

## AN OVERVIEW OF NIGERIA'S ECONOMIC REFORMS

Dr. J. G. Donli\*

### I Introduction

The last two decades witnessed series of reforms aimed at the revitalization of the Nigerian economy owing to series of crises that rocked the economy during this period. The problems were seen to be a direct derivative of structural imbalances in our economic system. The imbalances started right from colonial era, nurtured by inappropriate policies after independence in 1960, and reinforced by the windfall gains from petroleum in the 1970s.

These structural defects consisted of undiversified, monolithic and monocultural production bases, undue reliance on agricultural products from 1960s, and a total shift to exclusive reliance on petroleum after 1973. The outcome of these events was that the growth process relied heavily on external factors instead of the internal ones. However, of all the dependencies, the exclusive reliance on petroleum turned out to be the most devastating to the economy.

The sudden surge in revenues from the oil boom engendered a policy attitude which regarded resources as not a problem but considered how to spend it as the problem. The increased level of foreign exchange receipts was also perceived as a permanent occurrence. This led to an uncontrolled expansion in expenditure. On the other hand, reductions in foreign exchange receipts during lean years (as in 1978) were considered transitory. This inelasticity of expectation resulted in a situation where expenditures were not reduced immediately the adverse shocks occurred. On the contrary, external borrowing were undertaken to finance government activities. Consequently, fiscal

---

\*Dr. Donli is the Director of Research at the Nigerian Deposit Insurance Cooperation, Abuja.

deficits and external payment problems emerged and lingered through various regimes up to the present day.

The objective of this paper is to refreshen our memory with the different reforms adopted by different administrations in addressing the crisis faced by our economy, most especially the current reforms being pursued by the Obasanjo administration. To achieve this, the rest of the paper is divided into four parts. Part two gives an Overview of the State of the Nigerian Economy with greater emphasis on the various economic reform programs put in place by successive governments to fine tune the economy to desired results.. The third part reviews the Current Economic Reform with particular emphasis on the National Economic Empowerment and Development Strategy (NEEDS), while Part four looks at the Banking Reform and its Implications for the development of the Real Sector of the economy. The fifth part concludes the paper.

## **II. Overview of the State of the Nigerian Economy**

### ***II.1 Nature of Nigeria's Economic Crisis***

The Nigerian economy, like that of most other developing countries, has been experiencing severe balance of payments disequilibrium in the last decades. The country's foreign debt has continued to rise, while her per capita productivity has continued to drop. The economy was, prior to the oil boom, dominated by the trends and fluctuations of its major export crops, notably, palm oil and kernel, cocoa, rubber, groundnut and cotton. The growth rate of the economy, its balance of payments position and investment opportunities were tied to the demand for these agricultural products in the international market.

As a result, when agricultural exports increased at the rate of one per cent per annum in the one and half decades before 1950, the economy witnessed a long period of stagnation. Consequently, per capita income fell over the period as the population growth rate of about 2 per cent outstripped the rate of economic growth (Olashore, 1991). With the increased world demand for agricultural products in the 1950s, Nigeria

recorded impressive GDP growth rates which hit an average of 4 per cent in 1957 (Ogbe, 1986).

By 1958, following the discovery and production of crude oil, the economy's growth rate was further enhanced as the country recorded an average GDP growth rate of 6 per cent per annum between 1958 and 1967 (Ahmed, 1985). The country's economic activities were later disrupted by the civil war, but immediately after that, marked economic growth was witnessed in the country as the oil prices quadrupled in 1973. Thereafter, a relatively high growth rate persisted until the recession of 1981 adversely affected the price of oil at the international market, causing a considerable drop in the country's revenue earnings and by implication the strength of the economy itself. Since then, the country has been going through an austere economic period which has brought the nation's per capita GNP from US \$830.00 in 1983 to US \$370.00 in 1988 and US \$250.00 in October 1990 (Nwankwo, 1992). With this development, Nigeria has been classified amongst the world's poorest nations.

This bleak and desperate economic situation has had serious implications for the nation. The rising crime rates, civil and political unrest now prevalent in the society, are part of the attendant negative consequences of the worsening socio-economic situation in the country. Consequently, the need to chart and adopt an enduring and pragmatic developmental agenda that could help curtail or forestall these problems remain irresistible (Nwankwo, 1992).

## ***II.2 Economic Reform Programs and Crisis Resolution***

In response to the above mentioned economic crisis, successive administrations came up with different kinds of reforms aimed at returning the economy on the path of recovery. Some of the reform programmes are briefly discussed below.

### ***II.2.1 Economic Stabilization and Austerity Measures***

This measure was adopted by the Shagari administration through Economic Stabilization

Act of April, 1982. The Stabilization measures were demand-management in content. Under this reform programme, emphases were placed on exchange controls, abolition of tax exemptions and increase in import duties as means of reducing demand for imports. However, this problem lingered till the military took over on 31 December, 1983.

Other stabilization measures that were subsequently adopted by the military included the pruning down of expenditures and reduction in the size of the public sector. The massive retrenchments however compounded unemployment problems in the economy. Also, counter trade measures were introduced in order to reduce foreign exchange requirements of foreign trade transactions. The dismal failure of these reform measures led to the introduction of Structural Adjustment Program (SAP) in the second half of the 1980s.

### *II.2.2 The Structural Adjustment Programme*

The reform programmes under SAP, which were both macro and sectoral aimed at altering and restructuring the consumption and production patterns of the economy, as well as eliminate price distortions and heavy dependence on the export of crude oil and imports of consumer and producer goods. The focal areas of the reform were mainly fiscal policy and management, monetary policy, exchange rate management, liberalization of foreign trade and management of external debt, among others. These are briefly discussed below.

#### *i) Fiscal Policy and Management*

This has to do with the size of the public sector, public expenditure, the budget deficits and taxation. Under the reform programme, the size of government was to be pruned to reduce wastage and make it more efficient (Nnanna, 1990). Public investment programmes were accorded priority based on economic appraisals and were given funding because of financial viability and low completion costs.

The need for institutional, administrative and structural changes in the tax system to realize the potential of Nigeria's non-oil revenue sources was also stressed. In that light, corporate income tax rates were reduced and tax collection procedures were improved through the introduction of withholding taxes on interest income and rationalization of dividend taxation.

#### **ii) *Monetary Policy***

A major area of focus under this policy was the restraint on domestic credit and interest rate liberalization. These were given attention in order to control wage and price pressures from exchange rates devaluation. To achieve this goal, indirect monetary controls were gradually introduced from the second half of 1993.

#### **iii) *Exchange Rate Management***

The objective of the adjustment policy under exchange rate management was to make the exchange rates market determined. Prior to SAP, excess demand for foreign exchange was considerable and the available quantity was subjected to arbitrary rationing. But with the adoption of SAP, the Naira was floated and two tier exchange rate system was introduced with the hope that they would converge over time. Consequently, it was expected that the demand for imports would be curtailed, non-oil exports would be boosted, capital inflows would be encouraged, distortions imposed by the import licensing system would be eliminated and a realistic exchange rate would be attained.

#### **iv) *Foreign Trade Liberalization***

With the floating of the Naira at the foreign exchange market, foreign trade was equally liberalized for full benefits of liberalization to be tapped. In that light, import prohibitions were eased and the import licensing system and import surcharges were abolished. Customs and excise tariffs were restructured to reduce the average nominal rate of protection. Furthermore, a more comprehensive tariff structure with a definite but longer-term horizon was introduced.

The export policy reforms were aimed at supporting the growth and diversification of the export structure. In this regard, attention was given to raising the export of manufactured goods. Also, community boards were abolished while various export incentives were granted.

#### v) *External Debt Management*

Under the reform programme, debt refinancing, rescheduling and deferment of obligations, debt buy-back and conversion were the issues considered in the management of Nigeria's debt.

The implementation of the above policy reforms was unable to achieve the objectives of the structural adjustment program largely because of the following factors (FGN, 2000): its short time frame and poor sequencing of the prescribed reform measures; poor implementation of policies; and policy instability and lack of political will. Consequently, the problems of the economy persisted well into the present time. However, the present government has unveiled a new economic reform package under the auspices of the National Economic Empowerment and Development Strategy (NEEDS). The implementation of the new national economic development strategy is envisaged to kick-start the economy and lead to sustainable growth process.

### **III. Review of the National Economic Empowerment and Development Strategy (NEEDS)**

As stated earlier above, the new economic reform program of the present government is encapsulated in the recently launched National Economic Empowerment and Development Strategy (NEEDS) document. The NEEDS document whose implementation began in 2003 is a four-year (2003 – 2007) medium term development plan and it is expected to be implemented by all the three tiers of government and other stakeholders including the private sector, Non-Governmental Organizations (NGOs) and the general public.

As indicated above, the new reform program is derived from experiences with the inadequacies of the various past responses to the crises that engulfed the Nigerian economy. The reform program is premised upon four (4) cardinal long term goals of Wealth creation, Employment generation, Poverty reduction and Value re-orientation. The long term goals are crafted to reverse the structural weaknesses and imbalances in the economy identified above, provide strategic focus and direction, and inculcate the right ethics, discipline, patriotism, virtues of hard work, honesty, respect for traditional values, entrepreneurial spirit and excellence, and provide incentive structure that rewards and celebrates private enterprise among the citizenry (FGN, 2004).

These developmental goals lay the foundation for the evolution of sound macro-economic policies which would guide the identification and selection of the appropriate long term strategies and implementation guidelines necessary to move the economy forward on a sustainable basis.

The economic reforms program is structured to re-shape the macro-economic policy framework of the nation through the articulation of appropriate fiscal and monetary policies. The key instruments for the fiscal policy management include diversification of the revenue base of the government into the non-oil sector, efficient utilization of resources and prioritization of resource allocation by government, as well as, prudent budget management.

While the enunciated monetary and exchange rate policy stance of the government is the promotion of price and exchange rate stability in such a way to foster, amongst others the control and moderation of inflation, interest and exchange rates. The focus of the monetary policy therefore is to promote private sector growth and ensure orderly development of the financial system through effective regulatory and supervisory regimes.

The above long term goals and macro-economic fundamentals provide the baseline for identification of the following key development strategy areas:

## **1. Public Sector Reforms**

The specific goal of the public sector reform is to make government and public institutions more responsive to peoples' needs. It is aimed at creating a public service that delivers prompt and quality service to the people. The reform agenda therefore aims to re-structure, right size, professionalize and strengthen these institutions to make them more efficient and effective in service delivery. Therefore the promotion of good governance, transparency, rule of law and enforcement of contracts, anti-corruption drive remain a major focus of the reform program.

## **2. Growing the Private Sector**

The emergence and sustenance of private sector-led economy is one of the strategies of the new economic reform program. The private sector would be re-invigorated and supported to champion the cause of sustainable development of the economy. Well supported private sector would lead to the realization of the long term goals of the economic reform agenda. Therefore the key elements of this strategy are the renewal of the privatization program, liberalization, de-regulation, infrastructural development, provision of strategic support to key productive sectors such as agriculture, industry (in particular the promotion of Small and Medium Enterprises), services (especially tourism, arts and culture), information and communication technology, oil and gas, and solid minerals.

Other elements include the provision of appropriate security of life and property, legal and regulatory framework, infrastructural development (especially electricity, water, roads and transport), and mobilization of long term capital for investment.

## **3. Social Charter or Human Development Agenda**

Value re-orientation and support for human development constitute one of the strategic focus of the reform agenda. The key areas of concern include the enhancement of the welfare, health, education, housing and employment of the citizenry. It also promotes



participation, empowerment, gender and geo-political balance, poverty reduction programs, as well as provides security and safety nets for the people.

#### **4. Value Re-orientation**

The reform agenda would place emphasis on the need to promote the virtues of hard work, honesty, patriotism, selfless service, and moral rectitude. All the relevant government organizations, civil societies, NGOs, and other stakeholders would be mobilized to lead effective campaigns among the public for a change in the new attitude and value system.

A number of specific quantifiable targets that are measurable and time bound are provided to guide the implementation of the economic reform agenda. The key parameters include, amongst other targets on reducing unemployment rate, real GDP growth rate, incidence of poverty, inflation rate, credit to private sector, external reserves, budget deficit as a ratio of GDP, recurrent expenditure as a percentage of total budget, capital expenditure as a percentage of total budget, export growth rate, and growth of non-oil export earnings.

There are specific targets set for the major sectors of the economy such as growth in agriculture, manufacturing, capacity utilization in manufacturing sector, agricultural exports, communications and solid minerals. It is expected that specific strategies for each of the major sectors would be developed, fine tuned and periodically reviewed.

The institutional framework for the implementation of the economic reform agenda which is embedded in the NEEDS document provides that the economic reform program would be coordinated by the President to be assisted by an independent monitoring committee comprising those already involved in the reform process.

There would be a quarterly performance review report. The National Assembly and other stakeholders would also be involved in the implementation, monitoring and evaluation of the reform process. Similarly, it is expected that both states and local

governments would evolve their own appropriate reform package (SEEDS and LEEDS) which should be in tandem with the NEEDS. The financial implication of the entire reform package is being worked out. It suffices to note that the economic reform program is a continuous process and it requires constant fine tuning and adjustments in tune with unfolding realities in the domestic and international economic environment.

The above is a synopsis of the current economic reform program of the nation. It could be seen that it is all encompassing and it also requires the support and commitment of all stakeholders. However, it appears that a lot of work needs to be done with regards to the reform implementation process. The funding arrangement needs to be properly worked out and firmed up in order to achieve the cherished long term goals and strategies of the new reform program whose implementation was supposed to have began since last year.

Broadly, it should be appreciated that the long term goals and strategies of the NEEDS package are meant to achieve the twin objectives of growth and equity, as well as bring to the fore the central importance of promoting the human dimension of the development process. The ideal objectives of economic growth and equity could not be attained without the invocation of the virtues of value re-orientation. The human factor has been the missing link in the Nigerian economic growth process.

For the first time, this aspect of human development agenda has been identified and integrated into the current economic reform program. It could be argued that the failure of the past economic reform programs could to a certain degree be attributed to the failure to tie value re-orientation to program implementation process. That is, the poor implementation of past economic reform programs is linked to the so-called Nigerian factor in all its ramifications. Having identified the importance of value re-orientation in the implementation process of the reform program, it should be emphasized that the major object of our review is not necessarily to pick holes with the details of the economic reform package, but to situate, align and tailor it to the areas of interest of supervisory and regulatory bodies (such as, the Nigeria Deposit Insurance Corporation - NDIC) responsible for the oversight of the financial sector industry.

### ***III.1 Banking Sector Reform within the Context of the Economic Reform Agenda***

Although the NEEDS document did not itself directly and fully address in greater details the role of the banking and finance sector in the economic reform process, nonetheless it has placed a high premium on the central role of the banking and financial sector in the actualization of the reform agenda.

An elaboration of the financial sector reform agenda was recently unveiled by the Governor of the Central Bank of Nigeria (CBN) in July, 2004 four months after the official launching of the document earlier in March, 2004. The genesis of the banking and financial sector reform is rooted in the failure of the sector to adequately protect and boost depositor confidence, as well as more effectively perform developmental role in the economy. In accordance with the theme of this Workshop, this paper will also focus attention on the role of the banking sector in enhancing the growth of the productive sectors of the national economy.

## **IV. Banking Sector Reform and the Growth of the Real Economic Sector**

### ***IV.1 Background to the Banking Sector Reform***

Over the years, the banking sector has been unable to significantly support the long-term financial needs of the real sector. This is in spite of the fact that the growth of the national economy hinges on the extent to which the real sector is effectively supported by the banking and finance sector, which play a catalytic role in the growth process. Most investments in the real sector are of medium to long-term nature. Unfortunately, this is usually not forthcoming from the banks because of the short-term nature of their deposit liabilities and the inappropriateness of using such deposit base to support long-term lending. Also, given the widespread lucrateness of rent-seeking activities, bank depositors often demand such rates of return that are usually realizable on such quick businesses that exist in the economy. The combined effect of these is the prevalence of short-term lending at high cost against the need for long-term funds at minimal cost by the real sector firms (Ndiokho, 1996).

The structural weakness of the banking system, which has hindered the performance of its developmental role in the economy and seriously curtailed the achievement of Government's objectives of ensuring price stability, economic growth and high employment level prompted the CBN to embark on the current reform of the sector. The purpose of the banking sector reform is to enable the Nigerian banks give priority to and make available cheap and competitive credit to the real sector so that the economy can grow.

The banking reform package is anchored on a 13-point programme, some of which include: increase in the minimum capital base requirement of the banks from ₦2 billion to ₦25 billion; consolidation of banking institutions through mergers and acquisitions; and the establishment of an Asset Management Company as important vehicle for banking system distress resolution (Soludo, 2004).

Bank consolidation through mergers and acquisition and the establishment of Asset Management Company to purchase the non-performing risk assets of the banks would have the salutary effect of cleaning up the banking sector, as well as lead to the emergence of sound banks that would ably support the growth of the real sector, as well as compete in the international arena (Soludo, 2004). The resultant appearance of mega banks with robust capital and asset base on the national economic landscape would provide the spring board for launching the economy to greater sustainable heights and in the process achieve the long term goals of reducing the level of poverty in the system, providing employment in the wider economy and creating wealth for all.

#### ***IV.2 Implications of Banking Reform on the Real Economic Sector***

The reforms in the banking system are likely to have the following implications on the development of the real sector:

- The policy is likely to adequately position the banking industry to be able to mobilize international capital for on-lending to the real sector for the development of the economy.

- The policy is likely to drastically reduce banks' cost of funds and perhaps reduce the pressures on banks that engage in sharp practices as a means of survival. This will affect the amount of interest charged on loans to real sector operators.
- The policy will promote an efficient financial system that will support intermediation roles of mobilizing savings and lending to small and medium scale enterprises. For instance considering the fact that each Nigerian bank has to provide basic infrastructures for its operations, meet regulatory requirements among others, it was obvious that there was sub-optimal utilization of resources. In the new dispensation overlapping of functions and unnecessary duplications will be avoided. Efficiency will also be promoted through the existence of increased scale economies in producing financial services. All these are likely to translate to lower interest rates in the country.
- The establishment of an Asset Management Company would help banks clean up their balance sheets. When this is combined with the strengthening of the existing legislative framework for debt recovery, it would put banks in a more comfortable position to fund the activities of the real sector operators
- It is expected that cost of funds would drop significantly and margins would decline due to stiffer competition. However another concern could be that larger banks would exploit their greater market power to reduce lending and by implication increase loan rates.
- Future profits may benefit from cost reductions arising from economies of scale- that is, the ability to spread fixed costs, including particularly those that are technology - related, over a larger scale of operations. Cost economies can also be achieved by eliminating duplications in branch networks, functions and staff. There may also be a reduction in risk, and

therefore saving in costs due to geographic or product diversification and the ability of larger institutions to invest in more sophisticated risk management systems. All these are likely to impact positively on the availability and cost of lending to the real sector.

Apart from pricing considerations, the new reforms could reduce the amount of credit available to small businesses. This argument is based on the observation that small banks grant small loans (since they do not have large enough balance sheets for more sizeable loans often required by larger businesses) assumed to go to small firms, and that large banks tend to lend to large businesses (as the monitoring costs of many small companies would be too high for them). Therefore, a large proportion of the population might end up not being served by the formal banking system. There is therefore a need for non bank financial intermediaries to be strengthened to cater for the needs of small-scale real sector operators.

### ***IV.3 Banking Sector Reform and the Downstream Petroleum Sector***

Oil and gas sub-sector constitute one of the important components of the reform program for the real sector of the national economy. The key elements of the reform agenda in this respect is the de-regulation of the downstream sector through the privatization of the nation's four refineries and product haulage, appropriate pricing of petroleum products through the withdrawal of subsidy and the attraction of private capital investment in this sector.

Indeed the privatization of the downstream sector would not be fully achieved without the active support and collaboration of the banking and finance sector. The intermediation role of the banking sector would enable the channeling of the necessary funds with which to fully and effectively re-position the oil and gas sector to perform its developmental role in the economy.

Private sector investment into the de-regulated downstream sector requires long term financing arrangement and that explains the relevance of the consolidation of the banking sector which is one of the thirteen point reform agenda for the banking sector announced by the CBN Governor.

When it becomes fully operational, the banking sector reform would unlock and make available alternative funding schemes to support the emergence and growth of local private capital in the oil and gas sector. It would also accelerate the privatization of the refineries and product haulage.

## **V. Conclusion**

From what we have seen above, it is very clear that successive administrations came up with different kinds of reforms in an attempt to address the crisis the Nigerian economy faced, but the implementation was less than satisfactory. Frequent policy inconsistencies and reversals, lack of political will, corruption and appropriate value orientation hampered the judicious implementation of past reform programs. The economic reform program of the present government is aimed at reversing the shortcomings of the implementation of the past reform programs, as well as place the national economy on a strong, sound and sustainable footing. As the implementation and funding issues get sorted out and the implementation of banking sector reform gets into full gear, the attendant growth of the real sector and the de-regulation of the downstream sector will usher in a new lease of life into the economy and the people of Nigeria. No doubt, the challenges are daunting and too numerous to mention, however, with the will, commitment and right value re-orientation among all stakeholders, a lot of progress will be achieved in our march to sustainable economic recovery.

## REFERENCES

- Ahmed, A. (1985), "The Current State of the Nigerian Economy and its challenges to Policy Makers", *Bullion*, Vol. 9 No.4, CBN, Abuja
- Central Bank of Nigeria (2004), "Guidelines and Incentives on Consolidation in the Nigerian Banking Industry"
- Federal Government of Nigeria (2000), *Obasanjo's Economic Direction: 1999 - 2003*, Office of the Honorable Minister Economic Matters, Abuja
- Federal Government of Nigeria (2004), *National Economic Empowerment and Development Strategy (NEEDS)*, National Planning Commission, Abuja.
- Ndiokho, B. U. (1996), "The Finance Industry and the Growth of the Real Sector: A Critical Assessment", in *Proceedings of the 1996 Bank Directors Seminar organized by FITC*, Lagos
- Nnanna, O. J. (1990), "Managing SAP: An Economy in Transition", *Bullion* Vol. 134 No. 1, CBN, Abuja
- Nwankwo, U. (1992), *Economic Agenda for Nigeria*, Centrist Productions Limited, Lagos
- Ogbe, N. E. (1986), "The Current State of the Nigerian Economy", *Bullion*, Vol. 10 No. 1, CBN, Abuja
- Olashore, O. (1991), *Challenges of Nigeria's Economic Reform*, Fountain Publications, Ibadan
- Soludo, C. C. (2004), "Consolidating the Nigerian Banking Industry to meet the Development Challenges of the 21<sup>st</sup> Century", Being an Address to the Special Meeting of Bankers Committee, Held on July 6, 2004 at CBN Headquarters, Abuja