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COUNTRY INDUSTRIAL DEVELOPMENT PROFILE OF
THE FEDERAL REPUBLIC OF NIGERIA^{*/}

Prepared by the
International Centre for Industrial Studies

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PREFACE

The International Centre for Industrial Studies, Regional and Country Studies Section, has undertaken, under its 1978-79 work programme, the preparation of a series of Country Industrial Development Profiles. These profiles are desk studies, providing statistical and economic analyses of the industry sector, its growth, present status and future prospects. It is hoped that the profiles will provide analyses of use to programming technical assistance, industrial redeployment and investment co-operation activities.

This profile on Nigeria is based on documents, reports and studies available at UNIDO headquarters. No field survey has been undertaken and some of the data on industry are not up to date.

The views or comments contained in this document do not reflect those of the Government of Nigeria nor do they officially commit the United Nations Industrial Development Organization to any particular course of action.

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SUMMARY

The Federal Republic of Nigeria, located on the West Coast of Africa, is richly endowed with natural resources which provide the country with a promising potential for diversified industrial development. During the 1970s the general development of the Nigerian economy can be characterized by a rapid growth of GDP based primarily on oil revenues. At the same time the Nigerian economy is more and more influenced by the growth of the domestic industrial sector, which enables the country to gradually change its pattern of economic development.

Although the Nigerian industrial and in particular its manufacturing sector does not play a leading role in the country's economy (as is the case in many developing countries), the industrial sector has revealed a steady trend to grow during this decade. One of the factors which contributes to this growth is a gradual diversification of Nigerian manufacturing industry based on a shift of emphasis from the processing of such primary products as groundnuts, palm products, timber, sugar and cotton to the production of more sophisticated ones including motor vehicles, equipment, petroleum products, tyres and plastics, cement and steel.

The fact that the country has already entered the initial stages of engineering industries gives an idea of the broad prospects for growth in the manufacturing sector. The Government of Nigeria fully realizes this and is at pains to promote the development of industries which did not exist in the country at the beginning of this decade. The Government's efforts have already resulted in a substantial increase of the public sector (both in the whole economy and in the manufacturing sector in particular) and in establishing an institutional infrastructure to promote rapid industrialization. In accordance with the main objectives of the Third National Development Plan the Government has also elaborated a realistic strategy of industrialization which is being carried out through a number of measures, including those related to the indigenisation of industry.

In its efforts to accelerate industrial development in Nigeria, the Government does not underestimate the role which is played by external assistance to the country's manufacturing sector. At the present time it is provided through both bilateral and multilateral channels. Practically all industrially developed countries participate in bilateral assistance to Nigeria, and multilateral assistance is provided mainly through United Nations organizations and agencies. In this connexion an important role is played by UNIDO, which provides technical assistance to industrial development projects within the framework of the UNDP Country Programme for Nigeria. As a whole, assistance provided by UNIDO is well geared to the needs of industrial development of Nigeria, although its scope can be widened, especially if more attention is paid to the most promising sectors of Nigerian industry.

CHAPTER I: THE GENERAL ECONOMIC BACKGROUND

The Federal Republic of Nigeria is located on the west coast of the African continent and occupies an area of 9,238,000 square kilometers. With its population of 79.8 million (1973 provisional census) the country is the most populous in Africa.

Since the end of the Civil War (1968-70) Nigeria has been governed by the Federal Military Government, which exercises its control over 19 federal states.

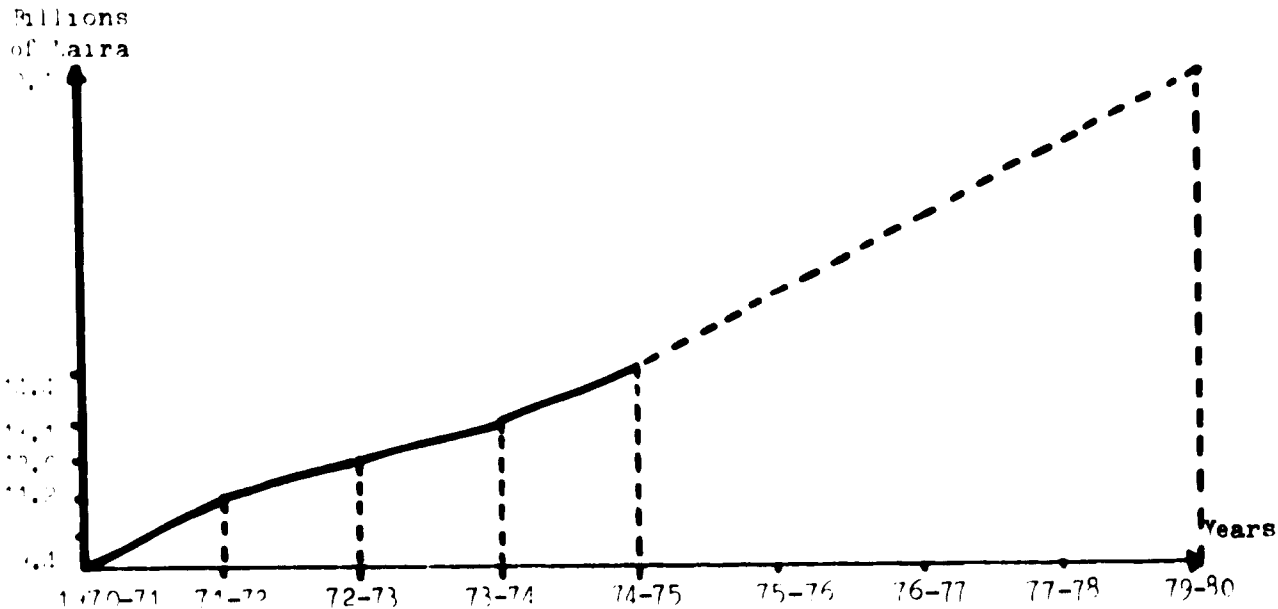
The country is richly endowed with natural resources, which provide Nigeria with a promising potential for long-term industrial development. Among them petroleum occupies a dominant position, since during the 1970s it has become the major source of Nigeria's wealth. In addition, the country's principal mineral resources include tin, columbite, iron ore, coal limestone, lead and zinc. The existence of coal, iron ore and limestone has created the opportunity to establish the national metallurgical industry.

An important potential for the development of agro-based and wood-processing industries are agriculture and forestry. Because of a wide range of climatic variations, nearly every product of tropical agriculture can be cultivated and more than 100 usable tree species can serve as a source of industrial wood.

The Niger-Benue River System bisecting the central part of the country along the east-west axis can provide the country with a sufficient amount of hydro-electrical energy (for instance Kainji Dam on the Niger River).

The development of Nigerian economy in the mid-1970s can be characterised as a gradual transition from a peasant agricultural economy to a semi-industrial one. Over a period of several years from 1970, Nigeria experienced a rapid economic growth, which is demonstrated by the following chart:

Chart I^{1/}
Increase in Nigerian GDP
Over the Period 1970-75 and Projected for 1976/80
(constant 1974-75 prices)



During the same period, GDP growth rates were 18.4 per cent (1971-72), 7.3 per cent (1972-73), 9.5 per cent (1973-74) and 9.7 per cent (1974-75).^{2/} Although for the period 1975-76 the GDP growth rate was 7.2 per cent, projections made in the Third National Development Plan predict that up to the end of the 1980s annual growth rates will be 8.5 per cent (1976-77), 4.8 per cent (1977-78), 10.6 per cent (1978-79) and 11.5 per cent (1979-80).

Economic growth in Nigeria since 1970 can be divided into two phases: the first, lasting until the end of 1972, being a period of economic rehabilitation and recovery as the economy responded quickly to the pent-up demand of the war period, while investment and production, which had been postponed during the hostilities, were rapidly realised; and the second, following a year of consolidation and slower growth in 1972, characterised by a resumption of growth, generated mainly by activities in the public sector. Because excess capacity was no longer available, economic growth during this better period came to be accompanied increasingly by inflation, shortages of supply and congestion of infrastructural facilities.

^{1/} Based on information contained in No.11, p.5 and No.5, p.12.

^{2/} See No.11, p.5.

These factors, coupled with severe droughts in 1972 and 1973, have aggravated the performance of the productive sectors of the Nigerian economy. Serious drought conditions in the northern part of the country led to sharp decreases in agricultural output during 1972 and 1973. Although output of some crops has significantly recovered, agricultural growth continued to be impeded by the low level of technology, declining productivity of existing farms and substantive migration of the labour force to urban centres. The growth of crude oil output moderated considerably after 1972, and private industries in recent years have suffered from eroding competition, sharply increased costs and shortages of raw materials, parts and equipment.

The economy as a whole, however, continued a rapid rate of growth because of the phenomenal growth of the service sectors, particularly government services. Led by these sectors, GDP in real terms increased at an average rate of 6.5 per cent per annum from 1972 to 1975, with the non-oil sectors maintaining a steady growth of 6-9 per cent per annum. Benefiting from a substantial improvement in the terms of trade during 1973 and 1974, the growth of real purchasing power of the economy has been even faster. Investment expenditure in the economy rose by an average annual rate of 11 per cent. Private consumption, although decreasing relatively from 80 per cent of GDP in 1970 to 59 in 1975, still rose by an average of 5.4 per cent per year, thus involving an increase of per capita consumption of some 3 per cent annually in real terms.^{1/}

The most remarkable, and for the long term most encouraging aspect of recent developments has been the expansion of public sector investment. Starting from a low base in 1970-71, public capital expenditure has expanded rapidly and, by 1974-75 had quadrupled in real terms. Expansion has been concentrated in traditional areas such as transport, communication, power and administration; investment in the social and directly productive sectors, particularly agriculture, remained unsatisfactory. Private investment, which led the initial post-war recovery, appears to have levelled off in recent years.

^{1/} See No.8, p.6.

Over the past few years, Nigeria's economic development has been increasingly dominated by the oil sector which by 1974 accounted for 41 per cent of GDP, 43 per cent of export earnings and 82 per cent of total Government revenues, surpassing the agricultural sector in all measures of relative importance except employment, on which the oil sector's impact remained virtually negligible. A sharp rise in crude oil prices during the second half of 1973 led to unprecedented liquidity in the economy in 1974, when the balance of payments amounted to over N 5,000 million, external reserves rose to the equivalent (at that time) of two years of imports, and the Federal Military Government generated an overall budget surplus equivalent to 9 per cent of GDP. But after reaching a peak of 2.3 million barrels/day in June 1974, oil output began to fall, reaching a low of about 1.5 million barrels/day by May 1975,^{1/} the lowest level in four years. This sharp drop was attributable first to surplus supply conditions in world markets caused by the international economic recession and the higher price of oil, and second to the Government's policy to limit oil output to a level more consistent with both the short- and long-term interests of the industry and the economy as a whole.

Although production recovered significantly during the second half of the year, average crude oil output for 1975 remained some 20 per cent below that of 1974. Largely for this reason Nigeria's export earnings declined by 17 per cent in 1975. Imports, on the other hand, were 120 per cent higher, reflecting the sharp rise in domestic expenditures and higher prices caused by international inflation as well as congested transport facilities. As a result, the country's balance of payments surplus in 1975 dropped to less than N 200 million; in fact, the level of external reserves has been declining during the first few months of 1976.

The Government's financial accounts were similarly affected by these adverse developments and in 1975-76 the substantial budget surplus of the previous year had largely disappeared. The Government, therefore, has become less optimistic about its fiscal prospects and is attempting to moderate the growth of public expenditures. In the federal budget for 1976-77, total initial allocations amounted to N 10.7 billion, including N 2.9 billion for recurrent and N 7.8 billion for capital expenditure, but the Government

^{1/} See No.8, p.5.

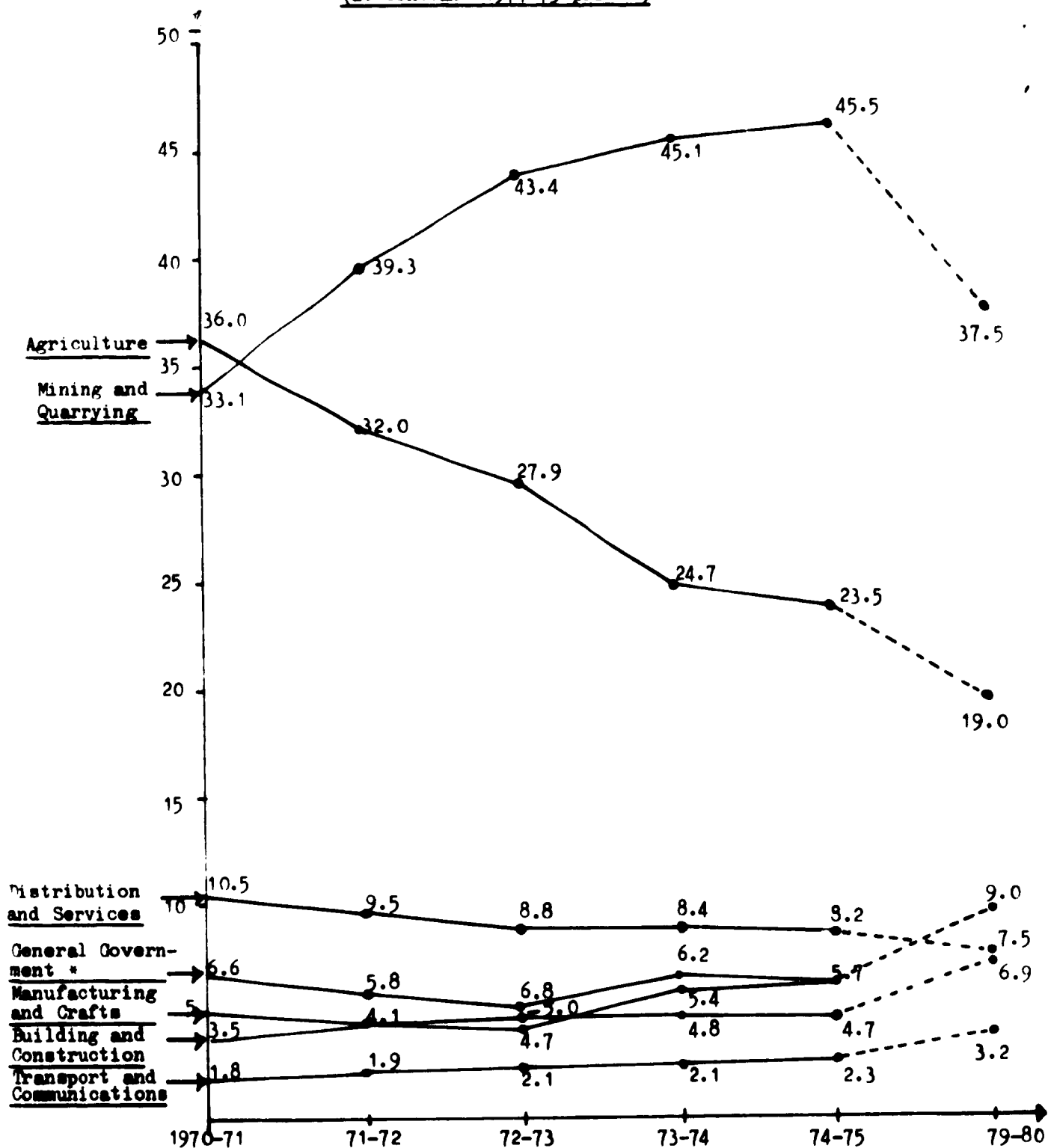
announced at the same time its intention to limit actual expenditure on both recurrent and capital accounts to N 5.5 billion, about half the initial allocations. In the 1978-79 budget the total amount of investment allocations was fixed at N 6.7 billion, but of this amount only 5.2 billion was approved by the Government.^{1/} Fiscal and monetary policies announced in connexion with the 1978-79 budget continue to be aimed primarily at reducing the rapid rate of inflation in the country, particularly in urban areas where the consumer price index rose by some 43 per cent during the previous period, thus widening the gap between effective demand and supply. In addition, inflationary pressure has been intensified by disruptions in food production caused by drought, congestion at the ports which has limited and delayed imports; higher prices of imported goods arising from inflation in the exporting countries as well as increased freight rates and surcharges arising from port congestion; rapid expansion in money supply and credit to the private sector; and very substantial wage increases in 1975-77.

In general, the Nigerian economy has clearly experienced some strain during the last three years, and recent developments, particularly in 1975, have demonstrated its vulnerability to fluctuations in the international oil market. However, given the very rapid increase in economic activities in such a short time, much of the current strain in the economy was to be expected and to a large extent was inevitable. In present circumstances, the public expenditure may well prove to be beneficial in the long run. These recent developments have certainly not diminished in any way the basic growth potential of the country and the economy's long-term prospects should remain largely unaffected. Nevertheless, it is now even more apparent than before that the absence of financial constraints in the country will be short lived and that the economy's long-term prospects depend strongly upon the efficient and prudent use of resources during this period of excess liquidity. The crucial issue in Nigeria today is therefore not when resource deficits will re-emerge, but whether the public sector will be able within the next five to ten years to establish the necessary base for self-sustaining growth in the future.

A rapid, although contradictory, economic growth caused certain changes in the structure of the Nigerian gross domestic product, which can be seen in Chart II.

^{1/} See No. 8, p. ii.

Chart II 1/
Percentage Distribution of Nigerian GDP
(at constant 1974-75 prices)



* General government includes electricity and water.

1/ Based on information contained in No. 11, p.6 and in No.5, p.13.

CHAPTER II: THE PECULARITIES OF THE MANUFACTURING SECTOR

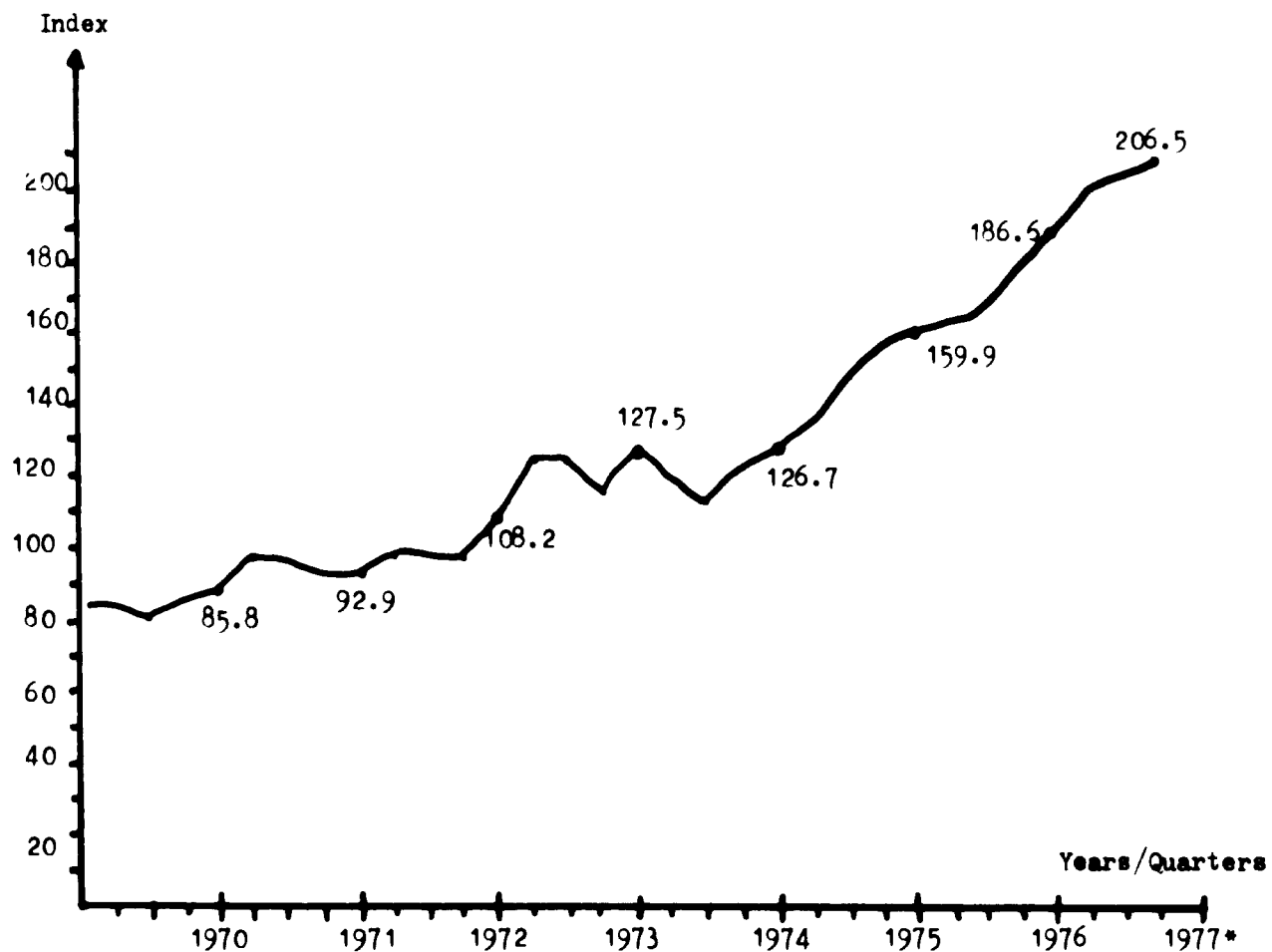
1. Role and performance of the manufacturing sector

Chart II demonstrates that as in many developing countries the Nigerian manufacturing sector does not play a leading role in the country's economy, although in general it is one of the dynamic sectors of the economy. According to Chart II, the manufacturing sector reveals a steady trend to grow during the remaining years of the current five-year plan period. By the end of this period (i.e. in 1980), manufacturing will account for 6.9 per cent of Nigerian GDP and will be rated fifth after agriculture, mining, construction and services.

During the early 1960s and through the civil war important restrictions led to the rapid growth of manufacturing industries in Nigeria, in particular in import-substituting industries. Industry responded quickly to the surge in intermediate and consumer demands and from 1970 to 1973 output rose by over 10 per cent per annum. In recent years, however, an increasing number of problems have restrained the further growth of the sector. The relaxation of import restrictions, reductions of duties and appreciation of the domestic currency against most major currencies during the last few years have combined significantly to erode the domestic industries' competitive position vis-à-vis imports. On the other hand, domestic costs have increased substantially, especially following the very large general wage increase in early 1974. Industrial unrest in 1974-75 also caused shortages of raw materials, capital equipment and spare parts. Moreover, many of the traditional low-technology industries based on import substitution which had hitherto been the growth industries in the country have now reached the limit of their domestic market potential and further growth would have been difficult in any event. For these reasons, industrial output stagnated in 1973-74.

According to preliminary data for 1976, industrial growth resumed that year, but it was attributable to a large extent to the projects where public sector participated, such as the vehicle assembly plants. The curve in Chart III, based on quarterly indexes of manufacturing production in 1970-77, demonstrates the pattern of growth in Nigerian manufacturing industry.

Chart III ^{1/}
Growth of Industrial Output in Manufacturing
in 1970-1977 (1972 = 100)



*1977 provisional

The chart shows that in spite of the fluctuations experienced by the Nigerian industry during the period of 1973-74, its growth in 1975-77 accelerated even with the higher rates over 1970-73.

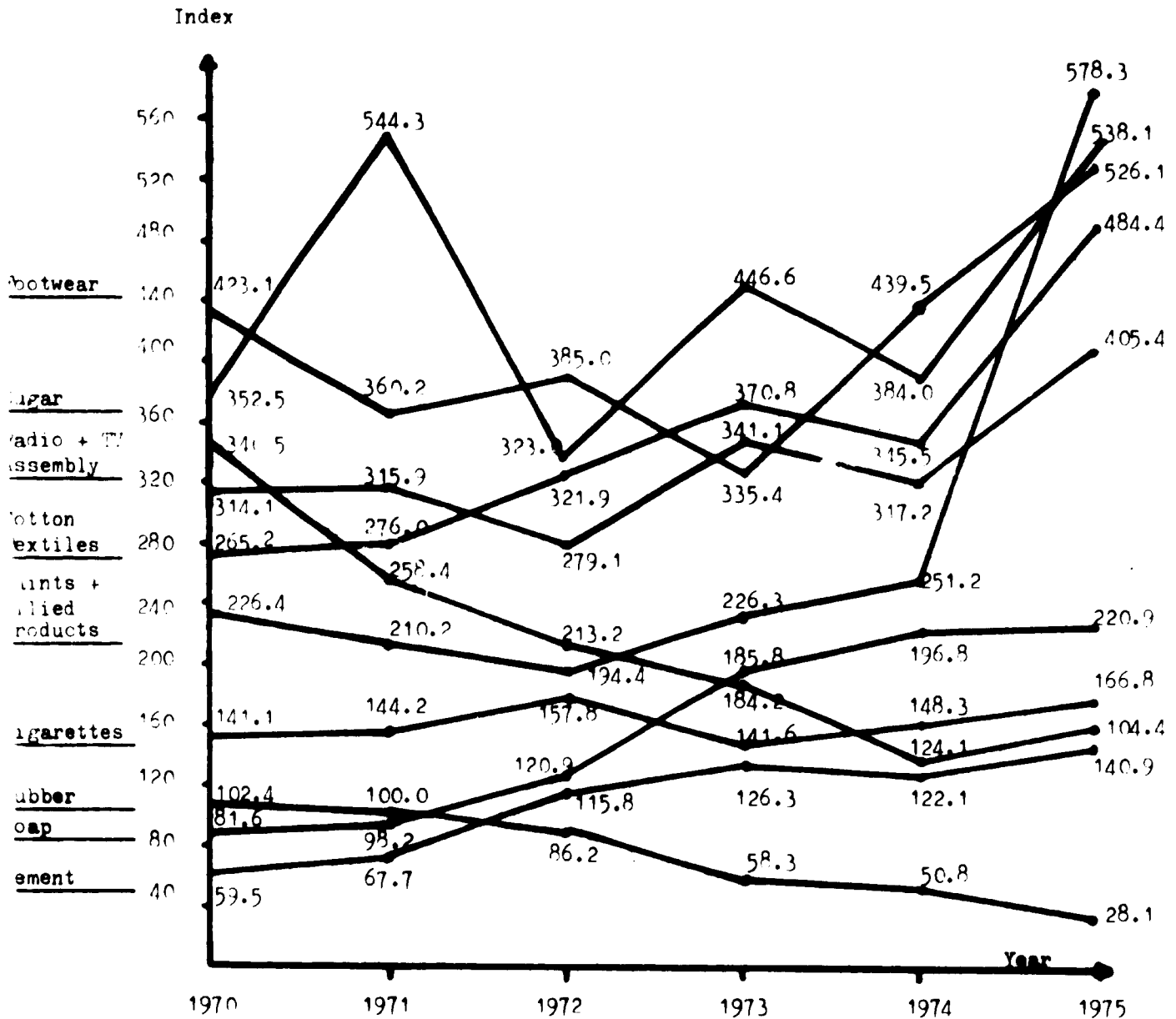
^{1/} Based on information contained in No.4, Appendix, p.54.

The accelerated performance of Nigerian manufacturing industry is mainly connected with the fact that in recent years there has been a shift of emphasis from the processing of such primary products as ground nuts, palm products, timber, sugar and cotton to the production of a range of more sophisticated ones. These include motor vehicle assembly, the production of pharmaceuticals, tyres, glass and plastics, and the large-scale manufacture of cement and textiles. Instead of concentrating on import-substituting industries (with an emphasis on light industries), the Nigerian economy is gradually turning to industrial production of a more export-oriented nature with an emphasis on manufacturing industries such as iron and steel, petroleum processing (including production of plastics), machine-building industries and equipment.

This can be well illustrated by the comparison of the industrial production indexes of some manufactured goods during the period of 1970-1976. As Chart IV shows, the industries producing vehicle parts, detergents, soap, paints and allied chemical products, textiles, footwear, sugar, etc. experienced a very fast growth during the period under consideration.

Chart IV^{1/}

Index of Production of Selected Manufactured Items



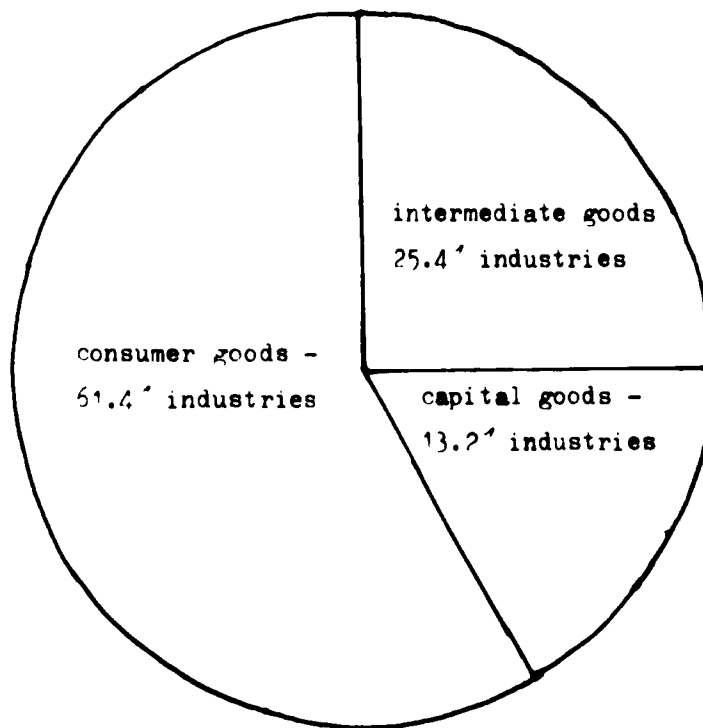
^{1/} Based on information contained in No.8, Appendix, Table 26.

2. Main industrial branches and the problems of structural diversification in manufacturing

The role played by the manufacturing sector in the Nigerian economy underscores the fact that this sector has a large diversification potential considering the country's present level of development, its size and overall resources. This was clearly indicated in the Third National Development Plan, where mention was made that Nigeria's existing manufacturing sector should include more capital goods industries as well as export-oriented ones.

In terms of the relative shares of various industrial groups to total manufacturing value added, the present structure may be characterized as predominantly light manufactures, mostly assembly-type operations with low technology input. This is shown by the following percentage shares of various industry groups (consumer, intermediate and capital goods industries) to the total value added in Nigerian manufacturing.

Diagram 1^{1/}
Aggregated Structure of the Manufacturing Sector
by Value Added



^{1/} Based on information contained in No.1, Vol.I, p.148.

As expected with the country's oil and coal resources, the products of oil and coal contribute a large share to value added. However, the initial stages of engineering industries, the very nominal share of intermediate goods manufactured and the absence of certain industries such as fruit canning and preserving, travel goods, machinery and equipment (except electrical and mechanical industries), transport equipment, motor body and shipbuilding and repairs, manufacture of watches, clocks, etc. gives an idea of large diversification opportunities in the industrial sector. Basic industrial chemicals, fertilizers and pesticides contribute only 0.4 per cent, while soaps, perfumes, cosmetics and other cleaning preparations contribute 5.4 per cent plus 0.9 per cent from other chemical products. Although the share of capital goods is 13.2 per cent in total manufacturing value added, the overwhelming part of industrial output under this item consists of simple metal products, general hardware and tools. What might be called true engineering - agricultural and industrial machinery, electrical appliances and transport equipment - accounted in 1976 for only 2.3 per cent of manufacturing value added.^{1/}

The federal military Government fully realises the fact that the absence of a capital goods industry is one of the most significant indicators of under-development, as well as the fact that a solution to the problem of structural diversification in the manufacturing sector can be found only on the way of developing heavy industries. The basic implication for this is that the capital goods industry, by its direct action and by the indirect measures needed for its environment, is a motive force behind development. It creates the conditions not only for the exploitation of the industrial system, but also for its self-reproduction.

In other words, the establishment of a capital goods industry is one of the essential conditions for avoiding pseudo-transfers of technology - that is to say their use without their assimilation. Because it involves the domination of a large range of technologies, the capital goods industry and the engineering infrastructure associated with it make it possible to escape from a mimetic mode of transfer and so open the way for the creation of local capacity for innovation.

^{1/} See No.5, p. 28.

The essential condition for the realisation of "appropriate technologies" is the establishment of the growing points for a capital goods industry and of research and development capacities. In this connexion the Federal Government has made significant efforts to establish a number of facilities producing sophisticated engineering products. Within the framework of the 1975-80 Five-Year Plan, allocations were made and formal agreements were signed with Fiat-Daimler-Benz and British Leyland for the establishment of three more assembly plants in addition to existing ones (Peugeot Automobile in Kaduna and Volkswagen Werke near Lagos). A time schedule for the progressive incorporation in vehicles of Nigerian-made parts is reported to have been agreed with the respective companies. Domestically produced parts are expected to form 15 per cent of the total factory cost of the vehicles by the third year of operation.^{1/} In addition to existing facilities the UAC has opened a tractor and caterpillar plant in Lagos State, and three other plants for heavy vehicles have started their operations; four others are planned for 1978-79. The first results, however moderate they are in physical terms, look impressive: the vehicle assembly showed a major increase of 148 per cent between the fourth quarters of 1975 and 1976.^{2/} To support the development of domestic engineering industries the Federal Government signed an agreement with the Soviet Union to construct the Ajaokuta iron and steel complex and with the consortium of Western steel companies to construct the Warri direct reduction steel plant.

Serious efforts made by Nigeria to diversify its manufacturing sector are already reflected in the fact that the country is mentioned in the UNIDO study on capital goods industry as one of only two African countries where capital goods industries have reached a certain level.*

In spite of a rapid increase in recent years, the Nigerian manufacturing sector still bears the characteristics of under-development in terms of the relationship of industrial cost and output, raw materials and capital to value added, import to output and value added. Although the information contained in Table I relates mainly to 1971-72, the overall picture has not changed significantly since that time. As shown in

* i.e., the share of workers employed in capital goods industries reached 12.1 per cent of total number of employees in manufacturing sector.

^{1/} See No. 21, p. 261.

^{2/} See No. 15, Issue II for 1977, p. 12.

the table, the percentage of raw material input which is imported for many groups (manufacture of carpets and rugs, 100 per cent; grain mill products 99.75 per cent; pottery products 92.1 per cent; knitted goods 91.35 per cent; basic industrial chemicals 87.3 per cent; make-up textile goods (except wearing apparel) 79.65 per cent; glass products 66.35 per cent; etc.) is still very high.

Value added per labour is highest in capital-intensive industries such as products of petroleum and coal (N 91,172), spirit distillery (N 23,370), beer brewing (N 17,510), spinning, weaving and finishing textiles (N 10,412), basic industrial chemicals (N 9,288), soft drinks (N 8,053), and paints (N 6,291).

Table I 1/
Average of Input Co-efficients for 1971 and 1972

<i>Industry Group</i>	<i>Industrial Cost/Output</i>	<i>Raw Material Import/Value Added</i>	<i>Import/Output</i>	<i>Capital/Value Added</i>	<i>Value Added/Labour N</i>	<i>Imported Raw Material/Total Raw Material</i>
Meat Products	0.623	0.335	0.089	0.724	3,460	27.90
Dairy Products	0.565	0.355	0.138	0.908	4,931	40.85
Fruit Canning and Preserving	0.337	0.01	0.006	6.205	547	1.50
Vegetable Oil Milling	2.062	—	—	1.204	1,764	—
Grain Mill Products	0.702	2.255	0.674	1.384	6,810	99.75
Bakery Products	0.687	0.525	0.046	2.009	640	8.60
Sugar Factory	0.54	0.16	0.067	2.495	1,808	13.0
Sugar and Chocolate Confectionery	0.724	0.43	0.101	1.944	2,678	14.25
Miscellaneous Food Preparation	0.464	1.58	0.180	1.618	3,096	60.35
Animal Feeds	0.758	0.975	0.425	0.923	4,346	35.70
Spirit Distillery	0.301	—	—	0.340	23,370	0.10
Beer Brewing	0.243	0.14	0.108	1.151	17,510	46.0
Soft Drinks	0.204	0.245	0.157	0.800	8,053	45.55
Tobacco	0.264	0.02	0.016	0.286	10,412	7.40
Spinning Weaving and Finishing Textiles	1.059	0.355	0.319	1.684	1,958	29.60
Make up Textile goods (except Wearing Apparel)	0.702	1.375	0.499	1.600	1,691	79.65
Wearing Apparel	0.716	1.20	0.399	2.499	1,991	51.0
Knitted goods	0.703	2.34	0.634	1.828	1,040	91.35
Tanning	0.719	0.395	0.119	0.771	2,096	20.20
Travel goods	0.951	9.320	0.450	7.439	536	50.85
Leather Footwear	0.693	0.100	0.042	1.167	1,421	0.03
Manufacture of carpets and rugs	0.424	0.66	0.378	0.598	2,831	100.0
Sawmilling	0.465	0.020	0.010	0.694	993	1.60
Wooden Furniture and Fixtures	0.688	0.265	0.133	1.069	704	23.75
Paper Containers, paper boxes and paper board	0.665	1.490	0.379	1.032	2,264	44.95
Paper and other Paper Products	0.645	—	—	2.264	175	—
Printing	0.607	0.190	0.106	1.121	1,749	26.75

1/ See No. 1, Vol. I, p. 151.

Table I (cont.)

AVERAGE OF INPUT CO-EFFICIENTS FOR 1971 AND 1972

Industry Group	Industrial Cost/Output	Raw Material Import/Value Added	Import/Output	Capital/Value Added	Value Added/Labour ₹	Imported Raw Material/Total Raw Material
Basic Industrial Chemicals	0.560	0.110	0.030	0.714	9,288	87.30
Fertilisers and Pesticides		9.320	0.367	38.166	39	43.50
Paints	0.494	0.260	0.129	2.271	6,291	28.85
Drugs and Medicines	0.465	0.420	0.205	0.932	2,684	43.45
Soaps, perfumes, cosmetics and other cleaning preparations	0.539	0.045	0.019	0.907	4,670	4.50
Other Chemical products	0.639	0.750	0.262	0.970	2,207	61.05
Products of Petroleum and Coal	0.299	0.085	0.445	0.700	91,172	55.05
Tyres and Tubes	0.485	0.285	0.147	1.235	5,052	44.75
Other Rubber Products	0.782	0.470	0.121	4.718	724	18.40
Plastic Products	0.633	0.264	0.075	2.936	1,720	15.65
Pottery Products	0.516	0.620	0.301	1.166	856	92.10
Glass Products	0.529	0.130	0.058	1.179	1,171	65.35
Bricks and Tiles	0.488	0.195	0.104	8.617	1,355	27.05
Cement	0.512	0.12	0.060	4.052	2,572	15.30
Other Concrete Products	0.530	0.38	0.187	1.420	—	44.35
Basic Metal	0.467	0.075	0.027	0.865	9,054	0.25
Cutlery, Hand tools and general Hardware	0.461	0.275	0.049	3.198	812	37.25
Metal Furniture and Fixtures	0.625	0.355	0.045	0.877	1,496	25.30
Structural Metal Products	0.638	0.895	0.344	0.614	2,418	63.80
Fabricated Metal Products	0.628	1.435	0.491	0.699	3,297	87.20
Agricultural Machinery	0.451	0.48	0.282	0.367	3,041	92.30
Industrial Machinery	—	—	—	3.695	605	—
Other Machinery and Equipments	1.100	4.195	0.821	0.267	—110	75.75
Radio and T.V. Communication Equipment	0.750	1.19	0.274	1.142	3,052	52.10
Household Electrical Apparatus	0.581	0.105	0.065	-3.308	2,302	50.25
Other Electrical Supplies	0.767	1.20	0.320	1.988	742	48.55
Motor Body Building	0.749	0.14	0.415	2.233	1,684	10.65
Ship Building	0.877	2.245	0.107	7.958	121	33.65
Miscellaneous Products	0.538	0.533	0.334	0.729	2,155	79.38

Table I also shows that the highest ratio of industrial cost to output for spinning which is 1.059 for weaving and finishing textiles followed by travel goods, other rubber products, animal feeds, sugar and chocolate confectionary, tanning, wearing apparel, knitted goods and make-up textile goods (except wearing apparel). Industrial cost of these eight industry groups is above 70 per cent of output. On the ratio of input to output we find that the highest is in grain mill products with 0.674 followed by 0.634 for knitted goods, 0.499 for make-up textile goods (except wearing apparel). For this period (1971-72) the average industrial cost is approximately 54 per cent of the value of gross output.

The foregoing observation, specifically the low value added to output ratio, is due to the low level of technology adopted in the manufacturing enterprises, the highly import-oriented operations and the minimal amount of research and development undertaken locally which practically limits the magnitude of technological capabilities in the production process resulting in a low labour productivity. This same situation also pertains in other developing countries where import substitution has been adopted as a strategy for industrialization and where the basic components used in the process, i.e. raw materials and other inputs in the manufacturing process, are all imported.

3. Employment and geographical distribution in manufacturing industries

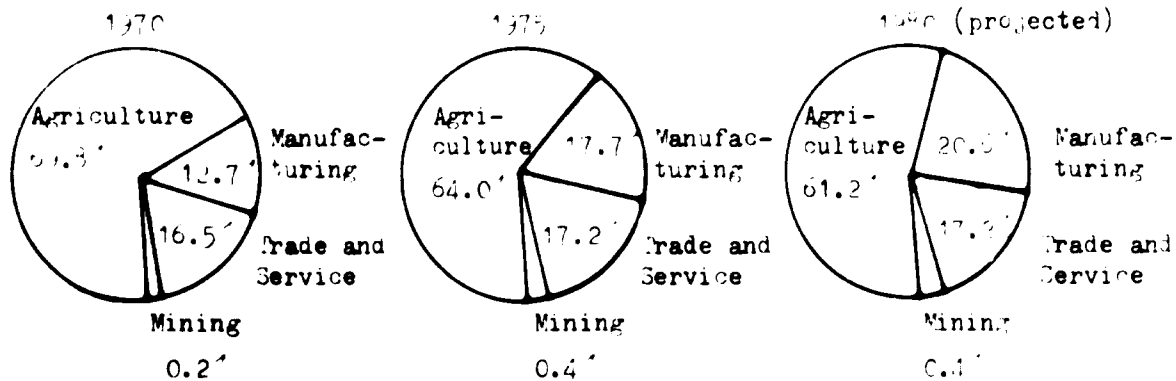
The growth of industry in terms of value added automatically produces a corresponding increase in employment, assuming that labour productivity remains constant. Since employment in manufacturing is specified separately to the growth objective in the Third Development Plan, this implies that a particularly large employment effect is to be induced by industrial growth. This actually is occurring via the promotion of branches which are particularly labour intensive (industrial structural policy), and/or the promotion of particularly labour intensive technologies (intermediate technology).

Since the early 1970s the number of employees in manufacturing industries in Nigeria has been constantly increasing, and the Third National Development Plan projects that by 1980 manufacturing and construction will account for 52 per cent of the total labour force, whereas the share of the other sectors of the economy will be about 48 per cent.^{1/} Diagram II demonstrates a constant increase of labour in the manufacturing sector in comparison with the other major sectors of the economy.

^{1/} See No. 5, p. 68.

Diagram II 1

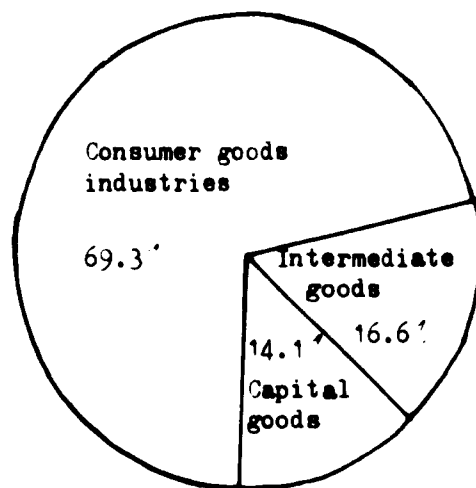
Sectoral Distribution of Labour in the Nigerian Economy



In absolute terms the number of persons employed in the country's manufacturing sector accounted in 1975-76 for about 5 million.^{2/} The greatest part are occupied in industries producing consumer goods, which can be seen in the following diagram.

Diagram III 3/

Breakdown of Employees by Main Manufacturing Sectors



^{1/} See No. 5, p. 67.

^{2/} Ibid.

^{3/} See No. 1, Vol. I, p. 148.

The growth in manpower which took place during the 1970s was connected mainly with the development of labour-intensive industries, and to a lesser extent was dependent on the technological modernisation of enterprises and of the labour productivity. At the same time fast development of capital-intensive industries promoted the increase in the share of qualified workers and specialists employed in manufacturing, which can be seen in Table II.

Table II ^{1/}

Breakdown of Employees Working in
Large- and Medium-Scale Enterprises

by Qualification

	<u>Number of Employees</u>			<u>Percentage</u>		
	<u>1970</u>	<u>1975</u>	<u>1980*</u>	<u>1970</u>	<u>1975</u>	<u>1980*</u>
High level manpower	172.5	343.5	400.0	22.5	22.9	23.5
Skilled and semi-skilled	217.3	436.5	559.7	28.4	29.1	28.3
Unskilled	375.2	720.0	954.3	49.0	48.0	48.2
Total	765.0	1500.0	1980.0	100.0	100.0	100.0

* Projected

The pattern of geographical distribution of industrial manpower strictly follows that of the distribution of industries by location. In Nigeria spatial distribution of manufacturing industries is characterized by a high degree of concentration where several cities form what is called gravitation poles (Lagos, Ibadan, Benin-Sapele area, Port Harcourt and Aba in the South, Kaduna, Kano, Jos in the North). Location of manufacturing industries in Nigeria is shown in Figure I.

The location map shows the geographical distribution of industries according to numbers employed in different sized circles. The shares of individual branches are shown by segments.

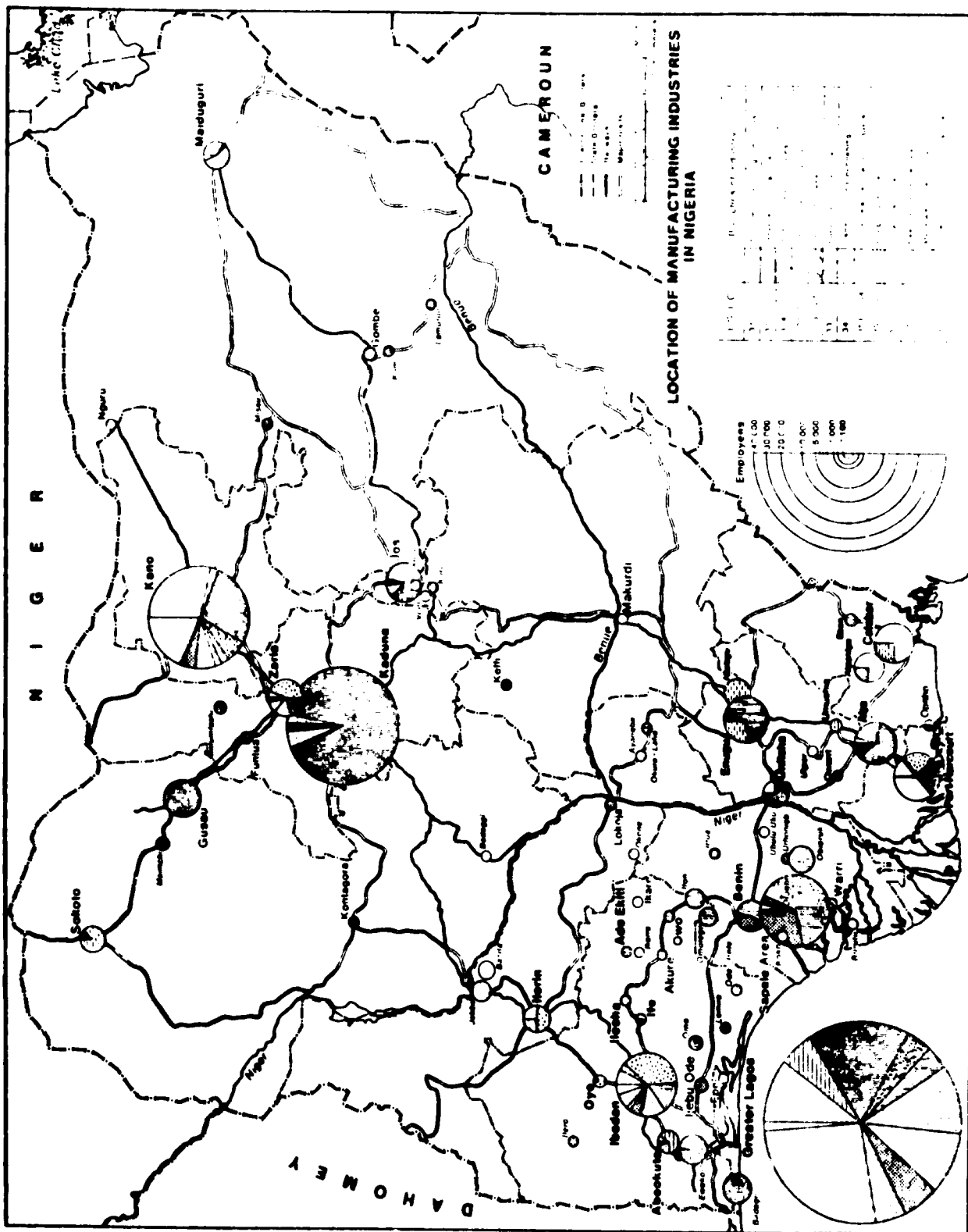
As can be seen from the map, outside of Lagos State, where 57 per cent of industrial output originates based on the concentration of large manufacturing plants are in the area of Kano Zaria, and Kaduna in the North. Other large industrial plants are located in the Mid-Western (now Bendel) and Rivers states.

^{1/} See No. 5, p. 71.

Figure 1

Location of Manufacturing Industries in Nigeria

Employees by Branch of Industry



1/ See No. 7, p. 220.

If we examine the branch structure at the locations, we notice that Greater Lagos, Kano, Port Harcourt, Ibadan and Zaria have the most diversified structures. All other locations possess one-sided structures. This low degree of industrial diversification can lead to disturbances in regional development in sectoral crises, particularly in locations where the manufacturing industry already plays an important part. Locations which could be severely hit by sectoral crises are Kaduna, where over 40 per cent of industrial employees worked in the textile industry in 1975 or the Ibeje area, where the same high percentage was employed in wood processing and rubber processing.

In connexion with the problems of geographical distribution of manufacturing industries in Nigeria, a few words should be said about industrial estates and areas as the means to promote the development and spatial proliferation of manufacturing. Although industrial estates and areas in Nigeria are still in their infancy, some of them, like Yaba Industrial Estate have proved of some value in allowing small industries to develop themselves from the artisanal stage.

The first industrial estates started their operation at the end of the 1950s, and by now there are six large industrial estates and areas:*

1. Yaba Industrial Estate
2. Oshodi Industrial Area
3. Ogba Industrial Area
4. Matori Industrial Area
5. Industrial Areas at Kano
6. Enugu Industrial Estate.

Although during recent years some of the estates have revealed a certain tendency to specialize in a limited number of interrelated products, in general Nigerian industrial estates are involved in the production of a large spectrum of items such as wax candles, garments, printed matter, tyres, basic metal items, soap, extruded aluminium products, furniture, distilled drinks, gramophone records, textiles, electric motor and television set components, nails, primitive machines, etc.

4. Import and export of manufactured goods

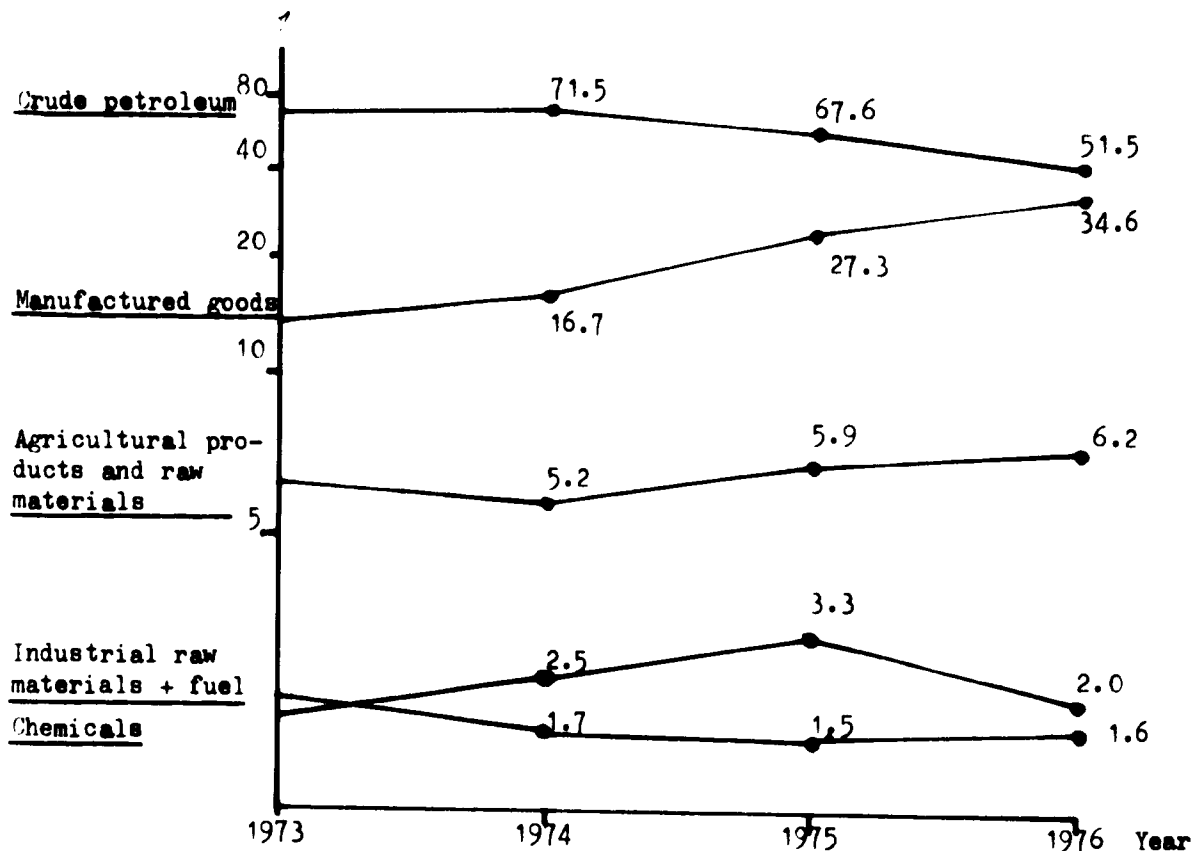
Recent trends in Nigeria's external trade indicate that manufactured items play an increasingly important role in the total foreign trade turnover of the country. As can be seen from Chart V, manufactured goods and

* The list includes industrial estates and areas mentioned in No. 13, pp. 19-31.

crude petroleum occupy dominant positions in the country's foreign trade, although it is understood that crude petroleum prevails in the country's exports whereas manufactured goods prevail in its imports.

Chart 7 1/

Changes in Percentage Shares of Selected Product Groups
in Nigerian Foreign Trade



It is remarkable that along with the increase in domestic industrial production the share of capital goods in imported manufactured goods is also increasing. In recent years machinery and transport equipment has been topping the import list, and in 1976 reached the level of 46.7 per cent. This commodity group was followed by the products of light industries (24.7 per cent), chemicals (8.7 per cent), food (8.27 per cent) and miscellaneous manufactured goods (7.3 per cent).

1/ Based on information contained in No. 15, Issue II for 1976, Appendix II and Issue I for 1977, Appendix II.

"Machinery and transport" consists of power generating machinery other than electrical, agricultural machinery, office machines, machine tools, textile and leather machinery, machines for other industries such as pulp and paper, grain milling, printing and bookbinding, food processing, construction equipment, machinery and appliances for pumps, refrigerators, air conditioners, food processing, water filtration, fire fighting and the like.

"Manufactured goods" (classified by materials) consists of articles made of leather, rubber, wood, cork, paper, textile, yarn and thread, cotton and other fabrics, lime and cement, clay and refractory materials, glass, other ceramic materials, iron and steel and other metals (in various forms), cutlery, tools, and household equipment.

"Chemicals" consists of organic and inorganic chemicals, radioactive and associated materials, mineral, tar and crude, paints, dyeing and tanning materials, medical and pharmaceutical products, essential oils, perfume, cosmetics and other toilet preparations, fertilizers, explosives, plastic materials and other chemical products.

"Food" includes live animals, canned, chilled or frozen meat, fresh or preserved fish, cereals, fresh or canned fruits and vegetables, refined sugar and confectionary, margarine and shortening and other food items.

"Miscellaneous manufactured goods" consists of plumbing, heating and lighting fixtures, furniture, travel goods, clothing, footwear, scientific, medical and control equipment, photographic and cinematographic supplies, clocks and watches, musical instruments, painted materials, articles of artificial plastic materials, games and sporting goods, office and stationary supplies and other related items.

As far as the export of industrial products made in Nigeria is concerned, the country does not export anything with the exception of sawn timber, plywood, palm kernel oil and small quantities of synthetic rubber. Since the country's manufacturing sector does not have export capabilities and its domestic market still needs to be saturated, the products of Nigeria's manufacturing sector are locally consumed.

The review of geographical destination of Nigeria's exports as well as the sources of its imports of manufactured goods shows that the

countries of the European Economic Community (in particular the United Kingdom) are main trade partners of Nigeria. This group of countries is followed by the USA, Japan and East European countries. Nigerian trade in manufactured goods with African countries is considered in the first section of Chapter III.

5. Participation of the national public sector, foreign and domestic private sectors in industrial development

As in many developing countries the public sector in Nigeria actively contributes to industrial development by setting up Government-owned firms or participating in private enterprise. In many cases only the Government is in a position to launch industrial enterprise in Nigeria, as for instance when private entrepreneurs (both foreign and domestic) prefer to invest their capital in the commercial or light-industry sector on a short-term basis.

Within the framework of the Third National Development Plan for 1975-80 (TNDP), the Federal Government announced extensive participation in a number of manufacturing industries. As a matter of public policy the following industries are reserved for effective direct public sector control, with the Government holding at least 55 per cent in each of their equities:

- iron and steel complex
- engineering industries
- petrochemical industries
- fertilizer production
- petroleum products (especially for local distribution).

Table III lists the various large-scale industrial projects of the Federal Government undertaken during 1970-76.

The Federal Government is to continue to increase its participation in industry during the current plan period. The guidelines for the TNDP point out that several branches of industry are to be reserved exclusively for investment on the part of the Federal Government. The branches concerned are:

- strategic industries
- industries of national importance
- projects that cut across state interests and boundaries.

In line with the efforts of the Federal Government to effect its policy, the further growth of industry will depend to a great extent on Government investment and less on private investment by foreign enterprise as in the past.

Table III ^{1/}

Large-scale Industrial Projects of the Federal Government

<u>Projects</u>	<u>Estimated cost of whole project (million M)</u>	<u>Share of Federal capital expenditure in the project (%)</u>
Iron and steel	120.0	6
Passenger car assembly	4.5	9
Chemical complex	14.0	19
Nitrogenous fertilizers	26.0	19
Sugar estates and factories	20.0	20
Pulp and paper	10.0	25
Second petroleum refining	9.0	28
Liquified petroleum gas	7.0	19

The size of the public sector in manufacturing continued to grow rapidly in 1976 and 1977, both absolutely and relative to the private sector. In 1972, Federal and State Government expenditures as a percentage of GDP were 22, whereas in 1976 they reached the level of 50 per cent. Recurrent expenditure increases were in large part increased much more rapidly than the current expenditures. Public capital expenditures reached M 5.8 billion in 1976, which was 86 per cent of estimated gross fixed capital formation in that year. A large part of public capital expenditures (estimated at between 50 and 60 per cent) is for construction and manufacturing activity.

Along with the industrial growth of the 1950s and 1960s came a substantial rise in foreign investment. Foreign private investment still

^{1/} See No. 3, p. 34.

remains the lifeline of the Nigerian manufacturing industry. About 70 per cent of paid-up capital is foreign private, while the remaining 30 per cent is about equally divided between Nigerian private and public capital subscriptions. The areas of participation of the two later groups are segmented, with the key capital-intensive industries largely in the public domain and the small-scale, less capital-intensive activities primarily in the private domain. For example, the iron and steel basic industries are public. Apart from the capital requirements, their unattractiveness from the standpoint of low initial rate of return and problems of scale economies presently preclude private participation.

Direct foreign public investment in Nigeria is quite minimal, no doubt because of political implications from Nigeria's past experience. Investment--or more appropriately loans by international organizations, especially the specialized agencies of the United Nations such as the World Bank, the International Finance Corporation, and the International Development Administration--are being used for industrial development, but often in technologically static projects in which the potential for future technological development and the promotion of "learning" are scarcely considered.

The general dominance of foreign private capital clearly dictates managerial and administrative operations, but expatriate manpower use has been on a steady decline since the early 1960s. Nonetheless, the dominant role of foreign capital in this sector remains unaltered. Despite the civil war, foreign private investment in manufacturing has continued to grow steadily from an already large base. In 1970-71 total investment was over N 380 million compared to the plan estimate of N 354 million. About N 267 million, mostly foreign private, was the planned estimate to be invested in the oil refining industry alone during the four-year plan period 1970-74.

A realistic assessment of the policies and problems of private industry is made in the Third National Development Plan, followed by a number of specific policy recommendations. The plan stresses the need to increase the value added content of domestic output, while simultaneously

reducing that portion transferred abroad, and specifies certain means to accomplish this.

First, there is a list of priority industries which includes, among others, industries processing agricultural products, petrochemicals, integrated textiles, iron and steel, vehicle assembly, new exporting and further import substitution industries. Revisions of the industrial incentives system are envisaged in order to direct private investment in line with the plan's priorities. These measures, therefore, will be discriminatory, but are not further specified. Within this setting, special assistance is to be given to Nigerian enterprises, both in the form of financing and training. The public sector's direct investments in manufacturing are planned at about 6 per cent of those expected to be made by the private sector.

Private investment, which had been sustained at a high level even during the civil war, led the initial post war recovery, but evidently levelled off substantially after 1972. In the manufacturing sector, competitiveness of domestic industries has eroded in recent years and conditions have not been favourable for private investment, especially foreign investment. Moreover, escalating public investment is increasingly competing with the private sector in the use of the available port, transport, power and construction facilities. The consequent congestion and shortages and the high cost of capital formation which resulted have undoubtedly contributed to the difficulties of the private sector. Although firm estimates are not available for more recent years, the available evidence indicates that after 1972 investment expenditure of the private sector only rose moderately and has probably declined in real terms. Because public investment rose so rapidly, however, total investment in the economy rose by 70 per cent in real terms from 1972 to 1975, and from 21 per cent of GNP to 27 per cent.

The apparent low rates of private manufacturing investment may or may not persist depending in part on future Government policy toward private indigenous manufacturing enterprises. The most significant current influence on such investment is undoubtedly the indigenization policy. Although it is rather premature to judge on the results of indigenisation in industry, one should note on the structure of ownership

of manufacturing establishments that while Nigerian shareholdings (both common and preferred stocks) have been increasing from 14 per cent in 1973 to 40 per cent in 1974 and to 42 in 1975, the corresponding shareholdings of foreign firms are 51, 50.3 and 57.2 per cent.^{1/} Nevertheless Nigerian shareholdings in manufacturing are not as substantial as those in the transport and communication sectors.

The reason for this is that entrepreneurs in Nigeria are rather reluctant to enter as shareholders in the sphere of manufacturing in spite of the Government's policy towards securing a greater local participation. The only exceptions are industrial estates and industrial areas where domestic private sector (mainly small-scale enterprises) plays a dominant role.

^{1/} See No. 5, p. 168.

CHAPTER III: MAIN FEATURES OF INDUSTRIAL DEVELOPMENT POLICY

1. Constraints to and prospects for industrial development

Like many developing economies, Nigeria is expanding its manufacturing sector to achieve a real economic independence through balanced growth. The potential for industrial development is immense and the challenge is great. The task is difficult because in spite of being endowed with a substantial financial resource, the country is still faced with serious constraints. In relation to the manufacturing sector, these constraints can be identified as the following:^{1/}

- (a) Shortage of industrial manpower and the relative unattractiveness of manufacturing to indigenous businessmen. In a country growing as rapidly as Nigeria, trading activities normally represent the quickest means of increasing income whereas manufacturing projects usually have long gestation periods. On the whole, while the supply of human resources is high and rising there are serious gaps in many aspects of manpower development.
- (b) Slow implementation of the public sector manufacturing projects. The public sector manufacturing programmes are generally in those areas which represent the foundation for the growth of the sector as a whole. Delay in implementing the public sector programme therefore often leads to delays in the implementation of other projects.
- (c) Infrastructural constraints: inadequate infrastructure increases both the initial and operational costs of projects thereby compromising the commercial feasibility of economically desirable projects. Both the availability and cost of water, communication facilities, electricity, transport (especially railway, port facilities, etc.) pose serious problems to manufacturing enterprises.
- (d) Restrictive industrial policy and administrative practice: unnecessary restriction and administrative bottlenecks have frustrated a number of worthy projects, in particular the multiplicity of authorities from whom various permits, licences, etc. have to be assembled and the lack of streamlined procedure for getting

^{1/} Based on information contained in No. 1, Vol. I, pp. 149-152.

them combine to confuse the intending entrepreneur and to create the possibility of abuse. Lack of clarity on government policy on the payment of royalties, license fees, technical/managerial fees, etc. have added to difficulties associated with the transfer of technology from abroad.

In spite of the fact that in recent years some of the constraints listed above have even been aggravated, the Government still maintains an optimistic outlook for the prospects of growth in manufacturing sector. For instance, based on Governmental education policies the solution of the manpower problem as it relates to the production of good quality industrial commodities at the least cost will concentrate on the training of technicians, supervisors and managers needed to efficiently operate manufacturing enterprises. Efforts will be geared to increasing labour productivity and to the development of technical competence and improving managerial capabilities by means of the implementation of various crash programmes to train the expertise necessary in the execution of specific projects. There is also enough indication of the Government's determination to improve prospects for overall industrial development through formulating concrete, realistic projects in a number of key industrial branches.

In this connexion various surveys and studies were undertaken which resulted in a detailed listing of specific programmes, showing estimated investment requirements of these projects to be started either by the Federal or by the State Governments. During 1975-77 feasibility studies for these projects were completed and now it becomes the responsibility of the Government to attract investors to channel their funds to industries which are feasible and would therefore contribute to the growth of the manufacturing sector.

Shown below is the list of major projects, the realisation of which will be of great importance for the future industrial development in Nigeria:

- (a) Development of the petroleum industry - to include establishment of more refineries, construction of pipelines to transport crude oil and

oil products to various parts of the Federation, establishment of
Lukoil and asphalt plants, etc.;

- (b) Establishment of petrochemical complex - for the manufacture of such products as polyvinyl chloride, caustic soda, polyester and others;
- (c) Master plan for the development of the iron and steel industry - to include plans for establishment of ancillary industries, Metallurgical Research and Development Centre, etc.;
- (d) Development of natural gas industry - for the establishment of liquified natural gas complexes and manufacture of synthetics;
- (e) Development of the coal industry - to include beneficiation of coal and manufacture of by-products;
- (f) Expansion of the cement industry - to minimize or eliminate substantial cement imports and possibly export at a later stage;
- (g) Expansion of the glass industry - establishment of more sheet glass and glass container factories; exploration of the feasibility of manufacturing other glass products such as optical glass;
- (h) Expansion of the wood industries - production of veneer, plywood and particle board;
- (i) Manufacture of industrial salt;
- (j) Manufacture of products from natural rubber;
- (k) Utilisation of tropical hardwood for the pulp and paper industry;
- (l) Development of the furniture and joinery industry;
- (m) Development of the food manufacturing industry - consider utilization of cocoa, groundnuts, cashew nuts, tomatoes, cassava, yams, corn, sorghum, millet, guinea corn and others. Please note that an increased production of these agricultural crops is expected with launching of Operation Feed the Nation (OFN) in the Federation;
- (n) Manufacture of starch and derivatives;
- (o) Establishment of feed mills;

- (p) Development of the marble industry;
- (q) Development of the sugar industry - to develop sugar-based industries, and manufacture of by-products such as bagasse for diversification;
- (r) Expansion of the leather and footwear industry;
- (s) Industrial development of building materials based on local raw materials;
- (t) Establishment of a Cotton Textile Research and Development Centre;
- (u) Development of the oil palm industry.

The Government's determination to broaden prospects for industrial growth in Nigeria is based on realistic assessments of some important factors such as its enlarging domestic market, development of agriculture, potential for export, the willingness to engage in manufacturing ventures jointly with foreigners and local businessmen, availability of financial assistance from the Nigerian Industrial Development Bank and the Bank for Commerce and Industry, and finally the plans to introduce appropriate measure in the Nigerian Enterprises Promotion Decree so that indigenous equity holdings are reflected in the control of the business concerned.

An important place in Nigeria's prospects for industrial development is occupied by the plan to enter into joint ventures with neighbouring countries within the framework of the Economic Community of West African States. Although Nigeria's trade with its West African neighbours is deplorably low (2.3 per cent of total export value and 1.4 per cent of total imports in 1976),^{1/} prospects for the expansion of the country's trade and co-operation within the West African sub-region seem to be improved with the establishment of the Economic Community of West African States (ECOWAS).

The treaty establishing this sub-regional organization was signed in Lagos in 1975 by 15 West African countries with an estimated population of 124 million and a land area of approximately 6.5 million sq.km. The treaty calls for the eventual establishment of a customs union among member states over a period of 15 years. It is expected that during the period members would progressively eliminate the tariffs and non-tariff

^{1/} See No. 5, p. 114.

restrictions among them. The treaty also provides for the elimination of obstacles to the free mobility of labour, services and capital. There would be a gradual harmonisation of the agricultural, monetary and industrial policies of member states while concerted efforts would be made to improve transportation and communication within the region. Finally, a fund for co-operation, compensation and development will be established to compensate countries which suffer losses as a result of community policies and to finance development projects in member states.

The possible effects of the ECOWAS on the expansion of Nigerian economic and industrial co-operation with other West African countries cannot be underestimated. The country's industrial potential and its diversity coupled with the immense West African market will inevitably make it the supplier of manufactured products (in particular comparatively sophisticated goods) for the region. At the same time Nigeria can provide neighbouring countries with the market for their manufactured goods and through various joint ventures can promote the expansion of their manufacturing industries, thus relieving the burden of industrial development for the whole region.

The recent developments in the field of Nigerian bilateral co-operation with its neighbours show that this process has already started. For instance, Nigeria is turning to its neighbours to carry some of its investment load away from its own congested centres. Thus Nigeria is investing ₦ 20 million in a pilot sugar project in Benin and over ₦ 250 million in a cement plant. Nigeria provides most of the capital and a guaranteed market for the sugar, while Benin provides the labour force. In 1975 it was agreed that the Ivory Coast would participate in a petrochemical project in Nigeria in return for Nigerian participation in establishing an asphalt plant in the Ivory Coast.

Nigeria is also taking a share in a multinational African investment in a Guinea iron ore mine at Mount Nimba and in a new refinery in Togo at Lomé. When the latter is completed Nigeria will import phosphates from Togo in exchange for crude oil for the Togo refinery. Togo will then be able to market the refined products and earn valuable foreign exchange. The Lomé refinery came on stream in 1977, a long

way ahead of Nigeria's own planned refineries at Port Harcourt, Warri and Kaduna. So Nigeria, which is still short of refined petrol, provided an immediate market for the Togolese petroleum products.

Nigeria has also been financing the construction of roads in neighbouring countries. The new highway from Porto Novo in Benin to Idiroko on the Nigerian border costing ₦ 2.7 million was especially constructed to improve economic co-operation between the two countries.

2. Third National Development Plan 1975-80: Its main objectives, strategies and policy measures

Nigeria's National Development Plan for 1975-80 is the third in the series of national development plans drawn up for Nigeria since the early 1960s. It is the biggest and the most ambitious which the country has launched. While the First National Plan involved a capital expenditure of ₦ 2,200 million and the Second National Plan an expenditure of ₦ 3,000 million, the Third National Plan proposes a capital expenditure of ₦ 30,000 million. Of this amount, manufacturing and crafts expect a total share of ₦ 5,800 million (₦ 3,800 million from the public sector and ₦ 2,000 million from private sector investment). In short, manufacturing and crafts will get a 19.2 per cent share of the projected gross fixed capital formation during the plan period.^{1/}

According to the Plan, the projected shares of manufacturing and crafts in the GDP as well as their annual growth rates (based on 1974-75 prices) during the plan period are envisaged as follows:^{2/}

	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>
Share in GDP (%)	4.9	5.2	5.7	6.2	6.9
Annual growth rate (%)	5.1	5.2	5.4	5.5	5.6

As far as the increase of output in manufacturing sector is concerned, the annual growth rate projected by the TNDP (constant 1974-75 prices) is 18.0 per cent for 1975-80.^{3/} The comparison of this planned target with the real increases in manufacturing output in 1975 (33.9 per cent increase over 1974) and in 1976 (11.7 per cent increase over 1975)^{4/}

^{1/} See No. 17, p. 63.

^{2/} See No. 11, p. 22.

^{3/} See No. 8, p. 23.

^{4/} Calculations based on information contained in No. 4, Appendix, Table 1.

shows that during the first years of the current five-year plan the manufacturing sector was developing at an average rate exceeding the planned target, although at a very erratic pace.

According to the Third National Development Plan the major objective of Nigerian industrialization policy is a rapid expansion and diversification of the industrial sector of the economy, which is to be achieved by the means of combination of two strategies: the continuation of the programme of import substitution and the promotion of the establishment of export industries.

Although the process of import substitution has been completed for several commodity groups, such as the traditional light consumer groups, it is still in the early stages in the case of intermediate and capital goods and import and excise duties will continue to be used as a means of achieving a greater backward integration. It is intended to work out a system for accelerating duties on raw materials, in line with which a branch of industry will pay higher duties the longer it has been in operation. A reduction of excise duties is designed as an incentive for industries which substitute imported raw materials. The import duties will only be rated as percentages of the value of the goods imported to protect domestic industry and provide an incentive for the use of domestic raw materials.

With respect to export industries, special importance will be placed on the setting up of firms in the non-traditional export sector. These include manufacturers of petrochemicals, cooling systems, fans, refrigeration equipment and their components, especially compressors; simple machinery, especially small-scale agriculture machinery, tools, pumps, automobile parts, motors, bicycles, etc. The traditional export industries are to increase their output and level of processing. Efforts will also be made to increase the transformation of traditional exports into non-traditional exports: for example, rubber-based exports, palm produce-based exports like feeds and proteins from palm kernels, cocoa cake and butter, etc.

Following the combining of the strategies of import substitution and export promotion, the Government has taken a number of measures to

encourage private investors to operate in line with the main objectives of the plan. Firstly, companies engaged in "pioneer" activities are exempt from company income tax. These activities include food processing, fishing, lead and zinc mining, and 31 industries including the manufacture of industrial chemicals from Nigerian raw materials, textile fabrics, pharmaceuticals, rubber goods and leather. Secondly, import duty relief is provided on materials brought into Nigeria for use in the manufacture or processing of goods, provided that it is impossible to produce the materials locally at competitive prices and that the materials bear a higher rate of duty than the imported finished article. Thirdly, the Government will impose special duties on goods which are being "dumped" in Nigeria, or which are being subsidized by a foreign government, and which threaten a potential or established industry there, provided that this will not conflict with Nigeria's obligations under the General Agreement on Tariffs and Trade (GATT).

As stipulated by the plan, immediate policy objectives for the manufacturing sector during 1975-80 include the removal of problems identified (see Section 1 of this chapter) in this study, liberalization of existing policy to encourage indigenous and foreign entrepreneurs in most manufacturing sub-sectors, increased utilization of available financial resources as well as increasing direct Government participation as the main instrument of ownership and indigenization of business. Following these objectives a review of the main policy areas was undertaken, where the following areas were specified:

- (a) Special encouragement for major export industries (40 per cent or more of output for export); engineering industries, i.e. manufacture of machinery for agriculture, woodworking, electrical construction, computing and accounting, special industrial equipment (looms, spinning machines, cooling equipment and pumps, railroad and transport equipment, basic industrial chemicals);
- (b) Development of export industries to include machine tools and parts, petroleum and petrochemical products, cooling systems, simple machinery and equipment, pumps, automobile parts, motors, etc.;
- (c) Liberalization of the expatriate quota allocation system to ensure exposure of Nigerians to advanced technology;

- (d) Increased Government assistance to industrial research;
- (e) Effective industry dispersal through the existing 19-state structure and the establishment of model industrial estates in each state;
- (f) Development of small-scale industries using Industrial Development Centres and small-scale industries credit schemes as the main vehicles of development;
- (g) Implementation of the Nigerian Enterprises Promotion Decree to encourage indigenous and foreign entrepreneurs to create new industries and to follow main objectives of industrialization in Nigeria.

3. Indigenisation of industry

According to the Third National Development Plan indigenisation of industry should play an important role in the acceleration of industrial development in Nigeria. The policy of indigenisation (or Nigerianisation) of industry has so far been put into practice by the means of Nigerian Enterprise Promotion Decree. The Decree was promulgated on February 29, 1972, and came into effect on 31 March 1974. The first Indigenisation Decree (1972) allowed some enterprises to be wholly foreign owned and others to be 60 per cent foreign owned. This was followed by a second Indigenisation Decree (1977) which requires that all firms must be at least 40 per cent Nigerian owned (Schedule III), while many should be either 100 per cent or 60 per cent Nigerian owned by November 1978 (Schedules I and II respectively). The first schedule of the decree lists 15 types of business activity related to manufacturing in which foreign participation is banned. Manufacturing industries listed under Schedule II were required to have a specified minimum paid-up capital and annual turnover, in addition to a minimum Nigerian equity holding of 40 per cent. In 1976, the number of categories listed in the schedule was extended, and the Nigerian participation requirement raised to 60 per cent. Under the schedule, foreign ownership is now barred unless the paid-up capital is less than US \$600,000, or annual turnover is less than \$1.5 million, whichever the Nigerian Government deems to be the most appropriate figure.

The transfer of shares to meet the requirements of the Decree must be completed by 31 December 1978, except in the case of banks, which must be 60 per cent Nigerian owned by 30 September 1977. In the case of companies whose activities fall under two or more schedules, different provisions are set out. These companies may continue to operate Schedule I activities if the annual turnover exceeds N 25 million, they operate in at least ten states, and there was a 60 per cent Nigerian equity holding by 30 June 1977.

A complete list of manufacturing businesses falling into the first and second schedules is given below. All businesses not specifically mentioned fall automatically into the third schedule requiring a minimum of 40 per cent Nigerian participation.

Business Affected by the Nigerian Enterprise Promotion Decree

Schedule I - 100 per cent Nigerian Ownership:

1. Assembly of radios, radiograms, record changer, television sets, tape recorders and other electric domestic appliances not combined with manufacture of components.
2. Blending and bottling of alcoholic drinks.
3. Block and ordinary tile manufacture for building and construction works.
4. Candle manufacture.
5. Electrical repair shops not associated with distribution of electrical goods.
6. Establishments specialising in the repair of watches, clocks and jewellery, including imitation jewellery for the general public.
7. Garment manufacture.
8. Ice-cream making when not associated with manufacture of other dairy goods.
9. Manufacturers' representatives.
10. Manufacture of jewellery and related articles, including imitation jewellery.
11. Manufacture of suitcases, brief cases, handbags, purses, wallets, portfolios and shopping bags.
12. Rice milling.
13. Singlet manufacture
14. Tyre retreading.
15. Wholesale distribution of local manufactures and other locally produced goods.

Schedule II - 60 per cent Nigerian Ownership:

1. Manufacture of rubber products, rubber footwear, industrial and mechanical rubber specialities such as gloves, mats, sponges and foam.
2. Manufacture of tyres and tubes for bicycles and motorcycles, and of tyres and tubes for motor vehicles.
3. Manufacture of soap and detergents.
4. Manufacture of wire, nails, washers, bolts, nuts, rivets and other similar articles.
5. Other manufacturing industries such as non-rubber and non-plastic toys, pens, pencils, umbrellas, canes, buttons, brooms and brushes, lampshades, tobacco pipes and cigarette holders.
6. Oil milling, cotton ginning and crushing industries.
7. Paper conversion industries.
8. Plantation sugar and processing.
9. Basic iron and steel manufacture.
10. Beer brewing.
11. Boat building.
12. Bottling of soft drinks.
13. Canning and preserving of fruits and vegetables.
14. Construction industry.
15. Distribution agencies for machines and technical equipment.
16. Distribution and servicing of motor vehicles, tractors and spare parts thereof or similar objects.
17. Fertiliser production.
18. Grain mill products except rice milling.
19. Manufacture of insecticides, pesticides and fungicides.
20. Printing of books.
21. Production of sawn timber, plywood, veneers and other wood conversion industries.
22. Petrochemical feedstock industries.
23. Pulp and paper mills.
24. Salt refinery and packaging.
25. Screen printing on cloth dyeing.
26. Slaughtering, storage associated with industrial processing and distribution of meat.
27. Tanneries and leather finishing.
28. Manufacture of bicycles.

29. Manufacture of biscuits and similar dry bakery products.
30. Manufacture of cement.
31. Manufacture of cosmetics and perfumery.
32. Manufacture of cocoa, chocolate and sugar confectionery.
33. Manufacture of dairy products, butter, cheese, milk and other milk products.
34. Manufacture of food products such as yeast, starch, baking power, coffee roasting; processing tea leaves to black tea.
35. Manufacture of furniture and interior decoration. Manufacture of metal fixtures for household, office and public building.
36. Manufacture of leather footwear.
37. Manufacture of matches.
38. Manufacture of metal containers.
39. Manufacture of paints, varnishes or other similar articles.
40. Manufacture of plastic products such as plastic dinnerware, tableware, kitchenware, plastic mats, plastic machinery parts, tubes and cabinets.

4. The institutional infrastructure for industry

The backbone of the whole institutional infrastructure is the Federal Ministry of Industry. Its primary responsibility as conceived by the Government is to ensure the rapid industrialization of the entire country and to create opportunities for gainful employment for as many Nigerians as possible. The Ministry not only advises the Government on the formulation of industrial policy, it also encourages private entrepreneurs and investors to be actively involved in the industrialization process, while at the same time taking charge of the implementation of Federal Government industrial projects and superintending the operations of Federal Government-owned industries.

The Ministry currently has the following units under its direct administration:

- (a) Administrative Division
- (b) Industrial Planning Division
- (c) Investment Promotion and Information Centre

- (d) Small-scale Industries Division
- (e) Industrial Inspectorate Division
- (f) Industrial Management Division
- (g) Agro-allied and Textiles Division
- (h) Engineering and Chemicals Division
- (i) Iron and Steel Division
- (j) Petrochemicals Division

The units are staffed with administrative officers and operate within the Ministry because of the nature of their roles. The present arrangement has been found unsatisfactory because it has proved rather unresponsive to the urgency and professional expertise which the pressing duties of the Ministry now demand. Administrative officers are not necessarily trained in any particular profession and, what is worse, they get moved rather frequently with the result that the benefits of experience on the job are often denied the Ministry when it is most needed.

There are also six other units which, although located under the aegis of the Ministry, are autonomous in operation. These are:

- (a) The Nigerian Enterprises Promotion Board
- (b) The Nigerian Standards Organization
- (c) The Industrial Training Fund
- (d) The National Steel Development Authority
- (e) The Federal Institute of Industrial Research, and
- (f) The Nigerian Industrial Development Bank.

In addition the Government has recently approved an organizational structure for the development of iron and steel industry. Under the scheme a National Steel Council is to be set up with responsibility for central planning, research and development of the industry. The Council will conduct research into the development and manufacture of iron and steel products, as well as equipment to be used for basic engineering. Other areas include the training of Nigerians for the steel companies, the use of by-products of the industry and the control over the activities of two separate companies with independent boards of directors, which are to be established for the Ajaokuta-based iron and steel combine and the Warri direct reduction steel plant.

The Government has recognized that the present structure and functioning of the Federal Ministry do not respond effectively to the functions and responsibilities conceived by the Government for the Ministry. Considerable thought has been given to ways and means of streamlining the present structure and facilities and to realign them with its function and responsibilities. In an effort to arrive at a satisfactory solution, the Government requested in 1977 the assistance of ECA and UNIDO in crystallizing its ideas on the re-organization of the Ministry. According to the Government's request, a mission was formed to work out related recommendations, which in general terms provide, in particular, for the establishment and operation of an appropriate working arrangement and structure to ensure:

- efficient monitoring and liaison without undue delays and bottlenecks;
- effective co-ordination with other ministries and states;
- the full utilization of expertise and skills available in various institutions such as industrial research, standardization and quality control institutions, consultancy organizations, public and private enterprises, universities and other training institutions;
- the development, adaptation and transfer of technology;
- the development and full utilization of local industrial consultancy and technical advisory services for the preparation and implementation of industrial surveys and feasibility studies and technical assistance to industry in technical, technological and commercial aspects of production;
- the development of suitable skills, at all levels, for the implementation of industrial projects, not only within the Ministry but also in the industrial enterprises;
- effective evaluation of project and programme implementation as a feedback to project and programme modification.

In addition to the above, the mission also made recommendations on certain specific aspects currently under serious consideration by the Government including relationships between various autonomous organizations currently under the aegis of the Ministry: industrial consultancy, national office for transfer of technology and industrial holding company.

Since Nigeria is a mixed-enterprise developing economy, the Federal Ministry of Industry and its bodies are only a part of the whole infrastructure for carrying out overall industrial policy in the Federation. Apart from other State ministries the following also constitute part of the institutional structure:

- public utilities, State joint ventures, wholly-owned State manufacturing enterprises;
- foreign industrial enterprises, indigenous large- and medium-scale enterprises, small-scale and rural industrial enterprises;
- development banks and other financial institutions for industry;
- training institutions;
- supporting institutions such as:
 - (a) industrial business information services;
 - (b) project analysis and design services;
 - (c) testing services for raw materials and finished products;
 - (d) industrial standardization, quality control services;
 - (e) technology transfer advisory services;
 - (f) private consultancy services for industry;
 - (g) industrial research and development;
 - (h) incentives and disincentives (structure and mechanisms);
 - (i) export promotion services.

Among various supporting institutions listed above, of great importance are the so-called interest groups, which not only attempt to influence administration, but the administration itself consults them in the formulation and implementation of Government policy. The formal interest groups frequently collect their own information on the activities of their members, and are familiar with the attitudes and opinions of the firms they represent. This information is often of great importance in the formulation of directives and decrees. When an interest group has participated in formulating a policy, it can also be asked to contribute to its implementation, for the members are most prepared to act along with the Government when they know that their organization has voted in favour of a corresponding measure.

The formally organized interest groups in Nigeria comprise the manufacturers associations and the chambers of commerce and industry. The most important are the three largest groups. They comprise the organizations which are open to all industrial firms: the Manufacturers Association of Nigeria (MAN), the Nigerian Employers Consultative Association (NECA) and the Chambers of Commerce and Industry. In addition, there are other associations representing the interests of industrial firms of specific branches, which are not dealt with here.

The main objective of the MAN is to develop and promote the contribution of manufactures to the national economy through representation in all reputable bodies, Government and others, whose work may affect directly and indirectly the interests of manufacturers. The MAN collects information and survey data which is processed and made available to members. It has representatives in various Government organizations, for example in the National Economic Advisory Council, the Export Promotion Council, the National Wages Advisory Council, and in the National Standards Organization. Through participation in decision making in these organizations, it can exercise a direct influence on industrial policy formulation.

The Nigerian Employers Consultative Association (NECA) was founded in 1957 to provide a means for consultation and exchange of information on questions arising out of the relations between employers and the workers. The NECA carries out its own data surveys and analyses, which are then sent to members. As one of the central employers' organizations it represents, in a similar way to the MAN, the opinion of the majority of the employers vis-à-vis the Government. The NECA is also represented in various Government organizations, where it can exercise influence. In addition, it sends delegates on Government invitation to the ILO conferences. In this way Nigeria's employers are able to express their views on international recommendations which could subsequently become law.

The chambers of Commerce and Industry regard their main task to be the protection of all matters affecting trade and industry for the promotion of the economic growth of the country. They collect and analyse information. The Lagos Chamber of Commerce, for instance, has its own Statistics Standing Committee. Members are mainly given information on questions connected with the establishment of new industries and commercial

relations on industrial fairs, customs tariffs and incentives. The various chambers, which exist in almost all of the twelve states, are members of the Nigerian Association of Chambers of Commerce, Industry and Mines. This Association appoints representatives from the private sector who are delegated to the Government organizations. The representatives sit in the bodies already mentioned, in which the MAN and the NECA are also represented. The Chambers also maintain close contacts with the Ministries.

In view of their large membership, the MAN, the NECA and the Chambers of Commerce should be able to exercise considerable influence in the formulation of Government policy, but it must be considered that the degree of influence does not only depend on the number of members, but also on the self-assurance and authority of the particular representative of an industrial organization.

CHAPTER IV: EXTERNAL ASSISTANCE TO THE MANUFACTURING SECTOR

1. Bilateral assistance

While trying to make a review of the existing assistance to the manufacturing sector in Nigeria and its possible effects on industrial development, one has to be satisfied with very scanty information from news items and at times from statements made by public or private officials. The only UN sources of information were a survey made by the UNEP Resident Representative in 1975 and the Register of New and Planned Industrial Projects in Selected African Countries compiled in 1976 (E/CN/14/INR/216).

According to the survey, the United Kingdom provided assistance to the Mid-Western State Drug Factory by providing an expert on drug packaging and marketing (the total cost of the programme was £16,920); Finland indicated an expenditure of £33,959 for an expert promotion seminar on wood-based panel industries; the Netherlands had a fellowship programme on industrial management relations costing £18,747; the Federal Republic of Germany provided assistance for maintenance and repair of Mercedes cars (£306,000); Japan provided assistance in constructing a superphosphate fertiliser plant; the People's Republic of China provided 22 experts to assist in the development of small-scale industries and India provided assistance under the Special Commonwealth African Assistance Plan on Standardization and Small-Scale Industry Training.

As far as the Register is concerning, the following industrial projects in which external assistance plays an important role are listed for Nigeria:

<u>No.</u>	<u>Project</u>	<u>Capacity</u>	<u>Investment and Collaborators</u>
1.	Sugar factory	100,000 tons of refined sugar per year	N 75 million, Federal Government and Commonwealth Development Corporation (UK)
2.	Integrated iron foundry	750,000 tons of mouldings per year	Federal Government and Nippon Steel Corporation (Japan)
3.	Natural gas plant	no info. available	Federal Government (60% of total investment), Shell and British Petroleum (40%)
4.	Natural gas plant	no info. available	Federal Government (60% of total investment), Agip and Philips (40%)

<u>No.</u>	<u>Project</u>	<u>Capacity</u>	<u>Investment and Collaborators</u>
5.	Pulp and newsprint mill	300 tons of paper per day	N 60 million, Federal Government and Parsons Whittemore Liddon (UK)
6.	Cement factory	1 millions tons of portland cement per year	N 62.9 million, Federal Government and Sulco Inc. (USA)
7.	Car assembly plant	80 vehicles per day	N 8.5 million, Federal Government and Peugeot (France)
8.	Car assembly plant	60 vehicles per day	N 11.5 million, Federal Government and Volkswagen Werke (FRG)
9.	Truck manufacturing plant	18,000 trucks per year	N 30 million, Federal Government and British Leyland (UK)
10.	Truck assembly plant	no info. available	N 6.0, Federal Government and Daimler-Benz (FRG)
11.	Wire and cable plant	Copper wire - 4,000 tone per year; aluminium wire - 700 tons per year	Western State Government and Sumitomo Electric Industries (Japan)
12.	Electric wire plant	no info. available	Rivers State Government and Yasaki Corp. (Japan)
13.	Glassware factory	48,000 tone of glassware per year	N 24 million, Federal Government and Hungary
14.	Bicycle factory	6,000 bicycles and mopeds per year	N 2 million, private Nigerian enterprise and Raleigh Industries (UK)
15.	Nitrogen fertilizer plant	no info. available	N 70 million, Federal Government and Scientific Design Ltd. (UK)
16.	Glass bottle plant	100 million bottles per year	Nigeria Industrial Development Bank, Metal Box (UK), Toyo Glass (Japan)
17.	Super phosphate fertilizer plant	no info. available	N 15 million, Federal Government and Japanese company
18.	Oil refinery	100,000 barrels of crude oil per day	N 350 million, contract awarded by Government to Sanprogetti Co. (Italy)

In addition to the projects listed above, mention should be made of the Warri steel plant constructed with the assistance of Swiss, USA and Indian companies and of the Ajaokuta iron and steel combine constructed with the assistance of the Soviet Union.

In 1970 the Nigerian Government signed an agreement with the Soviet Union to exploit iron ore and coking coal deposits in Nigeria. Four years later feasibility studies conducted by Soviet experts showed the existence of commercial quantities of iron ore deposits in the Okene area of Kwara State, and of coking coal around Lafia in Plateau State. Following the result of soil tests and other investigations carried out that year, the Nigerian Steel Authority consequently chose Ajaokuta in Kwara State as the site for the plant. In 1975 Nigeria signed agreements with the Soviet Union for the detailed design of the iron and steel combine. According to the agreement it will be a full-scale metallurgical complex with the initial capacity of 1.3 million tons of steel per year by 1980. The Federal Government has already allocated ₦ 800 million and Nigerian engineers are already being trained in the Soviet Union.^{1/} It is expected that the plant will employ about 17,000 people. Since the scheme of the complex envisages the expansion in production up to 5 million tons per year by the end of the 1980s, it is expected that the plant will serve the needs not only of Nigeria but also of neighbouring countries.

2. Possible areas for UN assistance

Nigeria's development strategy is aimed at developing and harmonising the productive capacity of the economy by utilizing its own natural resources. In relation to the industrial sector it means that efforts should be taken to diversify the present structure of manufacturing from import-dependent, consumer-oriented (finishing and assembly type) operations to the production of basic and intermediate industrial goods. All this will inevitably require the strengthening of all existing institutions responsible for planning and implementing concrete programmes or, if necessary, the establishment of new institutions capable of sustaining future growth. In this connexion UN technical assistance can play a serious role.

At the present time assistance from the United Nations system is provided under the UNDP Country Programme for Nigeria (1975-79) through the following projects (with UNIDO as executing agency):

^{1/} See No. 18, p. 24.

A. On-going projects

AR/NIR/74/004 IBRD Appraisal Mission (participation of Mr. David A. Ogilvie)

DP/NIR/68/007 Industrial Programming, 1 expert (OPAS now advisory)

DP/NIR/71/003 Industrial Economist, 1 expert (OPAS)

DP/NIR/75/001 Industrial Economic Adviser, 1 expert

OS/NIR/75/070 Standardization and Quality Control

DP/NIR/72/004 Small-Scale Industries Development, 2 experts (industrial economist, financial adviser)

DP/NIR/73/014 Preparatory Assistance for the Establishment of the Industrial Development Centre in Oshogbo, 1 expert

DP/NIR/75/023 Assistance in Textile Testing and Quality Control

DP/NIR/75/068 Industrial Estates Development

DP/NIR/75/075 Small-Scale Industries Services, 1 expert

DP/NIR/75/069 Federal Institute for Industrial Research, 1 expert

DP/NIR/71/022 Management Programmes for Administrators of Industrial Development

DP/NIR/74/015 Glass Production Manager, 1 expert (OPAS)

TS/NIR/71/001 Technical Assistance to the Plastics Processing Industry

B. Projects on which action is being taken

NIR/75/071 Industrial Development, Cross River State

NIR/75/072 Small-Scale Industry Development, Kwara State

NIR/75/076 Textile Design and Dyeing, Anabra State

NIR/76/006 Industries Advisory Services, Kano State

NIR/76/011 Metal Working Industries Study

NIR/78/001 Establishment of a National Office for Technology Transfer

NIR/76/013 Integrated Food Industries Complex

As can be seen from the list, assistance provided by UNIDO is well geared to the needs of industrial development in Nigeria. Nevertheless the scope of this assistance can be widened, especially if UNIDO gives more evidence of ability to deliver its assistance to the most sectors of Nigerian industry.

There is no question on the sincerity of the Federal Military Government to hasten the industrial development of the country, and technical assistance must be provided where the Government feels it necessary. In

this connexion possible areas and ranges of assistance which UNIDO should be prepared to provide can be identified as follows:

- (a) Establishment of national priority programmes for the industrial sector;
- (b) Assistance in technology transfer and adaptation;
- (c) Preparation of feasibility studies;
- (d) Conducting of training programmes;
- (e) Assistance in carrying out institutional programmes.

The role which the above activities can play in the execution of Nigeria's Third National Development Plan and further development plans cannot be overemphasized. Institutions which would be given the responsibility for these activities would have to be established very soon and would have to operate continuously.

Another important area for UNIDO technical assistance is connected with Nigeria's interest in the development of the Economic Community of West African States. Assistance can be provided in various fields related to the region's industrial sector. For instance, UNIDO could undertake industrial surveys for each member country to identify, select and develop industries with export potential and an industrial marketing programme could be co-ordinated with UNCTAD. Policies and procedures could be formulated to effect the integration of economic activities in the West African States--a possible vehicle for recycling the oil revenues for regional co-operation. It is in this context where other projects such as Industrial Export Processing Zone, an African centre for the production of agricultural machinery, an ECOWAS centre for metallurgical industries, or a West African petrochemical complex, etc. would be worthwhile considering.

There is no doubt that any effort taken would be a serious contribution to industrial development of the ECOWAS countries, since institution building for programming and policy making, upgrading and development of technical and managerial skills as well as conducting feasibility studies have constituted an important part of UNIDO's field activities since its establishment. UNIDO's extensive experience in various developing countries around the globe could be of great use both to Nigeria and to the other ECOWAS countries in their efforts to hasten industrialization and to contribute to the attainment of the objectives of the Lima Declaration and Plan of Action.

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