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August 2005
IMF Country Report No. 05/303

Nigeria: Selected Issues and Statistical Appendix

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

NIGERIA

Selected Issues and Statistical Appendix

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June 24, 2005

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INTRODUCTION

1. This selected issues paper and the statistical appendix provide background information to the staff report on the 2005 Article IV consultation with Nigeria.[1]

2. The staff report discusses the challenges facing Nigeria in building on the achievements of 2004. The authorities will have to maintain macroeconomic stability while implementing ambitious structural reforms aimed at reducing the costs of doing business in Nigeria and supporting faster growth and poverty reduction. The staff report evaluates positively the decisive actions Nigeria has already taken in key areas and draws attention to the challenges ahead, such as the implementation of a more expansionary 2005 federal budget in the context of high oil prices, the strengthening of public expenditure management, improvements in infrastructure and public service delivery, privatization, and tariff reform. This paper supports the staff report's evaluation of these key challenges.

An Oil Stabilization Fund for Nigeria

3. The first chapter analyzes the potential for using an oil stabilization fund to protect public spending from oil price volatility. It also presents the rationale for using a medium-term moving average of past oil prices to determine fiscal policy, depositing surpluses in a fund, and tapping into the fund to finance deficits. Based on the statistical properties of past oil prices (highly volatile with a very weak tendency to return to their mean after a shock), the chapter argues that fiscal policy cannot be based on a long-term average oil price, because surpluses accumulated during periods of high oil prices would probably be very large, and deficits during periods of low oil prices would probably deplete any existing fund. In both cases, the government would be forced to abandon its predetermined fiscal policy, which could entail sizable adjustment costs. While using a moving average would not completely delink fiscal spending from oil price volatility, it would prevent sudden, large adjustments.

4. The analysis shows that with fiscal policy determined by a moving average of oil prices over the past 3-5 years, the government needs liquidity reserves of US$16-18 billion to be reasonably well insured against a necessary adjustment.

Reforms for Private Sector–Led Growth

5. The government's ambitious and broad-based medium-term economic reform strategy—the National Economic Empowerment and Development Strategy (NEEDS)—aims to break with the misguided government-led development paradigm of the past that created a difficult environment for the private sector. The second chapter describes the deep-rooted structural and economic problems facing the economy, and argues that they need to be

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[1] See Nigeria: Staff Report for the 2005 Article IV Consultation, IMF Country Report, www.imf.org.

addressed to help Nigeria grow out of a low-savings-and-investment trap. It draws heavily on the NEEDS, and two World Bank surveys, *Doing Business* and *Investment Climate Survey*; and the World Economic Forum's Global Competitiveness Report.

6. The chapter discusses the main areas of priority in the NEEDS: public sector governance, infrastructure, business regulations and the legal environment, and the financial sector. It concludes that the emphasis on these areas in the NEEDS shows that the authorities have identified those reforms that will improve the investment climate and correct for past policy mistakes. The chapter argues that, with the right policies, Nigeria can achieve higher per capita growth, and make significant progress in lowering poverty. The main challenge facing Nigeria's policymakers is to persevere and implement the reform agenda consistently.

Pension Reform

7. With its approval of the new Pension Act in June 2004, Nigeria introduced a major reform of the pension system. This act seeks to establish a contributory, fully funded scheme for both the public and private sectors. It will be based on individual accounts that will be privately managed by administrators, with pension fund assets held by custodians. It replaces a range of largely unregulated and highly diverse pension arrangements, including the pay-as-you-go pension systems for federal government employees. Chapter III describes the reform and analyzes its potential benefits and drawbacks on the basis of the literature on old-age security and international experience with similar reforms.

8. The chapter points out that the pension reform, as currently designed, entails substantial short-term fiscal costs, with apparently limited savings in long-term fiscal costs, and implies a sizable reduction in benefits for future pensioners relative to current beneficiaries. In that context, the chapter argues for a reduction in both statutory benefits for current pensioners and documented liabilities to workers shifting from the old to the new system, as well as for protection for the lowest-income beneficiaries through progressive cuts in statutory benefits. The reform's potential benefits in terms of improved management of pension funds and financial deepening will depend critically on the establishment of adequate technological, institutional, and regulatory frameworks.

Nigerian Trade Policy

9. The fourth chapter provides an overview of trade policies in Nigeria, with a particular focus on changes in these policies in the past two years. It shows that little progress has been made toward liberalizing trade and that Nigeria's trade policy regime continues to be among the most restrictive in the world. Nigeria's homegrown strategy, or NEEDS, adopted in 2004 recognizes the shortcomings of the current trade policy framework. Consistent with the trade policy strategy elaborated in NEEDS, the government will significantly lower import barriers. The chapter concludes with suggestions on how the trade reforms can be broadened and deepened.

I. An Oil Stabilization Fund for Nigeria[2]

A. Introduction and Overview

10. **In oil-dependent countries, a major issue is how to stabilize fiscal spending when government revenue fluctuates along with the international price of oil. Nigeria is highly dependent on revenue from oil exports, in terms of both its balance of payments and government revenue.** Most of Nigeria's oil and gas resources, which are abundant relative to current production levels, are exploited by joint ventures between foreign oil companies and the Nigerian National Petroleum Corporation (NNPC). Domestic income from oil and gas accrues to a very large extent to the government in the form of proceeds from equity oil sales and taxes on private companies. Private income from oil and gas leaves Nigeria largely through profit remittances. Because international oil prices are volatile, the government's revenue from oil and gas is also volatile. Fiscal spending has been equally volatile, leading to boom-bust cycles, which are partly to blame for Nigeria's disappointing growth performance since independence.[3]

11. **To stabilize fiscal spending, the government must first stabilize the non-oil deficit—that is, the difference between its non-oil revenue and its spending, thereby resulting in an overall surplus or deficit when oil prices are higher or lower than anticipated.** Overall deficits incurred in years with low oil prices need to be financed, and surpluses in years with high oil prices need to be disposed of. Because Nigeria cannot easily borrow in international capital markets, it may not have a source of financing for budget deficits when oil prices are low. A stabilization fund would allow the government to pull through an oil price trough and absorb windfall revenue when prices are high. This paper discusses fiscal policy and the design of a stabilization fund.

12. **The government has two alternatives for holding financial assets in a stabilization fund that provides fiscal liquidity reserves.** The assets can either be part of government deposits in the central bank, or be held in a separate foreign currency commercial bank account.[4] In 2004, Nigeria deposited its windfall oil revenue in a central bank account, with monetary and exchange rate policy determining the relationship between fiscal deposits in the central bank and foreign reserves held by the central bank. Obviously, government deposits would closely mirror foreign reserves taking into account the import content of government spending to avoid liquidity injection or withdrawal in line with government deposit drawdown or buildup.

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[2] Prepared by Ulrich Bartsch.

[3] Engel and Meller (1993), Caballero (2000), IMF (2004), Krichene (forthcoming).

[4] For macroeconomic stabilization purposes, it is important that the financial assets be kept in foreign currency to limit the domestic liquidity injection from oil exports.

13. **This chapter focuses on two key issues.** First, given uncertainty of future oil prices, how much of its revenues should the Nigerian government spend? Fiscal policy design would be relatively straightforward if oil prices fluctuated in a reasonably short time around a long-term average, in which case the government should spend its mean expected oil revenue while maintaining a precautionary liquidity reserve for low-price periods. But because oil prices show very weak mean reversion—that is, oil price shocks are of long duration and the long-term average oil price is of little use for policymaking as shown in the appendix—the government has more difficulty determining its fiscal policy.

14. **The chapter proposes that Nigeria use moving averages of past oil prices to estimate its future revenue and that it base its spending on this expected revenue.** This solution strikes a balance between using this year's price to estimate next year's revenue, which would lead to the smallest forecast error because of the statistical properties of oil prices— such a policy would transmit oil price volatility to the economy—and using a long-term average price, which could lead to large and persistent surpluses and deficits because of the slow mean reversion of oil prices. Given the trade-off between stability of spending and over- or under-shooting actual oil revenue, this chapter argues that Nigeria should base spending on revenue projected on the basis of moving averages of oil prices over three to five years.

15. **Irrespective of which method the government uses to guide its spending, any fiscal policy would run up against the difference between budgeted oil revenue and realized oil revenue.** The question that arises about the design of a stabilization fund is, therefore, how much is enough: what level of assets should the government have in a stabilization fund to give assurance that it can maintain a stable fiscal policy.

16. **This chapter uses repeated simulations of a numerical fiscal policy model with randomly generated parameters (Monte Carlo simulations) to look at the probability that a given level of assets in the stabilization fund is exhausted over a certain number of years.** The model presented in Section D is based on randomly generated oil prices, where the data-generation process was estimated on the basis of real oil prices over the period 1861-2004 (see appendix). The simulations provide probabilities of the government's encountering a budget crisis when, because of a liquidity constraint, it cannot spend the amounts budgeted. The simulations show that with a fiscal policy based on moving averages over three to five years, a stabilization fund of about 75 percent of 2004 oil revenue would be adequate. Section E derives the implications of the Monte Carlo simulations for fiscal policy in Nigeria and concludes that fiscal liquidity reserves of US$16-18 billion would be adequate.

B. The Views in the Literature

17. **The literature on oil-dependent countries and revenue volatility clearly points out that delinking spending from revenue is important to promote macroeconomic**

stability and create an enabling environment for growth.[5] Two possibilities for delinking are discussed: self-insurance through diversification of revenue and stabilization funds and transfer of risk to international capital markets (hedging).[6] Diversification may take a long time and may not be compatible with a country's comparative advantage. Hedging may be constrained by the limitations of futures markets: liquidity in long-dated instruments with maturities of more than one year is still limited (compared with Nigeria's production volumes). In addition, hedging requires a high level of skill and oversight, and its political pay-offs may be very asymmetrical: the minister of finance may gain little political capital from the stabilization of revenue when oil prices fall, but may face severe criticism when prices rise and the country does not benefit from the upswing. Doubts over Nigeria's creditworthiness may also make it difficult for the government to participate effectively in futures markets and would prevent it from borrowing when oil prices fell.[7]

18. **Countries whose economies depend on natural resources have had mixed experiences with stabilization funds.** Apart from Norway and Alaska,[8] funds have usually not fulfilled the expectations of their creators.[9] In several cases, the countries adopted rigid rules for depositing assets into and withdrawing them from the fund, which meant that the assets accumulated while budget deficits required financing, either domestic or external. Often, funds could not withstand the political pressure to use assets when natural resource prices were higher than their historical averages. If depleted, stabilization funds could not fulfill their role when resource prices slumped. In several countries, funds also developed lives of their own taking over budgetary functions by financing "national priority" investment projects.

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[5] See for example Engel and Meller (1993), Hausmann and Rigobon (2003), and Caballero (2000).

[6] Arrau and Claessens (1992), Valdès (1993), Daniel (2003). Interestingly, a third option to reduce revenue volatility does not seem to attract much attention: governments could design fiscal regimes for private oil companies such that the companies rather than the governments shoulder the price risk.

[7] In principle, governments can print money when resource revenue falls short of expectations. Printing money would not, of course, enable the government to buy foreign goods and would also trigger domestic inflation and currency depreciation. After creating a short-lived illusion, the government would be worse off than before. This option for dealing with revenue uncertainty is therefore not discussed in the literature.

[8] It should be noted that funds in Alaska and Norway and as well as some other countries, including Kuwait and Oman, have also been set up to hold oil revenue for future generations to ensure intergenerational equity.

[9] See Davis and others (2001).

19. **The literature therefore provides clear guidance on the design of such funds.** Most importantly, experience has shown that effective stabilization funds are fully integrated in the budget and are not based on specific rules that determine the accumulation of assets in or their withdrawal from the fund. Instead, changes in fund assets are derived from the difference between oil revenue and the non-oil primary balance. The question therefore is how to determine the level of expenditure.

20. **Assuming that holding assets in a stabilization fund is costly (the interest earned on the assets is less than the return the government could derive from an alternative use of those assets), the government maximizes utility, which it derives from spending, under uncertainty over income and facing a borrowing constraint.** While the maximization problem is straightforward, its analytical solution is not.

21. **Monte Carlo simulations can indicate the level of assets the government should hold in a stabilization fund.** The model presented in Arrau and Claessens (1992) derives precautionary savings from utility maximization over two periods, with each period representing one month. Using plausible parameters for risk aversion and interest rates, the Monte Carlo simulations show that about 40 percent of a government's monthly earnings would be held in a stabilization fund. Their analysis does not explicitly impose fiscal stabilization; rather fiscal stabilization is a result of spending and saving decisions in each period. The spending path in the simulations is less volatile than revenue, showing the extent to which the stabilization fund is successful.

22. **This chapter is not based on an explicit maximization model, but instead imposes a simple fiscal policy rule from the outset to stabilize the non-oil primary balance and takes into account a longer time horizon.** Rather than determining the optimal level of stabilization and fund assets, it focuses on making explicit the trade-offs between stabilization and costs and on providing a more intuitive approach to determine how much is enough. The results compare well with those of Arrau and Claessens: although it is proposed here that a stabilization fund should have a higher level of assets than what they derive, the path of spending is also more stable.

23. **The literature on stabilization funds makes little mention of the relationship between the government's liquidity and the central bank's international reserves.** Research on reserve adequacy has not examined stabilizing fiscal spending when government revenue depends on volatile international prices.[10] Studies on reserve adequacy in the 1960s and 1970s focused mainly on the current account and yielded the rule of thumb that reserves should cover three months of imports. Following the financial crises of the late 1990s, the literature focused on the risk of a currency crisis stemming from sudden capital flow reversals. It is based on the Baumol-Tobin inventory model with fixed costs of depleting and

[10] See, for example, Frenkel and Jovanovic (1981) and Flood and Marion (2002) for a recent review.

replenishing reserves and has yielded a new rule of thumb, coined by Federal Reserve Chairman Alan Greenspan (1999), that reserves should fully cover short-term foreign liabilities.[11]

C. Stabilizing Fiscal Spending

24. **Policymakers need to determine what level of non-oil deficit can be maintained over time.** As discussed in the appendix, however, a sizable body of literature looking into the behavior of oil prices concludes that they are subject to large shocks and have a very weak tendency to revert to a mean. For practical purposes, today's price is therefore the best predictor of tomorrow's, and no medium- or long-term mean can be determined to anchor government spending. A fiscal policy based on a long-term oil price would, at some point, lead to either large deficits, the depletion of stabilization assets, and the accumulation of debt or to the accumulation of very large financial assets, which would be hard to justify in poor countries.

25. **Because year-to-year oil price volatility can be quite large, a fiscal policy based on oil prices in the previous year would transmit oil price swings to the economy with a one-year lag.** The resulting "boom-bust" cycles have been observed in many oil-dependent countries in the past. To avoid such cycles, fiscal spending should instead be anchored on a slow-moving, medium-term budget oil price.[12] A trade-off exists between fiscal stabilization and the errors made in projecting oil prices: the more fiscal spending is delinked from oil revenue, the higher the likelihood of fiscal deficits and surpluses. This section illuminates the trade-off by showing forecasting errors and forecast volatility for different degrees of stabilization.

Forecasting errors

26. **A moving average of past oil prices provides a possible medium-term anchor for fiscal policy.** Table 1 compares different time spans over which the moving average can be determined. It shows the errors that would have been made in projecting oil prices using moving averages over one to nine years.[13] For example, projections based on a moving

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[11] Jeanne and Rancière (forthcoming, 2005) develop a maximization model with costs of reserves (interest rate differential) and risk aversion given a probability of facing a financial crisis. The results support the "Greenspan rule."

[12] Fiscal policy would be based on an oil price rule, that is, it would target a balanced budget at the budget oil price. Actual oil prices higher or lower than the budget oil price would lead to surpluses or deficits. This policy is equivalent to choosing a stable non-oil balance.

[13] The table calculates the root of the mean of squared differences between moving averages over one to nine years and actual prices.

average over the preceding four years would have diverged from actual prices by an average of US$10.2 per barrel for the period 1861-2003.

Table 1. Root Mean Squared Errors for Price Projections Based on Moving Averages, 1861-2003

	Averaging period, number of years								
	1	2	3	4	5	6	7	8	9
Errors (in U.S. dollars)									
Full sample	9.1	10.9	11.5	10.2	9.7	9.9	10.3	10.9	11.7
1970-2003	10.6	12.1	13.5	14.9	14.9	15.9	17.3	18.5	19.8

Sources: BP Statistical Review of World Energy, author's calculations.

27. **The same projections over the period 1970-2003 would have missed actual prices by an average of $14.9 per barrel.**[14] The errors are smallest in the first column, that is, when the previous year is used to project prices. The longer the averaging period, the greater the error, at least in the volatile world following the nationalizations and ascent of the Organization of Petroleum Exporting Countries (OPEC) in the 1970s. This finding is consistent with the near-random-walk properties of oil prices: last year's price is the best predictor of today's, as shown in the first column of Table 1.

Forecast volatility

28. **If, however, the random walk price rule—this year's price is used to project next year's revenue—were followed, the volatility of fiscal spending would be high.** Table 2 shows average year-to-year changes in oil prices, projected by using moving averages.

Table 2: Changes in Projected Prices, 1861-2003

		Moving average over number of years								
		1	2	3	4	5	6	7	8	9
Change from previous year (in percent of previous year's price)										
Full sample	Mean	20.3	14.6	10.9	8.1	6.5	6.0	5.8	5.5	5.2
	Standard deviation	27.9	20.1	14.4	9.6	7.8	7.0	6.4	6.1	5.8
1970-2003	Mean	24.8	17.8	14.8	12.9	11.2	10.7	10.3	9.7	9.1
	Standard deviation	40.1	24.5	17.5	15.0	12.7	11.3	10.3	9.5	8.9

Source: BP Statistical Review of World Energy, own calculations.

29. **It shows that the prices projected using, say, a four-year moving average change by 8.1 percent of the previous year's price, on average, with a standard deviation of 9.6 percent.** Obviously, the longer the averaging period the lower the volatility of projected prices, but averaging beyond about five years does not seem to lead to substantial reductions

[14] Prices have become more volatile since the 1970s.

in volatility.[15] The higher oil price volatility since the 1970s is reflected in Table 2 in the higher mean and standard deviation of changes compared to the full sample period 1861-2003.

30. In conclusion, forecasting errors and forecast volatility suggest that fiscal spending guided by an oil price rule based on a moving average of three to five years provides an adequate level of stabilization, while forecasting errors would be relatively small.[16]

D. Model Description

31. **Randomly generated oil prices are fed into a fiscal policy model to produce changes in stabilization fund assets over time.** The probability that stabilization fund assets are exhausted in any year during the simulation horizon is then computed over a large number of model runs.

The assumptions in detail are as follows:

32. **Based on regression results, oil prices are modeled using an AR(1) process in logarithms.** The current oil price depends on last year's price and a random variable,

$$P_t = \alpha + \beta P_{t-1} + \varepsilon_t ,$$

where $\alpha = 0.802$, and $\beta = 0.703$, as shown in the appendix. Time series of 5, 10, or 15 years' duration are produced 5,000 times starting with actual 2004 prices of oil. Government spending E_t is set equal to projected non-oil revenue, $\hat{R}_t^{non-oil}$, plus oil revenue, $\hat{R}_t^{oil}$, at the projected oil price:[17]

$$E_t = \hat{R}_t^{non-oil} + \hat{R}_t^{oil} .$$

33. Projected oil revenue is modeled as the taxes paid on production value, which is calculated as quantity, Q_t, times projected price, $\hat{P}_t$ (where quantity is assumed to be constant):[18]

---

[15] Of course, a maximization model would, in this case, choose the optimum level of stabilization given the costs of holding more assets in a stabilization fund.

[16] Venezuela and Chile determined deposits in their stabilization funds on the basis of moving averages of commodity prices, see Arrau and Claessens (1992), Claessens and Varangis (1994), Davis and others (2001).

[17] Non-oil revenue is assumed to be predictable.

[18] Stochastic development of production capacity would complicate the analysis. Risks would obviously increase. Although rising production over time would reduce the risks. Stochastic development also assumes that taxes are a constant fraction of production value, which is a

(continued)

$$\hat{R}_t^{oil} = \tau \hat{P}_t Q_t \ .$$

The projected oil price, or budget reference price, for each year is set equal to the preceding year's price (*MA 1*), or moving averages over the preceding three, five, or seven years (*MA 3-7*). In each year, the randomly generated oil price leads to oil revenue that is higher or lower than projected, and, therefore, an overall surplus or deficit. Assets in the stabilization fund at the end of each year, A_t, rise or fall with the budget balance:

$$A_t = A_{t-1} + \left(R_t^{oil} - \hat{R}_t^{oil} \right).$$

34. The analysis is performed for time periods of 5, 10, and 15 years. The model has been normalized using t_o = 2004 oil revenue, and initial stabilization fund assets, deposits, and withdrawals are expressed in percent of t_o revenue.[19] The model calculates the probability that stabilization fund assets are exhausted in any year during the simulation horizons.

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permissible approximation only if tax-deductible production expenses are small relative to production value.

[19] Starting with a balanced budget in 2004, the model produces data denominated by the non-oil deficit. It should be noted that the model uses real U.S. dollars for all variables. It does not take into account exchange rate and dollar deflator feedback effects of oil prices.

35. **The simulation results show that the probability of asset exhaustion rises with lower initial assets in the stabilization fund, a longer simulation horizon, and more stable fiscal spending or a longer moving average (Figures 1-3).** The fewer the assets in the fund initially, the greater the probability that they will be exhausted during a period of low oil prices. Because of the cumulative effect of deficits, the probability of asset exhaustion rises with the length of the simulation period. And because a longer moving average increases the divergence between the budgeted and the realized price, a more stable fiscal policy requires a higher level of assets. These results are in line with the discussion in the subsection on forecasting errors and the appendix.

36. **If initial asset levels are low or zero, however, fiscal smoothing through the use of moving averages reduces the risk of a crisis, the opposite of what we observe when initial assets are moderate to high.** The result is due to the slow change in fiscal policy that results from using moving averages, which allows some assets to build up in “good” years when there had been no assets before. As a result, “bad” years later on in the simulation period can be smoothed over. In contrast, “bad” years early on lead to a crisis no matter which smoothing strategy is used. When using last year’s oil prices (moving average of one period), fiscal policy instead allows little room to build up assets, and short “bad” spells lead to a crisis irrespective of when they occur. On balance, therefore, using a moving average over longer periods reduces fiscal vulnerability to “bad” spells, when

Figure 1: Probability of Crisis, 5-year Horizon

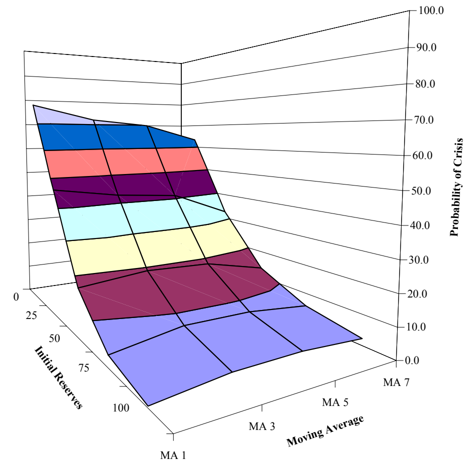


Figure 2: Probability of Crisis, 10-year Horizon

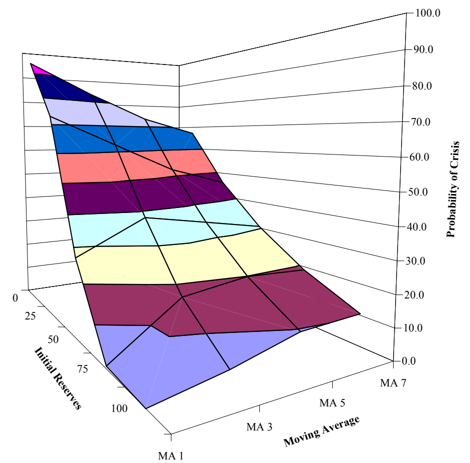
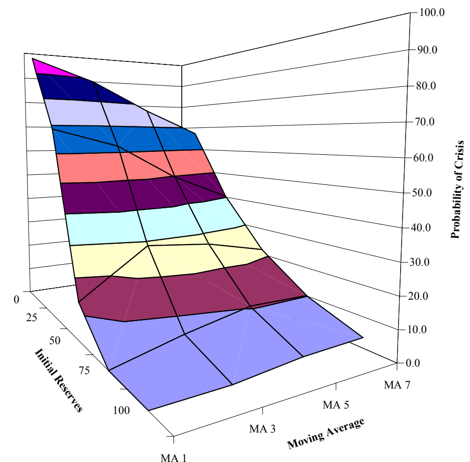


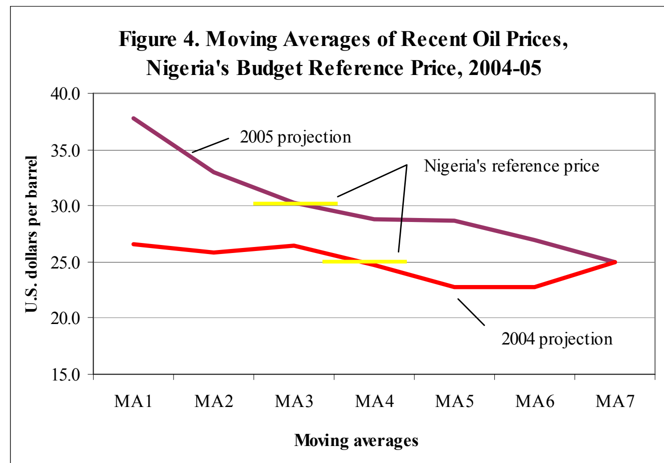
Figure 3: Probability of Crisis, 15-year Horizon



the fund has few initial assets. Alternatively, a government can base its fiscal policy on deliberately low oil prices to attempt to build assets rapidly until it accumulates enough to move to fiscal policy based on a three-to-five-year moving average.

37. **In conclusion, the analysis shows that governments should best pursue a prudent and stable fiscal policy aimed at building up financial assets in a stabilization fund if initial assets are very low.** Only then should they try to base their spending on a more realistic projection of oil revenue while keeping in mind the need for stabilization, for example, by basing spending on a three-year moving average of oil prices. Stabilization fund asset levels of about 75 percent of 2004 oil revenue provide adequate insurance against oil revenue shortfalls, allowing governments to adhere to their envisaged fiscal strategy.

E. Application to Nigeria

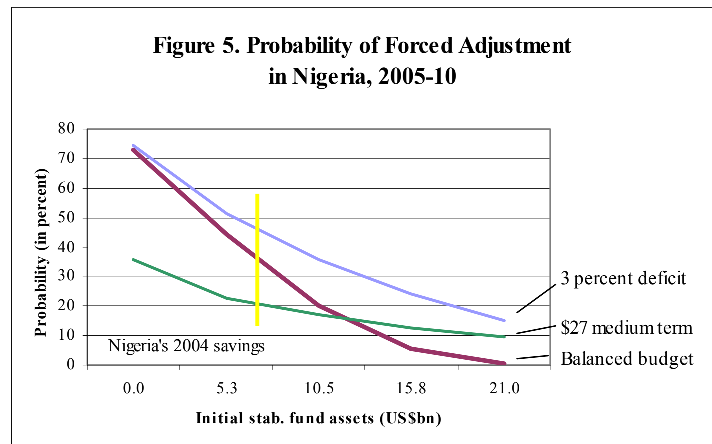


38. **Nigeria's federal government followed a fiscal rule for the first time in 2004.** It deposited in the central bank the oil revenue it received from prices above US$25 per barrel. The federal authorities obtained informal cooperation from state and local governments, which then also deposited their share of windfall revenue. The federal authorities are now proposing a fiscal responsibility bill that entails formally adopting a fiscal rule that would be binding on all three tiers of government and creating a stabilization fund.

39. **Nigeria's federal government budget for 2005 is based on a budget reference price of US$30 per barrel.** Although the process that led parliament to choose this price is not clear, it is consistent with a moving average of oil prices over the past three years. In 2004, the budget reference price was $25 per barrel, consistent with a moving average over four years (Figure 4).[20] These prices are well below price projections at the time of budget formulation, and, at least in the case of 2004, actual prices. The rationale is that the government aims to stabilize the non-oil primary balance and build financial assets.

[20] In 2004, the federal government targeted a deficit at the reference price to be financed from repatriated looted funds, privatization receipts, and domestic borrowing. In 2005, all three levels of government are targeting deficits to be financed with about one-half of the windfall revenue deposits of 2004. Consolidated spending in 2004 was therefore more in line with the revenue Nigeria would have received had the oil price been $28 per barrel, and 2005 spending is projected to be in line with about $33 per barrel.

40. **The Monte Carlo simulation framework can be used to calculate the probability that the Nigerian government will exhaust its financial assets in the medium term (five years).**[21] We calculate three different fiscal policy rule scenarios: in the first, we assume that the authorities use a three-year moving average to determine the budget reference oil price and fiscal spending and that initial stabilization fund assets are equal to the saved windfall oil revenue earnings of 2004 (of US$6 billion); the authorities aim at a balanced budget.[22] In the second scenario, the authorities plan for a federal government deficit of 3 percent at the same reference price in line with recent practice. In the third scenario, they follow their medium-term fiscal strategy, as expressed in the NEEDS, and project a 3 percent deficit with the price of oil at $27 per barrel starting in 2006.



41. **The Nigerian government has a 40 percent chance of depleting its assets within the next five years if it pursues a balanced budget policy at the reference oil price determined on the basis of a three-year moving average ("balanced budget" in Figure 5).** The simulations that were performed in percent of 2004 oil earnings are here converted back into U.S. dollar amounts. Nigeria's 2004 oil revenue is about US$21 billion, and the $6 billion fiscal savings in 2004 from the previous analysis, translate into an initial asset level of about 29 percent.[23]

42. **If the authorities continue to target a federal government deficit of 3 percent of GDP at the reference price, the probability that they will be forced to adjust their fiscal policy stance within the next five years rises to about 50 percent (Figure 5, "3 percent deficit").** Finally, the announced medium-term fiscal stance based on a fixed reference price

[21] It should be noted, however, that the results will overstate Nigeria's risks because production increases that are highly likely to occur over the next 5 to 10 years are not taken into account.

[22] While the country had net foreign reserves of US$17 billion at end-2004, government deposits in the blocked central bank account for windfall oil revenue amounting to US$6 billion.

[23] While the Nigerian government is discussing a debt buy back with its Paris Club creditors, the analysis in this chapter takes the debt as a given; it is neither repaid using financial assets, nor can the government borrow more domestically or abroad.

of $27 per barrel and a federal deficit of 3 percent of GDP brings down the risk of forced adjustment to 20 percent. This result follows from a relatively low medium-term reference price compared with the 2004 oil price of $35 per barrel (Figure 5, '$27 medium-term').[24]

43. In conclusion, the results show that the authorities' medium-term strategy, which is based on a reference oil price of $27 per barrel, is consistent with ensuring fiscal stability over the medium term and with increasing financial assets that provide further insurance against forced adjustment later on. They also show that the oil revenue savings currently in the dedicated central bank accounts are too low to suggest that the government should target spending on the basis of realistically projected oil prices or a moving average of past prices. The government would run a high risk of being forced to abandon its intended fiscal stance. Assets of $16-18 billion would reduce the probability of crisis within the next five years to below 20 percent, depending on the fiscal policy rule.

44. The authorities' medium-term fiscal goals (US$27 per barrel and 3 percent deficit) aim at increasing financial assets to more than the current $6 billion. The spending targeted in the 2005 budget exceeds what would be targeted in this medium-term fiscal strategy because envisaged spending is more in line with a price of $33 per barrel. However, the reference price is still below the projected oil price for 2005: the *World Economic Outlook* projects a price of US$49.5 per barrel based on March 2005 oil futures, while the 2004 oil price, seen as the best predictor of the 2005 price under the random walk hypothesis, was US$38 per barrel. The budget is consistent with accumulating assets that can be used to stabilize fiscal spending in the future.

[24] If, indeed, the 2004 price is used as the reference price and the authorities target a balanced budget at this price, the probability of asset exhaustion rises to 43 percent.

APPENDIX: MODELING OIL PRICE BEHAVIOR

45. Oil prices over the last century have exhibited considerable variability, which was eclipsed by dramatic changes (upward in 1973 and 1979, and downward in 1985), as well as sudden spikes (in 1990 and possibly 2004-05). This appendix looks at the statistical properties of past oil prices that have been used in the Monte Carlo simulations of the fiscal policy model in the main text. We reestimate some of the results of Pindyck (1999) and Engel and Valdès (2000), who argue that past oil prices can best be described by a simple autoregressive process.[25] The generic form of these models links today's price to a trend, at least one lagged price, and a "white noise" random variable.

$$P_t = \alpha_t + \delta_t Trend_t + \rho_t P_{t-1} + \varepsilon_t.$$

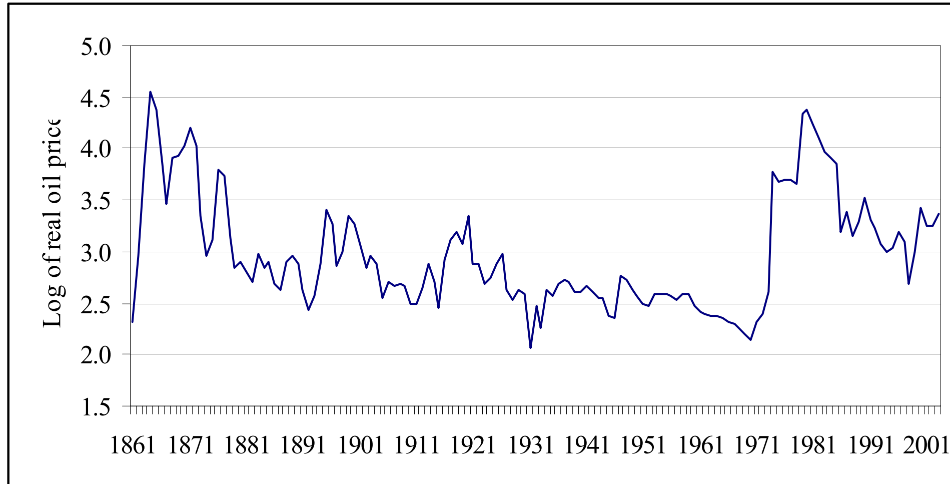
46. Simple tests show that lags of more than one period are not relevant. Engel and Valdès test the forecasting ability of different oil price determination models, including random walk and autoregressive models. They estimate each model repeatedly using quarterly data that ended in the second quarter of the years 1994 to 1998 and forecast from the estimating sample. They then compute the root mean square error using forecast errors at horizons of one and two years.

47. They conclude that none of the models provides superior forecasting ability to a simple random walk without drift; that is, i.e. α_t is zero, the coefficient of the trend variable, δ_t, is zero, and ρ_t is unity. However, statistical tests confirm the significance of drift in past oil prices, with α_t different from zero, and the coefficient on the lagged oil price different from unity, as shown below.

48. Looking at real oil prices over the past 140 years (Figure 6), one wonders whether the large variations are indicative of structural changes in the oil market. In fact, the creation of OPEC, and the changes in its market management behavior over time, would lend support to the hypothesis that structural changes have occurred several times during the course of oil price history. Using dummy variables, we can test the validity of this hypothesis.

[25] All tests are performed using logs of oil prices.

Figure 6: Oil Prices, 1861-2003
(In logs of real oil prices)



49. Simple unit root tests (augmented Dickey-Fuller, ADF) on the log of oil prices between 1861 and 2003 have been performed with different dummy variables: D1 for the period 1974 to 2003, D2 for 1979-03, and D3 for 1974-85.[26] The tests strongly support the inclusion of a one-year lag of the oil price in a regression model, but the dummies all come short of significance at the 5 percent level, although D3 may be significant at the 10 percent level. In a linear, ordinary least squares AR(1) regression, D3 is significant at the 5 percent level and its inclusion in the model improves its fit.

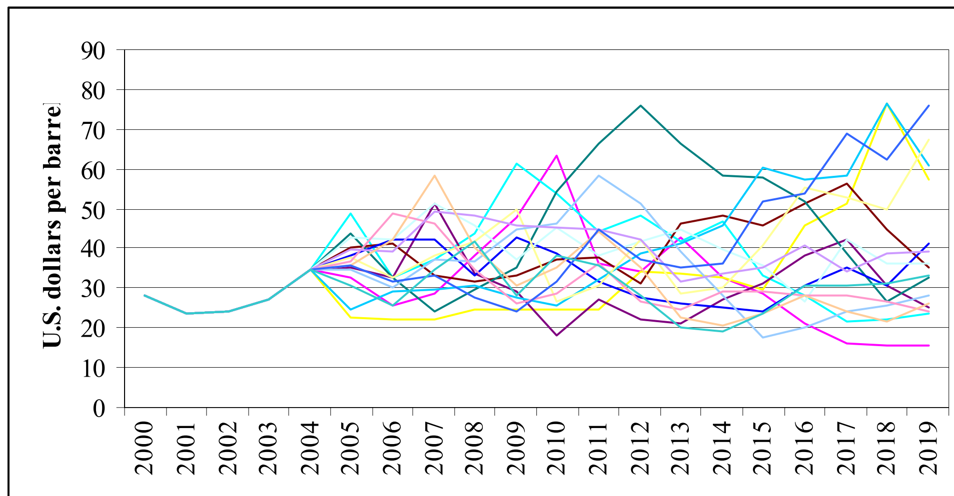
[26] Prices started rising in 1971, but the big price increase followed the imposition of supply restrictions by Saudi Arabia during October 1973. A high point was reached in 1980, but the dramatic end to the "OPEC years" came with the decision by Saudi Arabia to move to netback pricing in the fall of 1985.

50. In addition, market volatility seems to have been very large during the early years shown in the series. One could easily argue that, until about the turn of the twentieth century, oil was an exotic commodity, and markets were thin and did not function well. In fact, when the period prior to 1904 was left out, model fit improved.[27] Therefore, the best-fit model of oil price behavior was estimated as shown below (t-values in parentheses).[28]

$$P_t = 0.8015 + 0.4422\,D3 + 0.7029\,P_{t-1} + \varepsilon_t$$
$$(5.16) \qquad (5.03) \qquad (12.5)$$

51. The calculated standard deviation of the regression was used to produce 5,000 series of 15 random error terms. The random terms were then plugged into the regression equation to produce 5,000 oil price series of 15 years' duration (omitting the dummy term), and the resulting logs were converted into real oil prices. Real oil prices were used in the fiscal policy model to calculate probabilities of stabilization fund exhaustion.

Figure 7: Actual and Simulated Oil Prices, 2000-19
(In U.S. dollars per barrel, in constant 2002 U.S. dollars)



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[27] The choice of 1904 was arbitrary, giving 100 observations for the regression.

[28] Other descriptive statistics:

Sigma	0.201423	RSS	3.93539512
R^2	0.848708	F(2,97) =	272.1 [0.000]**
Log-likelihood	19.8641	DW	1.9
No. of observations	100	No. of parameters	3
Mean (lnP)	2.8666	var(lnP)	0.260119

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II. Reforms for Private Sector–Led growth[29]

A. Introduction

52. **The federal government of Nigeria has embarked on an ambitious and broad-based medium-term economic reform strategy (NEEDS) designed to unleash the country's enormous growth potential and significantly lower poverty.**[30] NEEDS aims to break away from the misguided policies and failures of the past that created an environment hostile to private sector growth. It recognizes that fundamental changes and bold reforms are necessary to address the deep-rooted structural and economic problems facing the economy and that, without them, the country will remain stuck in a trap of low savings, low investment, and low productivity.

53. **This section reviews key aspects of the government's reform strategy to promote private sector growth.** It also reviews briefly the country's growth performance and main growth constraints and discusses the government's efforts to improve the business environment. It concludes by drawing some policy implications.

54. **This section draws heavily on the NEEDS document, the World Bank's *Investment Climate Survey,* which was completed for Nigeria in 2002, and *Doing Business*[31] and the *Global Competitiveness Report*, published by the World Economic Forum.** The last three documents are largely survey-based sources but, given the dearth of information available on Nigeria, they provide invaluable insight into factors affecting business costs and productivity in Nigeria and also allow for some cross-country comparisons.[32]

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[29] Prepared by Jeanne Gobat.

[30] The NEEDS document can be found at http://www.nigerianeconomy.com.

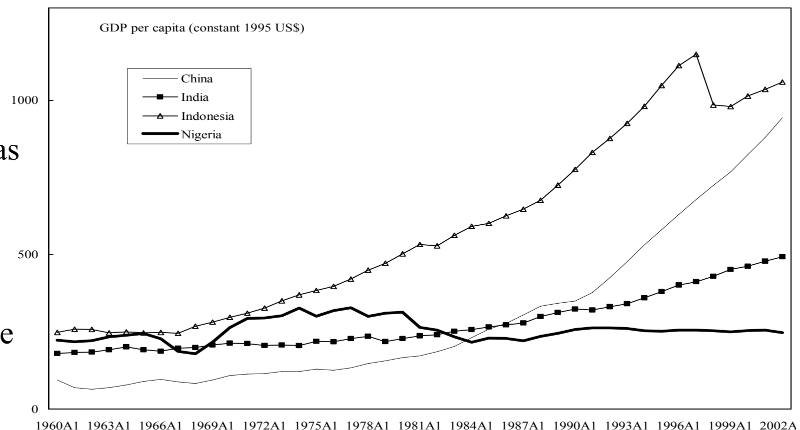
[31] Firm-level survey data were collected from about 232 manufacturing firms of all sizes, spread across nine sectors in Nigeria. This survey forms part of the World Bank's *Regional Program on Enterprise Development Survey* (RPED).

[32] Unfortunately, significant data limitations make it very difficult to analyze factors affecting productivity in Nigeria. For example, investment is not broken down by private and public sector, or by non-oil versus oil, and few wage and employment data are available.

B. Background

55. **Nigeria's economic growth performance since independence in 1960 has been disappointing, with no significant improvement in living standards**. Real economic growth averaged about 3½ percent between 1960 and 2002, barely exceeding average population growth. The country has also lagged behind countries at a comparable level of economic development in 1960. Most indicators of social and economic progress, including real per capita income, real per capita consumption, literacy, access to clean water, and income distribution, indicate that poverty has worsened since 1960.[33] Despite its human and natural resource wealth, Nigeria has become one of the poorest countries in the world. Per capita income in real terms was lower in 2002 than in 1975.

56. **The economy has also become highly dependent on oil.** Nigeria was largely an agrarian economy in the 1960s, with agricultural output accounting for two-thirds of GDP and the bulk of export earnings and employment. It was among the world's largest exporter of key cash crops. Forty years later, it is a net importer of food, and the contribution of agriculture to the economy has declined significantly.[34] With its manufacturing comprising only 5 percent of GDP, Nigeria is also one of the least industrialized countries in sub-Saharan Africa (SSA). The decline of agricultural exports reflects a host of factors, including the impact of Dutch disease, protective trade policies, weak infrastructure, and misguided sectoral policies.



[33] In 1960, Nigeria's per capita income was just 11 percent below Indonesia's and exceeded India's and China's by 24 and 57 percent, respectively. In forty years, Indonesia has achieved per capita income growth four times higher than Nigeria, and China and India have also surpassed Nigeria.

[34] Nigeria was, in the 1960s, one of the largest exporters of cocoa, cotton, groundnuts, palm oil, and rubber and a net exporter of foodstuff. By the end of the 1990s, Nigeria had lost considerable export market share; imports of food products now account for about 10 percent of imports, and non-oil exports for about 5 percent of total exports.

57. **Nigeria's economy has also been highly volatile and unstable.** Most macroeconomic indicators—terms of trade, real exchange rate, government investment per capita, real per capita GDP growth—display higher volatility than the average for SSA or other developing countries. The volatility stems from the country's: (a) heavy dependence on oil as a source of government revenue and export earnings; (b) highly uncertain policy environment and weak economic management, including procyclical fiscal policies, fiscal dominance, accommodating monetary policy, and frequent ad hoc changes to policies, including trade policy, the exchange rate regime, and business regulations; (c) social and political conflicts; and (d) ineffective financial system. Studies have shown that macroeconomic volatility has an adverse impact on growth.[35]

Nigeria: Macroeconomic Volatility, 1961-2000

	Sample Size 1/	Nigeria' s Rank 2/
Terms of trade	90	3
Real Exchange rate	84	4
Monetary growth	125	32
Consumer prices	114	21
Government revenue per capita	71	3
Real GDP per capita	87	9

Source: World Bank (2003)
1/ Number of countries with more than 15 observations in the period
Higher ranking indicates among top country's in volatility

58. **Despite some privatization and liberalization efforts since the early 1990s, the public sector's role in the formal economy remains substantial and has undermined the development of the private sector**. Public consumption averaged 16 percent between 1990 and 2002, compared with 7 percent for Indonesia.[36] There are still an estimated 1,500 public enterprises, of which state and local governments own 900 and the federal government owns the rest. In total, they account for two-thirds of formal sector employment and over half of investment. Public sector enterprise inefficiencies have significantly raised input costs and have lowered productivity in the economy.

59. **The Nigerian economy, which is also relatively closed and highly regulated, has been out of step with liberalization trends taking place elsewhere in the world.** The simple average tariff increased to 30 percent at end-2004 and is now one of the highest in the world. Nontariff barriers have increased in recent years with the imposition of bans not sanctioned by the World Trade Organization (WTO). Overall, foreign direct investment and the participation of foreign companies in economic activity outside the oil and gas sectors

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[35] Bleaney and Greenway (2002).

[36] The public sector's share of economic activity is probably much higher if one includes spending by state-owned enterprises.

have been low.[37] Studies show that Nigerian manufacturing firms are more reluctant than other firms in sub-Saharan Africa to compete outside their domestic market.[38]

60. **Nigeria's non-oil private sector has also experienced a significant loss in productivity and turned in a poor investment performance**. Total factor productivity contributed negatively to economic growth between 1960 and 2000.[39] The negative trend growth in productivity reflects economic losses from the civil war, macroeconomic volatility, non-productive public investment, and other institutional and policy constraints limiting efficiency gains and more productive private investment. Most of the capital contribution to economic growth came from the surge in public investment during the oil boom years and oil- and gas-related investments.[40] Non-oil private investment averaged less than 7 percent of GDP between 1960 and 2000, failing to keep pace with capital replacement costs and contributing negatively to non-oil GDP growth.[41] This level is also well below the average of 20 percent of the world's fastest-growing economies.

Table 1. Nigeria: Sources of Growth, 1960-2000

	1960-1969	1970-1979	1980-1989	1990-2000	1960-2000
Real GDP growth	1.4	7.5	0.4	3.9	3.6
Factor growth rates (in percent)					
Capital	7.1	11.6	5.7	2.5	6.7
Labor	3.1	3.3	3.7	3.8	3.5
TFP	-3.3	0.9	-4.1	0.6	-1.2
Factor conbribution to gowth (percentage points)					
Capital 1/	2.8	4.7	2.3	1.0	2.7
Labor 1/	1.9	2.0	2.2	2.3	2.1
TFP	-3.3	0.9	-4.1	0.6	-1.2

Sources: Staff estimates, World Bank

1 Assuming a Cobb Douglas production function with labor and capital shares of 0.6 and 0.4 percent, respectively.

[37] Nigeria had restrictive foreign direct investment regulations until 1995. The passage of the 1995 decree by the Nigerian Investment Promotion Commission eliminated discriminatory screening processes for foreign investment and allowed 100 percent foreign ownership of any business except those in the oil and gas sectors and in sectors deemed sensitive to national security.

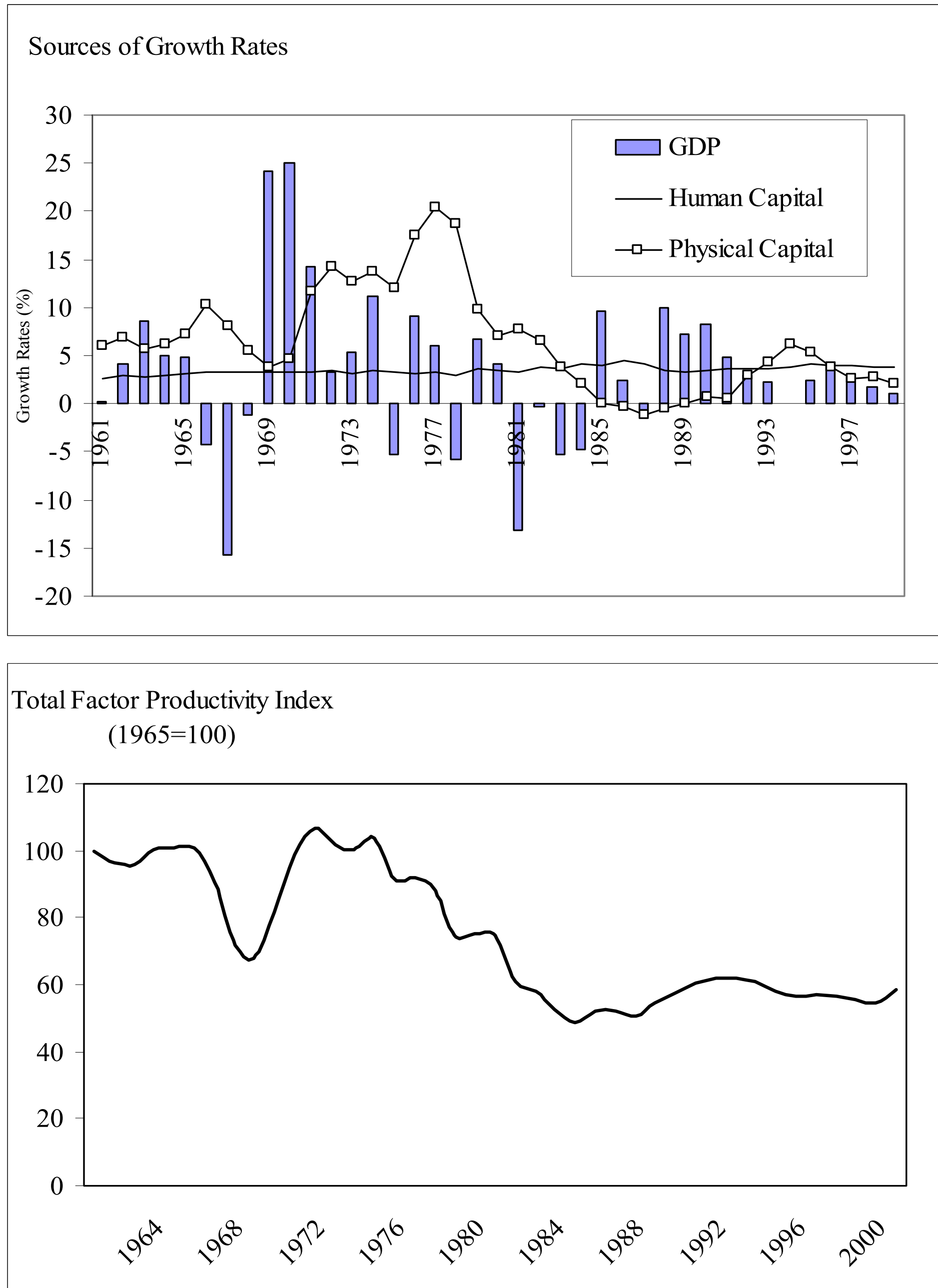
[38] Soederbom and Teal (2002).

[39] It would be more accurate to calculate the TFP without the oil sector. Unfortunately, data for investment do not allow for such an analysis.

[40] According to government reports, many of the capital projects were never completed. In addition, public investment may be overstated as some of the reported capital spending could be capital flight or private consumption.

[41] This is a derived figure. Nigeria's Federal Office of Statistics provides overall investment.

Figure 1. Nigeria: Sources of Economic Growth, 1960-2000



Source: Authorities, World Bank, and staff estimates.

61. **Learning from past policy failures, the authorities' main policy objectives, as described in NEEDS, are to create an environment conducive to private sector–led growth.** The aim is to boost productivity growth and external competitiveness, diversify the economy away from oil, reduce the role of the public sector in economic activity, and free the business sector from government regulations, controls, and inefficiencies. One key objective is to restore the status of agriculture as the leading sector in the economy and to enhance its contribution to export earnings and employment creation. Strong growth is also expected in manufacturing and solid minerals.

62. **The government aims to raise growth in the non-oil economy to 7 percent a year over the next decade.** The high growth rate, necessary to halve poverty by 2015, is very ambitious. To achieve it, real investment would have to increase by about 15 percent in real terms, requiring that national savings also increase. Total factor productivity growth would need to average about 2 percent a year over the next 10 years.[42]

63. The government's key strategies to achieve these goals include

- creating a stable and predictable macroeconomic framework
- privatizing state-owned enterprises
- strengthening institutions and governance standards
- improving and developing infrastructure
- liberalizing the trade regime
- reforming the judicial system and enforcing the rule of law
- creating competitive business regulations
- strengthening the financial sector

[42] A standard growth accounting framework was used to derive these figures. The labor force will grow at 2.8 percent a year, and, typical for a standard Cobb-Douglas production function, labor's share was assumed to be 0.6 percent. Improvements in educational attainment are captured as part of total factor productivity growth. The depreciation rate of the capital stock was set at 6 percent. See Tahari and others (2004).

Public sector governance

64. **The government considers strengthening governance and improving the quality of public institutions as the country's central reform challenge and critical to achieve higher sustainable growth and to reduce poverty**. It is of the view that weak public sector institutions and poor governance principles, including a lack of transparency and accountability, are a root cause of Nigeria's weak growth record, ineffective public policies, and marginally productive public spending.

65. **International surveys confirm the poor quality of Nigeria's public institutions.** As measured by the perceived degree of corruption, the rule of law, and enforcement of contracts, they ranked 98 out of the 102 countries assessed in the 2004 *Global Competitiveness Report*. On key issues that matter to a sound investment climate—such as transparency and predictability of policies, enforcement of property rights, judicial independence, even-handed treatment of the private sector, low level of corruption and crime, quality of infrastructure and efficient bureaucracy—Nigeria ranked in the bottom 5 of the 102 countries assessed.[43] While Nigeria's public school system was considered among the best in Africa in the late 1960s, 30 years later businesses ranked it as one of the worst in sub-Saharan Africa. Similarly, Transparency International's 2004 report places Nigeria next to last on its Corruption Perception Index—which assesses the degree of corruption among public officials and politicians. The World Bank's worldwide governance indicators rank Nigeria lower than most developing countries on property rights, rules-based governance, and quality of public administration and regulations.

[43] Although required by law, fiscal accounts, including those of state-owned enterprises, have not been audited and made publicly available on a timely basis, impairing the ability of parliament and the general public to monitor fiscal operations and hold public officials accountable.

Table 1. Competitiveness Indicators--Nigeria compared to other Sub-Saharan African (SSA) Countries

Growth Competitiveness Indicator 1/		
	SSA Rank	Global Rank
Botswana	1	36
South Africa	2	42
Mauritius	3	46
Namibia	4	52
Gambia	5	55
Tanzania	6	69
Ghana	7	71
Malawi	8	76
Senegal	9	79
Uganda	10	80
Kenya	11	83
Nigeria	12	87
Zambia	13	88
Cameroon	14	91
Ethiopia	15	92
Mozambique	16	93
Madagascar	17	96
Zimbabwe	18	97
Mali	19	99
Angola	20	100
Chad	21	101

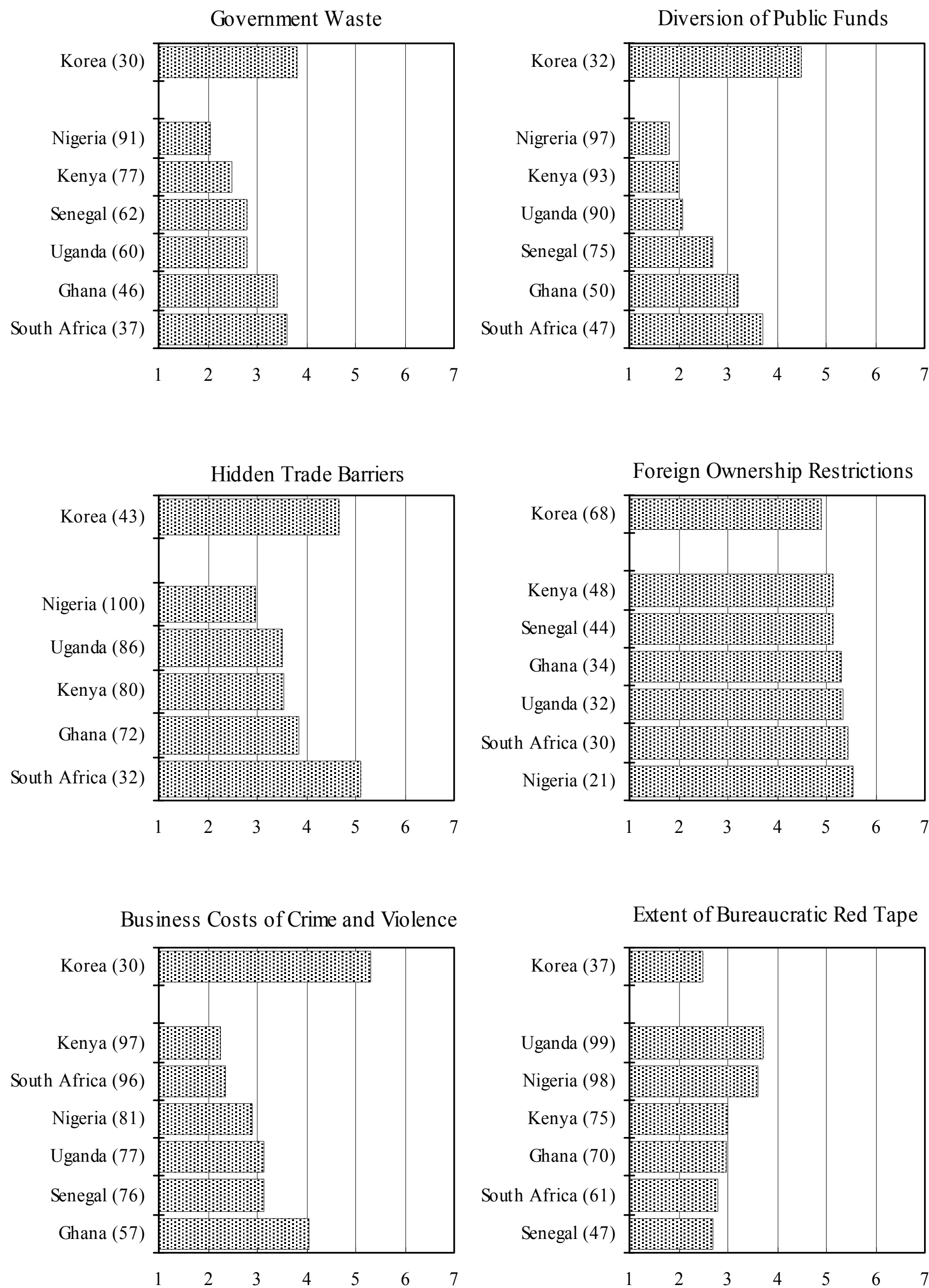
Public Institutions Index 2/		
	SSA Rank	Global Rank
Botswana	1	26
Malawi	2	38
Gambia	3	39
South Africa	4	43
Mauritius	5	44
Namibia	6	48
Tanzania	7	59
Ghana	8	65
Zambia	9	69
Ethiopia	10	73
Senegal	11	75
Mozambique	12	82
Mali	13	83
Uganda	14	84
Zimbabwe	15	90
Angola	16	91
Kenya	17	92
Cameroon	18	95
Madagascar	19	96
Nigeria	20	98
Chad	21	101

Source: The Africa Competitiveness Report, World Economic Forum

1/ The Growth Competitiveness Index (GCI) uses hard data and survey data and consists of the macroeconomic environment index, public institutions index and technology index.

2/ The public institutions index is a composite of the contracts and laws sub index and corruption sub index. It uses survey data and reviews the extent of paybacks and brides that are required in dealing with the public sector as well as quality of the legal system, enforcement of contracts, as well as the cost of organized crime on business.

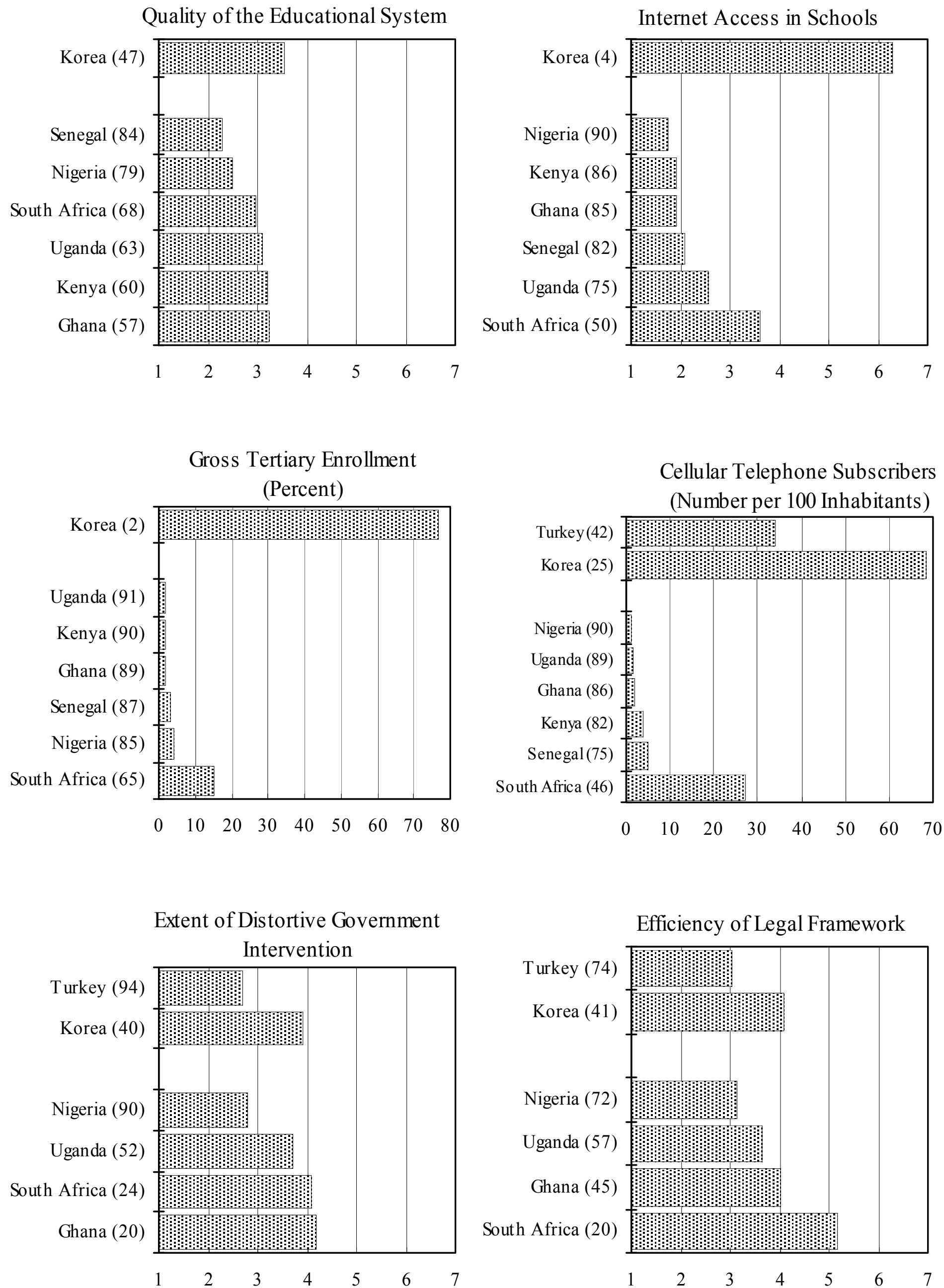
Figure 2. Nigeria: Competitiveness Indicators
(Score) 1/



Source: The Africa Competitiveness Report, World Economic Forum

1/ The numbers in paranthesis reflect the country's score out of the total 102 countries surveyed and ranked. Data reflect responses to the 2003 Executive Opinion Survey.

Figure 3.Nigeria: Competitiveness Indicators
(Score, unless otherwise indicated) 1/



Source: The Africa Competitiveness Report, World Economic Forum

1/ The numbers in paranthesis reflect the country's score out of the total 102 countries surveyed and ranked. Data reflect responses to the 2003 Executive Opinion Survey.

66. **Firms surveyed in the World Bank's RPED cited corruption, irregular application of laws and regulations, and favoritism as major cost drivers and deterrents to investment.** Rent-seeking activities were highest with establishing public utility connections, followed by license and permit processing, procurement of government contracts, customs clearance, and tax collection. With regard to the last-named item, firms indicated that they did not view the level of corporate taxation (at 30 percent) a burden but rather the harassment by tax officials. This may also explain the large presence of smaller firms in the informal sector, with estimates suggesting the informal sector accounts for as much as 40-50 percent of GDP as well as for low tax compliance.

67. **A related governance issue is the problem of crime and security**. According to the World Economic Forum's Executive Survey Opinion, businesses listed security and crime concerns, including theft of equipment and inventory by employees, as their sixth biggest cost driver. Firms in the World Bank's RPED survey noted that security issues were a serious concern in Lagos. Because of the frequent threat of robberies along main transportation routes, crime and security issues restrict commerce and domestic market integration. Companies also complain that security problems make it more difficult to attract highly skilled expatriates.[44]

68. **In formulating NEEDS, the authorities have made fighting corruption, improving governance and quality of public institutions, and strengthening security its number one reform priority.** The following actions have brought them closer to their goal:

- Nigeria has signed on to the Extractive Industries Transparency Initiative (EITI) to enhance the transparency of oil revenue management. A formal audit of the oil accounts is under way, and all results will be published. The passage of the EITI law would formally require that oil companies publish all oil- and gas-related information.

- The Economic Financial Crimes Commission (EFCC) has been established to fight corruption in the public sector and financial system. The passage of the anti-money laundering act in 2004 allows the EFCC to investigate and prosecute crimes committed thereunder.

- The government has begun publishing, on a monthly basis, revenue distributed to the three tiers of government, auditing fiscal accounts, and making audited results available on a timely basis.

- Main line ministries are subject to performance evaluation and reporting requirements.

[44] World Bank (2002).

- Procurement and due process reforms, the ongoing civil service reforms, and overall efforts to streamline the government are critical to eliminating corruption, enhancing the quality of public institutions, and ensuring value for money.

- The police force is being strengthened and the judicial system (see discussion below) is being reformed to ensure rule of law.

Physical infrastructure

69. **Nigeria's infrastructure, in terms of quality and quantity, is inferior to that in much of the rest of the world, which significantly raises the cost of doing business**.[45] Out of 102 countries assessed in the *Global Competitiveness Report* (2004), business executives ranked Nigeria's overall quality of infrastructure third to last. This outcome is consistent with the results of the World Bank's RPED survey, with manufacturing firms ranking infrastructure as their most severe business constraint. This holds true for all firms, independent of size, sector, location, or ownership (foreign or domestic).

70. **Unreliable electricity is Nigeria's single largest business problem**. Frequent blackouts have sharply inflated operational costs through production stoppages, output losses, and missed delivery dates. About 97 percent of the firms surveyed operated their own power generator, well above the average of 22 percent of the 55 countries surveyed in the World Bank's Investment Climate Survey. Purchasing private power generators accounted for 22 percent of firms' investment budget. Firms estimated that frequent outages caused them to lose about 85-90 working days a year, equivalent to 15 percent of their annual sales.[46]

71. **Nigeria also fares poorly in other areas of infrastructure provision vital to economic development**:

- **Telephone coverage is among the lowest in the world**, with 0.6 lines per capita, compared with 10.2 for South Africa and 27 for Mauritius.[47] The country scores low in terms of number of telephone lines and internet users and internet access in schools. Interregional variability is large, with rural areas having weaker access.

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[45] Adequate and high-quality physical infrastructure is central to economic development. Studies have found that firms that have access to good infrastructure invest more and are more productive. See Weiss (1999).

[46] Only 10 percent of rural households and 40 percent of the country's population have access to electricity. Poor power service also has serious implications for the attainment of the country's health and education goals. Unreliable power has made it difficult to refrigerate vaccines and operate hospitals and also prevents children from studying at night.

[47] Mobile phones have started to make up for this shortcoming.

- **The port system is inefficient and costly**. Lagos port is considered one of the most expensive ports in the region, with transaction costs roughly three times higher than those of any other West African port.[48] It requires an average of 28 days to clear shipments, as opposed to the international norm of less than 2 days. Aside from port inefficiencies and outdated equipment and technology, key causes for the delay are the punitive trade regime, theft, and corruption in customs, which further raise the cost of importing cargo through the ports.[49] The highly protective trade regime has resulted in widespread smuggling and duty evasion. In response, the authorities have instituted a 100 percent inspection requirement, which, in turn, has increased port congestion.

- **Poor road network**. The country's road density is among the lowest in Africa: 31 percent of roads are paved compared with 52 percent in middle-income countries, and only 40 percent are in good condition. Only about half of the unpaved roads are accessible in the dry season, and 40 percent of the rural communities are shut off from market-access roads. The lack of all-weather roads condemns rural areas to subsistence production and limits access to education and primary health care. A major problem has been insufficient investment, with government budgets not providing sufficient funding to complete and maintain roads. As a result, much of the investment that has taken place has lost value.

- **Weak water infrastructure**. About 60-70 percent of rural dwellers and 50 percent of urban dwellers lack access to adequate water supplies (including potable water) and proper sanitation facilities. A further lack of water irrigation systems in rural areas makes agriculture production more vulnerable to climatic conditions, limits opportunities to invest in higher value added crops, and overall agricultural productivity. Universal access to adequate water and sanitation services is recognized as essential to public health, individual well-being, and productive activities.

72. **The weak state of Nigeria's infrastructure reflects a host of factors**, including neglect, misguided policies, lack of competition and private sector involvement, weak capacity for selecting and administrating projects, and political interference and corruption. Licensing and other government entry restrictions prevented private firms from competing with state monopolies in the provision of infrastructure. The government's pricing policies were also set with little regard to commercial objectives, including cost recovery and ability to operate, maintain, and rehabilitate facilities. Corruption, weak procurement practices, and a lack of public accountability resulted in a mismanagement of funds and inefficient infrastructure investments.

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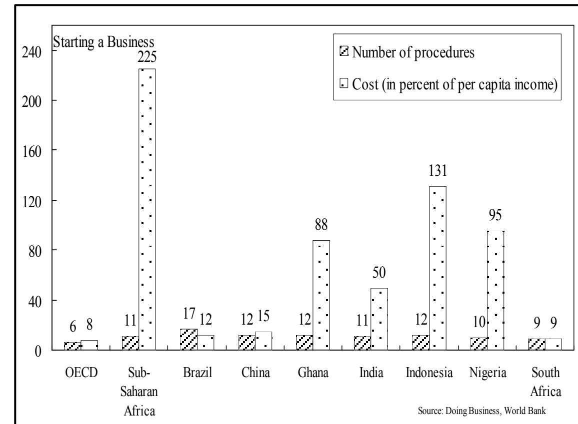
[48] World Bank (2002).

[49] World Bank (2002).

73. **Tackling infrastructure inefficiencies is a core part of Nigeria's strategy to provide an environment conducive to private sector development and poverty reduction**. Active private sector partnerships will be sought in the provision of infrastructure services, key public sector enterprises are to be privatized, and the legal and regulatory framework will be reformed to encourage competition and protect consumer welfare. Where necessary, the government will scale up funding for rehabilitation and expansion of services, particularly with regard to water and roads (see Box 1). Privatization and deregulation would help create a level playing field that would encourage market entry and competition.

Business regulations

74. **Firms in Nigeria grapple with costly administrative procedures and regulations, excessive red tape and rent-seeking activities by public officials wanting to establish and operate businesses in Nigeria.** According to *Doing Business* (World Bank, 2005), to start a business, a firm in Nigeria is expected to go through at least 10 bureaucratic procedures and wait an average of 44 days; in contrast, a firm in one of members of the Organization for Economic Cooperation and Development (OECD) faces an average of 6 procedures and a 27-day waiting period.[50] A firm must also deposit capital equivalent to at least 60 percent of per capita income in Nigeria to establish a limited liability company, as required under the Company Law (the Companies and Allied Mattes Act). Many countries, seeking to spur small business start-ups, have scrapped this requirement.



75. **Routine business applications in Nigeria are slow and costly, and firms complain that poor government services add considerably to the cost of doing business.**[51] The administrative process is further complicated by the federal system with its overlapping jurisdictions and procedures. Companies are frequently required to pay new, arbitrary local taxes and fees, clarify plans, and submit additional documents to local government officials. All these hurdles and extra payments raise production costs and lower profitability,

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[50] Foreign companies have to go through additional steps, including registering with the Nigerian Investment Promotion Commission (NIPC), which they must do every year in the state in which they will operate; provide background information on company officers, and proof of share capital deposited with a local bank; and provide information on training programs for local personnel. They also face a quota restriction in hiring expatriates.

[51] World Bank (2002).

discourage market entry, and weaken competition. The heavy-handed business procedures also imply opportunities for officials to extract bribes and tend to disadvantage small and medium-sized enterprises.[52]

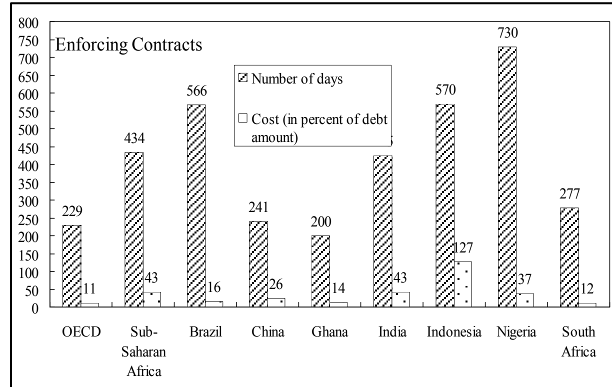
Box 1. NEEDS--Infrastructure Reforms

- **A major reform of the power sector is under way.** A new power bill signed into law in March 2005 will facilitate the unbundling of the national power company into 18 transmission, generation, and distribution companies and encourage private participation and investment. The Nigerian Electricity Regulatory Commission (NERC) will be established to ensure a level playing field and consumer protection. Independent power producers will be allowed to generate and sell electricity. The government will focus on improving transmission lines and encourage the utilization of gas through price and other incentives. The introduction of a new collection method has already helped improve collection rates to 75 percent compared with 20 percent a few years ago. New power plants are also being built and should increase generation to 10,000 megawatts by end-2007 from 2,500 megawatts currently. Finally, the national rural electrification program aims to connect the remaining 96 local governments to the national grid by end-2005.
- **The transportation sector is being reformed.** The passage of a draft transportation bill will establish new regulations and allow private participation in the management of ports, railways, and airports. A major port reform is under way with the aim of increasing the role of Nigeria's seaports in the shipping sector within the region. Private companies will be granted long-term concessions in all government-owned ports. This, along with the customs administration reform and trade liberalization, should help expedite the movement of cargo.
- **The federal government has increased budgetary resources considerably for the completion of unfinished road projects and for road maintenance**. The ongoing construction of 3,000 kilometers of roads will be completed before the government embarks on new projects. The federal government is also coordinating with subnational governments about the order of priority of road projects. A federal road maintenance agency has been established to oversee road maintenance and involve private sector participation. In general, improved access to paved roads would allow farmers to move their goods to bigger markets more cheaply, making land and farming more productive and profitable. Paved roads would also improve primary school enrollment and health care access.
- **The national telecommunication company is slated for privatization in 2005/06**. The sector's performance has already improved dramatically with the introduction of cellular telephony and opening of this segment to private sector competition, including foreign operators in 2001. At end-2004, there were over 9 million cellular phone subscribers.
- **The government has launched the National Water Supply and Sanitation Policy,** which aims to make safe drinking water available to at least 60 percent of the population. Budgetary resources at all levels of government have been increased, and a national system to ensure the quality of water is being developed, consistent with the standards of the World Health Organization.

[52] Morrisset and Neso (2002) and Djankov and others (2005).

76. **Companies also pay high costs to obtain foreign exchange**. The current regulatory regime governing foreign currency transactions is cumbersome: applications for foreign exchange have to be approved by the Central Bank of Nigeria in accordance with foreign exchange control regulations. Nigeria is, furthermore, among a handful of economies remaining that still maintain multiple foreign exchange markets.

77. **The government aims to streamline the business registration process** by simplifying forms; cutting the number of procedures; transforming the NIPC into promoter and facilitator rather than regulator; eliminating the FDI registration process through the NIPC; streamlining tax forms, requirements and incentives; and doing away with site visits. The authorities also plan to streamline foreign exchange documentation requirements and unify the official foreign exchange market. The government is currently overhauling both tax and customs administrations to streamline tax procedures, improve the quality of service provision, expedite trade facilitation, and broaden the tax base. These reforms, however, call for strong coordination with subnational governments to avoid overlapping functions and costs.

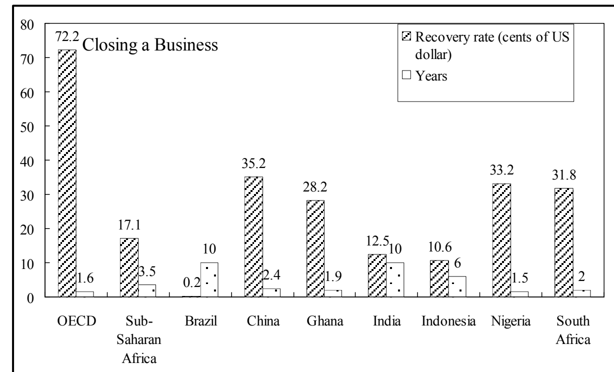


Business legal environment

78. **Although, on paper, Nigerian laws are largely adequate, they are not adequately enforced and the courts are considered debtor-friendly and inefficient**.[53] Creditors usually find themselves in costly and lengthy litigation because debtors can easily obtain court injunctions to avoid repaying their debts. Cross-country comparisons show that Nigeria's court procedures are among the slowest and that commercial cases take a long time to resolve. It takes, on average, over 2 years,
23 procedures, and one-third of the debt amount to enforce a debt contract in Nigeria. Creditors and firms are consequently reluctant to consider the courts a meaningful option for loan recovery or dispute resolution. They tend to seek out-of-court options, even frivolous ones, because of their lack of faith in the efficacy of the judicial system.

[53] Nigeria's bankruptcy laws (Bankruptcy Act of 1979) are based on U.K. laws. Corporate bankruptcies and the use of receiverships or administrators to manage businesses during reorganization or liquidation are not uncommon in Nigeria. Less common are personal bankruptcies.

79. **Foreclosure procedures are also cumbersome in Nigeria**. Asset recovery and liquidation come at considerable cost. The rate of recovery, for example, is about 33 percent. The cause of court delays and low recovery rates are manifold: weak court procedures, such as making it easy for debtors to appeal; a lack of specialized commercial courts or small claims court, backlogs, frequent power failures resulting in court adjournments; a low level of technology; and too few judges who can prosecute corruption.

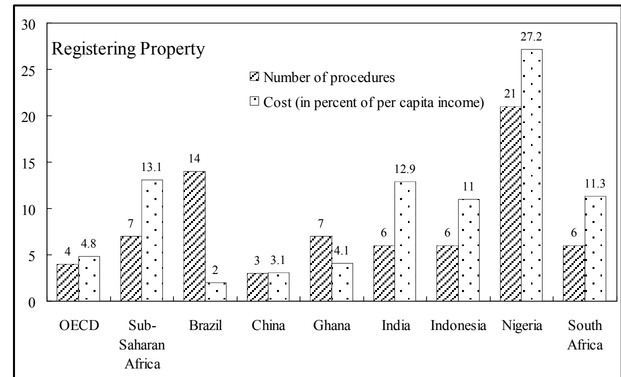


80. **The NEEDS document takes into account shortcomings in the judicial system and the fact that after 30 years of military rule the system no longer offers a reliable basis for dispute resolution, protection of property rights, and enforcement of contractual rights.** Judicial reforms will include training judges, improving court facilities, developing an alternative dispute resolution mechanism, and creating commercial courts.

81. **Lagos State, which accounts for the bulk of the country's commercial and financial activity, has been at the forefront of judicial reform**. Since the return of civilian rule in 1999, the state has appointed over 25 young professional judges and has established a specialized commercial court to resolve commercial disputes expeditiously. The salaries of judges have been increased to attract qualified candidates and remove incentives for corruption. Furthermore, court infrastructure is being strengthened through the acquisition of computer facilities, the construction of law libraries, and the hiring of legal assistants. With donor assistance, efforts are also under way to update court procedures, such as through the introduction of modern case management techniques and simplified pretrial procedures. Similar reforms will be needed in other state jurisdictions to enhance the efficacy of the courts.

Registering and transfering property

82. **According to *Doing Business*, Nigeria's regulations for registering and transferring property, which are among the most cumbersome in the world, comprise 21 procedures, 27 percent of the property value in official fees, and a registration period of 274 days.** These procedures reflect the institutional arrangements governing land ownership and transactions in Nigeria. According to the Land Use Act of 1978, all land in a state is vested solely in the governor of that state, who must consent to requests to sell, lease or mortgage the land.[54] Although in practice, consent is readily given, the process is slow, costly, and associated with heavy rent-seeking activities. In Lagos State, the fees associated with obtaining governor consent amount to 30 percent of the market value of the land. In addition to these costs, there are registration fees, taxes, and legal fees. Permission to lease land and use it as collateral must be approved separately. Registering collateral can take from six months to two years.



83. **The property registration system is also poorly managed, and few records are kept of plot allocations and transfers**. This problem is further exacerbated by large, unrecorded informal property transactions that take place to avoid the formal system. As such, land titles do not provide full security of ownership and can be contested in the courts or by state governors.

84. **Land reform, an important component of the NEEDS, is viewed as central to wealth creation.** It is also seen as increasing investment; improving credit access; spurring innovation in financial products, such as mortgages and term lending; and developing a private real estate market. The reforms aim to reduce documentation requirements and fees for individuals purchasing and registering property, establish transparent site visit protocols and processing deadlines, develop a registry system of plot allocation and transactions, provide easier access to information in the registry, and create a data bank of property registries. The policy governing stamp duty will also be reviewed.

85. **The Federal Capital Territory (FCT) has taken the lead in reforming its land registry system and privatizing state-owned land**. So far, it has computerized all land records and, in the process, has uncovered significant forgeries of certificates of title and multiple ownerships. It is now validating more than 50,000 plots allocated over the past two

[54] When land is allocated, the recipient receives a certificate of occupancy for a period of up to 99 years. The certificate entitles the person, with the consent of the state governor, to sell, lease, or mortgage the land.

decades. Once completed, the FCT will begin selling off public houses and land with the aim of spurring the development of a private real estate market. Comprehensive land reform will require a review of the 1978 Land Use Act and the full cooperation and participation of all state governors.

Financial infrastructure

86. **Overall, the Nigerian financial system has not fostered stability or supported investment and economic development.** The financial system is underdeveloped, and the level of financial intermediation, as reflected in a narrow M2/GDP ratio, low private sector credit/GDP ratio, and large share of cash transactions, is low. The use of credit cards and leasing arrangements is limited. A large segment of the banking system does not have access to bank credit, and most lending is short term in the form of collateralized overdrafts. Movables such as equipment, inventory, or receivables cannot be pledged as security. Long-term bank lending is not available, and the corporate bond market is inactive. Some larger, more established firms have access to equity financing through the Lagos Stock Exchange. The underdeveloped financial system and cash-driven economy reflect a host of factors:

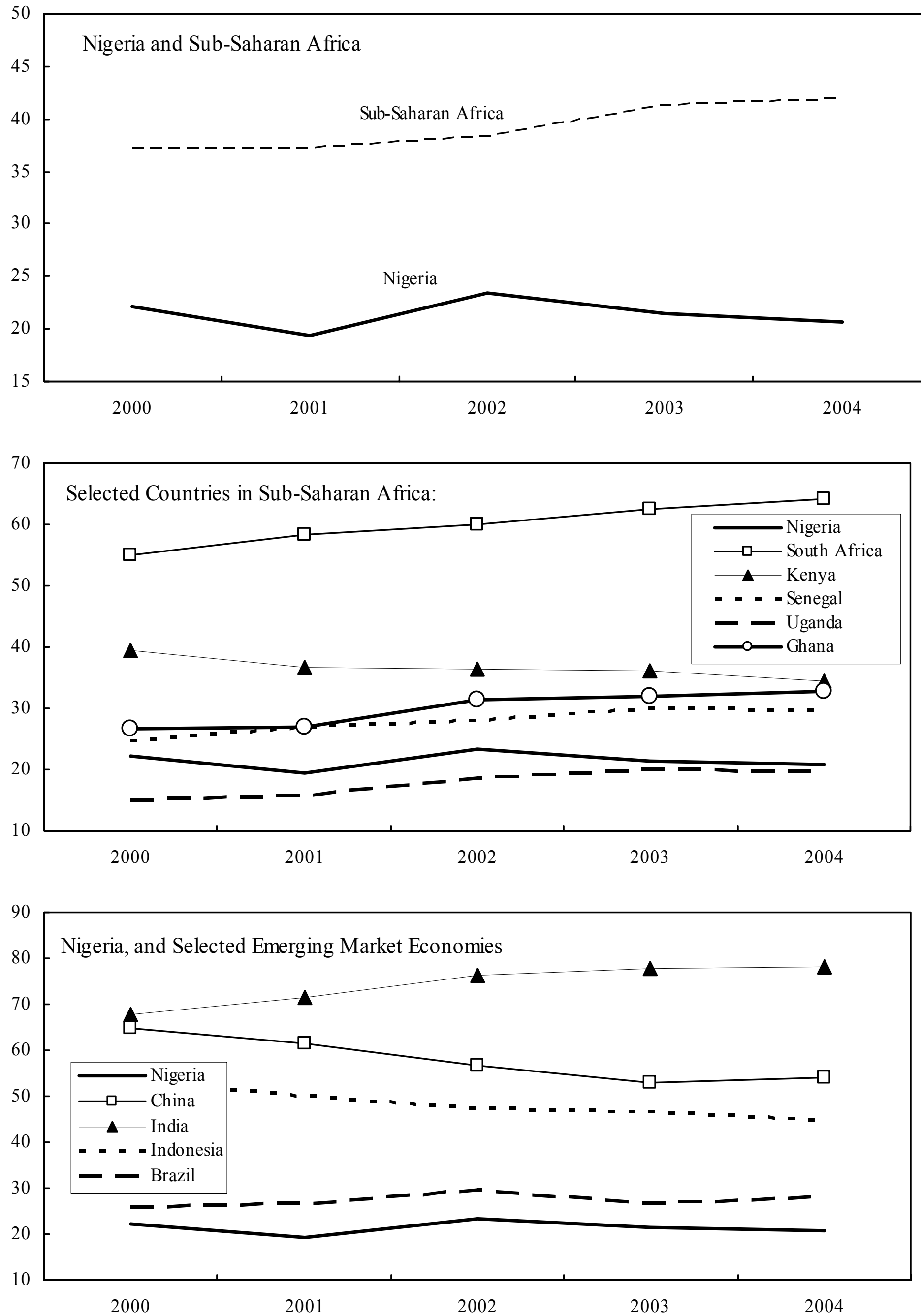
- **The banking system is unsound.** Banks continue to be plagued by unsound balance sheets and weak governance practices. The quality of their balance sheets continues to be undermined by a high level of nonperforming loans and operational inefficiencies. The 2002 Financial Sector Assessment Program (FSAP) report noted that misreporting, systemic underprovisioning, widespread insider lending, and illegal transactions are common. Balance sheet weaknesses have also contributed to the large spread between deposit and lending rates, averaging about 20-25 percent. Weaknesses in the legal system and corporate governance further explain the high spread (see Box 2).

- **The environment is a high-risk one**. Banks' reluctance to supply loans to the real economy reflects the unstable macroeconomic environment, inefficiencies in the judicial system, and shortcomings in corporate governance practices (see Box 2). Governance problems explain in part the high volume of cash transactions and the limited use of credit cards, leasing arrangements, and supplier's credits.

- **The central bank lacks autonomy and accountability.** Except in 2004, monetary objectives have not been met owing to insufficient operational autonomy of the central bank and fiscal dominance.

- **Shortcomings in the conduct of monetary policy have also undermined the development of the financial system**. The extensive reliance on reserve requirements and the high liquid asset ratio (at 40 percent) serves as a tax on financial intermediation and has hampered money market development.

Figure 4. Nigeria: Financial Depth
Broad Money (In percent of GDP), 2000-2004



Source: IFS, and staff estimates.

87. **The 2002 FSAP also found shortcomings in the prudential and supervisory framework governing the banking system, in particular with regard to enforcement of regulations, consolidated banking supervision, and the supervision of the nonbanking system**. In a number of areas, prudential regulations governing insider lending, including to shareholders, large exposure limits, loan classification, and provisioning were found to be inconsistent with international best practices.

88. **The authorities, recognizing the importance of a sound and well-developed financial system for achieving the growth and poverty goals of the NEEDS, have launched a major reform to strengthen the banking system** (see Box 3). More, however, will need to be done to spur financial intermediation. To encourage financial intermediation in a high-risk environment, several countries have reformed their collateral registry system to allow other pledges, such as receivables, firms' equipment or shares, and other movable property, to be used as collateral and have established public credit registries and a private credit bureau.[55] Furthermore, corporate governance standards need to be strengthened in Nigeria. The national accounting, auditing, and reporting standards need to be brought in line with international best practices. Steeper penalties should be applied for misreporting and noncompliance. Standards governing small- and medium-sized enterprises (SMEs) should be strengthened and state-owned enterprises should comply with international accounting standards.

[55] Credit registries are information-sharing institutions that make credit information on borrowers available to lenders. Studies find that in low-income countries public credit registries play a constructive role, and, where they have been introduced, credit to SMEs and households has expanded. See Djankov, McLeish, and Shleifer (2005).

Box 2. Nigeria: Corporate Governance Practices

Sound corporate governance practices are essential building blocks for fostering a good investment climate. They help creditors and investors make informed decisions, help build confidence in the company, and reduce capital costs.

Corporate governance practices have been weak in Nigeria. Nigeria's company law, Companies and Allied Matters Act, Bank and Other Financial Institutions Act, and the Securities and Exchange Commission's listing requirements incorporate many sound corporate governance features. However, past banking and corporate failures point to major weaknesses in corporate governance. Key problems are inadequate enforcement of statutory standards and a lack of sanctions for wrongdoing.

The 2002 FSAP and the World Bank's 2004 Report on the Observance of Standards and Codes (ROSC) on accounting and auditing also found serious shortcomings in regulations, compliance, and enforcement of current national standards and rules. Their main findings were as follows:

- The SASs are not in line with current International Accounting Standards (IAS). The ROSC indicates that are 14 international standards where there are no equivalent local standards. For instance, SAS does not provide standards for financial statement preparation and presentation, impaired assets, related party disclosure, consolidating group accounting, and companies in agriculture.
- Special financial reporting requirements for small companies are weaker than SASs and insufficient. In many cases, financial statements of nonlisted companies and private companies are not available.
- Although the Nigerian Accounting Standards Board (NASB), the standards-issuing body, has the mandate to monitor and enforce compliance with SAS, it lacks the financial and human resources and the capacity to do so, and SAS updates have been infrequent.
- A national auditing standard does not exist. Auditors are advised to follow International Standards on Auditing), but generally deviate significantly from best practices.
- There are significant compliance gaps with standards, including manipulation of accounts, misreporting, and failure to disclose relationships with related parties, including local and overseas suppliers.
- Pecuniary sanctions for violation of filing requirements either have not been imposed or have been minimal. As a result, they have not served as an effective deterrent for wrongdoing. This in part reflects the weak judicial system which has discouraged regulators and other stakeholders from action taking against companies in violation of statutory standards.
- Ethical codes governing the auditing body are not in line with international best practices. Auditors have limited skills and capacity to do in-depth reviews and often knowingly sign inaccurate reports. While audit committees exist, committee members typically do not perform their function.
- The 2001 on-site safeguard assessment also found notable shortcomings in audit and accounting practices within the CBN, such as the retention of one audit firm for over 25 years, no oversight of the external audit process, and noncompliance with SAS.

Box 3. Nigeria: Authorities' Financial Sector Reform Strategy

- Increase the minimum capital base requirement to N25 billion at end-2005;
- Provide tax and other incentives to encourage banking consolidation; introduce a risk-focused and rules-based regulatory system;
- Improve banks' regulatory compliance and strengthen their corporate governance practices through adoption of a zero-tolerance policy;
- Develop an exit strategy for unsound banks;
- Strengthen supervision of the non-banking financial institutions, including insurances and community banks;
- Strengthen central bank autonomy and accountability;
- Improve corporate governance of banks and strengthen reporting requirements;
- Increase reliance on indirect instruments of monetary policy, thereby contributing to the development of the financial market;
- Remove the central bank as purchaser of government securities in the primary market and allow interest rates to clear the market;
- Unify the foreign exchange markets and lower burdensome foreign exchange regulations on banks.

C. Conclusion

89. **The central challenge Nigeria faces is to create the broad-based conditions for rapid and sustained productivity growth in the private sector**. Developments over the past 18 months and the development of NEEDS are evidence that Nigeria has turned the corner. NEEDS is appropriately focused on policies and reforms that will improve the investment climate and correct for past policy mistakes.

90. Far-reaching reforms are needed for Nigeria to achieve higher sustainable growth and attract foreign investment and technology. The growth experiences of China and India over the past decade or two can serve as an example for Nigeria. Their experiences show that higher per capita growth is attainable and that significant progress can be made in lowering poverty with appropriate policies and the right attitude. Both countries have liberalized their economies, opened them up to trade and foreign direct investment, and freed them from excessive government controls. They now rely primarily on private sector initiative to drive growth and innovation. The main challenge facing policymakers in Nigeria is to implement its reform agenda consistently over the medium term.

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III. Pension Reform in Nigeria [56]

A. Introduction

91. **Nigeria launched a major reform of the pension system with the passage of the new Pensions Act in June 2004.** This act seeks to establish a contributory, fully funded scheme for both the public and private sectors, based on individual accounts that will be privately managed by designated pension fund administrators, with pension funds assets held by pension assets custodians. It replaces a range of largely unregulated and highly diverse pension arrangements, including the pay-as-you-go pension systems for federal government employees; the partially funded, defined-benefit scheme administered by the Nigeria Social Insurance Trust Fund (NSITF) for workers in private sector firms with at least five employees; and, private firms' own funded pension schemes.

92. **The goal of this paper is to analyze the Nigerian reform, its potential benefits, and its drawbacks.** Toward that end, the paper will briefly review the literature on old-age security and other countries' experiences with similar reforms. With that framework, the paper will explore the rationale of Nigeria's pension reform, its implications, and the basic challenges ahead.

B. Pension Reform: Issues and Country Experiences

93. **The policy issue of old-age security has been receiving increased attention worldwide as populations age and problems with existing schemes (including informal ones in less developed countries) surface**. In recent decades, there has been a generalized drive to reform existing old-age security programs, including by replacing all or part of public (mainly defined-benefit) social security schemes with privately managed, defined-contribution systems based on individual accounts, in line with the 1994 study by the World Bank, *Averting the Old-Age Crisis*. That study identified three major objectives for old-age security systems (saving, redistribution, and insurance) and argued for differentiated government roles in light of evidence suggesting that multi-objective public schemes are problematic for both efficiency and distribution reasons (see below). It recommended a three-pillar system: (i) a mandatory publicly managed pillar financed with taxes and with the unambiguous and limited function of alleviating old age poverty (redistribution objective) and coinsuring against multiple risks; (ii) a mandatory and fully funded privately managed pillar linking individual savings with pension benefits; and (iii) voluntary occupational or personal savings plans. While the redistribution and saving objectives would be dealt with separately, the insurance objective would be addressed in all three pillars.

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[56] Prepared by Mauricio Villafuerte.

94. **The mandatory and fully funded, privately managed pension scheme should yield substantial benefits but requires a strong regulatory framework.** Some benefits are directly associated with the drawbacks of publicly managed pay-as-you-go pension systems, a critical problem of which is that it does not clearly link contributions and benefits. That problem, combined with population dynamics, has frequently led to the promise of generous benefits that end up being financed with increasing taxes on labor and/or higher public sector debt. High labor taxes have led, in turn, to several distortions in labor markets, including lower employment, an expansion in the informal sector, increased tax evasion, and even strategic manipulations by workers to avoid costs but maximize pension benefits. In addition, the private sector should use more flexible and modern practices than the public sector in the management of pension funds. The second pillar would also have some benefits of its own, including increased transparency of fiscal liabilities, higher private capital accumulation and financial market development, and improved accountability (in fact, it should be more effective, in principle, to have the public sector rather than other public entities, regulate and supervise private operators). The 1994 World Bank study deemed a strong regulatory and supervisory framework a prerequisite for the second pillar to keep investment companies financially sound and to limit pension funds' exposure to risk.

Table 1. Some Major Pension Reforms (Defined-Contribution Systems)

Country	Funded Pillar, Privately Managed	Safety Net	Status of Old System	Transition Mechanism
Argentina (1994)	Optional second pillar	First pillar, flat pension	Reformed, but open to new workers	Compensatory pension for previous years of service
Australia (1997)	Mandatory second pillar	Means-tested first pillar	Fully functional	Not needed; second pillar added to first
Bolivia (1997)	Primary system	Annual pension benefit for those at least 21 years of age in 1995 out of shares in state-owned firms	Closed to new workers and those below age 35	Compensatory pension
Chile (1981)	Primary system	Minimum pension guarantee	Closed to new workers	Recognition bonds payable at time of retirement
Hungary (1997)	Optional second pillar	Earnings-related first pillar	Closed to new entrants	Compensatory pension
Kazakhstan (2000)	Primary system	Minimum pension guarantee	Closed completely	Compensatory pension
Mexico (1995)	Primary system	Minimum pension guarantee	Closed completely	Current workers retain rights to state pension if higher
Peru (1993)	Optional primary system	None	Open to new workers	Recognition bonds at time of retirement
Poland (1999)	Mandatory second pillar	Notional accounts, first pillar	Closed to new entrants and workers under the age of 30	Notional initial capital
Sweden (1994)	Mandatory second pillar	Notional accounts, first pillar	Conventional defined = benefit closed	Compensatory pension in transition to national accounts
United Kingdom	Optional second pillar	Flat first pillar	Open to all	Compensatory pension calculated based on last contribution
Uruguay (1995)	Optional second pillar	Earnings-related first pillar, but with ceiling	Reformed, but open to new workers	Years of service recognized for those under 40, but under new formula; older cohorts get reformed benefits, phased in

Source: A. Schwarz and A. Demirguc-Kunt (1999).

95. **Other countries' experiences with private fully funded pension schemes have, thus far, been relatively positive.**[57] Many Latin American countries,[58] as well as some

[57] For detailed references see, for example, Schwarz and Demirguc (1999), Devesa-Carpio and Vidal (2002).

[58] In 1981, Chile introduced a fully funded, privately managed, defined-contribution scheme as the primary pension provider. Peru and Colombia (1993) decided to keep the pay-as-you-go defined-benefit scheme as the primary system. Argentina (1994) retained a pay-as-you-go defined-benefit

(continued)

transition economies,[59] have transformed their pensions systems into funded systems under alternative arrangements. Preliminary evidence from the relatively young (with the exception of Chile) reforms suggests some generalized benefits in terms of financial sector deepening, higher gross returns on pension contributions, and higher participation rates (number of affiliates to the new systems). In Chile, the aggregate value of resources managed by pension funds rose from 1 percent of GDP in 1981 to 55 percent of GDP in 2001, the offer of financial instruments expanded substantially in size and variety, and there was evidence of increased "institutional capital" (a better legal framework, increased professionalism in the making of investment decisions, and increased transparency and integrity) in the capital markets following the pension reform (Walker and Lefort, 2002). The real average annual investment return surpassed 10 percent between 1981 and 2002, and replacement ratios were then estimated at 75-80 percent.

96. **A few countries have sustained fiscal discipline, thereby, consolidating their achievement of long-term fiscal savings through the pension reform, which enables them to deal with the associated short-term and transitional costs.** In addition, fiscal adjustment maximizes the impact of the pension reform on aggregate saving. In Chile, an explicit objective of the reform was to increase saving; hence, the government tightened up on other expenditure to achieve a fiscal surplus net of expenditure on social security. An added benefit of these reforms is that their implementation allowed governments to deflect the political problems associated with increasing taxes and cutting benefits under the old systems and to undertake more meaningful discussions about the sustainability of old-age security schemes.

97. **Despite their substantial benefits, the reforms implemented by the Latin American countries and transition economies have had their share of problems.** Some reforms failed mainly because short-term and transition costs were not addressed. For example, in Bolivia, which did not address the residual liabilities of the pay-as-you-go system or implement fiscal adjustment, the pension reform has increased the vulnerability of its public finances.[60] More specific problems that have been identified are the failure to increase coverage ratios (measured as the ratio of active contributors to affiliates), the

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scheme for the primary system, but introduced the option of a fully-funded defined-contribution scheme as a mandatory supplementary system. Uruguay (1995) retained the pay-as-you-go as the primary system, but made the fully funded defined-contribution scheme a mandatory second pillar for those of moderate income and optional, but subsidized, for those with low incomes. Mexico (1995) set up a system like the Chilean one, but with public and private fund management. El Salvador (1998), Bolivia (1997), and Costa Rica (2000) also carried out reforms.

[59] For example, Croatia, Estonia, Hungary, Kazakhstan, and Poland.

[60] Admittedly, some countries chose not to eliminate the old system as a way to reduce short-term and transition costs. However, the coexistence of old and new pension schemes creates problems, including political ones. In addition, the transition to a funded pillar never got off the ground in some countries, such as Nicaragua, because of the budgetary implications.

persistence of high administrative charges from private operators, and limited diversification in the investment of pension funds.[61] All those problems could translate into long-term fiscal costs through the activation of minimum pension guarantees and/or lower pension benefits and higher-old age poverty. In Chile and Peru, there have been intense debates about pension funds' insurance and management charges, which seem to be higher than the charges of other financial instruments and those of pension funds in other countries. Increased competition and regulatory flexibility have been proposed as efficient ways to reduce charges.

C. Nigeria's 2004 Pension Reform Act: Implications and Challenges

98. The pension system before the reform consisted of costly and poorly managed schemes for public workers and a centralized, partially funded, defined-benefit scheme supplemented by unregulated and unsupervised occupational (corporate funded) schemes for private sector workers.

Previous pension system and the need for reform

99. **The noncontributory pay-as-you-go defined-benefit scheme for the public sector became increasingly costly and unsustainable.** The fundamental problem with the old system was that benefits were very generous. Civil servants were eligible for a separation gratuity after 5 years of service and a pension after 10 years of service. At that point, the gratuity amounted to 100 percent of final salary, while the pension was 30 percent of salary, with each additional year of service increasing the gratuity by 8 percent and the pension benefit by 2 percent. After 35 years of service, a worker qualified for maximum benefits—that is, a gratuity equal to 300 percent of final salary and a pension equal to 80 percent of final salary. In addition, benefits were adjusted after retirement by the Salary and Wages Commission to bring the benefits of existing pensioners in line with the benefits received by new retirees. Therefore, benefits were implicitly indexed to wages, because initial benefits were also linked to wages. The minimum retirement age was 50 (benefits were deferred until the age of 50 for those who left service earlier), with mandatory retirement at 60 years.

100. **In addition, the public sector had a myriad of special schemes with more generous provisions.** Terms were different—and more generous—for certain categories of workers, including military personnel, judges, and university professors. In fact, university professors could work until age 65 and qualify for a pension equal to 100 percent of their final salary. Military workers, on the other hand, could accrue benefits at the same rate as civil servants but were allowed to retire after only 10 years of service.

101. **Because of the generous benefits, arrears accumulated as the public sector had difficulty paying current retirees their full benefits.** Appropriations for pension benefits have fallen short of prescribed benefits during most of the recent years. A report by a special cabinet committee estimated that total arrears for federal retirement systems amounted to

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[61] This is often the result of limits on investing abroad or high exposure to single parties (in particular the government).

N85.5 billion as of May 2002 (Table 2), most of which was owed by federal parastatals. Those estimates have not been updated, but are thought to total between N100-200 billion (1-2 percent of Nigeria's 2004 GDP), not including arrears accumulated by state and local governments and their parastatals. As a result of the arrears, the old pension system was actually much less generous than it was designed to be.

Table 2. Nigeria: Federal Pension Liabilities, May 2002
(In billions of naira)

Retirement System	Accrued Arrears
Civil service	15.9
Military	0.0
Police	7.7
Customs, immigration and prison services	1.9
Federal parastatals	60.0
Total	85.5

Source: IMF (2003).

102. **Public pension schemes were plagued by administrative problems.** The accumulation of arrears was also a manifestation of weak public expenditure management (as pension obligations were treated as mere expenditure items in the budget instead of as an insurable risk that required actuarial analysis and projections) and poor administration of the public pension schemes (the approval and payment of annuity benefits were subject to long lags). Part of the administrative problems derived from the absence of an integrated personnel and payroll system that allowed the creation of employment records.

103. **Workers in the private sector were covered either by a centralized, partially funded scheme or by funded schemes set by their employers.** The Nigeria Social Insurance Trust Fund (NSITF) managed a partially funded, defined-benefit scheme for workers in private sector establishments with at least five employees.[62] Contributions to the NSITF were 10 percent of gross earnings (6.5 percent contributed by the employer), while the retirement pension rate for a worker who reached the age of 60 or more was 30 percent with 120 monthly contributions and 60 percent for 360 monthly contributions. In addition, some firms funded their own occupational pension schemes, including defined-benefit schemes. One problem with the private schemes was that they were largely unregulated and unsupervised. Therefore, no figures are available regarding their coverage and size.

Main Features of the 2004 pension reforms act

104. The Pensions Act passed in June 2004 establishes a new pension scheme that is contributory, fully funded, and based on privately managed individual accounts, with the

[62] It replaced the National Provident Fund, which was a savings scheme with meager monthly contributions and that was plagued by poor compliance by employers and inadequate benefit payments and one-off lump sum benefits to claimants.

associated assets held by pension assets custodians. With the passage of the Pensions Act, Nigeria is at the forefront of low-income countries in the implementation of such a scheme.

105. Regarding **coverage**, the law makes it mandatory for employees of the public service of the Federation and the Federal Capital Territory, as well as for employees in private firms (with five or more employees), to join the contributory scheme when they begin working. Existing pensioners, judicial officers, and workers with three years or less before retirement are exempted from the scheme. Also, workers from state and local governments and associated parastatals are not affected by the new provisions.

106. Under this system, public sector employees' **contributions** are a minimum of 7.5 percent of their monthly emoluments (basic salary plus housing and transport allowances), but military personnel contribute 2.5 percent. Public entities have to contribute 7.5 percent, but 12.5 percent for the military. Employers and employees in the private sector contribute a minimum of 7.5 percent each of the employees' monthly emoluments. Employers are obligated to deduct and remit contributions to a pension fund custodian (PFC) within seven days, and the PFC should, in turn, immediately notify a pension fund administrator (PFA) of its receipt of the contributions. Contributions and retirement benefits are tax-exempt.

107. Each employee opens an **individual account** with a PFA of his or her choice. This individual account belongs to the employee and remains with him or her through life: the employee may change employers or pension fund administrators (once a year, maximum), but the account remains the same.

108. **Employees can withdraw funds** from individual accounts only at the age of 50 or upon retirement thereafter. Lump sum withdrawals, however, would be allowed only when the amount remaining in the account is sufficient to set up **programmed withdrawals** or annuities of not less than 50 percent of an individual's monthly remuneration at the time of retirement. When an individual retires, he or she can use the balance after the lump sum payment to program monthly or quarterly withdrawals, to purchase an annuity for life through a licensed life insurance company with monthly or quarterly payments, or both.

109. The act specifically precludes taxing contributions and distributions.

110. According to the law, all employees (public and private) who have contributed for at least 20 years are entitled to a **guaranteed minimum pension**. The minimum pension amount will have to be specified by the government from time to time based on the recommendation of the National Pension Commission. The guaranteed minimum pension can be considered an explicit component of a first pillar of old-age security in Nigeria. However, the act does not specify who is responsible for the minimum pension.

111. In addition, the law mandates that employers maintain **life insurance policies** in favor of their employees for a minimum of three times their annual emoluments. This provision replaces survivor benefits for younger workers who do not accumulate a substantial retirement account.

112. A difficult issue linked to the transition to the new system has to do with the **accrued pension rights** of workers who shift to the new system. Public sector workers under the

unfunded pay-as-you-go scheme will receive non-negotiable bonds redeemable upon retirement in an amount equivalent to the accrued benefits under the old scheme. In anticipation of the redemption of such bonds, the government has established the Retirement Benefits Bond Redemption Fund at the Central Bank of Nigeria and financed it with the equivalent of 5 percent of its total wage bill.[63] In the case of the *public sector's funded schemes* and the *private sector*, employers have to credit the employees' individual savings accounts with any funds to which they are entitled; in the event of a deficiency, employers will have to issue a written obligation with repayment terms agreed on with the employee concerned.

113. **Private schemes** could continue to exist provided that they are fully funded, any shortfall is covered within 90 days, and the pension funds and assets are held by a PFC. Alternatively, the employer could also ask PENCOM to be licensed as a closed PFA. NSITF will establish a PFA that will also be regulated and supervised by PENCOM. Retirement savings accounts based on contributions to NSITF must remain with the PFA of NSITF for at least 5 years. Thereafter, each beneficiary will be free to determine which PFA will manage these funds on his or her behalf.

114. The **National Pension Commission** (PENCOM) is the entity charged with regulating and supervising of the pension schemes and has the power to formulate, direct, and oversee the overall policy on pension matters in Nigeria. PENCOM also has the mandate of ensuring the safety of the pension funds by issuing guidelines for licensing, approving, regulating, and monitoring the investment activities of pension funds' administrators and custodians. It comprises representatives from the government and labor, pensioners, and employers.

115. **PFAs** will have to be licensed by PENCOM to open retirement savings accounts for employees, decide on how pension funds should be invested in line with PENCOM's directives, maintain accounts on all transactions, provide regular information to the employees or beneficiaries, and pay retirement benefits to employees. PFAs must be limited-liability companies with the sole objective of managing the pension funds, with a paid-up share capital of N150 million, and with professional capacity to manage pension funds and administer retirement benefits. However, PFAs will not be allowed to hold the pension funds assets to safeguard the pension scheme. Rather, **PFCs** will have custody of pension fund assets and responsibility for executing transactions with instructions from the PFAs. PFCs must be limited-liability companies with a minimum capital of N2 billion (a shareholder bank must have a minimum net worth of N5 billion) to be granted an operating license. They are required to issue a guarantee for the full sum and value of the pension fund and assets they hold or will hold.

116. The **investment** of pension fund assets will be subject to specific guidelines from PENCOM and will include securities issued or guaranteed by the FGN and the CBN, securities and shares issued by listed corporations, bank deposits and securities, and foreign instruments (in line with the CBN is foreign exchange rules and with presidential approval).

[63] Without quantification, it is unclear if this contribution will be adequate.

PFAs and PFCs will be allowed to deduct "clearly defined and reasonable fees, charges, costs and expenses" from the income earned from investing pension fund assets.

Table 3. Structure of Recently Reformed Pension Systems (Including Nigeria)

	Chile (1981)	Peru (1993)	Argentina (1994)	Mexico (1997)	Bolivia (1997)	Nigeria (2004) 1/
Public PAYG system	Closed	Remains	Remains	Closed	Closed	Closed
Affiliation of new workers	Mandatory	Voluntary	Voluntary	Mandatory	Mandatory	Mandatory
Contribution rate for savings (percent of salary)	10.0	8.0	7.7	12.1	10.0	15.0
Commissions plus insurance (percent of salary)	2.3	3.7	3.3	4.5	2.5	--
Contribution collection	Decentralized	Decentralized	Centralized	Centralized	Decentralized	Decentralized
Past contributions	Recognition bond	Recognition bond	Compensatory pension	Previous resources/ lifetime switch	Compensatory pension	Recognition bond
Minimum pension	Yes	Yes	Yes	Yes	No	Yes
Implicit pension debt 2/	100	37	86	42	48	--

Source: J. Devesa-Carpio and C. Vidal-Meliá (2002).

1/ Nigerian Pension Reform Act, 2004.
2/ In percent of GDP. Data from Brooks and James (1999).

Implications of the reform

117. The reform establishes a mandatory and fully funded privately managed pillar focused on old age savings. However, the new scheme allows for voluntary (and not taxed) contributions (the third pillar under the 1994 World Bank framework). There is no mandatory publicly managed pillar financed with taxes and with an explicit redistributive function, but there will be a minimum pension guarantee that is not yet clear how it will be financed. In addition, there is no coinsurance against a multitude of risks, but the new system provides for an employer-financed life insurance policy.

118. The reform improves the sustainability and reduces the vulnerability of the pension system for future pensioners. By fully funding the pension scheme, Nigeria reduces its vulnerability to adverse demographic trends and increases the probability that it will have the resources to pay benefits when workers retire. In addition, individual and privately managed retirement accounts with fully portable benefits should increase workers' confidence in the pension system.

119. **However, Nigeria has not dealt explicitly with the unsustainability of benefits under the old PAYG system.** The level of benefits for current pensioners, public sector employees within three years of qualifying for benefits, and even the accrued pension rights of current workers moving from the old to the new system are, in principle, protected by the pension reform legislation and cannot be adjusted even though they are recognized as being too generous. The inability to tackle this issue raises questions about equity and the transition costs of carrying two systems, as explained below.

120. **The equity issue that arises has to do with the treatment of future public sector pensioners relative to current ones.** In fact, the reform implies a reduced level of pension benefits for future public sector workers. Based on simulations undertaken by World Bank

and IMF staff, the 15 percent contribution rate for federal government workers would result in a replacement rate at retirement (defined as the fraction of previous wages that initial pension benefits replace) for new workers of about 40 percent, compared with at least 80 percent for current pensioners. In addition, the new workers have to make part of the contributions into the new system. It could be argued that arrears and/or delays in distributing benefit payments to current pensioners reduce their effective replacement rate, but this asymmetry could lead to pressures to adjust future benefits (for example, through a higher minimum pension guarantee). However, the Pensions Act implies that these arrears will be satisfied in full, making the de facto benefits for current workers extremely generous.

121. **The long-run fiscal savings from the reform will be limited if the benefits under the old pension system are not scaled down.** In the short term, pension-related fiscal outlays will be substantially higher than under the previous scheme because the government will have to (i) deposit its contribution to the individual retirement accounts (equivalent to a fixed percentage of its wage bill), (ii) pay pensions to existing pensioners until they die, (iii) contribute an equivalent of 5 percent of the total wage bill to fund the future redemption of bonds issued in recognition of accrued pension rights under the old system for active workers migrating to the new system, and (iv) cover any shortfall to finance the actual redemption of such bonds as active workers retire.[64] The last three items are referred to as transition costs and are basically linked to the level of benefits under the PAYG system. Over time, those outlays should fall, and the government's pension bill should be lower than under the previous PAYG system. In net present value terms, however, preliminary simulations done by World Bank and IMF staffs in 2003 suggested that the new system would cost only 10 percent less than the PAYG system if the benefits under the old pension system were not reduced.[65]

[64] The 2005 federal government budget includes an allocation of N125 billion for pension-related with outlays, compared N70 billion in 2004.

[65] International experience shows the importance of carefully planning how to address the transition costs of the pension reform. For example, in Bolivia, pension costs are placing a high and increasing pressure on the budget because no provisions were made to address the residual liabilities of the PAYG system or to adjust in other spending or revenue items.

Table 4: Simulation of Long-term Fiscal Costs

Benefit Arrangements	Calculation of Total Liabilities	Ratio of Long-Run Financing Costs relative to 1979 Law
Pension according to the benefit table specified in the pension law of 1979	Present value of expenditures over the simulation horizon	1.00
Pension from individual account with past non-contributory service compensated through recognition bonds	Present value of contributions + present value of recognition bonds + present value of pensions to non switchers	0.90

Source: WB and IMF, 2003.

122. **The minimum pension guarantee could create a substantial contingent liability for the government.** The amount of this guarantee (for both public and private workers) still has to be determined by PENCOM. However, even if the objective of reducing old-age poverty is justified, the proper design of a guarantee is complicated by some difficult choices. First, its redistributive impact will depend on the coverage of the fully funded pension system, with the chance that mostly urban, formal, and relatively higher-income segments of the labor market benefit from such a policy. Second, it would be hard to define consistent thresholds for different segments of the labor market. Third, for those workers whose calculated pension is not close to the minimum pension, the guarantee would provide an incentive to retire as early as possible after accruing 20 years of service. In addition, if benefits for current beneficiaries are not revised, political pressures could build up to guarantee comparable benefits under the new pension system.

123. **The reform could increase the rate of saving in the economy and lead to a deepening of capital markets.** The national saving rate will increase as long as the increase in saving in funded retirement accounts is not offset by reductions in other forms of public or private saving. Two facts increase the probability that other forms of saving will not decline: much of the new saving will be done by low- to middle-income workers, who probably have relatively few financial savings, and public sector workers are not contributing to the old pension system. Regarding public savings, the sharp increase in oil revenue that is taking place at the same time as the pension reform is projected to boost the savings rate despite sizable increases in spending.

Remaining challenges and the authorities' agenda

124. **One critical challenge facing Nigeria ahead is the development of a comprehensive regulatory and institutional framework.** The Pension Act provides a general framework but not the detailed laws and regulations that will still need to be prepared. In addition, PENCOM's regulatory and administrative capacity need to be further

developed. These will be difficult tasks, given capacity and governance constraints in Nigeria.

125. **PENCOM is undertaking several activities in this area,** concentrating on (i) the establishment of a regulatory and supervisory framework, including rules and regulations that govern the creation of custodian and investment management institutions that can hold and manage pension assets without exposing members to the risk of poor returns or losses of principal; (ii) the establishment of its own institutional structure and the recruitment and training of staff and management; (iii) the development of an IT strategy and acquisition of core software applications for surveillance and analysis; (iv) full-scale audit, reconciliation, and actuarial valuation of pension entitlements for federal government employees and retirees, and (v) the development of a strategy to reduce benefit arrears.

D. Conclusions

126. **Nigeria decided to tackle the unsustainability of the pay-as-you-go scheme for public employees and the diversity of pension schemes for private workers by introducing a uniform, contributory, fully funded, and privately managed pension scheme**. The pension reform, as currently designed, creates substantial short-term fiscal costs, and, apparently, limited savings in long-term fiscal costs. It also implies a sizable reduction in benefits for future pensioners relative to current beneficiaries. These problems suggest that there are strong equity and fiscal reasons for reducing both statutory benefits for current pensioners and documented liabilities for workers shifting from the old to the new system. At the same time, however, the lowest-income beneficiaries should be protected through the implementation of progressive cuts in statutory benefits.

127. **The reform's potential benefits in terms of improved management of pension funds and financial deepening will depend critically on the establishment of adequate technological, institutional, and regulatory frameworks**. They should help monitor the activities of private operators and ensure that future pensioners participate actively in saving for their old age. The authorities' agenda in these areas in coming months is ambitious and would benefit from the support of the World Bank, which has substantial expertise in this area.

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IV. NIGERIAN TRADE POLICY[66]

A. Introduction

128. **This chapter provides an overview of trade policies in Nigeria, with a particular focus on changes in the policies since the staff's last survey in 2002.**[67] In recent years, Nigeria has made little progress in liberalizing trade, and its trade policy regime is one of the most restrictive in the world. The trade regime's strong anti-export bias is partially offset by a plethora of export promotion incentives. Although little is known about the specific effects of these incentives, the low level of non-oil exports suggests that they are largely ineffective.[68]

129. **Nigeria's homegrown strategy, NEEDS, adopted in 2004, recognizes the short-comings of the current trade policy framework.** Consistent with the trade policy reforms elaborated in NEEDS, the government is in the process of significantly lowering import barriers, initiatives the staff supports. The section concludes with suggestions as to how the trade reforms can be broadened and deepened.

B. Trade Policy Framework

130. **Nigeria pursues an active trade policy agenda.** Its import trade protection regime is characterized by high levels of protection in the form of both tariffs and import bans. On the export side, a wide range of specific policy measures are designed to promote non-oil exports. Nigeria's multilateral and regional trade policies are framed by its membership in the World Trade Organization (WTO) and Economic Community of West African States (ECOWAS), respectively. Oil exports are also influenced by Nigeria's membership in OPEC.

Import tariffs

131. **Currently, the (unweighted) average level of tariffs is exceptionally high at almost 30 percent.**[69] Indeed, of the 181 Fund member countries for which information was available in 2004, only 5 countries—The Bahamas, Comoros, Nigeria, Tonga, and Tunisia—

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[66] Prepared by Lynge Nielsen.

[67] *Trade and Openness Policies in Nigeria,* Selected Issues Paper, Country Report 03/50, IMF.

[68] The low level of non-oil/gas exports also suggests that Nigeria has not benefited appreciably from the plethora of preferential market access schemes provided by industrial countries.

[69] In addition, importers are charged a port development levy of 7 percent of duty payable (equivalent to 2 percent of the simple average tariff), a comprehensive import supervision scheme charge of 1 percent (for preshipment inspection), and an ECOWAS community levy of 0.5 percent. Product-specific levies a 2 percent tax on vehicles and parts, a 10 percent tax on sugar, and a 10 percent levy on rice imports.

had average tariffs (including other duties and charges) of 30 percent or higher. Nigeria's tariff schedule has 19 bands, ranging from 2.5 percent to 150 percent, with a modal rate of 15 percent. Despite the many bands, tariff dispersion is relatively moderate; for instance, for about one-fourth of all tariff lines, the tariff is set at the modal rate. Other positive features of the Nigerian tariff system, which ensure a given level of protection at lower costs to the economy, are that all tariffs are ad valorem and that no tariff-quotas are used.

132. **Protection of agriculture is particularly high, with average applied tariffs of about 50 percent, twice the level of protection of other sectors.** The last major tariff revision took place in March 2003, but had little effect on the overall level of protection. Average unweighted duty rates fell marginally, but the effective level of protection did not fall concomitantly, and the spread between duties on finished goods and duties on raw materials widened. Duties were cut on raw materials, base metals, and capital equipment and raised on various intermediate and final products, such as plastics and aluminum articles. Tariffs on corn, rice, and other agricultural products were also increased. In late 2004, minor amendments to the tariff schedule were introduced: they involved increasing the tariff rates on various packing materials from a range of 5-25 percent to a uniform rate of 60 percent and increasing the tariff rates on various types of natural starches from a range of 15-45 percent to a uniform rate of 75 percent.

133. **All agricultural tariff lines and 7 percent of other tariff lines are bound, resulting in the binding of about 20 percent of all tariff lines.** The average bound rate of 118 percent reflects relatively higher bindings on agricultural products. The large share of tariff lines without bindings and the large spread between bound and applied tariff rates do not make for a tariff system in which economic agents can have confidence that current actual tariffs rates will not increase. This, in turn, may affect private investment decisions negatively.

Table 1. Nigeria: Import Prohibitions as of November 2004

Product	Harmonized System Code
Effective as of September 2003	
Wheat flour	1001.0000
Sorghum	1007.0000
Mosquito repellent coils	3808.1000
Rethreaded/used tires	4012.1000-4012.9000
Motor vehicles[a]	8701-8705
Gaming machines	9504.1000-9504.3000
Cement in bags	2523.2910
Vegetable oil in bulk	1507.1100-1516.2000
Used refrigerators	8418.2100
Used air-conditioners	8415.1000
Used compressors	8414.8000 and 8415.3000
Printed fabrics[b]	Chapters 52-55
Frozen poultry and poultry products	0207.0000-0207.3600
Cassava and cassava products[c]	0714.1000, 1106.2000, 1108.1400 and 1903.000
Toothpicks	
Bottled water (sparking and non-sparking)	2201.0000-2202.0000
Biscuits	1905.3000
Noodles (including spaghetti)	1902.1100-1902.4000
Fruit juice in retail packs[d]	2009.1100-2009.9000
Barite, bentonite, and attapulgite	2508.1000.11 and 2508.1000.19
Sugar confectioneries (sweets and chocolate)	1704.1000-1704.9000 and 1806.1000-1806.9000
Exercise books	4820.2000
Envelopes	4817.1000
Beer (bottled and canned)	2203
Toilet rolls	4803
Introduced in January 2004	
Textiles, excluding the following	Chapters 50-63
Nylon tire cord	5902.1000-5902.9000
Multifilament nylon chafer fabric and tracing cloth	5111.2000, 5112.2000 and 5901.9000
Mattress tickings	5903.1000-5903.9000
Narrow fabrics	5806.1000-5806.4000
Trimmings and linings	5909.000, 6117.9000, 5808.9000, 6003.000, 6307.9000
Made-up fishing nets	5608.1100
Mosquito netting materials	5608.1900 and 5609.9000
Gloves for industrial use	6116.1000-6116.9900
Canvas fabrics for manufacture of fan belts	5907.000-5908.0000
Moulding cups	6212.9000
Elastic bands	5604.9000
Motifs	5810.1000-5810.9000
Textile fabrics and articles for technical use	5911.1000-5911.9000
Transmission or conveyor belts or belting of textile materials	5910.9000
Polypropylene primary backing material	5512.1100-5512.9900
Fibre rope	5607.1000-5607.9000
Mutilated rags	6310.1100
Sacks and bags	6305.1000-6305.2000
Men's footwear and bags of leather and plastic	3926.2000, 6401.1000-6405.9000, 4202.1100-4202.9900
Soaps and detergents	3401.1100-3402.9000
Furniture	9401.1000-9401.9000 and 9403.1000-9406.0000
Assembled bicycles (excluding CKD)	8712.0000
Flowers (plastic and fresh)	0603.1000-0603.9000 and 6702.1000-6702.9000
Fresh fruit	0801.1100-0814.0000
Cutlasses, axes, pickaxes, spades, and shovels	8201.1000-8201.9000
Wheelbarrows	8716.8000
Pork and pork products, beef and beef products, mutton, lamb, and goat meat	0210.1900, 1602.4900, 0202.2000, 1602.5000, 1602.9000, 0204.1000, 0204.2200, 0304.3000, 0204.4200, 0204.4300, 0210.7900, 0204.5000, 0208.9000, 0210.9900, and 1602.9000
Toothpaste	3306.1000
Pencils	9609.1000-9609.9000
Ballpoint pens	9608.1000
Plastic plates, knives, spoons, forks, cups, buckets, bowls, bins,	3924.9000
Corrugated boards and cartons	4808.1000 and 4819.1000-4819.6000
Live or dead birds	0106.3100-0106.9000, 0208.9000, and 0210.9900

Source: WTO.

a. Above eight years old and excluding tractors, trucks, trailers/trailer heads, and buses. In addition, the importation of any vehicle through land borders is prohibited.

b. All other textiles must be imported through Apapa and Tin Can Island ports in 20ft containers in the following range: (i) other textiles (non-printed) 110,000-140,000 meters; (ii) brocade/damask 120,000-130,000 meters; (iii) and, lace/embroidery 70,000-80,000 meters. A minimum import price of $0.40/meter shall apply to all textiles under HS Chapters 50-63. The importation of all textiles through land borders is prohibited.

c. The importation of all cassava and cassava products through land borders is prohibited.

d. Fruit juice may be imported in concentrates or drums only.

e. Drugs and pharmaceutical raw materials may only be imported through Calabar and Apapa ports, and Lagos and Kano airports.

Import bans

134. **Nigeria has a long history of banning imports of a broad range of products.** After heavy use of such bans in the 1980s and early 1990s, their importance waned in the mid-1990s, as protection began to take the form of tariffs, among other forms, in line with Nigeria's WTO commitments.

135. **In recent years, the use of import bans has once again become more prevalent, with major expansions in the list of prohibited products taking place in 2001, 2003, and 2004.** In January 2004, bans were introduced on most types of textiles, men's footwear, plastic and leather bags, soaps and detergents, furniture, bicycles, flowers (plastic and fresh), fresh fruit, wheelbarrows, various meat products, toothpaste, pencils, and corrugated boards and cartons. In late 2004, Nigeria banned imports of cocoa powder and cake in order to encourage the use of locally processed cocoa. To offset the potentially negative effects of higher input costs on downstream producers, the government also launched a publicity campaign to encourage the consumption of chocolate drinks, including in schools. In early 2005 bans on various pharmaceutical products were introduced, but the government decided concurrently to lift the import ban on used cars because it had proved to be ineffective.[70]

136. **Import bans have proved to be difficult to enforce and many banned products are readily available in Nigeria.** Exemptions are also provided on a case-by-case basis, and some import bans are partially lifted from time to time.[71] For example, at times specific companies have been permitted to import fruit juices even though the importation of such juices is banned, and the import ban on wheat flour has been suspended on occasion in line with developments in local market conditions. A particular objective in the latter case has been to encourage the use of cassava flour.[72]

137. **Most import bans are introduced at the behest of local manufacturing interests and serve defensive protectionist purposes.** However, the prohibition on imports of barites and bentonites is officially maintained for balance of payments reasons.[73] Nigeria has also notified the WTO that the import bans on wheat flour, sorghum, millet, and kaolin were put in place for safeguard reasons. Nigeria has not imposed any antidumping and countervailing duties since 1998, opting instead to use import bans pending the integration of the WTO Agreement on Safeguards into domestic legislation.

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[70] The ban was introduced in 2001. At the same time, imports of all vehicles across land borders were prohibited.

[71] Exemptions require the written approval of the president.

[72] Nigeria is the world's largest cassava producer. Bread can be baked using a mixture of cassava and wheat flour, and the Ministry of Agriculture is encouraging local bread producers to use a flour mix containing 10 percent cassava.

[73] Nigeria notified the WTO in 1999 that the ban on barites and bentonites would be lifted in 2000, but as of end-2004 the ban was still in effect.

138. **Import bans are also used to encourage the production of goods deemed to benefit economic development objectives.** For instance, to ensure a larger domestic share of value added in the booming cellular phone industry, an import ban on recharge cards was to have gone into effect at the end of 2004; the deadline, however, was extended because local companies were not yet ready to commence production. The government is also encouraging rice production by strengthening agricultural extension services and improving the availability of fertilizer and new types of seeds. In support of these initiatives, the government has announced the introduction of an import ban on rice starting in January 2006.

139. **Imports of various products are also banned owing to security, health, or morality concerns.** Examples are weapons, textile materials containing hazardous chemicals, and secondhand clothing. Finally, there are certain restrictions on products that can be imported across land borders (for example, cement, and medicine), and minimum shipment volumes for others (for example, cement imports cannot be less than 10,000 tons, and textile products must be imported in 20-foot containers containing not less than 130,000 meters of fabric).

Other import barriers

140. **Among other import barriers are discriminatory government procurement policies, the use of the tax code and other legislation to promote domestic production, inappropriate customs clearance procedures, and heavy-handed administration of standards and certification policies.** It is difficult to gauge the extent to which such barriers hamper trade, but the prominent discussion such practices garner in the local press as well as among trading partners suggests that informal trade barriers are a significant problem. Specific examples of trade barriers are the requirement that uniforms of public officers be sourced locally, value added tax (VAT) exemption for locally produced fertilizer, and tax incentives under the investment act for companies that use domestic sources. However significant such specific policies are in particular sectors, it is probably the informal and more intractable barriers that distort trade the most.

Export-promotion policies

141. **A broad range of policies have been put in place to encourage exports, such as lowering the cost of production (either by cutting red tape, lowering tax liabilities, lowering the costs of inputs, and improving the availability of financing).**

142. **The Nigerian Export Processing Zone Authority (NEPZA) was established in 1992, and it created Five Zones**. Having had little success in attracting companies, the NEPZA converted the export-processing zones into free trade zones in 2001.[74] Currently,

[74] The change from export-processing zones to free trade zones essentially consisted in abrogating the rule that companies located in the zone should export at least 75 percent of their production.

(continued)

only the zones in Calabar and Onne are operational. The companies located in the Calabar free trade zone mostly market their products locally, but also in part within the West African sub-region, whereas the Onne zone is being used mainly to facilitate the export of liquefied natural gas. Incentives include tax holidays and fewer restrictions on foreign ownerships. In 2004, 22 firms in Calabar employed some 2,000 workers, and in Onne about 100 firms employed some 7,000 workers. Exports from Calabar amounted to $50 million in 2003. Some states have also established export-processing zones, but it is unclear whether these zones are operational.

143. **Companies registered with the Nigerian Export Promotion Council (NEPC) may benefit from various export incentives.** An **export-expansion grant scheme** entitles eligible firms to a 4 percent grant on their export receipts. The scheme was introduced in 2002, but suspended in mid-2004 owing to concerns about fraudulent claims by companies. With stricter safeguards and eligibility rules in place, the scheme was re-launched in January 2005. Other incentives are a **duty-drawback scheme** providing a 60 percent refund to qualified importers, an **export-adjustment fund scheme** compensating companies for the cost disadvantages of infrastructural deficiencies and other factors beyond the control of the companies, and an **export development fund** providing financial assistance to private sector export companies to cover part of their initial expenses related to export promotion.

144. **The manufactures-in-bond scheme allows for the duty-free import of raw materials—whether prohibited or not—for the production of export goods by companies posting bonds to guarantee the payment of duties in case the exports do not materialize.** The scheme has proved difficult to administer and is under review. In November 2004, the import ban on certain U.S. textile and yarn products was lifted to encourage their use in a special manufactures-in-bond scheme.

145. **Although highly underused, the Nigerian Export-Import Bank offers commercial bank guarantees and direct lending to facilitate exports.** The Foreign Input Facility provides normal commercial terms of three to five years (or longer) for the importation of machinery and raw materials used for generating exports, and the Industrial Export Stimulation Facility provides exporters of manufactured goods with credits to import capital equipment and packaging and raw materials.

146. **Besides the granting of tax holidays to companies located in free trade zones, tax relief is also provided to manufacturers exporting at least 50 percent of their production.** Another tax incentive is tax relief for commercial banks that lend to exporters (a tax exemption is granted on interest earned from loans for export activities).

Export bans and taxes

147. **Nigeria bans the exports of a few products in accordance with the provisions in Nigeria's Export Prohibition Act.** Currently, the products that cannot be exported are raw hides and skin, timber (rough and sawn), scrap metals, unprocessed rubber latex and rubber lumps, rice, yams, corn, beans, artifacts, and antiquities. Whereas the bans on hides, timber, metals, and rubber serve the purpose of ensuring lower-cost inputs for the manufacturing industry, the bans on rice, corn, and other food items are imposed on food-security grounds.

148. **Export taxes are permitted under the 1992 Export Amendment Decree, which prescribes that all raw materials and unprocessed commodities (mineral or agricultural) may be subject to export levies as determined by the Nigerian Export Promotion Council.** Currently, a levy of $5 per ton is imposed on cocoa exports and a levy of $3 per ton on other raw materials.

C. Trade Performance

149. **The current trade policy framework combines high general barriers to trade and a plethora of derogations granted thereto by administrative fiat.** The high import barriers entail an antiexport bias to the economy that is partly mitigated by various export incentive schemes. Much like a tax system with high tax rates and a widespread use of tax credits, the Nigerian trade policy framework allows the government to guide productive activities in directions of its choosing.

150. **Nigeria's trade policy framework is significantly more restrictive than that found in most other countries, and it has become increasingly restrictive in recent years.** In its 2005 trade policy review, the WTO concluded that Nigeria's trade policy regime had become more protectionist since its 1998 trade policy review. Over that same period, an array of developed, developing, and transition countries have pursued significant trade liberalization policies.

151. **That Nigeria's trade policies are not aligned with those found elsewhere is not in itself a problem, but it is an issue that the restrictive policy framework is associated with a very weak export performance.** Nigeria—with more than 2 percent of the world's population—has a share of the world's exports of about 1/3 of 1 percent, of which more than 90 percent is oil and gas exports (Table 2). Over the past decade, Nigeria's non-oil and gas exports on a per capita basis amounted to only 1 percent of the world's average—the fourth-lowest share in the world.[75] Over a decade in which the world economy became significantly more integrated, Nigeria's non-oil and gas exports remained stuck at about 3 percent of GDP (6 percent of non-oil and gas GDP).

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[75] Total exports of goods and services less oil exports for countries classified as fuel exporters in *World Economic Outlook* (WEO). Among 178 countries for which data are available, only Burundi, Ethiopia, and Rwanda had lower non-oil exports than Nigeria.

Table 2. Nigeria: Trade, Foreign Investment, and Growth, 1994-2004

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Prel. 2004
(In percent of world total)											
Exports of goods and services	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.3	0.3
Of which: Non-oil/gas sector	0.02	0.02	0.03	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Imports of goods and services	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2
Of which: Non-oil/gas sector	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
FDI	0.2	0.2	0.3	0.4	0.2	0.1	0.1	0.3	0.4	0.5	0.6
Of which: Non-oil/gas sector	0.07	0.07	0.08	0.14	0.06	0.04	0.04	0.14	0.11	0.05	0.09
GDP											
Nominal	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.2
Purchasing power parity	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
(In percent of world total on a per capita basis)											
Exports of goods and services	10	10	12	12	8	9	15	12	11	14	15
Of which: Non-oil/gas sector	1	1	1	1	1	1	1	1	1	1	1
Imports of goods and services	9	10	10	10	9	10	9	10	11	11	11
Of which: Non-oil/gas sector	6	7	6	7	6	7	5	7	6	7	6
FDI	12	10	16	18	9	5	4	12	16	23	28
Of which: Non-oil/gas sector	4	4	4	7	3	2	2	7	5	2	4
GDP											
Nominal	6	6	8	6	5	6	7	7	6	7	8
Purchasing power parity	14	14	14	14	13	13	13	13	12	13	14
Memorandum items:											
(In units indicated)											
Trade balance 1/	2	1	8	8	-5	-2	21	9	0	9	17
Exports of goods and services	34	34	36	47	33	37	54	43	41	50	55
Of which: Non-oil/gas sector	3	4	4	5	5	4	3	3	4	3	3
Imports of goods and services	32	33	28	39	38	40	33	34	41	41	37
Of which: Non-oil/gas sector	22	23	18	26	24	28	20	23	25	24	21
Non-oil/gas trade balance 2/	-30	-31	-26	-35	-27	-36	-33	-36	-35	-38	-36
Exports of goods and services	6	7	7	8	7	6	7	6	6	6	6
Imports of goods and services	36	38	33	43	34	42	39	41	41	44	42
World exports 3/	20	22	22	23	23	23	25	24	24	25	27
Developing countries' exports 3/	23	25	25	25	25	27	31	30	32	34	37
Sub-saharan African countries' exports 3/	28	29	30	30	28	29	35	33	32	33	35
Oil export price ($/barrel)	16	17	21	20	13	18	28	24	25	29	38

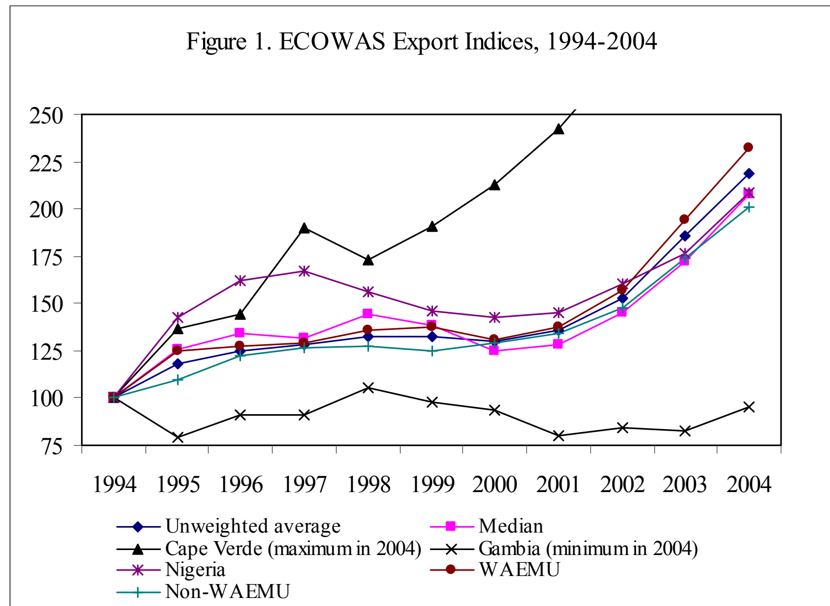
Sources: IMF Balance of Payments Yearbook, WEO; and staff estimates.

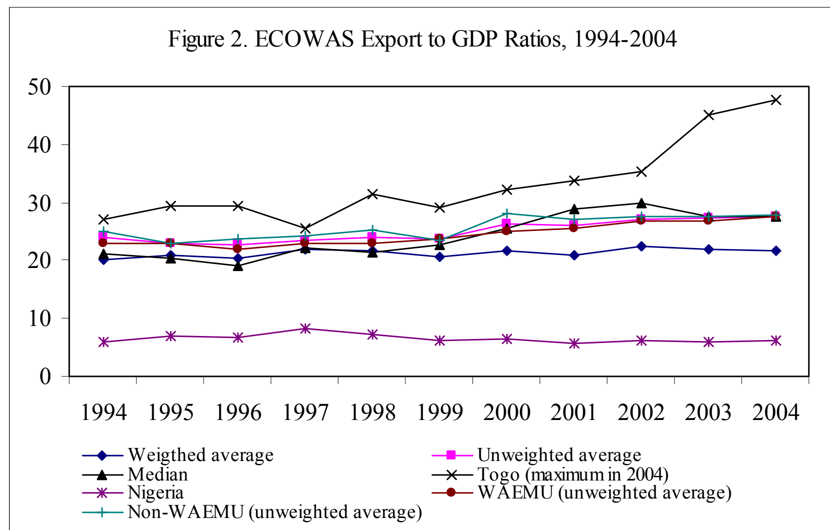
1/ In percent of GDP.
2/ In percent of non-oil/gas GDP.
3/ Exports of goods and services in percent of GDP.

152. **Trade policies also influence the broader policy framework that determines private sector choices of when and how to consume, invest, save, and trade with the outside world.** In that regard, it is worth noting that Nigeria's poor export performance is also associated with low levels of foreign direct investment and weak economic growth. Except for investment in the oil and gas sectors, foreign investors have been largely absent

from Nigeria, and little progress has been made toward closing the income gap with other countries.

153. **Nigeria's export performance is also relatively weaker than that of two other control groups: fuel exporters and ECOWAS member countries.** Whereas growth in Nigerian exports of goods, other than gas and oil, and services over the past decade was broadly in line with the exports of other countries in these two groups, exports other than oil and gas relative to output remained significantly lower in Nigeria than in most other countries.





D. Where To Go From Here?

154. **As noted in the introduction, the NEEDS takes into account that Nigeria's current trade policies are largely failing to achieve any reasonable objectives and makes a strong case for adopting significantly more liberal policies in support of the government's growth and poverty-reduction objectives.** The inefficiencies of pre-NEEDS trade policies are succinctly described as follows: "The old development models of import substitution industrialization and statism, in which government assumed the dominant role as producer and controller in the economy, created perverse incentives, inefficiencies, and wastes."[76] In the NEEDS, trade policy reform is appropriately considered an integral component of broader structural policies aimed at improving the business environment. Furthermore, the NEEDS recognizes that, without

[76] Nigerian National Planning Commission, 2004, page 10.

further trade reforms—in particular, a lowering of import tariffs—progress in regional economic integration will prove elusive. Although the NEEDS is short on the specifics of what a more rational trade policy should look like, it makes clear that such a policy framework will have to be more predictable than the existing one and provide a lower and more uniform level of protection.

Tariff reform

155. **The first NEEDS-inspired trade reform is scheduled to go into effect on July 1, 2005.** With this tariff reform, Nigeria will adopt the ECOWAS common external tariff (CET) (with tariff bands of 0, 5, 10, and 20 percent). An additional temporary 50 percent tariff band will be applied to selected import-competing goods. The maximum rate will decrease from 150 percent to 50 percent, while the average unweighted tariff rate will fall from about 30 percent to less than 20 percent.[77] The next steps in the authorities' reform program are the elimination of all import bans by end-2006 and the elimination of the 50 percent tariff band by end-2007.

Reduction of non-tariff barriers

156. **While the government goes a long way toward establishing a less distortionary trade policy framework, it could consider accelerating the timetable for eliminating the import bans and the 50 percent tariff ban.** Both of these measures hamper the development of free trade within ECOWAS. Furthermore, the import bans may be inconsistent with Nigeria's commitments to the WTO and are a constant source of friction between Nigeria and its trading partners. In the period leading up to the abolition of import bans, it is also advisable not to introduce any new bans; in particular, one can question the purpose of introducing a ban on rice in January 2006 if all import bans are to be abolished by year-end.

Export promotion policies

157. **The rationalization of the import-protection policies will promote exports, but Nigeria would be well served by also encouraging exports directly by abolishing all export taxes and bans.** Recent efforts to strengthen prudential oversight in the administration of the export-expansion grant scheme is welcome, but a broader strategic review of all export incentive schemes may suggest additional ways to streamline and rationalize the incentive system. Insofar as a case can be made for maintaining any particular incentive scheme, efforts should be directed toward delivering more targeted and effective assistance in a manner that minimizes the risk for abuse. The tax and investment codes

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[77] Given the dominant role of oil-related revenues, import duties are not a significant source of fiscal revenues; it only amounted to 6 percent of total revenues in 2004. The negative revenue impact from the tariff reform is mitigated by an expected strong growth in recorded imports resulting partly from a lowering of unrecorded imports.

should also be pruned of export incentives, and the Value-added Tax code should be amended to make exports zero-rated rather than exempted. Finally, consideration should be given to centralizing export-promotion policies at the federal level so as to prevent companies from shopping around from state to state for the highest possible subsidies and concessions.

Regional cooperation

158. **Stronger regional trade links are critical in establishing a competitive, integrated, but also open West African economic space.** The ECOWAS customs union project is an important part of fostering stronger trade links, and, given Nigeria's dominant position in ECOWAS, Nigerian leadership is essential for that project to succeed. With the recent implementation of tariff reforms in Guinea, all but three of ECOWAS' 15 member countries have now broadly adopted the tariff schedule included in the proposed CET. In the 12 CET countries complying with the common external tariff, average unweighted tariff rates are 15 percent (including other duties and charges), with Liberia's and Cape Verde's tariffs being slightly lower and Nigeria's tariffs being more than double this average (Table 3). With regard to fostering the internal ECOWAS market, a lack of implementation of agreed measures has been an issue in several countries, but Nigeria has lagged behind other countries in implementing ECOWAS' Trade Liberalization Program.[78] Looking forward, Nigeria needs to take on a more proactive role in assuring that the trade integration program remains on track. Otherwise, the establishment of a fully functioning customs union by January 2008 will be jeopardized.

Table 3. Average Tariffs in ECOWAS Countries, end-2004 1/

Country	Percent
Benin	15
Burkina Faso	15
Cape Verde	11
Côte d'Ivoire	15
Gambia, The	14
Ghana	15
Guinea	16
Guinea-Bissau	15
Liberia	12
Mali	15
Niger	15
Nigeria	33
Senegal	15
Sierra Leone	15
Togo	15
Unweighted average	16

Source: Trade Policy Information Database, IMF.
1/ Unweighted averages including other charges and fees.

[78] The Trade Liberalization Programme was introduced in 1990 with the aim of gradually liberalizing intra-ECOWAS trade over 15 years. The program provides for duty- and quota-free intra-ECOWAS trade in unprocessed goods and traditional handicrafts, with industrial goods benefiting from tariff reductions. Implementation is behind schedule.

Multilateral cooperation

159. **In the Doha Round negotiations, Nigeria should seize the opportunity to commit to binding all tariffs and lowering bindings significantly to approximate applied levels, steps that would enhance the predictability of the tariff system**. Consideration could also be given to coordinating offers on new tariff bindings with other ECOWAS countries so as to minimize differences in tariff bindings at the regional level.

E. Conclusions

160. **Nigeria's current trade protection regime is in dire need of reform.** Although its high barriers to import have had the predictable consequence of stifling exports other than gas and oil, it has done little to encourage the development of either the agriculture or manufacturing sectors. The current system's reliance on administrative fiat rather than legislation to implement policies makes the system more flexible and therefore more adaptable to changing circumstances; unfortunately, the same flexibility has made the system prone to abuse as special interest groups' clamor for more protection has tended to prevail over general interest groups' call for lower protection. Over time, rent-seeking activities have become entrenched and the system progressively more restrictive.

161. **The authorities' intention to break with past practices in the trade policy area is welcome.** The tariff reforms to be implemented on July 1, 2005, represent a significant first step toward a more rational trade protection regime, but other reforms should follow soon after. The cumulative benefits from opening up the trade system are not necessarily front-loaded, and, although the trade system is being liberalized, economic agents who are negatively affected will engage in end runs to roll back the reforms. Momentum is thus of the essence if the trade reforms are to succeed.

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Table 1. Nigeria: Revised Gross Domestic Product by Sector of Origin at Current Prices, 2000-04

	2000	2001	2002	2003	2004
	(In millions of naira)				
Primary sector	3,384,186	3,813,987	3,795,695	5,225,444	...
Agricultural activities	1,192,910	1,584,312	1,700,451	1,940,587	...
Agriculture	1,000,069	1,328,733	1,411,048	1,628,349	...
Livestock	116,393	153,453	175,838	189,247	...
Forestry	22,437	27,463	29,111	31,146	...
Fishing	54,010	74,664	84,454	91,845	...
Mining and quarrying	2,191,276	2,229,675	2,095,245	3,284,857	...
Of which: crude petroleum and gas	2,186,682	2,223,671	2,089,470	3,278,767	...
Secondary sector	200,841	244,586	293,612	342,988	...
Manufacturing	168,037	201,393	250,187	293,083	...
Utilities	2,200	2,438	4,234	5,153	...
Building and construction	30,604	40,755	39,191	44,753	...
Tertiary sector	952,610	1,119,598	1,364,858	1,779,358	...
Transport	129,092	145,661	179,365	239,378	...
Communication	1,638	2,114	3,027	3,637	...
Wholesale and retail trade	527,485	642,860	772,721	1,041,209	...
Hotel and restaurants	6,455	7,252	8,291	9,719	...
Finance and insurance	43,775	54,383	79,449	70,113	...
Real estate	165,070	171,768	206,626	276,583	...
Other private services	44,077	55,385	66,405	87,907	...
Government services	35,017	40,176	48,974	50,812	...
Gross domestic product at factor cost	4,537,637	5,178,171	5,454,165	7,347,790	9,376,155
Oil	2,186,682	2,223,671	2,089,470	3,278,767	4,521,655
Non-oil	2,350,955	2,954,500	3,364,696	4,069,023	4,854,500
Total indirect taxes (net)	140,663	163,392	180,643	187,625	201,570
Subsidies	-1,906	-2,500	-2,500	-2,500	-2,686
Gross domestic product at market prices	4,676,394	5,339,063	5,632,308	7,532,915	9,575,040
Memorandum items:					
Oil GDP	48.2	42.9	38.3	44.6	48.2
Non-oil GDP	51.8	57.1	61.7	55.4	51.8
Agricultural activities	26.4	30.7	31.3	26.5	...
Secondary	4.4	4.7	5.4	4.7	...
Tertiary sectors	21.0	21.6	25.0	24.2	...

Sources: Federal Office of Statistics; National Planning Commission; and staff estimates.

Table 2. Nigeria: Revised Gross Domestic Product by Sector of Origin at Constant 1990 Prices, 2000-04

(In millions of naira)

	2000	2001	2002	2003	2004 Prel.
Primary sector	232,466	239,052	230,615	263,299	...
Agricultural activities	117,110	121,605	126,763	131,977	...
Agriculture	98,179	101,988	105,189	110,742	...
Livestock	11,427	11,778	13,108	12,870	...
Forestry	2,203	2,108	2,170	2,118	...
Fishing	5,302	5,731	6,296	6,246	...
Mining and quarrying	115,356	117,447	103,852	131,322	...
Of which: crude petroleum and gas	114,507	116,130	102,627	129,870	...
Secondary sector	21,963	23,484	25,791	27,305	...
Manufacturing	18,375	19,337	21,977	23,332	...
Utilities	241	234	372	410	...
Building and construction	3,347	3,913	3,443	3,563	...
Tertiary sector	81,594	84,546	95,567	96,681	...
Transport	12,698	12,653	14,870	15,737	...
Communication	161	184	251	239	...
Wholesale and retail trade	39,777	43,133	46,478	48,154	...
Hotel and restaurants	635	630	687	639	...
Finance and insurance	4,306	4,724	6,586	4,609	...
Real estate	16,237	14,921	17,130	18,183	...
Housing	4,336	4,811	5,505	5,779	...
Community and other services	0	0	0	0	...
Government services	3,444	3,490	4,060	3,341	...
Gross domestic product at factor cost	336,858	347,998	352,941	391,300	415,332
Oil	114,507	116,130	102,627	129,870	134,470
Non-oil	222,351	231,868	250,314	261,430	280,862
Total indirect taxes (net)	9,800	9,380	9,994	10,438	10,438
Subsidies	133	163	186	194	209
Gross domestic product at market prices	346,525	357,216	362,749	401,544	425,561

Sources: Federal Office of Statistics; National Planning Commission; and staff estimates.

Table 3. Nigeria: Revised Gross Domestic Product by Expenditure Category at Current Prices, 2000-04

(In millions of naira)

	2000	2001	2002	2003	2004 Prel.
External balance	1,031,950	575,369	-48,571	619,374	1,648,357
Exports of goods and nonfactor services	2,537,758	2,310,724	2,296,286	3,746,500	5,231,686
Goods	2,429,388	2,194,359	2,159,568	3,566,046	5,007,385
Nonfactor services	108,370	116,365	136,718	180,454	224,301
Imports of goods and nonfactor services	1,505,808	1,735,356	2,344,857	3,127,126	3,583,329
Goods	1,011,614	1,184,500	1,665,788	2,249,894	2,568,561
Nonfactor services	494,194	550,856	679,069	877,232	1,014,768
Domestic demand	3,644,444	4,763,694	5,680,879	6,913,540	7,926,683
Consumption	2,696,889	3,477,497	4,203,851	5,116,020	5,786,478
Government	978,668	1,445,737	1,364,903	1,787,610	2,117,953
Private	1,718,221	2,031,760	2,838,948	3,328,410	3,668,526
Gross investment	947,555	1,286,198	1,477,029	1,797,521	2,140,204
Stock changes					
Gross fixed investment	947,555	1,286,198	1,477,029	1,797,521	2,140,204
Government fixed investment	447,984	737,590	564,590	727,045	874,120
Private fixed investment	499,572	548,607	912,439	1,070,476	1,266,085
Gross domestic product at market prices	4,676,394	5,339,063	5,632,308	7,532,915	9,575,040
Net factor income from abroad	-644,978	-476,732	-782,164	-1,097,634	-1,574,475
Gross national product at market prices	4,031,416	4,862,331	4,850,144	6,435,281	8,000,566
Net transfers from abroad	160,339	143,074	170,897	273,033	369,374
National disposable income	4,191,756	5,005,405	5,021,041	6,708,314	8,369,939
National savings 1/	1,494,867	1,527,908	817,190	1,592,294	2,583,461
Gross domestic savings 2/	1,979,506	1,861,566	1,428,457	2,416,895	3,788,562

Sources: Federal Office of Statistics; National Planning Commission; and staff estimates.

1/ National disposable income less aggregate consumption.
2/ Domestic disposable income less aggregate consumption.

Table 4. Nigeria: Revised Gross Domestic Product by Expenditure at Constant 1990 Prices, 2000-04

(In millions of naira)

	2000	2001	2002	2003	2004 Prel.
External balance	150,755	125,189	58,978	120,733	127,073
Exports of goods and nonfactor services	303,880	291,955	259,450	342,328	353,085
Goods	290,903	277,253	244,003	325,839	337,947
Nonfactor services	12,977	14,703	15,447	16,489	15,138
Imports of goods and nonfactor services	153,125	166,766	200,473	221,595	226,013
Goods	102,870	113,829	142,416	159,432	162,008
Nonfactor services	50,254	52,937	58,057	62,163	64,005
Domestic demand	195,770	232,027	303,771	280,811	298,489
Consumption	152,701	180,981	224,791	207,800	217,897
Government	79,907	100,009	83,054	95,398	98,272
Private	72,794	80,972	141,736	112,402	119,625
Gross investment	43,069	51,046	78,981	73,011	80,592
Stock changes	2	0	0	0	0
Gross fixed investment	43,069	51,046	78,981	73,011	80,592
Government	19,577	23,203	30,377	28,081	29,849
Private	23,492	27,843	36,453	33,697	35,819
Gross domestic product at market prices	346,525	357,216	362,749	401,544	425,561
Net factor income from abroad	-65,587	-45,814	-66,871	-77,781	-99,308
Gross national product at market prices	280,938	311,402	295,878	323,763	326,254
Net transfers from abroad	16,305	13,749	14,611	19,348	23,298
National disposable income	297,243	325,152	310,489	343,111	349,551
National savings 1/	144,542	144,171	85,698	135,311	131,655
Gross domestic savings 2/	193,824	176,235	137,958	193,744	207,664

Sources: Federal Office of Statistics; National Planning Commission; and staff estimates.

1/ National disposable income less aggregate consumption.
2/ Domestic disposable income less aggeragate consumption.

Table 5. Nigeria: Selected Petroleum Statistics, 2000-04

	2000	2001	2002	2003	2004
Production and exports	(Millions of barrels per day)				
Production 1/	2.261	2.238	1.960	2.453	2.492
Domestic allocation	0.302	0.389	0.447	0.431	0.418
Exports 2/	1.952	1.849	1.513	2.022	2.075
	(U.S. dollars per barrel)				
Average price of Nigerian crude	28.00	24.48	25.05	29.02	38.28
U.K. Brent, average price 3/	28.31	24.41	25.00	28.85	38.28
Export values 2/	20,151	16,574	13,834	21,415	28,993
	(in Naira per liter, unless otherwise indicated)				
Domestic petroleum product prices 4/					
Crude oil (naira per barrel) 5/	950.00	950.00	1980.00	2,487.00	5,141.65
Premium motor spirits	22.00	22.00	26.00	31.50	...
Kerosene	17.00	17.00	24.00	29.08	...
Gas oil/diesel	21.00	21.00	26.00	31.50	...
Domestic consumption of petroleum products	(In thousands of metric tons)				
Premium motor spirits	4,799.6	5,397.6	6,928.9	6,294.1	
Kerosene	1,217.0	1,744.4	1,281.9	906.3	
Gas oil/diesel	2,195.3	2,179.2	1,910.0	1,886.1	
Fuel oil (high and low “pour”)	…	174.4	220.9	1,287.6	
Liquefied petroleum gas	…	13.8	...	...	...
Aviation spirits	…	...	...	...	...

Sources: Central Bank of Nigeria; Nigerian National Petroleum Corporation; and Fund staff estimates.

1/ Includes condensates.
2/ Balance of payments basis, including exports of condensate.
3/ U.K. Brent, light-blend 38 API, f.o.b. United Kingdom.
4/ For 2003, simple averages for the year.
5/ Price at which the NNPC buys government equity crude for domestic refining.

Table 6. Nigeria: Selected Indicators of Agricultural Production and Prices, 2000-03

	2000	2001	2002	2003
Food crops				
Millet	6,765	7,088	7,231	7,377
Sorghum	8,854	9,408	9,687	9,974
Maize	6,491	6,592	6,698	6,806
Rice (paddy)	3,865	3,989	4,085	4,183
Yams	26,451	27,589	28,979	30,439
Cassava	36,795	37,949	39,410	40,927
Export crops				
Cocoa	170	171	172	173
Groundnuts	2,390	2,361	2,375	2,389
Palm kernels	629	632	645	658
Cotton	353	359	379	400
Sheanuts	448	455	463	471
Rubber	275	279	284	289
Average prices for food crops				
Millet	21,264	33,528	...	...
Sorghum	19,284	34,945	...	...
Maize	20,719	37,351	...	...
Rice	46,997	51,003	...	...
Yams	20,975	56,333	...	...
Cassava	10,969	20,613	...	...
Average prices for export crops				
Cocoa	90,000	100,744	...	...
Groundnuts	44,110	44,843	...	...
Palm kernels	21,260	23,379	...	...
Cotton	35,000	33,204	...	...
Rubber	59,400	69,800	...	...

Sources: Federal Office of Statistics; Federal Ministry of Agriculture; and Central Bank of Nigeria.

Table 7. Nigeria: Index of Industrial Production, 2000-03

	2000	2001	2002	2003
		(1985 = 100)		
Total industrial production	134.6	145.3	145.2	...
Manufacturing	136.9	146.3	146.3	...
Sugar confectionary	56.8	47.5	52.8	...
Soft drinks	164.8	194.0	208.3	...
Beer and stout	120.6	125.7	128.3	...
Cotton textiles	98.5	93.7	95.0	...
Synthetic fabrics	717.3	665.6	718.1	...
Footwear	46.1	44.9	46.2	...
Paints	114.0	114.4	121.0	...
Refined petroleum	114.0	133.0	133.9	...
Cement	88.7	93.5	94.5	...
Roofing sheets	30.9	27.6	30.4	...
Vehicle assembly	13.7	15.0	17.6	...
Soap and detergent	189.1	210.1	214.0	...
Radio and televisions	3.9	3.3	3.8	...
Mineral production	137.5	144.9	133.7	...
Petroleum	138.8	146.3	134.9	...
Gas	191.5	225.0	240.3	...
Cassiterite	26.1	24.5	25.0	...
Columbite	98.2	97.7	98.3	...
Coal	10.8	11.3	11.4	...
Limestone	5.9	6.4	6.5	...
Electricity production	136.1	144.6	146.7	...
		(In thousands of megawatts)		
Electricity consumption	8,689	9,035	8,894	...
Industrial	2,200	2,200	2,200	...
Commercial and street lighting	2,083	2,083	2,083	...
Residential	4,406	4,752	4,611	...

Source: Central Bank of Nigeria.

Table 8. Nigeria: National Consumer Price Indices, 2000-04

(May 2003 = 100)

	All items	Food	Beverages, tobacco, and kola	Clothing and footwear	Accommodation, fuel, and light	Household goods	Medical care and health	Transport	Recreation and education services	Other services
Weights	1,000.0	637.6	20.6	32.1	181	38.2	13.6	42.4	8.9	3.0
2000	69.3	66.7	53.8	91.6	75.1	89.6	100.2	70.8	66.2	53.1
March	64.6	64.2	52.2	89.6	59.9	88.6	97.9	67.6	65.7	51.0
June	70.9	68.1	53.4	90.6	78.8	92.0	100.3	70.8	65.9	52.9
September	73.1	67.7	54.7	92.8	91.3	89.9	100.8	73.2	66.9	54.9
December	72.9	68.5	61.0	94.3	84.2	91.1	102.3	75.1	69.1	56.1
2001	82.3	85.3	74.4	91.4	74.7	92.6	95.4	75.9	75.2	60.8
March	76.3	74.7	64.8	93.0	79.6	93.6	98.7	78.5	71.4	55.2
June	82.2	88.8	79.3	86.8	61.5	95.4	94.8	68.4	75.7	68.3
September	87.1	94.5	77.7	87.5	71.5	90.9	91.5	71.9	82.2	64.4
December	84.9	88.3	8..39	100.7	72.0	95.4	84.6	85.0	79.3	65.2
2002	92.9	96.5	92.4	91.5	87.3	95.2	98.5	79.1	82.8	71.9
March	89.6	93.4	92.1	92.9	82.3	89.2	98.2	73.4	76.5	67.2
June	92.3	98.0	95.6	84.1	89.1	90.7	89.3	75.5	70.5	67.8
September	95.8	99.9	96.5	97.6	85.9	96.2	107.1	80.2	96.7	77.4
December	95.2	96.4	91.9	100.8	92.1	106.9	119.2	88.8	92.5	91.3
2003										
March	94.8	93.5	101.6	100.3	94.1	100.3	113.3	82.9	92.8	133.6
June	105.2	104.1	100.6	103.1	110.2	103.9	107.6	100.6	105.2	106.0
September	113.4	106.2	105.3	120.1	138.2	108.4	125.3	108.7	111.0	114.4
December	117.9	111.3	106.1	133.5	137.1	113.1	134.9	115.4	148.6	142.4
2004										
March	116.1	108.0	109.2	135.7	136.1	113.2	150.5	128.9	148.0	140.0
June	120.0	119.3	110.6	109.1	131.8	110.0	111.6	118.3	114.6	118.2
September	123.8	121.6	113.7	113.7	142.9	113.5	114.0	115.5	114.9	125.6
December	129.7	124.8	124.8	111.4	156.4	114.8	111.3	115.5	116.7	132.8

Sources: Central Bank of Nigeria; and Federal Office of Statistics.

Table 9. Nigeria: Urban Consumer Price Indices, 2000-04

(May 2003 = 100)

	All items	Food	Beverages, tobacco, and kola	Clothing and footwear	Housing fuel, and light	Household goods	Medical care and health	Transport	Recreation and education services	Other services
Weights	1000	626.5	13.1	36.2	172.8	44.6	8.7	50.3	13.3	2.9
2000 average	72.0	87.2	80.2	83.5	87.6	72.3		68.0		
2001 average	81.6	86.1	72.6	92.8	73.8	88.2	85.7	72.7	72.8	93.9
2002 average	92.0	97.4	91.8	96.6	80.6	96.7	88.5	83.4	80.6	95.6
March	95.1	98.4	79.0	84.6	83.2	78.4	100.5	83.4	86.9	93.3
June	99.4	89.3	82.6	90.7	79.6	81.0	95.5	65.8	61.0	91.8
September	101.2	101.5	81.3	99.7	97.6	85.7	92.1	83.9	101.1	75.0
December	96.8	112.0	87.6	110.0	122.1	89.7	95.5	85.7	107.8	79.3
2003										
March	98.2	96.9	88.0	95.0	122.7	75.9	84.9	87.9	111.4	97.1
June	106.2	107.6	99.9	99.1	113.1	101.8	97.8	100.2	102.5	103.1
September	117.2	106.8	107.5	119.5	143.2	106.3	108.9	106.5	106.1	101.9
December	117.6	110.1	107.1	148.4	139.0	122.1	117.0	117.7	99.9	122.5
2004										
March	123.4	115.6	109.6	161.2	142.1	118.2	175.4	136.4	100.4	121.1
June	123.8	121.4	112.6	109.6	138.8	115.5	106.9	123.0	111.1	121.2
September	127.5	123.5	116.9	111.9	151.5	119.8	115.7	110.2	111.5	134.3
December	131.3	125.5	115.5	113.0	159.1	115.5	112.6	115.0	120.7	141.1

Sources: Central Bank of Nigeria; and Federal Office of Statistics.

Table 10. Nigeria: Rural Consumer Price Indices, 2000-04

(May 2003 = 100)

	All items	Food	Beverages, tobacco, and kola	Clothing and footwear	Housing fuel, and light	Household goods	Medical care and health	Transport	Recreation and education services	Other services
Weights	1000	640.1	23.9	30.4	184.5	35.5	15.7	39	7.1	3.0
2000	69.5	66.9	53.7	92.6	75.3	91.6	103.8	74.4	66.5	45.9
2001	82.4	85.2	74.8	91.1	74.8	93.4	98.5	76.4	76.6	52.9
March	76.0	73.7	66.8	93.3	80.2	95.0	100.9	83.5	73.1	45.7
June	82.3	88.6	80.6	85.8	61.9	95.3	99.5	62.7	75.3	62.9
September	86.8	93.8	77.1	87.8	70.7	92.5	95.5	69.2	84.0	57.4
December	84.8	88.1	83.1	101.3	73.1	94.7	86.8	80.4	80.0	56.4
2002	93.1	96.3	92.5	90.5	88.7	95.0	104.1	70.6	83.9	66.2
March	89.6	93.0	92.8	91.8	83.0	90.1	102.9	54.3	72.7	60.9
June	92.2	97.7	95.3	83.0	90.4	90.7	92.3	66.0	73.1	60.1
September	95.9	99.6	96.4	96.8	86.8	95.6	110.1	70.5	103.7	71.8
December	95.3	96.4	91.3	98.4	93.0	106.3	118.2	84.1	95.1	91.3
2003										
March	95.0	92.6	101.6	101.0	95.3	101.3	110.4	87.7	95.5	137.5
June	104.8	103.5	101.2	107.4	107.2	105.1	115.4	101.3	107.0	108.2
September	111.8	105.9	102.8	120.8	133.1	109.7	138.3	112.7	114.3	123.7
December	118.1	111.7	105.0	117.9	135.1	107.7	149.1	111.2	180.9	157.1
2004										
March	113.0	105.6	100.5	108.9	130.0	110.2	130.8	115.6	179.7	154.1
June	118.3	118.3	108.3	108.5	124.5	106.7	115.3	109.1	117.0	115.1
September	122.2	121.0	110.3	115.3	134.1	109.7	112.7	124.3	117.2	119.2
December	129.1	124.2	112.3	109.7	153.7	114.4	110.3	116.6	117.3	125.5

Sources: Central Bank of Nigeria; and Federal Office of Statistics.

Table 11. Nigeria: Consolidated Government Revenue, 2000-04 1/

(in millions of naira)

	2000	2001	2002	2003	Prel. 2004
Total revenue	1,986,949	2,247,884	2,052,825	2,794,767	4,123,586
Tax revenue	636,082	876,376	732,710	1,072,559	1,535,766
Taxes on net income, profits, and capital gains	436,442	560,110	422,701	701,363	1,126,268
Petroleum profits tax	332,542	405,941	223,999	437,964	825,843
Company income tax 2/	51,147	68,726	89,104	114,770	130,129
Education tax	7,444	16,214	9,570	9,704	17,430
Personal income tax 3/	45,308	69,230	100,028	138,925	152,865
Domestic taxes on goods and services	83,937	121,522	108,601	136,402	157,345
Value-added tax	58,470	91,789	108,601	136,402	157,345
Taxes on petroleum products	25,467	29,733	0	0	0
Taxes on international trade and transactions	115,703	194,744	201,408	234,793	252,154
Import duties, excises, and fees 4/	101,521	170,549	181,408	195,462	217,154
Customs levies 5/	14,182	24,195	20,000	39,331	35,000
Nontax revenue	1,350,867	1,371,508	1,320,115	1,722,209	2,587,819
Oil crude export proceeds	1,001,068	954,816	719,287	966,716	1,440,377
Royalty	192,531	206,593	169,234	245,517	357,666
Domestic crude 6/	96,430	134,037	304,238	386,356	635,424
Federal government independent revenue 7/	37,828	44,335	68,134	54,164	58,894
Upstream gas proceeds/Other oil	23,010	31,727	59,223	69,455	95,457
Memorandum item:					
Privatization proceeds	18,104	85,800	19,698	0	0

Sources: Federal Ministry of Finance; and staff estimates.

1/ Includes the Federal, state and local governments.
2/ Mainly company income tax collected by the Federal Inland Revenue Service Revenue.
3/ Consists of personal income tax, other taxes and fees collected by state governments.
The Federal Inland Revenue Service also collects a small amount of personal income tax from armed forces personnel and inhabitants of the Federal Capital Territory.
4/ Consists of import duties, excise duties, and fees that go directly to the Federation account.
5/ Consists mainly of earmarked import levies of a 5 percent port development surcharge, a 1 percent Nigerian Shippers Council surcharge, and a 1 percent Raw Materials Research and Development Council surcharge.
6/ Proceeds fom the sale of crude oil to domestic refineries.
7/ Consists of dividends from public enterprises, directors' fees and loan recoveries.

Table 12. Nigeria: Consolidated Government Expenditure, 2000-04 1/

(in millions of naira)

	2000	2001	2002	2003	2004
Total expenditure	1,706,562	2,509,965	2,290,434	2,889,658	3,388,731
Recurrent expenditure	651,615	770,120	868,107	906,651	967,770
Goods and services	350,078	403,073	477,596	514,371	570,640
Federal government personnel costs	278,701	285,169	368,484	367,950	442,562
Federal government overhead	71,377	117,904	109,112	146,422	128,078
Customs levies	14,182	24,195	20,000	39,331	35,000
Education Fund	7,444	16,214	9,570	9,704	17,430
Interest payments due	279,911	326,638	360,941	343,245	344,700
Domestic interest	104,165	154,796	170,635	169,725	188,822
Foreign interest	175,747	171,842	190,306	173,520	155,877
Capital expenditure	250,506	440,955	264,002	240,896	318,833
Domestically-financed budgetary	233,762	433,070	251,078	230,886	288,900
Foreign financed	16,744	7,885	12,924	10,010	29,933
NNPC operations	289,856	429,754	351,451	451,062	454,879
JVC cash calls	267,736	391,680	345,604	451,062	454,879
NNPC priority projects	22,119	38,074	5,848	0	0
Extrabudgetary outlays/Other/NDDC	0	10,000	22,171	54,958	55,865
Judiciary	9,641	15,000	15,415	26,186	28,146
Net lending	0	0	7,400	0	0
State and local governments	504,945	844,137	761,887	1,209,906	1,563,239

Sources: Federal Ministry of Finance and staff estimates.

1/ Consists of the Federal, state and local governments.

Table 13. Nigeria: Federation Account Operations, 2000-04

(In millions of naira)

	2000	2001	2002	2003	2004
Total revenue	1,007,585	1,096,418	1,171,447	1,450,603	1,993,740
Petroleum revenue	855,051	857,201	900,935	1,140,370	1,646,458
Foreign-generated oil and gas revenue (net)	740,384	735,656	596,697	754,014	1,011,033
Gross government export proceeds	947,163	934,284	778,510	1,036,172	1,535,835
Royalty and petroleum profit tax	525,073	639,234	393,232	683,481	1,183,510
First charges / Deductions	-731,852	-837,862	-575,045	-965,638	-1,708,311
Domestically-generated oil revenue (net)	114,667	121,545	304,238	386,356	635,424
Petroleum naira revenue	114,667	121,545	304,238	386,356	635,424
Transfer to Petroleum Special Trust Fund	0	0	0	0	0
Nonpetroleum revenue	152,534	239,217	270,512	310,233	347,283
Company income tax	51,028	68,660	89,104	114,770	130,129
Customs and excise	101,506	170,557	181,408	195,462	217,154
Total expenditure	1,020,954	1,212,101	1,167,331	1,471,816	1,987,352
Federation account distribution 1/	1,020,954	1,212,101	1,167,331	1,471,816	1,987,352
Federal government	514,969	530,658	543,818	616,948	878,468
State government	256,501	391,327	321,422	419,845	582,222
Local government	213,751	245,487	269,446	346,866	448,868
Special funds	35,733	44,629	32,644	88,157	77,794
Federal Capital Territory	10,210	12,780	5,539	20,170	18,239
Ecology / Derivation and Ecology	20,419	25,491	8,945	19,433	18,749
Statutory stabilization	5,105	6,358	4,471	9,711	9,326
Derivation / Development of Natural Resources	0	0	13,690	38,843	31,479
Mineral-producing areas	0	0	0	0	0
Overall balance	-13,369	-115,683	4,116	-21,213	6,389
Financing	13,369	115,683	-4,116	21,213	-6,389
Memorandum items:					
First charges / Deductions	731,852	837,862	575,045	965,638	1,708,311
JVC cash calls	260,000	391,990	345,604	451,062	454,879
NNPC priority projects	24,750	38,074	5,848	0	0
External debt service	175,034	232,192	143,063	235,657	235,027
National priority projects	0	0	0	0	0
Special reserve/excess proceeds	227,003	97,225	0	141,724	758,561
13% natural resource derivation	45,066	78,381	80,530	137,195	259,844

Sources: Federal Ministry of Finance; and staff estimates.

1/ The current allocation formula of Federation account revenue is 48.5 percent for the Federal government, 24.9 percent for state governmen 20.6 percent for local governments, and 6 percent for special funds.

Table 14. Nigeria: Summary Federal Government Fiscal Operations, 2000-04 1/

(in millions of naira, unless otherwise indicated)

	2000	2001	2002	2003	2004
Total revenue	1,291,042	1,322,229	1,122,215	1,420,819	1,944,226
Distribution from Federation account	514,969	530,658	543,818	616,948	878,468
Drawdown of Federation stabilization account	0	64	0	0	0
Federal government share of value-added tax	8,770	13,359	15,747	19,778	22,815
Independent revenue 2/	38,057	44,405	68,134	54,164	58,894
Autonomous foreign exchange market profit	0	0	0	0	0
Education Trust Fund	8,302	16,214	9,570	9,704	17,430
Customs levies	14,182	24,195	20,000	39,331	35,000
First charges/deductions	729,246	680,070	494,515	729,929	984,049
External debt service	175,034	232,192	143,063	210,130	197,307
National priority projects	42,459	18,124	0	0	0
JVC cash calls and NNPC priority projects	284,750	429,754	351,451	451,062	454,879
Excess proceeds	227,003	...	...	68,736	331,863
Judiciary	9,641	...	...	...	...
13 percent derivation grant	45,066	...	0	0	0
Transfer for Petroleum Special Trust Fund (PSTF)	0	0	0	0	0
PSTF independent revenue 3/	0	0	0	0	0
Other	0	53,737	0	0	0
Total expenditure	1,220,744	1,625,255	1,389,170	1,510,036	1,559,326
Recurrent expenditure	684,850	762,016	719,956	791,656	843,615
Goods and services	350,078	403,107	477,596	514,371	570,640
Personnel costs	278,701	285,118	368,484	367,950	442,562
Overhead	71,377	117,989	109,112	146,422	128,078
PSTF	0	0	0	0	0
Interest payments due	312,288	358,909	213,061	242,055	230,829
Domestic interest	104,168	154,796	170,635	169,725	188,822
Foreign interest	208,121	204,113	42,426	72,330	42,007
Local contractors	0	0	0	0	0
Other	22,484	0	29,299	35,230	42,146
Capital expenditure	246,098	433,486	317,762	267,317	260,833
Domestically financed	233,843	425,601	304,838	257,308	230,900
Budgetary	176,825	403,567	304,838	257,308	230,900
National priority projects	42,459	18,124	0	0	0
PSTF	14,559	3,910	0	0	0
Foreign financed	12,254	7,885	12,924	10,010	29,933
Net lending 4/	0	0	0	0	0
JVC cash calls and NNPC priority projects	284,750	429,754	351,451	451,062	454,879
Other/Extra budgetary expenditure	5,046	0	0	0	0
Overall balance (commitment basis)	70,299	-303,027	-266,955	-89,217	384,900
Balancing item	13,300	0	0	0	0
Overall balance (cash basis)	56,999	-303,027	-266,955	-89,217	384,900
Financing	-56,999	303,027	266,955	89,217	-384,900
Privatization	18,104	0	0	0	0
External loans (net)	45,341	-26,290	-105,352	-127,791	-125,368
Borrowings	12,254	7,885	12,924	10,010	29,933
Amortization due	-135,513	-34,174	-100,637	-137,800	-155,300
Change in arrears (acc. +, red. -)	0	0	0	0	0
Rescheduling	168,600	0	-17,639	0	0
Domestic	-102,340	329,316	372,307	217,008	-259,532
Banking system (net) 5/	-99,615	118,724	398,848	298,567	-418,819
Nonbank	-2,725	-30,216	-26,541	-81,560	159,287
Memorandum items:					
Primary balance 6/	382,587	55,882	-53,894	152,838	615,729
Primary balance (in percent of GDP)	8.2	1.0	-1.0	2.0	6.4
GDP at market prices	4,676,394	5,339,063	5,632,308	7,532,915	9,575,040

Source: Federal Ministry of Finance; and staff estimates.

1/ Consists of the Federal government and the Petroleum Special Trust Fund (PSTF).
2/ Consists of dividends from public enterprises, directors' fees and loan recoveries from public enterprises.
3/ Miscellaneous revenues.
3/ Consists of interest earned on PSTF balances held as deposits and treasury bills.
4/ To state governments.
5/ Includes adjustment for PSTF deposits held in the commercial and merchant banking system, which are classified as private deposits.
6/ Primary balance is defined as total revenue less total expenditure, excluding interest payments due.

Table 15. Nigeria: Total Expenditure of the Federal Government by Functional Classification, 2000-03 1/

	2000	2001	2002	2003
	(In millions of naira)			
Administration	174,578	230,065	405,313	395,807
General administration	95,882	103,112	183,379	232,764
National Assembly	6,655	19,813	21,635	24,395
Defense	37,490	63,472	108,148	61,723
Internal security	34,551	43,669	92,152	76,925
Economic services	130,222	307,960	273,648	145,431
Agriculture and natural services	13,609	64,944	44,804	16,045
Road and construction	18,487	28,642	45,126	34,704
Manufacturing, mining, and quarrying	10,514	7,284	39,663	584
Transport and communications	9,605	53,176	53,663	29,309
Housing	0	56,356	44,479	9,496
National priority projects	40,377	18,124	0	0
JVC cash calls/NNPC priority projects	0	0	0	0
Petroleum Trust Fund	14,559	3,910	20	0
Counterpart funding	7,028	0	0	411
Niger Delta Development Commission	944	10,000	0	9,045
Others	15,098	65,524	45,894	45,838
Social and community services	86,768	189,326	266,378	167,798
Education	49,563	59,745	109,455	79,436
Health	20,445	44,652	63,171	39,686
Housing	0	56,356	44,479	9,496
Other	16,759	28,574	49,273	39,181
Transfers	469,815	433,032	437,297	377,405
Outstanding domestic liabilities	0	0	0	0
Interest due	279,911	326,638	360,941	343,244
Domestic	104,165	154,796	170,635	169,724
External	175,747	171,842	190,306	173,520
Other recurrent tranfers 1/	143,206	30,046	76,355	34,150
Other capital transfers	46,698	76,348	0	11
Total	861,383	1,160,384	1,382,636	1,086,441
	(In percent of total)			
Administration	20.3	19.8	29.3	36.4
General administration	11.1	8.9	13.3	21.4
National Assembly	0.8	1.7	1.6	2.2
Defense	4.4	5.5	7.8	5.7
Internal security	4.0	3.8	6.7	7.1
	0.0	0.0	0.0	0.0
Economic services	15.1	26.5	19.8	13.4
Agriculture and water services	1.6	5.6	3.2	1.5
Construction	2.1	2.5	3.3	3.2
Manufacturing, mining, and quarrying	1.2	0.6	2.9	0.1
Transport and communications	1.1	4.6	3.9	2.7
Housing	0.0	4.9	3.2	0.9
National priority projects	4.7	1.6	0.0	0.0
JVC cash calls/NNPC priority projects	0.0	0.0	0.0	0.0
Petroleum Trust Fund	1.7	0.3	0.0	0.0
Counterpart funding	0.8	0.0	0.0	0.0
Niger Delta Development Commission	0.1	0.9	0.0	0.8
Others	1.8	5.6	3.3	4.2
Social and community services	10.1	16.3	19.3	15.4
Education	5.8	5.1	7.9	7.3
Health	2.4	3.8	4.6	3.7
Housing	0.0	4.9	3.2	0.9
Other	1.9	2.5	3.6	3.6
Transfers	54.5	37.3	31.6	34.7
Outstanding domestic liabilities	0.0	0.0	0.0	0.0
Interest due	32.5	28.1	26.1	31.6
Domestic	12.1	13.3	12.3	15.6
External	20.4	14.8	13.8	16.0
Other recurrent transfers 2/	16.6	2.6	5.5	3.1
Other capital transfers	15.2	15.2	15.2	16.2
Total	100	100	100	100

Sources: Annual reports of the Central Bank of Nigeria and staff estimates of the interest due.

1/ Includes pensions, gratuities and contingencies.

Table 16. Nigeria: Recurrent Expenditure of the Federal Government by Functional Classification, 2000-03

	2000	2001	2002	2003
	(In millions of naira)			
Administration	121,299	180,810	331,736	307,849
General administration	59,332	75,080	146,807	166,058
National Assembly	4,766	19,804	20,163	22,395
Defense	31,046	47,072	86,054	51,044
Internal security	26,154	38,855	78,713	68,352
Economic services	29,816	53,011	65,911	96,032
Agriculture	4,806	7,065	12,439	7,534
Road and construction	11,480	7,202	9,276	16,945
Transport and communications	2,428	33,935	36,579	22,670
Others	11,102	4,809	7,616	48,883
Social and community services	58,802	79,634	189,432	102,566
Education	39,034	39,885	100,240	64,756
Health	11,580	24,524	50,563	33,255
Others	8,189	15,226	38,628	4,556
Transfers	423,117	356,684	437,297	377,394
Interest due	279,911	326,638	360,941	343,244
Domestic	104,165	154,796	170,635	169,724
External	175,747	171,842	190,306	173,520
Others 2/	143,206	30,046	76,355	34,150
Total	633,035	670,140	1,024,375	883,840
	(In percent of total)			
Administration	19.2	27.0	32.4	34.8
General administration	9.4	11.2	14.3	18.8
National Assembly	0.8	3.0	2.0	2.5
Defense	4.9	7.0	8.4	5.8
Internal security	4.1	5.8	7.7	7.7
Economic services	4.7	7.9	6.4	10.9
Agriculture and water	0.8	1.1	1.2	0.9
Construction	1.8	1.1	0.9	1.9
Transport and communications	0.4	5.1	3.6	2.6
Others	1.8	0.7	0.7	5.5
Social and community services	9.3	11.9	18.5	11.6
Education	6.2	6.0	9.8	7.3
Health	1.8	3.7	4.9	3.8
Others	1.3	2.3	3.8	0.5
Transfers	66.8	53.2	42.7	42.7
Interest due	44.2	48.7	35.2	38.8
Domestic	16.5	23.1	16.7	19.2
External	27.8	25.6	18.6	19.6
Others 1/	22.6	4.5	7.5	3.9
Total	100.0	100.0	100.0	100.0

Sources: Annual reports of the Central Bank of Nigeria, except for interest due estimated by the staff.

1/ Includes pensions, gratuities and contingencies .

Table 17. Nigeria: Capital Expenditure of the Federal Government by Functional Classification, 2000-03 1/

	2000	2001	2002	2003
	(In millions of naira)			
Administration	53,280	49,255	73,577	87,959
General administration	36,550	28,032	36,572	66,706
National Assembly	1,889	9	1,472	2,000
Defense	6,444	16,400	22,094	10,680
Internal security	8,397	4,814	13,440	8,573
Economic services	111,508	259,758	215,353	98,282
Agriculture and natural resources	8,803	57,879	32,364	8,511
Road and construction	7,006	21,440	35,850	17,759
Manufacuring, mining, and quarrying	10,514	7,284	39,663	584
Transport and communications	7,177	19,241	17,083	6,640
Housing	0	56,356	44,479	9,496
National priority projects	40,377	18,124	0	0
JVC cash calls/NNPC priority projects	0	0	0	0
PTF	14,559	3,910	20	0
Counterpart funding	7,028	0	0	411
Niger Delta Development Commission	944	10,000	0	9,045
Others	15,098	65,524	45,894	45,838
Social and community services	27,965	53,336	32,467	55,736
Education	10,529	19,860	9,215	14,680
Health	8,866	20,128	12,608	6,431
Others	8,570	13,348	10,644	34,625
Transfers	46,698	76,348	0	11
Outstanding domestic liabilities	0	0	0	0
Other	46,698	76,348	0	11
Total	239,451	438,697	321,398	241,989
	(In percent of total)			
Administration	22.3	11.2	22.9	36.3
General administration	15.3	6.4	11.4	27.6
National Assembly	0.8	0.0	0.5	0.8
Defense	2.7	3.7	6.9	4.4
Internal security	3.5	1.1	4.2	3.5
Economic services	46.6	59.2	67.0	40.6
Agriculture and water resources	3.7	13.2	10.1	3.5
Road and construction	2.9	4.9	11.2	7.3
Manufacuring, mining, and quarrying	4.4	1.7	12.3	0.2
Transport and communications	3.0	4.4	5.3	2.7
Housing	0.0	12.8	13.8	3.9
National priority projects	16.9	4.1	0.0	0.0
JVC cash calls/NNPC priority projects	0.0	0.0	0.0	0.0
PTF	6.1	0.9	0.0	0.0
Counterpart funding	2.9	0.0	0.0	0.2
Niger Delta Development Commission	0.4	2.3	0.0	3.7
Others	6.3	14.9	14.3	18.9
Social and community services	11.7	12.2	10.1	23.0
Education	4.4	4.5	2.9	6.1
Health	3.7	4.6	3.9	2.7
Others	3.6	3.0	3.3	14.3
Transfers	19.5	17.4	0.0	0.0
Outstanding domestic liabilities	0.0	0.0	0.0	0.0
Other	19.5	17.4	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: Annual reports of the Central Bank of Nigeria.

1/ The figures are based on budgetary data and exclude extrabudgetary expenditure.

Table 18. Nigeria: Federal Government Outstanding Domestic Debt, 2000-04

	2000	2001	2002	2003	2004
	(end of period, in millions of naira)				
By Instruments	898,253	1,016,974	1,166,000	1,329,722	1,433,521
Treasury bills	465,535	584,536	733,762	825,100	929,119
Treasury bonds	430,608	430,608	430,608	503,152	503,152
Development stock	2,110	1,830	1,630	1,470	1,250
By Holders	898,253	1,016,974	1,166,000	1,329,722	1,433,521
Banking sector	855,925	937,847	992,683	1,132,068	1,220,438
Central bank	713,933	738,585	532,453	607,216	654,616
Commercial banks	132,682	199,262	460,230	524,852	565,822
Merchant banks	9,311	0	0	0	0
Nonbank sector	42,329	79,128	173,318	197,654	213,083
	(in percent of total; unless otherwise indicated)				
Holders	100.0	100.0	100.0	100.0	100.0
Banking sector	95.3	92.2	85.1	85.1	85.1
Central bank	79.5	72.6	45.7	45.7	45.7
Commercial banks	14.8	19.6	39.5	39.5	39.5
Merchant banks	1.0	0.0	0.0	0.0	0.0
Nonbank sector	4.7	7.8	14.9	14.9	14.9
Memorandum items:					
Total domestic debt in percent of GDP	19.2	19.0	20.7	17.7	15.0
Average rate of interest in percent	…	…	…	…	…

Sources: Annual reports of the Central Bank of Nigeria; and staff estimates.

Table 19. Nigeria: Summary of Budgetary Operations of State and Local Governments and special funds, 2000-03 1/

	2000	2001	2002	2003
	(In millions of naira)			
Revenue	501,953	727,557	832,072	1,220,541
Statutory share of Federation account revenue 2/	368,544	523,470	518,864	828,696
Statutory share of Federation stabilization account revenue	5,781	7,061	9,570	996
Share of value-added tax	44,197	64,233	71,359	105,535
State allocation	0	0	0	0
Independent revenue 3/	45,308	69,230	100,028	138,925
Other	38,123	63,563	132,252	146,389
Expenditure 4/	355,680	529,930	894,357	1,282,921
Recurrent	196,784	294,710	565,765	808,772
Capital	158,896	235,220	328,592	474,149
Balance (deficit -)	146,273	197,627	-62,286	-62,380
Financing	-146,273	-197,627	62,286	62,380
Foreign loans	156	0	15,879	14,680
Domestic loans	3,835	0	32,452	71,030
Other (Residual) 5/	-150,264	-197,627	13,955	-23,330

Source: Central Bank of Nigeria (Annual reports).

1/ These data, obtained through annual surveys undertaken by the Central Bank of Nigeria, are only illustrative.

2/ This revenue is on gross basis (ie. before deductions for payments of various commitments made by the sub national gover

3/ Mainly personal income tax collected by state governments.

4/ Total spending is underestimated because only a sample of local governments are covered and deductions at source may nc have been included.

5/ Reflects an underestimation of expenditure.

Table 20. Nigeria: Liquidity of Commercial Banks, 2000-04

	2000	2001	2002	2003	2004
	(In millions of naira)				
Total liquid assets	398,254	477,317	747,621	600,539	820,726
Cash in vault (currency)	34,976	64,835	76,211	90,099	87,217
Reserves with central bank 1/	127,787	239,605	223,126	227,998	214,897
Of which:					
Reserve requirements	77,782	125,258	139,702	152,276	165,303
Current accounts	54,872	94,359	105,320	120,025	111,673
Net interbank positions	-39,748	368	-11,232	-55,289	-52,805
Balances held with other banks (net)	37,086	54,872	51,377	42,881	82,470
Interbank placements (net)	11,786	3,239	4,933	9,836	-11,411
Money at call (net)	-1,086	-5,305	-10,547	-10,880	1,012
Uncleared effects	-87,534	-52,438	-56,996	-97,126	-124,876
Treasury bills	275,774	173,107	460,229	338,116	572,426
Treasury certificates	0	0	0	750	0
Other liquid assets 2/	-534	-598	-712	-1,135	-1,009
Certificate deposits (net)	-572	-627	-877	-1,138	-1,044
Bills discounted	38	30	165	4	36
Free liquid assets	320,472	352,059	607,919	448,264	655,423
Total deposit liabilities	702,105	947,183	1,157,112	1,337,296	1,661,482
Demand deposits	345,001	448,021	503,870	577,664	728,552
Time, savings, and foreign currency deposits	357,103	499,162	653,241	759,633	932,930
	(In percent)				
Liquidity reserve ratios 3/					
Actual	45.6	37.2	52.5	33.5	39.4
Required	30.0	40.0	40.0	42.0	42.0
Cash reserves (deposits at the CBN)					
In percent of demand deposits	37.0	53.5	44.3	39.5	29.5
In percent of total deposit liabilities	18.2	25.3	19.3	17.0	12.9
Required 4/	10.0	12.5	12.5	14.5	14.5

Source: Central Bank of Nigeria.

1/ As reported by the commercial banks.

2/ Comprising certificates of deposit, and bills discounted.

3/ Total liquid assets less penalty and cash reserve requirements as a percent of total deposit liabilities.

4/ The base to calculate the reserve requirement comprises banks' total deposit liabilities (i.e., demand, savings, and time deposits) except foreign currency deposits; certificate of deposits; promissory notes held by the non-bank public; bankers' acceptances and since January 2002, VAT and customs dutires collected by banks on behalf of the federal government held more than for seven days. Starting in 2002, the CRR's maintenance period was changed from 30 to 15 days. Cash must be held in a separate account with the CBN. Vault cash is not an eligible asset.

Table 21. Nigeria: Selected Interest Rates, 2000-04

(In percent; end of period)

	2000	2001	2002	2003	2004			
					Q1	Q2	Q3	Q4
Minimum rediscount rate	14.0	20.5	16.5	15.0	15.0	15.0	15.0	15.0
Treasury bill rate (stop rate)	13.0	20.3	13.8	14.9	14.0	14.3	14.4	14.3
Seven-day Nibor	15.9	25.3	15.1	20.8	16.9	17.6	15.2	16.3
Savings deposit rate 1/	4.9	5.0	3.7	3.2	5.7	3.3	4.4	4.4
Prime lending rate 1/	19.5	26.0	20.6	19.6	19.5	19.2	19.0	18.9

Source: Central Bank of Nigeria.

1/ At commercial banks.

Table 22. Nigeria: Imports, 2000-03 1/

	2000	2001	2002	2003
	(In millions of U.S. dollars)			
Imports from the world	5,823	7,926	8,727	14,936
Industrial countries	3,903	4,904	5,114	7,849
United States	660	816	1,121	2,315
Japan	284	360	432	364
France	325	372	363	480
Germany	594	781	531	1,088
Italy	272	201	260	636
Netherlands	252	392	278	320
United Kingdom	755	1,070	1,095	1,420
Africa	244	712	398	747
Of which				
Côte d'Ivoire	17	57	5	11
Ghana	14	12	18	22
Niger	1	0	1	1
South Africa	68	231	189	291
Asia (excluding Japan)	1,003	1,648	2,522	2,759
China, P.R.: Mainland	253	527	739	1,067
China, P.R.: Hong Kong	88	96	108	153
India	199	316	310	377
Indonesia	45	108	108	123
Korea	127	223	311	434
Singapore	61	104	498	79
Thailand	114	116	174	139
Other	673	663	694	3,580
Russia	195	116	91	145
Turkey	19	21	28	24
Ukraine	16	49	41	88
Brazil	179	175	180	183
	(In percent of total)			
Industrial Countries	67.0	61.9	58.6	52.6
Africa	4.2	9.0	4.6	5.0
Asia	17.2	20.8	28.9	18.5
Other	11.6	8.4	8.0	24.0
	(In millions of U.S. dollars)			
Memorandum items:				
Total merchandise imports in BoP	-671	-738	-735	-877

Sources: IMF, *Direction of Trade statistics* , and staff estimates.

1/ c.i.f. basis, based on partner-country data.

Table 23. Nigeria: Exports, 2000-03 1/

	2000	2001	2002	2003
	(In millions of U.S. dollars)			
World	27,042	18,045	18,340	24,061
Industrial countries	18,431	12,196	11,037	16,276
Of which:				
United States	11,495	7,320	5,819	9,205
Canada	615	357	229	753
Japan	109	173	549	965
Austria	0	0	0	0
France	1,657	1,142	997	1,359
Germany	112	244	365	505
Netherlands	253	365	288	535
Portugal	686	461	491	589
Spain	2,345	1,175	1,019	1,483
Switzerland	0	1	0	27
United Kingdom	7	45	11	96
Africa	1,901	1,146	1,732	2,010
Of which:				
Cameroon	246	125	113	313
Côte d'Ivoire	842	341	270	360
Ghana	262	271	379	454
Senegal	247	175	119	254
South Africa	266	198	388	589
Asia	5,254	3,067	3,525	3,634
Of which:				
China,P.R.: Mainland	140	127	73	123
India	3,919	2,083	2,157	2,392
Indonesia	606	537	961	770
Korea	231	75	41	100
Other	1,456	1,635	2,046	2,141
Of which:				
Turkey	0	0	0	0
Brazil	667	1,051	1,538	1,636
Chile	281	110	141	86
	(In percent of total)			
Industrial Countries	68	68	60	68
Africa	7	6	9	8
Asia	19	17	19	15
Other	5	9	11	9
	(In millions of U.S. dollars)			
Memorandum items:				
Total merchandise exports in BoP	23,761	19,598	17,672	27,250
of which : oil exports	23,093	18,927	16,935	26,515

Source: IMF, *Direction of Trade statistics* , and staff estimates.

1/ f.o.b. basis, based on partner country data.

Table 24. Nigeria: External Public Debt Stock, 2000-03 1/

	2000	2001	2002	2003
	(In millions of U.S. dollars)			
Multilateral	3,342	3,037	2,961	3,042
World Bank	2,149	1,958	1,951	1,988
African Development Bank	990	909	838	873
Other (including arrears)	203	170	172	181
Bilateral	23,296	23,211	25,384	27,472
Paris Club 2/	23,272	23,199	25,381	27,470
Medium- and long-term debt	23,272	22,831	22,966	23,897
Pre-cutoff	21,731	21,058	...	...
Post cutoff	1,541	1,774	...	...
Arrears (pre- and post cut-off)	0	368	2,415	3,573
Other bilateral	24	11	3	2
Commercial	3,596	3,438	2,648	2,403
Par bonds (London Club debt)	2,043	2,043	1,442	1,442
Promissory notes	1,446	1,292	1,153	911
Other (including arrears)	107	103	53	50
Total	30,234	29,686	30,993	32,917
	(In percent of total)			
Multilateral	11.1	10.2	9.6	9.2
World Bank	7.1	6.6	6.3	6.0
African Development Bank	3.3	3.1	2.7	2.7
Other	0.7	0.6	0.6	0.5
Bilateral	77.1	78.2	81.9	83.5
Paris Club 2/	77.0	78.1	81.9	83.5
Other bilateral	0.1	0.0	0.0	0.0
Commercial	11.9	11.6	8.5	7.3
Par bonds	6.8	6.9	4.7	4.4
Promissory notes	4.8	4.4	3.7	2.8

Sources: Nigerian authorities; Paris Club; and Fund staff estimates.

1/ In 2000-03, as reported by creditors. These figures are tentative pending the reconciliation of Nigeria's obligations with Paris Club creditors. In 2004, as reported by DMO.

2/ In 2000, including late interest as reported by the Paris Club and capitalized moratorium interest as estimated by Fund staff.

Table 25. Nigeria: External Debt Service 2000-03

	2000	2001	2002	2003
Total debt service due	3,434	3,248	2,931	2,936
Interest payments due before rescheduling	1,719	1,535	1,557	1,569
Multilateral	187	132	143	142
Bilateral	1,345	1,204	1,224	1,285
Commercial	187	199	191	142
Amortization payments before rescheduling	1,715	1,713	1,373	1,368
Multilateral	423	364	331	367
Bilateral	1,166	1,225	914	876
Commercial	126	124	129	124
Rescheduling (principal, interest)	22,102	746	...	...
current maturities	247	149	...	...
arrears	21,362	0	...	...
capitalized moratorium interest	493	597	...	...
Flow accumulation of arrears	-20,381	375	1,900	1,127
Cash Debt Service Payments:	1,714	2,127	1,031	1,809
Multilaterals	610	497	474	509
Bilaterals	790	1,308	237	1,034
Paris Club	725	1,274	162	1,021
Other bilaterals	66	35	76	13
Commercial banks	313	322	320	267
Brady bonds	129	134	128	90
Promisory notes	185	188	192	176
Debt conversion program	58	27	22	18
Cash interest paid	815	1,823	350	548
Cash principal paid	898	304	680	1,262

Sources: Central Bank of Nigeria; Debt Management Office; Creditors; and Fund staff estimates.

Nigeria: Tax Summary
(As of February 2005)

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
1. Tax on net income and profits			
1.1 Company income tax (*Companies Income Tax Act* of 1979, as amended to date); (*Industrial Development Income Tax Relief Act)*	**Taxable persons** Annual tax on profits of companies, except those engaged in exploration, drilling, and extraction of petroleum. Gas operations are subject to companies income tax, though upstream gas investment can be deducted against oil income. Total profits are defined as assessable profits from all sources after adjusting for balancing charges, losses, investment, and capital allowances. Losses may be carried forward against future profits for four years. Profits of a non-resident corporation are taxable if attributable to operations carried out in Nigeria. This includes contracts awarded in Nigeria on surveys, deliveries, installation or construction (whether or not executed in Nigeria).	**Exemptions** • nonprofit organizations, including religious and educational institutions where the profit is not derived from trade or business; • companies with pioneer status, which have a tax holiday of between three to five years; • statutory corporations established by states or local governments; • state purchasing authorities established to acquire any commodity for exports; • enterprises operating in an export processing zone will have a tax holiday of three years; • profits from export activities that are used for the purchase of raw materials, plant, equipment and spare parts; • three-year tax holiday for enterprises whose supplies are exclusively inputs to the manufacturing of products for exports; • three-year tax holiday for enterprises engaged in mining of solid minerals; • interest on public loans; and	**General tax rates** 30 percent of taxable income; 20 percent if engaged in manufacturing, mining, exports or agricultural production, and the turnover is N1 million or less for the first 3-5 years of operation. Tax must be deducted at source from construction-related activities at the rate of 5 percent from payments. The tax is credited against the final tax assessment The profit of an export-oriented undertaking within or outside an Export Free Zone benefits from a 3 year tax holiday, provided that exports are not less than 75 percent of the turnover. **Minimum tax** There is a minimum tax base, for turnover of N500,000 or less, of • 0.5 percent of gross profits, or • 0.5 percent of net assets, or • 0.25 percent of paid-up capital, or • 0.25 percent of turnover,

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
		• dividends paid by unit trusts, between related companies and by companies with pioneer status. Dividends received from investments in export-oriented companies, from small companies in the manufacturing sectors in the first five years of operation, and from unit trusts are exempt. Dividends received by resident companies are recorded as franked income and are excluded from taxable income. **Deductible expenses** Deductions include expenditure incurred in the earning of income. Apart from the usual expenses, those include contributions to pension funds, Industrial Training Fund contributions, donations out of profits to a maximum of 10 percent of total profits, and reserves made out of profits for research and development, up to a maximum of 10 percent of total profits. **Depreciation allowances** Instead of a depreciation provision, there is a system of capital allowances for prescribed assets (effectively amounting to depreciation allowances). These allowances are calculated on a straight-line basis by spreading annual allowances over the specified period of write-off. The annual claim for capital allowances by companies (except manufacturing,	whichever is the highest. For turnover of more than N500,000, the minimum tax on turnover up to N500,000 plus 0.125 percent of the turnover in excess of N500,000 is applied.

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
		agro-allied and agricultural trade or business) may not exceed 66 2/3 percent of profits in any year. The following rates apply for capital allowances: (i) buildings 10% (ii) plant and machinery in agricultural production nil (iii) other plant and machinery 25% (iv) ranching and plantation expenditure 50% (v) motor vehicles 25% (vi) housing estate 25% (vii) furniture and fittings 20% **Other allowances** *(a) Initial allowance* An additional initial allowance is granted for certain expenditure items at the following rates: (i) buildings 15% (ii) plant and machinery in agricultural production 95% (iii) plant and machinery replacing oil manufacturing plant and machinery 95% (iv) other plant and machinery 50% (v) ranching and plantation expenditure 30% (vi) motor vehicle expenditure 50% (vii) motor vehicles for public transportation 95% (viii) housing estate	

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
		expenditure 50% (ix) furniture and fittings 25% (x) research and development 95% (xi) plantation equipment 95% Export-processing companies in an Export Processing Zone will be entitled to 100 percent first-year capital allowance on their qualifying expenditure. Agro-allied, companies receive in addition an investment allowance of 10 percent. *(b) Investment allowance* An investment allowance at the rate of 10 percent will be given in addition to the annual and initial allowances where a company incurs expenditure on plant and machinery. *(c) Rural investment allowance* Graduated allowances at a rate of 5-100 percent for infrastructure expenditure in remote areas. *(d) Investment tax credit* There is an investment tax credit for research and development (20 percent), capital expenditure for the acquisition of tools (25 percent), locally manufactured machinery and equipment (15 percent), and for replacement of obsolete plant and machinery (15 percent). **Incentives to gas development**	

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
		Any company engaged in gas utilization will benefit from a three-year tax holiday (renewable for an additional 2 years) or an additional investment allowance of 35 percent. In addition, there are accelerated capital allowances following the tax holiday period (an annual allowance of 90 percent for plant and machinery), and an additional investment allowance of 15 percent.	
1.2 Petroleum profit tax and royalties (*Petroleum Profit Tax Act* of 1959, as amended in 1979 and 1990)	Annual tax on profits of companies engaged in exploration, drilling, and extraction of petroleum and natural gas. Income generated by a petroleum company not related to its petroleum operations is subject to the company income tax. Tax payments are spread over 12 monthly installments. In determining profits, exports of crude oil are valued at a posted price, which is determined by the government, while domestic sales are valued at the actual price. Projects operating under a Memorandum of Understanding (MOU) fiscal regime are subject to the fiscal terms specified in these. Currently, between 96 and 98 percent of total crude is produced under the MOU fiscal terms. Projects operating under a Production	**Deductible expenses** Deductions include any current expenditure (incl. interest) incurred in the earning of income, and royalties and duties to the federal government or local authorities. Profits in the form of dividends derived from manufacturing companies in petrochemical and liquefied natural gas are tax exempt for the first 3-5 years. **Depreciation allowances** Qualifying expenditure in respect of petroleum operations, benefit from the following petroleum investment allowances: • operations onshore, 5 percent; • operations in offshore areas of water depth up to 100 meters, 10 percent;	In general, a tax rate of 85 percent applies. However, for new operations which have not yet commenced sales, a reduced rate of 65.75 percent applies until pre-production costs are fully amortized. Under the **2000 MOU**, producers are guaranteed a profit margin of US$2.5 or US$2.7 per barrel (depending on capital costs) when oil prices are between US$15-19 per barrel. The royalty rate is graduated as follows: • onshore operations, 20 percent; • offshore operations between 0-19 percent depending on water depth (the rate is gradually reduced by water depth) Under the **PSC fiscal terms**, the profit

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
	Sharing Contract (PSC) regimes are subject to the fiscal terms specified in these contracts and the Deep Offshore and Inland Basin Production Sharing Contract Decree, 1999. The share of projects producing under PSCs is expected to increase over the medium term.	• operations in offshore areas of water depth between 100 and 200 meters, 15 percent; and • operations on offshore areas of water depth beyond 200 meters, 20 percent. In addition, the following annual capital allowances are granted for five years: 1st year—20 percent 2nd year—20 percent 3rd year—20 percent 4th year—20 percent 5th year—19 percent The capital allowances are restricted so that tax payable is not less than 15 percent of the tax that would have been payable without any allowances. **Other allowances** Qualifying capital expenditure incurred for the purpose of petroleum operations carried out under the terms of a PSC benefit from a 50 percent investment tax credit for all PSCs executed before July 1998, and a 50 percent investment tax allowance for PSCs executed after July 1998). The following incentives are provided to the *gas industry*: • All development gas projects, including those engaged in power generation, liquid plants, fertilizer plants, gas transmission, and	oil after deduction of cost oil is split between the NNPC and the Contractor at a progressive split depending on cumulative production in the contract area. Under the 1993 Deep Water model the profit oil is split between the NNPC and the Contractor at progressive rates reaching a maximum of 60:40 percent whereas more recent PSC terms have split profit oil at the progressive rates reaching 70:30 percent. Royalty oil is a first call on production at variable rates between 0-12 percent depending on location (deep water blocks in excess of 1000 meters water depth face a zero percent royalty rate). Petroleum profit tax is applied at a rate of 50 percent for projects operating under PSC terms.

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
		distribution pipelines, are to be taxed under the company income tax instead of the petroleum profit tax; • Capital investment for associated and non-associated gas may be treated as part of the capital investment for oil development (and therefore be deductible at the 85 percent PPT rate).	
1.3. Personal Income Tax ***(Decree no. 104*** of 1993)	**Taxable persons** For resident individuals, taxable income include both domestically and foreign sourced income. Individuals pay tax to the state of residence. However, persons employed in the armed forces, the foreign service, residents of the Federal Capital Territory, and residents outside Nigeria who derives income in Nigeria pay taxes to the Federal Board of Inland Revenue (FBIR). Non-residents are liable to tax on income from sources in Nigeria. Only the personal allowance is available to non-residents. For employment sourced income, tax is deducted at source and is paid under the PAYE system each month. **Concept of income**	**Deductible expenses** The following deductions and allowances are provided: • personal allowance of N 5,000, plus 20 percent of earned income; • N 2,500 per annum per unmarried child (maximum of 4 children); • N 2,000 each for two dependent relatives; • for disabled persons, N 3,000 or 20 percent of his/her earned income, whichever is higher; and • alimony deductions, not exceeding N 1,000. **Exemptions** The following exemptions apply to individuals: • official emoluments of the President and Vice President, and State Governors and Deputy Governors;	**General tax rates** Annual income — In percent 0 – 30,000 — 5 30,000 – 60,000 — 10 60,000 – 110,000 — 15 110,000 – 160,000 — 20 Over 160,000 — 25 A minimum tax of 0.5 percent of total income applies.

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
	Progressive tax on income arrived at after deducting personal allowances and exempted categories of income. Taxes on rents, dividends, royalties, and interest are withheld at source at a rate of 2.5-10 percent depending on the activity. For nonresidents, the withholding constitutes the final tax. *Income* includes: (i) gains from trade, profession or vocation (ii) salary, wages and other benefits (iii) property gains and profits (iv) dividends and interest (v) pension or annuity (vi) any other personal gain or profit *Benefits in kind* are included in taxable income, with the exception of reimbursement of expenses, medical costs, and cost of passage to or from Nigeria. *Exempted salary income* include: (a) housing allowance paid by the employer not exceeding N 150,000 per year; (b) transport allowance not exceeding N 20,000 per year; (c) meal subsidy not exceeding N 5,000 per year; (d) utility allowance of N 10,000 per year; (e) entertainment allowance of N 6,000	• investment income of any pension fund; • death gratuity and compensation for death, or injuries; • retirement gratuities; • gratuities paid to public officers; • compensation for loss of office; • proceeds of foreign earnings that are repatriated into Nigeria in convertible currencies, to which concessional tax rates apply; • all salaries, dividends, interest, rent, royalties, fees, commissions, etc., earned from abroad and brought into Nigeria by Nigerian residents, provided the income is received in convertible currency that is paid into a domiciliary account in a bank approved by the government; • interest paid by the Nigerian Post Office Savings Bank or in respect of Nigerian Savings Certificates and on specific government bonds; and • income earned by non-residents under a technical assistance agreement. • all life assurance premiums subject to N5,000 limit; • interest on loans for owner-occupied house; • contributions to pension, provident, or other retirement benefit funds; • losses incurred in trade or business, profession, or vocations; • equity shareholding in company	

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
	per year; and (f) leave grant not exceeding 10 percent of basic salary.	floated exclusively for research and development on 25 percent of chargeable income in year of assessment; and • dividends for three years if (a) company is incorporated in Nigeria, (b) equity participation was imported into the country between January 1, 1987 and December 31, 1992, and (c) the recipient's equity in company constitutes at least 10 percent of the company's share capital. Dividend income for resident individuals is grossed up by the withholding tax and the grossed-up amount is subject to tax as other income. The withholding tax is credited against the personal income tax. **Capital allowances** Personal income taxpayers can also benefit from capital allowances, albeit at different rates than corporate taxpayers: Initial / Annual Buildings: 5 / 10 Industrial buildings: 15 / 10 Mining expenditure: 20 / 10 Plant and machinery: 20 / 10 Plant for manuf., agric.: 25 / ... Furniture and fittings: 15 / 10 Motor vehicles: 25 / 20 Public motor vehicles: 30 / ...	

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
		Plantation equipment 20 33.33 Housing estate 20 10 Ranching and plantat. 30 15 Research and develop. 25 12.5	
1.3 Taxation of capital gains *(Capital Gains Tax Act of 1967)*	A tax levied on capital gains by individuals or companies accruing and derived from the sale, lease, or transfer of property rights in chargeable assets in or outside of Nigeria. Capital losses cannot be offset against capital gains. However, where two or more assets are disposed on in a single transaction, they are treated as a single disposal. Chargeable assets consist of loans, buildings, and movable assets (such as motor vehicles).	Exempted institutions include charitable, religious, and educational organizations, pension funds, and trade unions, provided that the gain is not derived in connection with trade or business carried out by the institution. Exempted items include the main private residence of an individual, life insurance policies, Nigerian government securities, sale of stocks and shares, and unit trusts.	10 percent
2. Other payroll taxes			
2.1 Industrial Training levy	An obligatory contribution to the Industrial Training Fund by employers in industry and commerce.	Employers with fewer than 10 employees are exempt.	1 percent of annual payroll.
2.2 Contribution to the Nigeria Social Insurance Trust Fund (NSITF)	An obligatory contribution to the NSITF.	Employers with fewer than 5 employees are exempt.	The current rate of contribution is 10 percent of a member's gross insurable earning, subject to a maximum of N528,000 per annum. The member is expected to contribute 3.5 percent while the employer contributes 6.5 percent.
2.3 Education tax	An obligatory contribution to the Education Fund.	Same exemptions apply as for company income tax.	2 percent of assessable profits
3. Taxes on goods and services			

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
3.1 Value added tax (VAT) *Decree no. 102 of 1993*	**Taxable transactions** VAT is payable on the supply of goods and services provided in Nigeria by a taxable person and on the importation of goods by any person, irrespective of whether they are taxable persons, unless explicitly exempted. The deduction of input tax against output tax charged on sales is limited to the tax on goods purchased or imported directly for resale or as an input for production. However, input tax on (i) any overhead, service and general administration; and (ii) any capital item and asset is not allowed as a deduction from output tax. The legislation does not specify a turnover threshold.	**Exemptions** Exempted items (with no credit for VAT paid) include the following goods: • exported goods; • medical and pharmaceutical products; • basic food items—beans, yam tubers, cassava, maize, millet, rice, milk, meat, fish, and infant food; • books and educational materials, including exercise books, laboratory equipment, school fees, PTA levies, etc.; • baby products, including feeding bottles, carriages, clothes, napkins, baby cream and powder, soap, toys, and baby dresses; • plant and machinery imported for use in an EPZ; • plant and machinery for gas utilization in downstream petroleum operations; • locally produced fertilizer; and • agricultural equipment and products, fertilizer, and veterinary medicine. The following services are exempt: • medical services; • services by community banks, peoples' banks, and mortgage institutions; • exported services; and	**Tax rates** There is only one statutory rate of 5 percent.

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
		• plays and performances conducted by educational institutions as part of learning. Educational goods and services incidental to education for an educational institution are also exempt. Input tax on the following is not allowed as a deduction from output tax: (a) on overhead, service, and general administration of any business which otherwise can be expended through the income tax; and (b) on any item and asset which is to be capitalized along with cost of the capital asset.	
3.2 Excise duties	**Tax base** Excise duties are levied at ad valorem rates on selected goods manufactured or produced in Nigeria.		**Tax rate** Excisable goods — In percent Beer — 20 Other alcoholic beverages — 40 Cigarettes and other tobacco products — 40

4. Taxes on international transactions

4.1 Customs duties

Customs Tariff Consolidation Decree, 1995 as amended 1996-2002.

Customs duties are levied on goods imported into Nigeria calculated on the c.i.f. value. Nigeria uses the Harmonized Tariff System.

Other levies on imports are:

Port surcharge – 7 percent of duty payable;
National automotive council – 2 percent tax on vehicles and parts;
Sugar levy of 5 percent of sugar imports;
ECOWAS community levy of 0.5 percent of c.i.f. value of imports; and
Administrative charge of 1 percent on f.o.b. value of imports for pre-shipment inspection.

Exemptions include the following:

- aircraft equipment used by foreign airlines;
- films of educational, scientific, or cultural character imported by the United Nations or its agencies or an approved educational or scientific organization;
- fuel, lubricants, etc., used exclusively for operation of military equipment or aircraft;
- government imports by internationally recognized nonprofit organizations or by the Head of State, consular offices, or under diplomatic privilege, or for other technical assistance purposes;
- life-saving appliances;
- military hardware and uniforms imported for use of the Nigerian Army, Navy or Air Force; and,
- arms and ammunition imported by the Nigerian Police Force.

There are various incentive schemes in place including a duty drawback scheme and a so-called Export Expansion Grant. The latter provide tax vouchers for 20 percent of non-traditional exports that can be used to offset other duty or tax

A new tariff structure, which includes a narrower and lower range of customs duty rates, was effected in March 1995. The trade weighted statutory average tariff us 17.4 percent in 2002 (weighted by 2002 imports). The peak tariff was increased from 100 to 150 percent in 2002.

	Rates (percent)
Raw materials	2.5-25
Components	5-50
Clothing	55-75
Luxury consumer goods (except automobiles)	30-50
Paper products	5-100
Vehicles	5-50
Soy meal, soy cake, and groundnut cake	35
Refined petroleum products	10
Rice	75
Wheat	15
Machin. and elect. equip.	5-20
Food	5-100
Cigarettes and tobacco	150
Alcoholic beverages	100

There are various restrictions and/or bans including on vehicles older than 5 years, poultry, textile fabrics, used refrigerators and fridges, and ceramic

		payments, and is administered by the Ministry of Commerce. Duty concessions operate for specific manufacturing sectors, e.g., pharmaceuticals, telecommunications and specific ports, as well as for plants and machineries under chapter 84 of the Customs Tariff. Special duty concessions are granted to specific companies, e.g., tobacco companies.	tiles and products.
5. Other taxes ***3.1 Stamp duty*** *Stamp Duty Act*	Stamp duty is levied on a number of instruments, including agreements, bills of exchange, leases and licenses, mortgages, and insurance policies.	No stamp duty is payable on instruments executed by the government and on all forms of securities.	Rates of stamp duty vary depending on the nature of the instrument and the value thereof.

Sources: Ministry of Finance, various tax legislation; Nigerian Tax Companion, 2001; and International Bureau of Fiscal Documentation.