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NIGERIA'S EXPERIENCE IN INDUSTRIAL PROJECT EVALUATION

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I. INTRODUCTION

One of the major problems facing the developing countries of the world today is the industrialisation of their respective countries so that the standard of living of their people may be raised in the first instance, and also so that they may be less dependent on other countries of the world for their basic requirements. The desire to industrialise rapidly is however not unconnected with the desire to try to bridge the big gap between the industrially advanced world and the young but developing countries.

Industrialisation is not an end in itself but a means to raise living standards - the per capita income of the people of the country. Governments and other people involved in the struggle for the solution of the problems of the developing countries through industrial growth therefore need to consider general industrialisation aims and problems and every specific project in terms of its contribution to the economy. This holds true whether a country is a free enterprise economy or a centrally planned economy and it is essential for those concerned with all aspects of industrial development to be familiar with the various arguments which may be advanced to justify the value of certain types of industrial projects to the economy.

The two main ways of approaching an assessment of the value of a project to the economy are:

- (i) To focus on one or more important characteristics of the project e.g. foreign exchange benefits, or maximum use of labour and minimum use of capital, and
- (ii) To concentrate on the overall expected results in an attempt to find the approximate net value of the project to the economy, taking into consideration all major measurable factors.

These two general criteria - commercial profitability and national economic profitability - tend to weigh heavily with the project analyst seeking to judge the over-all value of a project.

Since the emphasis in Nigeria tends more towards industrial development by private enterprise, subsequent relevant paragraphs of this paper will concentrate on the evaluation of such projects.

II. INSTITUTIONS AND DATA

(A) Institutions for Project Development and Evaluation

(1) Agencies for project development

Generally speaking, except for the last few years before independence in 1960, Nigeria is relatively new in the field of industrial development even though the progress made during the past five years in particular has been very encouraging.

The central agencies for project development are the National Economic Council and its Joint Planning Committee. These are Bodies in which all the governments of the Federation are adequately represented and whose main task is the consideration of large-scale industrial projects which are considered to be very important to the economy. The function of these two Bodies could rightly be said to be the co-ordination of the policies of all the governments of the Republic in such a way as to avoid waste and unnecessary duplication.

Nigeria being a Federal Republic, industrial development is a concurrent subject and the Federal and the Regional Governments all share responsibility for the industrial development of the country and each Region has her own Development Corporation which, in conjunction with Regional Government Departments charged with responsibility for industrial development, plans the Regional industrial development.

The Federal Government on her part handles project development through her Departments - Ministries of Industries, Economic Development and Finance - which deal mostly with the assessment of private sector industrial projects for purposes of granting industrial incentives under her incentives legislations.

(ii) Agencies for evaluating and financing projects

The Nigerian Governments' agencies for project evaluation in general are the National Economic Council and its Joint Planning Committee. Particular projects are however assessed by three Federal Government ministries - Finance, Industries and Economic Development and similar Regional Departments do the same work in the Regions.

The Governments of the Federation are directly responsible for financing the major development projects set out in the National Development Plan and for this purpose, loans are raised both internally and externally. Private investors, both indigenous and foreign, also supply their own capital. The Federal Government has, however, also set up the following financing institutions:

(a) The Nigerian Industrial Development Bank which gives both short-term and long-term loans to deserving medium-scale and large-scale industries throughout the Federal Republic, (b) The Federal Loans Board and, (c) The Revolving Loans Fund for Industry; the last two cater mainly for small-scale industries and give loans, in deserving cases, to such industries anywhere in the Federation. The evaluation of projects in respect of which loans are sought is handled by officers who visit and collect all relevant information on the project before recommending support or rejection.

In addition, each Regional Government has its Finance Corporation which takes part in the financing of projects which are considered deserving of such help.

(B) Availability of technical staff for evaluation agencies.

Nigeria pursues a free enterprise economy and the viability or otherwise of most projects sponsored by private entrepreneurs is, generally speaking, a matter to be decided by them on the basis of feasibility studies, market surveys, etc. carried out before they embark on their projects. As far as private entrepreneurs are concerned, therefore, they generally make use of the technical staff of their parent companies overseas and in some cases, employ experts specifically for the evaluation of their projects.

The Governments of the Federation, in many cases, have to embark on certain projects on their own initiative when such projects are considered to be of national importance. The necessary technical staff for the evaluation of large scale projects requiring particular knowledge of certain industries and their manufacturing processes are not generally available. The Governments therefore, in such special cases, employ the services of international consultants who not only evaluate such projects but also offer suggestions on the various aspects of the development projects on which they report.

The Governments, however, have special units/divisions in certain ministries which are charged exclusively with the responsibility for project evaluation. An example of this is the Project Evaluation Division of the Federal Ministry of Industries which has just been established. Although this division handles mainly government - sponsored projects and projects in which government deems it necessary to participate financially, it also works on some private projects which are submitted to it for appraisal.

The governments of the Federation also benefit from the services of a team of experts supplied by the Arthur D. Little Group of the U.S.A. These experts are mainly concerned with project evaluation and have submitted detailed and very useful reports on feasibility studies carried out on certain selected projects. They have in fact rendered very valuable service not only to the governments of the Republic but also to a number of private companies which have consulted them for any necessary help.

As noted earlier in the introduction to this paper, Nigeria is a young developing country which is doing her best in the rapid race for industrialisation. The supply of technical staff for project evaluation can therefore not be said to be adequate but much is being done to train the necessary staff. To this end, the Federal Government has provided for the training of 5,000 technicians per year in order to cope with the country's man-power needs. Advantage is being taken of the many training schemes offered by many of the advanced countries of the world under their technical assistance programme.

(C) Data and other information for evaluation of projects

These, generally speaking, are still inadequate mainly because of insufficiency of statistical data. Assessment of projects is however based, among other things, on:

- (a) reports of feasibility studies, etc. which determine whether or not a particular project may be successfully embarked upon,
- (b) estimated production costs, on which will be based a decision on whether or not a particular project is likely to be a profitable venture,
- (c) demand for the product, on which will depend any forecast as to whether a given profitable scale of operation is in tune with market requirements. When private entrepreneurs seek industrial incentives from the government, however, the Federal Government scrutinises proposals submitted and supports those which are found to be economically sound.

III. CONSIDERATION IN EVALUATION OF INDUSTRIAL PROJECTS

A. Appraisal of commercial profitability of industrial projects by private enterprise

Nigeria's industrial sector is predominantly dominated by private enterprise and the commercial profitability or otherwise of these private industrial projects is assessed by the private entrepreneurs before embarking on their projects. In general terms, consideration is usually given to the following points:

- (i) Demand aspects: Import figures of the particular products to be manufactured are collected and the market for the products will, in most cases, determine whether or not it is worthwhile to consider the local manufacture of such products. If imports are insignificant even when there are no sources of local supply, or if earlier substantial imports are decreasing rapidly year by year, it is perhaps a warning that, other things being equal, such a venture

is not worth establishing. If on the other hand, imports are substantial and there are no insurmountable problems in the way of local production, it is, in most cases, a sign that the market for a particular product exists.

(ii) Revenue and costs forecast techniques: These depend on a number of factors, among which are the local availability of raw materials, cost of raw material if not locally available, local labour supply, the extent to which it is skilled or otherwise and local wage rates etc. all of which will constitute part of the production cost, and the size of the market for the particular product which will determine the sales revenue.

(iii) Engineering and technical aspects: These depend on the nature of the projects concerned and entrepreneurs usually supply their own experts who offer necessary advice.

(iv) Requirements of managerial and technical personnel: Managerial and technical personnel are difficult to get locally since the few available have already been absorbed. The entrepreneur is responsible for the recruitment of the personnel required and usually recruits them from abroad if not locally available. Decisions on the type of personnel to be recruited will depend on the manufacturing processes involved and also the managerial and technical 'know-how' necessary.

(v) Financing plan and Sources of finance: These are also the responsibility of the private investors, whether indigenous or foreign. They arrange their own financing plans and their sources. Great importance is usually attached to these by the Governments of Nigeria and whilst investors are needed in almost all fields, consideration is given to sound and reliable financing planning and as much as possible, local financial participation is encouraged.

B. Governmental Appraisal of Industrial Projects

The appraisal of industrial projects by the Government is based on a number of factors.

Emphasis at the moment quite understandably appears to be on labour intensive projects. Nigeria is one of the developing countries with large numbers of potential workers and a shortage of capital. It is not surprising therefore that some stress is placed on the importance of selecting industries which make maximum use of the abundant factor - labour - and minimum use of the

scarce factor - capital. This is a tendency which can hardly be condemned particularly because of the teeming population which, if not employed, may constitute a social problem. Although labour-intensive projects appear to have a special appeal to the Government, well-planned capital intensive projects are not discouraged especially since in a modern economy such a development can hardly be prevented.

Special emphasis is on projects which will up-grade the local raw materials and therefore give them increased value not only in the internal market but also in the outside world where foreign exchange can be earned.

In view of the almost universal prevalence of foreign exchange difficulties in countries seeking to accelerate the pace of their industrial development, a criterion frequently applied in judging the economic merits of projects is that of foreign exchange benefits. Industrial projects are in many cases accepted on the evidence, or at least the belief, that they will be substantial net savers or earners of foreign exchange. In this connection particular emphasis is now placed on projects which will substantially lead to import substitution.

National economic profitability as a criterion of governmental appraisal of industrial projects is, strictly speaking, not much used yet. This is probably partly because other factors of a political nature may be given more weight and/or because the general desire to accelerate development overshadows this criterion which, in any case, is not quantifiable.

Governmental appraisal does not neglect the acquisition of skill, technical and managerial, as a factor with which to reckon. Much as it is expected that people engaged in certain industries will acquire necessary skill as time goes on, the Government attaches importance to the training programmes which industrialists have for indigenous men employed by them. This is to ensure that as much as possible, indigenous men can in future successfully take-over from the expatriate technicians, etc.

Other considerations include the up-grading of available local raw materials being exported for processing abroad. The Government usually wishes to encourage projects that will up-grade local raw materials and where possible, develop an export market for Nigerian processed goods.

IV. GOVERNMENTAL POLICIES TO INFLUENCE EVALUATION OF INDUSTRIAL PROJECTS IN THE PRIVATE SECTOR

The Government tries as much as possible to gear its policy towards those projects which will aid the rapid realisation of the aims of the national development plan. To this end, efforts are concentrated on those projects which will lead to the achievement of this objective and in order to attract particular projects, certain incentives are provided in deserving cases. These incentives are briefly as follows:

(i) Income tax incentives: Companies operating in industries already declared 'pioneer' under the 'Industrial Development (Income Tax Relief) Act, 1958' can be granted pioneer certificates which exempt them from company taxation for a number of years, depending on the level of investment in the project.

(ii) Refund repayment of import duty: Companies can also be granted this incentive for a number of years in respect of imported raw materials under the 'Industrial Development (Import Duties Relief) Act, 1957'. This is to make their products competitive in price with imported equivalents and is granted in deserving cases.

(iii) Industrial licensing approved user scheme: Under this incentive which is somewhat similar to (ii) above, local manufacturers can import certain raw materials which are not available locally either duty free or at a concessionary rate of duty.

Generally, the Customs Tariff structure is such that as much as possible, raw materials carry low duty except those which are available locally in sufficient quantity and acceptable quality.

There is, strictly speaking, no restriction on trade with the outside world and the import products has not been (and will not be) prohibited simply because they are being produced locally. There is, however, necessary legislation against dumping (where it is proved beyond doubt) and protection as a measure for enabling the infant industries to find their own feet is used only in very deserving cases and not just to protect inefficient production. A level of protection that will be necessary to allow a reasonable rate of return on capital is carefully chosen and steps are taken to ensure that consumers are not exploited as a result.

V. CONCLUSION

Measures for improving industrial project evaluation

The desire of developing countries to industrialise as speedily as possible is so great that, at the initial stages, projects do not appear to receive enough critical appraisal before they are embarked upon. It is not unusual to see in these young developing countries a number of 'white elephant' projects whose contribution to the economy may not be substantial enough to justify their establishment. Thus, there may grow a number of establishments which can thrive only behind high tariff walls or very heavy subsidies.

The developing countries have still much to learn from the experiences of the advanced countries: they can try to avoid a number of the initial mistakes which characterised industrialisation in the past. It is therefore very essential that the likely sectors for the expansion of domestic production should be identified and the alternative ways of increasing domestic production considered.


The choices should therefore be:

- (a) more efficient use of existing plant capacity,
- (b) expansion of existing plants, and
- (c) construction of new plants.

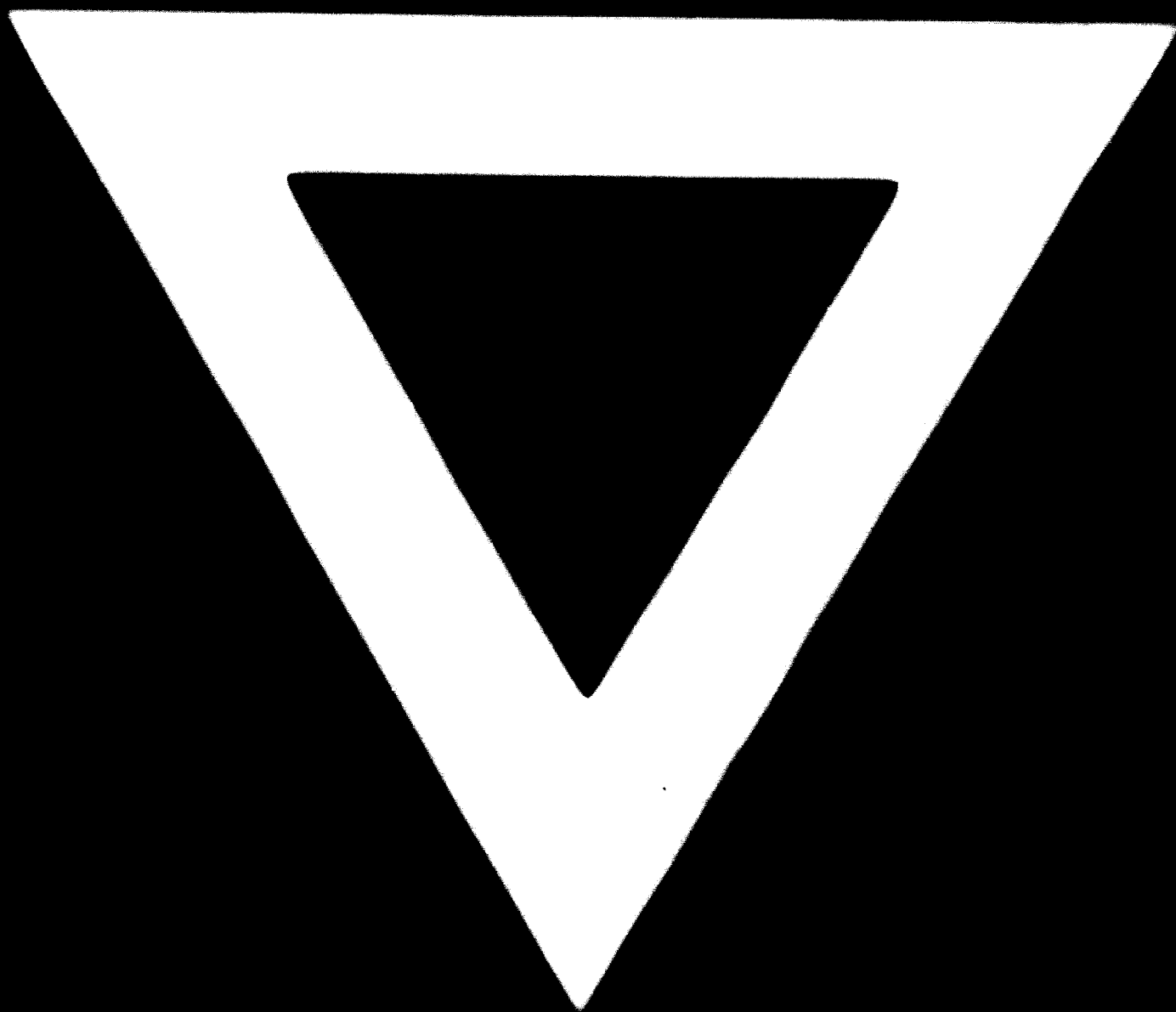
Much as it is essential that private investors are allowed freedom of choice in their fields of specialisation, it will be to the advantage of the producer and the consumer and therefore the country at large if projects established are such as will not require high tariff walls or heavy subsidies to make them viable.

This can be achieved by the setting up of Project Evaluation Divisions/units by all the governments of the Federation. These units should be staffed mainly by experts and technically qualified men or experienced civil servants whose contribution to the work can be relied upon.

One main weakness of present planning procedures is the limited data available to evaluate individual projects. Private investors and government agencies do rely on engineers, etc. to design specific projects which serve as a basis for evaluating the desirability of a given kind of investment. It may not be easy to have such facilities for many sectors in which production might be desirable. It will therefore be advantageous if arrangements could be made whereby international organisations could help the developing countries in the evaluation of a few selected projects which are most likely to contribute substantially to their development.



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