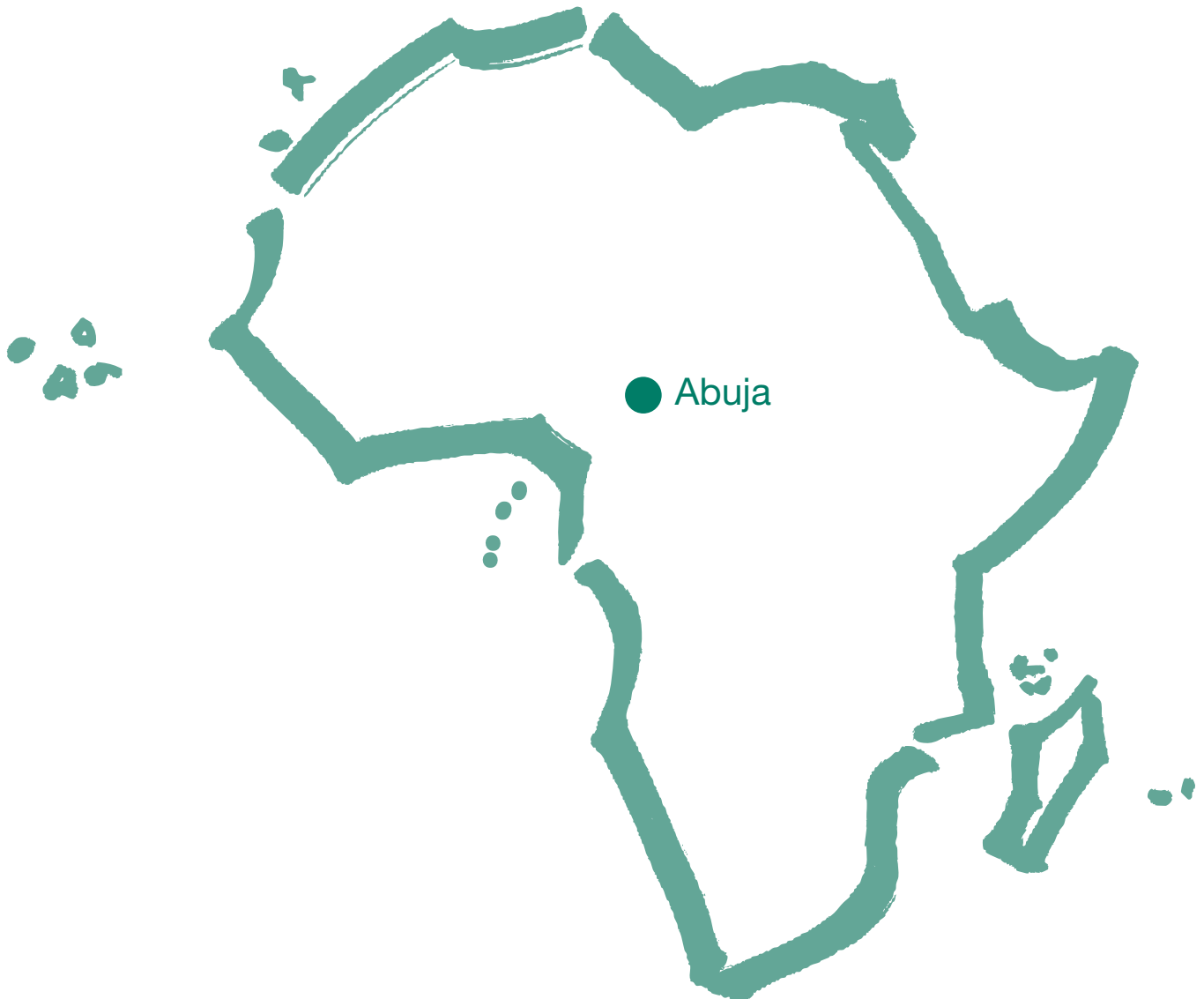


# Nigeria



## key figures

- Land area, thousands of km<sup>2</sup> 924
- Population, thousands (2004) 127 117
- GDP per capita, \$ (2003) 471
- Life expectancy (2000-2005) 51.5
- Illiteracy rate (2004) 30.6

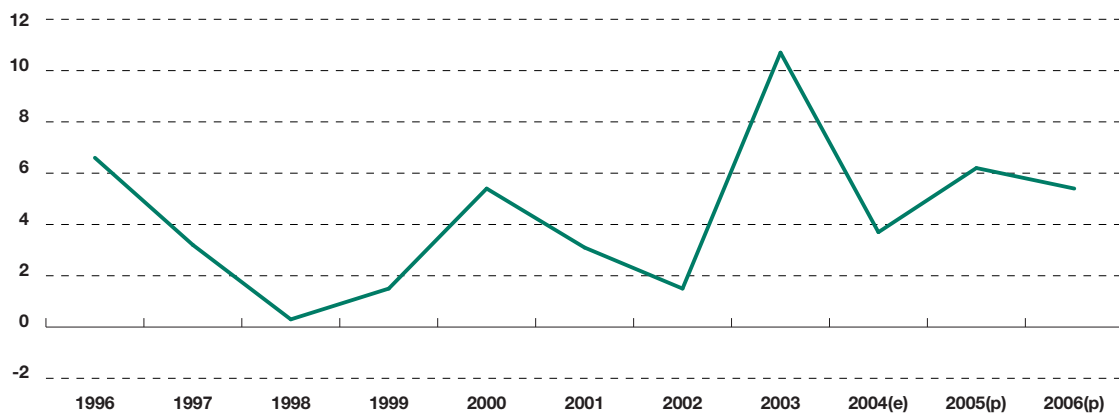
**T**HE RETURN TO CIVILIAN RULE IN 1999 with the election of President Obasanjo has given rise to hopes that Nigeria will finally begin to fulfil its enormous economic potential. Until recently, the country had little to show for some \$300 billion in oil revenues earned since independence. President Obasanjo's ambitious economic reforms aim to combat entrenched corruption and reduce poverty while establishing macroeconomic stability. So far, however, little progress has been achieved in overcoming obstacles to private sector development such as unreliable electric power, lack of access to financing for small and medium enterprises, and a pervasive climate of strife and insecurity.

The Nigerian government has adopted a comprehensive strategic plan for addressing the deep-rooted economic and structural problems of the country. Real GDP growth has been buttressed by the continuing high price of crude oil and an improving macroeconomic

environment. Prudence in fiscal management led to a surplus in 2004. The government's fiscal restraint also supported the monetary authority's objectives of keeping growth of monetary aggregates under control, reducing inflation and limiting interest rate volatility. High oil prices reduced pressure on the balance of payments in 2004, with a resulting increase in gross international reserves. Nevertheless, Nigeria is still seeking a restructuring of the debt through rescheduling as well as debt forgiveness, following the worsening of the burden of debt through 2003. Although some progress has been made in removing structural bottlenecks in the economy, there is still a long way to go in areas such as privatisation. While the recent democratisation process and liberalisation policies have created a more favourable business climate, severe constraints continue to hamper private sector development, including growth of small and medium enterprises (SMEs).

**The comprehensive strategic plan should address the deep-rooted economic and structural problems that hampered growth.**

**Figure 1 - Real GDP Growth**



**Source:** IMF and domestic authorities data; estimates (e) and projections (p) based on authors' calculations.

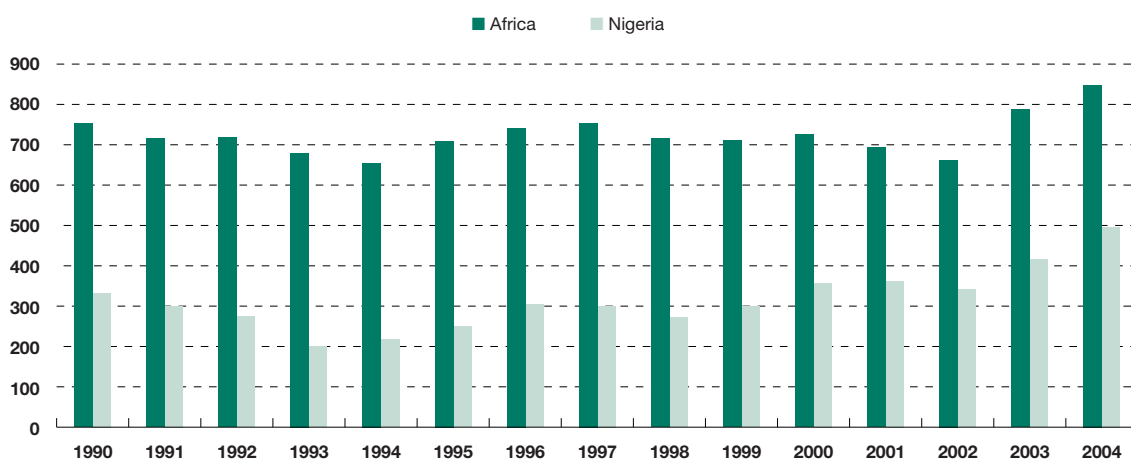
The government is making efforts to expand access to credit for SMEs, but numerous obstacles remain. The political climate has remained calm after the 2003 elections, but the threat of instability is underscored by continuing religious and ethnic conflicts. Poverty remains dire and the key social services of health and education have failed

to improve significantly over the years in spite of increased budgetary allocations.

### **Recent Economic Developments**

In 2004, the government put forth a comprehensive strategic vision for addressing the country's deep-rooted

Figure 2 - GDP Per Capita in Nigeria and in Africa (current \$)



Source: IMF.

macroeconomic instability and structural bottlenecks. The *National Economic Empowerment and Development Strategy* (NEEDS) is considered to be the equivalent of a home-made Poverty Reduction Strategy Paper (PRSP), covering the four-year period 2004 to 2007. NEEDS aims to make the private sector the engine of growth, through privatisation, deregulation and liberalisation, accompanied by infrastructure development, especially in electricity and transport. NEEDS also develops strategies for agriculture, industry, services, oil, gas and solid minerals. The programme has four essential objectives: *i*) to redefine the role of government in the economy; *ii*) to create an enabling environment for the private sector; *iii*) to improve the delivery of social services; and *iv*) to seek debt reduction from the international community. NEEDS sets a growth objective of 6 per cent per annum, led by the agricultural and manufacturing sectors, rather than oil.

Largely as a result of the oil price increases, real GDP growth picked up strongly to 10.7 per cent in 2003 and was estimated to have reverted to 4 per cent in 2004. In addition to the effects of higher oil prices, improvements have also been recorded in agriculture, utilities, communications, building and construction and services. Growth is expected to remain satisfactory at a projected 6 per cent in 2005 and 5 per cent in 2006 aided by improved investment levels.

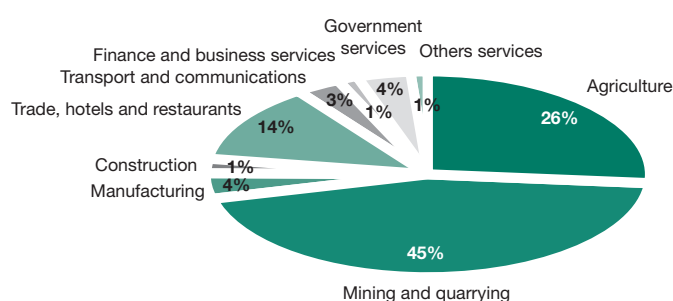
Agricultural production has continued to expand

as a result of favourable weather conditions and improved government policies, growing an estimated 6.8 per cent in 2004 compared to 6.1 per cent in 2003. All the major staple and cash crops recorded higher output in 2004. However, the achievement of higher output levels is hampered by inadequate supply of fertilisers and other farming inputs. In addition, natural hazards including the perennial problems of quela bird invasions and flooding in some farming areas such as Jigawa, Kano and Kabbi, continue to hold down growth.

Bans on the import of cassava, fruit juices, vegetable oil and poultry and related products boosted local production, although such bans may eventually lead to smuggling. The special rice programme, as well as the root and tuber expansion programme aimed at achieving self-sufficiency in rice and root and tuber production, also contributed to increased output.

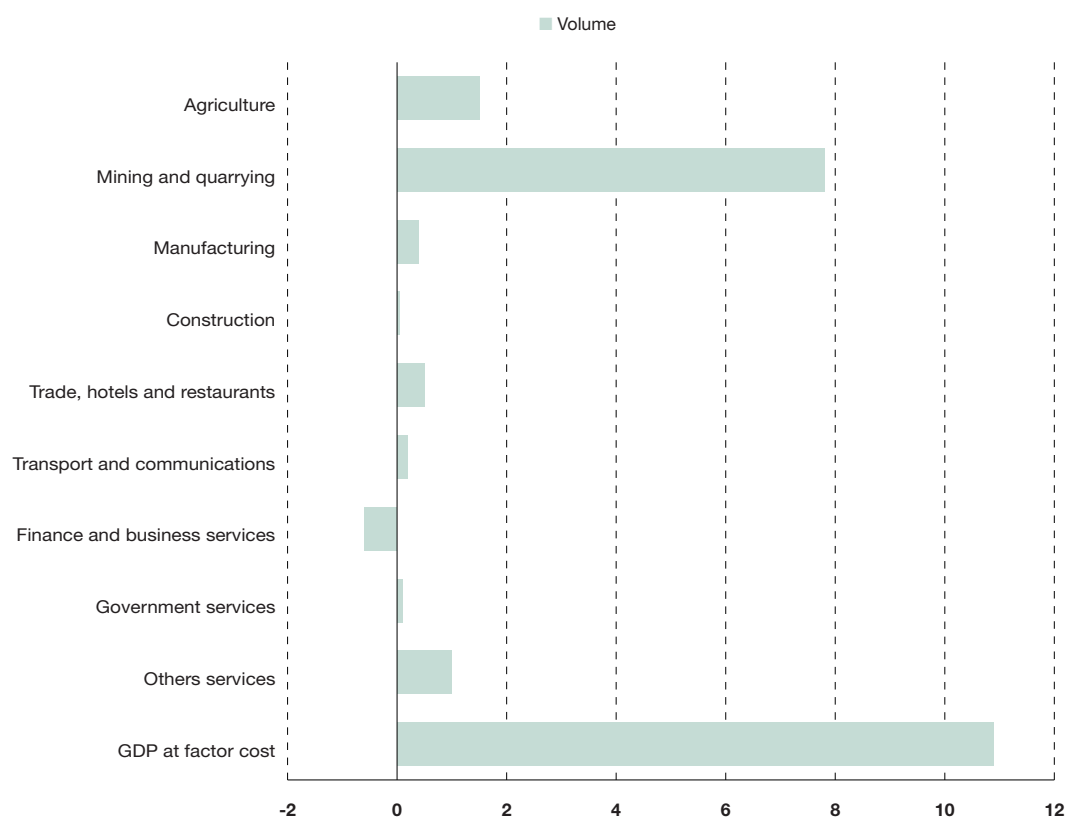
Industrial output has increased along with production of crude oil. However, the manufacturing and electricity sub-sectors continue to stagnate. In 2004, Nigeria's crude oil output was estimated at an average of 2.33 million barrels per day (mbd), compared with an average of 2.018 mbd in 2003. Increased natural gas production accompanied rising oil output. A major problem for Nigeria's oil sector remains unrest in the Niger delta region, as well as sub-optimal performance of local refineries, leading to domestic shortages of petroleum products. The domestic

Figure 3 - GDP by Sector in 2003 (percentage)



Source: : Authors' estimates based on domestic authorities' data.

Figure 4 - Sectoral Contribution to GDP Growth in 2003 (percentage)



Source: : Authors' estimates based on domestic authorities' data.

shortages may also be the result of smuggling, as Nigeria has maintained artificially low prices on its domestic market.

Output of other industrial sub-sectors, especially manufacturing and electricity generation, continued to stagnate in 2004 as communal unrest in the gas/oil production areas disrupted gas transportation through pipelines to the plants. Shutdowns for rehabilitation also

reduced electricity generation.

Reduced electricity supply and the generally poor condition of basic infrastructure continued to hamper manufacturing. Most industries are forced to rely on their own generators, as the Nigeria Electricity and Power Authority (NEPA) remains unreliable. Frequent power outages and tension fluctuations have adverse effects on machinery. In 2004, surveys revealed that about 56 per cent of energy requirements of industry

were privately generated. The World Bank estimates that the effective cost of electricity increases by 30 per cent as a result of these dysfunctions. The deplorable energy situation has also contributed to low capacity utilisation in Nigerian manufacturing, estimated at 46.2 per cent in a 2003 survey. Sectors recording higher than 50 per cent capacity utilisation tend to be those using imported inputs, making them less dependent on local infrastructure.

Expansion in telecommunications continued to lead growth of the service sector, with telephone density increasing from 1 per 165 people in 2001 to 1 per 49

people in 2003. Since the liberalisation of telecommunications in 2001, private operators have brought about innovation, wider coverage, competition, and financing for investment. However, severe operational inefficiencies continue to limit the sector. For instance, the Nigerian Telecommunications Limited (NITEL) increased its telephone lines by 20.3 per cent in 2003 but only 50 per cent of its lines are functional.

The government's share of aggregate expenditure declined in 2004. Also, both public and private gross capital formation in the economy remained subdued in 2004, suggesting that the climate for private investment

**Table 1 - Demand Composition** (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
<b>Gross capital formation</b>	<b>14.4</b>	<b>22.8</b>	<b>26.1</b>	<b>22.8</b>	<b>22.7</b>	<b>23.5</b>	<b>25.3</b>
Public	5.1	12.1	10.2	9.3	9.3	10.1	10.9
Private	9.3	10.7	15.9	13.4	13.4	13.4	14.4
<b>Consumption</b>	<b>75.1</b>	<b>68.3</b>	<b>74.2</b>	<b>68.3</b>	<b>63.4</b>	<b>60.1</b>	<b>61.0</b>
Public	8.3	26.5	24.7	23.3	21.8	20.2	20.4
Private	66.8	41.8	49.5	45.0	41.6	39.9	40.6
<b>External sector</b>	<b>10.5</b>	<b>8.9</b>	<b>-0.2</b>	<b>8.9</b>	<b>13.8</b>	<b>16.4</b>	<b>13.7</b>
Exports	46.9	43.3	40.8	49.9	51.9	52.4	49.4
Imports	-36.4	-34.4	-41.0	-41.0	-38.0	-36.0	-35.8

**Source:** Domestic authorities' and IMF data; estimates (e) and projections (p) based on authors' calculations.

still leaves much to be desired.

## Macroeconomic Policies

### Fiscal and Monetary Policy

Key measures introduced in 2004 as part of the NEEDS agenda of fiscal consolidation include *i)* the enforcement of a civil service hiring freeze, the conducting of a payroll audit, and physical verification of personnel in selected ministries; *ii)* imposition of hard budget constraints on federal parastatals; *iii)* development of an equitable and affordable strategy for clearing pension arrears.

The government's prudent fiscal policies in 2004, combined with high oil prices and the removal in 2003 of the subsidy on domestic crude oil sales to the Nigerian National Petroleum Corporation (NNPC), led to improvement in budgetary outcomes. In May 2004, the

government increased retail prices of petroleum products only to lower prices again in the face of organised union protests; in effect, some element of subsidy remained on petroleum products. Moreover in 2004, the capital budget was streamlined by establishing criteria for prioritising development projects, with priority given to projects that could be completed within the year.

Total revenue rose to an estimated 40.6 per cent of GDP in 2004, up from 36.5 in 2003, thanks to the windfall of high oil prices. The overall budget balance consequently moved to an estimated surplus of 7.4 per cent of GDP from the deficit of 1.4 per cent of GDP in 2003. The 2004 appropriations bill was based on a crude oil price of \$25 per barrel whereas the actual price averaged \$35 during the year. The government adopted a policy intended to smooth expenditure by saving windfalls when oil prices are high, and was able to save about \$2 billion of the excess receipts in 2004.

The budget is expected to remain in surplus in 2005 and 2006.

The prospect of continued high oil prices has led the government to raise the assumption of average crude price from \$27 per barrel in 2005 to \$30 per barrel in setting the budget.

The government's prudent response to the oil windfall is manifested in the continued decline in current expenditure. Total government expenditure fell to an estimated 33.2 per cent of GDP in 2004 from 37.9 per cent of GDP in 2003, while current expenditure fell to an estimated 12.2 per cent of GDP in 2004 from 13.6 per cent of GDP in 2003. In 2004 the government strengthened the budget process and improved expenditure co-ordination through the introduction of the Cash Management Committee (CMC) which monitored and reconciled monthly expenditure releases,

and determined that borrowing requirements were consistent with cash flow projections. Also, with the computerisation of payrolls in some ministries the government was able to weed out a large number of phantom workers, contributing to a fall in the wage bill. In the Federal Capital Territory alone over 3 000 phantom workers were eliminated in the course of 2003/2004, saving the government naira 58 million each month. The government also focused on enhancing transparency and accountability in its expenditure. To improve public procurement, the government established the Budget Monitoring and Price Intelligence Unit (BMPIU) which is charged with oversight of public sector contracting and procurement. Furthermore, in 2004, the government initiated a Public Procurement Commission and joined the Extractive Industries Transparency Initiative, a British-inspired code under which oil, gas and solid mineral exporting countries agree to combat secrecy and corruption.

Table 2 - Public Finances (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
<b>Total Revenue and grants<sup>a</sup></b>	<b>20.0</b>	<b>42.1</b>	<b>36.2</b>	<b>36.5</b>	<b>40.6</b>	<b>40.2</b>	<b>38.1</b>
Tax revenue	6.3	8.5	8.5	7.9	7.3	7.0	6.8
Oil Revenue	13.5	32.8	26.5	28.0	32.6	32.6	30.6
<b>Total expenditure and net lending<sup>a</sup></b>	<b>15.0</b>	<b>47.0</b>	<b>41.4</b>	<b>37.9</b>	<b>33.2</b>	<b>34.0</b>	<b>32.9</b>
Current expenditure	5.5	14.9	16.2	13.6	12.2	10.7	10.2
<i>Excluding Interest</i>	<i>3.1</i>	<i>8.8</i>	<i>9.8</i>	<i>8.6</i>	<i>8.0</i>	<i>7.5</i>	<i>7.6</i>
Wages and salaries	1.5	5.3	6.5	4.9	4.4	4.0	4.0
Interest	2.3	6.1	6.4	5.1	4.2	3.2	2.6
Capital expenditure	5.3	16.3	11.0	9.3	9.3	10.1	10.9
<b>Primary balance</b>	<b>7.3</b>	<b>1.2</b>	<b>1.1</b>	<b>3.7</b>	<b>11.5</b>	<b>9.5</b>	<b>7.8</b>
<b>Overall balance</b>	<b>4.9</b>	<b>-4.9</b>	<b>-5.3</b>	<b>-1.4</b>	<b>7.4</b>	<b>6.3</b>	<b>5.2</b>

a. Only majors items reported.

Source: Domestic authorities' and IMF data; estimates (e) and projections (p) based on authors' calculations.

Nigeria's monetary policy continues to aim at achieving single-digit inflation, a stable naira, and a stock of foreign-exchange reserves equivalent to at least six months of current imports. The current monetary regime uses a two-year framework to help even out the lagged effects of policy shocks. The Central Bank of Nigeria (CBN) relies on open market operations to control growth in monetary aggregates; changes in the minimum re-discount rate (MRR) to determine interest rates, and a Dutch auction system to determine the

value of the naira. Since 2003, open market operations have been conducted on a daily basis instead of bi-weekly to exert greater control over financial market conditions.

Hitherto, monetary aggregates have tended to overshoot the CBN's targets due largely to the expansionary fiscal policies. However, in the first nine months of 2004, as a result of the fiscal surplus, annualised growth in broad money supply (M2) was only

13.2 per cent, compared with the expansion of 24 per cent recorded in 2003. The expansion in the money supply in 2004 was largely fuelled by credit to the private sector, as credit to the government contracted.

Year-on-year annual inflation moderated to an estimated 13.4 per cent in 2004 after ending 2003 at 16.1 per cent and rising to 24.8 per cent in February 2004. The persistent pressure on prices in 2004 was attributable to the impact of the partial deregulation of petroleum prices in 2003, and the lagged effect of the 2003 monetary expansion. Interest rates remained largely stable in 2004. The CBN maintained the MRR fixed at 15 per cent during the year which contributed to stability in other short-term rates. It is expected that inflation will follow a downward trend in 2005 and 2006 as the continued improvement in agricultural production reduces inflation in food prices.

Nigeria maintains a system of four exchange rates, namely, the Inter-Bank Foreign Exchange Market (IFEM) used for CBN transactions; the Nigerian Inter-Bank Foreign Exchange Fixing (NIFEX), quoted by a group of commercial banks; the bureaux de change rate; and the parallel market rate. The multiple rates and segmented market are a source of distortion.

Pressure on the foreign exchange market eased in 2004 as a result of increased oil revenue and prudent fiscal policies. The naira appreciated in all segments of the market during the first half of the year and remained relatively stable thereafter reversing the depreciation

trend since 2000. High oil prices also enabled an increase in gross international reserves to \$13.27 billion at end-September 2004 from \$7.46 billion at end-2003 and, according to the CBN, the reserve position is expected to reveal a further increase at end-December 2004. The foreign exchange reserve at end-2004 was enough to finance nine months of imports of goods and services, up from the six months coverage registered at end-2003.

### External Position

Nigeria's government has opted for trade liberalisation and regional integration with the Economic Community of West African States (ECOWAS)<sup>1</sup>, of which Nigeria is the dominant member. The ECOWAS ambitious agenda involves the creation of a customs union and partial economic union, with common trade and competition policies, a common currency under the West African Monetary Zone (WAMZ) protocol and the removal of all non-tariff barriers to trade. In practice, however, ECOWAS has made little progress to date in achieving these objectives, and Nigeria's trade barriers are frequently criticised for not being fully in conformity with WTO obligations. Nigeria continues to avail itself of tariffs and non-tariff barriers in a highly non-transparent manner, with import tariffs varying from 0 per cent to 100 per cent and some imports completely banned.

The favourable developments in the international

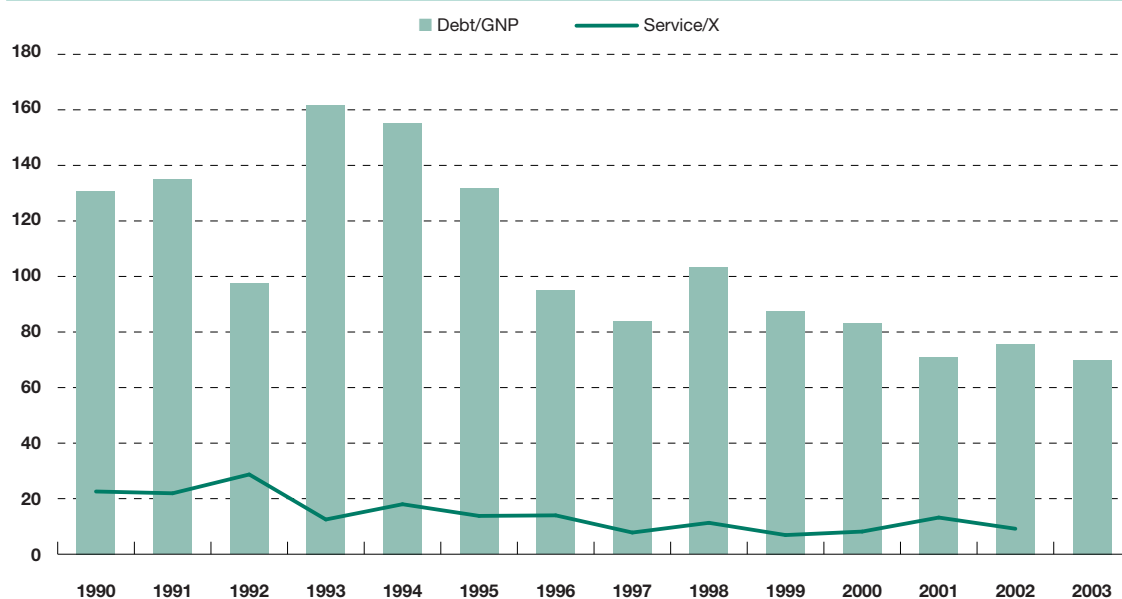
**Table 3 - Current Account** (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(e)	2006(p)
Trade balance	20.4	16.9	9.3	18.1	22.6	25.0	22.3
Exports of goods (f.o.b.)	46.3	40.8	37.8	47.0	49.5	50.5	47.6
Imports of goods (f.o.b.)	-25.8	-23.9	-28.6	-29.0	-26.9	-25.5	-25.3
Services	-9.5	-8.2	-9.6	-9.3			
Factor income	-7.5	-8.9	-13.7	-14.5			
Current transfers	2.5	2.7	3.0	2.8			
<b>Current account balance</b>	<b>-4.5</b>	<b>2.6</b>	<b>-10.9</b>	<b>-2.7</b>			

**Source:** Domestic authorities' and IMF data; estimates (e) and projections (p) based on authors' calculations.

<sup>1</sup> The member countries of the Economic Community of West African States (ECOWAS) are Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.

**Figure 5 - Stock of Total External Debt** (percentage of GNP)  
**and Debt Service** (percentage of exports)



Source: World Bank.

oil market in 2004 led to a remarkable improvement in the trade account. The trade surplus rose to 22.6 per cent of GDP in 2004 owing to continued high oil prices and a sharp reduction in imports as a share of GDP. Nigeria's exports consist overwhelmingly of crude oil (97 per cent of total exports in 2004). Nigeria's oil imports – of mainly refined petroleum products – increased in 2004 as a result of the deregulation of the downstream oil and gas sector which increased the tempo of activities in the sector.

Nigeria's total external debt and debt-servicing burden continued to rise in 2003 and stabilised in 2004. The total external debt stock rose to an estimated \$32.9 billion at end-2003 from about \$30.9 billion at end-2002 of which about 70 per cent is owed to Paris Club creditors from whom Nigeria is seeking a mix of debt relief and rescheduling.

## Structural Issues

As stipulated by NEEDS, the government is aiming to restructure and liberalise the economy to attract foreign investments and spur the domestic private sector. The private sector is characterised by low

productivity, inability to compete with imports, lack of diversification and an unfavourable business environment. Although Nigeria's recent move towards democracy and the accompanying liberalisation policies have set the stage for making the private sector the engine of growth, a daunting set of constraints remain: infrastructural deficiencies, pervasive insecurity, corruption and rent seeking, low access and high cost of finance, weak institutions, ill-defined property rights and enforcement of contracts, and the unstable macroeconomic environment.

Small and medium enterprises (SMEs) play a major role in the Nigeria's economy, but suffer from the above-noted constraints. Currently, about 95 per cent of the firms in the organised manufacturing sector are SMEs, accounting for about 70 per cent of industrial employment but only about 10-15 per cent of total manufacturing output.

Over the years, the government has introduced numerous financial-assistance schemes for SMEs. The Nigerian government's efforts to assist SMEs began with the Industrial Developmental Bank Ltd (NIDB) in 1962 and have continued with the creation of several other institutions such as the Nigerian Bank for



Commerce and Industry (NBCI). Moreover, until recently the government required commercial and merchant banks in the country to allocate a stipulated minimum of credit to preferred sectors including the SMEs. The Rural Banking Scheme, another major initiative started in 1977, focused more specifically on increasing credit to the agricultural sector and rural SMEs. The National Economic Reconstruction Fund (NERFUND) was set up to assist SMEs in adjusting to the Structural Adjustment Programme (SAP). The NERFUND provided relatively long-term loans (5–10 years) to SMEs at concessional rates of interest. Between 1990 and 1998, NERFUND disbursed \$144.9 million (Foreign Exchange Component) and N681.5 million (Naira Component) to support 218 projects. Moreover, the government obtained a World Bank Assisted SME II Loan Project to complement other sources of funding for SMEs. This facility involved credit lines of \$270 million, to be made available to SMEs through eligible participating banks. In addition, the government established a community banking scheme in 1991 with the objective of promoting rural development.

These numerous measures yielded limited success for a variety of reasons. These include the failure to remedy other deficiencies in the business environment, most notably inadequate infrastructure and pervasive corruption, with the latter connected to abuse of the various programmes by both the beneficiaries and the agencies involved. Many of the schemes were inadequately equipped and funded. Also, many of the schemes were unsuccessful because of the dearth of executive capacity to appraise, supervise and monitor projects. As a result of all this, many unviable projects were funded, leading to massive loan defaults and termination of the projects.

Recently, the government has developed new initiatives. In addition to the SMIEIS (see Box), the Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB) — an amalgam of the former Peoples Bank of Nigeria, Nigerian Agricultural and Cooperative Bank and the Family Economic Advancement Programme (FEAP) — was set up in 2000, primarily to finance agriculture as well as small

and medium enterprises. The bank offers a number of financial products and specialised loan facilities for start-ups and smallholders. Similarly, the Bank of Industry, which is an amalgam of the former Nigerian Industrial Development Bank, the Nigerian Bank for Commerce and Industry, and the National Economic Reconstruction Fund (NERFUND), was set up in 2000 with the principal objective of providing credit to the industrial sector, including the small and medium-scale enterprises. Also, in 2002 the government introduced the Refinancing Facility (RF) at concessional interest rates to support medium- to long-term bank lending. The RF is designed to provide temporary relief to banks which face liquidity problems as a result of having committed their resources to long-term financing to the specified productive sectors. The sectors include agricultural production, semi manufacturing and manufacturing, solid minerals and information technology. Under the facility, banks shall have access up to 60 per cent of qualifying loans. Qualifying loans must have been held for not less than one year.

Although these attempts at finding solutions to the problems of credit delivery to the SMEs have achieved some successes, there still exists a huge financing gap. The limited effectiveness of these promotion schemes shows that creating institutions and schemes to provide credit is insufficient when the overall business climate remains hostile. In the case of Nigeria, the main obstacles include insecurity, corruption, and inadequate infrastructure.

The government has pursued reform of the public sector, including privatisation, albeit at a very slow pace. In 2004, the government streamlined several agencies, eliminating redundant functions. The government also initiated work to develop performance indicators in the key ministries to strengthen accountability and improve service delivery. A major reform measure introduced in 2004 was the introduction of a new contributory pension system. The privatisation process has been particularly slow, though some significant gains have been made recently, especially in the telecommunications sector. The government implemented the second and third phases of its privatisation programme between 2001 and 2004, with

### SMIEIS – An Innovation in Bank Financing of SMEs in Nigeria

The concept of the *Small and Medium Industries Equity Investment Scheme* (SMIEIS) in Nigeria was the initiative of the Central Bank of Nigeria with the voluntary support and efforts of the Bankers' Committee. The Scheme requires that all banks in Nigeria set aside 10 per cent of their profit before tax annually for equity investments in small and medium enterprises. This arrangement eliminates the burden of interest and other charges associated with normal bank lending. The Scheme is therefore an innovative way of financing the real sector and it has a considerable developmental potential.

*Objectives of the Scheme*, among others, include facilitating the flow of funds for the establishment of new small and medium enterprises and the reactivation, expansion or restructuring of on-going projects; stimulating economic growth; development of local technology; generating employment; and management and stimulation of corporate governance in the SMEs. At the firm level, the scheme affords the SMEs, among others:

- access to long-term funding;
- access to other critical resources that follow “the money”;
- disciplined approach to business and management;
- improved relationship and access to banks;
- opportunity to become part of the formal sector.

The range of activities in respect of which SMIEIS funds are applied are those in the real sector of the economy including information technology and telecommunications; manufacturing; educational establishments; services; tourism and leisure; solid minerals; and construction. The Scheme employs an innovative mechanism to ensure effectiveness through a programme in which the banks identify, guide and nurture enterprises that are financed under the scheme.

*Management of SMIEIS funds* requires participating banks to operate the scheme directly or through their wholly-owned subsidiary companies or through venture capital companies floated by the banks. Under the Scheme, funds invested by participating banks are in the form equity investment in eligible industries. Equity investments under the scheme may be in the form of fresh injection and/or conversion of existing debts owed to participating banks into equities.

*Performance of the Scheme* so far indicates that as at 31 July 2003 about N18.6 billion has been set aside by banks. However, only N4.6 billion has been actually invested in eligible companies. The slow pace of investment and the likelihood of further accumulation of un-invested funds, require that the operators take steps to give the Scheme a fresh impetus so that the present low investment can be overcome, thereby accelerating the implementation of the scheme.

The following points highlight some of the factors that need attention: *i) Ignorance*: many of the promoters of SMEs demonstrate outright ignorance on the difference between loans and equity. This may require the banks to embark on public enlightenment campaigns in order to become more visible. The banks may also need to carry out enlightenment of the Scheme to their staff in the operations units and branches. *ii) Wrong perception about the Scheme*: Some potential SME entrepreneurs see the Scheme as yet another loan scheme and a “National Cake” to be shared. As a result initial business proposals prepared by the entrepreneurs were in several cases bloated to attract investment. *iii) Fear of Loss of Control*: Some of the small and medium enterprises shy away from equity participation by banks in their businesses for fear of losing control of their businesses to the banks. This may be the result of inadequate information about the Scheme. *iv) Poor Management Structure*: In most instances, formal management structures are usually not in place in the SMEs.

very slow progress. Nonetheless, the sale of government equity in cement, petroleum marketing and banking companies through open, competitive bidding marked progress towards transparency. The televised auction of digital mobile phone licenses was also hailed as one of the most transparent license auctions ever held in Nigeria. The government is pursuing its programme to unbundle the Nigerian Electricity and Power Authority (NEPA) which it expects to accomplish in 2005.

The banking system's financial soundness has been reinforced recently. In 2004, the government introduced a minimum risk-weighted capital adequacy ratio of 10 per cent which banks have apparently satisfied. Similarly most banks appeared to meet the minimum paid-up capital base requirement of naira 2 billion by end-2004. However, the persistence of the oligopolistic structure of the banking system represents a challenge to the authorities' goal of greater competition in the banking sector. In 2004 only 10 banks out of the 89 in operation accounted for nearly 60 per cent of total assets and total deposit liabilities and about 45 per cent of total credit.

## Political and Social Context

Nigeria's political situation appears to be stable following the elections in May 2003 which returned President Obasanjo and the People's Democratic Party to a second term in office. Although irregularities had been noted in some parts of the country in the conduct of the elections, and the opposition contested the outcome, the elections were viewed as generally free and fair by international observers. However, the fragility of Nigerian democracy is underscored by continuing ethnic and religious clashes. In May 2004, the government declared a six-month state of emergency in Plateau State in response to escalating violence. Though the various clashes have ethnic or religious dimensions, they also reflect struggles over land use and control of resources in an environment of widespread poverty and disillusionment.

Nigeria is consistently rated as one of the most corrupt countries in the world. However, the government

has recently developed new anti-corruption initiatives. In 2004, the government won legislative approval to revise the *Anti-Corruption Bill* and to tighten the *Economic and Financial Crimes Bill*. Further, in 2004, the government established the Independent Corrupt Practices and Other Related Crimes Commission (ICPC) as well as the Economic and Financial Crimes Commission (EFCC). The work of the ICPC and the EFCC has been complemented by reforms of the judiciary system and the police, focusing on recruiting and training more staff, providing more equipment and improving wages. However, the real test of the government's determination to reduce corruption will be the extent to which it prosecutes high-level offenders.

In spite of Nigeria's oil wealth, social indicators are among the lowest in the world, with a Human Development Index ranking of 152nd out of 175 countries in 2004. The government's own statistics indicate that the poverty rate has increased from an average of about 27 per cent in the 1980s to over 70 per cent in 2003. The NEEDS anti-poverty objectives involve *i*) increasing average per capita consumption by 2 per cent annually, and *ii*) creating about 7 million jobs over the 2004-2007 period. The government's actions, however, will need to be complemented by a lessening in political tension, and communal, ethnic and religious violence, which in the past has hampered efforts to alleviate poverty.

The government places particular emphasis on health and education, where outcomes have not improved significantly over the years despite large expenditures (5 per cent of GDP for health alone in 2003). The slow pace of rehabilitation of basic facilities and the numerous strikes in education and health sectors continue to hamper service delivery.

The current life expectancy is 54 years and infant and maternal mortality rates remain high at 77 and 7 per 1 000 births, respectively. There are fewer than 30 doctors per 100 000 citizens and the proportion of children fully immunised against the five most lethal diseases has dropped from 30 per cent in 1990 to 17 per cent in 2003. Nigeria also has a growing HIV/AIDS problem. The HIV infection rate rose from

4.5 per cent in 1995 to 6 per cent in 2003. The 4 million infected Nigerians represent more than 10 per cent of all infected Africans, or over 8 per cent of the global total.

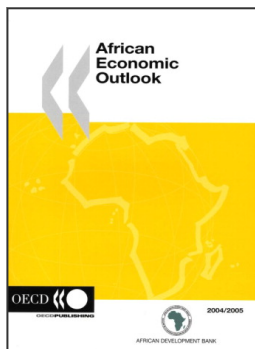
The government has recognised the magnitude of the HIV/AIDS menace and is pursuing treatment initiatives that are novel in Africa. Under the programme, started in 2003, the government is distributing generic anti-retroviral drugs at less than 10 per cent of the cost of brand name drugs or less than one US dollar per day. In addition, the government is continuing to emphasise prevention and plans to introduce a new National Health Policy applicable to all three tiers of government.

The government continues to prioritise free Universal Basic Education (UBE) for all pupils at the

primary and junior secondary school level. In addition, NEEDS focuses on reviewing curricula with a view towards incorporating vocational and entrepreneurial training and information and communications technology. While increased spending on education has enabled rehabilitation of schools and contributed to improvements in enrolment in primary and secondary schools, there is no progress in female primary school enrolment which at the current level of less than 50 per cent has shown no change for nearly a decade. Similarly, no improvement has been registered in the adult illiteracy rate which at 43 per cent in 2004 has remained unchanged for about a decade. As a result of UBE, the education system now faces the challenge of finding places for over 6 million students who will become eligible for university education in 2010, compared to the current capacity for fresh admissions to Nigeria's existing 53 universities of about 166 000.

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