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Nigeria: Small Return On Oil Wealth

An Intelligence Assessment

Confidential

ER 78-10624
September 1978

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Approved For Release 2002/05/09 : CIA-RDP80T00702A000500010002-3

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Key Judgments

Despite the tremendous growth in oil revenues since 1973/74, Lagos is far from establishing a multiproduct economy before the mid-1980s when Nigerian oil output is expected to decline. From the economic development angle, the past four years have been marked by incredible waste of foreign exchange. Agriculture—the traditional backbone of Nigeria's economy and livelihood for most of the population—has been neglected, while small-scale entrepreneurial skills have not been nurtured to satisfy a booming local market. At the same time, the oil sector has not performed up to government expectations because of the international economic slump and official pricing policies that have made Nigerian crude among the most expensive in OPEC. Lagos now faces a revenue crunch that limits its ability to channel investment into areas of greatest need.

The government's 1976-80 development plan aims to beef up the manufacturing sector and diversify production. While more than $30 billion (including $6 billion in private investment) has been spent, we estimate that less than one-fourth of the plan has been carried out, and many of the projects completed—such as several super highways—will only marginally help future development. Contract negotiations and work under way were stalled by the overthrow of General Yakubu Gowon in July 1975 and the installation of the present military regime. Inexperienced and inefficient bureaucracies, together with inadequate skilled manpower, have caused further delays. The time lost has proven expensive, given an annual Nigerian inflation rate of 34 percent in 1975-77 and a 10-percent average annual rise in prices of Western machinery.

The government's greatest achievements so far have come in infrastructure development. Port facilities have been expanded, road networks in and around Lagos have been improved, and domestic air service, telecommunications, and electrification all are being upgraded. Advancements in essential social services such as education, health care, housing, and public sanitation

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have been less spectacular, although some progress has been made in expanding primary and higher education.

Little headway has been made on major government industrial projects. Only one new plant, the Kaduna superphosphate plant that was a carryover from the previous development plan, has come on stream. Lack of funds, difficulty in obtaining raw materials, and bureaucratic bickering have slowed work on cement, wood pulp and paper projects, two oil refineries, an LNG (liquefied natural gas) plant, and an iron and steel complex. Project cost overruns and heavy recurrent expenditures have resulted in postponement or cancellation of two other petroleum refineries, a petrochemical complex, a nitrogenous fertilizer plant, and three direct-reduction steel plants. Light industry, financed mostly by private domestic investors or local subsidiaries of multinational corporations, has fared better; production of beer, textiles, canned food, and other light industrial goods rose 15 percent a year in 1976-77.

Reflecting the government's neglect, agriculture has stagnated in recent years. Nigeria has lost its self-sufficiency in food production, and agricultural exports of peanuts, cocoa, palm oil, and rubber have declined. Many farmers have left the land in search of higher paying jobs in the cities, while disease and drought have taken their toll.

The development drive has cut deeply into Nigeria's once healthy foreign exchange reserves, which now total less than $2 billion. As imports of goods and services have mounted, oil revenues have lagged, reflecting stiff competition from North Sea and Alaskan oil as well as rigid government oil pricing policies. The current account balance slipped from a $5 billion surplus in 1974 to almost a $1 billion deficit last year. This year Lagos faces a $3.5 billion to $4.0 billion deficit. Capital inflows have fallen off in response to government steps to increase Nigerian participation in the economy, forcing Lagos to borrow heavily in the Eurodollar market in 1978.

Lagos will not be able to generate the revenues to complete the development plan on time and will be lucky if it can come up with $30 billion in total revenues over the next two years. Over the longer haul, the government's ability to cover development costs will depend on how successful it is in moderating foreign exchange expenditures on nonessentials and in stimulating additional investment by the oil companies.

Although the Obasanjo government has recently adopted a more pragmatic petroleum policy to get oil investment on the move again and has offered price incentives to boost oil sales, oil output by 1980 is not expected to be above 2.3 million to 2.4 million barrels per day (b/d), only slightly more than the 1975-77 average. Crude exports will slip back to about the 1976 rate of 2 million b/d as an increasing share of output is diverted to meet the rise of 25 percent a year expected in domestic fuel demand. Under current

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investment plans, output and exports almost certainly would fall off somewhat from these levels by the late 1980s.

Preoccupation with the transition to civilian rule scheduled for October 1979 also will interfere with the government's ability to carry out critical economic policy decisions. In light of past experience, development priorities are likely to be reshuffled by the new government, causing further delays in the program.

Given financial, political, and other constraints, completion of industrial projects seems sure to be slow. Real growth in the next several years is likely to be concentrated in services, light industry, and construction, although housing construction will not increase fast enough to alleviate overcrowding in the cities. Nigeria will not regain agricultural self-sufficiency until the government is willing to commit substantially more funds and to provide adequate incentives for private investors.

Indeed, Lagos will probably do well to maintain the preoil boom annual real growth average of 6 percent over the next several years. By the mid-1980s Nigeria will have more ports, roads, airports, and schools, but the bulk of the population will still be in subsistence agriculture. Although consumer industries will have expanded somewhat, the country will remain far short of having established a broad industrial base.

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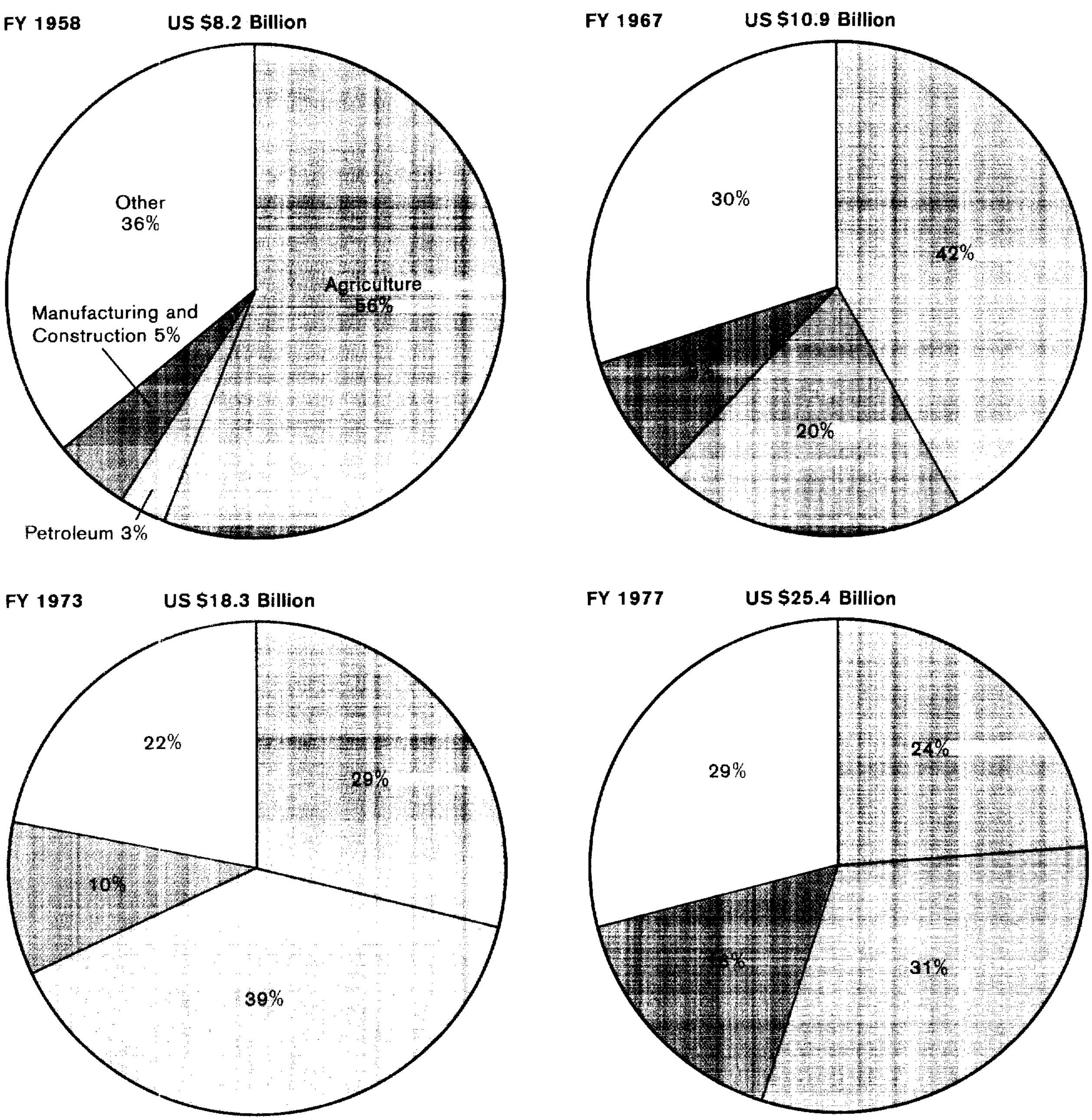
Figure 1

Nigeria: Composition of GDP



NOTE: Fiscal year begins on 1 April. All data are FY 1975 prices.

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Nigeria: Small Return on Oil Wealth

From Agriculture to Oil

Oil has transformed the face of the Nigerian economy since the Royal Dutch Shell/British Petroleum (Shell-BP) consortium made its first strike of commercial proportions in 1956. Production, which began two years later, rose gradually to 400,000 b/d on the eve of the 1967-70 civil war. Although sabotage against the industry caused oil output to plummet during the war, the end of hostilities ushered in a period of spectacular growth. Oil production increased fourfold during 1970-73, pulling GDP growth up to 9 percent annually during the period—by far the highest rate in sub-Saharan Africa. By 1973 oil dominated the Nigerian economy, accounting for 39 percent of GDP (figure 1) and for the vast bulk of government revenues and export receipts.

Before the onset of commercial oil production, Nigeria had an agricultural economy that was relatively prosperous by African standards. Although suffering in common with most African countries from a per capita income of well under $100 and a high illiteracy rate, Lagos was practically self-sufficient in food production and a leading world exporter of diverse agricultural products such as peanuts, cocoa, palm oil, and rubber. Devastated by the war, agriculture's strong recovery in the early 1970s was choked off by governmental neglect, disease, and drought. The sector's share of national output was down to 29 percent in 1973, compared with more than one-half in the late 1950s.

Up to the civil war, manufacturing was a fast-growing—if small—part of the economy. Development of simple manufactures was aided by Nigeria's British colonial heritage, that is, an impressive economic infrastructure relative to most African countries, well-developed administrative skills among the bureaucracy, and a substantial pool of business and financial skills. The war destroyed scores of local factories and forced others to close because of damage to electric power facilities and the transportation network. Expansion during the early 1970s was held back by increased competition from imports, stagnating agricultural output, and uncertainties associated with a 1972 law nationalizing various industries. Manufacturing's share of national output (including construction), which had inched up to 8 percent on the eve of the war, barely increased during the postwar reconstruction.

The Oil Price Bonanza

The quadrupling in oil prices in 1973/1974 gave Nigeria in common with other OPEC countries the opportunity to accelerate economic growth. The 200-percent jump in oil export revenues in 1974 to $9.0 billion greatly enhanced Lagos' ability to finance the imports needed to develop its manufacturing sector and diversify its production. The oil riches also revived official hopes—first expressed soon after independence and again after the civil war—that Nigeria could become a developed black African nation providing the cornerstone for economic progress in its poorer neighboring countries.

By April 1975 the government had issued an ambitious new development plan calling for $48 billion (table 1) in investments by 1980. The government intended to finance two-thirds of the plan and hoped the private sector would contribute the remainder. The plan stressed infrastructure development and industry:

- One-fourth of the investments was slated for improvements in transport and communication facilities—the main obstacle to economic development—and in electric power generation.
- One-fifth was slotted for the manufacturing sector, with most of the public funds allocated to heavy industry.

Table 1

Nigeria: Planned Public and Private Investment by Sector
FY 1976-80 [1]

	Public		Private		Total	
	Million FY 1975 US $	Percent	Million FY 1975 US $	Percent	Million FY 1975 US $	Percent
Planned investment	**32,000**	**100.0**	**16,000**	**100.0**	**48,000**	**100.0**
Agriculture	2,080	6.5	1,920	12.0	4,000	8.3
Mining	2,240	7.0	1,760	11.0	4,000	8.3
Manufacturing	6,080	19.0	3,200	20.0	9,280	19.3
Power	1,600	5.0	0	0	1,600	3.3
Building and construction	0	0	4,320	27.0	4,320	9.0
Trade	160	0.5	2,240	14.0	2,400	5.0
Transportation and communication	8,800	27.5	800	5.0	9,600	20.0
Government administration and defense	4,800	15.0	0	0	4,800	10.0
Education	2,400	7.5	0	0	2,400	5.0
Health and other services	3,840	12.0	1,760	11.0	5,600	11.7

[1] Converted at 1 naira = US $1.60. Fiscal year begins on 1 April.

- Almost one-fifth of planned investment also was scheduled for social services such as housing, water and sewage, health, and education.

Although the stress on infrastructure was realistic in terms of Nigeria's development needs, the main weaknesses of the plan were the low priority accorded to agriculture and the overemphasis on heavy industry. Allocating a mere 6.5 percent of public investment funds to agriculture, the government also made the mistake of grossly overestimating potential private investment in the sector. With Nigeria's rich soil and successful past experience with cash cropping, increased investment in agriculture could have spread income gains across a broad segment of Nigerian society. Moreover, the private sector was given primary responsibility for beefing up the country's light industry, which would also expand the job-creating potential of development expenditures.

Less attention was paid to details than to overall plan strategy. Project completion dates were uniformly optimistic, often based on optimum construction schedules in the United States and Western Europe. Government officials frequently selected project locations on the basis of politics, overlooking such factors as terrain and access to transport facilities. Moreover, the plan's assumption that Nigerians would fill most technical positions ignored the fact that local higher educational facilities could provide less than one-half the projected yearly requirement for skilled manpower.

Problems in Implementing the Plan

In Nigeria, political factors disrupted carry-through of the development effort, compounding mistakes made in common with most OPEC countries by inexperienced and inefficient bureaucracies. The wholesale removal of seasoned civil servants following the overthrow of General Yakubu Gowon in July 1975 by the Supreme Military Council (SMC) stalled contract negotiations and work on projects under way. Even after the initial settling-in period, the SMC remained a hindrance to plan implementation. As part of an overall development review exercise, it insisted on approving all contracts for new projects. The result was a flood of technical presentations largely outside the new government's expertise and further delays in project approvals.

Following the 1975 coup, the government embarked on periodic drives to eliminate endemic bureaucratic corruption through personnel transfers and firings. Many senior positions were filled with unqualified people, often unable or unwilling to make crucial decisions. A major corruption scandal last year involving illegal currency transactions paralyzed foreign currency operations for six months. The scandal, which involved Nigerian and foreign businessmen along with their accomplices in the central bank, the port authority, customs, and probably the Ministry of Finance, produced more than 200 arrests and triggered a wave of government resignations. Import orders stacked up because central bank employees preferred to do nothing rather than risk implication in the scandal.

With Nigerian inflation running at 34 percent annually in 1975-77 and prices of Western machinery rising on the order of 10 percent a year, the delays in plan implementation on top of changes in project specifications created by governmental change and inefficiency added substantially to development costs. Officials of the Ministry of Economic Development estimate that costs have risen 250 percent since the plan was drawn up three years ago. Although this is undoubtedly an exaggeration, costs have risen dramatically. Price tags on 16 major development projects, for instance, have jumped from $4.5 billion in Fiscal Year 1975 to $11 billion in FY 1977 (table 2).

Table 2

Nigeria: Projected Costs of Selected Projects [1]

Million US $

Project	Original Cost (FY 1975)	Revised Cost (FY 1977)
Warri Petroleum Refinery	256	765
Jebba Hydroelectric Power Plant	47	157
Expansion of transmission lines	267	428
Rural electrification scheme	144	238
Road projects:		
Lagos Inner Ring Road	508	929
Port Harcourt – Enugu Highway	80	411
Lagos – Abeokuta Highway	7	54
Okene – Kaduna Highway	102	214
Kaduna – Kano Highway	15	47
Ikom – Katsina Ala Highway	50	122
Ibadan – Oluku Highway	34	129
Airport construction	666	1,055
Telecommunications projects	1,680	4,443
Teaching hospitals	320	608
Military barracks	152	797
Warships and other naval craft	160	608

[1] Based on official projections or reported values of contracts already awarded. The fiscal year begins on 1 April.

The Oil Bubble Bursts

The development drive has cut deeply into Nigeria's once-healthy foreign exchange bank balance. As imports of goods and services have mounted, oil revenues have lagged, reflecting stiff competition from new oil sources in recent years. The current account slipped from a $5 billion surplus in 1974 to almost a $1 billion deficit last year (table 3). Official assets have declined by $3.5 billion in the past two and a half years, to $1.9 billion in August 1978, and Lagos has decided to borrow on the Eurodollar market to shore up its foreign exchange position. It negotiated a $1 billion Eurodollar loan earlier this year and just completed renegotiation for an additional $750 million loan.

Between 1973 and 1977, the value of imports rose at an average annual rate of 50 percent, led by purchases of machinery and equipment, which accounted for more than two-fifths of total imports in the period (figure 2). Imports of other manufactured goods also rose sharply since the construction boom and increased government wages sparked a consumer spending binge. Specifically:

- Purchases of machinery rose 50 percent annually in 1974-77, led by a 700-percent increase in imports of electric generating equipment and a 500-percent boost in orders for industrial machinery.
- Deliveries of transport equipment skyrocketed, fueled by record demand for private cars and trucks; commercial aircraft sales also picked up as the government-owned airline moved to expand both domestic and international operations.
- Manufactured imports of all kinds showed marked increases, rising 41 percent annually in the period; construction materials—steel and cement—more than tripled, and consumer goods—often nonessential items such as television sets and stereos—soared until the SMC imposed import controls on an array of

Table 3

Nigeria: Balance of Payments [1]

Billion US $

	1973	1974	1975	1976	1977
Trade balance	1.9	7.3	2.7	3.8	3.2
Exports, f.o.b.	3.6	9.7	7.9	10.2	11.9
Oil	3.1	9.0	7.4	9.5	10.7
Nonoil	0.6	0.7	0.5	0.7	1.2
Imports, f.o.b.[2]	1.7	2.4	5.2	6.4	8.7
Services and private transfers, net	−1.9	−2.4	−2.7	−4.0	−4.2
Freight and insurance	−0.2	−0.2	−0.8	−1.3	−1.7
Other transportation	0	0	−0.1	−0.4	−0.1
Travel	0	−0.1	−0.2	−0.3	−0.3
Investment income	−1.0	−0.6	0.1	−0.3	0
Other government services	0	−0.4	−0.5	−0.5	−0.5
Other private services	−0.7	−0.8	−1.2	−1.0	−1.4
Private transfers	−0.1	−0.1	−0.1	−0.1	−0.2
Current account balance	**Negl**	**5.0**	**Negl**	**−0.3**	**−0.9**
Capital account balance	0.3	−0.1	0.2	0	0.1
Direct investment	0.4	0.3	0.5	0.4	0.2
Other government	−0.1	0	−0.4	−0.4	0
Other private [3]	0	−0.2	0.1	0	−0.1
Change in foreign assets	0.3	5.1	0.2	−0.3	−0.8
Total foreign assets, yearend	0.6	5.7	5.8	5.5	4.6

[1] Because of rounding, components may not add to the totals shown.
[2] Represents shipments, including goods in transit and continued backlogs in ports.
[3] Including estimated lags in oil company payments to federal government.

foreign luxuries in 1977 and again this spring.

- Food imports also rose dramatically; the development drive pulled many farmers off the land, while rising urban incomes stimulated food demand, particularly for nontraditional items such as rice and processed foods.

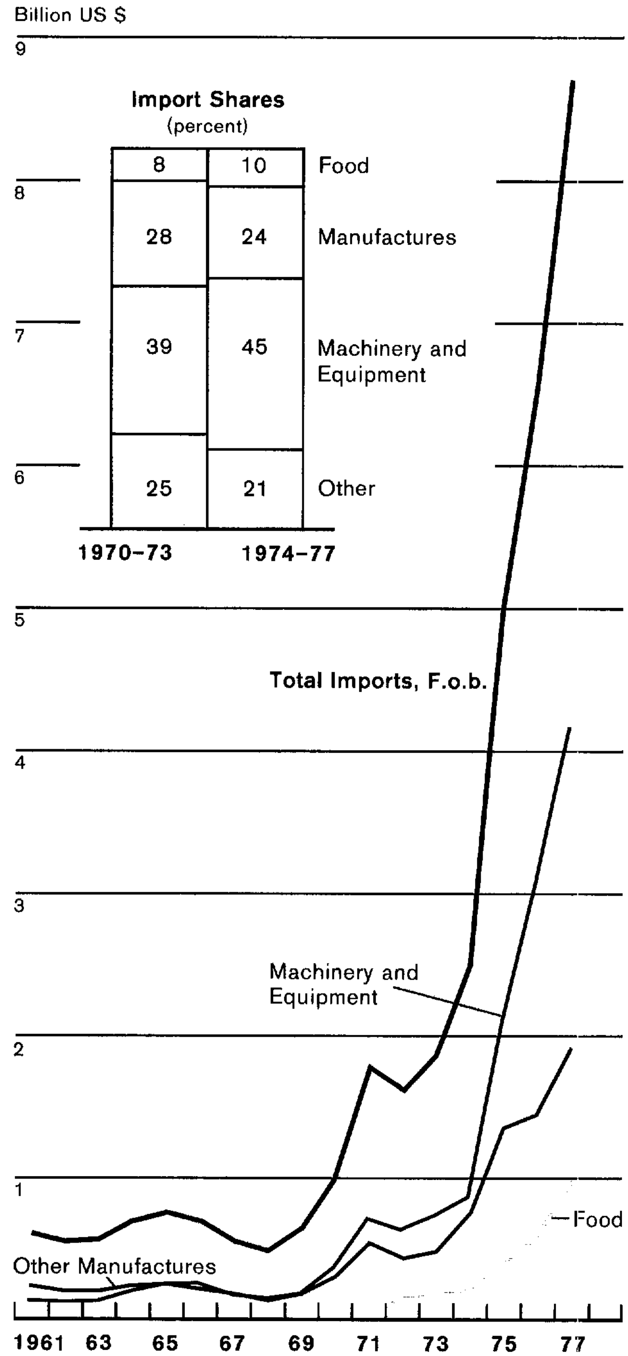
At the same time, the growth in export revenues lagged. Although average oil prices rose between 1974 and 1977, production slipped to 1.8 million b/d in 1975 and stayed at about 2.1 million b/d in the next two years. Demand for Nigerian crude, which accounts for 90 percent of export receipts, was particularly affected by the increased availability of North Sea and Alaskan oil, which are of similar quality. Because the transportation costs are lower on these competing oils and the supplies appear more secure, many West European and US consumers switched sources. Government oil pricing policies, moreover, placed Nigeria at a disadvantage relative to traditional competitors such as Libya and Algeria. Meanwhile, oil demand in the developed countries in these years was low due to the sluggish pace of economic activity.

The deficit on services and transfers more than doubled in 1974-77. Most of the increase reflected rising freight and insurance payments on imports. Payments for government and private services also rose steadily as the development drive progressed. As in other OPEC countries, charges for private consulting services often were considerably inflated.

As the current account deficit worsened, capital inflows fell off, largely reflecting the Obasanjo government's steps to increase Nigerian participation in the economy. All businesses in Nigeria were required to have at least 40 percent local ownership by 1979. Various other legislation affected profit repatriation and tax allowances. The indigenization program plus the day-to-day frustrations of doing business with the SMC prodded many foreign businessmen to scale back or postpone their capital programs.

Figure 2

Nigeria: Import Trends (customs data)



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Instead of the large net capital inflows the government planners had optimistically envisioned, direct investment has fallen steadily since 1975, and the capital account has been just about in balance.

Accomplishments To Date

So far Lagos has relatively little to show for its oil price dividend. More than $30 billion (including $6 billion in private investment) has been spent on the development drive, but we estimate that less than one-fourth of the plan has been carried out. Although GNP has risen about 7.5 percent a year since 1973, somewhat above the rates achieved in the early 1970s when oil production escalated rapidly, the development effort has barely reduced Nigerian dependence on oil. It has involved only a small portion of the country's population. For most Nigerians, life has not changed.

Progress has been most substantial in the areas of economic and social infrastructure, although even here gains have been spotty. Light industry has benefited from expanding consumer demand in recent years, facilitating a little import substitution. Despite government emphasis on heavy industry, almost nothing has been done; numerous projects have been canceled or postponed indefinitely. Farm output has registered only small increases and agriculture's share of national output continues its long-term decline.

Economic Infrastructure: Major Strides

Acknowledging Nigeria's vast size and the gross inefficiencies in transporting people and goods, the government has moved quickly to beef up the country's transport and communications facilities. Emphasis has been placed on expanding port facilities and completing ongoing construction of a network of expressways in and around Lagos to ease an unprecedented backlog of ships and the city's infamous traffic jams (see table 4). Substantial improvements are also progressing in domestic air service, telecommunications, and electrification. Nevertheless, Nigeria in the early 1980s will still have an inadequate road network outside the Lagos area; the vast bulk of the countryside will lack telephones and electric power; and a shortage of skilled personnel to run and maintain the power, transport, and communications network will remain a major stumbling block to rapid economic progress.

Table 4

Nigeria: Status of Planned Major Facilities

	Current Status	Estimated Share of Project Complete 1977 (Percent)
Infrastructure		
Port expansion		
Lagos Phase I	Under construction	75
Lagos Phase II	Design stage	
Other port expansion	Under construction	40
Port Harcourt, Warri, Calabar		
2,700-kilometer petroleum pipeline	Under construction	20
Roads		
Lagos Inner Ring Road	Under construction	80
Lagos-Ibadan Expressway	Under construction	75
Lagos-Benin City Expressway	Under construction	75
Onitsha-Enugu Expressway	Design stage	
Jos-Makurdi Road	Design stage	
Conversion of railroad to standard guage	Design stage	
Power plants		
Shiroro hydroelectric	Contract awarded	
Jebba hydroelectric	Design stage	
Sapele thermal	Under construction	50
Airport construction		
Lagos	Under construction	70
Kano	Under construction	30
Ilorin	Under construction	85
Port Harcourt	Under construction	60
Maiduguri	Under construction	20
Industry		
LNG plants (two)	Design stage; plants merged into one	
Refineries		
Warri	Under construction	70
Kaduna	Under construction	10
Port Harcourt (expansion)	No contract	
Two other	No contract—one indefinitely postponed	
Petrochemical complex	No contract	
Nitrogenous fertilizer plant	No contract	
Ajaokuta steel plant	Design stage	
Direct reduction steel plants (five planned)	Contract awarded (1) three canceled	
Cement plants (seven planned)	Three under construction	30
Integrated sugar projects (two planned)	One under construction	20
Pulp and paper mills (two planned; expansion of one existing mill)	Under construction	30

Nigeria has made good progress in expanding its *ports*. At Lagos, the country's largest port and site of the worst conditions of any OPEC country in 1975, capacity has been increased with the opening this past fall of a new port facility at Tin Can Island capable of handling 1 million metric tons a year [redacted] Additional berthing space at the existing Lagos port complex also is near completion, and work has begun on replacing the Lagos customs wharves that were torn down in late 1975 to make way for a major expressway. Expansion efforts are also well under way at Port Harcourt and other smaller ports. By 1980, Nigeria should have 39 berths and some of the most modern facilities in the world. 25X1

Substantial funds also have been allocated to modernize Nigeria's *civil air* establishment. With the absence of reliable telecommunications and land transport systems, air travel has become increasingly important as a means of carrying out business and government activities expeditiously. An airport construction program is well along that will permit the use of the most advanced types of commercial aircraft and connect Lagos with each of the 19 state capitals. The number of international airports is being raised from two to seven, with at least one located in each of the principal geographic regions, which eventually should make it easier to do business in Nigeria. Aircraft purchases have been stepped up to bolster both domestic and overseas service, but ground operations remain hampered by shortages of skilled personnel and maintenance equipment.

Road improvements are attracting the most money. In addition to the $1 billion Lagos Inner Ring Road project, expressways are almost finished that will link the capital with other major urban areas in southern and western Nigeria. Progress elsewhere is spotty:

- Only one bridge is under construction to supplement four others across the 1,600-kilometer Niger-Benue River system that cuts through the country.
- Feeder roads linking agricultural areas with principal highways have been largely ignored.

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- Traffic jams are still the rule in all urban areas, and moving goods through eastern Nigeria is particularly slow.
- High-speed highways in northern and eastern Nigeria are in very early stages of construction, precluding the prospect of rapid cross-country travel for several years.

A major effort also has been under way to improve the availability of *electric power* throughout the country. Since the civil war, consumption of power has nearly tripled, overloading existing facilities and causing frequent and lengthy power cuts that disrupt industrial production. Two large power plants are under construction along with an expansion of Nigeria's largest facility at Kainji; all will eventually hook up with the existing national grid. Three more hydroelectric plants also are on the boards but are not slated to start up until the mid-1980s. When completed, these projects should provide adequate installed capacity for planned industrial and residential needs in the cities through the next 15 to 20 years. Some work is being carried forward on the ambitious rural electrification program, but the bulk of the countryside will continue to rely on traditional fuel sources for the foreseeable future.

Economic efficiency has also been hampered by an inadequate *telecommunications* network. Telephone service in the cities is largely nonexistent, and routine business must be carried out in person. Elsewhere, many parts of Nigeria are without any means of rapid communication. Lucrative contracts have been awarded to several expatriate firms to increase the number of telephone exchanges by almost tenfold, to expand external communications capability, and to set up microwave systems in more isolated areas.

Only a fraction of the countryside will have access to a microwave radio; moreover, most of these contracts are on a turnkey basis, with little attention being paid to training Nigerians to operate and keep up the equipment.

Social Infrastructure: Limited Headway

A second principal objective of the 1976-80 development program has been major advancements in both the quality and availability of essential social services. An intensive education program to reduce illiteracy and enlarge the pool of local skilled labor has headed the list. Some progress has been made in expanding the number of *hospital* beds, but hopes of bringing basic medical care to the countryside and smaller towns have been disappointed by the continuing lack of trained personnel. Token allocations have kept public sanitation projects pretty much at a standstill along with any pretense at carrying out urban planning and developing leisure activities.

After a rather auspicious beginning, the government *education* program has progressed slowly. A universal primary education scheme—probably the most ambitious single project in the entire development drive—started on schedule but quickly bogged down as a result of a shortage of qualified teachers, classroom space, and equipment. Higher education has been given a major push through a substantial building program and—until recently—subsidized tuition. Instruction, however, remains concentrated on liberal arts, while technical and vocational training are still limited.

While the building industry has profited enormously since the 1973/74 oil price hikes, the vast majority of Nigerians continue to lack decent *housing*. One population survey reveals an average of seven people per room in Lagos, and conditions in the countryside remain primitive. Substantial public funds are tied up in office and luxury housing construction, including a federal complex in Lagos that will eventually contain most federal ministries, new quarters and offices for civil servants and other professionals in each of the 19 states, and a project to build new facilities for Nigeria's 200,000-man Army. Private money is centered on commercial office space and luxury housing in Lagos and other principal cities. Even with these efforts, the government's original goal of 200,000 public and private housing units by 1980 will not likely be attained.

Industry: Disappointing Results

A number of objectives have guided industrial policy under the 1976-80 plan:

- Establishment of a viable industrial base before oil output starts to decline in the mid-1980s.
- Development of a substantial heavy manufacturing sector to reduce Nigerian dependence on imports of machinery and semi-manufactures.
- Expansion of domestic light industry to supply the bulk of consumer goods.
- An increase in Nigerian participation in all phases of industrial production.

In terms of implementation, little has been done except for the indigenization decree announced early last year.

Before severe port congestion disrupted deliveries of essential machinery and spare parts, the private sector responded to the jump in demand for all types of consumer goods by boosting *light industrial output*—particularly of textiles—by almost 25 percent in 1975. Growth during the past two years has slowed to about 15 percent a year, because of electric power shortages, import restrictions, and frequent job transfers by skilled workers trying to circumvent a government wage freeze imposed in 1976 in a vain attempt to control inflation (figure 4). Even with this healthy expansion, the share of light industry in GDP increased only marginally by yearend 1977, to an estimated 5 to 6 percent.

Several new projects have been started that will expand domestic production of beer, cars, and canned food, but substantial imports, particularly vehicles and processed foods, are likely for the foreseeable future. These projects have been financed largely by private domestic investors, or local subsidiaries of multinational corporations; Lagos has limited its involvement primarily to heavy industry.

Little movement has been observed on major heavy industrial projects, and *heavy manufacturing* still accounts for only a few percentage points of national output. The only new plant to come on stream is the Kaduna superphosphate plant, a carryover from the previous development plan. Work is continuing on boosting production of cement as well as wood pulp and paper, but

Figure 4

Nigeria: Industrial Production Trends

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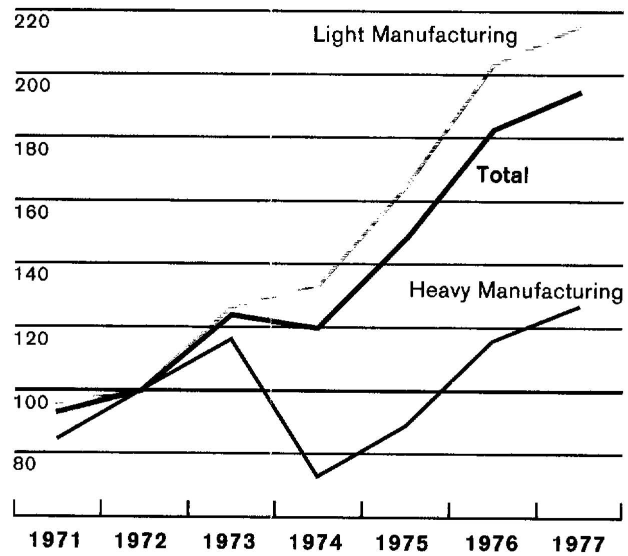

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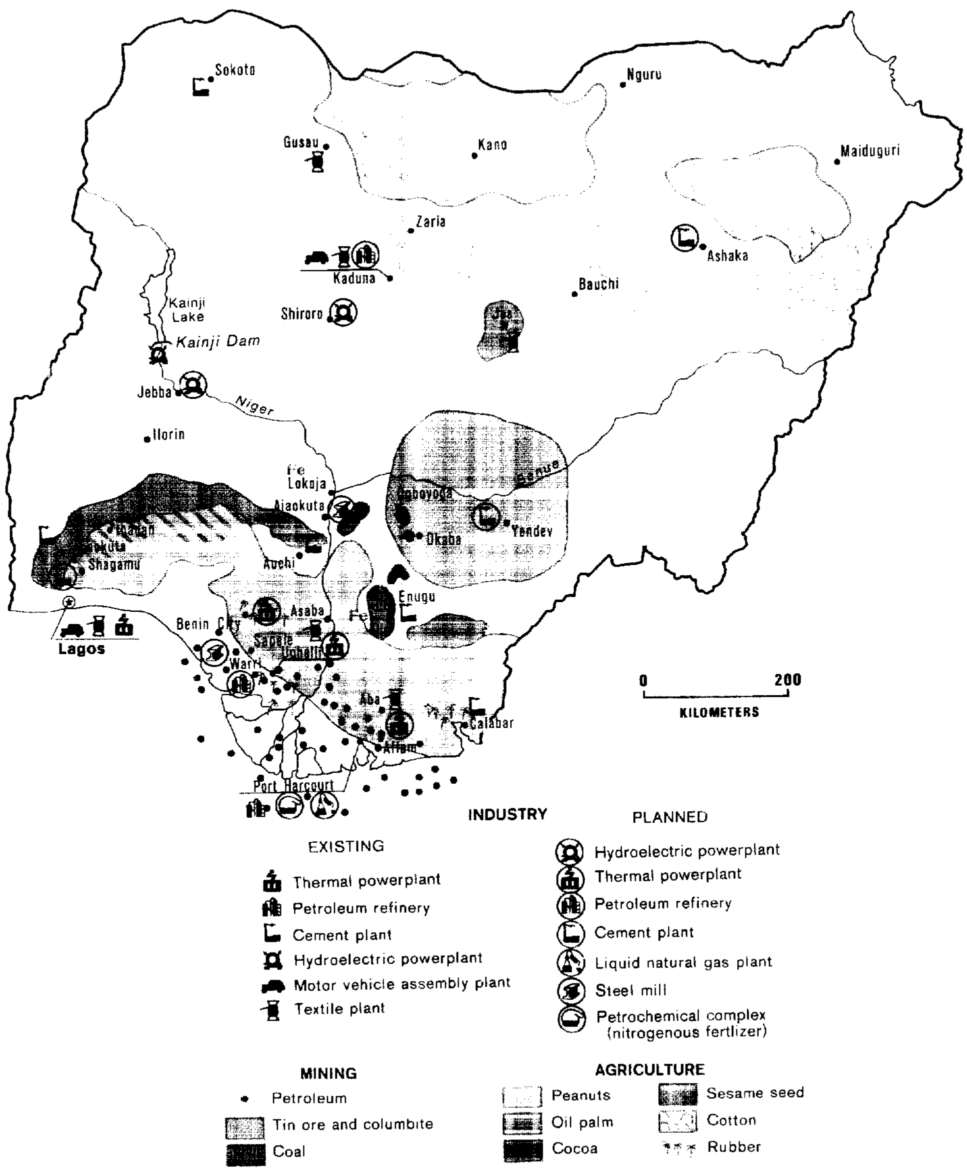
present plans still will not cover domestic needs. Growth in this sector was set back by a decline in output in 1974 due to difficulties in obtaining raw materials abroad and in distributing them at home. Expanded output of construction materials now is leading growth in the sector, which last year registered output 10 percent higher than in 1973.

Although work is well along on oil refineries at Warri and Kaduna, Lagos must still import substantial amounts of gasoline and other fuels. In addition, bureaucratic bickering and lack of funds have held up negotiations on several other refineries and on such facilities as an LNG plant, a petrochemical complex, and a nitrogenous fertilizer plant (figure 5). Progress on the high-priority, 1.5-million-ton iron and steel complex to be built by the USSR has been frustrated by the lack of agreement on such basic issues as sources of raw materials, ultimate size of the facility, and the number of Soviets to be involved in construction. As an alternative, the government recently

Figure 5

Nigeria: Economic Activity



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awarded contracts to a West German firm for a 500,000-ton direct reduction steel complex that would use Nigerian natural gas as a fuel source. Production of both LNG and simple rolled steel could begin as early as 1983, some two to three years behind schedule. While LNG exports would provide a partial offset to declining oil earnings, steel output will supply only a fraction of total internal consumption.

Prospects for additional heavy industrial projects getting under way anytime soon are dim. Project cost overruns and unexpectedly heavy recurrent expenditures have forced Lagos to scale down its investment program substantially. The result has been an indefinite postponement or cancellation of several project proposals. Among the victims are two petroleum refineries, the petrochemical complex, the nitrogenous fertilizer plant, and three direct reduction steel plants. Government loan programs to facilitate industrial development in the various states have also suffered.

Agriculture: Suffering From Neglect

Accorded many fine words but relatively little hard cash in the development program, agriculture has received only a small share of public attention. Although government-set producer prices for major export crops were raised an average of 30 percent in both 1975 and 1976, farm incomes have barely kept pace with inflation. Investment credit for farmers has been hard to come by, and only a fraction of the planned credit volume has been made available despite government pressure on commercial banks to increase agricultural loans. Distribution of fertilizers and other inputs has bogged down, initially as a result of port congestion and later because of internal distribution problems.

Some progress has been made in government-sponsored irrigation projects, but other major programs involving commercial crop and livestock development projects have been largely ignored by the regime. More positively, Lagos decided recently to allow farmers to sell cassava, yams, and other staples for the first time to federal commodity boards, thereby guaranteeing them a ready market and a minimum income. The boards are still waiting for government guidelines, and it is uncertain whether prices will be sufficiently attractive to boost production of locally grown food crops.

Reflecting its low priority, agricultural output has fallen short of the targeted annual growth rate of 5 percent. Nigeria has lost its self-sufficiency in food production, and agricultural exports have declined (figure 6). Many farmers have left the land in search of higher paying jobs in the cities. Many who have remained have cut back on commercial farming largely because of transport and storage bottlenecks that prevent crops from reaching the market place in good shape.

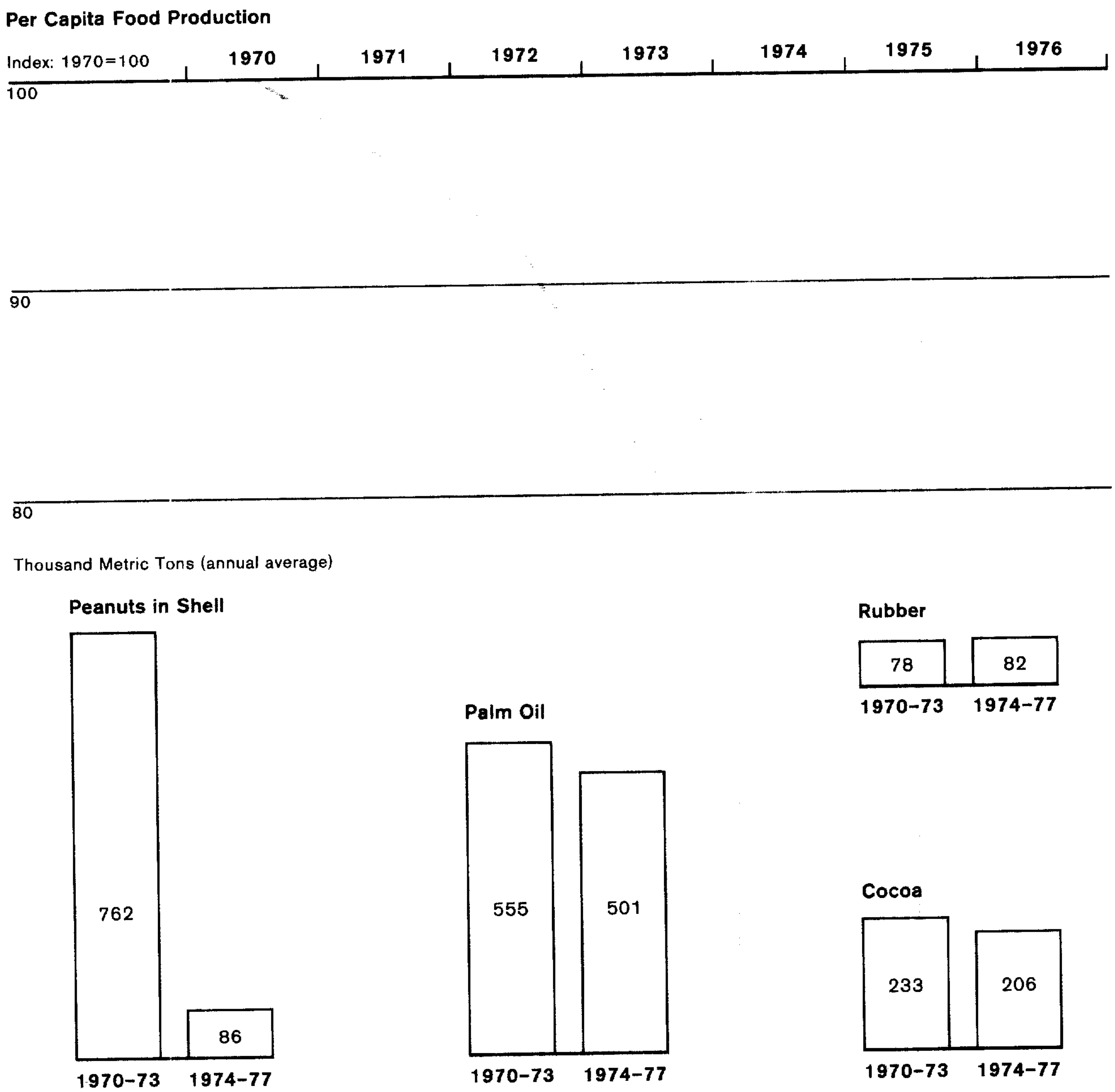
Food shortages in urban areas are frequently severe, and the government was forced to import record amounts of foodstuffs in 1977. Cocoa production is down as a result of a shortage of labor and the absence of a long-term investment program to replace aging trees. During the height of the port backup in 1975 and 1976, cocoa exports were negligible as ships were required to leave as soon as their cargo was offloaded. Recent peanut harvests have been devastated by disease and drought, and Nigeria—formerly the world's leading peanut exporter—is now importing peanut oil. Output of other key cash crops such as *rubber* and *palm oil* has not recovered from the devastation of the 1967-70 civil war.

Oil: Set Back by Poor Policies

To conserve Nigeria's limited oil resources and yet maintain a high level of vital revenues to finance the ongoing development program, the present regime has followed an aggressive oil policy that has placed severe strains on government relations with the producing oil companies. Lagos has imposed production ceilings on most of the oilfields. In many cases, these ceilings are so low that wells are producing at uneconomic levels; in others, the reduced flow rate is causing wells to become clogged with sand, affecting their productive capacity. Until recently, the government focused its pricing efforts on maxi-

Figure 6

Nigeria: Agricultural Production



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mizing per-barrel revenues through several unilateral price increases that have made Nigerian oil among the most expensive of OPEC crudes. Company profits during much of the 1975-77 period hovered around 30 cents per barrel, which officials claimed was inadequate.

Nigeria is feeling the impact. Sustainable production capacity has declined from 2.5 million b/d to 2.3 million b/d as a result of (1) the absence of proper routine maintenance to prevent wells from sanding up and (2) normal depletion of developed reservoirs without bringing enough new wells into operation. Nigeria's high-priced crudes have also been hit hard by the increased availability of lower-priced oil during the current world market slump. Output slipped from an average of 2.1 million b/d last year to 1.5 million b/d in March 1978, the lowest in more than six years, although it is recovering a little now that Saudi Arabia has reduced its output of light crude.

Since last summer, the government has indicated that it is finally coming around to a more pragmatic petroleum policy. Lagos first attempted to get oil investment on the move again by providing a package of increased tax writeoffs and other financial incentives to expand oil company operations and to speed up development of high-cost offshore areas:

- For companies not yet producing oil, the profit tax rate will be reduced from 85 percent to 65.75 percent until all preproduction costs are recovered.
- Exploration and drilling costs and costs of the first two appraisal wells may be written off during the year these expenses occur. Previously, only the costs of dry wells could be expensed.
- Royalty payments will be reduced for offshore production.
- Investment tax credits will be granted, ranging from 5 percent for equipment used on land to 20 percent for assets used in deep sea exploration.
- Companies will be permitted to amortize all but 1 percent annual investment expenditures within five years, compared with the previous timespan of seven to eight years.

The effects of the new measures vary widely among fields and companies. Potential profit margins now range from 25 cents for current producers operating onshore fields to $1.27 for companies not now operating in Nigeria who decide to produce offshore in depths greater than 100 meters (table 5).

More recently, Nigeria has adopted a more flexible oil pricing policy designed to boost sales and stabilize company profits. Lagos has cut prices twice this year and is offering an additional discount to both third-party customers who sign long-term contracts and producing companies who raise their liftings beyond the average for the January-March 1978 period. At the same time, the government still requires the foreign companies to sell up to 27,000 b/d to Nigeria's one refinery at an administrative price of $3 per barrel, compared with tax and royalty costs of more than $12.

Slow, Unsteady Progress Ahead

The petroleum industry remains the dominant force in Nigeria's economy, and continued economic development will hinge on the government's ability to generate and use fruitfully oil revenues. Just to carry out the rest of the planned development program, the government would need more than $50 billion in addition to private investment on the order of $30 billion. Available funds will fall well short of these requirements, however, forcing both government officials and private entrepreneurs to be more selective in undertaking particular projects. Numerous programs will have to be stretched out, while others will be postponed indefinitely or canceled. In any event, a shaky political outlook augurs ill for major strides in the development effort through the mid-1980s.

The Revenue Pinch

Lagos simply will not be able to generate the revenues needed to pay for the 1976-80 development plan on time, even assuming that completion was technically feasible. The government will be lucky if it can come up with $30 billion in

Table 5

Nigeria: New Royalty and Tax Rates

US $ Per Barrel

	Onshore (Bonny Light)		Offshore (Qua Iboe)			
			Water Shallower than 100 Meters		Water Deeper than 100 Meters	
	Old Producer	New Producer	Old Producer	New Producer	Old Producer	New Producer
1. Posted price [1]	14.94	14.94	14.94	14.94	14.94	14.94
2. Royalty	2.99	2.99	2.76	2.76	2.49	2.49
(Percent of 1 above)	(20)	(20)	(18.5)	(18.5)	(16.67)	(16.67)
3. Production cost [2]	1.00	1.00	1.00	1.00	1.00	1.00
4. Profits for tax purposes (1-(2+3))	10.95	10.95	11.18	11.18	11.45	11.45
5. Tax	9.31	7.20	9.50	7.35	9.73	7.53
(Percent of 4 above)	(85)	(65.75)	(85)	(65.75)	(85)	(65.75)
6. Harbor dues	0.02	0.02	0.02	0.02	0.02	0.02
7. Government revenues (2+5+6)	12.32	10.21	12.28	10.13	12.24	10.04
8. Cost of equity oil (3+7) (45 percent of production)	13.32	11.21	13.28	11.13	13.24	11.04
9. Cost of government participation oil [3] (55 percent of production)	13.87	13.87	13.87	13.87	13.87	13.87
10. Average weighted cost	13.62	12.67	13.60	12.64	13.59	12.60
11. Average government revenue (10-3)	12.62	11.67	12.60	11.64	12.59	11.60
12. Company margin (9-10)	0.25	1.20	0.27	1.23	0.28	1.27

[1] As of April 1978.
[2] Deduction permitted by government.
[3] Including $0.25 rebate for purchases of participation oil beyond first quarter 1978 liftings.

total revenues in the next two years (table 6). Oil, which provides the bulk of the receipts and foreign exchange to pay for the imports, is not likely to show much growth. Any assistance from LNG production depends on solving basic problems such as pricing and customers. Other revenues—largely taxes on international trade—will be constrained by government import restrictions as part of a comprehensive program to improve Nigeria's balance of payments.

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[redacted] crude exports will slip back to about the 1976 rate of 2 million b/d, as an increasing share of output is diverted to meet the rise of 25 percent a year in domestic fuel demand. At these rates, government oil earnings in 1979-80 will total only around $20 billion even assuming a 5-percent oil price increase in 1979 and a 6-percent rise in 1980.

Beyond the next few years, oil revenue prospects will depend on developments in world oil prices. Production declines are likely after the mid-1980s unless the government is able to bring new wells on stream from still unexploited deep-water areas. [redacted] 25X1

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[redacted]

Other financing possibilities are limited. Foreign assets are down to less than $2 billion, and Lagos already has built up an equivalent foreign debt. Additional recourse to the Eurodollar market may be colored by the country's unhealthy political outlook and the lack of substantial new export revenues. Moreover, the continued inabil-

Table 6

Nigeria: Government Revenues [1]

Billion US $

	FY 1976	Estimated FY 1977	Projected FY 1978	Projected FY 1979	Projected FY 1980
Revenue	**9.6**	**11.5**	**12.5**	**13.5**	**15.4**
Federal	9.1	10.8	11.5	12.1	13.5
Oil [2]	7.1	9.2	9.1	9.5	10.3
Government	4.0	5.2	5.2	5.5	5.8
Company	3.1	4.0	3.9	4.0	4.4
Nonoil	2.0	1.6	2.4	2.7	3.3
State [3]	0.6	0.8	1.1	1.4	1.9

[1] Because of rounding, components may not add to the totals shown. The fiscal year begins on 1 April.
[2] Excluding federal grants and loans.
[3] At current oil prices for 1976-78; assumes a 5-percent oil price rise in 1979 and a 6-percent rise in 1980.

ity of the local economy to supply more than a fraction of domestic needs suggests that a growing share of overseas borrowing will probably be for consumer imports rather than for development projects unless Lagos becomes more successful than it has been in moderating inflows of consumer goods.

The Political Factor

In addition to these problems, the government's ability to make critical economic policy decisions could suffer during the last and most difficult year in Nigeria's transition to civilian rule scheduled for October 1979. The regime will be heavily engaged in overseeing the revival of civilian political activity and the holding of elections. Political campaigning could exacerbate Nigeria's regional and ethnic tensions and lead to sporadic civil disorders.

Lagos must keep the development program going; discontent over the lack of economic advances under General Gowon was instrumental in the widespread support for the July 1975 coup. In addition, the government's new austerity program caused serious student violence and civil unrest earlier this year. However, the current crop of civilian politicians includes few, if any, leaders or groups capable of transcending for long the deep-seated ethnic and tribal antagonisms in Nigeria. The turnover at minimum will produce an intense jockeying for position in the new government, during which the economic program will take a back seat. A period of uncertainty and possible instability, involving serious setbacks to economic progress, is not out of the question.

Development priorities may also be affected by the anticipated change in political leadership next year. The ongoing consensus is that the civilian regime will be dominated by northern Hausa-Fulani elements in coalition with eastern Ibos. The new leadership may well decide to boost the share of investment funds going to these areas; most contract awards thus far are for the projects in southern urban areas. Although such a move would focus more attention on the important agricultural and light industrial sectors, government officials will have to be careful not to jeopardize further Nigeria's much-delayed heavy industrialization program.

Other Constraints on Growth

Even under the best of circumstances, a number of factors will moderate the pace of development. Nigeria will continue to lack adequate skilled manpower. Of the estimated 500,000 additional skilled workers needed by 1980, no more than 300,000 Nigerian higher education graduates will be entering the job market, most with liberal arts degrees. Filling the gap with

Figure 7

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imported labor is likely to be hampered by the cumbersome expatriate quota system, the limited availability of housing and other amenities, and the government's desire to minimize dependency on foreign managerial and technical talent (figure 7).

Development will also suffer from the government's inability to attract increased private investment. Foreign capital will be slow to come as long as the ongoing indigenization program is in effect, and meaningful changes are not expected any time soon, given the nationalistic attitude of most Nigerians with regard to overseas business. Domestic investment will be held back by high startup costs and the recent government anti-inflation move to restrict new bank credit to the private sector.

Conclusions

The bottom line of the 1976-80 development drive is not terribly impressive. Government expenditures have been marked by incredible waste in terms of a contribution to future economic expansion. A substantial share of Nigeria's oil money has gone to finance consumer goods and a massive office building program. Although Nigeria has more ports, roads, airports, and schools, establishment of an industrial base is not much further along than in 1975. Services for the most part are even more chaotic, and agriculture continues to falter.

Prospects for major strides in the development effort in the next several years are clouded by a growing financial crunch as a result of stagnating oil production and by an uncertain political future that may well see increased ethnic and regional tensions that were generally muted during the long years of military rule. Indeed, real growth during the next several years will probably do well to maintain the preoil boom annual average of 6 percent. With more industrial projects likely to be stretched out or canceled, most of the expected real growth will be concentrated in services, light industry, and construction.

Even so, housing construction will not increase fast enough to alleviate the severe overcrowding in urban areas. Progress in broadening the manufacturing base will lag far behind demand for a wide range of items, especially consumer durables, leading to a continued heavy need for imports. Finally, the investment required to return Nigeria to agricultural self-sufficiency is likely to remain substantially beyond what the government will be willing to commit.

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This report was prepared by the Office of Economic Research. Queries and comments are welcome and should be directed to [redacted]

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