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Industrial policy of Nigeria (policies, incentives, guidlines and institutional framework, 1988): Federal Ministry of Industries, Abuja. 56pp

K.M. Obitayo

INDUSTRIAL POLICY OF NIGERIA (POLICIES, INCENTIVES, GUIDELINES AND INSTITUTIONAL FRAMEWORK, 1988)
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The document titled *Industrial Policy of Nigeria* was produced by the Federal Ministry of Industry and was released to the public on January 14th, 1989. The document presents a comprehensive national industrial policy which is aimed at achieving accelerated pace of industrial growth in the Nigerian economy.

The booklet consists of seven chapters. The first chapter analyses the post-independence structure, nature, characteristics and problems of the manufacturing sector, and provides the justification for government's initiatives in the industrial sector. The second chapter outlines the various policy objectives, strategies and measures necessary to promote growth. The third chapter presents the approved package of incentives which are essentially designed to encourage local and foreign investors. The incentives are classified into five groups, namely, fiscal instruments of taxation, effective protection with import tariff, export promotion of Nigerian products, foreign currency facility for international trade, and development banking. The fourth chapter provides information on requirements for establishing business and industries in Nigeria. The fifth chapter focuses largely on the institutional framework, embracing the various governmental agencies, their locations and specific functions. The sixth chapter provides the rationale for government's decision to review the Nigerian Enterprises Promotion Decree (NEPD), while the last chapter contains the relevant laws and regulations binding on local and foreign investors.

The first chapter attributes the economy's post independence dominance of assembly-type manufacturing of consumer goods to two factors. The first factor was the adoption of a policy of import substitution which meant a high import bill for raw materials as well as capital and intermediate goods. This resulted in low value added ratios and low level of structural interdependence. The manufacturing sector eventually became characterised in the late 70's by high geographical concentration, poor utilization of available resources, inadequate infrastructures, high production costs, idle industrial capacity, plant closures, and low level of foreign investment. The second factor was the low participation of the private sector in investment opportunities, owing to lack of both technological skill and heavy capital outlay, which paved the way for government's initiatives in investing in diversified portfolio of industrial projects to fill the gap. Ultimately, the poor returns from these projects together with huge balance of payment deficit, rising foreign debts, and high inflation, compelled the government to embark on the Structural Adjustment Programme (SAP) to re-structure and diversify the production base of the economy. As part of the Structural Adjustment Programme government has changed the regulatory environment of the whole economy, the structure of protection for local industries and the incentives available for investors, both local and foreign.

The thrust of this review is to appraise the main features of the new industrial policy, its objectives, strategies and the useful tools designed for the efficient allocation and utilisation of resources. The review will compare the present policy with the previous one, identify areas of new emphasis, modifications, weak points or inherent limiting factors, to the success of the policy. Finally attempts will be made to evaluate whether, given all the above, the new policy can achieve its set objectives and targets within the shortest possible time.

Objectives and Strategies of Industrial Policy

The chief objective of the national industrial policy is to achieve an accelerated pace of industrial development for the country by making the industrial sector the main source of strength for the economy. The elements of this objective are highlighted below along with the strategies:

(i) *Provision of greater employment opportunities to stem the social and political consequences of unemployment:* Government accords high priority to small and medium enterprises (SMEs) as avenue to generate employment. It plans to establish Small Scale Industries Corporation (SSIC) as a coordinating umbrella organisation and effective institutional structure capable of providing technical services and credit facilities to viable SMEs

(ii) *Increased export of manufactured goods:* The strategy for making Nigeria's exports more competitive internationally and profitable to the industrialists includes the liberalised regulatory environment, promotion of export free zones, liberalisation of access to foreign exchange, establishment of a realistic rate for the Naira, and other fiscal and financial incentives.

(iii) *Promotion of industrial development and national integration through industrial dispersal:* The strategy for achieving this objective entails the division of the local government areas into three zones, using industrial production in gross and per capital basis, available social and economic infrastructures, and level of labour market development, as criteria for grouping the areas.

(iv) *Improvement of the nation's technological capacity:* Government intends to give active support to industrial research and development efforts by encouraging agents of industrial research and manpower training.

(v) *Increasing local content of industrial output to promote greater linkages and backward integration in order to raise the general level of economic activity:* The strategy here is to encourage the use of local raw materials through fiscal incentives, which allow between 120-140% of expenses on Research and Development (R & D) as tax deductible to industries that source thier raw materials locally.

(vi) *Attracting foreign investment to attain accelerated pace of industrial development:* The strategy entails liberalisation of access to foreign exchange through an open foreign exchange market, easier capital and dividend repatriation through less cumbersome procedures, the review and amendment made to the Nigerian Enterprises Promotion Decree (NEPD) and the Debt Conversion Programme, all of which are designed to open up more areas to attract foreign investments.

(vii) *Increased private sector participation aimed at accelerated pace of industrial development:* Government seeks to achieve this through privatization and commercialization of public sector investments. The Debt Conversion Programme is also slated for a major role in this regard.

Policy Tools and Strategies for Achieving the Objectives

The major policy instruments for achieving the stated objectives are found in the approved package of incentives designed to induce greater support for the industrial development objectives. The incentives are grouped into five:

(i) Fiscal measures on taxation and interest rates to allow for deductions and allowances in the determination of taxes payable by manufacturing enterprises. These fiscal measures include Pioneer Status or Income Tax Relief Act, Tax relief for Research and Development, companies income tax relief Act, Capital allowance to aid capital formation, Tax free dividends, Tax relief for investments in economically disadvantaged local government areas, Double Taxation (Income Tax Act of 1979) amended by Decree No. 4, 1985 and the Group of Companies Taxation;

(ii) Effective protection with import tariff to ensure that locally produced goods are efficiently processed, and are competitive in both domestic and export markets;

(iii) Export promotion incentives such as import duty drawback to facilitate diversification, export licence and excise tax, export credit guarantee and insurance schemes to enhance international competitiveness and as cushion against unforseen risks, export expansion fund, and export adjustment scheme fund;

(iv) Foreign currency facility to ensure efficient and competitiveness of local production, easier movement of investible funds, goods, and services in and out of Nigeria, greater and easier access to the foreign exchange market (FEM), repatriation of imported capital, payment of technology fees, and foreign currency Domiciliary Account;

(v) Development banking, set up to offer specialised services, such as soft loans and advances to industries on concessionary terms.

Appraisal of Industrial Policy

The new industrial policy is essentially an update of the last one. However, set objectives, strategies, and instruments are modified and articulated in line with the dynamics of changing times. Apart from providing information and guidelines to investors, it addresses many hitherto unforseen problems that have emerged since the last policy was published in 1980. These problems include insufficient incentives, inadequate financial resources, weak institutional support and tedious regulatory framework. An analysis of these constraints seem to suggest that much is yet to be accomplished in the area of policy implementations, especially since strategies and technical details essential for implementation are not provided. One hopes, however, that with the creation of the IDCC (Industrial Development Coordinating Committee) implementation of the measures will not be too difficult.

Nonetheless, problems still abound. The industrial sector is still plagued by inadequate infrastructural facilities. There are yet no set target dates for the implementation of the stated measures. Political instability inherent in frequent changes of government and strategies does not encourage a favourable investment environment. The introduction of 3-year rolling plans to harmonize annual budgets with industrial policy measures so as to enhance both the review and control system could make long-term planning difficult. In spite of these problems, however, the new approach especially in the underlisted areas, hold out better hope that the new industrial policy will be more successful than the earlier one in turning the economy around for a sustained growth.

(i) A high priority is placed specifically on the SMEs as engine of industrial growth as well as a medium of employment generation. Other measures indicative of government's determination to develop SMEs include plan to establish the Small Scale Industries Corporation (SSIC) as a coordinating umbrella organisation, a broad based mechanism of credit delivery involving a mix of financial institutions, the lifting of restrictions on licenced banks' equity participation in profitable joint-venture projects with Nigerian entrepreneurs. In this regard commercial and merchant banks were specifically enjoined in the 1989 budget to create Small Scale Industrial Departments in their respective folds. The other measures include the formation of SMEs Apex Unit within the Central Bank to assist in the disbursement of the World Bank's $270 million loans to small entrepreneurs and the establishment of the National Economic Recovery Fund (NERF), a funding mechanism equipped with an initial $550 million in stock to correct the inadequacies in providing medium term loans for SMEs. In view of the dearth of affordable foreign exchange for the SMEs, the NERF will enable SMEs to raise enough money to finance foreign exchange requirements, especially for the import of machinery and spare parts. The prospective SMEs which intend to benefit from both the NERF and bank's joint ventures provision are expected to source not less than 80 per cent of their raw materials locally.

(ii) Though export promotion receives a substantial attention in the new policy, exporters still need adequate funds, achievable only through the implementation of export incentives. At present, only the Currency Retention Scheme is being enjoyed by the exporters while other export incentives like the Export Development fund and the Export Credit Guarantee Scheme are yet to be implemented. Nonetheless, it is noteworthy that problems surrounding the non-implementation of the Duty Drawback have been addressed by the government in the 1989 budget, as ₦10 million is provided to cover duty refunds. The establishment of export free zone as centre point for harnessing exportable products in commercial quantities contained in the previous document has not been accomplished. The problem of who to fund the export free zones is the major set back. Since government has agreed to give a matching grants for the construction of states' industrial estates, government may need to give a big push by providing similar grants to finance the establishment of export free zones to stimulate the private sector's initiatives. Until export free zones are established to take advantage of relatively low labour costs in standardized goods, a substantial growth in increased export of manufactured goods may remain elusive.

(iii) The establishment of Raw Materials Research Development Council (RMRDC) to allocate resources for R & D as well as identify the raw materials substitutes is commendable. The tax relief provision for R & D allows between 120-140 per cent of expenses on R & D. Although in the 1989 budget, which predates the release of the industrial policy, government allows only 10 per cent before tax, as free incentives for R & D activities. Aside from the fact that the tax incentives in the budget is inadequate it also contradicts the 120-140 per cent tax deductible in the industrial policy. This issue needs to be clarified as industrialists may be confused as to what exactly is tax deductible on R & D expenditures.

(iv) Efforts are currently being made to remove waste by making public enterprises viable through privatisation and efficient through commercialisation. Secondly, the number of governmental agencies giving supportive services have been increased and their specific functions elaborated. Efforts should now be made to re-arrange those with overlapping functions: For instance, the functions of the Industrial Development Centres (IDC) should be harmonized with those of the SSIC.

(v) The industrial policy, for the first time, has attempted to ensure stability by taking cognisance of the views and comments expressed by the organised private sector in line with the spirit of collaboration through regular consultation. The document is intended to endure for a decade as a way to encourage consistency and continuity in industrial policies. The environmental dynamism in a changing economy like Nigeria requires a periodic revision of industrial objectives, strategies and measures. Government had consequently set aside the Fifth National Development Plan for the 3-year rolling plans, since no concrete achievement or corresponding improvements were achieved in the previous planned periods. Owing to the need to match unique capabilities with potentials for future opportunities and growth, the unforeseen problems that may crop up anytime, the demand for speedy implementation of strategies and measures, government may need to set the targets for accomplishments. Through the targets, a mandatory control procedure will be established to provide adequate feed back information, while the review process will be made flexible and dynamic.

Conclusions

Much of the anticipated economic recovery rests largely on increased inflow of foreign capital and utilization of local inputs. At present, about 55 per cent of total raw materials used in the manufacturing sector are imported, while more than 70 per cent of the basic industrial raw materials imported are petrochemical derivatives. Various intermediate plants are needed to synthesize raw materials from petrochemical compounds. With a near 100 per cent accomplishment in sourcing agro-allied inputs locally, the absence of intermediate plants may stall the effective utilisation of local raw materials, as well as the desire to achieve a 60 per cent capacity utilisation rates. The establishment of intermediate plants seem a viable area for consortium of banks' equity participation in joint-ventures with Nigerian entrepreneurs. Also, the importation, duplication and multiplication of machinery, given on hire-purchase basis to SMEs, is another option. Government may need to waive the import duty on prototype machinery brought in specifically to enhance local productions.

The direction of new industrial policy seemed predicated on substantially increased revenue generation from non-oil products, especially export of manufactured goods. Efforts must be intensified to increase the nation's resources which will make speedy implementation feasible within the shortest possible time. The modifications in the strategies and measures, if implemented, are bound to give multiplier effects to the economy. Government needs to maximise areas of strength, eliminate the weak points and resolve the likely areas of conflicts and contradiction in the document. Industrialists will no doubt find the new industrial policy useful.

Alhaji K.M. Obitayo,
Principal Economist,
Research Department.

"PRIVATISATION AND PUBLIC ENTERPRISES"

BY

RICHARD HEMMING AND ALI M. MANSOOR

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One of the major issues which has come to dominate the social, political and economic agenda of both developed and developing countries in recent times relates to the desirability of the policy of privatisation of public enterprises. "While such swinging of the pendulum away from public sector dominance to 'shareholder democracy' could be justified on the basis of reducing national deficits and allowing governments to channel their revenues more effectively in the developed economies, the Third World's embrace of the scheme appears startling as it marks a radical departure from the policy of nationalization which they willingly embarked upon immediately after their political independence with the hope of gaining strong foothold in their economies that had previously suffered under the evils of colonialism and imperialism". In their paper, 'Privatization and Public Enterprises' Hemming and Mansoor examined the role that privatization could play in overcoming the numerous problems associated with the public enterprises. The main text of the paper is divided into five parts, apart from Part I which introduces the subject matter, namely:

(a) Public Enterprises and the Economy;
(b) Benefits, techniques, experience and problems of privatization;
(c) Privatization and competition policy;
(d) Fiscal Impact of Privatization;
(e) Main Conclusions and Implications for Adjustment Programs.

The rationale for the establishment and operation of parastatals is the focus of the analysis in Part II. In general, while the authors acknowledged the essential role which parastatals perform in the provision of compelling social services which otherwise would have been neglected, or provided at a very high cost by the private sector entrepreneurs, they however questioned whether the derivable benefits from the operations of parastatals outweigh the costs involved in their operations. In their opinion, excessive political interference, financial indiscipline and insensitivity to consumers' demand, leading to both productive and allocative inefficiency, are among the inherent weaknesses of public enterprises. As a solution to these major pitfalls of public enterprises, Part III of the paper recommends for the privatization of these corporations.

Part IV, of the article enumerated the derivable benefits of privatization among which are efficiency gains in both production and allocation of resources, removal of political interference and administrative red-tapism from the operation of the privatized enterprises, and improvement in government fiscal operation. However, the authors cautioned that these perceived efficiency gains may not materialise if the privatization scheme is not pursued simultaneously with economic and financial liberalization, which will foster competition. Part V analysed the fiscal impact of privatization, and noted the positive influence of the exercise on government budgetary operations. The paper concluded, in Part VI, that given the different structure and objectives of the public enterprise sector in developing countries, vis-a-vis the developed ones, the character of privatization schemes must vary. This is so because since the incidence of market failures are more apparent in developing countries, social and non commercial objectives do predominate. These fundamental differences, the authors noted, call for greater sensitivity and ingenuity on the part of any government (particularly in developing countries) embarking on privatization schemes.

The analysis carried out by the authors is quite commendable. However, while it is agreed that public enterprises in developing countries such as Nigeria, are plagued with poor management, lack of clear managerial objectives, and a high degree of political interference, it must be mentioned that the abuses perpetrated by private enterprises in their quest to maximize operational efficiency are equally numerous. In Nigeria for instance, private enterprises have been accused of such practices as over-invoicing, transfer-pricing as well as tax evasion and avoidance.

While proven cases of successful privatization were largely drawn from France and United Kingdom, including a handful of developing countries, it is however important for the authors to carefully delineate the motives behind the divestiture in both developed and developing countries. Elliot Berg, in his paper 'Privatization: A Pragmatic Approach', pointed out that in the developed economies, privatization essentially involves an attempt to reinvigorate a poorly run state enterprise while in the developing countries, it implies dispensing with a "loser", i.e. a state enterprise that is sapping the national budget and credit resources. Consequently there is no guarantee that the fiscal crisis of the government would improve with the implementation of privatization. In fact, it must be mentioned that a well-developed financial market which creates the proper legal, fiscal and institutional framework conducive to increasing the volume and efficiency of the flow of financial resources is a prerequisite for a successful privatization. Unfortunately the package of this institutional framework is not available in most developing countries.

Finally, while the term 'Privatization' as employed by the authors seems quite appropriate, particularly in developed countries where state intervention has been reduced through diverstiture of government stocks, 'Re-Privatization' would seem more appropriate in most of the developing countries, since in the latter (developing countries) what existed was the taking over by government of business enterprises that were originally in the private sector and ultimately turning them over again to the private sector. This fundamental difference raises a big question as to whether the perceived efficiency gains of privatization could be realised by the developing countries. For one thing, the initial take over of such enterprises by the government of these countries was due to both market failures as well as abuses of colonial era capitalism.

In conclusion the paper is quite educative and rather appropriate to the current situation in Nigeria where the privatization exercise is an important item in government policy.

J.A. Aremu,
Senior Economist,
Research Department.