, the group considered development in the economy generally and within the financial system in particular.

1. All issues outstanding above should be implemented;

2. CBN must be relieved of retail commercial banking functions;
3. Demarcation of roles between the CBN and NDIC;
4. Constant review of entry and exit barriers in the banking sector;
5. Streamlining of overall regulatory and supervisory framework for development financial institutions and non-bank financial institutions;
6. Encouragement of credit allocation to favoured sectors through incentives rather than mandatory limits. Stipulation of mandatory sectoral limits for commercial and merchant banks should be discontinued;
7. Stabilisation securities should be fully eliminated for all banks;
8. Treasury bills should be utilised for cash reserve requirements or CBN should pay interest on cash reserve amounts;
9. The ban on offshore guarantees for credit extension should be removed. The ban on bills for collection transactions should be eliminated;
10. Access to international letters of credit lines without cash collateral cover should be allowed;
11. The dual exchange rate system should be completely eliminated, i.e., the official exchange rate of N22 - \$1 should be abolished;
12. Bankers tariff should be eliminated or modified to breed competitive service delivery and pricing;
13. Exchange rate as per various borrowing agreements signed with various Government entities should be respected, even where there are cost implications for either Government or the borrower;
14. All private sector foreign exchange should be returned to the banks (i.e., oil and oil service industry foreign exchange should no longer be routed through CBN);

15. The Federal Mortgage Bank should play a more significant role in channelling of resources. It should concentrate on playing the apex bank role for the primary mortgage institutions;
16. Development banks should exist only as viable commercial entities independent of government funding;
17. Pension schemes need to be protected by ensuring funds are managed by professional insurance companies or financial institutions with requisite expertise;
18. All forms of indirect taxes on pension funds should be discontinued;
19. Any institution that raises deposits should have NDIC cover;
20. Community Banks should be brought under CBN supervision;
21. CBN should be compelled to immediately revoke licence of any distressed bank if not sold within three months;
22. Dissemination of up-to-date information/data for monetary system monitoring;
23. Review of the financial system on a ten-yearly basis;
24. Review/update of the Trustees Act to be done;
25. Transferability of accumulated pension benefit should be encouraged and Board of Trustees of pensions should be accountable for performance;
26. NDIC should be allowed to provide timely support to illiquid but solvent banks;
27. Enhancement of public awareness on fraudulent/dual cheque issuance. Decree 18 currently ensures full implementation;

# **Tax Reform**

## **Introduction**

Tax reform issues were identified by the group with reference to the following objectives and goals:

- Encouragement of savings and investment
- Enhancement of Government revenue
- Elimination of tax evasion and promotion of voluntary compliance
- Shift from Direct to Indirect Taxes
- Elimination of Multiple Taxation
- Better reliefs to low income earners and a drive towards equitable redistribution of income through the provision of basic social amenities.

## **Issues Discussed**

1. Current tax laws do not affect the totality of the populace. The bulk of taxes is being paid by the organised private and the public sector. Personal Income Tax, for example, is paid mainly by those under employment through PAYE. The really wealthy individuals are not captured by the PAYE net.
2. Government revenue is not sufficient to meet the services and amenities it should provide. Widening the tax net will increase revenue, while ensuring that all citizens contribute. Direct taxes are not sufficiently equitable in that they can be easily evaded. Indirect taxes will check evasion while increasing Government revenue and should be seriously considered as the tax of the future.

3. To ensure proper redistribution of income and reduce the social problems of the tax burden, adequate reliefs should be provided to low income earners and basic amenities made available.
4. Multiple taxes exist where the taxpayer suffers more than one direct tax, e.g., companies suffer corporate tax, business development levy, effluent tax, business rate, advertising tax, business premises, property rate, excise duty, etc. These taxes are inimical to the very taxpayer that Government is trying to encourage, while evasion is rampant.
5. Multiple taxes should be abolished immediately. A taxpayer (corporate/individual) should only be made to suffer tax once and this revenue can then be redistributed to the various levels of Government as appropriate. The powers granted to various levels of Government to generate revenue must be reviewed if multiple taxes are to be avoided.
6. Tax should not be an undue burden on the citizenry. There is a need to recognise the basic needs of the average man and how much money he needs in his pocket, given these basic needs, to survive in the current economic environment. An analysis of the average married man with four children showed that he would need a monthly net earning of:

	N
Rent	1,000
Transport	1,000
Clothing (6 people)	1,000
Feeding (6 people)	9,000
Education (4)	1,500
Medical (6)	2,000
Utilities	500
Out of pocket	2,000
	18,000 per month = N216,000 per annum

This analysis highlights that current personal income tax rates are unduly high and the tax brackets and allowances are grossly inadequate. Further,

to buttress this minimum amount, a comparison was done using the official minimum wage of ₦300 per month in 1981 when the Naira and US Dollar were at par at the rate of one to one, unlike now when the official rate is ₦82:\$1. This amount is now worth ₦24,600 per month.

7. Benefits in kind should be monetised to ensure that the true income of an individual is properly recognised and taxed. This should enable employers recognise the need to properly reward their people rather than giving them minimal cash income and large benefits in kind that may not be highly valued by such employees. The group also touched on the need to properly compensate civil servants to ensure that high quality people are employed and superior productivity achieved.
8. To ensure voluntary compliance, tax offences should be regarded as criminal offences and not civil. Tax laws must be amended and enforced accordingly.
9. There is a need for better administration of existing taxes. This will ensure an increase in Government revenue. Current personal tax laws are passed by the Federal Government but States are left to administer and collect the taxes. The revenue collected on Personal Income Tax will be greater if it is better administered. VAT, which is centrally administered, for example, has generated more revenue than its predecessor, sales tax, which was administered by the States. Each State will still have tax offices although this will be directed through a more central and professional body. The recognition that such revenue generated from individual States must remain there should still be maintained with respect to Personal Income Tax.
10. The group debated the problems involved in central administration of taxes, the major concern being that this will remove the powers to generate revenue from the States and reduce the States to "begging" for funds from the Federal Government. However, it was noted that taxes collected locally by the States formed a very little amount of their total revenue; the bulk being from revenue currently being administered and collected centrally. Provided unification is implemented in recognition of the need to preserve the Federalism principle, the group agreed that central administration will

increase revenue yield, eliminate multiplicity and promote economic progress.

11. Better tax administration should imply proper implementation of the tax legislation following the due process of law. Task forces should be removed immediately and the State Board of Appeal Commissioners should be properly instituted. Resources should be channelled to training and development of tax administrators to ensure their performance is of the highest standard.
12. Provided the administration of tax laws is centralised, it is also expected that there will be a better and more uniform interpretation of tax laws. Due process of law should be followed in all disputed cases and proper channels of law enforcement applied. It is also expected that where tax laws are repealed, this should be properly formalised to avoid the benefit of doubt. All taxpayers need to be formally advised of day to day changes in tax laws and any new laws.

## **Recommendations**

### **1. Tax Administration**

- 1.1 Utilise one central Federal agency to administer all taxes including Personal Income Tax. For personal income taxes, due consideration must be given to our Federal system by ensuring that personal taxes collected from a particular State are given to that State.
- 1.2 Eliminate multiple taxes on tax payers. A tax payer, whether corporate or individual must suffer tax only once.
- 1.3 Abolish all State Accelerated Task Forces on Revenue Generation immediately and begin to strengthen the machinery for administration and collection of personal income taxes.
- 1.4 Create a disciplined and well remunerated tax administration perhaps outside of the public sector compensation system. This has

been successful with the Central Bank. Competitive remuneration, training and development should be invested in the administrators to ensure efficiency and productivity.

- 1.5 Tax administration should always follow the due process of law. Necessary Appeal Board and Tribunals should be implemented to adjudicate tax disputes.

## 2. Personal Income Tax

- 2.1 Monetise all benefits in kind, remove allowances and widen the tax brackets as follows:

<b>Taxable Income</b>	<b>Tax Rate</b>
Below N250,000	0.5%
N250,000 - N500,000	5%
N500,000 - N2,500,000	10%
Over N2,500,000	15%

- 2.2 Extend Individual Retirement Schemes to *all* employees to ensure that all Nigerians are given the opportunity to provide towards their retirement.

## 3. Corporate Taxes

- 3.1 Corporate tax rate should be reduced from 30% to 25% flat rate;
- 3.2 Abolish Education Taxes and other levies that presently constitute multiple taxation on the tax payer;
- 3.3 Make NSITF/NHF optional for companies with well defined, funded and approved benefit schemes;
- 3.4 Ensure due consultations between Government and the tax payers whenever consideration is being made for a change in tax regimes. For oil companies on joint ventures and production sharing



contracts, this is even more important where the company has signed an agreement based on existing laws.

#### **4. Value Added Tax**

- 4.1 Refunds should be paid where they are due. The current system of set off is not fair on the tax payers' cash flow situation and where tax payers have nothing to set off against, they simply do not get a refund. The Government should consider the mechanism for easy payment of refunds.
- 4.2 The VAT Tribunal (and not the VAT office guidelines and interpretations) should be the avenue for interpretation and implementation of the law and must be constituted immediately.

#### **5. Import and Excise Duties**

- 5.1 There is an urgent need to abolish Excise Duty as this is simply an additional tax which the manufacturer passes on to the final consumer in the same manner as VAT. Manufacturers will then be expected to pass on the benefits of the removal of excise fully to the consumers so that the price of such consumer goods can go down to ensure affordability.
- 5.2 Implement low import duty regime and smoothen the process for clearing of imports.

## **Capital Markets**

### **Introduction**

Capital Markets was defined to mean activities, institutions and laws involved in:

- the issuing of new securities (debt and equity) for corporate entities and Government; and

- the provision of liquidity to buyers and sellers of (existing) securities in the secondary market.

The group reviewed in broad terms the critical role of the capital market as a tool for mobilising and allocating financial resources in the economy. The group observed, however, that for Nigeria to compete effectively in the emerging markets for capital, improvements in Nigeria's capital market's legislation, procedures and technological applications are imperative to elicit the desired interest of both domestic and international investors.

It was agreed that the overall objectives for the capital market should be to:

- facilitate mobilisation and efficient allocation of financial resources for long-term growth and socio-economic development;
- evolve an internationally competitive market that ranks among the top 10 in the IFC's Emerging markets index by the year 2000;
- ensure a safe and efficient market which engenders confidence; and
- expand market capitalisation from current size of approximately 10% of GDP to 50% by the year 2000.

Current developments and policy initiatives of Government and regulatory agencies which will further strengthen and facilitate activities in the Nigerian capital market were noted as follows:

***Repeal of:***

- Exchange Control Act 1962
- Nigerian Enterprises Promotion Decree 1989

***Introduction of:***

- Nigeria Investment Promotion Commission Decree, 1995;

- Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree, 1995;

***Inauguration of:***

- Odife Review Commission on Capital Market Operations, Codification of Laws and Pension Assets Investment

***Tax Incentives:***

- Capital Gains Tax reduced from 20% to 10%
- 10% is final (withholding) tax on investment income

**Issues Discussed**

The following issues were identified and discussed as important for development of the Nigerian Capital Market:

1. Greater use of market-determined pricing and allocation mechanisms;
  2. Expanding coverage of market relative to GDP;
  3. Ensuring the market is efficient, safe and engenders confidence;
  4. Inadequate awareness of the market's potential and opportunities; and
  5. Lack of foreign participation.
1. **Greater use of market determined pricing and allocation mechanisms**

The group discussed this at length and agreed that the current allocation system being utilised for allocation of trades in the secondary market (on the floor of the Exchange), though an improvement on the previous discretionary method, had not gone far enough. It was agreed that market determined prices and automation only would achieve the desired objective.

## **2. Expanding Coverage of the Market Relative to GDP**

The performance of the majority of quoted debt and equities and the dearth of debt instruments limit the range of the market. The total market capitalisation of the equities market is only 10.26% of Gross Domestic Product at 1995 prices, and this was considered inadequate in comparison with developments in other emerging markets. It was strongly believed that the privatisation and quotation of a single major parastatal and/or public utility would significantly increase the level of market capitalisation and volume of securities available for trading. Direct foreign investments also create an environment for transfer of technology and relevant management expertise to the host nation.

## **3. Ensuring the market is efficient, safe and engenders confidence**

The current investment legislation inhibits the scope for trading in equities held by institutions such as insurance companies and development banks. Also, the investment opportunities available are restrictive due to the need to meet prescribed statutory requirements. The cost to Governments of pension schemes and the consequent administrative overhead take a significant portion of their re-current expenditure. In addition, the actuarial composition of the work force would, in the near future, make the cost of pensions a great burden to the various tiers of Government.

The current clearing and settlement system has been identified as a major hindrance to the development of an efficient and modern stock market. The delays in the processing of transactions and settlement procedures are a great disincentive to foreign investment.

Locally, the huge backlog of unclaimed dividends and certificates are a source of concern to all market operators and stakeholders in the capital market.

The Registrars are currently the weakest link in the capital market chain, largely because of inadequate infrastructure and systems, leading to inefficient operations.

The quality of output of market operators was considered to be on the decline and not commensurate with the requirements of an emerging market. Further, the low level of professionalism was considered as a disincentive to the attraction of foreign participation and capable of retarding the development of the capital market. There is a need to specify in unambiguous terms the role and responsibilities of each of the regulatory authorities.

Under the current system there are unacceptable delays in the despatch of certificates after primary and bonus issues.

#### **4. Inadequate awareness of the market's potentials and opportunities**

There is the need for grassroots understanding of the role of the capital market in the domestic economy. The opportunities available to companies seeking quotation and the listing requirements need to be publicised widely. It is also important to reach out to the larger segment of the Nigerian society and inform the investing public of the potential of the capital market.

#### **5. Lack of Foreign Participation**

The relevant law setting up the Nigerian Investment Promotion Commission (NIPC) conflicts with the statutory functions of SEC, NSE and CBN. The NIPC would be a duplication of efforts in this regard. However, there is need to publicise and promote Nigeria's capital market internationally in order to attract foreign investment capital through the market.

### **Recommendations**

#### **1. Market-Determined Pricing and Allocation Mechanism**

- 1.1 Stock Exchange(s) to adopt price-driven bid and allocation system only to boost trades and promote liquidity;
- 1.2 Bring down overall cost of raising capital in the Nigerian capital markets from the current average 10% of market value to current international average of approximately 6% - 7%;

- 1.3 With respect to transactions raising fresh or additional moneys, fees payable to regulatory bodies should be restricted to 1% of market value;
  - 1.4 For transactions not involving exchange of funds, fees should be restricted to 0.5% of nominal value;
  - 1.5 SEC should reduce significantly its current charge on secondary market purchases of securities (maximum of 0.25% instead of current rate of 1%);
  - 1.6 Enable price volatility within the band set by the regulatory authorities; and
  - 1.7 Remove legislative constraints on portfolio composition which impede trading in marketable securities;
2. **Expand Coverage of Market Relative to GDP**
- 2.1 Resumption of privatisation will propel market capitalisation, widen public participation and create opportunity for meaningful foreign funds inflow;
  - 2.2 Establishment of Over the Counter Market ("OTC") will accelerate inclusion of many widely dispersed unquoted PLCs;
  - 2.3 Implement securitisation of Government's domestic debt as contained in the 1996 Budget;
  - 2.4 Abolish capital gains tax on capital market transactions as is the practice in leading emerging markets internationally;
  - 2.5 Eliminate the incidence of double taxation to encourage foreign investments;
  - 2.6 Abolish (the practice of) stamp duty and VAT on capital market transactions in line with international standards;

- 2.7 Make the cost of going public Tax Deductible in the year incurred as is currently applicable to the second-tier securities market;
  - 2.8 The Federal, State and Local Governments should adopt the issuance of market-determined instruments to finance long-term projects;
  - 2.9 Tax rate for quoted companies should be at the minimum 5% lower than the general applicable rate;
  - 2.10 Amend provisions of CAMD, SEC and other relevant legislation which impede market development:
    - Enable public banks to make rights issues
    - Modify requirement for physical share certificate only as evidence of ownership
    - Enable issue of warrants/other derivatives
  - 2.11 Confer tax-exempt status on Unit Trusts and Other Special Purpose Investment vehicles;
  - 2.12 Enforce proper funding of pension funds to build up availability of long-term investible funds; and
  - 2.13 Mortgage Bank/other mortgage institutions to finance housing development through capital market
- 3. Ensuring the Market is Efficient, Safe and Engenders Confidence**
- 3.1 Arrest poor and declining standards of training and professionalism:
    - Operators and regulators to upgrade minimum entry requirement;
    - Strengthen on-the-job training;
    - SEC and NSE should enforce standards and discipline.
  - 3.2 Allow prompt exit for distressed operators;

- 3.3 Odife Panel to delineate function, authority and responsibility among market participants;
- 3.4 Adopt immediate quotation for fully underwritten new issues with subsequent distribution to investors during initial stabilisation periods;
- 3.5 Automate trading, allocation, delivery and settlement of trades on NSE/OTC should be a national priority;
- 3.6 SEC and NSE to enforce minimum standards of service/responsibility for Company Secretaries and Registrars; and
- 3.7 Prompt delisting of non-performing companies on NSE.

#### **4. Inadequate Awareness of the Market's Potentials and Opportunities**

- 4.1 The efforts of both the NSE and SEC in the area of investor enlightenment are commendable, particularly the recent public enlightenment campaign being undertaken at State and zonal levels.
- 4.2 The Institute of Stockbrokers should play a major role in publicising the activities of the capital market in general and the Stock Exchange in particular. The awareness campaign should also have a global outreach as typified by the example of the Ghana Stock Exchange. This requires the joint co-ordination of the NSE, SEC, NISB, the CBN, etc., and
- 4.3 An international investment forum should be organised in Nigeria, attracting foreign capital market operators worldwide, to be supported by the local capital market operators.

#### **5 Lack of Foreign Participation**

- 5.1 The investment codes should be simplified and documentation limited within the guidelines as set by Decrees No. 16 & 17 of 1995.



5.2 The role of NIPC should be advisory.

5.3 The NSE, SEC, and CBN are considered competent to deal with the issues arising from interpreting the provision of decrees No. 16 & 17 of 1995.

## **Customs and Imports**

### **Introduction**

The Customs and Imports group deliberated on issues affecting importation of products into Nigeria in all its ramifications. A number of objectives were identified, summaries of the situation on the ground were made and the effects of this on the economy were discussed. The group also reviewed the conclusions and recommendations made at the Second Nigerian Economic Summit. Keeping in mind the Head of State's Vision 2010 programme, a number of recommendations were made thereafter towards achieving the goal in the short, medium and long-terms.

### **Issues Discussed**

The group defined its overall objectives as primarily four fold:

- Streamline the import of goods to make clearance at the ports smoother and faster, possibly within 48 hours;
- Ensure that Government collects the correct revenue from all imported goods;
- Reduce the number of security agencies at the ports; and
- Reduce the cost of goods and level of hardship as well as improving the country's image.

It was observed that the current situation on the ground included the following:

1. Several bottlenecks, such as multiple inspection, exist;
2. Number of security agents, although reduced, is still significant;
3. Delay by inspection agents in issuance of required documents;
4. Conflict between Nigerian Customs Service (NCS) and the Professional Import Duty Administrators (PIDA);
5. Elongation of import cycle;
6. Increased port charges;
7. Unusually high cost of imports due to several inspections; and
8. Cumbersome shipping regulations.

The above conditions have created the following adverse effects on the economy;

1. Abnormally high cost of imports leading to high retail prices and inflation;
2. Loss of revenue to the country due to diversion of ships to other ports in the sub-region;
3. Creation of a negative investment climate; and
4. Long process of importation leading to wide production gaps and therefore low capacity utilisation.

The group thereafter reviewed the status of recommendations from the Second Nigerian Economic Summit. These are as follows:

1. ***Selective Tariff Reduction and not Across the Board:*** The group observed that Government had commenced implementation;

2. **Computerisation of Customs Operations:** It was noted that the recommendation had been accepted by Government but insufficient funding was delaying the implementation. The group also noted that the Nigerian Customs Service had devised a new Bill of Entry 2000 that should reduce the number of processing points from seven to three, i.e., ingate verification, computerisation and striking. However, the group noted that even with the reforms, there remained the problem of numerous steps within the three processing points particularly with the introduction of PIDA;
3. **Re-orientation Programme for the Customs Service** has commenced but the introduction of PIDA had introduced another dimension which limited efficiency. It was, however, hoped that PIDA was only an interim measure;
4. **Abolition of Pre-shipment Inspection:** The group noted that Government was yet to implement the 1995 recommendation;
5. **Nigerian Ports Rationalisation:** Although the Nigerian Ports Plc had been commercialised, some members expressed concern about their escalating charges;
6. **Smooth Flow of Goods and Services within the Port Area:** Although a decree had been promulgated, members expressed concern about the continued presence of multiple agencies at the ports; and
7. **Use of Bills for Collection:** The group noted that this recommendation had not been accepted by Government.

## **Recommendations**

Based on the issues above, the group made the following recommendations:

1. **Clearance of Goods:** Government should take all the necessary measures to achieve its stated desire of clearance of goods within forty-eight hours;
2. **Harmonisation of Agencies:** Government should harmonise the roles of all the agencies operating at the ports including Nigerian Customs Services, PIDA, Nigerian Ports Plc, shipping companies and others to avoid conflicts;

3. **Strengthening the Nigerian Customs Service (NCS):** Nigerian Customs Service should be provided with all necessary resources to enable it achieve the government's intention of clearance of goods within forty-eight hours. Apart from the facilities, the staff should also be motivated through enhanced compensation and training;
4. **Computerisation of Long Room Procedures:** The group noted that NCS had commenced computerisation. However, the process should be accelerated through the acquisition of appropriate softwares and other associated facilities;
5. **Pre-shipment Inspection:** The group strongly believed that the circumstances prevailing at the time of introducing pre-shipment inspection had totally disappeared. It, therefore, recommended that the system be abolished;
6. **Clearance Under Indemnity:** The group recommended a return to the previous policy whereby 90% of shipment could be released to importers on indemnity while the disputed tariff was being sorted out;
7. **Innovation at the Ports:**
  - a) It is recommended that a single agency should be made responsible for all the clearing and inspection activities at the ports. This agency, preferably the Customs Service, should acquire the necessary capacity for the task;
  - b) The ports should operate twenty-four hours, seven days a week including public holidays; and
  - c) In the long-term, in conjunction with Bureau of Public Enterprises (BPE), the ports handling activities should be privatised such that ocean carriers are allowed to operate their own terminals and choose their own stevedores based on quality of services and costs.
8. **Processing of Letters of Credit:** Importers should be free to buy their insurance either locally (from their side) or from the exporter's side. The

group also noted the Head of State's Policy Statement in his keynote address to the Summit regarding discontinuation of retail banking by Central Bank of Nigeria (CBN). This should be implemented to the letter;

9. ***Lift NMA Restrictions:*** The group recommends that the terms of shipment which applies 90% of Nigeria's import CRF/CIF be followed. Under these terms, the responsibility for the choice of shipping line remains the exporter's. It is further recommended that charges by the Nigerian Maritime Authority be abrogated;
10. ***Reduce Nigerian Ports Plc Charges:*** After an exhaustive deliberation on the implication of the current tariff levels by Nigerian Ports Plc in comparison with neighbouring ports, the group recommends that charges should be reduced to be the lowest in the sub-region;
11. ***Easing of Duty Collection System:*** The group observed that commercial banks are already collecting duty on behalf of Government. However, to eliminate delays, efforts should be intensified to improve on the acceptability of the banking instruments;
12. ***Lift Ban on Bills for Collection:*** In line with deregulation, Government should lift the embargo on Bills for Collection and Open Account Trading. But there should be no guarantee by Government. Documentation on trading of this nature should be redesigned to clearly indemnify Government;
13. ***Excise Duty Elimination:*** Excise duty should be eliminated for certain products and replaced with a progressive tariff system;
14. ***Check Points:*** Inland Customs checkpoints should not be mounted forty kilometers away from the ports/borders within the country.

# Exports and Tourism

## Introduction

The Export group agreed that every country in the current international trade regime must export or perish. It identified nine policy issues in the export area. These issues were extensively discussed and recommendations were offered for their resolution.

1. Existing export policies
2. Domiciliation of export proceeds
3. Export processing zones
4. Funding of export promotions
5. Pre-shipment inspection of exports
6. Trade in the ECOWAS sub-region
7. Information
8. Export product
9. Trade-related problems and measures.

## Issues Discussed

### 1. Existing Export Policies

Exporters are allowed to export items not contained in the list of banned goods, namely, beans, rice, cassava, maize, yam, timber, raw hides and skins, scrap metals and unprocessed rubber latex lumps. All primary products are not to be exported in their raw form except those like cocoa in which there is surplus production. Derivatives of primary products are permitted to be exported.

### 2. Domiciliation of Export Proceeds

An exporter raised the issue of domiciliation of export proceeds and disagreed with the theoretical belief that the fund is there for the exporter to use. The reality, the exporter explained is that bureaucracy is built around the operations of the account which tends to negate the objectives of the

scheme. Theoretically, the fund is there for use, however, banks deny the exporter the market exchange rate and give the exporter a discounted rate which discourages exporters from repatriating export proceeds. It is to the advantage of the exporter to use the proceeds abroad because he gets higher value.

### **3. Export Processing Zone Scheme**

The Calabar EPZ project has attained about 95% completion and is virtually ready for commissioning. The group felt that Government should provide all the infrastructure and maintain the Nigeria Export Processing Zones Authority to regulate operations in the zone and provide ancillary services while the private sector manages operations in the zone. The core activity in an EPZ is export manufacturing and that is the responsibility of the private sector. Also, small scale enterprises should be encouraged to utilise the facilities of the EPZ.

### **4. Funding of Export Promotion**

The group discussed the need to fund the Nigerian Export Promotion Council (NEPC) and NEXIM adequately to enable them to perform their export promotion activities. The group was of the view that the country's export development was still at an infant stage, requiring government support. The NEPC should be properly funded to be in a better position to promote Nigeria's exports aggressively. In the long-term, promotion of exports could be the responsibility of export companies and product associations. Finding access for the country's products cannot be left to the exporters at this stage.

The question of Nigeria's commercial desks closed during the rationalisation of Nigerian missions abroad was discussed. The group was of the view that promotion of exports was a specialised function that cannot be left in the hands of foreign affairs officers. Improved funding of NEPC was underscored by the group.

## **5. Pre-shipment Inspection of Exports**

While the idea of pre-shipment inspection of exports was welcome, the use of the scheme for quality control had implications for export. Participants expressed doubt in the ability of pre-shipment inspectors to inspect exports for quality. The group recognised the age-long role of the Federal Produce Inspection Service (FPIS) in grading export produce. The FPIS also fumigates produce to ensure that exports reach their destinations in good condition - a role which the pre-shipment inspectors who lack the expertise are not well placed to play. Exporters who take orders from overseas buyers should be responsible for meeting export requirements. Horticultural products such as flowers are very specialised and the exporter and importer already know what is involved. The FPIS should be allowed to continue with its role in inspecting export produce and at best the two agencies should complement each other.

## **6. Trade in the ECOWAS Sub-Region**

The ECOWAS market is large and Nigerian products are available in the entire region through informal trade. Nigerian goods are smuggled across the borders and this major trade is unrecorded. The group expressed concern over the large-scale unrecorded trade in Nigerian goods throughout the ECOWAS region. The implications for Nigeria are grave as Nigerian export figures are distorted and the balance of trade statistics exclude the aspect covered by this trade volume. Countries benefiting from this illegal trade are also having distorted figures of their imports vis-a-vis Nigerian imports/exports. The need for this trade to be formalised in the interest of Nigeria was emphasised.

## **7. Information**

The group identified inadequate information about available export products, areas of production, quality of products, prices of products within and outside Nigeria, market information, etc.



## **8. Export Products**

The group believed that the selection of export products should be based on Nigeria's comparative advantage vis-a-vis those products. It identified cocoa, rubber, palm oil, agricultural products, horticultural products, minerals and other manufactured goods as such exports.

## **9. Trade Related Problems and Measures**

Trade related issues were identified and although some of them were outside the control of the ministry responsible for Trade and Tourism, the group considered them relevant and critical. These included tourism, infrastructure and logistics. Tourism is a multi-disciplinary subject which cuts across ministries. Jos and other identified areas should be developed for tourism. Good road network, air connections should be provided. Communication should be provided in such areas. Also, infrastructure should be well developed to promote Nigeria's export trade. Attention should be paid to roads, railways, transportation and communication. Tourism endowment in the Plateau and Bauchi axis should be developed and promoted.

## **Recommendations**

### **1. Existing Export Policies**

There should be less control and more private sector involvement in export policies and procedures. There should be policy consistency. The group recommends that Nigeria should harmonise her export policies with the World Trade Organisation (WTO) and remove barriers to exports. Export policies should have a time-frame before they are reviewed.

### **2. Domiciliation of Export Proceeds**

The group viewed the manipulation of exporters' funds in the domiciliary account as a disincentive to repatriation of export proceeds and recommends that the CBN should ensure that the exporter gets the full benefit of his export earnings.

### **3. Export Processing Zone Scheme**

The group recommended that the private sector should be involved in the management of the EPZ. The group also recommended that there should be no limitation in the level of investment in the EPZ. Small scale manufacturers/producers should be allowed to produce in the zones.

### **4. Funding of Export Promotion**

The group recommended that the NEPC be properly funded to discharge its statutory responsibilities if Nigeria is to aggressively promote non-oil exports. The Commercial Desks closed during the rationalisation exercise should be re-opened. The group also recommended that all export levies should be removed. NEXIM should be properly funded and strengthened to be in a better position to respond to the needs of exporters who should then deal directly with NEXIM rather than other commercial banks. NEXIM should also be privatised. A proportion of funds from the oil sector should be used to finance the development of the export of non-oil exports.

### **5. Pre-shipment Inspection of Exports**

Pre-shipment inspection should not be a quality stamp as the inspectors lack the expertise to play that role. The FPIS should be funded, strengthened and allowed a free hand to carry out their statutory role of inspecting and fumigating produce to ensure quality at destinations.

### **6. Trade in the ECOWAS Sub-Region**

The group recommended that measures should be adopted by the Government to formalise the trade with countries in the ECOWAS sub-region so that the trade going on may be recorded and the volume known. The establishment of Nigerian banks in the ECOWAS region should be encouraged so as to ameliorate existing chaotic payment arrangements.

## **7. Information**

NEPC should be strengthened to enable it to perform its export promotion activities better. Commercial Desks should be re-opened in Nigeria's overseas missions.

## **8. Export Products**

The group believed that the selection of export products should be based on Nigeria's comparative advantage vis-a-vis those products. It identified cocoa, rubber, palm oil, agricultural products, horticultural products, minerals and other manufactured goods as such exports.

## **9. Trade Related Problems and Measures**

- In the medium-term, designate Jos as an international airport for tourism purposes and for the expeditious evacuation of perishable export products like flowers which abound in the area
- Export sports - Nigerian artists and sportsmen should be encouraged to perform overseas as they could constitute a source of foreign exchange. (They should also be protected by Government in foreign countries); and
- Improve the infrastructure - roads, railways, transportation and communication to facilitate Nigeria's export trade.

# **Petroleum Trust Fund**

## **Introduction**

The group highlighted the following on-going projects embarked upon by the Petroleum Trust Fund (PTF):

- Road rehabilitation
- Health (drugs)

- **Water works**

PTF has about 450 consultants nationwide to complement its in-house expertise.

## **Issues Discussed**

The issues discussed by the group centred around the following:

### **1. Funding**

Petroleum product sale was identified as the source of PTF funding. The average amount is N5.32 per litre of either domestically refined or imported petroleum products. PTF was budgeted to receive N61 billion Naira between 1st October, 1994 and 31st December, 1995. However, only N37 billion has so far been received. The budget is based on 300,000 barrels per day. But in actual fact, daily output is only 195,000 barrels. Current revenue target for 1996 is N44 billion based on estimated N3.6 billion monthly.

### **2. Sustainability**

The group proposed the following sharing formula to sustain the operators in the industry based on the N11.00 pump price per litre:

	<b>Present Price Structure</b>	<b>Interim Proposal</b>
	<b>N</b>	<b>N</b>
Crude oil	2.40	2.40
VAT	0.30	0.30
NNPC	1.70	2.50
Marketers	1.30	2.50
PTF	5.30	3.30
	<hr/>	<hr/>
	11.00	11.00
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Gradual increase of pricing of petroleum products is desirable to sustain the industry. The present price structure is not sustainable because the

refineries need more money for maintenance. However, all the existing loopholes in NNPC must be closed before PTF could agree that NNPC's take is not adequate.

### 3. **Major projects**

Apart from road construction/rehabilitation, health services, water supply, the group considered food supply and education as other projects which PTF can assist for the social benefit of Nigerians.

The need for emphasis on the rehabilitation of the decaying structures was also noted. With respect to roads, the group acknowledged that a sustainable maintenance arrangement after rehabilitation is being worked out with the Federal Ministry of Works and Housing.

There is need for project prioritisation and public enlightenment of PTF activities.

### 4. **Utilisation of Funds**

So far, N40 billion was noted to have been committed, a lion's share of which went to roads (N33 billion). Drug supply has consumed N1.5 billion. Kaduna refinery needs assistance to produce bitumen. In terms of contribution to research and development, PTF was noted to have provided N237 million to Agricultural Research Centres through counterpart funding.

### 5. **Control/Accountability**

On this issue, the group noted that PTF prepares quarterly reports on its activities to the Head of State and Commander-in-Chief who also directs/approves projects above N50 million.

The Chairman addresses the press to inform the public of PTF activities. The point was made of the need for occasional meetings with interest groups such as Chambers.

It was, however, noted that PTF's books do not go to Auditor-General of the Federation for scrutiny.

## **Recommendations**

1. The prices of petroleum products should be revisited if PTF is to be sustained.
2. In allocating the revenues from the sales of petroleum products, all the operators in the system should be adequately funded to recover all their costs and to provide for effective facilities, maintenance and growth.
3. The short and medium-term solution for funding PTF is through appropriate pricing which recognises important variances (such as exchange rates). In the long-term, the downstream industry needs to be privatised, opened up to competition and subject to the interplay of market forces.
4. The current price of ₦11.00/litre is inadequate to meet all the costs of the operators and the PTF. A new margin structure to keep all operators afloat and provide for PTF is therefore necessary.
5. PTF should continue to intervene in projects of strategic national importance.

## **Savings and Pensions**

### **Introduction**

The group defined its objectives as follows:

- To mobilise savings;
- To encourage long-term investment funds;
- To ensure pensions are sustainable/adequate; and
- To inculcate the principle of self-reliance thereby reducing:
  - Government's financial obligations; and
  - Unplanned retirements.

It then identified the following sources of long-term savings: pension schemes, life assurance, unit/investment trusts, communal savings, endowment funds, individual retirement plans, private equity plans. Pension schemes, life assurance products and communal savings schemes are well established in Nigeria. The other sources of funds are still relatively new concepts.

## **Issues Discussed**

The group discussed the following issues recognised as crucial for improving the levels of savings and pensions:

### **1. Political Instability and Inflation:**

Political instability translates into an unstable investment environment for savings and investments. Inflation erodes the purchasing power of savers and the value of their savings. For instance, the interest rate cap regime in an inflationary environment distorts the dynamics of the bond and money markets and subsequently results in negative returns on assets.

### **2. Funding**

The group discussed contributory schemes versus non-contributory schemes and noted that many of the existing pension schemes are not funded. Private sector operators tend to enter book entries purely for tax purposes.

Public Sector Pension Schemes are also unfunded. Pensions and gratuities are expensed from the revenue account by the Government as recurrent expenditure. Unfunded pension liabilities expensed from the revenue account will have a wide implication on Government's expenditure as life expectancy improves. The implication of the statutory age limit of sixty years (thirty-five years in service), compulsory/unplanned mass retirements, periodic reviews of benefits and an aging population on the civil service pension bill were also extensively discussed.

For instance, it is possible that if the current growth trends continue, the pension bill could exceed the wage bill for the Civil Services. Pension bill (Civil Service) was ₦2.36 billion and ₦1.75 billion in 1995 and 1994

respectively. In 1995, pension expenses account for 13.25% of the wage bill of ₦20.7 billion.

### **3. Management of Funds**

The group discussed the issue of custody of funds and the need to adopt transparent and accountable management procedures in the public and the private sector. It also noted the risk of mismanagement by portfolio managers.

### **4. Legislation**

The problem here lies in the over restrictive provisions on portfolio composition and asset allocation as stipulated in certain sections of the NHF Decree, Trustee Investment Act and Companies Income Tax Act. The result is that investors are unable to hedge against inflationary pressures due to restrictive investment criteria as stipulated by the Trustee Investment Act (TIA).

### **5. Taxation**

The tax laws penalise savings and pensions. The Companies Income Tax Act subjects unit trust income to 30% corporation tax - viewed as a double taxation to unit trusts. The existing laws fail to recognise unit trusts as vehicles purely for investment purposes. The 30% corporation tax acts as a disincentive to investors as it is cheaper for them to invest directly in the stock market. The Personal Income Tax Decree (PITD) taxes pension income as earned income, while withholding tax is deducted from investment income earned by pension scheme. Also, VAT is charged on investments in real estate, which is viewed as a capital expenditure by the tax man as opposed to an investment by a trustee.

## **Recommendations**

1. Institute legislation requiring that a minimum level of contributions should be made to pensions schemes;



2. Ensure all retirement schemes are fully funded and benefit from adequate tax incentives;
3. Repeal and abolish all rigid asset allocation requirements as stated in provisions in highlighted decrees - TIA, NHF, CIMA, PIA;
4. Abolish VAT on investments in real estate;
5. Ensure pension income is not taxed as earned income rather investment income on pension funds should be taxed; and
6. Abolish VAT on savings income.

## **Infrastructure (Short and Medium-Term)**

### **Introduction**

The group defined infrastructure as physical structures and amenities normally provided by large public corporate bodies, usually Government in Nigeria, to facilitate socio-economic activities.

### **Issues Discussed**

The group identified infrastructures as including the following services:

1. Transport and Communications;
2. Energy/Electricity;
3. Water Supply;
4. Waste Management;
5. Health and Recreational Facilities;
6. National Data;
7. Human Resources, and
8. Utility Trucks.

It noted that historically, infrastructure in Nigeria had been provided by the various arms of Government initially within departments and then ministries.

These services were later performed by parastatals, i.e., statutory corporations and wholly owned government companies and every attempt to change this model had been resisted by the public sector.

Over the years, our infrastructural services performance has deteriorated sharply with significant gaps between infrastructure provision/supply and demand.

In recent times, the gap has increased alarmingly in qualitative and quantitative terms, given modern business demands and technological advances. The group then reviewed Government's efforts to address these deficiencies and considered particularly the 1996 Federal Government Budget. It praised the budget as a laudable policy package strikingly consistent with macro-economic policies instituted in 1995 and noted the commercialisation programme (e.g., toll gates) and the decision to rehabilitate and maintain major economic and social infrastructural facilities.

The group identified four (4) major infrastructural services that must be urgently upgraded:

#### 1. *Transportation*

Rural and State roads have practically collapsed whilst Federal and urban roads are cratered.

Railways and River transportation contribute minimally and, whilst air travel is stable due to private sector involvement, navigational aids are inadequate.

#### 2. *Communications*

Basic telephone density and reliability are grossly inadequate. Nigeria has four connected lines to 1,000 people. Kenya, Senegal have eight lines each, United Kingdom has forty-five lines. The United Nation's recommended minimum is ten lines per 1,000 of population.

### 3. *Power*

NEPA's installed capacity (4,000 mega watts) exceeds maximum demand (2,500 mega watts) but maximum demand has hardly been met, on account of supply and distribution limitations. Under present conditions, NEPA's traffic, billing and collection are not economically efficient. Also, our gas resources are not exploited because of pipelines constraints.

### 4. *Water*

Urban water has been deteriorating and rural water is virtually non-existent.

## **Recommendations**

### 1. *Immediate*

- 1.1 Set up Highway Authority and National Road Fund by Decree;
- 1.2 Dredge key waterways;
- 1.3 National Communications Commission (NCC) to invite bids for second national or zonal switch in competition with NITEL for accelerated growth;
- 1.4 Establish the legal framework to liberalise power sector and allow private participation in supply and distribution;
- 1.5 Proceed to liberalise water supply, railways, etc., by encouraging private sector participation; and
- 1.6 Give education top priority and fund adequately.

### 2. *Medium-Term Objectives*

- 2.1 Consolidate liberalisation;
- 2.2 Enlarge private sector participation and competition;

### 2.3 Privatisise parastatal organisations:

- Government to offer up to 51% of equity to public
- Government to invest the accruing income in other areas, such as infrastructure and human resource development.

## **Petroleum Funding**

### **Introduction**

The group's discussion focused primarily on the upstream sector of the petroleum industry. Government's declared intention to gradually withdraw from direct investments in the industry formed the background of the discussion.

The petroleum sector has played a significant role in the Nigerian economy and will continue to do so for a long time. It currently accounts for over 30% of GDP; over 70% of total government revenue; and over 90% of export earnings. As a result, the sector funds the other sectors of the economy. Furthermore, the country has considerable but unexploited gas resources.

### **Issues Discussed**

#### 1. *Funding*

Joint venture operations have been under-funded in the last few years. This is the most critical problem facing the upstream sector today. As an example, Government is yet to fully pay pre-1995 cash call arrears owed the joint venture partners. It is also a matter of concern that the 1996 Budget, which was six months late, cut joint venture funding by 30%. It is, therefore, the consensus that government funding of its cash call obligations has been unreliable and inadequate.

#### 2. *The National Goal*

Government's stated goal is to increase oil reserves to 25 billion barrels, and production to 2.5 million barrels per day, by the year 2000. Some

questions remain, however. The first relates to whether Government has really accepted the goal as well as the extent of consultation and understanding between Government and operators. Also questioned was the extent of Government's understanding of the cost implications of such a goal.

Vision 2010 provides an opportunity for setting a more aggressive long-term goal.

3: *End of Gas Flaring*

Flaring of associated gas has to be terminated in the near future. Provision must, therefore, be made for gas utilisation or re-injection.

4. *Others*

The budgeting process is not well co-ordinated between operators, NNPC, Ministry of Petroleum Resources and Government. In addition, it remains unclear who has the final approval of the five-year Strategic Plan and what use the plan would be put to. Also policy instability and lack of communication between Government and its joint venture partners erode confidence.

## **Recommendations**

### **Short-Term**

1. *Funding Options*

New funding options should be explored. Such options within existing Joint Operating Agreements (JOA) include cash call crude and sole risk operation. Other funding options that should be considered include:

- project financing;
- short-term loans;
- production-sharing contract approach;
- capital market financing (dollar denominated); and

- divestment by Government to 40% equity in joint ventures.

Proceeds from divestment should be used to finance other petroleum sector projects or repayment of the nation's external debt.

## 2. *Gas Flaring*

Immediate steps should be taken to end gas flaring.

## Long-Term

### 1. *Privatisation*

The industry should be fully privatised.

### 2. *Operating Company Concept*

The operating company concept, in which the producer, NNPC and members of the public jointly incorporate an operating company, should be considered. The company would be capitalised initially by the joint owners and would thereafter source funds like any other private company.

### 3. *Vision 2010*

New reserve and production targets should be set in line with Vision 2010. Such targets should be aggressive yet realistic, with intermediate milestones. For example, production of 2.5 million barrels per day by 2000 and 3.5 million - 4 million barrels per day by 2010.

## Policy and Implementation Process

### Introduction

Given that all actors in the economy, shareholders, customers and relevant public institutions are stakeholders, the private sector is therefore, regarded as a stakeholder in public sector activities. In this regard, the rights and interests of

stakeholders are important in the process of policy formulation and implementation.

The nine stages of Government's budget cycle were identified. Before 1990, the budgeting/planning process comprised annual budgets and five-year development plans. But since 1990, this approach has been replaced with the three-tier structure. This new approach integrates the fifteen-year Long-Term Perspective Plan, three-year medium-term rolling plans and annual budgets.

## **Issues Discussed**

### **1. *Planning Process***

The current three-tier planning process which integrates the annual budget into the rolling plan and the perspective plan was accepted as good. It should therefore be continued. This, along with the seven-year tariff regime, would make for policy continuity.

### **2. *Clear Priorities***

Setting of clear national priorities for budgeting purposes was emphasised. Priority areas identified include poverty alleviation, employment generation, women empowerment, productivity improvement and education.

### **3. *Data Availability***

Availability of comprehensive, reliable, accessible and timely data is important. It is equally important for meaningful planning and budgeting, to build strong public sector agencies responsible for data collection and dissemination.

### **4. *Budget Hearing***

Use of the budget hearing exercise as a means of achieving wide consultations is welcome. But the exercise could become more realistic if

the parties involved were given clear indications of available resources prior to hearings.

5. *Services/Structures/Capacity*

Adequate services and supporting structures along with adequate capacity, particularly qualified and effective manpower, are critical to proper budget planning and implementation.

6. *Transparency and Accountability*

6.1. *Social Responsibility*

Social responsibility should be borne by all sectors of society. A "social balance sheet" published, as a means of improving information disclosure, would be useful in this regard.

6.2. *Statistics*

Regular and up-to-date information on various aspects of the economy is vital to effective decision-making. Sources of national and sectoral statistics include the Central Bank of Nigeria, Federal Office of Statistics, Federal and State ministries and agencies.

6.3. *Government Performance*

Recent achievements by Government in the areas of transparency and accountability in economic management are commendable. So also is the abolition of dedicated accounts. It is important to make these permanent and to extend same measures to the States, Local Governments and parastatals.

6.4. *Accounts of Parastatals/Agencies*

Government parastatals and agencies do not routinely publish their annual audited accounts as is the practice in the private sector and as mandated by the Companies Act.



## **6.5 Corruption**

Corruption has remained a vexed problem: It should now be tackled very urgently and with strong determination.

## **7. Performance Measurement**

### **7.1 Benchmarks/Milestones**

Establishment of performance benchmarks for government ministries/agencies, parastatals, States and Local Governments would enhance the performance of such bodies. Such benchmarks would be set against the best performers in the world. Along with benchmarks, performance milestones would aid review.

### **7.2 Regular Review of the Economy**

Quarterly review of the economy by the Federal Ministry of Finance and regular sectoral briefings are necessary to engender confidence in the economy and develop stakeholder commitment.

### **7.3 Regular Monitoring and Publication**

Monitoring activities currently exist but these need strengthening. In addition, findings of such monitoring exercises need to be published.

### **7.4 Inputs from National Productivity Centre**

Utilising inputs from the National Productivity Centre could aid performance improvement in each sector of the economy.

## **Recommendations**

1. Government should ensure provision of comprehensive, reliable, accessible and timely data for meaningful planning and budgeting;

2. Call circulars sent out at the beginning of the budget cycle should indicate the resources that would be available for the budget year to make for more realistic budgeting;
3. Adequate services and supporting structures should be provided to enhance performance and reduce opportunities for corruption. Public and private sector employees should be adequately remunerated;
4. Public and private sector establishments should publish "social" balance sheets;
5. The Government should publish regular national and sectoral statistics as follows:
  - Financial: daily, weekly, monthly;
  - Trade: weekly, monthly;
  - Social/Economic: monthly, quarterly, annual.
6. There is an urgent need to strengthen existing monitoring activities to ensure better performance. Findings of such exercises should be published;
7. Quarterly reviews of the economy and sectoral press briefings should be institutionalised; and
8. Performance milestones and benchmarks should be established for each government department, agency and parastatal.

### Section 3:

## Medium to Long-Term Economic Development

*The discussions by the 6 groups in this Track looked beyond 1997 and focused on the medium and long-term reforms required to enable Nigeria achieve sustainable economic development. The subjects addressed by the groups include Governance and the Investment Climate issues such as Industrial Strategy and Policy, Infrastructure and Long-Term Funding.*

### Privatisation

#### Introduction

A review of the experiences of the former Technical Committee on Privatisation and Commercialisation (TCPC) was carried out by group members from its successor the Bureau of Public Enterprises (BPE). Some progress had been made with privatisation but difficulties remain. The problems and constraints highlighted at the last Economic Summit are still there.

It should be noted that, in practice, no enterprise can be regarded as unprivatisable.

#### Issues Discussed

##### 1. Impact of BPE's Shift of Focus

TCPC and its successor, BPE, have made some progress since commencement of the privatisation programme in 1986. Out of the 111

public enterprises (PE) slated for privatisation, only 25 were adjudged "unprivatisable" due to the very poor health of these enterprises.

It is observed that no new privatisation has been undertaken since 1993. BPE has, however, submitted recommendations to Government on the privatisation of an additional 142 public enterprises.

## 2. **Conditions of Some Sectors of Public Enterprises**

2.1 ***Downstream Petroleum Sector:*** Characterised by rapidly deteriorating operating assets of the refineries and distribution systems. As a result, product scarcities, shut-downs, and price distortions have become endemic. Government in response has resorted to product imports, spending US\$450 million in 1995 and an estimated US\$500 million in 1996.

2.2 ***Public Utilities:*** Enterprises in this sector have remained inefficient and are unable to provide the required service and to expand. They are beset with fraud in all areas of operation including procurement and revenue collection. Attempts to commercialise these utilities have resulted in high tariffs without a commensurate improvement in the service provided, all in a bid to achieve targeted revenue and to cover over-stated operating costs.

2.3 ***Manufacturing:*** Enterprises in this sector continue to suffer from working capital constraints, resulting in low capacity utilisation, distortion in resource allocation and loss of value.

### 2.4 ***Implications of Status Quo***

Continuing inaction on the privatisation front would result in the eventual total collapse of the operating assets and complete loss of value of these public enterprises. The country would then depend on imports, a position which is unsustainable and which could heighten the capital flight phenomenon. As a result, the real sector would be subjected to higher operating costs, further decline in capacity utilisation and, ultimately, shrinking of the economy.

## **Recommendations**

### **1. Government Policies**

Success of the reform agenda largely depends on the commitment and political will of the country's leadership. It is therefore recommended that Government should immediately issue a clear and unambiguous policy statement on privatisation.

Government should also emphasise continuity and completion of the privatisation programme by linking subsequent policies in this regard to macro-economic reforms already implemented. Such reforms include repeal of the Exchange Control Act and the Nigerian Enterprises Promotion Decree.

Supervising Ministries of enterprises slated for privatisation should recognise and respect the powers and authority of the BPE.

Government should also intensify the public enlightenment campaign to educate the general public on the merits of the privatisation programme.

### **2. Institutional Reforms**

In recognition of the need to ensure effectiveness of regulatory agencies for the successful realisation of the objectives of the privatisation programme, the following are recommended:

- implementation of complementary reforms in the appropriate regulatory agencies such as the Nigerian Stock Exchange, Securities and Exchange Commission and Standards Organisation of Nigeria; and
- creation of new or modification of existing regulatory agencies to assume responsibilities of a Monopolies and Mergers Commission and an independent Utilities Charges Commission to cover appropriate privatised public utilities.

### 3. **Implementation Schedule**

There is the need to set objective criteria for prioritisation and to give focus to the implementation of the privatisation programme up to the year 2010. It is also recommended that allowing competition must be an integral part of the privatisation process to avoid creation of monopolies.

The following implementation schedule is recommended:

#### 3.1 Full privatisation of the following enterprises by 1998:

- Aluminium Smelter Company (ALSCON)
- Ajaokuta Steel Complex and Steel Rolling Mills
- Machine Tools Company
- Paper Mills
- Cement Companies
- Fertiliser Production and Distribution Companies
- Sugar Companies
- Oil Refineries
- Petrochemicals Companies
- Automobile Assembly Plants
- NITEL
- NEPA
- Nigerian Railways
- Nigeria Airways
- Public Water Supply Systems
- Waste Management

#### 3.2 Open up the following sectors to competition by the year 2010:

- Airports
- Seaports
- Roads/Highways

#### **4. Policy matters**

The following policy issues are strongly recommended:

- Re-examination of Government involvement in all on-going public-funded projects with a view to disposing Government's equity holding in those projects to the private sector, *ab initio*. Such projects include Nigerian Liquefied Natural Gas (NLNG) and ALSCON;
- Government should immediately completely and categorically abandon the "Golden Share" principle;
- Government should immediately design an Action Plan for implementation of the Privatisation Programme and expeditiously and irreversibly commence implementation.

#### **5. Criteria for Selecting Enterprises for Privatisation**

The following criteria, among others, are recommended for selecting public enterprises for privatisation:

- weaning the affected public enterprises from the public purse;
- quality of goods and services offered to be commensurate with tariffs charged consumers;
- limiting Government involvement to those areas of operation that are currently unattractive to the private sector;
- avoiding unfair competition between private sector and Government-owned enterprises.

#### **6. Funding**

It is important to widen the scope of funding sources for the privatisation programme. The following additional sources are, therefore, recommended:

- International Financial Institutions through equity stakes and provision of indemnities to mitigate country risks;
- Debt/equity swap options such as the DENI Scheme currently sponsored by the US-Africa Business Council;
- Using privatisation proceeds to service existing public debt, especially Paris Club debt currently estimated at US\$22 billion. Such debt could be securitised and discounted at no more than 35% of face value.

## 7. Others

- The current Contract Leasing/Management Contract option is not considered a feasible substitute to outright ownership. Review of this method is therefore recommended, especially in the light of growing public opinion that such option may not be popular with private investors;
- Eventual privatisation of seaports and airports should take due cognisance of the possible security implications;
- BPE should develop a "Citizens Charter" which would form a general framework for effective service delivery at least cost by privatised PEs;
- PEs owned by State and Local Governments should be fully integrated into the privatisation programme;
- Investment protection guarantees must be in place;
- Legislation to ensure non-reversal of privatisation policies should be put in place; and
- There should also be legislation to allow use of additional fiscal incentives to attract the private sector to those areas which may not be immediately economically viable.



# Medium-Term Economic Programme/Debt Relief

## Introduction

The Medium-Term Economic Programme (MTEP) is a pre-condition for debt relief from the Paris Club. A comprehensive debt management strategy is, therefore, required, covering both external and domestic obligations.

## Issues Discussed

### 1. External Debt

The country's total external debt stood at US\$32.58 billion as at end of December, 1995. The external debt profile, based on figures from the Debt Management Department of the Central Bank of Nigeria, is as follows (in billions of US dollars):

	Amount as at December, 1995 \$ billion	1996 Debt Service Requirement \$ billion
Paris Club	21.7	3.8
Multilateral	4.4	0.8
Promissory Notes	3.1	0.3
London Club	2.0	0.1
Non-Paris Bilateral	1.3	0.3
	<u>32.5</u>	<u>5.3</u>

Servicing of London Club and Promissory Note debts are being met on schedule. However, arrears on Paris Club obligations have been accumulating since 1992, amounting to US\$10.3 billion as at the end of 1995.

### 2. Debt Instruments

Trade debts outstanding as at 31st December, 1983 were restructured into promissory notes maturing over 22 years. These promissory notes were

guaranteed by the Federal Republic of Nigeria. Of the commercial bank debt outstanding as at the same date, 62% was bought back by the Government at 60% discount while the remaining 38% was restructured into US Dollar denominated 30-year par bonds. The par bonds were collateralised by US Treasury zero coupon bonds of same maturity.

International investor interest in these debt instruments has been significant as evidenced by the active secondary market trading in them. Demand is further fuelled by the eligibility of the bonds and promissory notes under the Debt Conversion Programme (DCP). The DCP, however, currently has restrictive repatriation terms for both capital and interest. Investor interest has been further helped by the punctual servicing of the London Club debt, the attractive yield and reduction of stock of DCP eligible debt through regular conversion.

### 3. Domestic Debt

Total domestic debt stock as at 31st December 1995 was N410 billion. Of this amount, Treasury Bills accounted for N103.3 billion or 25.2%, Treasury Bonds accounted for N279.5 billion or 68.2% while Treasury Certificates and Development Stocks accounted for the remaining N26.8 billion or 6.6%.

On investor composition, the Central Bank of Nigeria is by far the biggest investor holding 75% of all domestic debt. Banks hold 15% while the non-bank public holds 10%. One reason for this composition is the unattractiveness of these instruments to private investors as a result of the uncompetitive interest rate structure.

### 4. Medium-Term Economic Programme (MTEP)

A Medium-Term Economic Programme is still being discussed. However, for an acceptable MTEP, and for a Paris Club agreement on debt rescheduling/debt relief, Nigeria needs to maintain sound economic policies while adhering to the political transition programme.

## **Recommendations**

### **1. Debt Management Strategy**

Whilst the absolute size of Nigeria's external debt is significant, the main concern remains the lack of a successful resolution of the Paris Club debt. A comprehensive debt management strategy is therefore called for. The implications/benefits of such a comprehensive strategy are many and include the following:

- increased confidence in the Nigerian economy and encouragement of foreign direct investment;
- availability of new credit lines from the London Club, multilateral agencies and export credit agencies;
- access to international capital markets for viable projects and tapping into Emerging Market Funds. Currently, only projects in the oil and gas sector, such as Mobil's OSO project, have been of interest in international markets;
- contribution to macro-economic stability and better planning;
- longer maturities, resulting from rescheduling, would ease cash flow pressures on the economy;
- reduced debt burden as a result of debt relief; and
- access to best possible concessionary terms such as the Enhanced Toronto Terms or Naples Terms.

### **2. Debt Conversion Programme (DCP)**

The DCP has so far redeemed over US\$1.0 billion of debt and, for the first time since introduction of the programme, US\$25 million of Paris Club debt was converted in August 1996.

However, to make it more attractive to investors, the terms of the DCP should be liberalised. For example, the repatriation should commence not more than five years from conversion date.

### 3. Hedging

Distribution of the country's external debt by currencies is as follows: US dollar 44%, Deutsche Mark 15%, French Franc 11%, British Pound 11%, Japanese Yen 8% and Others 11%.

Since Nigeria's external debt is in various currencies, hedging against currency and interest rate fluctuations should be explored as an additional tool for debt management.

### 4. Domestic Debt

The following recommendations are made in respect of domestic debt:

- domestic debt should be priced at attractive market rates;
- contractor-related domestic debt should be securitised at market-determined rates to add depth to the capital markets as well as ease cash flow pressures. In addition, market rates would enhance efficiency in management of government finances by discouraging the present trend of public sector borrowing at subsidised rates;
- adequate provision should be made by Government to service its domestic debt. When there are surpluses in government finance, priority should be given to debt retirement in the application of such surpluses;
- the public sector should avoid, as much as possible, borrowing from the banking system to avoid crowding out the private sector; and
- for effective debt management, the Government should strive to stay within its statutory borrowing limit.

# **Law and Order/Security/Human Resources**

## **Introduction**

Law and order, security of life and property and the availability of well-trained, quality human resources are important prerequisites for economic growth and attainment of high quality of life.

## **Issues Discussed**

The issues include:

### **1. Rule of Law**

- efficiency of the court system
- justice and due process

### **2. Corruption and Economic Crimes**

- corruption in the public and private sectors
- poverty as a contributing factor
- laws governing economic crimes

### **3. Security**

- security of life and property
- threat of hard drugs

### **4. Investment Laws**

- need for adequate laws
- public availability of and access to publications

### **5. Industrial Peace and Social Contract**

- collective bargaining

- social contract

## 6. Human Resources

- education
- health
- job creation.

## Recommendations

### 1. Rule of Law

#### 1.1 *Court System*

Major reform in funding of the court system is needed. Also, a committee should be set up to handle the revamping of the court system and facilities. The committee should inter alia, design a new system that integrates the attractive aspects of the tribunal system into the regular court system. The aim should be a single uniform, integrated system of law administration that is transparent, impartial, speedy and efficient. The committee should be broad based in its composition including, in addition to lawyers, management consultants, etc.

#### 1.2 *Justice and Due Process*

Government should obey its laws. There should be full observance of due process, fairness as well as elimination of arbitrariness in the dispensation of justice. Efforts should be geared towards speeding up processes.

Respect for human rights should be upheld. In addition, all ouster clauses should be removed from the country's laws.

## **2. Corruption and Economic Crimes**

### **2.1 *Public/Private Sectors***

Adequate and prompt remuneration should be provided to public servants. Administrative processes should be simplified and publicised to all concerned to eliminate/reduce bottlenecks that give rise to corruption. There should also be provision for appeals. All parastatals should be made to publish audited accounts.

### **2.2 *Poverty***

Efforts should be made to raise more citizens above the poverty line as a means of stemming the temptation to engage in corrupt practices.

### **2.3 *Laws Governing Economic Crimes***

Distinction between civil and criminal liabilities should be properly preserved in the drafting and enforcement of these laws. All draconian laws in existence should be reviewed.

## **3. Security**

### **3.1 *Security of Life and Property***

Status of security agents should be enhanced through training and provision of facilities and encouragement of neighbourhood policing and vigilance. There should also be proper gun control and improvement in infrastructural facilities as well as character references for jobs in the security agencies.

Furthermore, Government should embark on an effective enlightenment campaign on the need for discipline and respect for the laws of the land, aimed at evolving a new value system of civics should be reintroduced in schools and generally we should campaign to enthrone a new value system. Character references

should be made mandatory for employment in both the private and public sectors.

### 3.2 *Drugs*

Emphasis should be on prevention, control of distribution and local production/consumption.

## 4. **Investment Laws**

The proposed Nigerian Investment Promotion Commission should be established without delay. Also, all investment laws should be reviewed and amended in line with current reality. Such laws should then be promptly published and circulated. There should also be laws to control monopolies.

## 5. **Industrial Peace and Social Contract**

### 5.1 *Collective Bargaining*

Government should muster the political will to negotiate in accordance with existing conventions. There is the need for amicable resolution of conflicts along with tolerance of dissent.

Collaboration between the public and private sectors in sharing experience and know-how in matters of collective bargaining should be encouraged.

### 5.2 *Social Contract*

A higher sense of industrial discipline and commitment by all parties is called for.



## **6. Human Resources**

### **6.1 Education**

- Basic education should be accorded priority and this level of education should be kept free and compulsory;
- All three tiers of Government must contribute to education. This calls for upward review of budgetary allocations to education;
- An Education Tax Administration Commission should be established immediately;
- The current crises in the universities should be resolved immediately;
- Private universities should be approved while existing public universities should be rationalised;
- Fees should be charged in universities. However, scholarship schemes for bright students and loan schemes for indigent ones should be instituted;
- There should be special inducements for teachers of mathematics and science while specialised science universities should be made to concentrate on their disciplines; and
- Quality must be improved. Also, improve management education and capacity building education.

### **6.2 Health**

- Primary health care must be affordable for all;

- Alternative medicine should be integrated into medical practice to keep prices down. Alternative medicine practitioners should, however, be properly regulated;
- Teaching hospitals should be rationalised and allowed to charge full and adequate fees to be able to maintain their facilities;
- Other medical training facilities should be properly funded and health workers adequately remunerated;
- Health insurance schemes should be introduced immediately;
- Better funding is required for medical/training facilities;
- Better remuneration for health workers; and
- More effective policing of sales of drugs and increased public enlightenment, to reduce the incidence of fake drugs.

### 6.3 *Job Creation*

- Government should concentrate on providing facilities to encourage self-employment and small enterprises. Such facilities include market stalls, electricity and water supply to trade parks (mechanic parks, etc.);
- Agricultural extension services should be reintroduced along with provision of amenities in rural areas;
- Government should also assist small farmers in land acquisition and preparation; and
- Tax and other incentives must be introduced to stimulate the development of venture capital funds.

# **Industrial Strategy**

## **Introduction**

The vision for Nigeria should include an industrial profile that will be private sector centred and which will meet local and export needs while focusing on areas in which the country has comparative advantage. The nation's industries will have a well developed technological infrastructure aimed at improving the quality of life of Nigerian citizenry by the year 2010.

## **Issues Discussed**

### **1. Industrial Policy Direction**

Industrial investment serves as the platform for regenerating economic growth. This could only take place in a conducive investment environment. A serious approach to industrialisation deserves maximum attention at the topmost levels of Government as revealed by the lessons of the on-going Industrial Masterplan exercise.

### **2. Long-Term Finance**

Paucity of long-term finance poses a problem to industrialisation. Previous economic policies have encouraged short-term investment. Lack of investment has resulted in gradual de-industrialisation, threatening a collapse of the sector.

### **3. Target Sectors**

Nigeria has evident comparative advantage in many areas of industrial production. But five industries have been identified for priority attention as development catalysts. These are sugar, rubber, cement, engineering and petrochemicals.

- **Sugar:** About 94% of the country's sugar need is currently imported. Local production is only about 97,000 tonnes and the local industries

are producing at below 50% of installed capacity. Government has recently attempted to reverse the trend by establishing a Sugar Development Council.

- **Rubber:** Nigeria has the necessary requirements for successful development of natural rubber (right quality soil, right climate, relatively cheap energy, abundant labour). However, output is low and declining. Nigeria produced 93,000 tonnes of rubber out of total worldwide output of 5,800,000 tonnes in 1995. Absence of investment in replanting and technical assistance largely accounts for the decline.
- **Cement:** This is a very important industry in the Nigerian economy. There are currently eight cement plants, owned by seven companies, operating in the country. The raw materials for cement production (limestone and gypsum) are available to meet 100% of industry requirements.

Local plants have, however, not been able to meet local demand. As a result, there is heavy dependence on imports to fill the gap. The major problems faced by local industries include low capacity utilisation, obsolete plants, lack of spares and financial constraints.

- **Engineering:** Local engineering capacity is essential for local-based and sustainable industrial development. Currently, the engineering industry is virtually non-existent. There are, for example, few foundries/forge and metal fabricating shops.

Problems of the sub-sector include shortage of engineering and technical manpower, seeming neglect and under-funding of engineering and technical education and lack of commitment to research and development.

- **Petrochemicals:** Nigeria is richly endowed with abundant deposits of oil and gas, feedstocks for the petrochemicals industry. Not many of these have been harnessed so far for petrochemicals production. The recent completion of the Eleme Petrochemicals Complex signals

the first major step towards the development of the industry in which Nigeria has an obvious major competitive advantage.

Chemical raw materials constitute a major percentage of the country's raw materials import.

#### **4. Institutional Framework**

Some countries that have made progress in industrial development have done so through adopting effective institutional frameworks. An example is Malaysia where the Malaysian Industrial Development Agency (MIDA), housed in the Prime Minister's office, co-ordinates industrial policy.

#### **5. Needs of Rural/Disadvantaged Urban Dweller**

Reviewing the memorandum submitted by the First Lady and Chairperson of the Family Support Programme, the need to pay attention to economic empowerment of rural communities, poor urban dwellers and other disadvantaged groups emerges. Adequate consideration has not been given to these segments of society.

### **Recommendations**

#### **1. Industrial Policy**

Industrialisation of the nation's economy should be private sector led, within a conducive investing environment. Additionally, industrial policy should emphasise small and medium-scale industries, including cottage industries. Efforts should also be geared towards local raw material utilisation, including utilisation of abundant energy sources such as gas, coal, electricity, etc.

#### **2. Long-Term Finance**

Special attention should be paid to long-term funding for industries at the highest policy level. This should also include funding for small and

medium scale industries. In this regard, measures should be designed to mobilise domestic savings for long-term investment.

In addition, policies and incentives should be put in place to attract foreign equity investment.

Budgetary allocations should be made available to development finance institutions for on-lending to industries.

### 3. Target Sectors

#### *Sugar:*

Measures should be put in place immediately to raise local production to 250,000 tonnes by the year 2000. Thereafter, the target should be 75% self-sufficiency in the medium-term, rising to 100% in the long-term; and

- Development of existing and new industries should be encouraged, along with linkages with other ancillary industries.

#### *Rubber:*

- Strategies should be put in place to encourage investment from specialised private sector operators in rubber production;
- Technical and marketing exchange between local rubber companies and their foreign counterparts should be encouraged; and
- Specialised companies should be offered the opportunity and incentives to develop large plantations.

#### *Cement:*

- Targets should be set in this sub-sector for self-sufficiency in cement supply and reduction in import of spare parts. This should be achieved through expansion in capacity, development of local technology and availability of long-term finance.

### ***Engineering:***

- There should be a re-ordering of national educational priorities to emphasise engineering and technical education;
- All existing engineering and technical institutions, at all levels, should be expanded and fully equipped and new ones should be set up;
- There should be greater emphasis on research and development;
- Development of engineering industries should be encouraged;
- There should be greater support for NASENI in its efforts to develop the country's engineering infrastructure;
- Private sector operators should be assisted to absorb informal apprenticeship activities into their training schemes.

### ***Petrochemicals:***

- More petrochemicals plants should be established to utilise the abundant raw materials, particularly gas which is being flared at the moment;
- Enough capacity should be built to satisfy local requirements as well as produce for export; and
- The private sector should be encouraged to own and manage the new plants.

### **Institutional Framework**

A strategic implementation organ for execution of the country's industrial policy should be established. Such an organ could be accommodated within the framework of the Ministry of Industries, particularly the recently promulgated Nigerian Investment Promotion Commission.

Another approach could be the establishment of a Nigerian Industrial Development Agency, similar to the Malaysian model.

## 5. Rural/Poor Urban Dwellers

The Family Support Programme should be strengthened as a means of addressing the needs of these disadvantaged segments of society. Other measures in this regard should include:

- establishment of micro-enterprises (cottage industries) in these areas;
- strengthening of People's Bank and Community Banks to give credit to families and other disadvantaged groups; and
- statutory contributions by corporate citizens for projects in these communities.

## Infrastructure

### Introduction

Areas covered are communications, power and transportation. The long-term vision is to provide the efficient, reliable and cost effective infrastructure that can support Nigeria as one of the most competitive economies for investment in the world by the year 2010.

### Issues Discussed

Nigeria lags behind in infrastructural development and the existing infrastructure is fast deteriorating due largely to poor maintenance. Areas of infrastructure considered include:

- telecommunications
- postal services
- road transportation
- rail transportation



- air transportation
- inland waterways
- seaports
- steel
- power
- environment
- foundation education
- advanced skills in pure sciences
- research and development

The need for radical improvement in all these areas of infrastructure is emphasised.

## **Recommendations**

### **1. Telecommunications**

- 1.1 The vision is to make Nigeria the centre of telecommunications excellence in Africa, thus making it the node for switching inter- and intra-African communications;
- 1.2 A target of one telephone line per 50 persons by the year 2010 should be adopted;
- 1.3 A reliable datalink for a communications network connected to the global information super highway should be provided immediately;
- 1.4 Deregulation of the sector should be intensified. The industry should be privatised with full competition allowed;

An important element of this is the licensing of other network carriers for both local and international traffic; and

- 1.6 Government should implement a comprehensive policy on telecommunications.

## **2. Postal Services**

- 2.1 Full commercialisation of NIPOST should be achieved by year 2000;
- 2.2 NIPOST should ensure safe delivery of mails within twenty-four hours intra-city and five days inter-city;
- 2.3 On-going modernisation of NIPOST services should be intensified. Such modern services include E-mail, Post Bank Services and EMS; and
- 2.4 Full competition in regular mail services should be allowed.

## **3. Road Transportation**

- 3.1 The policy of Build-Operate-Transfer (BOT) should be adopted for road development;
- 3.2 All inter-state highways should be made dual carriage;
- 3.3 All road designs should incorporate utility ducts to avoid future damage;
- 3.4 All rural areas should be linked by all-season roads;
- 3.5 The country should aim to achieve self-sufficiency in bitumen production to ensure constant availability and lower cost.

## **4. Rail Transportation**

- 4.1 Government should ensure speedy completion of the on-going rehabilitation of rail tracks and other railway infrastructure;
- 4.2 Multiple track systems should be established;
- 4.3 Intra-city rail services should be established in major urban centres as an effective means of mass transportation; and

- 4.4 An east-west rail connection should be established as a matter of urgency.

## 5. Air Transportation

- 5.1 Immediate improvements should be made to navigational, landing, radar and communication aids to meet international standards and expectations.
- 5.2 Private sector participation in airport development and management should be encouraged and strengthened.
- 5.3 An open sky policy should be effected to make Nigeria a preferred destination and transit point in Africa.
- 5.4 Nigeria's bilateral air services agreements should be reviewed immediately to allow multiple designation of airlines on international routes, including competent private airlines.
- 5.5 Royalties and taxes from private airlines should be paid directly to Government rather than Nigeria Airways as is currently the practice; and
- 5.6 On-going deregulation of the aviation industry should continue and appropriate pricing of domestic airfares should be allowed.

## 6. Inland Waterways

- 6.1 Rivers Niger and Benue should be dredged to make them navigable; and
- 6.2 Inland ports should be developed especially at Onitsha, Lokoja and Baro.

**7. Seaports**

The existing seaports should be constituted into independent entities and privatised.

**8. Power**

8.1 The nation should have the capacity to generate, transmit and distribute enough electrical energy to meet her domestic, industrial and commercial needs in the most cost-effective manner;

8.2 Target per capita electricity consumption of 2000 Kw/Hr should be achieved;

8.3 National grid should be strengthened by constructing 330 Kv and 132 Kv transmission lines to enhance system reliability and security;

8.4 All towns and villages should be electrified by 2010;

8.5 NEPA should be privatised and full competition should be allowed in the sector;

8.6 Electricity pricing should be based on target costs;

**9. Environment**

9.1 In planning cities, allowance should be made for parks, trees and vegetation, lakes and recreational areas;

9.2 Proper sewage and refuse disposal systems should be put in place;

9.3 Urban renewal programmes should be implemented;

9.4 Recycling of solid waste to be encouraged; and

9.5 Training programmes to foster a maintenance culture should be incorporated in the educational system.

## 10. Education

- 10.1 Foundation education in mathematics and science should be strengthened at the primary and secondary levels in order to lay the foundation for the nation's future needs for high level manpower in advanced technology;
- 10.2 Encouragement should be given to acquisition of advanced skills in mathematics and the pure sciences in order to develop a core of competent high level manpower that can be moved into advancing areas of technology;
- 10.3 Technical education should also be encouraged;
- 10.4 Payment of fees should be introduced in the universities to enable the institutions to meet their financial needs;
- 10.5 Private universities should be allowed and encouraged; and
- 10.6 An Infrastructure Advisory Board or Commission should be established to co-ordinate development and funding of all areas of infrastructure.

## Long-Term Funding: Domestic and External

### Introduction

Long-term funding is needed to finance growth and development. Government cannot provide all such funding. There is, therefore, a major role for other suppliers of long-term funds, both domestic and external.

The recommendations made, if followed, would provide the country access to huge global private capital flows. In 1995, the amount of such flows to the developing countries was US\$167 billion. Possible consequences of non-implementation of the recommendations would include further delinkage from the global financial system and high domestic social costs in terms of poverty.

## **Issues Discussed**

### **Sources of Long-Term Funding**

These are:

#### **1. Private Domestic Savings**

These include pension funds, corporate savings schemes, life assurance and mutual/unit trusts. Unlike the others that have been in place for a while, mutual/unit trust schemes are relatively new in the country. Even so, the few schemes started in the past few years have not made any impact and appear to be faltering.

#### **2. Unclaimed Dividends**

A large amount of unclaimed dividends exist in the country. Some of these have been outstanding for many years. A possible way of utilising them for long-term investment could be to constitute a pool of such funds, now held by several registrars, to be managed by a trust.

#### **3. Development Banks**

Some such institutions that have been in existence include Nigerian Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI), Nigerian Agricultural and Co-operative Bank (NACB) and a number of state government-owned Development Finance Institutions (DFIs).

These development banks provide a source of cheap long-term funds, especially for small and medium-sized enterprises.

#### **4. Venture Capital**

Such sources of long-term funding are largely non-existent in the country. There are examples of other countries that have successfully introduced

venture capital funding. An example is South Korea where the Government provided the initial impetus for venture capital finance.

A National Risk Fund has recently been established in Nigeria to provide venture capital investments. The fund is, however, yet to become operational.

#### **5. Other Sources**

- domestic capital market
- return of capital flight
- multilateral institutions such as the World Bank, ADB
- bilateral sources
- export credit agencies
- foreign capital markets.

#### **6. Factors Affecting Long-Term Funding**

Such factors include the following:

- political stability
- stable macro-economic environment
- market determined interest rates and exchange rates
- easy entry and exit for bona fide investors. Unhindered inflow and repatriation of capital and dividends as well as ease of obtaining Nigerian visas by foreign investors are important
- development of life assurance business which is currently in decline, attributed partly to low income levels, especially in the public sector
- law and order, including security of life and property
- efficient infrastructure
- cost of raising funds from capital markets
- capital markets efficiency, determined by such factors as public offer procedures, supply of capital market securities, secondary market liquidity and delivery system.

## **Recommendations**

1. Progress should be maintained on the political front in line with global trends;
2. Current macro-economic stability should be maintained, and strengthened. This can be achieved through real autonomy for the Central Bank, maintaining budgetary discipline and non-inflationary growth;
3. Privatisation programmes should be continued and accelerated;
4. Outstanding domestic debts should be repaid. The option of securitisation of such debts should be adopted and implemented immediately. This should be at all levels of Government;
5. The policy of free capital importation and exportation should be implemented;
6. Government should promulgate, without delay, a law on, and ensure strict compliance with, mandatory establishment and funding of pension schemes;
7. From now onwards, public sector pension schemes should be fully funded and invested. Such pension funds should be managed by independent trustees and invested through private sector investment managers;
8. Compensation benefits in both public and private sectors should be fully monetised to encourage savings;
9. The existing statutory requirement for pension funds to invest a minimum of 50% of their portfolios in government securities should be reviewed. The percentage should be much lower than the current requirement;



10. The proposed capital market reforms should be implemented immediately and should include efficiency improvement measures and reduction of costs of primary market issues and secondary market transactions, and encouragement of securities research and rating;
11. Government should encourage access to concessional funds from multilateral, bilateral institutions and other international sources;
12. An international investment promotion/marketing campaign should be embarked upon and sustained. This should form part of efforts to improve Nigeria's external image;
13. Efforts should also be intensified to improve domestic awareness of capital market opportunities; and
14. Adequate incentives should be provided to encourage development of venture capital funds.

#### Section 4:

## The Third Nigerian Economic Summit and the Task Ahead

The Third Nigerian Economic Summit went a step further than the First and Second Economic Summits. Apart from serving as a forum for dialogue between the public and the private sectors, it served as a platform for announcing new policy reforms and for giving participants a foreknowledge of the thrust of the Federal Government policies in the ensuing year. At the Third Nigerian Economic Summit, the Head of State, General Sani Abacha, launched the VISION 2010 campaign to vindicate the efforts of the Visioning Group which had articulated the need for a vision for Nigeria at the Second Summit. He also announced the decision of the Federal Government to get the Central Bank of Nigeria out of retail banking with effect from the 1st January 1997.

The Honourable Minister of Finance, Chief Anthony Ani presented his Ministry's proposals for reforms across all the major sectors of the economy - agriculture and food production; rural development; solid minerals; steel; energy - upstream, downstream and gas; monetary policy measures and exchange rate policy. The Minister spoke strongly in favour of privatisation, particularly in the energy industry, and further deregulation of the monetary system and foreign exchange market through the floating of interest rates and unification of the dual exchange rates respectively.

Dr. Vincent Cable's speech on "*Scenarios for Nigeria and the World*" was warmly received and endorsed by the Head of State, General Sani Abacha. Without necessarily highlighting Nigeria's choice between the world of "*Just Do It*" or "*Da Wo*", General Sani Abacha acknowledged the relevance of the concept of TINA (There Is No Alternative) to Nigeria. TINA, according to Dr. Cable "finds meaning in the context of the irresistible forces of *technological change, global economic integration* (globalisation) and *liberalisation* which are pushing the world

forward". The challenge to Nigeria is to institute the right economic policies and create a suitable environment to enable these forces to take root in the Nigerian economy.

Already, VISION 2010 has been initiated. After its formulation, it will serve as the road map to lead us to a politically stable, economically prosperous and socially harmonious society. This will involve setting ambitious targets for ourselves, particularly in economic terms. This task cannot be better communicated than Atedo Peterside's proposition - *"Double the GDP per capita in a record time"*. China did it in 10 years, and given the proven ability of the recently developed countries and today's fast developing countries to do it much shorter than their predecessors, Nigeria has the potential to improve on China's performance.

The experience of Chile, and its record of resounding success in its economic reforms, should infuse confidence in us to emulate their achievements. "What is required is conviction, and the perception that changes are necessary" as Mr. Hernan Buchi said. Using sporting imagery, Mohammed Hayatu-Deen has likened Nigeria's real chance of becoming the next economic miracle to the way Nigeria came from behind, with one goal down, to defeat Argentina in the last Olympic Games. Therefore, "it does not matter how far behind we are on the global economic map; if we can capitalise on the national unity and harmony engendered by sports, we can become the next economic miracle ... and can flush away our problems into oblivion".

This is the challenge we face as a nation as the world stands on the threshold of the 21st century. It is the responsibility of everyone in a position to influence change. The Government has demonstrated that it listens and will work with the private sector to turn the economy around. The 1995 and 1996 Budgets provided two consecutive years of continuity and consistency in economic policies. The 1997 Budget must capitalise on this foundation by initiating bold measures to *"unlock Nigeria's economic potential"*. This will mean further liberalisation of the economy and the creation of an enabling environment which will encourage the investment so badly needed. The private sector must be the engine of growth, while Government concentrates its resources on those activities for which it is best suited - governance, law and order and security of life and property. The infrastructure must be made functional in the short-term, while

we work actively in the medium and long-terms to achieve world standards. We must match our words with action to demonstrate that we really want foreign investments by having in place an effective institutional framework operated in a business like manner by a result oriented and motivated public service. We must concentrate our energies on creating a Nigeria which will be able to compete in the global economy for the benefit of the generations yet to come.



## **Appendices**



## Appendix A

### Programme of Events at the Third Nigerian Economic Summit held in Abuja from 17-20 September 1996.

**Theme: Unlocking Nigeria's Economic Potential**

#### *Tuesday, 17th September*

14:00	Registration	All participants
16:00	Group Leaders' Meeting and Budget '97 Task Force	All Co-Chairmen and Rapporteurs with the Organising Committee
19:00	Cocktails	
19:45	Dinner	Hosted by the Honourable Minister of Finance Chief Anthony Ani, MON (Congress Hall)
20:30	Unlocking the Potential - The Case for Change	Mr. Adedotun Sulaiman Country Managing Partner Arthur Andersen/Andersen Consulting

#### *Wednesday 18th September*

09:00	Welcome address	Mr. Pascal G. Dozie Chairman/Chief Executive Diamond Bank of Nigeria Limited
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**Wednesday 18th September (Contd.)**

09:15	Keynote address	His Excellency, the Head of State and Commander-in- Chief of the Armed Forces, General Sani Abacha, GCON, mni
09:45	Nigerian Economy and the Way Forward	Chief Anthony Ani, MON, Hon. Minister of Finance
10:30	Global and Nigerian Scenarios	Dr. Vincent Cable Chief Economist, Shell International
11:15	Reforming the Economy: - The Chilean Experience	Mr. Hernan Buchi Former Finance Minister of Chile
12:05	Announcements	Mr. Bunmi Oni Managing Director/CEO Cadbury Nigeria Plc
12:15	Group Discussions	All participants
19:45	Dinner	Hosted by Lt-Gen. Oladipo Diya, Pss, mni Chief of General Staff
20:30	Industrial Strategy for Development	Prof Pankaj Ghemawat, Professor of Business Administration Harvard University

**Thursday, 19th September**

08:00	Group Discussion and Co-ordination of Sub-group's work	All participants
11:30	Plenary Session	All (except Group Leaders who will be preparing their presentation).
-	11:30 - 12:15 Economic Overview	Mr. Atedo Peterside, Managing Director Investment Banking & Trust Co. Ltd.
-	12:15 - 12:45 Presentation by the Corporate Council on Africa	Ambassador David C. Miller
-	12:45 - 14:00	Lunch
14:00	Plenary Session	All participants
	Track A: Group Presentations	14:00 - 15:30
	Track B: Group Presentations	16:00 - 17:00
	Questions and Answers	17:00 - 18:00
19:30	Gala Dinner	Hosted by His Excellency, the Head of State and Commander-in-Chief of the Armed Forces, General Sani Abacha, GCON, mni

***Thursday, 19th September (Cont.)***

- "Team Spirit" - GOING FOR GOLD: Mallam Mohammed Hayatu-Deen  
Managing Director  
FSB International Bank Plc
- Special Address Chief (Dr.) E.A.O. Shonekan
- Closing Speech His Excellency, the Head of State  
and Commander-in-Chief of the  
Armed Forces  
General Sani Abacha, GCON, mni

***Friday 20th September***

- 08:00 - 11:00 Future steps in partnership  
between Public and Private  
Sectors (Group Leaders only)

## Appendix B

### Unlocking the Potential - Long-Term Vision and The Case for Change

Adedotun Sulaiman

#### Visioning (1)

- The link to NES 2;
- What is a Vision?;
- The Case for Change;
- The Need for a Vision;
- NES 2 attempt/changes for NES 3;
- Nigeria's Critical Success Factors (CSFs);
- Possible targets for the country CSFs;
- The Way Forward.

#### What is a Vision? (2)

From the last NES:

*A Vision is a mental picture of a future state of being that is perceived to be more attractive than the present state.*

- It is a desirable goal worthwhile working to;
- It provides a sense of direction to the nation;
- It provides the basis for political and economic action;
- It enhances a sense of unity.

#### The Case for Change (3)

- Nigeria is a poor country with low quality of life even when compared with other Less Developed Countries;
- Nigeria's environment is inhibitive to economic growth.

#### Nigeria has Vast Potential (4)

- Mineral Resources;
- Human Resources;
- Geographic Position;
- Good Climate;
- Not prone to Natural Disasters.

### **The Need for a Vision (5)**

- Given our endowments, Nigeria should not be in the poor league;
- Measured by Quality of Life indices and Economic Parameters, past approaches have not delivered;
- Need for a Vision. This has been proven to work (Malaysia, post-war Japan, Chile).

### **Proposed NES 2 Vision Statement (6) Vision 2025**

"Nigeria will be a well ordered, well governed, just and prosperous nation, united in sustained endeavour.

The country will continuously increase in wealth for the benefit of all citizens and will be a country highly respected in the world community of nations.

### **Changes from NES 2 to NES 3 (7)**

- 2025      →    2010
- General   →    More specific
- End       →    Upfront

### **Nigeria's Top 12 Critical Success Factors (8)**

- Norms and Standards;
- Good and Stable Governance;
- Sustained Economic Growth;
- Corruption;
- Education;
- Co-operation;
- Health Care;
- Openness;
- Competition;
- Population Growth;
- External Environment;
- Law and Order.

### **Recommendations of NES 2 (9)**

- Leadership approval required of need for National Vision;
- Core Vision Task Force to be set up;
- National Vision Conference comprising representatives of all major Nigerian Stakeholders;
- Process needs commitment and support of the Head of State who will adopt the Vision on behalf of the Nation;

**Recommendations at last NES (9)  
(Cont.)**

- Implementation after thorough planning and organisation at all levels of society:
  - Publicity campaigns
  - Slogans
  - Implementation of supporting reforms

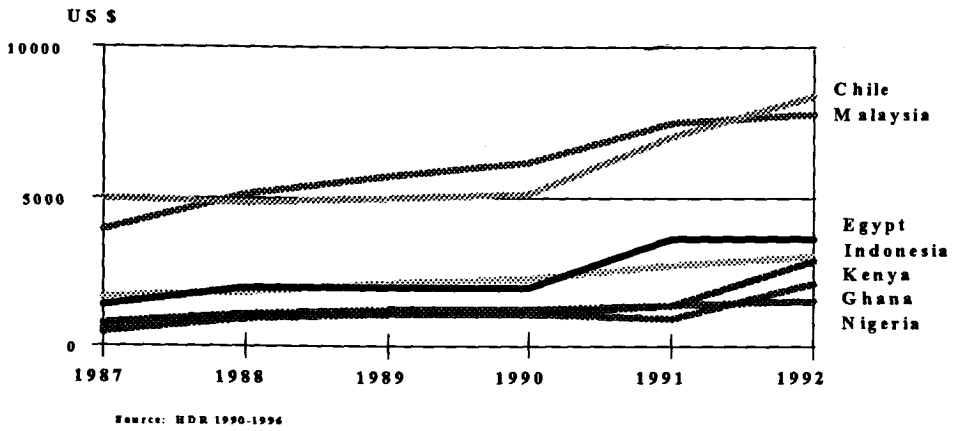
**The Way Forward (10)**

- After NES 3, a National Vision Conference needed, comprising representatives of major Nigerian Stakeholders;
- Process needs commitment and support of the Head of State who will adopt the Vision on behalf of the Nation.

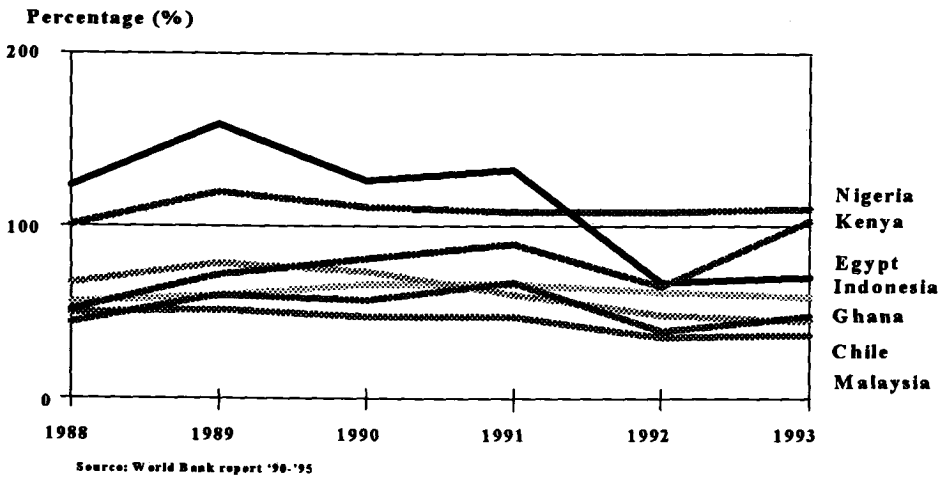
**Nigeria's Major Stakeholders (11)**

- People of Nigeria;
- Elite;
- Ethnic Groups;
- Nigerian Youth;
- Nigerian Armed Forces;
- Civil Service;
- ECOWAS
- Other African Countries;
- World Trading Partners.

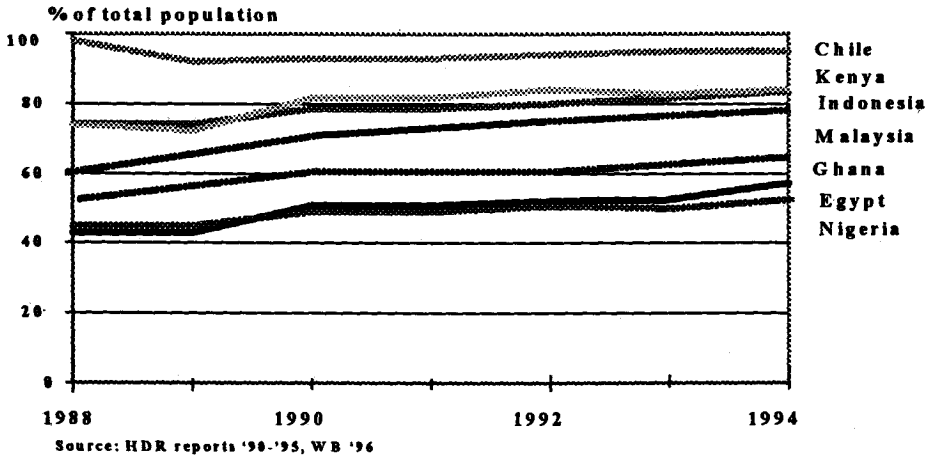
### Real GDP per Capita



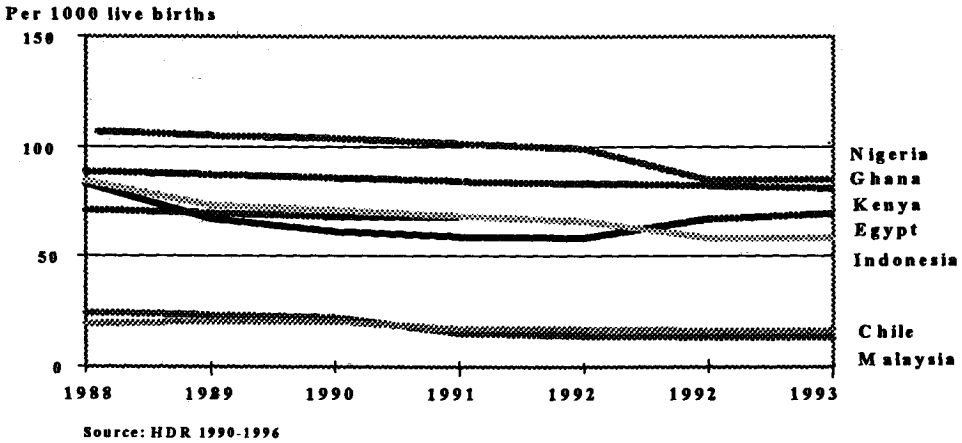
### Total External Debt / GNP



### Adult Literacy

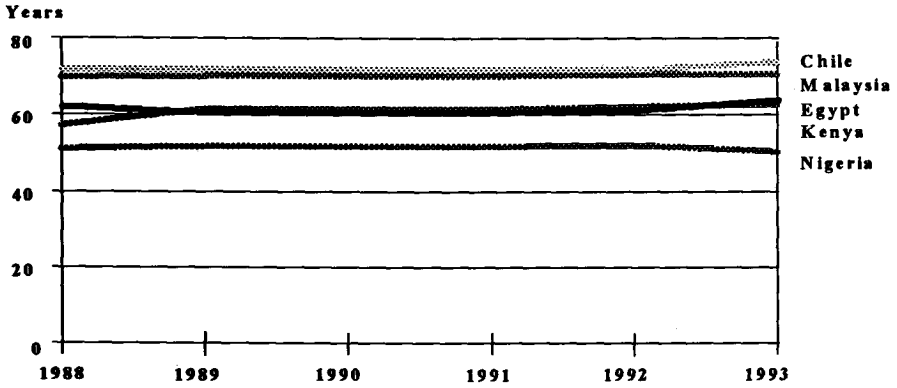


### Infant Mortality Rate



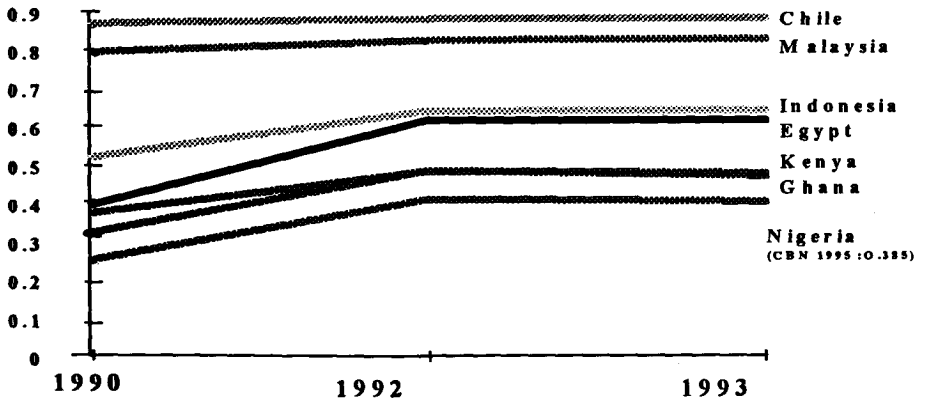


### Life Expectancy



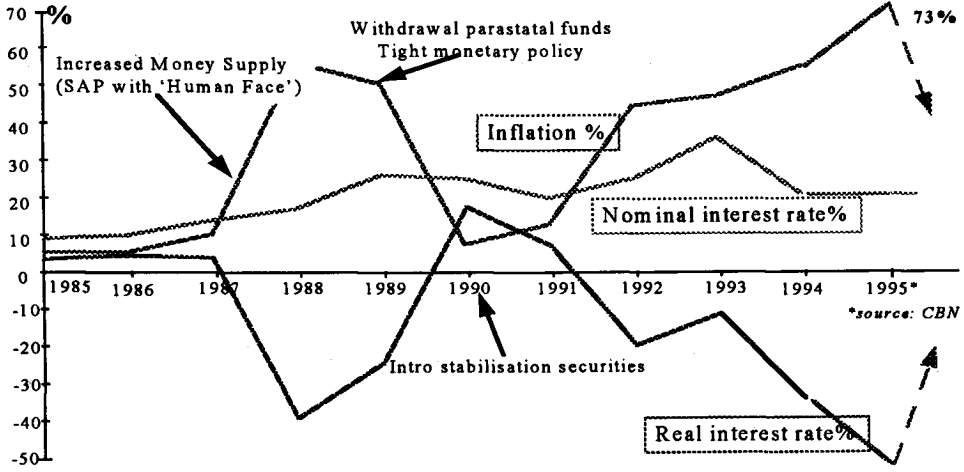
Source: HDR 1990-1996

### Human Development Index



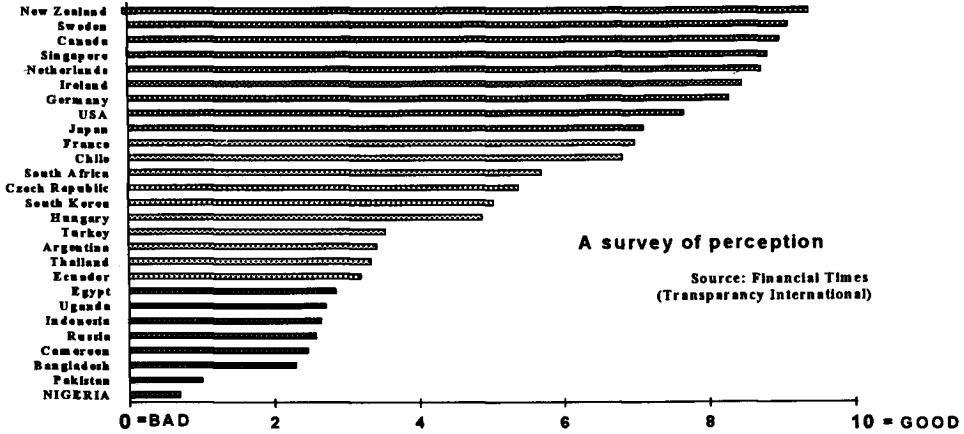
Source: HDR report '90-'96

## Inflation and Interest Rates



Source: '85-'94 IMF

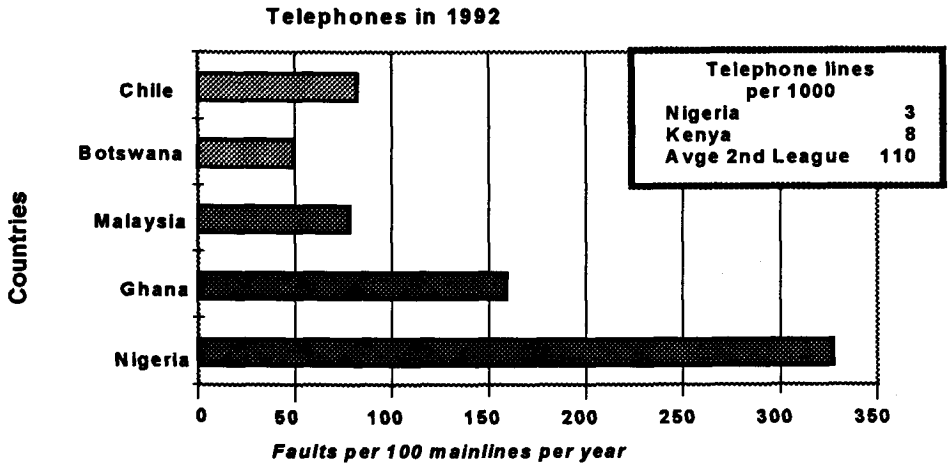
## International Corruption



### A survey of perception

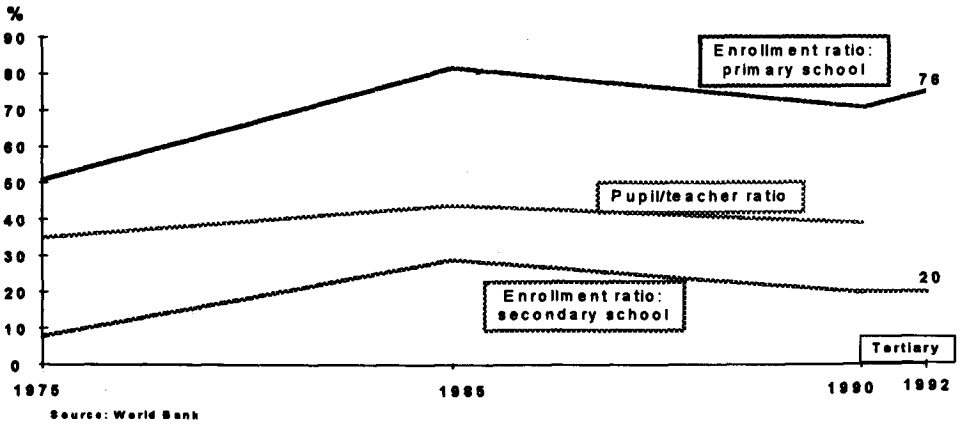
Source: Financial Times (Transparency International)

## Effectiveness of Infrastructure

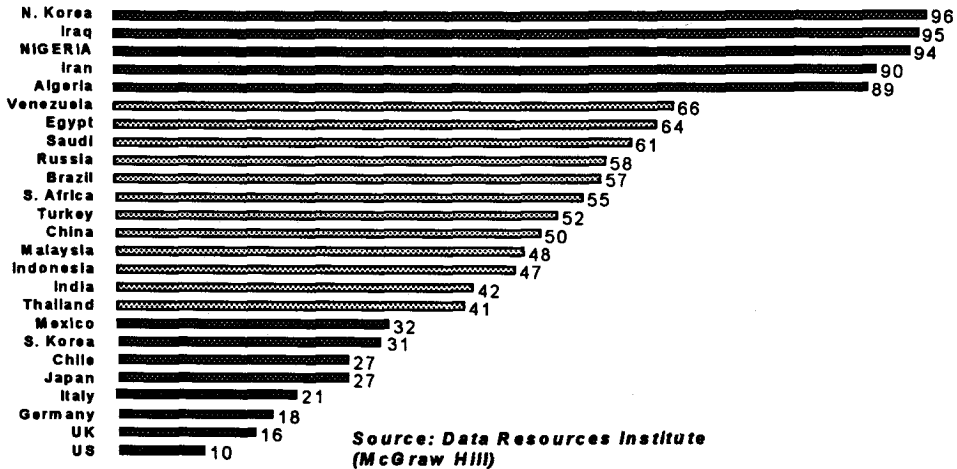


Source: World Bank Report 1996

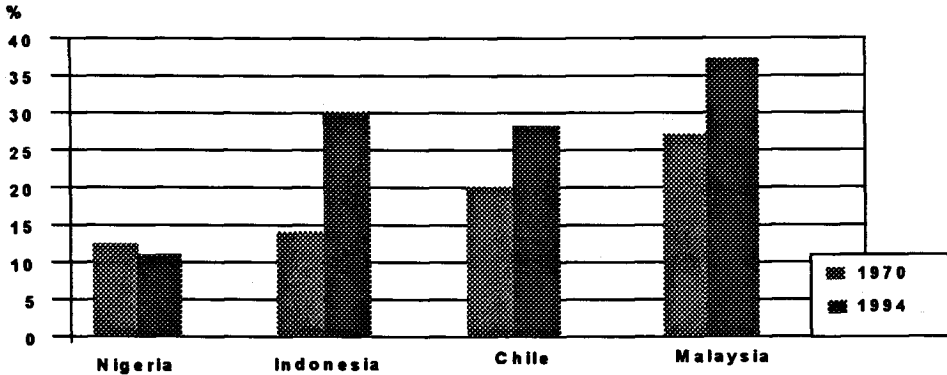
## Low Education Standards



## Overall Relative Risk



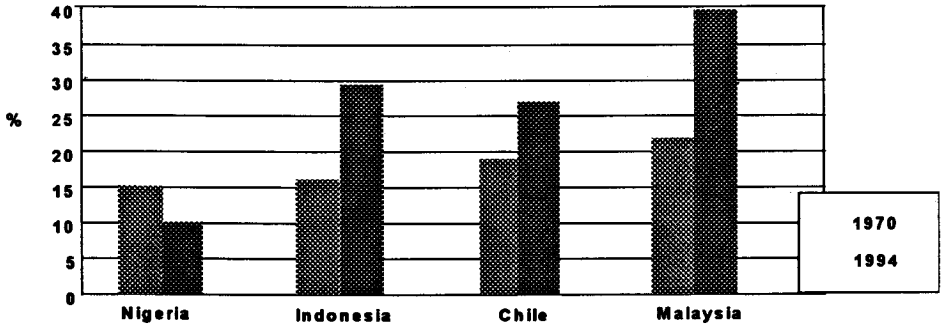
## Gross Domestic Savings As a Percentage of GDP



*Nigeria's domestic savings not growing fast enough*

World Bank: 1995/6

**Gross Domestic Investment  
As a Percentage of GDP**



*Growing confidence substantially increased local investments*

World Bank: 1995/6

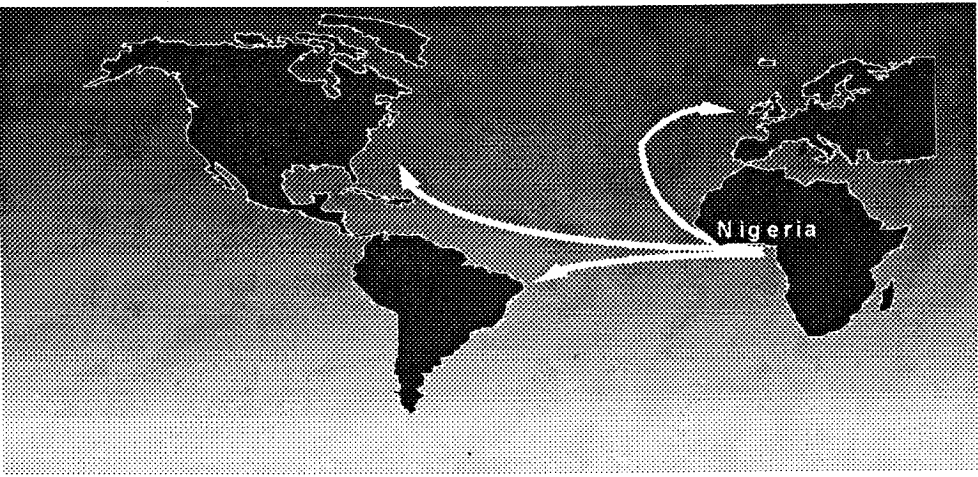
**Industrial Capacity Utilisation**



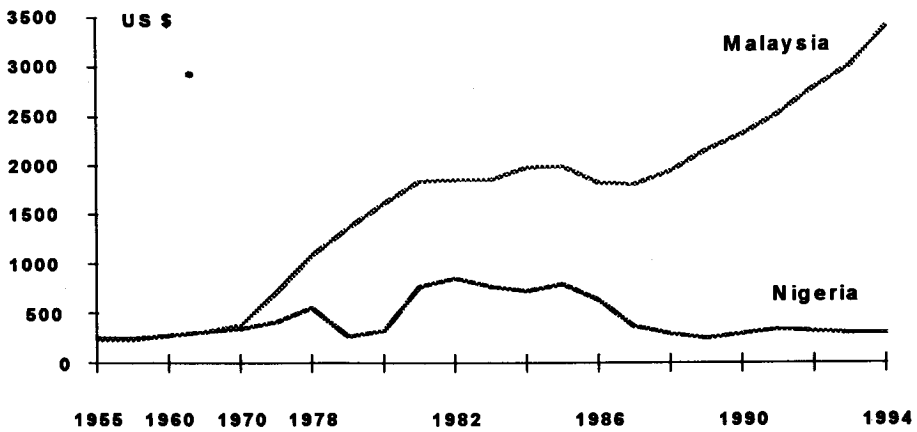
Source: MAN half year report  
1995

\* 1995: First half of the year

**Nigeria's Excellent Supply Position**

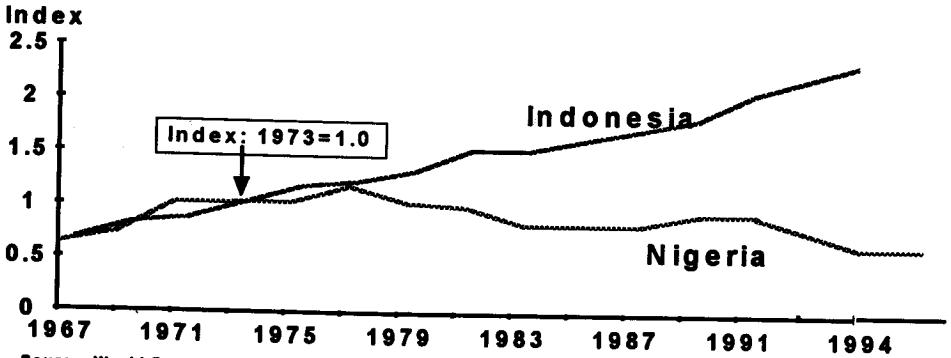


**GDP Per Capita**



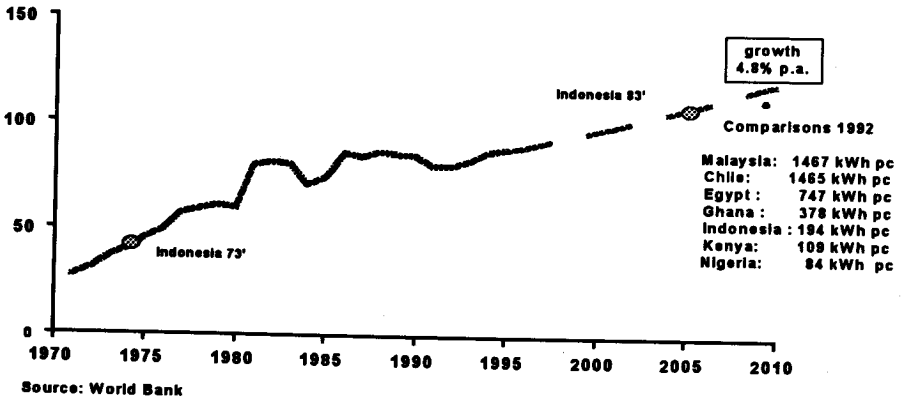
# Real GDP per Capita

The Gap is Widening



## Nigeria Electricity Supply

kWh per capita  
(net of losses)



## Targets for the Critical Success Factors

<u>Critical Success Factor</u>	<u>Current Situation</u>	<u>Targets for 2000</u>	<u>Targets for 2010</u>
Norms and Standards	Poor	International Standards being implemented	International Standards apply
Good and Stable Government	Military Government	Democratic Government	Stable Nigerian Democracy
Economic Growth (Real GDP growth)	2.2%	8%	6%
Corruption (0=high, 10=low)	0.7	3 (Indonesia, Egypt today)	7 (S. Africa, Chile today)
Education	Deteriorating	Improving	Level 2nd Division
Adult literacy	52%	60% (Cameroon, Ghana today)	80% (Indonesia, Malaysia today)
Co-operation	Selfishness	Signs of Co-operation	Mutual Benefit
Health (access to health services)	66%	75% (Philippines today)	90% (average of 2nd Division today)
Openness	Mutual Suspicion	"Benefit of the doubt"	Mutual Trust
Competition	Parastatals dominate	Privatisation ongoing Markets Deregulated	No main Government-owned Enterprises
Population Growth	2.9%	2.7%	< 2%
External Environment (Overall Relative Risk)	Isolated (94)	Participating (50, like China today)	Fully accepted as a World Player (30, like Chile today)
Law & Order	Judiciary, Police not trusted	Fully Independent Judiciary Well equipped, motivated Police. Undemocratic Laws removed	People respect Law, Judiciary and Police



## Nigeria's Socio-Economic Score Card

	Nigeria to Date	Average of 2nd Division Countries (India, Egypt, Algeria, Peru)	Average some Developed Countries (Japan, US, UK & Netherlands)
<b>Quality of Life</b>			
- Access to safe water	36%	68%	100%
- Access to health services	66%	87%	>95% <sup>*)</sup>
- Access to sanitation	35%	55%	>95% <sup>*)</sup>
- Life expectancy at birth (years)	51	67	77
- Infant mortality (per 1000 life births)	83	39	7
<b>Education</b>			
- Adult literacy	52%	79%	99
- Enrollment (combined 1st, 2nd & 3rd)	51%	59%	84
<b>Economic</b>			
- GDP/Capita (at PPP\$)	\$1560	\$2630	\$19,800
- Debt/GNP	93%	45%	N/A
- Real GDP growth	2.2%	6% - 8%	3%
		(fast growing countries)	
<b>Infrastructure</b>			
- Gross Electricity: KWH per capita	137	850	7,700
- Telecommunications (main lines per 1000 persons)	4	110	497
		Improvement is paramount	

<sup>\*)</sup>Guess

Source: UNDF, World Bank

## Appendix C

### Welcome Address by Pascal G. Dozie

#### Protocols

It gives me immense pleasure to welcome you all to the Third Nigerian Economic Summit. Since the First Economic Summit in February 1993, it has become evidently clear that to move our economy forward, there must be a general consensus on the basic thrust of our national economic policy. To achieve this, there should continue to be a forum where key leaders in the public and private sectors dialogue with each other so that certain agreed positions on vital economic and social policies become irreversible. This, in fact, is the basis of this annual Summit, which offers the opportunity to define new forms of relationships and roles in the emerging strong alliance between the public and private sectors in our country.

The Summit not only aims to analyse the state of the economy, to prioritise the main economic and social issues and to provide practical and workable solutions; it also endeavours to get feedback on implementation of earlier recommendations so as to re-evaluate them and to improve our future policy implementation.

The events of the past three years give us a lot of reason to be encouraged with the results of our efforts. In particular, the efforts of the First Economic Summit were given impetus by the impressive policies enunciated in the 1995 Budget. The budget paved the way towards establishing an efficient pricing of foreign exchange and petroleum products, made bold moves towards attracting foreign investment and ensured the elimination of deficit spending. These are some of the major recommendations contained in our first *Economic Action Agenda*.

The Second Economic Summit, held in May 1995, improved on the scope of the first Summit by drawing additional participants from both the economic and social sectors. It also extended the horizon of the Summit by considering medium-term economic development strategies and explored the

development of a vision for our country in the year 2025. The report of the Second Summit has been produced and widely distributed.

At this juncture, I should openly acknowledge the encouragement and support the Summit Group has received, from the Head of State, Commander-in-Chief of the Armed Forces, General Sani Abacha, and his senior officials. Above all, the Summit Group feels honoured and happy by the reflection of Economic Summit recommendations in the formulation and implementation of economic and social policies. Your Excellency, I thank you on behalf of all members of the Summit Group.

We are also grateful that the 1996 Budget retained the thrust and objectives of the 1995 Budget, and even improved on them. A particular improvement is the new focus on the stimulation of domestic production so as to bring down inflation. This will supplement the efforts being made to ensure adequate convergence and complementarity of monetary, credit and fiscal policies. The 1996 Budget also continued with the policy of fiscal transparency, through complete and comprehensive accounting for all revenues. The greater zeal with which these policies are being implemented gives us confidence to believe that the problems we face are surmountable. Considerable efforts are being made by the Government to create a conducive investment climate. The sanitisation of the banking industry has been commended by many observers at home and abroad. We welcome the extension of this effort to failed insurance companies, to government parastatals and to contracts. However, efforts should be made to ensure speedy dispensation of all cases brought before the tribunals.

The task ahead remains enormous. Much still needs to be done to expand the productive base of our economy, to stimulate agricultural production and to attract investment in solid mineral exploitation. These investments will help create gainful employment for our people and also boost the external value of our currency. To achieve these goals, we must strengthen the enterprises that define the structure of our economy so that they become less dependent on imported raw materials. This can only be done through laying a solid foundation for an efficient market economy and the improvement of our technological capability through formal and on-the-job training. In fact, this is the reason for the theme of this year's Summit - *"Unlocking Nigeria's Economic Potential"*.

The recent economic progress is encouraging. If, at last year's Economic Summit, I had predicted that the captains of industry could, within twelve months, borrow from banks at between sixteen and eighteen per cent, then I

would no doubt have been ridiculed. Equally, if I had said that banks would be paying only 5% for Call money due to the huge surplus liquidity in the system, I would have been greeted with astonishment. And yet, we are all aware of the market situation which prevails today - a sea of change within twelve months, and a change for the better. This has come about due to unlocking market forces. Having seen the positive results, surely, there should be nobody left who would oppose this vital process of the freeing of market forces in all aspects of the economy. We have truly learned that policy consistency and disciplined implementation are the keys to investor confidence and improved external image. We have clearly laid the foundation for economic recovery.

This achievement, coupled with the continued rapid drop in inflation rate, has been realised through consistency of policies and implementation. A stable environment cannot be over-emphasised. It is only such an environment that gives impetus to a virile private sector; a private sector which, by investing at home, demonstrates to the outside world that it has confidence in Nigeria and in the development of the country.

We must now build on this foundation. The task before us in this Summit is more than just evaluating our earlier recommendations in the light of new developments and matters arising. It also goes quite beyond prioritising our strategies, in view of our ability and constraints. We must, this time, fashion out a comprehensive and clear direction for our economy. We must start the economic recovery process in 1997 and achieve sustained economic growth thereafter. As the engine of growth, we urge that the private sector should be allowed to operate in all the key sectors of the economy. Even in areas such as telecommunications, power and oil refinery, where outright privatisation seems 'untouchable', the private sector should be allowed to participate even if only to force existing parastatals in these areas to improve their service quality.

Your Excellency, to successfully carry out durable economic reforms is a daunting exercise. Equally daunting is the implementation of political reforms that would stand the test of time. Your administration's determination to embark on major political and economic reforms concurrently has demonstrated your resolve to put this country on the path of greatness.

Ladies and gentlemen, the task of nation building is not an easy one. It calls for teamwork, sacrifice, vigorous implementation and monitoring of all agreed policies and an unflinching commitment to the unity and progress of

our dear country. Recent Olympic events have clearly shown to us that teamwork, sacrifice and commitment can lead us to *'conquer the world'*. This nation has the potential to attain any height, what remains is what we are all gathered here to discuss. It is our task to sort out our differences through dialogue and to work out a common long-term vision and strategy that we all support with *'one voice'* and total commitment.

In conclusion, I would like to remind us that our task is consistent with the challenge from the Head of State, Commander-in-Chief of the Armed Forces, General Sani Abacha, in his key note address to last year's Summit. I quote: *"Our goals are the same, so Nigeria and Nigerians will be better off if we join forces, not only to talk, but also to act"*.

I thank you all.

## Appendix D

### **Keynote address by the Head of State, Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria, General Sani Abacha, GCON, mni, at the Third Nigerian Economic Summit in Abuja on Wednesday, September 18, 1996.**

#### Protocols

It is my special pleasure to welcome you to the Third Nigerian Economic Summit. When the Economic Summit series began in 1993, one of the objectives was to establish a regular forum and a process of dialogue between the private and public sectors, a process through which Government could obtain first hand information on the state of the nation's economy and feedback on the performance of its economic policies.

It is for this purpose that the first Economic Summit was designed specifically to define the nation's economic priorities and to formulate an ECONOMIC ACTION AGENDA for the achievement of our economic priorities. It also threw a challenge to the private sector to be partners in progress with Government and be pro-actively involved in the country's economic development.

In addition, the 1st Summit stressed the need for mutual trust and co-operation between the two sectors in order to explore and exploit Nigeria's abundant natural resources, especially in solid minerals and agriculture. In its conclusions, the 1993 Summit challenged the private sector to respond positively to Government's initiative by getting involved, through substantial investment, in activities that will help to restore our economic integrity and international respectability. The Second Summit was held last year, when the nation was still emerging from the shadows of the cumulative socio-political problems under which the economy operated since 1993. The country was then faced with declining growth in the productive sector of the economy, and was experiencing a total disequilibrium in the nation's Balance of Payments. In the process, we lost the urge to save and completely ignored the benefits of investment and the positive impact of improved productivity on

the long-term development of the economy. To compound matters, anti-social behaviours such as sabotage and threat to lives and property impacted negatively on investment flow.

We were consequently constrained to look for ways and means of checking inflation, strengthening the value of the currency, encouraging savings and productivity, and stimulating investment in order to create jobs leading to economic recovery. We had to take bold steps to address the twin problems of deficit financing and the excess money in the economy. We had to embark on the task of checking corruption and other negative traits in our national life.

Also to address these multi-dimensional problems, Government introduced the philosophy of "guided deregulation" in the management of the economy. Under this philosophy, a number of measures were introduced to improve the macro-economic environment. These include:

- i. The repeal of the Exchange Control Act of 1962 and its replacement with the Foreign Exchange Monitoring (Miscellaneous) Decree, 1995. This action removed the various impediments to the inflow of external investments and controls in the operations of the Foreign Exchange Market. It also provided the right environment for the success we have recorded in exchange rate management;
- ii. The repeal of the Nigerian Enterprises Promotion Decree and its substitution with a more liberal Nigerian Investment Promotion Decree. This removed bottlenecks that hitherto discouraged well-meaning foreigners from investing in Nigeria;
- iii. The sanitisation of the financial system, involving a stronger commitment to resolve the problem of distress in the banking system;
- iv. The reduction of deficit financing of Government activities and the introduction of fiscal incentives; and
- v. The reform of activities at the nation's ports for greater accountability and transparency and to widen our revenue base.

Ladies and Gentlemen, the 1996 Budget introduced further policy measures to consolidate and enhance the economic gains made in 1995. These include steps to enhance the productive capacity of the economy and the improvement of incentives to promote export. Tax reliefs and more incentives

to encourage manufacturers to improve capacity utilisation in our industries were provided to create more jobs and alleviate poverty. Government also took steps to encourage greater involvement of the private sector in the activities of the economy that were previously the exclusive preserve of the Government. In the petroleum sector, for instance, Government has granted approvals to two private investors to establish refineries.

In addition to the foregoing, the Petroleum (Special) Trust Fund has taken off in earnest to complement our development efforts. Through prudent spending on our dilapidated infrastructure and projects that are of vital social needs, the Fund has received applause from various quarters. There is no doubt that the activities of PTF will energise the economy and help reverse its downturn. Similar impact will be made in other sectors as the PTF expands its operations. Already, the lodgement of its funds in healthy banks has helped to reflate the economy and has prompted the lowering of bank lending rates.

As a result of consistency in policy measures, the nation is now experiencing relative macro-economic stability. Latest data indicate that there has been a continuous fall in the rate of inflation during the first half of 1996. The operations of the Federal Government budget, exclusive of external and domestic debt service obligation, also show a primary surplus of N8 billion as at 30th June, thus confirming that Government is really tightening its own belt. Similarly, the interest rate has fallen below the prescribed maximum lending rate of 21%.

The progress in external sector performance is also very encouraging. Overall, a current account surplus was recorded by the end of June, 1996. This is the first time such a surplus is being recorded in the last three years. The viability in the external sector is clearly reflected in the fact that foreign exchange flows have resulted in an actual net inflow and an overall increase in the nation's reserves. Other achievements in the context of macro-economic analysis are enhanced earnings from non-oil export, increased foreign reserves, favourable balance of payments and stricter fiscal discipline.

Ladies and Gentlemen, it is thus with pride that we can say that the 3rd Summit is taking place in an era of renewed confidence. In the last one year, the Administration has devoted considerable time and attention to the study and implementation of the Reports of some of the Panels set up to reform key sectors of the public sector. Quite a number of key decisions are being implemented with the objective of achieving greater relevance, efficiency and accountability.



Government has decided to stop the Central Bank of Nigeria from retail banking activities as from 1st January 1997. This measure is to allow the apex bank to concentrate on its primary responsibilities and encourage commercial banks to widen the scope of their activities. With this action, we can restore confidence in our banking industry and attract greater foreign participation and achieve efficiency.

Indeed, the theme of this summit, *"Unlocking Nigeria's Economic Potential"*, clearly recognises that some positive achievements have been recorded in the management of the economy in the last two years, and we are now saddled with how to harness our country's immense potentials for greater development. Now that we have attained a modest level of stability, we are faced with the greater challenge of how to consolidate the gains we have recorded. We have to concretise our achievements and determine objectives for our country in the short, medium and long-terms.

*In this regard, I am proud to state that Nigeria is now ready to adopt a more systematic and carefully phased-out approach to the development of the nation. Time is indeed ripe for us to have a definite vision of the type of society we want, especially one that is economically prosperous, politically stable and socially harmonious.*

Properly defined, this vision should provide a strategic insight into the direction in which the nation needs to move as well as a proper focus on the formation of programmes and policies which should lead us to the realisation of the future of our dream. It is in this respect that I wish to announce the establishment of a campaign code-named "VISION 2010" within which to realise our dream of a prosperous and stable nation. During this period, we hope to reach a stage of development in which we will be proud of the quality of life of all Nigerians.

This period coincides with our 50th anniversary as an independent nation. I am therefore, using this forum to urge all levels of Government, the private sector and the entire Nigerian public to support this worthy campaign so that we can all be involved in the creation of our own future.

VISION 2010 will be articulated and by a carefully chosen group of eminent intellectuals of proven calibre from all walks of life who are totally non-political and are free-thinkers. These people must be prepared to give nine to twelve months of their time to this most rigorous activity since a nation's vision is an enormously demanding endeavour.

It is my hope that by the time we hold the 1997 Nigerian Economic Summit, the recommendation of the eminent intellectuals would be ready for intensive review and public debate. We also intend to use their report as the basis for formulating the 1998 Budget.

We intend to entrench the entire process of "VISION 2010" before the transition to democratic rule. VISION 2010 will build on the foundation of today's sound economic programme and provide the context for further reforms which I hope, would result in economic recovery and accelerated growth.

Nigeria is really blessed. The country is endowed with all the prerequisites needed for growth and development. Our people are enterprising and vital natural resources abound for national development. We are, however, conscious of the fact that in order to capture the imagination of our people towards our development goal, an enabling atmosphere must be created for effective dialogue and exchange of views and ideas.

There is no better forum for the cross-fertilisation of ideas and opinions on the various issues, than your gathering here today. You should, therefore maximise this opportunity by discussing freely among yourselves on the way forward for our economy. Let me assure you that your recommendations and proposals will be given the necessary consideration. This is the challenge before this summit.

I expect therefore, that in your deliberations, you will focus attention on the search for solutions to our immediate socio-economic problems. In this connection, I urge the public sector participants to fully co-operate and give all necessary support and information that may be required of them to facilitate the realisation of our collective effort and resolve.

However, while it has been the practice for the private sector to call on Government to provide the enabling environment conducive for the sector to operate, in the interest of reciprocity, Government is also calling on the private sector to enlist their much needed co-operation for our mutual benefit. The close interaction of the two sectors is vital for our national prosperity.

*The time of direct Government involvement in business is over, and by the same token, the time has passed when the private sector folded its arms and looked up to Government for all the infrastructure needed for business activities to thrive. What*

*this means is that the two sectors have to come together if the country is to be truly great.*

Let me specifically mention, in this regard, our deep appreciation and gratitude to those of you who devoted their time for years for the success of this Summit, and also to our foreign business partners and friends who have kept faith in the Nigerian economy. We hope you will sustain this understanding as greater challenges still lie ahead.

Ladies and gentlemen, it is now my pleasure to declare the 3rd Nigerian Economic Summit open. I wish you fruitful deliberations.

Thank you and God bless.

## Appendix E

### **Nigerian Economy and the Way Forward**

**Chief A. A. Ani (MON), Honourable Minister of Finance at the Third Nigerian Economic Summit Held in Abuja on 18th September 1996**

#### Protocols

I have the great honour and privilege to address you today on the occasion of the Nigerian Economic Summit. I had on the 5th of September, presented a review of the budget performance for the half-year to 30th June 1996. Today, I intend to talk about the way forward. I would like to say that the views expressed in this paper are my own personal views and those of my Ministry.

#### **1.0 Background**

In 1995, as you may recall, Government adopted the philosophy of "guided deregulation" in formulating policies for the management of the economy. Aspects of the economy were deregulated in order to create a more conducive environment for the economic activities needed to generate the growth and development of the country. Government subsequently embarked on intensive revenue drive, reduction in fiscal deficit, curtailment of extra-budgetary spending, and tight monetary stance. In addition, Government sought to reduce the rate of inflation.

By the end of 1995, a stock-taking preparatory to the 1996 Budget, showed mixed results. GDP growth performance was slightly better than the preceding year but there was no noticeable improvements in the other important indicators of development, such as unemployment, poverty and productive capacity.

The economy did badly in the area of inflation; the rate of inflation rose from 57% in 1994 to 72.8% in 1995. However, in the second half of 1995, there were signs that the economic policies adopted in the year, were beginning to have a dampening effect on inflation as the monthly rates fell almost consistently from July to December 1995.

## **2.0 The 1996 Economic Policy Package**

An analysis of the prevailing economic conditions about the close of 1995 showed that the main factors behind the persistent economic problems of the country, was the weak structure of the economy and lack of new investments. The 1995 economic policies were generally appropriate, but the weak structure of the economy would not permit them to produce the expected effects. The structure of the economy as it was shown, is too weak to generate the level of production necessary to:

- i) create enough jobs to significantly reduce unemployment and poverty;
- ii) turn out a large enough output to bring down prices and;
- iii) increase non-oil exports and by so doing boost the external value of the Naira.

Thus, the economy was still unable to produce our needs and to produce for export; it still remained import-dependent.

The import dependence of our economy was found to be due mainly to the general lack of technological capability in the country. This deficiency explains the limited capacity of the economy to respond to the conventional free market measures. It also explains the limited range of modern economic activities in the country and the enclave nature of the activities that exist. It was therefore clear that the way forward for the country lay in strengthening the structure of the economy and maintaining the momentum of reforms. These informed the 1996 policy package.

The specific policy goals for 1996 as outlined in the budget include:

- i) enhancement of increased production and productive capacity;

- ii) encouragement of export promotion and growth;
- iii) funding of non-oil prime mover of the economy and encouragement of agricultural production and solid minerals as the nation's major foreign exchange earners;
- iv) improvement of capacity utilisation in the manufacturing sector;
- v) creation of jobs and poverty alleviation;
- vi) reduction in the inflation rate;
- vii) encouragement of greater participation of the private sector in the economy;
- viii) intensive revenue collection drive;
- ix) curtailment of wasteful expenditure;
- x) curtailment of extra-budgetary spending and fiscal deficit;
- xi) tight monetary policy stance;
- xii) "guided deregulation" of interest rate;
- xiii) stabilisation of the exchange rate.

To achieve the above objectives, Government had in 1995 repealed the Nigerian Enterprises Promotion Decree and Exchange Control Act of 1962. Government also promulgated the Nigerian Investment Promotion Commission Decree 1995 and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree 1995. Government also established the Autonomous Foreign Exchange Market. Government took steps to sanitise the banking system, introduced reforms at the ports, set up a panel to look into the Capital Market, set up a committee to look into the insurance industry, dialogued with the Organised Private Sector, introduced fiscal incentives to encourage industrial growth, set up inter-Ministerial Committees to look into privatisation/commercialisation of certain industries, and thus created a conducive investment climate for the country.

In addition, Government in 1996 introduced reforms at the ports to facilitate the clearance of goods and reduce cost for port users, and set up panels to look into the operations of the capital market and the insurance industry.

It is the policy of Government that there will be no further participation in ventures or businesses that can be effectively undertaken by the private sector. Government will also gradually withdraw from those areas of the economy which the private sector has better competence. It is also the policy of Government that Nigeria will not take new loans. Indeed no new loans have been taken

since 1995, and some loans amounting to \$490.33 million for which agreements were signed, but disbursement had not started have been cancelled. We have recently discussed with the World Bank on the possibility of cancelling certain other loans amounting to \$200 million.

The cumulative effects of the policies so far adopted have led to:

- i) stability in the value of the naira for the past 20 months (which is good for investment planning);
- ii) reduction in fiscal deficit: From a deficit of ₦103 billion in 1993 and ₦81 billion in 1994, Government achieved a modest surplus of ₦1 billion in 1995 and a more substantial surplus of ₦8 billion for six months to 30th June 1996;
- iii) a reduction in inflation rate from 72.8% in December 1995 to a projected 40.3% in August 1996;
- iv) a fall in interest rate: The lending rate is currently about 15%;
- v) an increase in revenue from non-oil exports: This increased by 102% in 1995;
- vi) a drastic curtailment of extra-budgetary expenditure.

In addition, we have met our obligations to our joint venture partners in respect of Cash Calls, and substantial progress has been achieved in the survey and establishment of solid minerals to the extent that gypsum, barytes, kaolin and talc are no longer imported. We have recently exported coal for the first time in 21 years.

These achievement, considered perhaps modest, are by no means insignificant. The "guided deregulation" philosophy has thus helped to stabilise the macro-economic environment which is what we need to plan for the future. We can now begin to open and expand the economy so that we could make more lasting impact on the persistent problems of employment, inflation and external dependence.

It would be seen from the above, therefore, that if the economy is to expand as desired, we will have to stimulate substantial private investment, both domestic and foreign, and we will have to sustain the efforts at improving the business environment, but with adequate measures to ensure that the expected benefits are achieved. Indeed, we must open up the economy and allow investors to participate in areas originally reserved for Government. The sectors in which we need such investment most, include petroleum, solid minerals, energy, communications, agriculture and steel development.

### **Post-1972 Investment Climate**

In order to understand the need for investments, we need to go back to recent history. In November 1968 when the Companies and Allied Matters Decree was promulgated, a section of the Decree (Part X) was smuggled into the Decree at the last minute. This compelled all foreign branches operating in Nigeria to incorporate. At that time, companies such as First Bank, Union Bank, UTC and a host of others, were all branches of their parent companies and they all had to incorporate. In 1972, the Government promulgated the Nigerian Enterprises Promotion Decree and this virtually nationalised the investments of those companies that were forced to be incorporated in 1968.

Prior to 1972, foreign investments were flowing into the country. However, with the promulgation of the Nigeria Enterprises Promotion Decree, foreign investment into Nigeria declined. Except for the oil industry where oil companies participate with Government in joint venture, and foreign loans, most of which have not resulted in social and economic benefits, no tangible private investment has flowed into Nigeria since 1972. This means that we have been going on our own steam with limited foreign investment. This is perhaps one of the reasons for the unimpressive growth in the economy.

It is obvious that having been starved of private foreign investments for about 25 years, and if the economy must grow, we must open up our economy and continue to create conducive investment atmosphere for investment to flow into the country. In addition, the Government must be prepared to enter into bilateral investment protection agreement with foreign countries/enterprises to ensure that their investments in Nigeria shall not be tampered with.



### 3.0 The Way Forward

In order to build upon the gains of the 1995 and 1996 policies, and to ensure that Nigeria is not left behind by the rest of the world, it is necessary to rethink some of our policies and to demonstrate the flexibility that is necessary in the management of a dynamic modern economy. To this end, it will be profitable to consider the following possibilities:

#### 3.1 Agriculture and Food Production

Agriculture employs 70% of Nigeria's labour force and accounts for 28% of the GDP. 90% of agricultural output originate from food crops production which is largely based on small scale farming. Yams, cassava and grains are the main food crops while cocoa, palm oil, rubber, groundnut are the main cash crops. Agricultural production is low but holds considerable scope for large scale gains through increased irrigation, improved technology and intensified extension services.

Prior to the discovery of oil in Nigeria, agricultural production and solid minerals were the main stay of the Nigerian economy. Up to the early 60s Nigeria was exporting over 300,000 tons of cocoa per annum and the country was the number one producer of palm produce. It is unfortunate that as at today agriculture had been seriously over-taken by petroleum production which accounts for 97% of Nigeria's total export and 83% of the budgetary revenue.

In the 1995 Budget speech the Head of State, Commander-in-Chief of the Armed Forces commented extensively on this important sector and enunciated new objectives towards revitalising agriculture. As the Head of State put it and I quote: *"In the quest for economic recovery agriculture must provide the lead. Prior to independence agriculture was the main stay of our country's economy supplemented only by solid minerals export. Nigeria was once the world's leading exporter of palm produce, the second largest exporter of natural rubber. In addition, Nigeria was self-sufficient in food and agro-allied raw materials.*

*The blessings of the oil boom which descended upon us in the 1970s became an overwhelming temptation that took us away in droves from*

*the land. Existing palm oil and rubber plantations were overrun by negligence while the entire rural farming communities were depleted in the exodus of young men and women which left to join the rising urban population. As the pressure mounted to alleviate the galloping need in amenities for increasing restive urban population, so conversely did the attention turn away from the rural areas and thus was completely the vicious cycle in which our economy and development planning in the last two decades became trapped. This must change.*

*A new approach to economic recovery through the revitalisation of the non-oil sector must now be implemented with despatch. Government will finance and provide the enabling environment for the revival of tree crops and tubers, legums, livestock and fisheries and the exploitation of solid mineral deposits which abound throughout the country”.*

A recent review of the inflation basket shows that while cost of manufactured goods are declining the price of food is continuously rising. The food component of inflation basket poses a serious problem and unless this is tackled the rate of inflation will not reduce. In addition, it would appear that we have not been able to focus agricultural policies sufficiently well so as to be able to achieve the objectives enunciated by the Head of State, Commander-in-Chief of the Armed Forces in the 1995 Budget. It also appears to me that while the population explosion has taken place in Nigeria the agricultural production has remained static. It is evident that apart from fertiliser subsidy, the investment in agriculture is very low. We must therefore invest heavily in agricultural production in 1997 and to those who feel that we should use our recently announced surplus, I can assure you that this will be utilised to produce more food for the nation in 1997.

If we must tackle the food problem in our country we must take a critical look at the agricultural production. It is well known that agricultural planning is different from agricultural production. Agricultural production can only be practiced in the States and Local Governments and definitely not in Abuja. The Ministry of Agriculture must therefore as a matter of urgency take steps to liaise and co-operate with States and Local Governments if we are to take agriculture seriously and produce more food for the nation.

By far the largest component in agricultural production is land preparation. In order to achieve the revival of tree crops, NALDA should be merged with Ministry of Agriculture and NALDA must assist both small and large scale farmers and provide access to farming equipment through the provision of animal traction, hand tools, and small scale irrigation equipment.

Another serious constraint in the agricultural sector is scarcity of labour. This is surprising but it is true. There is a drift of the population from the rural sector to the urban areas with the result that labour is no longer available for agriculture. Most of the people left in the rural areas are too old to provide the required labour needed and the few able-bodied persons still available in these areas have become too expensive for rural farmers.

There is the need for the Universities of Agriculture and Technology to carry out research into modern but simple and inexpensive system of agricultural production that will eventually mechanise agriculture and ease the scarcity of labour. The Universities of Agriculture must live up to this expectation and to contribute to agricultural development or face extinction.

It is gratifying to note that the commodity exchange decree will soon be signed. At the moment the incentive for farming is diminished because the farmers are over-worked but the profitability of their business is very low. An arrangement by which farmers can obtain better price for their output would be an effective incentive for agricultural production.

### **3.2 Fertiliser Subsidy**

We must seriously look at the entire question of fertiliser subsidy. It is agreed that there is no country in the world in which agriculture is not subsidised in some way. Therefore Nigeria cannot afford not to subsidise agriculture. The issue of fertiliser subsidy has caused great concern for some time as it has been found that the subsidy does not get to the farmers for whom it is intended. Instead the subsidy has been cornered by the middlemen who have used it to further enrich themselves at the expense of the farmers and the rest of the society. In 1995 the fertiliser subsidy paid by all the Governments was N13.9 billion yet this amount did not get to the farmers as they were buying the fertiliser at between N800 and N1000 per bag. There is the need therefore to find an alternative method of providing subsidy for the farmers and the fertiliser subsidy should be scrapped. Rather than fertiliser subsidy, Government may look at the following:

- a) easy access of small scale farmers to farming equipment, for example animal traction, hand tools, small scale irrigation, on a cost recovery basis;
- b) support for agricultural land development for small scale farmers through NALDA;
- c) establishment of commodity exchange where farmers can sell their goods at competitive prices;
- d) purchase of excess farming products by Government and the provision of storage facilities for such excess output which could serve to support supply and stabilise prices during period of low output;
- e) provision of insecticide, etc., to the small scale farmers.

As regards the tree crops, it has been found that most of these trees are old and their yield is very poor. The palm fruits, rubber trees and cocoa were planted in the early 50s and the optimum yield is obtained when they are 15 years old after which the yield declines. There is the need for the Ministry of Agriculture to facilitate the expansion, planting and re-planting of cash crops through the use of NALDA. The Ministry of

Agriculture should come out with a projection of the expected output of cocoa, rubber, palm produce, cotton and groundnuts in the next 15 years and plan for this.

### **3.3 Rural Development, People's Bank, and NDE**

Rural economic development is not about the greater ability to buy and sell. It is about the greater capacity of the people to meet their needs, the capacity to produce their goods and services. The backwardness of our rural communities has been a major focus in different areas of national discourse. The rural communities still revolve around subsistent farming with crude implement. The purchasing power of our rural people is low. Various agricultural policies have not made much impact on the subsistent system of farming. Farm products are lost because of inaccessibility of our rural communities to market and lack of storage facilities and technology. Younger and able-bodied men and women migrate to the urban areas in search of better standard of living which the rural areas cannot offer them. Apart from farming there are virtually no other economic activities in the rural areas that can stem this rural-urban drift.

The rural economic development programme envisaged is aimed at exploiting the potentialities of the rural communities to uplift their economic life through productive activities. It aims at facilitating the setting up of productive enterprise that will utilise both labour and locally available raw materials as well as locally fabricated equipment in the rural areas. Nigeria's raw materials are as wide in variety as they are in spread. Indeed because of the large population of the country there is a large market for the product from rural areas. Cottage industries could and should first be sited in communities that have comparative advantage in terms of raw materials, and labour.

The Ministry of Science and Technology and our Research Institutes have developed simple and inexpensive equipment that could be installed cheaply for cottage industries in the rural areas. The Ministries of Agriculture and Industries have identified those simple industries that could be operated in rural areas from the available raw materials. The National Directorate of Employment (NDE) should expand their training programme to the rural areas so that the productive enterprise acquires training and skills that is necessary. In view of this, it is essential that the Ministries of Agriculture, Industries, Labour, Science and Technology, Finance and National Planning meet to plan the integrated rural economic development for the nation and this should be done before the next budget.

It must be recognised that this programme is a Federal Government initiative but to be executed by our rural communities. The people are being mobilised and encouraged to go into productive ventures which require financial outlay and which the rural people cannot afford on their own. As a catalyst therefore, the Federal Government must provide grant for the People's Bank and the Community Banks from the annual budget to service this programme for sustenance and continuity. These grants will be given as repayable loan to the rural areas for productive ventures.

It must be emphasised that the People's Bank will have important role to play in this programme. There is therefore the need to redefine and refocus the objective of the People's Bank to make it more responsive to the needs of the current Nigerian environment. The Bank must not be seen as a sharer of "national cake" but as a promoter of rural economic development. The People's Bank has over 228 branches all over the country. This Bank if properly mobilised is in the best position to co-ordinate the activities of the economic development through its financial facilities.

The rural economic development plan need not be ambitious as Government can commence it with a pilot scheme by introducing the project in six States of the Federation in the first instance. When the results of the pilot scheme are analysed the

programme could thereafter be extended to other States of the Federation.

### **3.4 Solid Minerals**

The local sourcing of gypsum, barytes, kaolin and talc has paid off in 1996 as these are no longer being imported, thus saving our foreign exchange. There is the need to spend more money in the survey and ascertainment of the extent of these minerals used in the manufacture of products in Nigeria. As soon as this is done and the extent of each mineral deposit is known Government should invite private investors both local and foreign to invest on their own account in the exploitation of these minerals with appropriate arrangement for the payment of relevant royalties and taxes.

As regards the coal industry, Nigeria has the best coal in the world with the lowest sulphur content and is in great demand in Italy and other industrialised countries. For the first time in 21 years Nigeria shipped its first coal consignment. There is the need for massive investment in the coal industry and Government should open up this area for privatisation. Foreign investors should be encouraged to invest in our coal either on their own account or in joint venture with Government.

### **3.5 Steel Sector**

The steel sector consists of Ajaokuta Steel Mill, Aladja Steel Mill, Jos Steel Rolling Mill, Oshogbo Steel Rolling Mill and Katsina Steel Rolling Mill. It is estimated that the Federal Government has invested about \$8 billion in these Mills but there is yet no significant achievement and the steel industry is becoming a drain pipe. There is no gain-saying the catalytic role of steel in industrial development. Nigeria cannot expect to be able to develop a significant degree of technological capacity without steel industry in place. We have been informed that our steel, when produced, would be most expensive in the world but I believe that this is the price that Nigeria must pay for its technological development. If we must develop, therefore, there is need for Nigeria to put its steel industry in place, the argument about international competitiveness notwithstanding.

All the steel projects in Nigeria were established to provide billets for the construction industry. It is obvious that with billets alone, Nigeria can never industrialise. The Ajaokuta Steel Mill on which \$4.5 billion has so far been spent, must be modified so that at least 50% of its production should be flat sheets while the balance is represented by billets. It is estimated that the sum of \$600 million should be sufficient to complete modified Ajaokuta Steel Mill for the production of both billets and flat sheets.

It is obvious that we cannot privatise our steel industries because we are taking a deliberate measure to enhance our technological capacity and because no investor would want to come to invest in our steel project. I also do not anticipate that any industrialist not already familiar now with our programme, would want to invest in our steel industry as there is surplus capacity in the steel industry throughout the world. Even though it is our policy not to participate in private sector-oriented industries, the steel industry should be an exception. We should, therefore, invite suitable people/manufacturers from abroad to participate in the completion and management of our steel industry since this is *sine qua non* for industrial revolution.

### 3.6 Energy

Government has spent a considerable amount of money in providing power generation facilities. These include the Shiroro dam, Kainji dam and Jebba dam. There are also, the Afam power station, Egbin power thermal station and Sapele power station. It is my view that the Kainji, Shiroro and Jebba dams could be connected into the grid while Afam, Egbin and Sapele power stations could be connected into the second grid. With these two grids, Nigeria would possess abundant supply of energy that could be used to feed the energy hungry industries at a cheap rate.



It is estimated that the total amount spent by Nigeria to-date in procurement of energy supply is in the region of \$10 billion. Unfortunately, electricity supply in Nigeria continues to be very erratic. There is the need for co-operation between the private sector and Government in the generation of electricity and a complete privatisation of the transmission and distribution systems. We should encourage private investors by providing adequate incentives to use the abundant gas in the country to provide additional energy which could be sold to NEPA or be exported abroad.

### **3.7 The Petroleum Sector**

Nigeria currently produces 2.04 million barrels of crude oil per day and has proven reserve of about 20 billion barrels. It is the objective of this sector to increase the proven reserves to about 25 billion barrels and raise the production capacity by 2.5 million barrels per day, excluding condensate.

#### **3.7.1 Joint Venture Sector**

Nigeria owns 57% of the equity of the oil rights and contributes the same percentage to joint venture operations. In 1995 and 1996, Nigeria spent on the average, about \$2.3 billion as its own contribution to joint venture operations. Government does not participate in the management of the joint venture contributions as this is left to the joint venture partners. This has given rise to uncertainty, doubts and suspicions about the disbursement of this component of the nation's fund. There is need, therefore, to review the country's equity participation in the oil business. While Government should encourage the system of Production Sharing Agreement (PSA), Government should gradually divest itself of the 57% of the equity of the oil rights so that at the end of the day, oil companies and NNPC should invest their funds in the exploration of oil in Nigeria while Government should be contented with the receipt of appropriate rents, royalties and petroleum profit tax.

### **3.7.2 Down Stream Activities**

Nigeria must add value to its crude oil. The present system where about 87% of Nigeria's crude is exported daily, is not satisfactory. Nigeria must, within the next five (5) years, either build or allow foreign investors to invest in export refineries so that a substantial percentage of its crude oil production is processed in Nigeria for export. Nigeria must also, like Venezuela and other countries, shop for outlets and invest in outlets outside Nigeria where the finished petroleum products could be disposed of. Unless this is done, Nigeria may find itself irrelevant in the OPEC Organisation within the next ten (10) years.

Nigeria has already invested in four refineries, a petrochemical industry, Liquefied Natural Gas (LNG), fertiliser manufacturer, etc. The four refineries are in decaying conditions. Two of the refineries require Turn-around Maintenance at a very high cost, the other two are working at low capacity and there is, therefore, the need for massive injection of funds into the refineries. Unfortunately, these funds are not easily available. This, therefore, calls for privatisation of these refineries so that foreign investment could be used to re-vitalise the refineries and put them in proper working conditions. The management of these refineries, should be given to the prospective foreign investors. This would invariably improve the efficiency of the refineries as excess output would be available for export.

There is the fear that when this is done, the price of fuel would be increased. To this end, I suggest the establishment of an Energy Commission. It is to this Commission that any price increase of fuel, should be justified. It is my considered view that the fear of price increases of petroleum product should not debar Nigeria from attracting investment from international market. The privatisation of the refineries, would increase efficiency, increase export earnings and produce multiplier effects in terms of employment and incomes.

As for the petro-chemical industry, Government should consider its privatisation, *ab initio*, and invite foreign investors and managers to invest in the project and manage it. This would prevent the running down of the industry as we have found in the refineries. At the appropriate time, Government would further divest its interest in the refineries and petrochemicals and offer Nigerians some of the shares in these projects. However, Government should not make the mistake of divesting itself of all its shares in these companies in view of what we have found in the banking sector.

I have already mentioned that Government owns 57% of the equity of the oil rights and I have suggested that we divest ourselves of this equity over a period of five (5) years while we concentrate on production sharing agreement and the collection of our rents, royalties and petroleum profit tax.

The divestment of the equity will yield a considerable amount of money. Appropriate measures would be put in place to ensure that such funds are judiciously used.

It would however be found that in some oil producing countries, the Government invest enormous resources in projects outside the country so that in times of difficulties, the investments are used to cushion the effect on the citizenry. The recent event in Kuwait where oil installations were destroyed but the Government was able to continue as usual because of their investment abroad gives testimony to this idea. I have already suggested Government should consider purchasing outlets for its export refineries. It should also consider the possibility of investments abroad and using the earnings from such investments to cushion the effects of difficult and harsh economic conditions at home. The proceeds of such investment, would assist in meeting our debts obligations, investing in agriculture and solid minerals and thus using oil money to make Nigeria less dependent on oil. To me, this is a shift of funds from one investment to the other. The oil companies and investors in oil business, will bring their

full quota of investment into the country. Export refineries would spring up, value will be added to our crude oil, thus creating employment.

### **3.7.3 Nigerian Gas**

For the gas sector, Nigeria and the joint venture partners are spending about \$2.9 billion in the Liquefied Natural Gas (LNG) project. There is also a joint venture between the Federal Government and Mobil Producing Nigeria Unlimited, in respect of Natural Gas Liquids (NGL), the total cost of this project is put at US\$810 million. NAFCON, the fertiliser manufacturers also use gas for its project. We must open up the gas sector and allow private investors to operate their own liquefied natural gas projects. We must give incentives and tax holidays for all new gas related projects.

## **3.8 Monetary Policy Measures**

### **3.8.1 Interest Rate**

As I said earlier, the fixing of interest rate was introduced in 1994 fiscal year with a view to arresting the persistent rise in the rate and boosting domestic investment. Accordingly, banks and other financial institutions were required to maintain a maximum spread of 7.5% between their deposit and lending rates subject to a maximum lending rate of 21%. In fact, even with the cap on interest rate in existence, the current lending rate in the market has collapsed to about 15%. In view of this change, the fixed interest rate policy requires immediate review. While we need to be cautious in throwing our doors open to damaging practices, I believe that the Central Bank of Nigeria should evolve a mechanism that should check the excesses that induced the fixing of the interest rate. I have in mind here the introduction of the minimum rediscount rate (MRR) that will be adjusted from time to time after consultations. The financial institutions will thereafter base their interest rate on CBN minimum rediscount rate (MRR). Thus the MRR will be used to enhance credit control.

### **3.8.2 Sectoral Credit Allocation**

The policy of prescribing credit allocations to certain sectors of the economy has been in use in this country for a long time. The aim was to stimulate activities in some important sectors which because of their nature rarely attract bank lending. We do not seem to have enough justification for the policy in terms of output as the banks have repeatedly complained about the policy as one of the sources of inefficiency in their operations. In place of sectoral allocation, we should devise incentives to encourage voluntary lending by banks to the sectors that Government wishes to promote. These incentives would include interest free loans as well as tax credit in respect of interest on monies loaned to the preferred sector. The banks would then be able to allocate their facilities on a voluntary basis if they wish to avail themselves of these incentives.

### **3.9 Exchange Rate Policy**

The dual exchange rate system currently in operation came into effect with the introduction of Autonomous Foreign Exchange Market (AFEM). By the arrangement government transactions with the Central Bank of Nigeria were to be at official rate of N22 to a Dollar while all private individuals, companies and other organisations were to source their foreign exchange requirements in the autonomous market. Commercialised/privatised enterprises were also to source their foreign exchange requirements in the autonomous market. Accordingly, the official exchange rate has been used mainly for debt servicing, payment for joint venture cash calls, Federal Government priority projects, NNPC priority projects, and other payment in respect of bona fide government transactions.

Unfortunately the dual exchange rate arrangement has been severely criticised for some time now even though the Government has striven to apply the official rate to its bona fide transactions, commentators on government policy have tended to misrepresent the idea. Doubts have been created among the public about Government's intentions. In addition, the ECOWAS community has complained that the dual exchange rate system in Nigeria is hindering the consummation of West African Monetary Union. In the 1996 Budget we had

mentioned that the ultimate goal of our exchange rate policy is the eventual merger of the autonomous and the official rates of exchange. There is now the need for the unification of the two rates of exchange.

### **3.10 The Budget and Long-Term Perspective Plan for Growth and Development**

The last few years have witnessed macro-economic instability and exchange rate fluctuations. Under such circumstances it was difficult to plan. In 1995 and 1996 Government has maintained a semblance of stability. The exchange rate of the Naira has been stable in the last twenty months, interest rate has collapsed, budget deficit has been reduced and extra-budgetary expenditure has been controlled.

Giving the degree of success that has been achieved in stabilising the macro-economic environment, I believe that we can now begin to plan for the kind of society we will like to see in, say, twenty years time. This will require satisfying our broad objectives and identifying the structures that we need to put in place. From such a plan each succeeding Government will pick a set of activity which will be implemented in its medium-term plans of, say, three years.

The budget has been subjected to a lot of name calling, and we have also listened with rapt attention to the comments on the half-year review of the 1996 Budget performance. In one of these reviews, Government was surprisingly advised to abdicate its responsibility by negotiating its budget with trade unions and the organised private sector. This strikes me as a cavalier approach to the serious business of governance.

A budget is a government instrument used in addressing social, economic and political problems. Such an instrument is a composite of inputs from the various sectors of the economy. A hijack of the budget by any interest group as the Government is being advised to do should not be encouraged.

#### **4.0 The Future is Now**

*All the people of the world stand on the threshold of a new century full of giddy speculations on which new levels of ingenuity man may yet evolve.*

*As the methods of yesterday collide with the visions of tomorrow, only those societies which have prepared for the future will survive. It means the candour to own up today yesterday's mistakes. It means the courage to choose foresight over hindsight. It means the identification of a National Purpose.*

*A nation so endowed as ours gets no sympathy for limping into the new global market place. Neither technological leadership nor jumbo economic growth rates are beholden to colour or creed.*

*It is all about common sense writ large. It is all about doing the right thing at the right time and in the right way. It is all about a covenant for the future between the leadership and the led. We are talking about goals, innovation, discipline, determination, dedication and synergy. And the basis of all this is the orderly release of the extra-ordinary human potential that abound in this beautiful corner of the globe.*

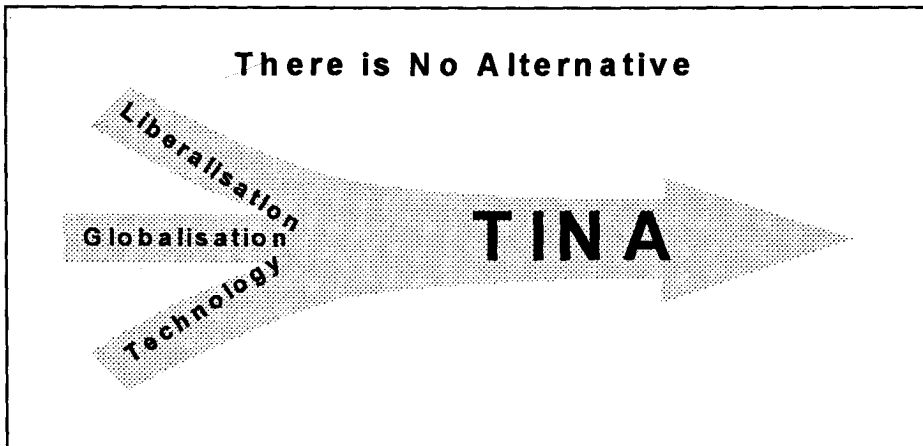
*This Administration has always celebrated our Nigerianness by unequivocally asserting that we are the masters of our destiny. It is determined to take whatever steps that are necessary and feasible to transform the economy so that the living conditions of our citizens would improve. It is therefore for us gathered here today to produce the ideas and find out ways of how we can assist the Government to achieve its objectives. In affirmation of that principle this Economic Summit must demonstrate the virtues of boldness and imagination in coming up with fresh initiatives that will serve notice to the rest of the world that we are not tip-toeing into the 21st century, nervous about competition. The future is indeed here. Let us embrace and make it our ally because there is no place to hide.*

## Appendix F

### Global and Nigerian Scenarios

by Dr. Vincent Cable,  
Chief Economist, Shell International, London

Scenarios - plausible stories of the future - were developed by Shell for Nigeria in 1996. They are not designed to predict the future but to suggest some plausible and challenging possibilities out of which a positive 'Vision' can be created as well as strategies which are robust.

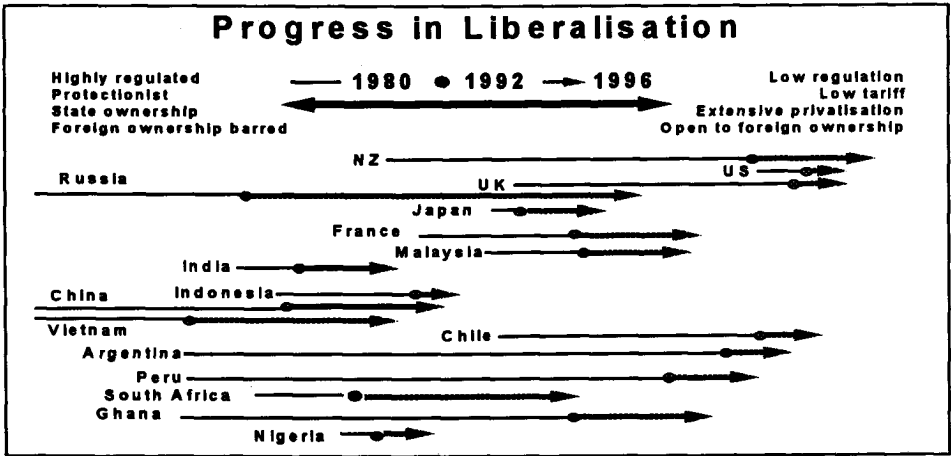


• Chart 1

The 1996 Nigerian Scenarios were developed against the background of Shell's Global Scenarios. A key driving force is *TINA* (There Is No Alternative) consisting of three elements: Liberalisation, Globalisation and rapid Technological change (Chart 1).



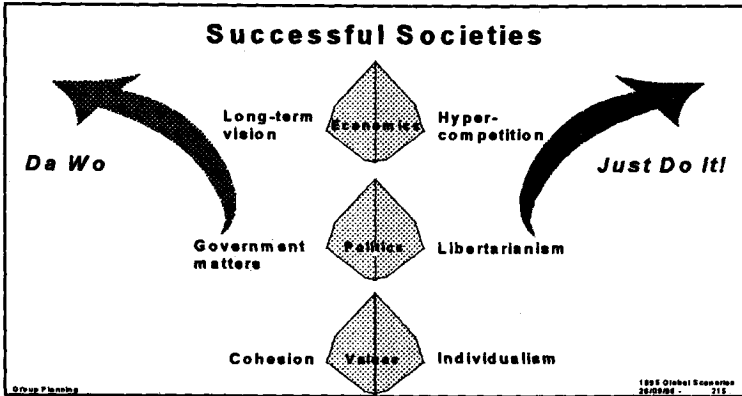
Individual countries' freedom of manoeuvre is seriously constrained by increasingly rapid flows of information and ideas, standards of best practice within global corporate networks, the discipline imposed by foreign exchange and international capital markets, and the unsustainability of Government resting on centralised 'command and control' mechanisms. Countries are however adapting to *TINA* at different speeds and with different success. In some countries - Russia, Chile, Argentina, Ghana - there has been an almost total structural transformation. Nigeria is one of the countries which have moved last, and most slowly, to embrace ideas of deregulation, prioritisation and market competition.



• Chart 2

Recent policies however are pointing in the right direction (Chart 2).

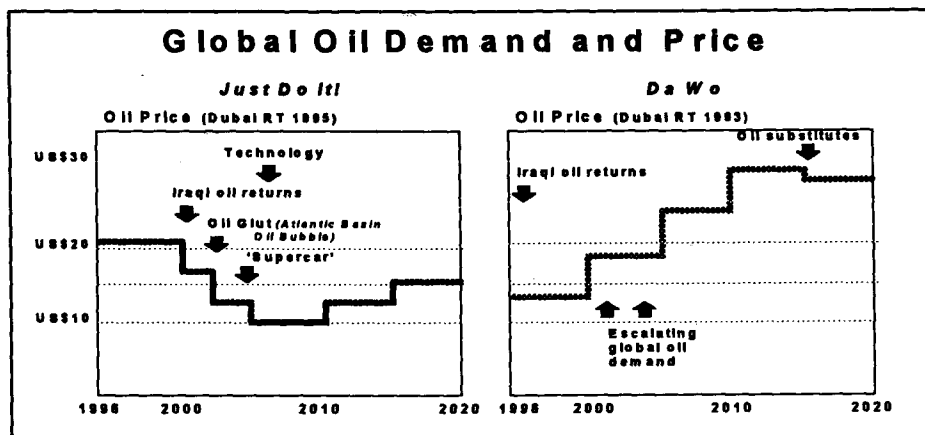
For these countries which are responding to *TINA* there are two distinct models for long-term success. One lays emphasis on individualism, respect and high rewards for entrepreneurs, high levels of competition, very rapid technological innovation via the market and a political culture which is dominated by free market and small government thinking. This is the *Just Do It!* world. Many of its features can be recognised in the US and in a less structured form in the new Russia and in Nigeria. Nigeria has a highly individualistic, entrepreneurial culture but also some of the more dysfunctional aspects of the *Just Do It!* world: short-term thinking and lawlessness (Chart 3).



• Chart 3

There is an alternative route to development, within the constraints of *TINA*. It gives greater emphasis to consensus, co-operation, social cohesion, equity and long-term investment. This is the *Da Wo* world. East Asian countries - Japan, Korea, Singapore - and Germany are closer to this model, though several of these - notably Japan and Germany - are presently in some economic difficulty and are having to jettison some of their traditional instruments of regulation and protection. Nigeria, by contrast, lacks a sense of cohesion, so characteristic for those societies, though it is present at the extended family level and can be found at sub-national level. A key question for the future is whether national institutions can create enough of a cohesive spirit, combined with globalisation and liberalisation, for development to occur.

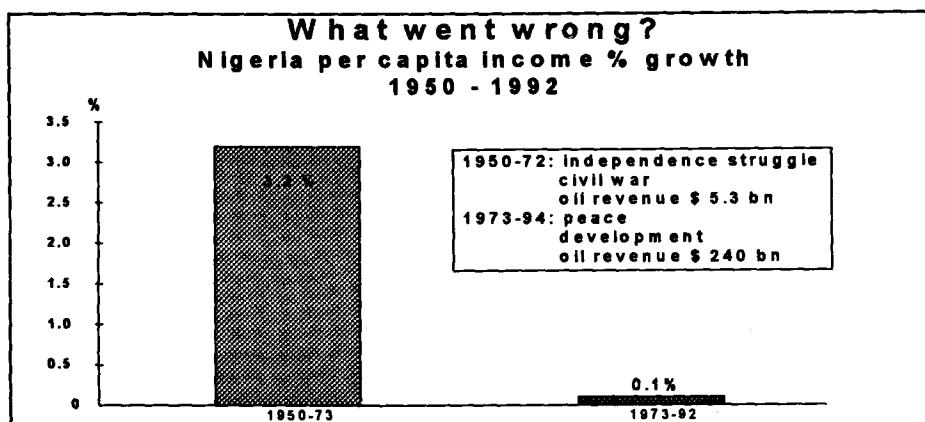
One of the main implications for Nigeria of the global scenarios is via the oil price. In *Just Do It!* global oil demand is constrained by a rapid breakthrough in fuel efficiency in the car industry, spreading from the US. Supply is boosted by increased production from Venezuela and elsewhere in the Atlantic basin and OPEC disintegrates in an upstream free-for-all. Prices fall sharply to \$10 or below and only low cost suppliers - which include Nigeria - have a role in the global market. In *Da Wo*, by contrast, strong Asian demand powers the market and keeps the oil price in the \$20-30 range where further upward movement is capped by substitute fuels (Chart 4).



• Chart 4

In some respects the force of *TINA* can be seen in recent Nigerian economic policies, particularly in the last two budgets. The liberalisation of exchange and interest controls and the lifting of Nigerianisation decrees are evidence of this.

However there are still very negative external perceptions of Nigeria being a high level risk country. This is based on fears of political instability, and experience of past economic mismanagement, notably Nigeria's failure to use its oil wealth productively.



• Chart 5

Despite almost \$240 bln. in oil revenues, per capita incomes have stagnated between 1973 and the present, having risen by over 3% per annum in the 1960-73 period when the country faced serious political upheaval including civil war. The story is a familiar one but not exclusive to Nigeria: an over-large state sector, an over valued exchange rate, a 'dependency culture' and corruption (Chart 5).

However, that is the past. What of the future? Chart 6 shows three possible Nigerian scenarios.

***Just Do It!*** in Nigeria is a world where the combination of TINA and falling oil prices cause very radical and painful adjustment. The public sector has to be downsized, assets sold off, subsidies cut and traditional state obligations - such as free universities, cheap petrol, cheap power, secure public sector jobs - have to be abandoned. This creates an opening for the private sector on a significantly increased scale. The oil and gas utilisation sector can expand considerably in volume terms but only if private capital can be directed to the sector

There are dangers in such a world of weakening central government and state power leading to lawlessness and radical adjustment and causing considerable pain. The management of this process will call for great skill and political courage and it could easily go wrong - leading to strife as described below. But, if reforms are persevered with, then there is the possibility of strong growth in the long-term in a much more diversified economy.

***Da Wo*** is a superficially easier scenario where Nigeria enjoys the breathing space of a strong global oil market. There is time to build consensus around a step by step reform process. There is a role for state institutions, though the force of *TINA* will demand greater efficiency and there will have to be a move, in any event, towards privatisation and greater competition. And private capital will be required to develop the oil and gas utilisation sector as it expands to meet global demand. There is a danger however of complacency, of the 'curse of oil' returning. This fresh opportunity could be squandered without strong, reformist, leadership.

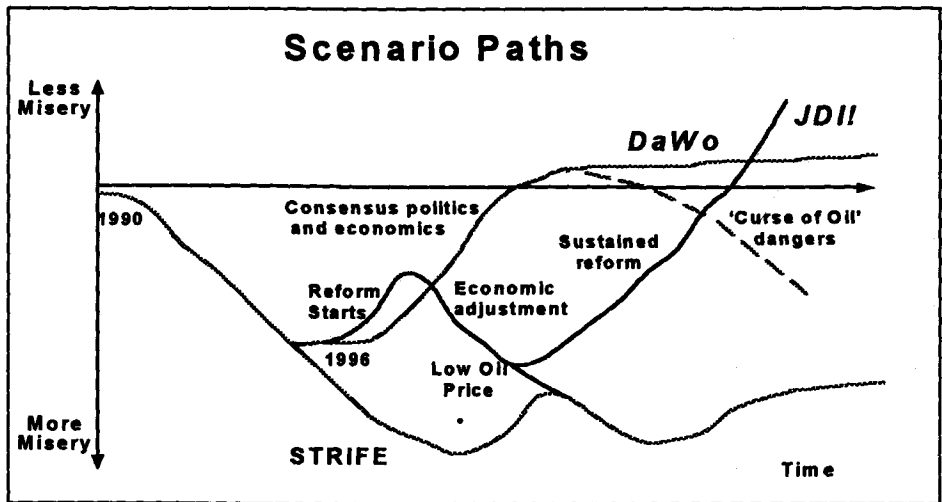
***Strife.*** It is necessary to confront, honestly, the risks of this downside scenario where conditions in Nigeria get worse. Such spectacularly mismanaged countries as Zaire provide an awful warning.

Nigeria could follow this path and slide in to a vicious circle if:

- isolationists prevail and the country turns its back on *TINA*
- decision makers are seduced by ideas of 'self sufficiency' and resort to widespread re-imposition of controls
- the country remains off-limits to the World Bank, IMF, the Commonwealth and US
- there are serious sanctions.

In such a situation private investors will no longer invest in Nigeria, living standards will fall further and lawlessness will spread wider. Confidence, already low, will sink further aggravating the flight of capital and brains.

This nightmare should not happen, but it could.



• Chart 6

## **Conclusions**

The scenarios offer different paths forward but there are some common normative implications. First of all there is *TINA*. Nigeria under both *Just Do It!* and *Da Wo* scenarios will need financially responsible macro-economic management, a more open approach to trade and foreign investment, a shift to the private sector including privatisation, deregulation and competition and more investment in people, the agricultural - and other non-oil sectors. Above all the country needs patience and a vision to endure a period of painful adjustment. If these things happen there is no reason why Nigeria should not be a successful, high growth economy and master of its own destiny.

## Appendix G

### Chile's Success Story

by Mr. Herman Buchi

#### 1. Introduction

I appreciate the opportunity to share with you my views about what happened in Chile during the period of economic transformations. Of course, every country is unique in some way, and each of them should make its own decision. But on the other hand, countries around the world have many things in common. I visited the Philippines when President Aquino was in power, and they were trying to advance certain reforms at that time. There, as well as in Chile and elsewhere, I heard the same argument when it came to introducing economic reform: they could not open up the economy quickly and introduce other reforms because of political problems. So there are a lot of similarities between countries with respect to the problems that have to be faced and the decisions that should be made. I hope you may find Chile's experience relevant.

Chile is still a poor country, and many people wonder why we talk about success if we continue to be poor. But even in a developed economy like the US, there is poverty. Our success is that we turned our situation around, after becoming probably the worst performer of all in Latin America.

Although we had lived in a democracy, by the time we initiated reform in late 1973 we were lagging behind, so much that we were experiencing great instability and institutional crises and nearly faced civil war. Yet today we are on the road to development. The figures on Chile registered in books written three or four years ago were probably not convincing enough. The success is much clearer now, after almost a period of half a generation of growth. With a 13 to 14 years of growth of close to 7 per cent per annum and a population growth of only 1.3 per cent annually, Chile is advancing. People said that Chile would never have a market economy because there were

no entrepreneurs and only copper to export. But Chile now has plenty of entrepreneurs and has diversified its exports. We still have problems, but our evolution shows that the ingredients for success exist in any society. Surely they exist in many developing and developed countries today. Where the situation is less complicated than that of Chile at the start of its reform, at least concerning stability and inflation. In the rest of my presentation, I would like to discuss general reform issues, then take a broad look at several Latin American countries, and finally to focus on Chile and its reform program.

## 2. **Ingredients of Successful Reform for Growth**

*To get out of underdevelopment, you need sustained growth of 7 per cent or more depending on the population growth rate. If the population is growing at 1 per cent, economic growth of 6 or 7 per cent is probably acceptable. If the population rate of growth is 3.5 per cent, like Bolivia's, then growth should be between 8 and 9 per cent.*

Table No 1 shows a number of selected indicators of high and low growth developing countries over the periods 1971-83 and 1984-93. The countries that grew well between 1984 and 1993 generally had stable currencies. Their inflation, although not zero, was moderate and stable. The low-growth countries had neither stable currencies nor moderate inflation. Latin America was having not two-digit inflation, but four-digit inflation. For sixty years, Guatemala pegged its currency to the Dollar and was relatively stable, but it was not able to get out of underdevelopment. Pegging the currency is useful, but it is not enough. Successful economies are open to the world. They are generally flexible, competitive, market oriented - and they are successful exporters. Behind this fact is what is called structural reforms or in more simple terms, provide an environment of small government and freedom so people can transform in reality their ideas and dreams.

*Countries with a good rate of growth also tend to invest and save more, at a rate of 30 per cent or higher, whereas low-growth countries save at rates below 20 per cent. A government budget that is not a burden for the society is fundamental for this purpose.*

*Three broad ingredients are therefore required for success; stability, structural reform or in other words, freedom; and a process of mobilising*



*savings. Without those three ingredients, an economy cannot gain enough momentum for growth. Poverty is strictly related to the capacity for growth.* In the 1950s, Singapore was a poor nation and the Philippines was the best performer in Asia. But up to five years ago, when they started a process of reform, the Philippines was backward looking. They were in a good neighbourhood but didn't use the opportunity for 30 years. They didn't have the excuse that Chile had, that all of Latin America was not performing well so the neighbourhood was not good.

One key element to successful reform is the coherence of the reform programme and attention to details. When you do a jigsaw without knowing the picture beforehand, it is much harder and until you have enough pieces in place you won't have an idea of what is going on. In the economy, you may have stability in one place, but if you don't have enough pieces in place, it will not generate growth. Maybe one country needs certain pieces in place more than others, but it has to have enough pieces correctly in place.

For stability, you need the correct monetary policy, fiscal policy, and exchange rate policy. But it's not that simple. If a Government stabilises by abusing exchange rate policy, it will have effects in other areas. You can stabilise with fiscal policy but in such a way that it crowds out the private sector and savings, so there will be stability but no growth or saving. You can have a strict monetary policy in an environment where the financial markets cannot cope with it, and then have a financial crises. So how do you combine these pieces is important. It is not just a matter of balancing the budget. Abusing monetary policy causes financial sector problems - even collapse. In structural reforms, the most important factor is integration with the rest of the world. Opening up the economy in goods, services and capital. Some people argue that opening the economy would damage local industry, but that only happens if structural reform is coupled with the wrong exchange rate policy - if you overvalue your currency when you open the economy. If you have the right policy, you won't have the problems. Normally, people will have to shift from one sector to another, but they should be able to find something to do successfully.

Deregulation should be designed to adapt to the markets. Before reform, Latin American economies had been regulated to adapt to

government intervention, prices were fixed and money was becoming worthless.

*In addition to the three main ingredients, a society needs to perceive that the changes are necessary and it must have the will to reform. The Government must be convinced that change is necessary, and there must be a critical mass of technical people who can do the job in all its details.*

Latin America has this stock of human capacity, and I believe that is true for the majority of the countries of the world, too. But each country must find a way to use the capacity of its people and put all the ingredients together. The first step is public opinion. In Chile, everybody knew there was a crisis. And isn't having a lot of poverty a crisis in itself? Or isn't going backwards and loosing spaces for liberty, in the developing countries also a crisis in itself?

### 3. **Reforms in Latin America**

Latin America wasted at least half a century discussing how to proceed, whether to give priority to distribution of income or to growth. In the end, growth is what improved the situation of the poor. Now Latin America seems to be changing and trying to pull together because they went through crisis. The average inflation in the continent for the period 1984-94 was over 1000 percent. Chile's crisis practically destroyed its institutions and almost brought complete economic and political breakdown. Finally Chile simply had to reform. But it should not be necessary to go through crisis in order to change. Some say that what happened in Chile was because of the military regime and not relevant to other countries. But Argentina is reforming today, and Argentina has not a military regime.

Latin American countries today are aiming for those critical ingredients: stability, structural reform or a free economy, and savings. Some countries are more advanced in the reform process than others. These variations are reflected in the different GDP growth and inflation rates shown in Table No 2. I will give a brief description of where some Latin American countries are in their reform processes. We will consider Mexico and Argentina first.

Mexico has advanced a lot regarding stability. Although their inflation was around 52 per cent at the end of last year, they are close to stability because they now have control over the elements of government budget. Inflation figures should soon become much more reasonable<sup>1</sup>.

Mexico introduced structural reforms, but not enough, which is why they haven't had more growth. Table No 3 shows that Mexico has also made significant progress in increasing its exports. This year they will probably have \$95 billion of exports, of which oil accounts for only \$8 billion. Some say being close to the US helped exports, but Mexico has always been close to the US and wasn't exporting that much before. Mexico used to rely on money from outside and had low savings. You can do that for a few years, but suddenly you have to adjust to your own means and increase savings to generate growth. Mexico should use the opportunity of the devaluation to create savings.

Argentina is similar to Mexico. After a lot of reforms to stabilise and restructure the economy, today they look much more stable. In the last 12 months they have had six months of deflation (see Table No 4). But they did not generate enough savings - the same problem Mexico has. To generate savings without devaluing requires lowering price internally, which is difficult. Devaluation is very tough because it creates economic turmoil. But if you overcome that, and reduce the budget and real wages, it is easier to go forward. If you do not devalue, you avoid the turmoil - but it takes a long time to adjust the economy. In the years to come, we will continue to compare Mexico and Argentina. After the turmoil of devaluation, the Mexican Government is worth little in the minds of the population. But I wonder what will happen to the Argentinean Government in the next two or three years, when they face low growth and have to reduce high spending of the Government. In 1994, Argentina had only a 3.5 per cent GDP deficit in the current account, but that was \$10 billion and they were exporting only \$15.8 billion.

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<sup>1</sup>Compare Mexico to Turkey. In February 1994, Turkey had a major devaluation and then a major recession. They recovered from that, but they still don't have the budget under control. They will continue to have high inflation as long as they don't handle the problems of the budget.

Now consider Peru and Bolivia. Peru in my view is stabilised after suffering from hyper-inflation - not chronic inflation as so many Latin American countries had for so long. See (Table No 5.). But Peru has not gone deeply enough into structural reform, and they are far from saving enough. They drastically reduced inflation, not by fixing the exchange rate but by putting the right instruments in the budget.

In 1984, Bolivia's inflation was 20,000 per cent. Now they are stabilised and they are growing. (See Table No. 6), but with a population growing at 3 per cent or more, they do not have the rate of growth they need. Their structural reforms were not sufficient. If a Government starts to reform structurally but then loses its nerve and goes backwards, the economy will become unstable again. The President of Bolivia is very aware of this challenge, and I think he is advancing, but the jury is still out.

Now look at Brazil and Venezuela. Brazil is not yet stable and has a lot of budgetary problems. Brazil's economy was very powerful and dynamic 20 years ago, but recent growth has been erratic. If they stabilise and put together enough structural reforms, they could recover. After their reforms in 1994, they got a major current account deficit in 1995 (see Table No 7). Brazil must complete its stabilisation, and reform its budget as well as the way the states and central government behave.

Venezuela tried to reform, but failed. In some countries, leaders have been able to implement reform that was against the foundation of their parties. Argentina's populist leader, Menem was elected saying the opposite of what he did in office, and the same holds true for Peru's Fujimori. These leaders were able to maintain party cohesion. But this was not the case in Venezuela. There, the President was not able to handle his party or to put enough reform pieces in place and everything simply collapsed. People took their money out of the country, and unemployment and inflation rose. This country had the exchange rate pegged to the Dollar for 20 years, so they were used to stability. Now they've had 10 years of double-digit inflation (see Table No 8). The President says he doesn't believe in what they call "IMF oriented reforms". But Chile did not start reforming because the IMF told us to, we reformed because we believed in change, before anybody advised us to, even before such programmes were

created. In fact, if you are forced to reform, you may act like you are, without actually doing it.<sup>2</sup>

#### **4. Reforms in Chile**

Chile is the only country in the last twenty years that consciously tried to reform and can now show that reforms pay off. Other reforming countries are not yet in that position. Macro-economic policy in Chile was aiming for growth, stability and savings. Since 1984, Chile has had an average growth of 6.7 per cent per year (see Table No 10) with a population rate of growth of 1.3 per cent. This means per capita growth of 5.4 per cent. Chile has achieved a per capita of \$5000 or \$8000 in terms of purchasing power (see Table No 9).

In 1985, Chile's exports were \$3.5 billion. Now Chile is exporting \$16.5 billion in goods - from a country of 14 million people - in spite of being far from most of its markets. Argentina may look more stable with 0.2 per cent inflation compared to Chile with 7.9 per cent, but because of indexation in Chile, the Government decided to reduce inflation more slowly and not by abusing the exchange rate.

Chile undertook structural reforms, achieved stability and increased savings. In structural reforms, Chile was quite aggressive in opening its economy. Its maximum tariff rate is now 11 per cent (this was agreed upon unanimously in Congress). The Government freed all prices, including bread. To make this politically feasible, direct subsidies, not price subsidies, were given to the poor. We overcame the problem of fixed housing rent, which was an obstacle to investment. In agriculture, we regularised property and water rights, and allowed people to buy and sell land. People were allowed to get rid of tenants by paying indemnity; it's better to pay than to stay in

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<sup>2</sup>Colombia is unique among Latin American countries. It has been a reasonably stable performer with growth of 4.5%. When inflation reaches 30% they take measures, but when it is reduced to 20%, they relax, and it goes up again. Colombia has been like that for 30 years and has been paying a price; it has been unable to solve its problems, which has led to more problems.

the old situation with no hope. Since the military government was so affected by the poor agrarian reform and the socialist mentality about land ownership, the exercise took several years though some people found legal ways to do it before the legislation was passed. We opened the mining sector also successfully with new legislation for private investment.

Transforming the transportation sector was one of the key moves that allowed Chile to become an exporter of grapes and other fruits to all parts of the world. The Government changed the regulations and allowed the private sector to operate ports. Unions received compensation when the labor laws were changed: there was no other way to alter the structure of the ports. The telecommunications sector was opened, so even remote farmers could communicate immediately with markets. We were the first country in privatising electrical utilities. Many times I was asked if we looked at what Great Britain did and I have to answer that we did it before them.

Chile reformed its financial sector to allow exporters easy access to credit, and taxation was changed so that no one pays tax to export. There is an organisation that helps people reach markets because one exporter cannot do it alone. The Government helps achieve 'critical mass' and then withdraws. We also formed co-operation between the Government and the private sector in funding and acquiring new technologies. In agriculture we are flexible in allowing new species in quickly enough to help us compete in the market, while still protecting our environment.

We promoted industry, not as a special sector, but in the same way as the other sectors - agriculture, transportation, energy, etc. Since labour laws in Latin America tend to create either high unemployment or informality, we changed our labour laws to allow more flexibility and to reduce taxation. Previously, the employer/employee wage tax in Chile was 60-70 per cent of wages - obviously a major taxation. This was reduced to 20 per cent. In changing the tax structure, corporate tax was reduced. So corporations could save and the money was not taxed if it was invested rather than spent.

Chile's privatisation process was not simply having the old private sector buying companies. The process actually created a new private sector. When the electric companies were to be sold, there were no

foreign investors and no one was able to buy it outright. So the Government opened the company to the public and allowed people to buy shares. Pension funds were also allowed to invest in the companies. Many of today's major private companies in Chile used to be government companies, and they are now broadly owned like the big corporation in the US. The Government did not have the funds to offer severance pay, so public employees were allowed and encouraged to buy shares. Privatisation encourages further reform, and it can be an opportunity to gain the public's faith in reform.

In 1960, Chile had practically no capital market, but today Chile's capital market is well established and broadly-based. The process was complicated because the banks were privatised simultaneously with real sector firms, and privatisation requires savings and good institutions. Now, a company in Chile can borrow money for 20 years. Good companies can issue bonds in the market. We have pension funds and institutional investors and the market is quite sophisticated. Pension funds represent about 45% of Chile's capital market. But pension funds in the private sector are not enough to mobilise savings. Economic savings means that people are consuming less and so the Government has to do its efforts and it was done reducing expenditures. Today close to 4 per cent of GDP a year is being saved in pension funds, which are private institutions. In 1994 Chile had accumulated 43 per cent of GDP in funds.

After the debt crisis of the early 1980s, Chile transformed its budget deficit into a surplus without crowding out the private sector (see Table 12). By 1989 our savings were reasonably high (see Table No 11). Indeed, Chile was the first country in Latin America to successfully mobilise reasonable savings. Increasing saving is difficult, but in the end, it generates more production. In order for Chile to maintain its rate of growth in the future, it should continue with reforms and increase its saving rate to that of a typical Asian economy, 34 per cent or more. We are not yet doing that, but we are discussing it openly in Chile.

Growth is an opportunity to diminish poverty. But many people perceive poverty related social problems as programmes that spend money on the wrong people. For example, if you want to offer cheap housing loans, the people who buy bigger housing can receive bigger subsidies. If you want to offer low-interest loans to promote small business, some people find ways to get these cheap loans and put the

money in the bank. The dilemma is how to target resources to the poor and design social programmes that are compatible with economic development. There is a major discussion in Chile about whether we have been helping the poor enough. I think we have been taking care of the poor as much as possible. Infant mortality for 1996 is 12 per 1000, very low for a developing country. The figures on access to safe drinking water and on life expectancy show that Chile has advanced (see Table No 13). Chile used to be worse than Argentina in infant mortality, and below developing countries like the USSR, and now we are far better. Our infant mortality improved faster than in the oil-rich countries when they really changed and became wealthy between 1973 and 1990.

In 1970, 21 per cent of Chile's population lived at the extreme poverty level. By 1992 the level was 11.9 per cent. In other words, in roughly 20 years Chile reduced extreme poverty by almost half (see Table No 14). This was achieved through the combination of growth and targeting programmes to improve the well-being of the very poor.

## 5. Conclusion

*I would argue that the principles we used in Chile are applicable anywhere. I believe that any developing country can become a developed economy in a generation and any developed country can reach levels of well being today out of imagination. If you do things right, you will notice a difference in 10 years, as it has been noticed in Chile. The reforms will generate not only better economic performance but also political stability, and allow successful political transition if desired or needed. You will have more options, and I am certain it will improve the situation of the poor. What is required is conviction and the perception that the changes are necessary. The key element is allow free expression of capacity of the people. That is the final and in a sense the real resource of humanity.*



Table 1

DEVELOPING COUNTRIES: ECONOMIC PERFORMANCE

	1971 - 83	1984 - 93
<i><u>High-growth countries</u></i>		
GDP growth	5.8	7.4
Consumer prices	12.0	11.5
Fiscal deficit (% of GDP)	-2.8	-3.2
Investment (% of GDP)	25.8	30.1
Savings (% of GDP)	24.8	29.3
Export volume	8.6	10.4
Factor productivity	1.9	3.4
<i><u>Low-growth countries</u></i>		
GDP growth	4.0	1.4
Consumer prices	26.4	53.5
Fiscal deficit (% of GDP)	-4.1	-5.3
Investment (% of GDP)	26.3	20.9
Savings (% of GDP)	24.1	18.8
Export volume	-0.5	3.4
Factor productivity	0.2	-1.1

Source: International Monetary Fund

**Table 2****LATIN AMERICAN ECONOMIES**

	GDP (% Change)			Inflation (1) (12 month % Change)			Current Account (As % of GDP)		
	1994	1995	1996*	1994	1995	1996*	1994	1995	1996*
Latin America (7)	5.4	-0.2	3.1	11.9	28.6	22.2	-3.0	-1.6	-1.8
Argentina	7.4	-4.4	2.5	3.9	1.6	2.0	-3.5	-1.0	-1.2
Brazil	5.7	4.0	3.3	929.3	22.0	12.0	-0.3	-3.0	-2.4
Chile	4.2	8.5	7.3	8.9	8.2	6.8	-1.3	0.2	-3.0
Colombia	5.7	5.3	4.5	22.6	19.5	17.5	-4.6	-4.3	-4.3
Mexico	3.7	6.9	3.0	7.1	52.0	30.0	-7.8	0.0	-0.8
Peru	13.0	6.9	5.0	15.4	10.2	8.1	-5.4	-7.5	-6.0
Venezuela	-3.3	1.5	-2.0	70.8	56.6	105.0	6.1	4.8	3.3

- (1) Latin American inflation excludes Brazil  
 (\*) Estimation

Source: Instituto Libertad y Desarrollo

**Table 3****MEXICO**

	1985-89	1990	1991	1992	1993	1994	1995	1996
GDP	1.0	4.4	3.6	2.8	0.6	3.7	-6.9	3.0
INFLATION	73.8	29.9	18.8	11.9	8.0	7.1	52.0	28.8*
EXPORTS (US \$ bn)	30.3	39.5	42.7	46.2	51.9	60.9	79.8	92.0
CURRENT ACCOUNT (% GDP)	-6.0	-3.1	-5.1	-7.4	-6.4	-7.8	0.0	-0.8

- (\*) For Inflation, twelve month percentage change as of May  
 Source: Instituto Libertad y Desarrollo

**Table 4****ARGENTINA**

	1985-89	1990	1991	1992	1993	1994	1995	1996
GDP	-0.8	0.1	8.9	8.7	6.0	7.4	-4.4	2.5
Inflation	468.6	1,343.9	84.0	17.5	7.4	3.9	1.6	-0.3*
Exports (US \$ bn)	8.1	12.4	12.0	12.2	13.0	15.8	20.9	21.4
Current Account (%GDP)	-2.1	3.2	-0.4	-2.9	-3.0	-3.5	-1.0	-1.2

(\*) For Inflation, twelve month percentage change as of May  
Source: Instituto Libertad y Desarrollo

**Table 5****PERU**

	1985-89	1990	1991	1992	1993	1994	1995	1996
GDP	-0.4	-4.4	2.9	-1.8	5.6	13.0	-6.9	5.0
Inflation	445.9	7,649.6	139.2	56.7	30.5	15.4	10.2	11.4*
Exports (US \$ bn)	2.7	3.2	3.4	3.5	3.5	4.6	5.6	5.8
Current Account (%GDP)	-4.7	-3.7	-3.0	-4.8	-5.2	-5.4	-7.5	-6.0

(\*) For Inflation, twelve month percentage change as of May  
Source: Instituto Libertad y Desarrollo

**Table 6****BOLIVIA**

	1985-89	1990	1991	1992	1993	1994	1995	1996
GDP	1.0	4.4	4.6	2.8	4.1	4.2	3.7	4.0
Inflation	273.0	18.0	14.5	10.5	9.3	8.5	12.6	12.4*
Exports (US \$ bn)	0.6	0.8	0.8	0.6	0.7	1.0	1.1	1.2
Current Account (%GDP)	-7.2	-4.4	-5.1	-7.8	-8.8	-4.0	-5.5	-5.7

(\*) For Inflation, twelve month percentage change as of May  
Source: Instituto Libertad y Desarrollo

**Table 7**

**BRAZIL**

	1985-89	1990	1991	1992	1993	1994	1995	1996
GDP	4.4	-4.3	0.3	-0.8	4.2	5.7	4.0	3.3
Inflation	453.5	1585	475	1149	2489	929	22.0	15.5*
Exports (US \$ bn)	28.5	31.4	31.6	35.8	38.8	43.6	46.5	50.0
Current Account (%GDP)	-0.1	-0.8	-0.4	1.6	-0.2	-0.3	-3.0	-2.4

(\*) For Inflation, twelve month percentage change as of May

Source: Instituto Libertad y Desarrollo

**Table 8**

**VENEZUELA**

	1985-89	1990	1991	1992	1993	1994	1995	1996
GDP	1.6	6.5	9.7	6.1	-0.4	-3.3	1.5	-2.0
Inflation	32.5	36.5	31.0	31.9	45.9	70.8	56.6	99.5*
Exports (US \$ bn)	11.3	17.4	15.0	14.0	14.0	15.7	18.0	17.5
Current Account (%GDP)	-1.1	17.1	3.3	-6.2	-3.7	6.1	4.8	3.3

(\*) For Inflation, twelve month percentage change as of May

Source: Instituto Libertad y Desarrollo

**Table 9**

**CHILE**

	1973	1996
GDP (US\$M 1995)	17.782	71.500
Population (Thousands)	10.020	14.300
GDP/Per Capita (US \$ '95)	1.775	5,000
Inflation	500%	8.6%**
External Debt/Exports	2.5	1.4
Exports/GDP	8%	23%
(Exports + Imports)/GDP	16%	43%
Copper Exports/Total Exports	82%	37%

(\*) Estimated

(\*\*) 12 months May 1996

**Table 10****CHILE**

	1985-89	1990	1991	1992	1993	1994	1995	1996
GDP	6.3	3.3	7.3	11.0	6.3	4.2	8.5	7.3
Inflation	19.8	27.3	18.7	12.7	12.2	8.9	8.2	8.6*
Exports (US \$ bn)	5.7	8.4	8.9	10.0	9.2	11.6	16.0	16.5
Current Account (%GDP)	-4.5	-1.8	0.3	-1.6	-4.6	1.3	0.2	-3.0

(\*) For Inflation, twelve month percentage change as of May  
 Source: Instituto Libertad y Desarrollo

**Table 11****CHILE**

**SAVINGS-GROSS CAPITAL FORMATION RELATION**  
 (As % of GDP, at current prices)

	1985	1989	1990	1991	1992	1993	1994	1995
Gross Capital Formation	17.2%	25.5%	26.3%	24.5%	26.8%	28.8%	26.8%	27.4%
Gross National Savings	7.8%	23.7%	24.2%	24.1%	24.8%	23.9%	25.4%	27.6%
Foreign Savings	9.4%	1.8%	2.0%	0.4%	2.0%	4.8%	1.4%	-0.2%
Gross Fixed Capital Formation	16.8%	23.0%	23.3%	20.9%	22.7%	25.6%	24.3%	23.2%
Gross Domestic Savings	19.6%	30.0%	29.7%	28.5%	28.2%	26.5%	28.2%	29.3%

**Table 12**

**CHILE**

**GENERAL GOVERNMENT  
(As percentage of GDP)**

	1984	1989	1990	1991	1992	1993	1994	1995
<b>Current Revenues</b>	27.9%	24.9%	22.8%	23.0%	22.7%	22.4%	22.1%	22.5%
- Tax Revenues	19.3%	14.8%	14.5%	16.7%	16.9%	17.6%	17.1%	16.5%
<b>Current Expenditures</b>	29.3%	17.7%	18.1%	18.6%	17.5%	17.7%	17.2%	16.2%
- Interest Payments	2.3%	1.7%	1.9%	2.2%	1.4%	1.2%	1.0%	0.7%
<b>Current Surplus</b>	-1.9%	7.2%	4.7%	4.4%	5.2%	4.6%	4.9%	6.3%
<b>Overall Surplus</b>	-3.5%	5.5%	3.0%	2.2%	2.5%	1.7%	1.8%	3.5%
<b>Medium:</b>								
- Current Expenditures excluding interest payments	27.5%	16.0%	16.2%	16.4%	16.1%	16.5%	16.2%	15.5%

Source: Finance Ministry

**Table 13**

**CHILE**

**MAIN SOCIAL INDICATORS**

	1973	1991
Infant mortality rate (per 1,000 live births)	66.0	15.0
Access to safe water (urban)	67.0	98.0
Average school courses (in years)	4.5	8.7
Life expectancy at birth (in years)	64.0	72.0

**Table 14**

**CHILE  
EVOLUTION OF EXTREME POVERTY\***

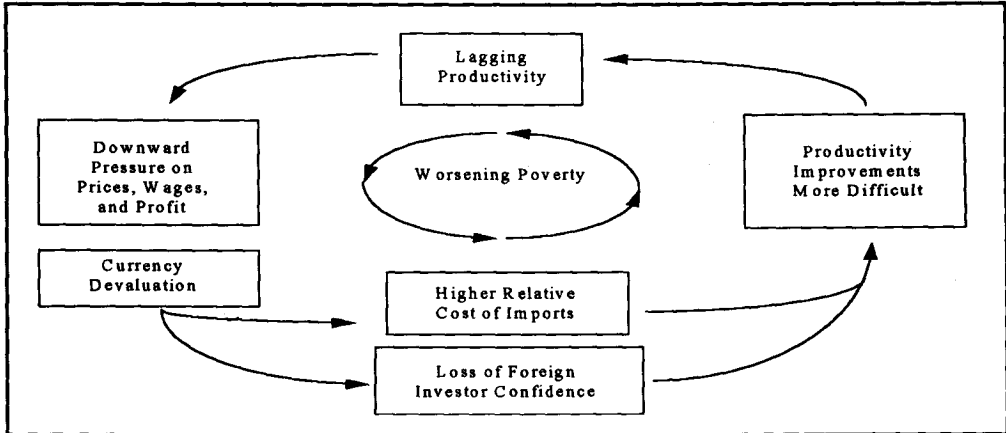
1970	21.0%
1982	14.2%
1992	11.9%

\*ILD's own calculations according to National Census Data

## Appendix H

### Industrial Strategy for Development: The New Paradigm Professor Pankaj Ghemawat, Harvard Business School, USA

#### The Productivity Spiral



#### Old Thinking About Development (1)

- Natural Resource Endowment;
- Market Controls;
- Domestic Demands.

#### Resources (2)

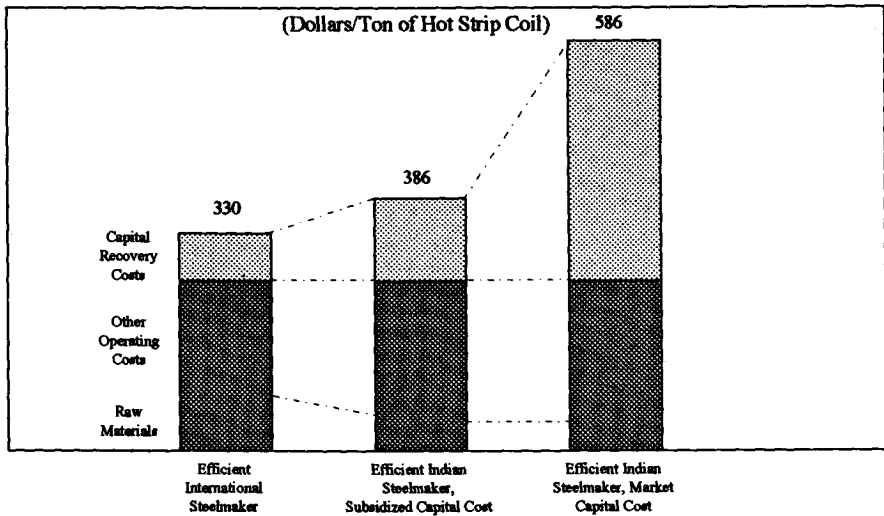
- Cheap natural resources do not guarantee development. They may even get in the way;
- Resources must be used more efficiently;
- Resources must be thought about more broadly -
  - Infrastructure



### Resources (Cont.) (2)

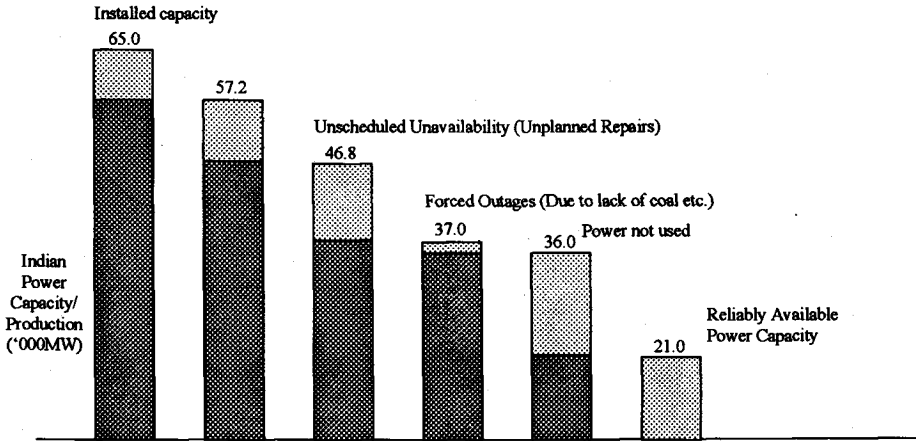
- Institutions
- Education and training
- Information
- Resources must be renewed and upgraded over time.

### Comparative Capital Efficiency in Steel



## Indian Factor Conditions - Electric Power

- The Indian power sector suffers from extremely low efficiency



Source: Government of India

### Markets (3)

- Competition is generally better than controls;
- Government policy can obstruct competition in myriad ways:
  - Restrictions on foreign direct investment;
  - Tariffs and import controls;
  - Levies/transaction costs;
  - Price controls;
  - Non-price controls;
  - High marginal tax rates;
  - Public ownership;
  - Sectoral reservations.
- The Government should not, however, simply abdicate its responsibility:
  - Anti-trust policy
  - Standards

- Government as buyer
- Government as supplier
- Policy stability

### Agricultural Pumps (4)

- Protection from foreign competition;
- Reservation for small-scale competitors;
- Preference for local competitors;
- Weak standards;
- Subsidised electricity;
- Procurement based on initial price.

**Agricultural Pumps: The Results (5)**

- Low energy-efficiency and durability;
- High prices and corruption

**Demand (6)**

- Large home demand can initially work against competitiveness in developing countries;
- Developing countries begin with relatively few areas of sophisticated domestic demand;
- Foreign demand must be targeted. It cannot be treated as residual;
- Industries with weak inter-industry linkages but favourable resource conditions often emerge as the first "islands of competitiveness"

**Indian Demand Conditions**

**Garments (7)**

Domestic Demand

- Relatively small;
- High price sensitivity;
- Focus on synthetics;
- Fashion differences;
- Different standards.

Foreign Demand

- Focus on cotton;
- Dependent on quotas;
- Heavy reliance on simple-to-manufacture ladies outerwear
  - Fad sensitive

- Highly seasonal

Focus on this particular foreign niche will make upgrading difficult and has contributed to stagnant average unit value of <\$4.

**Implications for Nigeria (8)**

- Nigeria's abundant natural resources will not, by themselves, lead to development;
- Nigeria needs to harness the power of competition;
- Nigeria must explicitly focus on areas where Nigerian-based companies can be internationally competitive;
- These islands of competitiveness must be cultivated by internationalist managers and a responsive government.

**Transitions for India (9)**

Wealth	→	Wealth
Distribution		Creation

Macro-		Micro-
Economic	→	Economic
Reform		Reform

External		Internal
Focus on	→	Focus on
Liberalisation		Liberalisation

### **Transitions for India (9) (Cont.)**

Regulation/ → Competition

Micro-  
Management

Centralisation → Decentralisation

Factor Quantity → Factor Quality/  
Efficiency

### **Mechanisms for Change (10)**

- **Work on Competitive Upgrading, and do Not focus exclusively on Macro-economics;**
- **Success is Action Initiatives; Not Reports or committees;**
- **Champions should drive Change, Not be driven by Functional Ministries or Diffused Debate;**
- **Solutions require a Systematic Long-Term View, and Not Partial Short-Term Solutions;**
- **The best way to effect systems reform is to be Needs/Demand, Not Supply-Driven;**
- **Ultimately demand comes from Citizens and the Private Sector, Not Government Alone.**

# Indian Firm Strategy, Structure and Rivalry

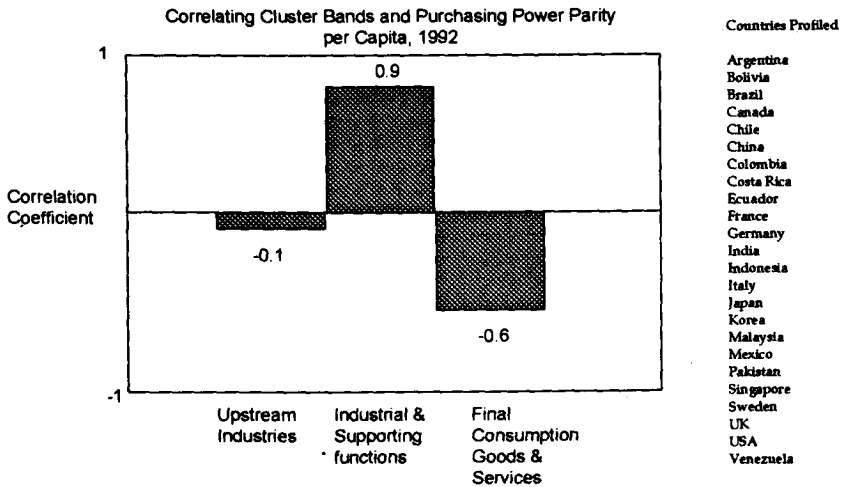
## Innovation Lags in Bicycles

Innovation	Abroad	India
3-speed internal gear hub	1925	1965
Narrow spring saddles	1960	1975
Narrow tyres	1962	1974
Down-ward bent handlebars	1962	1988
5-10 speed derailleurs	1966	1980
Rat trap pedals with reflectors	1967	1987
Light alloys	1969	1985
Flat handles	1973	1987
Caliper brakes	1981	1989



Indian firms are far behind foreign rivals in introducing innovations

### The Relationship Between Cluster Exports and Wealth



## Appendix I

### Nigeria: Economic Overview

Mr. Atedo Peterside

In presenting this economic overview, I have chosen to focus attention on only 10 macro-economic indicators (Slide 1) out of a possible 40 or 50.

The selected indicators appear to confirm that Nigeria is now on the verge of attaining macro-economic stability. The autonomous exchange rate is now relatively stable at approximately N80/\$1, money supply growth (both narrow money and broad money) has been curtailed successfully. Government deficit as a percentage of Gross Domestic Product ("GDP") is now close to zero and the inflation rate is tumbling down towards the 25-30% bracket and with prospects for a further reduction in 1997. The bad news is that the MISERY indices have not moved. I have chosen to draw attention to the real GDP growth rate, population growth and GDP per capita, as these are the misery indices and they confirm our worst fears, i.e., there has been no appreciable growth in GDP per capita since 1993. Indeed, 1996 GDP per capita is expected to fall below the 1993 level of N1,069. In a nutshell therefore, the plight of the ordinary Nigerian has not improved at all in 3 years.

Macro-economic instability can hinder growth, but attaining macro-economic stability, by itself, does not necessarily generate and/or sustain rapid growth. The real challenge ahead therefore is to double GDP per capita in record time (Slide 2).

The good news is that the length of time it takes a country to double its per capita output has been shortening dramatically as shown in Slide 3. It took the U.K. 60 years between 1780 and 1838, Japan 34 years between 1885 and 1919, South Korea 11 years between 1966 and 1977 and China 10 years between 1977 and 1987. Nigerians have to decide whether we want to do it in 5 years (a new record), 10 years (to equal China's record) or 20 years or over 50 years. Our current rate of increase in GDP per capita is remarkably close to zero. On this showing, it will take an infinite number of years to double

per capita GDP. Meanwhile, Uganda now looks as if they might do it in less than 10 years.

Attaining macro-economic stability is relatively easy. It can almost be achieved by promulgating a decree, i.e., simply stop expanding the money supply and force the Government "to cut its coat according to its size" by eliminating budget deficits and the macro-economy will stabilise. The task of doubling per capita real GDP, in record time is much harder. It calls for a complete paradigm shift viz. the checklist contained on Slides 4A - 4D. This also covers the broad spectrum of issues being tackled by the 16 breakout groups in this Summit.

The cost of doing business in Nigeria is much too high (Slide 5). The price the consumer pays covers the cost of a whole host of levies and taxes including import duties, port charges, VAT, excise duties, 1% levy by inspection agents, the cost of processing various approvals in Abuja many of which should ordinarily have been decentralised and therefore processed or granted at points much closer to the point of production/trade. The real challenge is to cut these costs significantly and then pass the benefits on to the consumer. In a nutshell, we have to move out of the current Low Output Trap into a Higher Output Scenario also shown in Slide 5, which enables the consumer to buy more with the same income.

Mark Tennet of Chase Manhattan Bank developed the attached chart (Slide 6) which traces a development cycle for emerging markets. His chart shows that many emerging markets move progressively through a sequence of reforms starting from encouraging trade flows to the development of their manufacturing and service sectors, Central Bank development, easing of restrictions on foreign ownership, establishment of regulatory bodies, privatisation, etc. Russia, China, India, Brazil and Hong Kong are at progressively more advanced stages of this cycle. I have added Ghana to this chart, alongside India as they are both currently at the privatisation phase. Nigeria's problem is probably captured by Slide 7. We have been pursuing most of these reforms haphazardly, half-heartedly and with frequent policy reversals. Thus, we embarked upon privatisation since 1988 but never touched on infrastructure and/or public utilities in a meaningful manner. The only major institutions we privatised were the banks, but even here, we are in danger of not keeping faith thereafter. Also, we eased the regulations governing foreign and capital flows in the 1980s only to tighten them in 1994 and then ease them again in 1995.

Slide 8 compares Ghana with Nigeria. Real GDP growth between 1993 and 1995 was 4.43% in Ghana and 1.97% in Nigeria. Ghana is targeting GDP growth at 8% per annum in the years ahead. Nigeria's target is unclear. Gross Investment as a percentage of GDP in Ghana was 25% in 1995. Nigeria's was "below 20%" according to the Central Bank of Nigeria's 1995 Annual Report. Corporate tax on non-traditional exports in Ghana is only 8% because the Ghanaian Government is eager to encourage new investments in this area. Nigeria's comparable tax rate is the basic corporate tax rate of 30%. Nigeria's non-oil exports in 1995 were a paltry \$285.7 million, while Ghana's was more than five times larger at \$1.43 billion. This underlines the phenomenal scope that Nigeria has for improvement.

Slides 4A to 4D defined what Nigeria needs to do. Slide 9 mentions what Nigeria does *not* need, e.g., inflating the economy while pretending to reflate, embarking upon misguided regulations of the 1994 type, additional white elephant projects sponsored by the Government, failed or prolonged political transition, unsustainable Naira appreciation that will hurt and/or inhibit non-oil exports. Neither do we need policies that inhibit long-term savings and/or investment, e.g., Government curtailing new investment activity in the oil sector because it insists on meeting a pre-determined joint venture minimum equity participation target or indeed Government dictating interest rates to the money market.

YES, there are some tough choices ahead. The pressures on Nigeria in the immediate future would include (Slide 10); Political transition - Democratisation, tolerance of human rights' activists and environmentalists. Nor can we afford to ignore DRUGS. The challenge is to cope with all these genuine pressures while initiating an economic recovery programme to double per capita GDP in record time.



### Summary/Verdict (1)

- Macro-economic stability is being attained.
- But Misery Indices have not moved -
  - GDP Per Capita in 1996 will probably be lower than 1993 figure of ₦1,069;
- Macro-economic instability can hinder growth but macro-economic stability by itself does NOT necessarily generate and/or sustain rapid growth;
- The real challenge ahead is to double GDP Per Capita in record time.

## 10 Selected Macro-economic Indicators

	Actual			Projection		
	1993	1994	1995	1996	1997	1998-2010
<b>Misery Index</b>						
• Real GDP Growth (%)	2.7	1.0	2.2	2.0		
• Population Growth (%)	3.2	2.1	2.1	2.0		
• GDP Per Capita (N)	1,069	1,060	1063	1062		1200
• Manuf. Capacity Util.(%)	37.2	30.4	29.3	30.0		50.00
• Average Oil Price (\$/barrel)	17.5	16.2	16.7	20.0	20.0	
<b>Macro-economic Stability</b>						
• Government Deficit as % of GDP	-15.4	-7.7	-0.5			16.00 25
• Narrow Money (M1)% Growth	54.4	47.8	8.1			
• Broad Money (M2) % Growth	49.8	39.1	10.3			
• Av. Autonomous Exchng. Rate (N/\$)	40	85	82.5	80.0	80.0	
• Inflation (% Increase in CPI)	57.2	57.0	72.8	75.0		

Source: Central Bank of Nigeria for Historical Data  
IBTC estimates and projections

**To double Per Capita Real GDP in Record Time (2)**

- **Paradigm Shift**
  - Beyond today's expectations;
  - Beyond World Bank/IMF expectations;
  - Beyond Paris Club;
  - Beyond National Reconciliation/Political Accommodation;
  - Adopt Per Capita Real GDP Growth as the No. 1 objective.
- **Encourage significant new investment activity -**
  - Nigerians ("Home & Abroad") & Foreigners;
  - Investing in projects for today and projects for tomorrow;
  - Where are the \$100m private sector projects?;
  - Eliminate reliance on the odd jumbo projects from Government (\$1bn+) every 3 years;
- **Mobilising savings to finance investments**
  - Interest rate regime - Deregulated, realistic and sustainable;
- **Raising existing capacity utilisation**
  - Income distribution/buying power of the customer;
- **Surge in productivity**
  - Better workers, better equipped;
  - Educated workforce - better skills & orientation - Universities;
- **Restoring and improving margins**
  - Reducing risk/increasing returns, providing incentives;
- **Market determined exchange rates**
  - Investors worried about CBN dictating rates;
  - Autonomous FX market should be deepened to include oil coys. and oil service coys. Dollars and Naira made fully convertible.
- **Inadequate infrastructure - NEPA and Water, NITEL & Telecommunications, Roads, Petroleum Trust Fund**
- **Improved enabling environment**
  - Free market/deregulation;
  - Ethics/corruption;
  - Security/Law & Order/The Rule of Law.

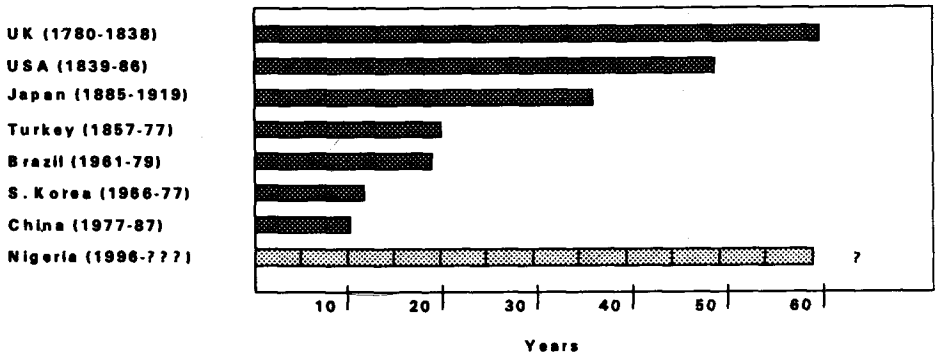
- **Privatisation - Infrastructure not touched**
  - Leyland/ Atlantic Bank/Golden Shares;
  - Petroleum sector downstream.
- **National Image**
  - Nigeria must become fashionable;
  - Endless political transition must end;
  - Heads of States now No. 1 sales persons for their countries.
- **Eliminate and/or Reduce "Toll" Gates, Legal and Illegal**
  - Prohibitive port charges (on imports and exports) and border
  - Import duties;
  - Excise duties - Scrap;
  - Education tax;
  - Capital gains tax - Scrap;
  - Pre-shipment inspection of imports and exports - 1% much too high;
  - National Housing Fund Levy;
  - N.S.I.T.F. Levy;
  - Task Forces.
- **Inspire Confidence**
  - Political accommodation and political stability;
  - Build a culture of co-operation rather than conflict.
  - Tone down onerous money laundering laws.
- **Credibility**
  - The Government's word must be its bond on everything. Investors must not feel misled.
- **Eliminate "White Elephant" Projects**
  - Ajaokuta;
  - Abuja - should not be turned into a nuisance factor in business. Routine approvals must be decentralised by bringing a branch of the approving authority nearer the point of trade or production.

	Ghana	vs Nigeria
• Real GDP Growth (1993 - 1995)	4.43%	2%
• Real GDP Growth target (1997 - 2000)	8.9%	??
• Non-oil exports (1995)	\$1,431.2m	\$285.7m
• Corporate tax - Non traditional exports	8%	30%
• 1995 - Gross investment (% of GDP)	25%	Below 20%

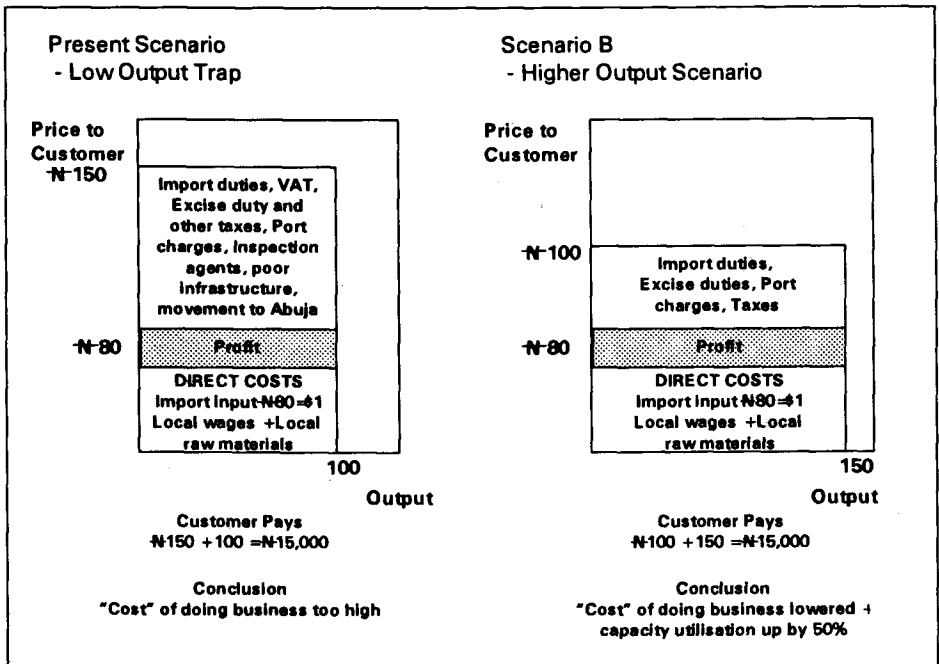
**What We Don't Need - Mixed Signals to Investors**

- Inflating while pretending to reflate the economy;
- Misguided regulations, e.g., 1994;
- Other policy inconsistencies and U-turns in the wrong direction;
- Policies that inhibit long term savings and/or investment, e.g., diminishing returns and increasing perceived risks;
- Government curtailing new investment activity in the oil sector because it insists on a pre-determined joint venture minimum equity participation target;
- Unsustainable Naira appreciation that will hurt and/or inhibit non-oil exports;
- Failed or prolonged political transition;
- Additional white elephant projects sponsored by the government.

## Length of Time A Country Takes to Double its Per Capita Output is Shortening Dramatically

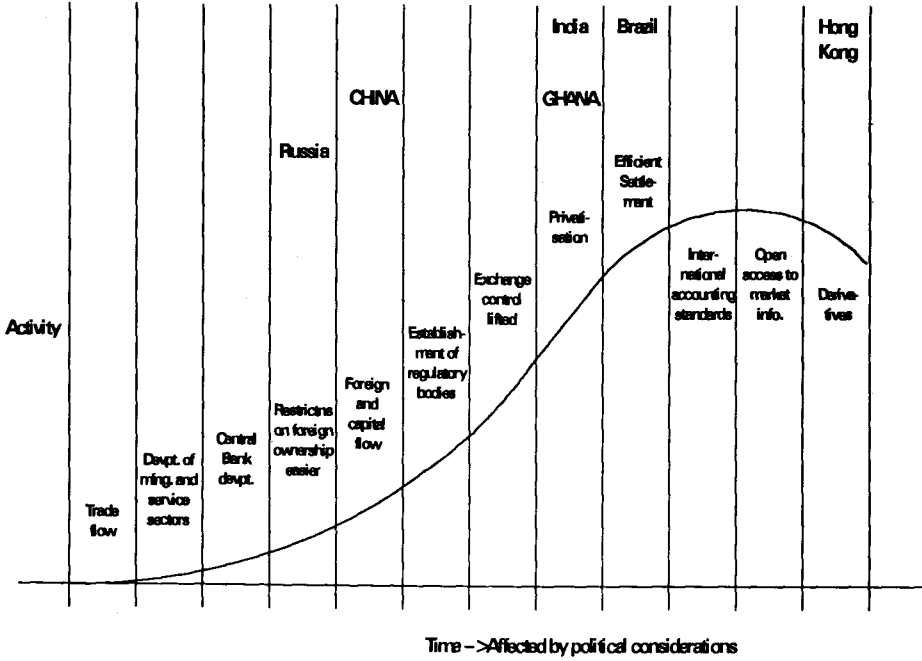


Source: IMF



# Investment Risk Benchmarks

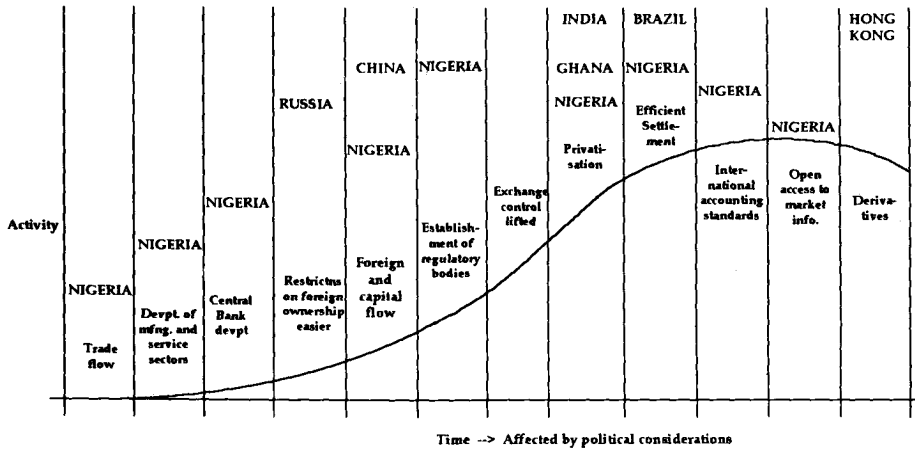
Development Cycle for Emerging Markets



Source: Mark Tennant (Chase)  
 - The Life Cycle of the Emerging Market

# Investment Risk Benchmarks

Development Cycle for Emerging Markets



Source: Same as above

## Appendix J

### Comments, Question and Answer Session

- Q: Dr O. P. Ifenkwe, University of Jos**  
Could the Macro-economic Framework group throw light (other than cost effectiveness) on why we need higher denominations of the Naira. Do you not think that this can cause inflation because it may encourage the disappearance of the lower denominations of the Naira or make them irrelevant?
- A: Mrs Funke Osibodu - Merchant Banking Corporation**  
Having larger denominations of the Naira will not lead to the scrapping of the lower denominations. Neither will it cause inflation. The lower denominations, such as ₦5 and ₦10 notes, will exist side by side with the larger denominations, e.g , ₦100, ₦500 and ₦1,000 notes.
- Q: Bassey Ndiokho - UACN Plc**  
Should we not move to a paperless society? When should a programme for more use of credit cards be introduced and used?
- A: Funke Osibodu - Merchant Banking Corporation**  
We agree that in the long-term we should look into, and pursue this idea and encourage electronic financial transactions.
- Q: W. B Dabiri - FountainTrust Merchant Bank**  
Could the Macro-economic Framework Group elaborate further on taxation of monetised benefits?
- A: Seyi Bickersteth - Arthur Andersen**  
Monetisation of benefits-in-kind means that if you receive any kind of non-monetary benefits from your employer, a monetary value should be ascribed to it and taxed as such. In the public sector for instance, the Government spends a lot of money to provide a house, official car and other fringe benefits to public servants but, pays only a pittance.



If all these benefits are monetised, the tax brackets can be expanded to ensure tax is paid on them.

**Q: Phillip Iheanacho - Afrinvest, UK**

Does the Macro-economic Framework Group recommend compulsory pension/retirement plans with the option of using NSITF or private pension plans or financial intermediaries?

**A: Seyi Bickersteth - Arthur Andersen**

Yes, we recommended that NSITF should be optional. So far, public sector-managed pension schemes are not efficiently administered to guarantee optimal returns or timely settlement of claims.

**Q: Dr J. J. Bala - BPE**

Is it not possible for the annual budget to be prepared and announced by November of each year so that implementation can commence in earnest in January of the following year?

**A: Chief Ayo Ogunlade - Hon. Minister of National Planning**

Timing is the constraint. This is particularly in view of the amount of co-ordination and consultations required at all levels of Government. Nevertheless, we recommended in the group the need for timely budget announcements.

**Q: Otunba Lateef Owoyemi - Lateef Owoyemi & Partners**

Corporates should not only be recognised for dividends and market capitalisation. Can we not devise National Awards for firms and sectors for outstanding performance in say, employment generator of the year; foreign exchange gold award and anti-inflation gold award for price restraint?

**A: Chief Ayo Ogunlade - Hon. Minister of National Planning**  
There is no doubt that awards are good for decorating walls. But they cannot be exchanged for goods in the market. It may be useful to do, but it is not being considered now.

**Q: Dr. (Mrs) Ndidi Okereke-Onyiuke - Nigerian Stock Exchange**  
On petroleum sector funding, the major solution for the Government and NNPC to meet the cash call demands of joint venture operators is to float Dollar denominated bonds on both the Nigerian Stock Exchange and international capital markets, and by gradual divestment.

**A: Dr Imo Itsueli - Dubri Oil**  
The joint operators want their money when the need arises. How each party gets its own money is each party's problems. If Nigeria wants to float Dollar denominated bonds to finance its joint venture obligations, it is fine.

**Q: Dr M. A. Aji - NSITF**  
The emerging theme from the 3-day dialogue has been the realisation that:

- a) The Government has done a lot in terms of creating a correct and secured business environment and ensuring fair play; and
- b) Our relatively young and fast growing private sector quite endorses the cautious deregulation that is gradually unfolding.

Isn't it time now for the private sector to come out in support of the Government so that these gains can be sustained.

**A: Bunmi Oni - Cadbury Nigeria Plc**  
The Summit process is part of the efforts. This is what we have been doing for the past few days. However, we should not dwell too much on the past. We should focus on the future, particularly with Vision 2010 ahead of us. Teamwork between the public and the private sectors is a strong imperative for future breakthrough.

- Q: Ayo Akadiri - Cadbury Nigeria Plc**  
I agree with the recommendation on the need to redistribute the margin, but not at the expense of price adjustment. Should PTF role not be limited to road maintenance only as it has direct impact on transportation and petroleum consumption?
- A: Dr Imo Itsueli - Dubri Oil**  
This is an issue for the Government. Based on Decree 25 (as amended), PTF's terms of reference include road construction and maintenance. If they have approval for other sectors, they will be free to do so.
- Q: Jules Oyserman - Shell Petroleum**  
I miss reference to a comprehensive energy/gas policy. After all, energy is key to industrial growth. On electrification of the rural areas, focus should be on solar energy.
- A: Dr Imo Itsueli - Dubri Oil**  
We have an energy policy. I think what is needed is to articulate the national energy policy. I mentioned in our group presentation the need for national goal definition. This will incorporate solar energy, among other sources of energy. Regarding rural electrification, I agree entirely. The states' rural electrification boards need to be resuscitated and energised.
- Q: Mr C. Clark**  
Did you identify the quantum of debt that would be forgiven if an acceptable Medium-Term Plan (MTP) is in place? If yes, can you indicate the Dollar amount and effect on future debt service requirement and investment inflow?
- A: Ms Sola Adegoroye - Investment and Banking Trust Company**  
No, we did not analyse the quantum of debt that can be forgiven. Rather, we recommended a comprehensive debt strategy to optimise Nigeria's chances of obtaining debt relief.

- Q: Henry Okolo - Aluminium Technologies Limited**  
Today, existing industries in Nigeria hardly achieve 40% capacity utilisation due to poor local demand. Other than the petroleum sector, it is difficult to justify addition to existing industries. What do we do?
- A: Prof. Pankaj Ghemawat - Harvard Business School**  
From what I have heard during discussions with the Summit participants, part of the problem is that some industries have been set up which operate uncompetitively. I will suggest we discontinue such operations. On domestic demand, I mentioned yesterday that there is no guarantee that a large population will build local demand and lead to capacity expansion. I also said that penetrating the international market cannot be done on an on-and-off basis, but through sustained efforts.
- Chief Rasheed Gbadamosi**  
Nothing is static. Low capacity utilisation today will not remain as such for ever. The gap between the income level and inflation rate has to be addressed by everyone to engender effective demand.
- Q: Dr K. A. Familoni - University of Lagos**  
Is it not better for importers to pay customs duties in foreign currency collectable by the pre-shipment inspection agents and payable to government accounts abroad?
- A: Alhaji M. Gambo Jimeta - Hon. Minister of Agriculture**  
This is not a conventional practice and Nigeria cannot afford to be different in this regard. We cannot afford at this stage to leave duty collection in the hands of pre-shipment inspection agents.
- Q: Ambassador Babagana Kingibe - Hon. Minister of Internal Affairs**  
When you say that the number of agencies at our ports should be reduced, could you go further to identify the superfluous agencies?
- A: Alh. M. Gambo Jimeta - Hon. Minister of Agriculture**  
We asked ourselves in the Trade Group the objective of having the agencies at the port. Apart from national interests, these agencies have other interests. Customs should be the sole agency to handle the clearing process at the ports. If they are not doing their work well, they should be re-organised for effective performance.

- Q:** **F. C. Nnadozie - Interlinked Technologies Plc**  
In addition to getting the States and Local Governments to show transparency by publishing their accounts, what should be done to compel them to pay the debts owed their contractors? These debts are killing a lot of small and medium businesses and should be a cause for national concern as other government debts.
- A:** **Chief Ayo Ogunlade - Hon. Minister of National Planning**  
We have a situation where Local Government citizens do not even know how much money is generated and spent. There are instances where financial impropriety has been reported. And it is thought that publication of accounts will help to promote transparency and accountability.
- Q:** **Anonymous**  
How knowledgeable are top civil servants and how open are they to innovation?
- A:** **Chief Ayo Ogunlade - Hon. Minister of National Planning**  
The civil service of the past is not the same as the civil service of today. There are some civil servants who, if given the right chances and environment, will perform better than their counterparts in the private sector.
- Q:** **Raymond Ihyembe - Afribank Plc**  
Investment in quality education is a prerequisite for economic and technological advancement. It appears that all our attention is focused on university education. Don't you think that we should re-order our priorities by emphasising compulsory primary and secondary education and rationalise our universities, while allowing private ownership of some within clearly laid down criteria or standards?

**A: Dr Michael Omolayole - Omolayole & Associates**  
We recommended privatisation and increase in the pace at which the Government moves away from areas which the private sector can better handle. At the tertiary level, there should be more involvement by the private sector.

**Q: S. Yah'yah**  
There has been a link between authoritarian regimes and economic development in the last forty-five years in all of South East Asia, Latin America, etc. This has led to the arguments of symbiotic relationship between economic growth and strong regimes. What options or suggestions will you have for Nigeria's Vision 2010?

**A: Dr. Michael Omolayole - Omolayole & Associates**  
This is an intriguing question. We have been here for a few days to learn new ideas. There is no alternative to moving in the direction of progressive countries in the world. We cannot afford to swim against the global tide of change. Certain things were fashionable twenty years ago, but have today become obsolete. I do not agree with the view that totalitarianism is the way to go like Indonesia and South Korea. We need to embrace the TINA principle. She is a beautiful lady!

## **Comments**

### **Prof. Pankaj Ghemawat - Harvard Business School**

I have listened to the presentations. I could see a list of dozen things we want to do to achieve infrastructural development by the year 2010. This sounds quite ambitious to me from the point of view of feasibility and doability. My conservative estimate of the cost is \$50 billion. It may be unrealistic to achieve the infrastructural development of our vision in fourteen years from now. I suggest we phase the projects into short, medium and long-terms. If we try to do all at once, we will run out of funds along the line. There will also be problems with maintenance. We therefore have to match our infrastructural development with managerial skills development. Rather than have a dozen things, all we need are priorities. Having too many objectives can be almost as bad as having none at all, because within so many objectives there will be a lot of inconsistencies. Regarding industrial strategies, there is a clear choice to make between export-oriented industries and import substitution given the experience of India and a few selected emerging economies I showed in my slides.

**Ms. Ifueko Omoigui - Restral Consulting**

There is a clear need for an Infrastructural Strategy to clearly prioritise infrastructural needs and focus on those few areas that will give us optimal benefits. It is unlikely that we can address all transportation modes for example. We should recognise funding, time and skill limitations and strive for depth, quality and effectiveness rather than a free for all with nothing accomplished.

We should all recognise the importance of education and continuous learning for improved productivity, growth and investments. Beyond the formal structures at primary, secondary and university levels, the private sector is still yet to recognise the need to spend at least 1-3% of gross revenue on training. Corporate training is still taking education with a pinch of salt without recognising the damage done to staff and the environment by so doing.

Government should attract and retain the brightest brains, reward them well. They will set and monitor enabling policies that will drive investment and ensure effective management of the change from where we are to where we want to be. Areas of policy development include: Energy policy; Infrastructure policy; Competition and privatisation; and Education, formal and informal.

A lot of issues have been raised, a lot of suggestions made. To ensure effective co-ordination and prioritisation, all presentations must be assessed from a holistic perspective and some order and sequencing introduced to ensure effective implementation.

Fora such as these will have different interest groups striving to make points beneficial to their interests. A clearing house that takes a dispassionate and objective view of all issues raised, with the required information to make informed decisions is absolutely critical. Clear criteria for decisions must be set.

**Dr. O. P. Ifenkwe - University of Jos**

The Investment Group has highlighted the near decay in the educational sector especially as it affects science and technology, an important tool for realising our vision for 2010. I wonder if the Group could go further to make a recommendation that an urgent meeting between the Government and the major players in this sector be convened as a matter of urgency to map out policies for funding education and take us into the next century on a sound footing.

### **B. A. Soyode - Aranla Systems Limited**

Funding of PTF has been modified from the concept in the policy proposal. PTF should not be involved at all in margin structure which involves a lot of technicalities such as efficiency, etc.

PTF should get the difference between the cost of finding and bringing the crude oil to market and whatever price the Government decides to sell the crude oil, for the total of 300,000 barrels per day allocated for domestic consumption. If it costs \$6.50 to bring a barrel of crude oil, which sells say for \$18 per barrel, to the market, then PTF should get  $\$11.50 \times 300,000$  per day without any discussion with anyone (i.e. about ₦100 billion per year).

The key to the problem is price review or rather complete deregulation. Margin structure discussion should be between the Ministry of Petroleum Resources, NNPC and the marketers.

### **G. Aret Adams - Multinational Expertise**

From the pronouncements by the various Ministers, effective co-ordination is obviously missing. This administration should go back to the Council of Ministers meetings where (major) even issues that have been approved by the Head of State are openly discussed so that all the Ministers can fully understand what is going on, and can therefrom be well guided in piloting their own ministerial actions to pull together, rather than pull apart, from the unified purpose of governance.

### **Prof. Joe U. Umo - National Manpower Board**

There is need to encourage/promote trade in services or invisibles. This should include export of consultancy and offshore banking services, for instance. Potentials for reaping/saving foreign exchange are yet to be exploited in this non-oil trade sub-sector.

### **Major General Olu Bajowa (Rtd) - Federal Ministry of Industries**

Scrapping of pre-shipment inspection of imports may be a good idea. But how do we prevent Nigeria from being used as dumping ground for obsolete machinery and equipment, dangerous and harmful chemicals, and illegal importation of arms and ammunition imported to the country?

### **S. A. A. Alabi - Adetona, Isichei & Co.**

The recommendations on Domestic Debt Servicing do not seem to go far enough, especially as they affect contractor debts. It is my view that all such debts should be subjected to independent scrutiny to ensure that we eliminate



“ghost debts”, inflated contract sums, etc. Thereafter, proven debts should be settled immediately utilising some part of our budget surplus. This way, we may improve the cashflow of these contractors and indirectly reflate the economy to some extent, considering the fact that some of these genuine contractors may then be able to re-employ most of their workers previously laid off.

**Chief R. A. Alabi - Guinness Nigeria Plc**

Sound infrastructural facilities will definitely attract and consume huge investments. Maintenance culture is the key issue. The call therefore is that such infrastructural investments must incorporate equally sound maintenance systems.

**Engr. (Dr.) A. A. Esan - Energy Commission**

There is a draft energy policy before an inter-ministerial committee of the Government being co-ordinated by the Ministry of Science and Technology. It harmonises all energy sources including renewables. The committee is winding up its work for submission to the Honourable Minister, Ministry of Science and Technology.

**Mrs. F. Adebo-Kienke - Adebo Kienke & Co.**

It was discussed that alternative medicine should not only be integrated, but also streamlined since we want herbalists and homeopathic doctors to be acknowledged and used by those who are too poor to go to normal doctors. If streamlined, as to what knowledge they must possess, e.g. on dosage, etc., they should be registered and publicly recommended. They can have a list of suggested training and knowledge they must possess and which can be acquired privately and without cost to the system but be subjected to registration tests, written or oral.

**H. O. S. Kayode**

Education Tax Board or Commission is not necessary to manage funds from Education tax. From the cost point of view, the existing organs of Government, such as the National Primary Education Commission, National University Commission, should be empowered to disburse the funds through agreed sharing formula for different tiers of our educational level in the spirit of Vision 2010.

**Emmanuel Ijewere - Ijewere & Co.**

Group 2 did an exercise that shows that a man with a wife and four children living in one bedroom in Ketu, Lagos and working at Federal Secretariat,

Ikoyi, must earn at least ₦17,000 per month to be able to sustain a near-civilised life. What this does is to point to the root of corruption in Nigeria!

**J. Oyserman - Shell**

A policy/mechanism needs to be put in place to capture the so-called "informal economy", thus increasing the tax base.

**Dr. Toyin Phillips - Gateway Bank Nigeria Limited**

So many laudable ideas and proposals have been made at this Summit. There is need for a focus. There is need for an economic agenda aimed at achieving the objectives of Vision 2010. This implies stating our priorities. These priorities should first and foremost include:

- Stable macro-economic framework that would evolve realistic foreign exchange and interest rates. Controls, documentation, etc. should be reduced to the minimum.
- Diversification of productive base from oil to non-oil.
- Overcoming the nexus of a troubled educational system.
- Provision of basic infrastructure
- Capacity building through institutional reform.

**Rear-Admiral J. Ayinla - Hon. Minister of Commerce & Tourism**

I believe that we should accept the need for attitudinal change in the ways we operate in Nigeria. For example, our ability to keep time - to be prompt and punctual. A top-down approach is recommended.

**K. Mordi - Delta State Civil Service**

Is it good investment to export our crude at ₦x and import the refined product at ₦3x?. The installed capacity of all our refineries will meet our national consumption three times over. Why should the refineries not be refurbished with loans so that we can stop importing refined products? There are other benefits - employment, etc. The thrust of the discussions is that we should leave the Government out of our daily commercial lives as much as possible. At the same time, we are recommending the establishment of more commissions to regulate our lives, e.g., Education Tax Commission and Anti-Luxurious Living Commission, etc. I think existing laws and organs can take care of such problems.

**M. Ahmed - NNPC**

Nigeria's population being predominantly young, it is imperative that youth entrepreneurship promotion should be a cardinal strategy for development. This issue did not appear to have been considered by the groups.

**Ambassador Yahaya Kwande**

The mass transportation of citizens of this country should not be profit-oriented. It is not a venture for private sector. PTF should take this as a service. Buses being used for mass transit are too fragile. Examine other durable means used overseas.

## Appendix K

### **"Team Spirit" -Going for Gold**

**Mallam Mohammed Hayatu-Deen**

#### Protocols

I welcome the opportunity to address this distinguished audience.

My subject is **TEAM SPIRIT - GOING FOR GOLD**. Why this subject? Because it naturally recommends itself. It is current; it is topical; it is universally acclaimed; it touches the heart of every Nigerian - young or old, male or female, poor or rich, doctor or teacher, carpenter or farmer. I have chosen this subject because it is infectious and infuses national unity. Above all, it underscores the very essence of the Economic Summit - the need to build lasting partnership between the public and private sectors so we can change the future of this country for the good of all Nigerians.

Gold has always been regarded by humanity as a treasure; a priceless possession. It is a constant companion of graceful women, a symbol of authority for kings and queens and a store of value for all nations. Gold has also become a mark of honour for the world's best athletes. What, if I may ask, has been the essence of mankind's romance with gold? The answer is simple: concern for excellence, a distinction of reaching the loftiest heights. No wonder the Olympic logo stands for "Swifter, Higher, Stronger".

The country is still basking in the aftermath of our shining success in the Olympics. I have not seen this scale of celebration and unity amongst our people since independence day in 1960. No wonder our Chief of General Staff christened our football gold medal "the mother, grand mother and great-grand mother of all medals". Yes, we have every right to intoxicate ourselves with the sweet fruits of victory. After all our great friends, the British, do exactly the same. They have the colourful Frank Bruno who held the heavyweight title briefly. Every time, good old Frank went to America and got a few knocks from Mike Tyson, his countrymen would

roll out the red carpet and throw a big party. Yes, we should beat our chest and celebrate! But there is also a serious lesson from the example of Great Britain; it is a mark of British patriotism that when their heroes face some setbacks, they go out of their way to lift their morale for better performance tomorrow.

Can we pause briefly and reflect on our golden victory? Why in spite of all odds were we successful? Why did Chioma demolish the world title holder and clinch the gold in the women's long jump? How did Ajibola beat the best sporting nations to carry the gold in the 100 and 200 meters race at the paralympics in Sydney? Why did our Dream Team do the unthinkable and humble such power-houses of football as Brazil and Argentina? These are serious questions. Serious questions demand serious answers. The answers lie in a clear vision, sound strategy, motivation, a passion to win, willingness to take risk and healthy self-confidence.

Let us examine these issues in greater detail. Take clear vision for example. It was evident that our heroes had a sharp and well defined vision. Their vision was to become one of the world's leading athletes thereby bringing honour and glory to Nigeria. To that extent, Atlanta and Sydney can only be considered as milestones on the journey to Nigeria's destiny as a nation which should be well on track by the year 2010. To achieve this breakthrough in sports, for example, the nation must equip itself with a master plan, which should include a laundry list of our areas of strength in sports, a strategy for building a pool of sporting talents, a realistic budget for building an effective sporting infrastructure nationwide, a visible commitment by the private sector in achieving this national objective and a massive campaign to galvanise public opinion and make excellence in sports a consuming passion.

What lessons can we learn from our Olympic heroes who have demonstrated such high sense of mission and purpose? What instruction do we get as a people, as a country? Is it not time enough for us to bury our differences and work together to reach a common agreement as to what kind of Nigeria we would like to see in 15, 20, or 30 years' time? Should we not stop gliding from one economic experiment to the other and choose a coherent set of economic policies that consistently implemented, will make us a major economic power in the 21st century? Should we not establish simple long-range economic goals against which our children and grandchildren can measure our performance? Should we not set targets for raising our quality of life in all spheres (income per

capita, literacy rate, infant mortality rates, population growth rates, etc. ) and work consciously towards achieving these goals? Should we not set a time frame and a strategy for breaking the vicious cycle of capacity under-utilisation in the real sector and make our farms and factories overflow with goods and services? Should we not wake up and set our sights squarely on the West African market and become virtually their only supplier of goods and services within the next ten years? Can we not aim to occupy a position of pre-eminence in the larger African market within 15-20 years? These burning questions and many more tie in the deep belly of the Economic Summit. Do we therefore all understand that the Economic Summit is not an annual ritual or talk shop but a major platform for formulating and implementing long-range economic policy for Nigeria?

Let's now go back to our young heroes. What else did they have other than vision? They had a brilliant strategy. A key element of that strategy relates to the quality of the people that made up the team. You had the right man for the right job in the Sports Minister. He is a seasoned administrator and a skilful negotiator. Above all, sport flows through his veins. In the 1970s as a businessman, he helped enormously in establishing a successful football club - the Enugu Rangers, to which he donated generously. So, despite the enormous hostility Nigeria faced abroad, problems with logistics and funding pressures, Chief Nwobodo was able to nudge his boys to victory. The team was also immensely motivated by our Head of State who talked to each of the players by telephone and challenged them to stretch themselves for the gold. The team that was chosen was the best and the brightest. They were talented and experienced. Almost everyone of them plays for a major European club which provide them with perfect sporting conditions. They have thus perfected their skills, broadened their horizon, deepened their experience and enhanced their self confidence.

So what is the significance of all this to Nigeria? It means that getting the right skills for the right job represents a major part of the winning formula for success. It means that we must find the best possible talents to run our various institutions. It may be a hospital, school, mosque, church, farm, factory or diplomatic mission. And in the global arena where competition is intense, the nations that succeed are those that use the skills and ingenuity of their workforce to export goods of quality and distinction. This is another reason why we need to equip ourselves in all facets of national life with the best skills and resources.

What other tool did our team deploy as part of their strategy? They prepared themselves thoroughly through intensive and vigorous training. They had to leave the comfort of their city apartments to endure the gruelling and demanding conditions of the camp. They underwent the most difficult exercises in order to perfect their body and their mind. They took on new and hazardous risks and sacrificed their sleep, comfort and cuisine. Training is all about endurance and hardship and sacrifice.

We saw strong evidence of that training graphically displayed on the field. Consider the agility and swiftness of Chioma as she thunders along the runway, leaps into the air and magnificently lands to victory. Think of the endurance and strength of our weightlifting gold medalist at the paralympics in Sydney. How else does one explain the dazzling skills and razzmatazz of Tijani Babangida or the speed and power of Daniel Amokachi? How can you capture the deceptive pace and intelligence of Kanu Nwankwo who had a great vision on the entire field as if he had a pair of spare eyes at the back of his head? How were we able to come from two goals down against Brazil and win the semi-final? What kind of dogged determination and self-confidence informed our ability to come from behind and trounce Argentina to take the gold? Why did we not panic - despite the fact that we were in a foreign and perhaps hostile terrain? Why did we not get rattled and change our game plan even when the tide was moving against us? Why did we not flip flop? On the contrary, we stuck tenaciously to our strategy. Above all, we exhibited total transparency - we played by the rules on and off the field. Not one Nigerian was accused of taking steroids, caught in any act harmful to the image of the nation, or sent off the field. Neither were we given any special privileges, it was a level playing field for everyone; yet our superior skills, endurance and sacrifice propelled us to victory.

What enduring lessons do we learn from our shining stars of Atlanta? First, we can come from behind and win. True enough, Nigeria is overburdened with problems. But my task here is not one of itemising our failures or opening old wounds. That is not necessary. Because we are not here to blame the past; we are here to light our path to a golden future. As Winston Churchill said on taking office - "If we open a quarrel between the present and the past, we shall be in danger of losing the future". As a nation, we have become professional complainants. We moan and groan persistently about our problems and our misfortunes as if life were generally easy, as if life should be easy. We have even come to believe our own propaganda that our misfortunes are

specifically designed for us and visited upon us, our families, tribes, nation or even our species and not upon others. What dangerous self-delusion. For the hard fact of the matter is that life is difficult. This is a great truth. It is the greatest truth. Do we moan our difficulties or do we solve them? It does not matter how far behind we are on the global economic map; if we can capitalise on the national unity and harmony engendered by sports, we can become the next economic miracle. If we can harness all our latent strengths - our huge market, our diverse resource base, our commercial ingenuity and our vantage location - we can flush away our problems into oblivion.

Secondly, we don't live on an island to ourselves. We live in a highly interactive and inter-dependent world. We should move away from the mindset that the rest of the world hates us. The Dream Team is an indigenous Nigerian team, born and bred at home. Yet they have entered the hearts and minds of millions around the world. Why? Because they are embodiments of excellence. They are winners and the world loves winners. China is a communist country, yet Western countries are falling over their heads to invest and buy goods from China. Why? Not because they are in love with Mao Tse Tung's Red Book. Not because the Chinese are their cousins. But because China has created an investor's paradise that is most conducive to foreign investment. Consequently, China today is flying away with a growth rate of about 15% in GDP, foreign investment of 135.4 billion Dollars and 1995 exports valued at 132.08 billion Dollars. If we are still in any doubt as to what constitutes the right economic strategy for Nigeria, perhaps we need to take a lesson from the Chinese.

Our young athletes have also set the pace for the rest of us on the need for honesty and transparency. This can be viewed from several angles. Our dishonesty comes partly from the fact that we are not growing the economy. When the national cake is shrinking at the same time the population is exploding, people get relish, jealous, and greedy and resort to foul means to get a piece of the action. The whole social fabric of the country comes under strain. However, when resources are more efficiently allocated, the cake gets bigger and everyone works hard to cut bigger piece for himself and his family. This reference to efficient resource allocation raises a fundamental question. Shouldn't Government review the role it plays in the economy? Can Government cope with the weight of its current responsibilities? Can it cope with both the traditional duties of Government and fund and manage



economic enterprises? Is it not time for Government to get out of business and let the private sector go to work?

We should also recognise that like sports, all global competition is characterised by level playing fields. When countries compete in world markets, the rules of the game are tough and demanding. The same global standards apply to all countries. Strong performers prosper, weak performers lose. We can only hope to win "gold" in such a market if we produce goods that meet the highest quality standards, are competitive in price, meet delivery schedules and where all stages of the transaction are guided by total transparency.

Another important point to remember. Our Dream Team has taught us to be consistent and resilient. Once we adopt a rational economic blueprint, we should be patient and give it time to work. No economic philosophy is perfect. When our plans run into a hitch, we should not condemn our Government and begin pointing accusing fingers. Rather, we should investigate the underlying cause of the problems and take remedial action.

Finally, the last and most important part of the strategy employed by the Dream Team is Team Spirit, which is also my chief topic tonight. Teamwork is nothing more than co-operation among members of a team to achieve a common goal. It is another word for harmony, cohesion, unity. This was demonstrated in numerous ways. First, every member of the team had a role which was considered important to the success of the team. Second, everyone subsumed his ego or ambition in the larger interest of the team - it thus did not matter who scored. Third, when a member of the team made a blunder, his mates raised his morale instead of blaming him. Fourth, although Kanu was officially the leader, each player took responsibility and exhibited strong evidence of leadership.

I believe Nigeria will be destined for greatness if it emulates this excellent example of discipline and teamwork. For a start, as a nation, we should make a conscious effort to tone down our rhetoric about those things that divide us and emphasise those things that unite us. We should identify and embark on major national initiatives which will engender in our people a high sense of patriotism. Secondly, we should adopt a social agenda that is inclusive, that seeks to bring all our communities into the big tent and does not leave anyone hanging on the fringes of the nation. Thirdly, the public and private sectors should increasingly close ranks and come closer together; they should remove all remaining vestiges of

suspicion and distrust and take themselves into full confidence; recognising that both sides are equally concerned with Nigeria's rapid economic development. Above all, they should treat each other with respect and dignity and completely avoid washing dirty linen in public. When there are differences, as there must be in life, let these be addressed with a sense of goodwill, conciliation and compromise. Government should empower the private sector to compete for the "gold" in free markets, recognising that Government ultimately possesses the power to discipline any irresponsible members of society.

Finally, we must urgently enlarge our definition of leadership. Many of us currently take a narrow and constricted view of leadership as something that begins and ends with the Head of State or his cabinet. Consequently, all our shortcomings and failures are heaped on Government.

My definition of leadership is much broader. I consider a leader to be anyone who is in a position to influence the course of events whether such events are big or small. To that extent, the farmer, the factory worker, the teacher, the doctor, the clergy, the pilot and the platoon commander are as much leaders as the Governor, the Minister or the President. The difference lies in the nature and scope of responsibilities. Pure and simple. We love passing the buck because we don't want the inconvenience of taking responsibility when things go wrong. This has always been a major weakness of our polity and as we move into the 21st century, we must get rid of this ugly habit. The private sector specifically needs to stand up and take leadership.

As I conclude my paper, let me say that thirty-six years after independence, this nation has come a long way. During this period, the durability and endurance of the country has been severely tested; today we remain one single indivisible country. We shall remain one single indivisible country. Today, young boys and girls who are not half our age and who would qualify as children to a majority of people here have given the best of their energies, imagination and skills to bring honour and glory to their fatherland; Shall we in the Summit sit down as spectators and take credit for their toil and sweat? Or shall we rise to the challenge and go looking for our own gold medals?

In closing, let me say that Nigeria is blessed. There are few countries, especially in the developing world, where such a powerful assembly of leaders from the public and private sectors can so willingly donate their

energies to brainstorm and formulate a comprehensive and practical blueprint for unchaining the country from the shackles of poverty and propelling it to become a great industrial society.

We must therefore collectively demonstrate the nerve and the will to transform the Summit blueprint from thin paper into thick action. The Olympic torch is now in our hands as the Summit leaders go for "gold" in building Nigeria's economic miracle.

Thank you for listening.

## **Appendix L**

### **A Special Address by Chief (Dr.) E. A. O. Shonekan at the Third Nigerian Economic Summit on Thursday, 19th September 1996**

#### **Protocols**

I feel highly honoured to have been invited here tonight. Let me confess that I am consumed by a sense of nostalgia as I remember the first Nigerian Economic Summit (NES) in which I played a central role, held in February 1993 in this same venue. The second NES took place in May 1995, which makes this the third summit.

With what I have observed in the past three days, I am convinced that this Summit, as the previous ones, has provided yet another re-union of leaders of the private and public sectors, members of the diplomatic corps, representatives of private development agencies and the international financial institutions, away from the hustle and bustle of Lagos life.

First, permit me to thank General Sani Abacha, the Head of State and Commander-in-Chief of the Federal Republic of Nigeria, for his abiding interest and leadership in the on-going efforts at finding lasting solutions to our country's economic problems.

Needless to say, the Head of State's personal support has made it possible for us to keep the idea of NES alive. But more importantly, the Head of State has been displaying a rare courage in addressing head-on our many economic problems within the framework of a Medium-Term Economic Strategy. His unprecedented and bold initiative to cleanse the banking and financial system has restored sanity in our economic behaviour and brought hope to a bewildered nation.

I make bold to affirm here that the consensus at home and abroad now is that you have been playing the economic card just as brilliantly as our boys

performed at the recently concluded Olympics. More grease to you tireless elbows.

The first NES aimed at bridging the gulf of misunderstanding and lack of dialogue between the public and private sectors. Participants were brought together from within and outside the country to brainstorm and formulate key tasks and strategies for accelerated growth and sustainable development in Nigeria. They were to identify priority issues and design an Economic Action Agenda for the country.

I am happy to recall that our pioneer effort was a resounding success and a sense of partnership was created between the private and public sectors. Other endeavours have been building on the solid foundation laid in 1993.

I am also happy that the focus of the NES has remained the same. It is to promote a free market economy in which the private sector constitutes the main engine of growth, while the Government provides the enabling environment to germinate.

I want to thank the organisers of this summit for their abiding faith in the promise of a strong Nigerian economy. Many of the principal organisers of this year's summit were those who had been involved intimately from its inception back in 1993.

This year's summit is holding at a particular auspicious moment in Nigeria's political evolution. The transition programme is on and since it is generally accepted that a free-entrepreneur economy is the bedrock of democratic system, it is imperative that this year's summit comes up with carefully crafted and credible economic strategies. Such an economic agenda would, in turn, fortify the on-going political reforms and ensure widespread participation by the citizenry in the nation.

The theme of this third summit assumes that the Nigerian economy has enormous growth potential. The central challenge, therefore, is how to actualise the potential. However, I want to assure the Head of State that the efforts of his Government to restore macro-economic stability as a pre-condition for non-inflationary accelerated growth, sustainable development and alleviation of poverty have been yielding handsome dividends.

The key macro-variables are lately revealing encouraging signs. Your tight monetary and fiscal policy posture has substantially slowed down the rapid expansion of aggregate demand and money supply in the economy.

Inflation - which remains public enemy number one - has been rapidly coming down from a high point of 90 per cent by June 1995 to well below 30 percent by June 1996. Interest rate, although it remains 'capped', has been coming down propelled by market forces. Remarkably, there has been stability in the foreign exchange market as well.

In addition, Nigeria remains current on multilateral (including World Bank) and commercial debt service payments. All of this and more are steadily establishing a good track record of policy implementation and they are being closely observed by the international financial community.

However, there is no gainsaying that the economy is not yet out of the woods, which only goes to underscore the depth of the economic crisis we confront. Poverty is still ravaging the greater majority of our people. Our productive base remains too much externally-oriented, with a fragile non-oil production and export base. Nigeria also groans under a heavy Paris Club debt-overhang and there is much uncertainty in oil prices. There is also a need for public sector reforms, accelerated privatisation programme and enhanced private sector initiatives. Indeed, these are among the irreducible policy issues threatening the medium to long-term macro-economic stability of our country.

It is therefore, imperative that Nigerians must be prepared to make more sacrifice in order for the country to achieve non-inflationary growth, sustainable development and reduction of poverty. The present generation must resolve to bear the necessary pains for the sake of generations yet unborn.

On its own part, the Government must continue to muster courage to take the hard policy decisions in the overall interest of the present and future generations. And let me assure Nigerians that all this can be done. The only thing to fear really is fear itself.

To the participants in this Summit, I have no doubt that the challenge facing the Nigerian economy is clear. Both the private and public sectors must now resolve to face the challenge head-on together.

For too-long, we have adopted haphazard and disjointed approach to economic management. This must change and we should now formulate a comprehensive package of short medium and long-term macro-economic adjustment policies to carry us well into the 21st century.

As we begin the long-term process of transforming Nigeria into a modern economy, there is an urgent need to evolve modalities for a partnership that works between the private and the public sectors. In my considered opinion the way forward is for the leaders of both sectors to engage themselves continuously in a serious dialogue. The contact must not just begin and end with each summit at Abuja.

Specifically, the Government should consult the private sector on the 1997 Budget, the medium-term economic strategy and the long-term vision for the country. This is the surest way to become true partners in progress.

Likewise, the country ought to engage the bilateral sovereign creditors (both Paris Club and non-Paris Club) in a serious dialogue on how to solve the lingering debt problem.

The Head of State and Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria, I want to thank you, once more, for inviting me to this great occasion. I am certain that much has been accomplished these past three days and we all look forward to the next economic summit in 1997.

Thank you all and God bless.

## Appendix M

**Closing Address delivered by the Head of State, Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria, General Sani Abacha, GCON, at the gala dinner held in honour of participants at the 3rd Nigerian Economic Summit on Thursday, September 19 1996.**

### Protocols

1. I relish the opportunity to host you to this gala dinner. I really hope that the quality of the reception has matched the quality and high standard of presentations and contributions by all the speakers, at the 3rd Nigerian Economic Summit.
2. I am particularly pleased that the guest speaker this evening has maintained the high standard which has become the hallmark of the Summit. The subject for this evening's lecture is particularly interesting. It is very thoughtfully chosen and very ably delivered. The substance is most relevant to our contemporary situation. Going for gold is going for a new level of excellence in everything we do to bring glory to our nation, joy and prosperity to our people.
3. Let me particularly congratulate the Summit participants on the completion of the 3rd Nigerian Economic Summit and thank you, on behalf of the nation, for your efforts towards assisting us to find solutions to some of the socio-economic problems that undermine our effort towards progress. This is a true demonstration of the new spirit of "partnership in progress" between the private and the public sectors in Nigeria.
4. As you may recall, in the opening address to the Summit, I announced the establishment of a campaign towards the formulation of a long-term economic development vision for the country known as VISION 2010. Although definite terms of reference will be articulated by a



committee to be appointed by Government, the following will serve as a guide:

- (a) The need for striking an optimum balance between the goals of economic growth and equity;
  - (b) Ensuring a balanced development of the major sectors of the economy to bring about optimum growth;
  - (c) Reducing and ultimately eliminating social and economic inequalities and imbalances to promote a fair and more equitable sharing of wealth;
  - (d) Promoting and strengthening national integration by reducing the wide disparities in economic development between people in the urban and rural areas of the country;
  - (e) Developing a progressive society in which all citizens will enjoy greater welfare that will engender a sense of national consciousness and pride;
  - (f) Promoting human resources development and creating a productive and disciplined workforce to meet the challenges of a purposeful society;
  - (g) Making science and technology integral components of socio-economic planning; and
  - (h) Ensuring that in the pursuit of economic development, adequate attention is given to the protection of the environment and ecology to maintain the long-term substance of the country's development as well as the quality of life of the people.
5. We recognise that no economy today is in isolation. Each is a part of the international economy. Each has to find its own place and establish its own position in the scheme of international trade and financial flows. Similarly, each nation has to come to terms with the complexities of world trade and finance and international flow of technology.
6. A few countries have broken into international trade in recent years with remarkable success such as Malaysia, India, Chile, Taiwan,

Singapore and South Korea, to mention but a few. Malaysia and India in particular, are clear examples of countries which have been able, in just a few years, to make themselves major exporters of industrial commodities without any appreciable endowment of mineral resources.

7. We too can achieve that feat. Given the ingenuity of our people, Nigeria can become a leader in the modification and application of technology for our sub-region and indeed in Africa. In the past, we missed opportunities for purposeful industrialisation. Now we have to exploit what opportunities exist for us to move ahead. If we miss this chance, then we may end up missing the best opportunity.
8. Interestingly, Mr. Vincent Cable's presentation titled, "Global and Nigerian Scenarios" and Mr. Hernan Buchi's presentation on "Reforming the Economy: the Chilean Experience", were mutually reinforcing. While agreeing that there are different pathways to the future, their analyses of the Nigerian situation depict an optimistic scenario for the future of the country in terms of its socio-economic development and prosperity. This is indeed very uplifting.
9. This goes to show that it is no longer in doubt that Nigeria is blessed and richly endowed. What remains for us to do is to come up with plans to tap our enormous resources to correct the apparent paradox of our poverty in the midst of plenty. This has become imperative since our claim to economic success seems to have baffled some people because of this paradox.
10. What people have failed to appreciate, however, is the fact that economic prosperity cannot occur overnight. Aggregate growth and macro-economic progress must occur before definite plans can be made to uplift the economic wellbeing of the people. There is a gestation period between aggregate growth and individual prosperity.
11. This is what makes VISION 2010 an important signpost. It is a pillar of hope and deadline to achieve substantial improvement in the quality of life and economic prosperity of our people. We must therefore begin to take definite steps to progressively embark on a mission to uplift our people's material condition. Here again, team-spirit, co-operation and commitment of all and sundry are vitally required.

12. Development is the joint responsibility of Government and the people. For meaningful development to take place in society, the people must enthusiastically support Government's plans and policies. The most noble way to garner the people's support, is through willing co-operation rather than compulsion. The people should, therefore, apply willed restraint and desist from anti-social acts that are capable of inhibiting government efforts.
13. Indeed, all it takes to move a nation forward is the courage and the will to act, and you will agree with me that with our catalogue of achievements, we have demonstrated courage of our conviction. We have also proved in our policies and programmes that sustained growth is the sure way to prosperity. We have learnt quite a lot from all the presentations, enough to encourage us to forge ahead with our reforms.
14. We are not unduly worried by the fact that we have not been given sufficient credit for our efforts at social engineering. We do these things because of our conviction and, it is our duty to do them not because we are being prodded to do so by an alien body nor to impress anybody. Leadership imposes a responsibility on us to seek a positive encounter with our society and to leave it much better than we had met it.
15. People have wrong impressions about our intentions. I make bold to say that the data upon which we are assessed are not often reliable. This is why we are happy that those of you who have come from outside Nigeria will be able to correct these largely erroneous impressions about Nigeria. Nigeria is safe for foreign investors and generous incentives exist to attract investment flows.
16. Let me also assure you that Government has decided that the Nigerian Economic Summit is henceforth to be an annual event. Accordingly, the Summit organisers in the private and public sectors should commence preparations for the 4th Nigerian Economic Summit in 1997. The 4th Summit should coincide with the submission of the report on VISION 2010.
17. Ladies and gentlemen, let me take the opportunity to thank all those who have been kind enough to honour our invitation to attend this Summit. We also thank our foreign friends and well wishers for the

interest they have shown in the 3rd Summit. We hope they will continue to support us in the future.

18. To all the participants from other countries, we wish you a safe trip back home and sincerely look forward to seeing you at the 4th Summit.
19. Ladies and gentlemen, before declaring the 3rd Nigerian Economic Summit closed, I wish to assure that the recommendations of the 3rd Summit will give us a flying start and equip us adequately to meet the challenges that lie enroute VISION 2010.
20. Finally, we shall always remember in our planning strategies the name of the literary girl called TINA, which simply means "there is no alternative". This, we are told, means there is no alternative to socio-economic development and prosperity outside economic liberalisation, globalisation and technology. We shall indeed bear this in mind at all times.
21. Thank you all and God bless.

## Appendix N

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## Appendix O

### Sponsorships

The Summit was made possible with the support of a large number of private sector companies that contributed towards the success of the Conference.

Special credit is to be given to Shell, Seven-Up, Mobil and Chevron. Each of them took direct charge of significant expenses valued at several millions of naira. Thanks to their help, we benefitted from exceptional foreign speakers, and were able to get pricy folders for our work.

Other companies answered our call for support, and gave contributions in cash. This made it possible to run a smooth organisation, to cover our expenses and to print the report on the 3rd Nigerian Economic Summit. These companies are:

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Amoco	300,000
Elf Petroleum	300,000
Esso Exploration	300,000
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In addition, many other companies contributed in kind, provided facilities, seconded staff, lent equipment, or offered preferential rates for their services. These companies include:

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We express our gratitude to all of them for their support. They did not claim any credit, but without them the Summit would have been less friendly and much more difficult to organise.

*Report on the Third Nigerian Economic Summit* capitalises further on the achievements of the First and Second Summits.

Continuing the candid tradition of its two predecessors, the Third Summit sets the stage for the translation of the visioning concept articulated in these earlier summits into concrete actions.

This Report provides a blueprint for the profitable liaison between the private and public sectors, for the overall interest of the Nigerian economy.

