THE ROLE OF INTERNAL AND EXTERNAL CAPITAL IN THE ECONOMIC DEVELOPMENT OF NIGERIA

A Dissertation Submitted

by

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For the Degree of Bachelor of Philosophy

at the University of St. Andrews

STATEMENT OF QUALIFICATIONS

I graduated as Master of Arts at the University of St. Andrews in 1958 with Second Class Honours in Political Economy and Modern History.

I have studied economic development in Nigeria, while holding a Goldsmiths' Company research grant at University College, Ibadan, and while working as an Administrative Officer in Eastern Nigeria.

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CERTIFICATE

I certify that Mr. B. Shields has spent not less than twelve months (full-time) in higher study in the field of Political Economy; that he has fulfilled the conditions of Ordinance No. 40 (Regulations for the Degrees of Bachelor of Philosophy and Bachelor of Letters) of the University Court of the University of St. Andrews; and that he is qualified to submit the accompanying dissertation for the Degree of Bachelor of Philosophy.

Professor.

DECLARATION

I hereby declare that the following dissertation has been composed by me, and that it has not been accepted in any previous application for a degree.

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P R E F A C E

The purpose of this study is to consider the sources and methods of financing economic growth available to a low income country as exemplified by the experience of Nigeria in the period since the second World War. During this period, virtually every country in the world has been preoccupied with the problems of economic growth, either in order to facilitate post war reconstruction or as a means of raising living standards in wretchedly poor territories. In the last decade, international attention has been attracted more and more to the attempts of the so-called underdeveloped countries to attain some measure of sustained economic growth. Similarly, academic debate on the problems of growth has centred mainly around the problems of creating an economic revolution in the economically backward areas of the world. It is of interest, therefore, to examine the problems of growth facing a particular low income territory and to consider the methods which may be adopted in order to solve those problems. This study will concentrate on the problems of capital supply and formation in Nigeria, although of neccssity other factors will have to be examined so that the problem of financing economic development may be seen in its proper context.

The work for this thesis was made possible by the grant of a Goldsmiths' Company scholarship for one year's residential study (during the academic year 1958 - 59) at University College, Ibadan. I am deeply grateful to the Company for the opportunity to do research at Ibadan and also take part in student life there. Since June 1959, I have been employed as an administrative officer in Eastern Nigeria.

C O N T E N T S

CHAPTER I

THE NIGERIAN ECONOMY

The Federation of Nigeria covers an area of almost 357 thousand square miles and has an estimated population of just over 35 million. Occupying one thirtieth of the land mass of Africa, it contains roughly one sixth of the population of the continent. It has a greater population than any other country in Africa and is the thirteenth largest country by population in the world.[1] Population is denser than in any other African country, apart from Ruanda-Urundi and some of the islands. Within the Federation, of course, density of population varies considerably from one area to another. At mid-1960, Regional densities were estimated at :-

	Persons per square mile
Northern Region	69
Western Region	154
Eastern Region	279

Source: Derived from Digest of Statistics, October 1960.

Owerri Province in the Eastern Region has a population in excess of 650 persons per square mile, reaching one thousand per square mile in the Mbaise area. In this part of the East, population pressure has resulted in the impoverishment of the soil and considerable labour migration.[2] For a predominantly agricultural country dependent for most of its food on a system of agriculture which requires long periods of fallow for natural regeneration, these densities are high enough to cause some concern.

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(1) U.N. Statistical Year Book, New York, 1956.

(2) See A.T. Grove, Land use and soil conservation in parts of Onitsha and Owerri Provinces, 1951. (Geological Survey of Nigeria: Bulletin 21).

However, despite the high average population densities, more than half the area of Nigeria supports less than 50 persons per square mile. The so-called Middle Belt is for historical reasons sparsely populated and the tsetse fly must be conquered before any large scale repopulation can take place. Vast areas of Calabar and Ogoja Provinces to the east of the Cross River contain few inhabitants, despite considerable agricultural potential. So sparse is the population indeed that road building and other major development works must be executed with labour imported from outside.

The export sector of the Nigerian economy is dominated by agricultural products and raw materials, as is demonstrated by the following table of domestic exports for the period January to August 1961.(1) Manufactured goods accounted for less than 1 per cent of the total.

	£
Food	26,927,464
Beverages and Tobacco	2,755
Crude materials, except fuel	69,237,182
Mineral fuels etc.	6,619,943
Oils and Fats	13,220,821
Chemicals	122,733
Manufactured goods	1,069,539
Miscellaneous	1,820,978
	119,021,415

The value of manufactured goods exported had increased by only £27,000 over the same period in 1960.

Internally, the picture is similar. Manufactures and craft products accounted for only 3 per cent of Gross Domestic Product in 1957 while farm and forest products accounted for 61.2 per cent.(2)

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(1) Nigerian Trade Summary, August 1961.

(2) Calculated from P.N.C. Okigbo, Nigerian National Accounts 1950-57, (Government Printer, Enugu 1962), p. 7 Table II 2.

Approximately 75 per cent of the adult labour force is engaged in agricultural pursuits, although there is evidence to suggest that there is considerable under-employment in the agricultural sector of the economy. The urban population is growing very rapidly indeed as school leavers are attracted by the possibility of better paid jobs. It is a characteristic of the Yoruba inhabited areas of Western Nigeria that they have for long had large urban clusters, resulting from the hierarchical nature of their society and the needs of defence during the wars of the 19th century. Many of the inhabitants of these towns are, nevertheless, farmers or part-time farmers and it has been estimated that the population of Ibadan, the capital of Western Nigeria, doubles at certain seasons of the year.

The 1952-53 population census indicated that there were six towns in Western Nigeria with a population of 84 thousand or more. Only Lagos and Kano had similar populations, while in the East the largest town was Onitsha, with 77 thousand people. It is probable, however, that the Eastern towns of Port Harcourt and Aba whose raisons d'etre are commerce and industry, are growing more rapidly than any other towns except the Federal capital, Lagos, itself. Presently (early 1962), the populations of Port Harcourt, Onitsha and Enugu are all estimated at more than 100 thousand.

Nigeria is virtually self-sufficient in foodstuffs (current per capita imports of food are worth roughly 15/- p.a. and 85 per cent of her exports are agricultural products. The various products of the oil palm, groundnuts, cocoa, cotton and rubber alone earn 80 per cent of Nigeria's foreign exchange.[1]

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(1) Economic Survey of Nigeria 1959, p. 2

In the absence of any industrial sector capable of producing exportable goods, it is evident that Nigeria will have to rely for many years on her mineral and agricultural resources to provide her with the foreign exchange necessary for the capital imports required to implement her development programmes. Furthermore, with an estimated population increase of almost 2 per cent per annum and the impoverishment of the soil in many areas, much of the development effort ought to be concentrated on the improvement of methods and techniques of food production. The National Economic Council considers (1) that, as a result of the marked expansion of grain production since the war, food supplies are generally adequate North of the Rivers Niger and Benue. South of those rivers, however, it is felt that consumption is low and protein deficiency due to over-dependence on root crops is common. The problem, therefore, is to increase productivity sufficiently to keep pace with population growth and also to encourage the production of crops rich in protein.

Transport improvements over the last decade have facilitated the movement of foodstuffs within the economy. A great deal of work has been done by government bodies on the improvement of foodcrops, the use of fertilizers and better strains. There is, however, a fairly common belief that less research work has been done on foodcrops than on cash crops. This belief is probably due to the wide publicity which has been given to improvements in the quality of cocoa and palm produce. The reports of the various agricultural departments show that considerable work has been done on the improvement of food crop yields on the agricultural stations. It is perhaps true that there has not been sufficiently great effort to make the peasant

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(1) Ibid.

farmer aware of developments in the agricultural centres and to show him how they may benefit him. Popular opinion is that the agricultural assistants in the rural areas make insufficient efforts to interest local farmers in their work and to demonstrate how to make their farming more profitable. As stated in the Economic Survey,(1) "the main problem will be to persuade the farmer to adopt the improvements which research has demonstrated are possible." All the Regional Governments intend to expand farm extension services considerably during the forthcoming Six-year Development Plan.

Nigeria is frequently called a wealthy country by politicians and journlists. It is necessary to examine this contention as it is liable to lead to feelings of complacency and misplaced optimism. A few comparisons will suffice to indicate that, even compared to other African countries, Nigeris is a very poor country. It is quite easy to list all those minerals of which traces may be found and mention the variety of agricultural products to be obtained in the country and to state that this proves how rich the economy is if only someone will develop it. But, although this has often been done, such superficial conclusions could be drawn from a list of the resources of any country.

According to a comparison of the national incomes of selected countries in Africa made by United Nations staff, and reproduced below, it would appear that Nigeria has one of the **lowest** per capita national incomes in Africa.

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(1) Economic Survey of Nigeria, 1959, p. 2

Country	Year	National Income $m	Per capita $
Algeria	1956	2,123	221
Egypt	1956	2,622	109
Morocco	1956	1,643	191
Tunisia	1957	667	176
Union of S. Africa	1956-57	4,819	346
Ethiopia	1957	604	30
Kenya	1957	480	78
Madagascar	1956	586	119
Mauritius	1957	132	232
Tanganyika	1957	406	48
Uganda	1957	321	57
Zanzibar	1957	27 - 35	98 - 126
Belgian Congo	1957	976	76
Rhodesia & Nyasaland	1957	959	132
Cameroons (French)	1956	451	142
French Equatorial Africa	1956	614	126
French West Africa	1956	1,523	133
Gambia	1957	16 - 20	56 - 70
Ghana	1957	912	194
Nigeria	1956	2,186	69
Sierra Leone	1957	147	70

Source: Adapted from Table I-III p. 15, Economic Survey of Africa Since 1950, United Nations 1960.

Accurate comparison of the above national income figures is impossible because in the first place their various authors would not claim great accuracy for their estimates and secondly because different methods were used for computing them. Some are based on net domestic product at factor cost, others on gross domestic product at factor cost; some attempted to ascribe figures to income from subsistence farming and others were less venturesome. In converting into dollars, the official rates of exchange were used whereas the c.f.a. franc was overvalued; population figures are in most cases far from certain. However, they do provide some method of rough comparison and Nigeria appears near the bottom. The popular assumption that Nigeria is one of the richest countries in Africa appears unfounded.

In 1957, Nigeria, producing 274 million kilowatt hours of electricity per annum, was the eighth largest producer on the African continent. In per capita production, however, with an average of 8.6 k.w.h. per head, she was only seventeenth.[1] Ghana was effectively producing four times and the Union of South Africa more than 140 times as much per head. At present, schemes for the large scale supply of hydro-electric power from the rivers Niger and Kaduna are being considered by the Federal Government. The firm capacity of those schemes would be about fourteen times present capacity, and they would cost something in the neighbourhood of £163 million.[2] It is thought that the schemes would be multipurpose and would facilitate irrigation works and navigational improvements. There is, however, no likelihood of power from such schemes being available earlier than 1966. On behalf of the United Nations Special Fund, the World Bank is acting as Executing Agency for a survey being concluded to determine the physical and economic feasibility of a dam on the Niger.[3] Meanwhile, with extensions at present under construction coming into production, installed generating capacity will have risen by the end of 1962 to 183 thousand kilowatts from 102 thousand in 1959.[4]

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(1) U.N., op. cit., p. 133.
(2) <u>Economic Survey of Nigeria, 1959</u>, p. 57.
(3) I.B.R.D., <u>The World Bank in Africa</u>, July 1961, p. 48
(4) <u>Economic Survey</u>, p. 56

Power for the Port Harcourt area will be supplied from a new station at Afam which will utilise natural gas. However, even with the realisation of all these schemes, electricity production in Nigeria will still be extremely low in comparison to many countries in Africa.

In coal production, Nigeria comes third after the Union of South Africa and the Federation of Rhodesia and Nyasaland, but the annual production of around 700 thousand tons is very low compared with the respective 33.5 million and 4 million tons produced by those countries.[1] Reserves are estimated at only 242 million tons compared with 75 billion tons in the Union and 4 billion in the Federation of Rhodesia. Because of the high cost of Nigerian coal, both Railway and Electricity Corporations are switching over to oil. There are proven reserves of 70 million tons of lignite and it is thought that there are actually hundreds of millions of tons, but no means of working the deposits profitably has yet been discovered.[2]

Nigeria is the sixth largest producer of tin concentrates in the world and is second in Africa only to the former Belgian Congo. In 1957, 9.766 million tons were exported and in 1958, after the curtailment in accordance with the International Tin Agreement, 6.33 million tons.[3] Income from tin exports has fluctuated considerably in the past war period and, whereas it represented 12 per cent of total income from exports in 1946, it now represents only 3.5 per cent.

Oil is expected to become one of Nigeria's most important exports within a few years. Between 1937 and 1959, £60 million was spent by the Shell-BP Petroleum Development Company of Nigeria Limited in exploration and development costs. In February 1958, oil was first exported and by the end of 1958, 230 thousand tons of crude oil worth £1 million had been shipped to the United Kingdom.[4] In 1959, mineral

(1) Economic Survey of Africa Since 1950, p. 132
(2) Ibid, p. 127
(3) Ibid Table 2 VII, p. 123
(4) <u>Economic Survey of Nigeria 1959</u>, p. 58

fuels and lubricants to the value of £3 million were exported[1] and they amounted to over £2 million in the first half of 1960.[2] Production is currently (February 1962) turning at the rate of 100,000 tons per day. By 1965, it is thought that Nigerian production will be around 5 million tons per annum and by 1970 she may be the largest Commonwealth producer with 10 million tons per annum.[3]

Royalty payments are at present in the region of £500 thousand per annum and the Petroleum Profits Tax Ordinance 1959 provides for the sharing of profits on a 50-50 basis, in return for a guaranteed period of tax stability. Oil has, therefore, become in the last few years an important earner of foreign exchange and source of government revenue. The expansion of oil production has particular importance for the Government of Eastern Region, where most of the oil has been found. Of the royalties paid on crude oil produced, 59.3 per cent accrues to the region of derivation. Mining leases have brought in an additional £660,000.[4] The company also spends over £1 million per annum on local purchases and provides employment for more than 3,000 people.

The British Petroleum Company has begun the construction of an oil refinery at Port Harcourt which will initially have a capacity of one million tons of crude oil a year. It will cost £12 million (60 per cent subscribed by the Federal and Regional Governments) and

(1) Federation of Nigeria, Digest of Statistics, Vol.9 No. 3, p. 22.
(2) Nigerian Trade Journal, Vol.8, No.4, October/December 1960.
(3) Nigeria Trade Journal, September 1960, p. 68.
(4) The Economist Intelligence Unit, Investment Opportunities in Eastern Nigeria, p. 16.

production will begin towards the end of 1963. Diesel and fuel oils, kerosene and various grades of petrol will be produced and it is intended to make Nigeria self-sufficient in those products, despite the great increase in demand expected in the next few years.[1] Imports of petroleum products were valued at £9.7 million in 1959, when dieselisation was only just beginning. The refinery will therefore contribute greatly to the conservation of foreign exchange.

By the standards of the world's largest producers, Nigeria's oil output is as yet negligible. Even in Africa, Nigeria at present comes fourth as a producer after Algeria, Egypt and Libya.[2]

It is useful to examine the growth in Nigeria's national income over the past decade and the changes in its composition. The report of a survey commissioned by the Federal Government has recently been published.[3] Dr. Okigbo's findings indicate that there was an increase in the gross domestic product of the order of 32 per cent between 1950 and 1957. The growth was not, however, smooth. Between 1950 and 1954 G.D.P. increased by 27 per cent while between 1954 and 1957 there was an increase of less than 4 per cent. As pointed out in this report, estimates of population growth during this period are extremely rough, but the authors assume an increase of 15 per cent, implying an increase in per capital product of just over 2 per cent per **capita.**

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(1) Economic Survey of Nigeria, 1959, p. 58.
(2) Economic Survey of Africa since 1950, p. 128.
(3) P.N.C. Okigbo, Nigerian National Accounts 1950-57 Government Printer, Enugu 1962.

Below is a breakdown of gross domestic product in 1957 and the estimated percentage increase in different types of activity since 1950.

	£ million	Percentages (d) of 1950
Agriculture		
Crops primarily for domestic use	360.7	120
Crops primarily for export	110.7	145
Livestock	57.7	96
Fishing	13.3	137
Forest products	14.6	155
Mining	9.4	124
Manufacturing	10.9	352
Public utilities	2.2	263
Building and civil engineering	43.0	212
Transport and communications	77.7	248
Handicrafts	16.7	106
Government	30.5	203
Other services	162.6	119
Gross domestic	910.0	132

Source: Okigbo op. cit., p. 7 Table II 2
(a) 1957 prices.

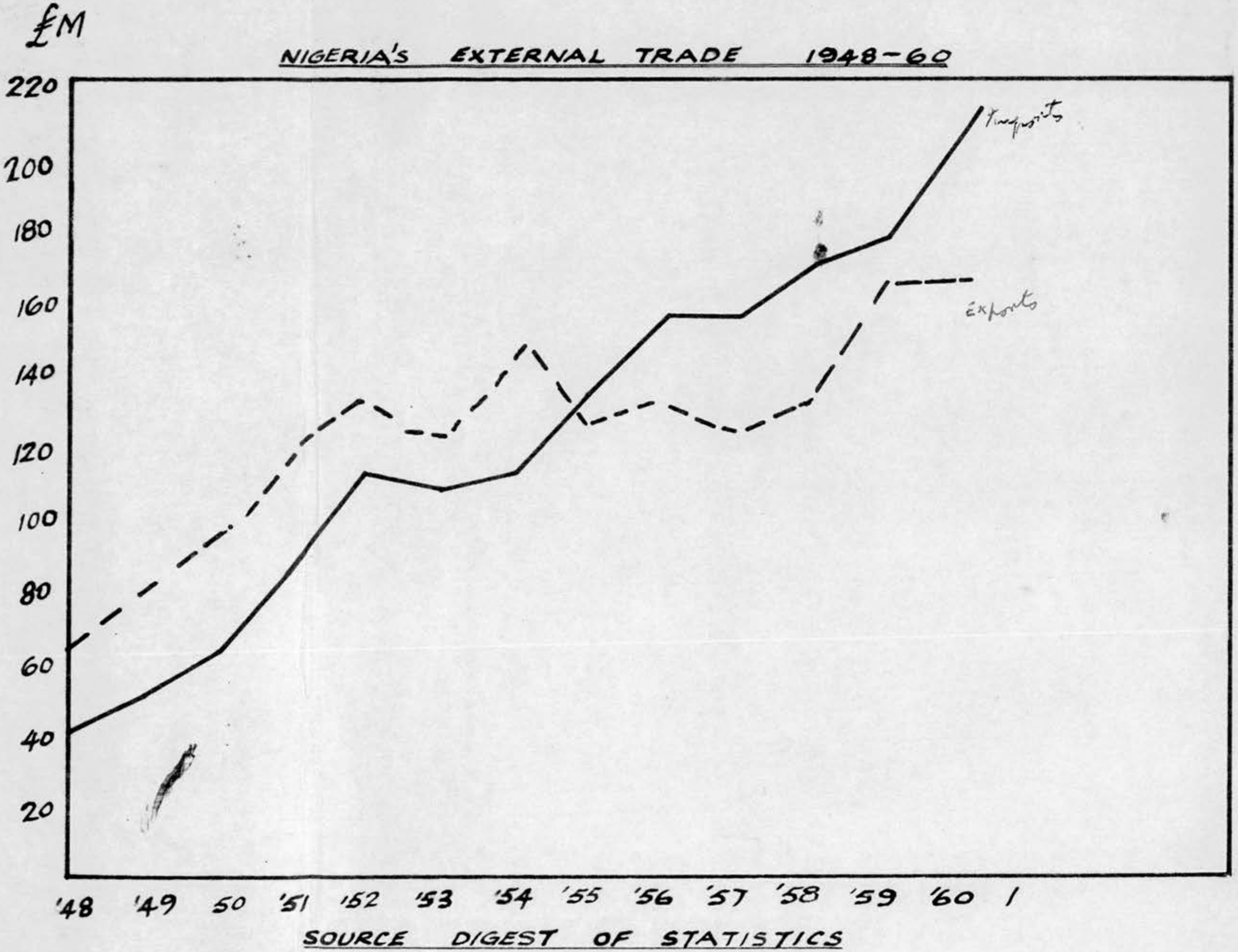
Clearly the growth in manufacturing has been more rapid than in any other sector, but it constitutes just over one per cent of the total output. Construction, transport and public utilities have also grown very rapidly while growth in agriculture was slower and production of food-stuffs just outpaced with assumed population growth. An examination of Regional gross products of agricultural crops for home consumption indicates that virtually the whole of the slight increase in foodstuffs was in cereals, while the output of root crops has stagnated, and even fallen in the Western Region. The authors regret the inadequacy of the evidence on which this conclusion is based.

Gross domestic investment rose between 1950 and 1957 from 9.4 per cent to 12.4 per cent of national income while investment overseas dropped from over 8 per cent to nil. In fact in 1956/57 there was a net reduction of £6 million in overseas investments to help finance the deficit in the balance of payments.[1]

The increase in national income led to a doubling in quantity of imported consumer goods which in turn was responsible for the trading deficit which has been a feature of the economy since 1954. Government expenditure on both capital development and social services rose considerably and there was a substantial increase in gross domestic investment. The per capita increase in private consumption was almost equivalent to the increase in national income per head and increased government expenditure was mainly financed by the change from net overseas investment in 1950-51 of £42.6 million to net utilisation in 1956-57 of savings previously invested abroad, and by indirect taxes which had increased by £22.5 million.

(1) Economic Survey of Nigeria 1959, p. 16

Facing p. 72


£M
NIGERIA'S EXTERNAL TRADE 1948-60
220
200
180
160
140
120
100
80
60
40
20
Imports
Exports
'48
'49
50
'51
'52
'53
'54
'55
'56
'57
'58
'59
'60
SOURCE DIGEST OF STATISTICS

Consumers' expenditure in 1957 was almost 87 per cent of G.D.P. For a poor country intent on achieving rapid economic growth, the expenditure of this proportion on private consumption appears excessive. In the Economic Survey of Nigeria 1959(1) this is compared with the private consumption expenditure of some other countries:

	Year	Per Cent
Ghana	1956	86
Belgian Congo	1955	62
United Kingdom	1956	66
Union of South Africa	1955	64
Rhodesia and Nyasaland	1955	60

It is evident that increases in the national income cannot be financed for very long by running down sterling balances and by **relying** on foreign investment; the expanding market for imported consumer goods indicates that there may be sufficient demand to support several industries producing import substitutes and indeed the position of the balance of trade demands some steps in this direction.

While it has been shown that Nigeria is a very poor country, it is also clear from the foregoing that there has been considerable economic growth in the past few years. The graph opposite provides more evidence of this growth, and of the widening trade gap.

In common with many underdeveloped countries, Nigeria found it impossible to spend the amounts envisaged in early post-war development plans and only in the past few years has she managed to make expenditure approach the planned levels. With supply conditions easier, with dollar

(1) op. cit., p. 21.

restrictions lifted, and with more trained personnel available to execute development programmes, imports of goods essential to these programmes began to flow in increasingly rapidly. Imports of petroleum oils, for example, have doubled in the last six years to 190 million gallons. Cement imports rose from 368 thousand tons in 1954 to more than 530 thousand in 1959, despite domestic production of 120,000 tons in the latter year. (In 1960 almost 630,000 tons were imported) Motor vehicle imports have doubled during the same period.

The table below shows the large increase in essential imports over the past ten years:

Imports of Selected Commodities

Year	Cement	Corrugated iron sheets	Cars	Commercial vehicles	Petroleum oils
	Tons	Tons	No.	No.	000 gall.
1950	153,861	18,174	2,154	2,973	64,792
1955	425,095	44,875	6,680	5,578	110,370
1959	530,808	42,287	9,973	6,148	190,063

Source: Nigerian Trade Journal, September 1960, p. 8, Table D (adapted)

In addition, rising incomes have resulted in greatly increased consumption of imported foodstuffs, particularly sugar, milk and flour. Imports of flour have risen fourfold since 1950, to over 50 thousand tons. As a result, a flour mill is being built at Apapa. Imports of dried fish rose from 4 thousand tons in 1950 to almost 40 thousand in 1959.

The table below illustrates the growth in imports of consumer goods since 1950:

Imports of Selected Consumer Goods

Year	Fish	Flour	Sugar	Beer	Milk	Cotton Piece Goods
	Tons	Tons	Tons	'000 gall.	Tons	'000 square yards
1950	4,218	12,185	10,863	2,580	1,849	448,882
1955	24,187	28,951	43,343	5,675	3,667	205,407
1959	39,519	50,337	57,730	6,832	8,228	143,631

Source: Nigerian Trade Journal, September 1960, p. 8 Table E (Adapted)

Whereas the total value of imports has increased by almost 450 per cent in the past twelve years, that of exports has grown by only 266 per cent. Moreover as the graph opposite page 12 shows, there has been considerable fluctuation in export earnings from year to year. The table below provides more details :-

Exports of Selected Agricultural Products £000

Year	Cocoa	Palm Produce	Groundnuts & Gdnut. Oil	Rubber	Cotton, raw
1950	18,984	28,766	11,504	2,835	2,975
1951	31,381	33,008	9,764	7,483	4,950
1952	28,666	39,858	23,682	4,139	6,734
1953	24,858	35,205	27,285	3,287	5,518
1954	39,261	36,222	33,657	2,909	7,350
1955	26,187	32,347	26,286	5,577	9,380
1956	23,985	35,306	31,859	6,409	7,113
1957	26,036	31,769	24,739	7,022	6,337
1958	26,795	33,113	30,695	7,637	7,845
1959	38,289	39,779	32,098	11,608	?

Source: Digest of Statistics, various issues

Note: Groundnut cake is also exported. It was worth £1.46 million in 1954 and £1.18 million in 1958.

The outlook for Nigeria's traditional exports is not very promising. In January 1961, the Western Nigeria Marketing Board, which buys most of Nigeria's cocoa crop, was forced to take the unprecedented step of reducing the producer price by £30 a ton in mid-season. Despite this action, it was estimated that the Western Nigeria Marketing Board would make a loss during the season of £6 million.(1) Although cotton exports increased by 30 per cent in volume between 1954 and 1958, earnings rose by only 7 per cent. In 1951 20,856 tons of rubber earned £7.48 million, while in 1958 41,802 tons earned only £7.64 million. Most of the rubber grown in Nigeria is produced by small farmers and is of poor quality. Recently considerable new holdings have been leased to plantations and with increased productivity and improvements in quality it is hoped that rubber will become a more important export crop.

As has been said more than 75 per cent of the adult male population of Nigeria are engaged in agriculture. In the past few years, there has been an increase in the number of industrial establishments and thus in the opportunities for wage earning employment outside agriculture. However, most of the factories are heavily capitalised and as a proportion of the total working population, those in wage earning occupations remain very small. The estimated number of wage earners rose by only 31 thousand between 1956 and 1958. Numbers engaged in manufacturing increased from 21,387 to 29,693. Due to the slump in tin and columbite, numbers employed in mining and quarrying fell by 9,500 while in the same period the number of construction workers rose from 101,944 to 123,846.(2)

United Nations, New York, 1954 p. 15 Table V.
(1) The Economist, February 18, 1961, p. 680
(2) Digest of Statistics. Vol.9 No. 3 January 1960, pp. 84 and 85.

Below is a rough comparison of numbers engaged in wage employment with other African territories :-

Adult Males in Wage Employment

Nigeria	4 per cent
Ghana	15 " "
Uganda	12 " "
Kenya	25 " "
S. Rhodesia	40 " "
B. Congo	30 " "

Source: Enlargement of the Exchange Economy in Tropical Africa.

The Industrial Revolution took place in Europe without a universally high standard of literacy among the population. Nevertheless, the limitations imposed on a developing society by widely prevalent illiteracy are evident. An illiterate farmer or trader is likely to be even more conservative in his methods than a literate one. At higher levels, the scarcity of well educated technicians, management and administrative personnel is a serious bottleneck. Nigeria's educational problems can be seen from the fact that, even after rapid expansion in recent years there were only two and a half million children enrolled in school in 1958. The majority of these were in primary schools for only 12,000 enrolled in secondary grammar schools during the year (there were only 47,000 grammar school places altogether) and 25,000 were in teacher training colleges. Of those pursuing post-secondary studies, only 1800 were enrolled in the Nigerian College of Arts, Science and Technology or at University College, Ibadan. The numbers in those institutions have since increased somewhat and a new University has been opened at Nsukka.

According to the Ashby Commission Report,[1] there were at least 1000 students attending universities and colleges overseas. A more recent British Council report puts the number in the U.K. alone at around 7000. When the size of Nigeria's population is taken into account and it is remembered that it is increasing by approximately one million every eighteen months, the numbers studying at post-primary level are pitifully small. A detailed study of the problems of higher education has been made in the Ashby report. Suffice it is to say here that already approximately £20 million, or over 2 per cent of the national income is being spent annually by the Nigerian governments on recurrent expenditure for education. The East Regional government spends about 40 per cent of its current budget on primary education and the commitment grows annually. This gives an indication of the problems facing the governments and suggests that in order to finance more higher education it may be necessary to curtail expenditure at the primary level.

As demonstrated in the foregoing pages, Nigeria is a large and populous country with varied natural resources, producing a great proportion of the world's exports of cocoa, palm produce and groundnuts, and a few minerals, demand for which has recently been declining except for oil, production of which has only recently begun. She is virtually self-sufficient in food but is dependent on foreign trade for capital goods and the greater part of government revenues. Per capita income is low compared to most countries and even by advanced African standards, but income inequality is not so marked as in the white settler countries of the South. Literacy is

(1) Investment in Education, the Report of the Commission on Post-School Certificate and Higher Education in Nigeria, Lagos, 1960.

not widespread but educational facilities are improving rapidly. There is little industry and less than 25 per cent of the working population is employed in non-agricultural pursuits. Of recent years, foreign trade has expanded greatly and for the past five years there has been trade deficit as imports of both capital and consumer goods have increased. A modern industrial sector is slowly growing up. One of the factors limiting the rapid development of the economy is lack of capital and in this paper I shall examine the possible sources, domestic and foreign, of capital for economic development and how they are being tapped.

CHAPTER II

VOLUNTARY SAVINGS AND INVESTMENT

The low per capita level of national income in Nigeria has already been stressed. The difficulties of saving very much from such low incomes can be appreciated. In addition to expenditure on the necessities of life, which consumes most of their income, Nigerians are generally obliged by custom and tradition to incur heavy expenditure on activities which to Western eyes appear inessential and wasteful. Marriage and burial ceremonies are, in common with those in other societies, extremely expensive. Young men must in most parts of the country save considerable sums to pay dowry. To obtain membership in a secret society costs money and to reach high rank costs more. Traditionally, an increase in income might be spent on acquiring a new wife. Today it may mean adding an extra room onto one's house or buying a radio. A man who is known to be prospering even moderately would arouse comment if he did not make additions to his property. This is one explanation for the failure of many Nigerians to expand their enterprises by investing surplus gains.

As soon as an increase in returns becomes evident, several conflicting ways of spending it present themselves. In modern Nigeria, the age-old demands on income have hardly become less strong, while new ones have been added. Every man, in the South at least, is anxious to send his sons to school, and to maintain a child in secondary school will cost the parent or guardian at least £50 and perhaps £80 per annum. Because of extended family loyalties, a successful man may find himself responsible for the education of several children who are not his own. As far as expenditure on education is concerned, it may be argued convincingly that any private money spent on education is an investment from which both family and economy will benefit. The needs of the country for educated citizens are great and the well-educated are in turn able to command relatively high incomes, part of which will be used to continue the good work of advancing the fortunes of the extended family. Thus, although not being channelled into any apparent productive capital formation which will contribute to economic growth, the expenditure of personal savings may yet contribute to the rising national income.

Attention is also frequently drawn to the large amounts spent by the well-to-do in Nigeria on conspicuous consumption and in fact such Western social habits as having cocktail parties are becoming increasingly common. There are, however, as noted above, factors present in the social structure which limit the extent to which those proclivities may be indulged. The senior civil servant or lawyer may well spend large sums of money on beer and cars, but he probably spends less on food than a European in similar circumstances and he is usually training relatives, to the extent sometimes of maintaining a brother at University. Probably younger brothers or sisters live with him and he is responsible for their education and keep. The very common complaint of people who are earning £800 per annum and often much more that they are hard pressed to find money for sudden necessities may be due more to the fact that a large portion of their salaries is already committed to what might be termed investment in the family than to attempts to live beyond their means.

This redistribution of income helps to counteract the effects of comparatively low levels of taxation obtaining in Nigeria. As with taxation, it has the effect of reducing what would otherwise be an investable surplus in the hands of the recipient. In this manner, small business concerns which might have been are not even conceived and the development of a class of small entrepreneurs, considered by many as a prerequisite of economic growth, is inhibited.

It is in any case distorting the picture to concentrate on the economic behaviour of the civil servant and the lawyer because numerically the class is small. It is necessary to consider the difficulties of the ordinary peasant farmer and small business man and attempt to find out what factors prevent more than a negligible number from achieving expansion, how they finance their activities and by what means the opportunity of rapid development may be given to more. In this chapter, some institutions, both government sponsored and locally developed, for the mobilisation and utilisation of domestic savings will be examined in an attempt to discover how adequately they are contributing to the development of the economy.

It is a commonly held view that in the poor countries of the world, a large proportion of the comparatively small funds which are available is held in the form of hoards. If this is the case, then, without any new savings on the part of the inhabitants of those countries, money can be found for capital formation. It has been estimated that in some countries of the Middle East and South and South East Asia, private gold hoards are equivalent to

10 per cent of the national income.[1] Such hoards, if tapped, could of course be utilised only once, although their effect on the economy would not be negligible. By definition, however, it would be difficult to gain knowledge of their location and thereby force their owners to release them for new capital formation. Still, the mobilisation of any funds in a poor country is extremely difficult and no possible source should be neglected.

Hoarding is an evident obstacle in the way of productive use of savings. However, most people seem convinced that in Nigeria any hoarding which is done is on a most insignificant scale. I have discussed this with people from all over Nigeria and the most common reply is that cash is too scarce to be available for hoarding. Someone with idle cash generally begins trading with it on his own account or lends it to others to trade with. Southerners have proverbs which imply that the Hausa is improvident and incapable of saving. Certainly, his philosophy of life is such that a very high premium is not placed on the future. Nor should the existence of large cash balances at a particular time lead to the conclusion that there is a corresponding amount of hoarding. One must determine the use to which those cash balances will be put in the very near future, before categorising them as hoards. The Yoruba market woman who has £20 or £50 or even £100 in a bag around her waist generally requires that money as working capital. And for every woman who has several pounds, there are many whose entire stock of

(1) See U.N. Department of Economic Affairs, Measures for the Economic Development of Under-Developed Countries, New York 1951, p. 35.

capital is only a few shillings worth of goods. The existence among market women of the type of contribution club known as ajo[1] where the collector is actually paid to hold money is an indication that people do not find it easy to refrain from spending all that they have on immediate consumption.

Further evidence to support the theory that there is little hoarding in Nigeria is contained in a report on urban consumer surveys which were conducted in the administrative centres, Lagos, Ibadan and Enugu in 1957. "It was well established during the surveys and by a subsidiary survey among moneylenders that wage-earners, particularly artisans and labourers, were heavily in debt and that the principal creditors were traders and contractors, and to a much less extent, licensed money-lenders."[2] This conclusion, of course, relates only to the inhabitants of the towns. But it is illustrative of two important features of the economy. The artisans and labourers, who make quite extensive use of such institutions as the Post Office Savings Bank in wealthy countries like Britain, do not save and, in fact, are frequently in debt. Furthermore, those people who do have surplus cash, the traders and contractors, have no difficulty in finding productive use for their funds, and obtain higher returns from moneylending than from commercial enterprise.

The reasons why a person would hoard in the traditional sense are in any case fast disappearing in Nigeria.

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(1) See pp. 51-61.
(2) Federal Government Statistician, <u>Urban Consumer Surveys in Nigeria</u>, Lagos 1957, para. 95.

We have mentioned elsewhere the unwillingness of the illiterate to trust others with documents relating to his money. But this can be exaggerated. Although the literacy rate is not very high, many people have trusted acquaintances who are literate. There is also the prevalent distrust of the Post Office Savings Banks which is not as we shall see quite unwarranted. But those who make no use of the savings banks are unlikely to hoard the money they would have saved. They may spend it on consumption, or they may use it for a type of capital formation, for example, by contributing to 'isusu' clubs[1] and using their share when it comes to them for some such purpose as replacing a thatched roof with corrugated iron or facing a mud wall with cement, or even beginning to build a new house.

The high costs of maintaining a current account and the comparatively low yields on savings may well discourage bank saving, but hoarding is not the alternative. The money is likely to be used in fields which offer higher yields, if the money is there at all.

Some authorities have considered that cash hoarding in Nigeria does exist to a significant extent. In Nigerian Cocoa Farmers, reference is made to the large accumulated investment in cocoa trees and houses. But the authors find that in the year 1951-52,"the surplus of income over domestic expenditure appears to have gone mainly into hoards of cash (my italics). A few families were building houses, purchasing land, planting trees or buying sewing machines and other equipment. The total of

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(a) See pp. 51-61 for a description of the institution and further details of the uses to which members put the funds.

their expenditure was a small fraction of the apparent surplus of the families surveyed. On the whole the families seem to have been content to maintain their productive capital without attempting to increase it."(1) It should be noted, however, that the farmers in the predominantly cocoa growing areas of Western Nigeria, Ilesha, Ibadan, Abeokuta, are also traders and that they generally sink their earnings from cocoa in purchases of textiles with which they trade during the off-season for cocoa.

P.T. Bauer shares the view that in addition to the low level of savings in West Africa generally, what savings there is often "runs to waste or remains productive, because it is hoarded in the form of currency, or is accumulated in the form of low-trade gold trinkets or textiles."(2) And he claims that "while these have proved a useful hedge against inflation the savings might have been used more productively if there had been in existence suitable channels for the transmission of savings into sound enterprise, possibly on an equity basis."(3)

Although I do not agree that much money lies idle in currency hoards, it is possible to view some part of consumption expenditure on cloth as a type of hoarding. Many women buy cloth which they have no intention of wearing as an insurance against hard times when they can sell it piece by piece to raise ready cash. This is certainly hoarding. But the extent of the custom is again probably confined mainly to traders. Few people in

(1) Galletti, Baldwin and Dina, Nigerian Cocoa Farmers, O.U.P. 1955, p. 601
(2) P.T. Bauer, West African Trade, Cambridge U.P. 1954, p. 184
(3) Ibid.

Nigeria are in a position to buy anything which they will not use very shortly. The Yoruba and Itsekiris and the Ngwa people among the Ibos are noted for the comparatively large sums of money which they spend on finery for festive occasions and, if Christians, for Sunday wear. Rather than hoarding this might be considered as ill-afforded luxury spending.

We can easily form an exaggerated idea of the amounts, both absolute and relative, spent in this manner. The tendency to spend money on good clothes and other adornments varies according to area. In a country composed of such diverse peoples as is Nigeria it is very difficult to generalise. There are many millions of Nigerians, especially in the North, who are hard put to it to make a living in the literal sense of the term, far less able to spend money on clothes. Furthermore, it is very dangerous to generalise from the habits of town-dwellers, who comprise a very small proportion of total population, and are generally wealthier by far than the average peasant farmer. Even among the Yoruba, the average village-dweller will not be able to spend much money on clothes. Christians, who are generally literate, have other claims on their funds - such as training their children. The greatest degree of illiteracy is to be found among non-Christians, since the mission schools are responsible for most of the literacy. Such people are generally farmers whose occupation is such that few working clothes are necessary - and they are clad in their working attire most of the time. Hence the good clothes which they do possess are used only on festive occasions such as the New Yam Festival. This would hardly be termed hoarding or even extravagance.

There is a form of investment in residential construction other than in urban real estate which is common in Nigeria today. This is the practice of building a house in one's home town, a house which may be vacated by the owner for a larger part of the year and which can be let for very small rent. So many of Nigeria's civil servants, doctors, lawyers and businessmen work away from their homes and return only to spend their leaves and to retire. Whereas houses in Lagos or Ibadan or Enugu frequently bring from £20 to £100 a month in rent, similar houses in the townships and the villages may cost only £1 a month or someone, usually a relative, may even be allowed to live there in return for looking after the place.

Expenditure on building of this nature in the villages might be considered as a form of hoarding of scarce resources which could be put to more productive use. But it is hardly likely that there will be any change in the custom for a long time. It will come only with the breakdown of present loyalties and sentiments, accompanying the drift to the towns and the desire to capitalise on all opportunities of making money. But, since many people make money precisely with a view to building a house and settling down eventually at home, and since many families despite several generations regular domicile in the city still regard their place of origin as ' home' and visit it and maintain property there, this time may never come to pass.

Nor should this form of investment be regarded as a complete loss to the community in general. There are even reasons for supposing that its contribution to social development outweighs the effects of withholding the funds from a more 'productive' use - that in the long run it will be more productive. The main reason for advocating economic development is that such development enables more people to enjoy what is commonly regarded as a higher standard of living. Such an explanation is of course very simple but is correct in essence. It must always be borne in mind that the preponderant part of Nigeria's population lives in small villages and not in Lagos or Ibadan. The building of good houses in the country can help considerably to diffuse a knowledge of the accompanying amenities and technical improvements and also facilitate the growth of local skills. Others will be encouraged to emulate those who construct the first superior dwellings both because they are likely to be leaders of the community and because the advantages of living in such a building will be generally obvious. Whether investment in modern houses is regarded as hoarding will, therefore, depend on how significant for general economic improvement one considers such construction to be.

The opinion has been expressed that there is little hoarding in Nigeria and that forms of capital disposal which might conceptually be regarded as hoarding are not likely to be altered within the foreseeable future. As far as the search for internal money capital goes, the provision of better alternative opportunities for the investment of savings on one hand and attempts to divert cash from some present forms of consumption expenditure on the other seem to be the only solutions. At present money is saved voluntarily in contribution clubs, in Post Office and commercial savings banks and in cooperative thrift and credit societies, with smaller amounts in building and insurance societies.

The Post Office Savings Bank would seem to be a most suitable institution for the mobilisation of small domestic savings in a low income country, as it is in the wealthier countries. Such a Bank is run as an ancillary service to the Post Office itself so that overheads on buildings and staff are reduced considerably. Branches can therefore be established in areas in which it would be uneconomical to have a branch of commercial bank, but where there may well be considerable potential small savings held unproductively or spent on consumption goods which could be dispensed with if there were some alternative remunerative use for the money. That, at least, is the theory.

Although a substantial part of known voluntary savings in Nigeria is deposited in Post Office Savings Bank accounts, it is clear that its apparent potentialities have not been fully realised. Total Post Office Savings Bank deposits grew from just over £250,000 in 1941 to almost £1.2 million in 1946 and to £4.77 million in 1956. During the same period the number of accounts increased from less than 50,000 to almost 240,000 and the average size of each account was £20 in 1956 compared to just over £5 in 1941. Considering the size of the population and the estimated national income of the country, the low absolute level of savings through this medium is very evident.

Furthermore, since 1956, the level of deposits in the Post Office Saving Bank has declined considerably, although the number of depositors has continued to grow. In 1961, the accumulated balance was only £3.45 million, while there were over 287,000 accounts.(1) The accumulated balance per account, at £12, was lower than in any year since 1946.

A great part of Post Office Savings Bank funds in the past was composed of deposits not normally held by such an institution. They were used for the transfer of funds to avoid the high internal bank remittance charges (frequently $\frac{3}{4}$%). A large number of accounts were opened at one office and closed at another a short time later. This practice was not confined to Nigeria and its occurrence in the Gold Coast was noted in the Trevor Report. It causes higher administrative expense and operates against other savings bank users since the funds thus deposited cannot be productively employed by the Bank. However, as commercial bank branches increase in number and communications improve, charges for internal remittances may be reduced.

Provident Associations, local governments and co-operative societies kept substantial amounts in the form of Post Office accounts, but those have now been largely withdrawn because of superior rates of return on investments elsewhere. Most, though not all, cooperative societies now have their money in the Western Region Cooperative Bank or in the apex cooperative unions in the Eastern Region, at Aba and Calabar. Apart from the fact that those unions help strengthen the financial structure of the cooperative societies, they pay 3% on deposits in contrast to the $2\frac{1}{2}$% offered by the Post Office Savings Bank. The closing of local government accounts is likely to be helpful to the P.O.S.B. since

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(1) Digest of Statistics, October 1961

there has been a tendency in the past on the part of L.A.'s to use deposits as current accounts, thereby making it difficult for the P.O.S.B. to determine its own investment policy. Especially in future, when no doubt attempts will be made to invest its funds within Nigeria, it is essential that those funds should be fairly stable.

In September, 1958, however, a Post Office Savings Bank (Amendment) Bill designed to encourage some larger savers became law. The Ordinance provides for the payment of a flat rate of interest of 2½% upon savings bank deposits up to and including £30,000. Hitherto, interest payable had varied; 2½% on deposits up to £2,000; 2% on deposits from £2,000 to £10,000; 1% on deposits from £10,000 to £30,000 and ½% on deposits above £30,000. During the reading of the Bill, it was stated by the Minister of Communications and Aviation that the alteration was an effort to induce larger investors to reinvest some of the funds which they had withdrawn over the past two years. But it was intended to reduce to zero interest on deposits over £30,000 because the P.O.S.B. "is mainly intended to meet the needs of small savers, and not the very large investors." The toleration of accounts of up to £30,000 might appear to contradict that intention, but the Minister explained that the ceiling was to be kept at that level to help Local Authorities in areas where there were no banking facilities.

The continued increase in the number of depositors is probably due to the great increase in the number of branches at which Savings Bank business is carried out. In 1956 there were 200 such branches, in 1957, 215, and in 1958 the figure was 255. But of course with the absolute decline in savings, there has been a considerable decline in average deposits per branch. The maintenance of a comparatively large number of bank branches is undoubtedly responsible for much of whatever success the Post Office Savings Bank has had. Newlyn and Rowan noted that both British and Nigerian bankers claimed that in areas where branch offices of commercial banks were opened, deposits were gained from the Post Office Savings Bank.(1) In 1956 there were 200 Savings Bank branches throughout the country compared with 137 branches maintained by all the commercial banks.(2) Since then, there has been a very large expansion of bank branches (to 193 in 1960)(3) and, as already mentioned, many local authorities have ceased to make use of the P.O.S.B. for current account purposes. At 30th June, 1961, the total amount in the savings banks run by the commercial banks was in excess of £20 million.(4)

It is debatable whether the difference in the rate of interest affects the preferences of small savers. It is more likely that they use no recognised savings institution at all. People are discouraged from holding their money in the Post Office Savings Bank by the comparatively long delays in obtaining withdrawals. An article describing facilities offered by the Bank remarked, "In fairness it must be stated that the great disadvantage of the Post Office Savings Bank at present is the great delay in confirming and permitting withdrawals. At times it takes one month for withdrawals to be checked and

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(1) Newlyn and Rowan op. cit., p. 130
(2) Report by Mr. J.B. Loynes on the Establishment of a Nigerian Central Bank, the Introduction of a Nigerian Currency and other Associated Matters, Lagos 1957, para. 22
(3) Nigeria: Handbook of Commerce and Industry 1960, pp. 171-172
(4) Digest of Statistics, October 1961.

completed, but increasing mechanisation of the central accounting department is expected to shorten this waiting time considerably."(1)

It is very significant that the first secondary Cooperative Thrift Society in the Northern Region, the Kaduna Thrift and Loan Union was initially formed, "to operate a bank account from which its members might be able to obtain advances pending the receipt of money withdrawn from the P.O.S.B., the latter being almost invariably a long drawn-out affair."(2) In the above-mentioned debate on the amendment bill, the Minister mentioned that delay in withdrawals was perhaps due to excessive caution in guarding against fraudulent withdrawals. Such withdrawals are not common, the amount shown in annual reports being about £180. Whether this is due to caution on the part of the authorities cannot of course beascertained. In the debate, Chief Solaru recommended the introduction of passport photos on passbooks to obviate all inconvenience (such as making use of letter writers) involved in identification. This was taken up according to a report in January 1959 when it was announced that it would be possible to withdraw up to £100 without reference to the Accountant-General in Lagos.(3) This would appear to be going to the other extreme, however.

In a survey of Nigerian cocoa farmers,(4) people were said to "manage without the help of the Post Office Savings Banks; they complain of the time, trouble and

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(1) Daily Times, Lagos, Banking Supplement, January 27, 1958, p. 17.
(2) Dept. of Cooperative Societies, Northern Region, Annual Report 1951-52.
(3) Daily Times, January 24, 1959
(4) Galletti, Baldwin and Dina, op. cit., p. 29.

expense involved in operating accounts at distant savings banks and also of corrupt practices and inefficiency in the offices." However, it is well to stress that the Post Office Savings Bank is not alone in its reputation for inefficiency. There is a general lack of the businesslike approach to such matters which is so invaluable to the proper conduct of commercial affairs and which is so useful in attracting public attention to the facilities and convenience offered by such institutions.

The use of the Post Office Savings Bank is certainly less available to the rural dweller than to the townsman since of the 250 branches, most are heavily concentrated in the South, in and around the main towns, as those are the areas where postal services are most highly developed. In the above-mentioned debate, Mr. Adeniran stated that people in large towns have P.O.S.B. facilities, but not those in rural areas and he made a plea for their extension. In the addresses of local constituencies to their representatives and to Ministers on political tours, requests are frequently included for the provision of P.O.S.B. facilities, so that it would seem that there is some demand for them. It is interesting to note that in Ghana, with a population (albeit a wealthier one) only one sixth the size of that of Nigeria, there were in 1958, 365 P.O.S.B. branches and total deposits amounted to more than £5 million. It is very likely that throughout Nigeria just as much personal savings at the moment are made through the medium of contribution clubs(1) as through formal savings institutions such as the Post Office Savings Bank, commercial banks savings departments and cooperative thrift and credit societies.

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(1) See pp. 51 - 61.

Apart from factors militating against its most efficient use as a savings institution, the Nigerian Post Office Savings Bank suffers from another major defect. The function of such an institution should be not just the promotion of thrift and the mobilisation of domestic savings, but their mobilisation for productive use within the country. However, the savings, which could very usefully be put to work in Nigeria itself, are all invested in foreign securities on behalf of the Accountant General by the Crown Agents in London, despite a clause in the existing (1948) Ordinance which permits investment of up to one third of the total savings in Nigerian government securities of any kind. Since the Savings Bank is a government institution, it ought to be used in a manner best calculated to help the economic development of the country, so long as this does not endanger the security of the funds entrusted to it. The drawback to the employment of Post Office Savings Bank funds within the country is, of course, the lack of a domestic capital market. But investing the funds abroad is certainly no encouragement to the growth of such a market. £19 million has been raised by the Nigerian Government in internal loans in the past 3 years. There is no reason why the Savings Bank should not invest a large part of its funds in government securities. The heavy withdrawals of P.O.S.B. deposits which have taken place recently since Nigerian Government stock is fully negotiable need be no deterrent.

Mr. Loynes[1] suggested that the Bank should, if a suitable range of securities became available, be enabled to invest up to two-thirds of its resources in internal loans of the

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(1) <u>op. cit.</u>, para. 35

Federal government. But he advocated a minimum holding of sterling securities for many years as a safeguard of liquidity. The sterling portfolio should, however, be kept in shorter dated form than at present.

The commercial banks have in the last few years come to play an important role in the mobilisation and utilisation of voluntary savings, and are now far more important in this sphere than any other institution. The majority of banks currently operating in Nigeria are expatriate and most of them are linked with large banking interests in Europe and America. The two longest established banks probably still share the greater part of banking business in the country. They are Barclays (D.C.O.) and the Bank of West Africa, owned jointly by Lloyds, Westminster and National Provincial and by the Standard Bank of South Africa and connected by means of interlocking directorates with the Midland Bank and Coutts & Co. In 1960 and 1961 branches of the giant National Bank of America and Chase Manhaltan Bank were established in Lagos and Ibadan. There are several smaller expatriate banking concerns, mainly in Lagos, specialising in exchange banking and so on. The only substantial Nigerian banks are the African Continental Bank and the National Bank of Nigeria, although the Cooperative Banks are growing in importance. The only other reasonably large domestic concern was the Nigeria Farmers' and Commercial Bank which went into liquidation in 1953 (with deposits in excess of £500,000).

The African Continental Bank was founded by Dr. Azikiwe, now Governor General, in 1948 with the intention of liberalising credit for Nigerians. Allegations of malpractices led to the Foster Sutton Commission of Enquiry in 1956 which resulted eventually in the nationalisation of the Bank. The shares are now held by the Eastern Nigeria Development Corporation. The National Bank has also recently been the subject of investigation and the Federal Government is attempting to appoint a commission of enquiry into its affairs. There are many other banks and so-called banks but they have had varying fortunes over the years and it is impossible to obtain any clear indication of their real importance. For example, between 1951 and 1952 more than a dozen Nigerian owned banks closed down because they were bankrupt or involvent.[1] In an article in the Daily Times in October 1951, the Managing Director of the National Farmers' Bank wrote, "We have helped over 10,000 Africans in finance and business since the inauguration (1947) of our bank, but we are disappointed by about 20% of our customers..... Whenever we give certain types of traderoverdrafts we are in constant fear as to their prospects of repayment."[2] He also complained about the failure of most Nigerian traders to keep proper accounts.

The place of banking in the economy and the nature of expatriate banking business has changed radically in the past five or six years. Formerly, because expatriate banks tended to establish branches only in areas where there was expatriate or government enterprise, there was a low branch density in relation to total population and hence normal banking facilities were not available to many people. In 1953, there were only twenty-nine expatriate banking offices in the entire country. Because of little contact with the indigenous population, lending to indigenous firms was small and local employ-

(1) Report on Banking and Finance in Eastern Region 1957, Sessional Paper No. 4.
(2) Quoted by Newly and Rowan, op. cit., p. 114.

ment of funds consequently restricted. For example, at 30th June 1951, local earning assets of the expatriate banks were approximately £1.4 million while net external assets were £14.2 million.(1)

This eventually led to allegations of discrimination, to utterances by nationalist leaders to the effect that the banks were in league with those who would prevent Nigerians establishing industrial and commercial enterprises which might compete with already established foreign concerns. While it cannot be denied that on occasion this was the reason for refusal to extend credit to indigenous entrepreneurs, it has to be emphasised at a time when loose generalisations about former policies are current, that in many instances the Nigerian applicant just was not a creditworthy proposition to the banker. He may even have had assets worth a considerable sum, but such assets were usually in the form of land to which there was no recognised title. No bank could afford to extend much credit on land mortgages when titles were insecure; the position would undoubtedly have been easier if there had been indigenously owned banks or banks with effective Nigerians on the management side who were in a position to know the local circumstances.

However, the description above of the fate of the National Farmers' Bank indicates that the prudence of the expatriate banking concerns was warranted. The banks which collapsed in the early 1950's left many trusting depositors, including those who had patronised Nigerian banks for patriotic reasons, bankrupt, a fate which had never befallen the customers of the foreign banks.

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(1) Newlyn and Rowan, Money and Banking in British Colonial Africa, p. 77.
(2) - ditto - p. 79.

Newlyn and Rowan[1] writing in 1954 estimated the African share of deposits in expatriate banks at 25%. Because the rates offered on time and saving deposits were only ½% - 1%, Nigerians preferred to invest their savings in the Post Office Savings Bank.[2] Furthermore, the expatriate banks showed themselves unwilling to accept small amounts of money and this reduced considerably their capacity to mobilise the savings of Nigerians. The European banks "provide service rather than credit"[3] and their service charges were, and still are, frequently criticised as excessive. The International Bank Mission remarked on the use of the Post Office Savings Bank or even personal plane transportation of money, to avoid the heavy charges for internal remittances. Because of these defects, the Mission thought it likely that the share of the European banks in Nigerian banking would decrease over the years.

The growth in banking business in the past few years makes it doubtful whether the prophecy of the World Bank will come true in the near future. In 1961, the Bank of West Africa alone had 55 branches in Nigeria and Barclays D.C.O. has more. The total number of bank branches is in excess of 200. Extensive campaigns have been undertaken in the press, on the radio and in the cinemas to induce people to put their money in the savings departments of the various banks. Interest rates on deposits are now 3%, the same as those paid by the African Continental and National Banks. A large volume of acceptance business is now undertaken by the expatriate banks and although there are still occasional allegations that

(1) Newlyn and Rowan, Money and Banking in British Colonial Africa, p. 79
(2) Interest rates offered by Nigerian Banks at this time varied between 2% and 5% on time and savings deposits and sometimes interest of up to 1% was paid on current accounts.
(3) I.B.R.D. op. cit., p. 95

credit is not so easily obtained by Nigerians, considerable numbers of Nigerian businessmen allow the expatriate concerns to handle their accounts.

The total assets of all banks in Nigeria doubled between 1955 and 1960. The increase in the business of the Savings Banks of the Commercial Banks has been enormous. In 1951 total savings bank deposits were £1.63 million. By 1961, they were over £20 million. Over the same period demand deposits grew from £18.4 to £42.6 million and time deposits from £2.4 to £8.2 million. The change in the territorial distribution of investments is also significant. At 30th June 1961, out of investments worth more than £7.9 million only £29,000 was placed outside Nigeria. The main reason for this change is the issue in 1960 of Federal Government Treasury Bills, but it also reflects the general growth of investment opportunities within the country.

The reasons for the growth in the use made of the commercial banks generally and their savings facilities in particular are not hard to find. The rapid rate of urbanisation, the increasing numbers of salary earners and the rise of local trading and contracting firms have all contributed. It is not uncommon to see a man whose natural appearance indicates poverty depositing twenty or thirty pounds in a savings account and putting his inked fingers on the paying-in-slip in lieu of his signature.

Most Nigerians are peasant farmers whose needs for cash are seasonal. Cocoa farmers generally use the money they receive for produce to engage in trade during the off-season. If he cannot find money for improvements immediately, a cocoa farmer can normally obtain an advance against his crops from produce buyers, or, if a large farmer, from the banks. But the majority of Nigerian farmers do not produce cocoa, they produce yams, cassava, millet, corn and other foodstuffs. Their productivity is invariably low and their cash earnings are small. Many, after doing their own planting, travel to other districts as migrant labourers. Their savings are too small and the situation of most savings institutions too remote, to warrant opening savings accounts at the P.O.S.B. They require an organisation which will hold their small savings and enable them to raise the small cash loans they may require from time to time to purchase their modest tools or to finance consumption just before harvest. Since such improvements will hardly constitute major advances in productivity, the prospect would not be sufficiently attractive to orthodox commercial banks.

There exist in various forms in different parts of Nigeria two institutions which seem appropriate for the mobilisation of the extremely small savings made by farmers and traders in the rural areas. Cooperative soeicties and banks have become quite prominent since the last war, in all the Regions. Also existing in each Region is the contribution club, known most commonly as the 'isusu'.

In the years after the first world war when crop prices were subject to violent fluctuations, the Nigerian Department of Agriculture began to organise cocoa farmers with a view to securing better prices and improved quality of crops. Encouraged by the efforts of the farmers a study of the problems of cooperation was made and in 1934 a report was published recommending an officially supported cooperative movement. Subsequently, the Cooperative Societies Ordinance was passed in 1936.

There are today over three thousand cooperative societies of all kinds doing business to the value of £10 million per annum.(1)

The most popular types of cooperative society are the thrift and credit society and the produce marketing society. There are also farmers' societies, a few building societies and craftsmen's societies. The thrift and credit societies seem ideally suited to the needs of the small farmer. They have the advantage of being locally based and as a result most members know each other and are generally known personally or by repute to the officials of the society. The board is thus in a good position to assess the creditworthiness of particular members. The member of the cooperative society does not have to go out of his way to visit the headquarters, which are almost on his doorstep. Although he is required to buy shares, they are very cheap, and he can make small deposits and borrow small amounts which it would not be worth the trouble of a bank to lend him.

From modest beginnings in 1938, when there were eight village banks or thrift and credit societies in the country with total savings of £138, the thrift and credit branch of the movement has grown rapidly. By 1948, there were 287 societies with assets of £325,164 and a membership of 13,753. During that year £45,420 was lent. The total number of loan transactions was 15,618.(2) Only a local moneylender or a friend would be prepared to lend such a small sum as £3, which was the average amount of a loan. Some of the loans were for general farming and bicycle rapairing, but about 60 per cent were for trading purposes and 14 per cent for the purchase of palm produce. It is worth noting that 25 loans

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(1) Nigeria Handbook of Commerce and Industry, 1960, p. 209.
(2) Annual Report of the Registrar of Cooperative Societies, 1948-49 Lagos 1950.

totalling £185 were made to assist payment of tuition fees.

In 1950, sums totalling £72,396, in 1951, £114,819 were lent by thrift and credit societies. In the latter year, the last before the regionalisation of the cooperative department, there were 406 societies, only 41 of which were outside Calabar Province. Rates of interest charged for loans varied from 30 per cent in Katsina to 10 per cent in the best Calabar societies, while from 3 to $7\frac{1}{2}$ per cent was paid by the societies on deposits. The rates charged seem high but are modest compared to the terms which local moneylenders charge. Seventy societies had an exclusively female membership. Loans were still being advanced chiefly for trading purposes. In fact, 78 per cent were for this purpose and 15 per cent were for "farming" including the redemption and acquisition of land. Little money, it is evident, was borrowed for land improvement although it may be argued that money lent for trade facilitates the improvement of communication between producer and consumer with consequent advantages to both. However it is still somewhat disappointing that little use was made of the opportunity to improve the productive capacity of the farms.

The geographical distribution in 1958 of cooperative societies in the North and East is shown below by provinces:-

Eastern 31.3.58	
Calabar	851
Owerri	172
Rivers	44
Onitsha	76
Ogoja	38
Total	1181

Northern 31.3.58			
Adamawa	6	Kano	80
Bauchi	1	Katsina	99
Benue	20	Niger	11
Bornu	60	Plateau	27
Ilorin	72	Sokoto	20
		Zaria	74
Total	509		

Sources: Cooperative Department, Enugu.
Northern Region Cooperative Department, Annual Report 1957-58, p. 2.

It is clear from the above that, in the North especially, societies are extremely thin on the ground, there being an average of one per 600 square miles in the North and per 26 square miles in the East. In 1958 less than 50 thousand Northerners out of a population of approximately 18 million, more than 80 per cent of whom are farmers, belonged to the cooperative movement which has evidently not touched the mass of farmers. If we look at the figures over a period of a few years, a more promising picture emerges. In 1949, there were only 125 societies in Northern Nigeria with less than 5 thousand members. By 1958, there were 509 societies with 30 thousand members and a year later there were 44,000 organised in 550 societies. Tonnage of groundnuts marketed by cooperatives rose from approximately one thousand in 1956-57 to 5,300 in 1957-58 (although this was still less than one per cent of the export crop). If this rate of growth continues for long, then, as with cocoa in the West a great portion of groundnut crop will be cooperatively marketed. Owing to the predominance of groundnut farming in the North, many societies have been formed to market this crop and their growth has been remarkable. Coffee, cotton and cocoa are also marketed cooperatively to some extent. The Regional Government has actively encouraged produce marketing societies in the North by guaranteeing bank overdrafts which enable societies extend credit to their members and engage in produce marketing. In 1959, Government guaranteed overdrafts amounted to nearly £1.4 million.[1]

If the loans made by the various credit societies are examined, the absolute amount is quite small compared with the likely requirements of a predominantly agricultural country.

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(1) Nigeria Handbook of Commerce and Industry 1960, p. 210.

Volume of Loans Made by Cooperative Societies - 1957.

(i) Thrift and Credit Societies.

Region	No. of Societies	Members	Total Funds	No. of Loans	Amount
East	908	32,578	378,367	28,773	404,797
West	64	2,097	-	2,133	37,976
North	157	8,943*	35,000	-	67,910
(ii) Thrift and Loan Societies					
East	55	2,921	118,001	1,298	29,723
North	97	3,597	100,000*	-	10,255
(iii) Produce Marketing Societies					
East	37	2,411	20,741	311	3,742
West	526	35,806	-	27,823	442,455
North	52	3,300	12,000*	-	4,715

* Approximately

Sources: Eastern and Northern Cooperative Departments, Annual Reports and information supplied by the Registrar, Cooperative Department, Western Nigeria.

The Eastern and Western Societies made available around £500 thousand each in short term loans while the Northern societies advanced just over £80 thousand. The average amount of a loan varied from £10 to £18 according to the Region and type of society and is a considerable increase on the early years when it was only one or two pounds. The consolidated figures for 1959 show a continuing growth - the amount of credit advanced by societies in all regions totalling £2,229,000 were made. The most rapid progress is in the North where loans amounting to £530,000 were made while Western loan figures are almost double those of 1957 at £981,000. In the East loans totalling £663,000 were advanced.

It is of interest to examine the purpose for which loans have been used recently, although "in evaluating statistics for 'loans purposes,' due allowance must be made for the general practice of borrowers to cover up the true purposes by stating only those purposes they believe to be permitted by the byelaws."(1) In 1956-57, during which, incidentally, 86 per cent of Eastern Region loans were made in Calabar Province, loans in the East by thrift and credit societies were made in the following proportions :-

Trading	55.8
Farming	30.8
Fishing	3.1
Purchase of property	3.1
Industries	2.5
Building	2.3
Sundry	2.4

Source: Eastern Region Cooperative Department Annual Report 1956-57, p. 4.

The number of loans made for farming had therefore risen considerably since 1951, although in view of the cautionary statement quoted above, how much was actually used for the stated purpose cannot be known. The Cooperative Department had made it quite clear in its annual reports that it was disappointed in the amount of applications for loans for trading purposes. For example, in the 1955-56 Annual Report the following appears:

> "The Government appreciates the soundness of the Thrift and Credit movement in that it is firmly based on a system of regular organised thrift, but regrets that a comparatively small proportion of loans in societies is at present given

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(1) Eastern Region Cooperative Dept. Annual Report 1956-57.

> for genuinely productive purposes. The Government hopes that productive credit for agriculture, local industry and fisheries will be given priority by committees in credit societies and that any additional funds obtained from Regional Cooperative Bank loans will be earmarked for these purposes."

The Eastern Regional report for the year 1954-55 had mentioned that there was little or no supervision of the application of loans and there was plenty of evidence that loans were frequently applied to purposes other than those declared or approved. Yet defaults are rare. Despite the fact that loans or parts of loans are frequently used for purposes, for example housebuilding or transport activities, other than those for which they are advanced, they are generally repaid. According to the Western Region Registrar, defaults are most common in a hard year where a farmer is forced to spend the money on the necessities of life.

In the Thrift and Loan societies, generally formed by salary earners in the towns, and comparatively insignificant beside the Thrift and Credit societies, loans are granted for rather different purposes. Below is a breakdown for the year 1956-57 of loans granted by Thrift and Loan societies in Eastern Nigeria[1]:-

Building	47.0
Acquisition of Land	8.9
Education of Dependents	16.0
Medical	1.1
Purchase of Cycles etc.	0.5
Farming	0.5
Marriage	0.9
Leave expenses	1.0
Funerals	0,6
Other	23.5

(1) Eastern Region Cooperative Dept. Annual Report 1956-57, p. 6.

All the societies suffer to some extent from lack of supervision and part of the reason for the declining role of Thrift and Loan societies in Northern Nigeria is attributed by the Department to the fact that the average loan to Committee members was nearly three times that to ordinary members.(1)

Available funds are often invested in such a manner as to limit the money which is available for the primary purpose. For example, it is lamented that "each of the Credit Unions has put up substantial offices and halls and has tied up considerable capital which might otherwise have been used for credit operations."(2) In Lagos, cooperation is confined almost entirely to salary earners' thrift societies. There are nearly 100 societies and the 10 thousand members have accumulated savings to the value of £300,000.

The following table showing the activities of the cooperative societies during the year 1958-59 is ample evidence of their rapid growth in the last few years:

(1) Northern Region Cooperative Dept., Annual Report 1955-56, p. 3.

(2) Ministry of Commerce, Eastern Nigeria, Annual Report 1959-60.

	Type of Society										
	Marketing	Credit	Consumer	Others	Total Registered Societies	Membership	Produce Marketed £000	Sales by Consumer Societies £000	Loans granted £000	Loans repaid £000	Deposits Savings £000
Federal Territory	-	2	1	102	105	9,711	-	-	2	1	281
Northern Region	422	-	16	112	550	44,000	635	5	530	280	33
Eastern Region	61	994	-	173	1,228	55,295	215	5	663	575	516
Western Region	707	109	16	180	1,015	53,142	4,086	935	981	492	616
Southern Cameroons	159	6	-	7	172	14,598	1,321	150	53	23	79
Total	1,349	1,111	36	574	3,070	176,746	6,257	1,095	2,229	1,371	1,525

Source: Nigeria Handbook of Commerce and Industry 1960, p. 213.

The device of the government guaranteed bank overdraft adopted by the Northern Regional Government to provide credit for the cooperative societies has already been mentioned. In the Eastern and Western Regions Cooperative Banks are well established. The Regional Cooperative Bank of Eastern Nigeria acts not only as the principal investment agency of the thrift and credit societies but also finances the Eastern Nigeria Cooperative Exporters Limited. The Cooperative Bank of Western Nigeria was established in 1953 with a grant of £1 million from the Nigeria Cocoa Marketing Board. It also handles deposits from the thrift and loans societies amounting to more than £250,000.

Although the number of societies has increased since then, it is clear from the uneven geographical distribution in 1958 and from the amount of money disbursed in the form of loans that at present the cooperative movement does not enjoy strong countrywide support. In only the old Calabar Province and in the Western Region are societies sufficiently numerous to warrant saying that the movement is an important institution among the people. The Association of Nigerian Cooperative Exporters, set up in 1945 and operating in the Western Region is the biggest single cocoa buying organisation in the Federation, marketing nearly 40,000 tons of produce per annum.

Inasmuch as it is a comparatively recent form of enterprise in Nigeria and was introduced from above by the Administration, it is possible to feel optimistic about its future. Twenty-five years is not a long time and there has been no lack of enthusiasm for the two forms of the society which are most concerned with providing credit - the thrift and credit and the produce marketing societies. In the North in particular, and possibly in the East also, there would have been many more societies had the Government

Cooperative Department been more adequately staffed. Much of the difficulty in running the societies, the majority of whose members are barely literate, is the result of inability to keep proper accounts. Invariably, the annual reports of the Northern Nigerian Cooperative Department mention that farmers in some Provinces have been requesting help to establish cooperative societies and that this has not been possible owing to a dearth of staff. The Eastern Cooperative Department, in common with other government departments, is continually losing staff who have resigned to pursue further studies. It is likely that with more assistance available from government, even more progress would have been made in cooperation.

The Contribution Club

It has been shown that the commercial banks are not suitable institutions for the provision of credit to poor peasants farming small portions of land and living far from the cities. Nor is the Post Office Savings Bank always the best agency for mobilising the domestic savings of an agrarian population. An attempt has been made to describe the activities of the cooperative organisations which have been formed for the purposes of providing rural credit and accepting savings. Although the numbers of such organisations are growing and they are handling more funds every year, it is apparent that the amount of credit they provide is so little, absolutely, and so uneven over the country, that it cannot be adequate. Although there is probably a great demand for cooperative credit and desire to form more cooperative societies than the Cooperative Departments with their existing staff can cope with, I venture to suggest there is another existing institution which is even more suited to the needs of the people, although it has its limitations.

For convenience, since different forms exist and different terms are used in various parts of the country, this institution will be referred to as a contribution club.(1) There are two main kinds of contribution club; that known most commonly as 'isusu', 'osusu' or 'sosu', and that called 'ajo' in Yoruba and 'adashi' or 'dashi' among Northerners. While it would be impossible to estimate the numbers contributing to such societies or the amounts saved by them, the institution is so common and such comparatively large sums are saved through them that in any discussion of voluntary savings institutions and capacity for saving in Nigeria, they can hardly be ignored.

The form of contribution club known as esusu appears to be the most common. Similar institutions can be found all over the world and what concerns us here is the present working of those societies in Nigeria and their relevance to the promotion of thrift and the productive use of savings. It is evident, that it is only in this century with the introduction of modern forms of coinage, that esusu can have attained its present importance.

The esusu is a society whose members make fixed contributions of money at fixed intervals. The total amount collected by the entire group is distributed to each of the members in rotation. Obviously, if rotation is strict some members actually benefit from interest free borrowing, while others in effect lend without interest. Although lots are drawn for the order of rotation, provision is generally made for a member to take out his 'hand' earlier if he needs to and subject to conditions which may involve

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(1) This is the term used by Mrs. Ardener. See S.G. Ardener, "The Social and Economic Significance of the Contribution Club among a Section of the Southern Ibo." Annual Conference, W.A.I.S.E.R. March 1953, Ibadan pp. 128 - 42.

paying in extra amounts later.

The amount of the regular contribution as noted by Bascom in 1937 varied from $\frac{1}{2}$d to as much as £5, a very sizeable sum in those days, and even now. Bascom mentions a man employed by the Nigeria Police who was a member of an esusu of twenty-four paying a monthly contribution of £5 each, thereby providing a fund of £120. However, legislation was enacted to prohibit civil servants from joining contribution clubs in order to protect them from debt. How effective the legislation was is debatable. At the present time, there are many groups of employees in government offices who join together to form esusu clubs. With rising incomes, the amount available for saving in esusu have increased and £5 per month is not uncommon, although the amount still varies from a few shillings to as much as £10.

It would appear that the esusu club is most common in the South East, especially in Calabar and Owerri Provinces, but is nevertheless widespread throughout Nigeria. In the large towns, although as already mentioned, government clerks club together to form esusu, they are not so common - since banking facilities are more easily available and the trouble involved in making use of them is comparatively little. Throughout the West, from Asaba and Benin to Ondo and Ado-Ekiti and around Ijebu, the esusu is still strong and in the North clubs exist, although confined mainly to Southerners working there.

The esusu is, of course, subject to considerable abuse. Bascom in the above-mentioned article, remarks that the settlement of Isusu accounts constituted a high percentage of court cases in the East, and more recently the cooperative department in Eastern Region denounced the corruption among esusu heads, especially in Aba Division. C.F. Strickland in his Report on the Introduction of Cooperative Societies into Nigeria in the 1930's thought that the field of esusu would be narrowed by the growth of a system of cooperative thrift societies. This has, however, not transpired. In the 1951 Annual Report of the Cooperative Department, mention was made of the attempt to start co-credits in Aba as "an antidote to Isusu money-lending clubs." According to the Report, the isusu "appear to be tolerated by the people, in spite of their obvious faults and abuses, because they do provide easy credit, and an element of gambling which adds interest to life." This remark was unfair and the tone was tempered in later references. In the Annual Report for 1951-53, a rather more liberal attitude was displayed towards esusu - "a widespread indigenous system of thrift and credit." Although it takes care to mention the habit of deductions from contributions for feasting, it admits that "on the whole the Isusus seem to be fairly well managed although in some areas (such as the Ngwa clan of Aba Division) the Isusu has degenerated into a notorious moneylender controlled 'racket'."

The Eastern Region Local Government Ordinance No. 16 of 1950 empowered local authorities to make bye-laws which would compel esusu clubs to register with them. The Eket District Council in Calabar Province was the first to make (Osusu Club) Byelaws in 1952. Various terms such as 'club-head', 'contribution' and 'hand' - which is the gross total of the amount collected by the contributors at any one meeting - were defined. An 'Isusu Club' was "an association of persons formed for the purpose of collecting and contributing money each member of which contributes a fixed sum at meetings held at regular intervals and receives in his turn the amount thus collected." Penalties for refusal to register were quite severe - a fine of up to £5 or three months improsonment or both. A fee of 10/- was to be paid on registration and, should the club desire to continue after each member had received his hand, a re-registration fee of 7/6d was necessary. There were penalties for disbanding illegally, tampering with the funds, and so on. Aba Urban District Council (Isusu Club) Bye-Laws 1954 demanded a 10/- registration fee and imposed a penalty of up to £10 or three months imprisonment for refusal to register. The Northern Ngwa District Council Byelaws of 1953 required a registration fee of £2. Both the latter District Councils are in Aba Division where the Cooperative Department alleged prevalence of sharp practices in esusu clubs.

Later legislation under the powers conferred on Local Government Councils by the Eastern Region Local Government Law of 1955 enabled the Councils to charge considerably more for registration. For example, the Ndoki District Council (Isusu Club) Bye-Laws of 1957 charged registration fees according to the amount of the hand as follows :

Amount of Hand	Registration Fees £	S	D
£2 - £5		5	0
£5 - £10		10	0
£10 - £20	1	0	0
£20 - £30	1	10	0
£30 - £40	2	0	0
£40 - £50	2	10	0
£50 - £60	3	0	0
£60 - £70	3	10	0
£70 - £80	4	0	0
£80 - £90	4	10	0
£90 -	5	0	0

which, assuming twelve hands in a year amounts to almost ½% per annum. Re-registration after determination would cost 50% of the initial fee.

The Ministry of Local Government keeps no records of the numbers of societies registered under those bye-laws, but up to January, 1959, fifty-two local authorities had made bye-laws. For some councils there must be a sizeable income from registration fees, since the numbers of societies registered with one may be almost one thousand. No similar legislation exists in the Western or Northern Regions, another indication that the societies are not so common in those areas - or of course that their affairs are so conducted as not to attract much attention.

Since very many people in the villages belong to esusu clubs, the total amounts saved through those institutions must be considerable. Those which have registered in the East are still considered to be a small portion of those in existence, despite the penalties for failure to register, and further, since the incidence varies throughout the country, it would be extremely difficult to acquire actual figures. Such information would be very valuable in an attempt to assess the amount of voluntary savings in the country and the use made of such savings. It is very important to bear constantly in mind the fact that measurable improvements directly attributable to known acts of investment are not the only improvements which take place in an economy, especially in a country where so little is known of the relationship between savings, consumption and personal investment.

It is significant that Miss A. Martin, in her study(1) found that the nine cooperative society members among her informants together paid £168.18.0d into esusu

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(1) The Oil Palm Economy of the Ibibio Farmer, Ibadan University Press, 1956, p. 23.

clubs during an eighteen-month period compared with a total of £33.15.0d, including instalments on share capital, into their societies. She noted that cooperative societies are considered an adjunct rather than an alternative to the esusu. The annual report of the Eastern Region Cooperative Department for 1953 noted that there were 325 esusu clubs registered with Native Authorities in Aba Division compared with 27 Cooperative thrift and credit societies. In the Report for 1954, the Department made the following comparison:

L.A.	No. of Esusus	Members	Value of Hand
Central Annang D.C.	85	40-280 per club	£5-£84
Ottoro D.C.	865	21,610 total	"

Thrift and Credit Societies in those L.A.'s	No. of Members	Working Capital
42	1,851	£13,149

It is exceedingly difficult to estimate the amount of capital formation facilitated by membership of esusu clubs. In the first place, as mentioned above, there are no full figures of the numbers of esusu clubs in the country, their memberships or their funds. Apart from that, there is absolutely no check made on the purpose to which any particular member intends to put his 'hand'. He may, and often does, use the money to pay dowry and acquire a wife. Frequently the funds are used to enable him to build a house. 'Good', that is Western style houses, are generally built over a period of years, bit by bit. When a man has a sum of money he will begin to mould cement blocks, and he may continue to do this for one or two years. He will buy corrugated iron for roofing and outhouses and store it. Then the fittings like doors and windows will be bought and the house can be built.

Or a beginning may be made with one or two rooms to which others are attached as money becomes available. The esusu is a convenient means of saving up the large lump sums required for such purposes. However, to know that people do use the esusu for this purpose is quite another matter from knowing the extent to which they do so. Furthermore as mentioned earlier, it is debatable whether the building of houses in rural areas can be termed productive capital formation.

The 'hand' may be used to buy a bicycle - a very important part of a trader's equipment in Nigeria, especially in Owerri, Calabar and Benin Provinces - where esusu is so common. The bicycle is used to carry a considerable variety of items ranging from human passengers to coffins, firewood to drums of palm oil, and it is common for husbands to buy them for their wives to trade with. Sewing machines are often purchased by the same means. Smaller contribution clubs can have a subscription of as little as 1/6d per week so that each member can buy a new matchet and file.(1) Many people pay school fees with money saved through esusu and this too is a productive investment. Money spent on redemption of farm land, although not directly productive enables the farmer to be less dependent on the moneylender.

Some part of the funds may be spent on entertainments, since those societies perform certain social functions as well as the purely economic one of bulking personal savings. And of course the social functions may well be directly responsible for the continuance of the society so that it would not be true to assert that expenditure on those aspects is a waste. Nor must the importance of the contribution club as an institution for the mobilisation and

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(1) A. Martin op. cit., p. 22

effective utilisation of small savings be exaggerated. Its ubiquity has been mentioned. The main advantages of the esusu in the eyes of the farmer are that no shares must be held, illiterates find it easy to understand and there are no rules as to the use which must be made of the hand. Large sums are saved through it. But the uses to which those funds are put are not necessarily in keeping with the aim of economic development - they may well be used to celebrate a wedding or conduct a wake - although I believe that much of the money is used in a manner calculated to improve the physical and intellectual capital equipment of the economy.

There is probably a tendency, which should be corrected, to consider any institution not officially encouraged by the government to be necessarily inferior in organisation and less effective in regard to its aims, than a government sponsored organisation like the cooperative movement. We should rather give credit to the members of esusu for having some commonsense in believing that membership will benefit them, and, especially in an underdeveloped country where the burden of initiative is being laid increasingly on the government, the continued survival of such institutions should be regarded with favour provided abuses are rigorously checked. The fact that it is impossible for the statistician to assess the value of contribution clubs nevertheless does not invalidate the progress made.

The other form of contribution club, known as ajo in the West and adashi in the North, is organised differently. Strictly speaking it is not a club, since the members do not come together or need to know one another. Each individual makes his own arrangement with a collector to whom he pays a regular, usually daily, amount. At the end of the month he receives back the total amount paid minus one day's subscription which the collector deducts as his commission. There seems to be a difference of opinion as to whether adashi functions as described above or as does esusu. Nadel[1] describes an institution which is very similar to esusu. But an informant of mine, an Igbo Lady who is a trader in Zaria, insists that it is like ajo. Bohanan describes adashi among the Tiv and it seems to resemble ajo.[2] I am not aware of a similar institution existing in the Eastern Region.

Men participate in adashi more than women, whereas in the West ajo seems to be confined to market women. The daily contribution may be one shilling. "Some start with 1/-, others 2/- or 5/- or 10/-, or even £1." The collector may take £10, £20 or £30 daily. It is his only occupation, he has no special title, although Nadel called him 'etsu dashi' - head of the dashi - and contributors know him by name, which he puts on the contribution cards with which he issues them. The contributor, on receiving the lump sum, "uses it for his purpose" - school fees, trading, "anything". My informant believes that it is becoming more common, but also thinks that in Zaria people use the banks and Post Office Savings Bank more than either adashi or isusu.

It can be argued that since ajo is not a revolving fund, the contributions would be better saved through a savings bank. Then the money could be put to productive use while no demand for withdrawal was made. However this

(1) S.F. Nadel, Black Byzantism O.U.P. 1942, p. 371.

(2) L. and P. Bohaman, The Tiv of Central Nigeria, International African Institute, London 1953, p. 49.

overlooks the manner in which the money is saved and the use to which contributors put the accumulated sum. Contributions are paid out of daily earnings and it would not be convenient to put a daily deposit of 1/- or 2/- in the bank, especially when the time and effort involved to do this may be considerable. It is evident that the trader feels he cannot trust himself to hold such a small sum for fear of frittering it away as he obtains it. The collector comes to the contributor for the money rather than the reverse, although the equivalent of 40% per annum would seem a very high commission to pay for this favour. The smallness of the daily amount and the trouble necessary to save and withdraw it is probably the main reason why banks are not used. There are no formalities to go through every time one wants to opt out of the agreement, since the cycle formally determines itself once a month. This argument breaks down, however, when we consider the daily sums of 10/- or £1 which are reputedly sometimes paid in. It is hard to see what possible gain someone can obtain from paying the collector £1 to hold £30 for him for a period of a month. Even if income is subject to sharp seasonal variations, that money would be better and much more profitably saved in a bank and a person who can save £1 a day over a period will surely not feel the need to be withdrawing total savings frequently.

This section on the utilisation of voluntary savings would not be complete without some mention of the village improvement unions which are a notable feature of Nigerian society. These unions exist both at home and 'abroad.' The many Nigerians who travel from the villages to the towns in search of more attractive jobs than can be obtained in the countryside still retain, as noted earlier intense feelings of affection and loyalty for the place of their birth. When abroad, they naturally tend to congregate with those of their own people who are living in the same town. If a man is out of work or financially stricken, he looks to those of his townsfolk living and working in the same city for assistance. Whether related or not, they almost invariably agree to help. Similarly when a man is felt to be leading a bad life, his village union may call him and warn him not to disgrace his townsfolk. The village improvement and welfare unions frequently collect large sums of money to send home to assist in building town halls, maternity homes and so on. The home branch of the union is often as active as the local council in seeking improvements in the village.(1)

In this examination of the sources of voluntary savings in the Nigerian economy, it has become apparent, even in the absence of concrete figures, that the amount is small. Savings in formal institutions amount to something in the neighbourhood of £26 million. An unknown amount revolves in contribution clubs. Furthermore, the utilisation of such savings as there are leaves much to be desired, although funds mobilised through institutions such as the isusu may be used, as I have shown, for productive and or socially desirable purposes. A great deal of personal savings is invested in property, either in the village, where it brings scarcely any monetary return, or in the towns where the returns are frequently enormous. Personal savings are used also in trading or in lending for trading purposes and here again returns are frequently high but liable to severe fluctuations so that the average rate of return may well be quite low. In recent years, there has been much investment by individuals or

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(1) See S. Ottenberg: "Improvement Associations Among the Afikpo, Ibo," Africa, Vol. XXV No. 1, January 1955, pp. 1-26.

small family groups in transport, either long distance road transport or taxis. There has been, not surprisingly, great reluctance to invest capital in projects where turnover is slow. The majority of such projects would in any case require more capital than one man could conveniently find. The problem of atomised savings has been discussed at length by Dr. P. Okigbo in Ibadan No. 4 October, 1958.

No one would venture to suggest that the Nigerian economy is static. The rapid growth of the road transport business is the most striking example of the reverse contention. However, the petty trader or peasant farmer may be able to make the most sensible and rational use of his small capital, but he is circumscribed in his activities by his knowledge and the scale of his activities. It will require structural changes in the economic framework before even the small funds available are utilised in the most effective manner. And of course if technical innovations are to be adopted, they must be accompanied by innovations in the mobilisation and the capital structure of enterprises.

It is essential when considering the propensities of the Nigerian peasant farmer to consume and to save that we remember the large sums of money which have been withheld from him by statutory corporations and export taxes. Part of the case for withholding this money rests on the assumption that much of it would otherwise be dissipated on consumption and that during hard times the farmer would have little if anything to fall back on. But once this 'saving' has been done for him, it is difficult on examination of his spending habits to judge whether he is naturally thrifty or otherwise.

The reserves of the marketing boards have been an important source of capital for development in the past ten years. Virtually all the funds with which the various Regional Development and Finance Corporations were established came from the marketing boards. Large grants have been made by them to the institutes which engage in agricultural research and to institutions of higher education. By varying the producer prices for different grades, at times uneconomically, the Boards have succeeded in raising the quality of all the important cash crops. But it is contended by critical observers of the functioning of the marketing boards, principally Mr. P. T. Bauer, that, although they are important agents of forced savings they have prevented private savings and investment by the producers themselves, apart from discouraging the change from the subsistence to the exchange economy by constant underpayment of producers.

Whatever reservations one may have about the latter part of the argument, there can be little doubt as to the validity of the former. It seems unlikely that the whole of the difference in the boom years between producer and world market prices would have been spent in reckless consumption of beer, radiograms and American cars, although whether the net effects to the economy of a different pattern of payments and investment would have been more or less beneficial must remain a matter for conjecture. It can be argued that the effects of an adverse movement in world market prices for cash crops might have been absorbed to some extent by the improvements the farmer would have initiated in his methods of production as much as it is likely to be by subsidies from the depleted funds of the marketing boards. It is also possible that out of the many hundreds of thousands of small producers a few would have used the additional gains to achieve just that measure of entrepreneurial success which the Development and Finance Corporations strove so unsuccessfully at such great cost to impart.

CHAPTER III

GOVERNMENT UTILISATION OF DOMESTIC CAPITAL

I Direct Investment

The prime responsibility of mobilising and utilising domestic capital in Nigeria must rest with the Government, simply because there are so few other institutions capable of channelling savings into the aggregations necessary to effect changes in the structure of the economy. Voluntary savings are pitifully small when considered on a per capita basis. Government, through its taxing powers and through its agencies such as the marketing boards is able to amass a considerable volume of capital and to direct investment to those sectors of the economy where it is considered it will have the most positive effect on economic growth.

There is no comparable accumulation of liquid capital outside the government; the post office savings bank, as we have seen, is subject to heavy withdrawals, and in any case both this and the growing cooperative banks are government sponsored. The cooperative societies depend for their continued growth on encouragement by government. Their organisation is not spontaneous - isusu is the only institution which is and which has never received official encouragement. Even the much vaunted community development efforts have depended to a great extent on the enthusiasm of individual administrative officers.

To government must increasingly fall the task of providing educational facilities, for which the voluntary agencies and Christian missions were responsible in the past. No private organisation exists which can assume responsibility for the improvement of agriculture, peasant agriculture that is. Local authorities may be able to afford the cost of wells and some road construction or maintenance, but can rarely afford to employ the necessary skilled personnel. Some money for agricultural and medical research may be forthcoming from private sources, but by definition a poor country cannot rely on large amounts from private charity.

Thus, government has no option but to take upon itself the task of stimulating economic development in Nigeria. It may of course adopt policies which encourage or discourage private investment by either indigenous or foreign entrepreneurs. This requires further consideration. But there can be little doubt that at the present stage of development reached by the Nigerian economy, government action must predominate, that is if economic development is to be pursued as a policy objective. The Government has declared its policy, "It is the primary aim of the Government of Nigeria to raise the National Income per head and the standard of living as quickly as possible."(1)

During the post war period, the Governments of Nigeria have spent increasingly large sums of money annually and much of it has been sunk in the creation of the necessary services, roads, telecommunications, ports, education and health which provide an indispensable framework for other developments.

The revenues of the Nigerian governments have been bouyant during the post war period. This is mainly attributable to the growth of exports and increase during the decade after the war, in world prices for primary products and the consequent increase in imported capital and

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(1) Economic Survey, p. 1.

consumer goods. Increases in rates of customs and excise duties and in sumptuary taxation have also contributed to the rapid rise in revenue. In 1939, government revenue was £6 million. In 1959, total current revenue accruing to the various governments comprising the Federation was more than £94 million, an increase of 600 per cent since 1946, when £15 million was raised. By 1961 this figure had been increased by over 50 per cent. The table below shows total Federal and Regional revenue since 1955 :

Government Revenues

Year ending 31st March	Federal	Eastern	Western	Northern	Total
1955	62,481	1,086	2,020	6,216	71,803
1956	59,950	2,338	3,811	7,019	73,118
1957	70,567	5,280	4,067	6,716	86,630
1958	70,945	6,196	3,377	6,469	87,087
1959	77,316	6,798	3,150	6,865	94,129
1960	88,824	5,502	14,642	5,290	114,258
1961	111,850	6,205	14,448	3,919	146,422

Source Digest of Statistics Vol. 10 No. 4 October 1961 pp. 6,9,10,11.

Note: Regional figures include revenues raised within the Regions and external grants, for example, C.D. & W. Grants and I.C.A. grants, but exclude regional shares of Federal revenues.

The following table shows the amount of Federal Revenue reallocated to the Regional governments over the same period, principally on the basis of derivation:

Year ending 31st March	Eastern	Western	Northern
1955	8,311	11,698	4,792
1956	6,670	10,570	6,907
1957	6,904	11,455	7,833
1958	7,084	12,332	7,850
1959	7,418	13,499	8,169
1960	9,373	5,039	11,318
1961	10,639	6,105	13,742

Source: Digest of Statistics

Current revenue in 1961 for North, West and East respectively was £17.66 million, £10.55 million and £16,84 million. The comparative wealth of the West and poverty of the North are evident. When population distribution as between the three Regions is taken into consideration, the Western Nigeria Government is even more clearly favoured. This has been reflected in the Development Plans of the various Regions since Regionalisation and indicates that the Western Nigeria Government is at a great advantage in its attempt to attain a rapid rate of growth. Below are given population distribution, average per capital national figures and average per capital government revenue figures for the three Regions:

	(a) Population 000	(b) Per Cap. Nat. Inc. £	(c) Per Cap. Govt. Rev. £
Northern Region	19,877	20	.93
Western Region	7,119	30	2.9
Eastern Region	8,377	21	2.[illegible]

<u>Source</u>: (a) <u>Digest of Statistics</u>, Vol. 10 No. 4 October 1961, p. 3
(b) Okigbo, op. cit. Table IX 1, pp. 163-164 (very approximate)
(c) <u>Digest of Statistics</u> op cit. pp. 9-11

By far the largest part of government revenue is derived from customs and excise duties. In 1938, revenue from those sources constituted 48 per cent of total revenue while direct taxes contributed only 11.6 per cent. In 1960 about 67 per cent of Federal government revenue was provided by customs and excise duties, while only about 6 per cent of the total was raised by means of direct taxes. Thus, there has been an increase rather than decrease in the reliance placed on these indirect taxes.

Below is a breakdown of Federal revenues since 1955 by source.

Federal Revenues by Source 1955-60

£000

ear ending 1st March	Current Revenue					Capital Fund		
	Total	Customs & excise	Direct Taxes	Development Grants	Other	External Grants	Loans	Other
1955	62,481	43,960	6,713	1,519	10,289	-	-	-
1956	59,950	44,753	6,757	121	8,319	-	2,000	-
1957	70,567	50,790	6,557	661	12,559	-	9,300	24
1958	70,945	51,695	6,666	-	12,584	1,102	-	10
1959	77,316	55,918	6,679	-	14,719	803	3,751	-
1960	88,824	63,058	6,291	-	19,475	501	6,677	800
1961	111,850	75,246	7,712	-	28,892	1,006	21,055	2,543

Source: Digest of Statistics

In the introductory chapter, the dependence of the Nigerian economy on agricultural products was demonstrated. Export earnings from cash crops finance the bulk of Nigeria's imports. The public sector of the economy depends almost entirely for its finances on duties whose yield ultimately depends on world market prices for cash crops. The violent fluctuations to which government revenues based principally on taxes on exports and imports are subject is illustrated by the following table showing revenue from export duties since 1951:

Revenue from Export Duty 1951-60

ar	Cocoa	Groundnuts and Groundnut oil	Palm Products	Hides and Skins	Rubber	Other Prod.	Total
51	5,185	865	3,025	436	894	715	11,120
52	5,714	2,741	4,055	284	529	1,236	14,559
53	4,627	2,833	3,640	303	362	1,014	12,779
54	12,192	3,543	3,729	307	271	1,251	21,293
55	5,124	2,633	3,260	309	1,016	1,574	13,916
56	3,761	3,314	3,713	283	1,114	1,290	13,475
57	3,898	2,554	3,339	297	899	1,224	12,211
58	5,336	3,059	3,410	272	868	1,705	14,650
59	7,613	3,195	4,350	316	1,377	1,588	18,439
60	5,190	2,686	3,804	336	1,856	1,621	15,493

urce: Digest of Statistics, p. 12 *Provisional

The total revenue from export duties has thus varied from year to year by from 5 per cent to 40 per cent and in 1954 by almost 75 per cent.

In sympathy with the increasing volume of imports, revenue from import duties has more than tripled during the ten years since 1951 and in 1957 the only year when their yield was less than that of the previous year, the fall was only £92,000.

Revenue from Import Duties 1951-60 £000

Year ending 31st March	Tobacco Manufactured	Cigarettes	Cotton goods	Motor Spirit	Salt	Spirits	Parcel Post	Other Imports	Total
1951	2426	824	1723	980	347	671	241	7485	14697
1952	3319	327	2980	1083	301	608	278	8225	17121
1953	3110	293	3513	1374	318	1023	351	10046	20028
1954	3393	214	3882	1494	337	852	373	11601	22146
1955	3017	256	5115	1690	354	1089	404	14744	26669
1956	3740	202	5048	1996	371	1255	503	19896	33011
1957	3798	247	5380	1877	350	1343	504	19420	32919
1958	3734	324	5986	2142	381	1215	454	20884	35120
1959	3057	333	6180	3544	376	1486	468	24904	40348
1960	3376	541	9134	4042	392	1717	545	30952	50699

Source: Digest of Statistics, p. 13

However, as pointed out in Chapter I, a large part of current imports is being financed by the balances accumulated during the boom years before 1955. While in March 1955, the sterling assets in London of the Nigerian Government and semi-official bodies totalled £180.1 million, by March 1961 they stood at £74.2 million.(1) Should these balances be exhausted and in the absence of external loan assistance or growth in the export sector there could be a drastic fall in imports with consequent repercussions on revenue from import

(1) The Service October 21, 1961

duties. Ofcourse there has since the establishment of the Central Bank in 1958 been a redeployment of some funds formerly invested through London. They are being used for the purchase of Treasury Billsand other Government stocks.

It is fashionable to lament the common reliance of the governments of underdeveloped countries on customs and excise duties for their finances. As has been shown, these duties are liable to fluctuate widely with the vagaries of international trade. There are, however, good reasons why a country with weak administrative machinery, which is almost invariably the case in a poor country, should rely on revenues from such duties. They are easy to collect. Apart from actual smuggling or indulging in bribery, there is no way by which their payment can be avoided. The centres of collection are the ports and other exits and entries to the country. Costs of collection are therefore kept to a minimum. The collection of direct taxes, on the other hand, entails considerable administrative overheads. Particularly in a country like Nigeria where individual incomes are generally low and literacy is not widespread, large numbers of collectors must be employed if the tax is to be on a wide base. For instance, in Eastern Nigeria during the year 1956-57 the cost of collecting £2.4 million income tax was £210,000 or 1/9 in the pound,[1] whereas in the United Kingdom the cost during 1959/60 was 3½d in the pound (for all taxes).

Although there may be wide variations in incomes, the numbers earning high incomes are so few that there can be no hope of raising a substantial percentage of total revenue from the upper income earners. Consequently

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(1) E.R. of Nigeria, Annual Report, Internal Revenue Division 1956-57.

revenue authorities must cast a wide net. By taxing export produce, which is another form of income tax, Government makes sure that all farmers enjoying income from the sale of cash crops pay tax. Similarly, by imposing import duties on consumer goods, expenditure taxes are levied on the principle of ability to pay, since those people consuming imported goods are among the relatively well off members of the community. The only danger in the taxation of imported luxury goods by a country anxious to increase capital formation may be that as a result capital formation is misdirected into the creation of industries producing subsidised substitutes for the severely taxed foreign commodities.

Although it may be many years before a large portion of Government revenues is derived from income tax, attempts must clearly be made to develop it side by side with the import and export taxes on which government depends. As U.K. Hicks has remarked, "... the establishment of an effective income tax can never be an easy task. There is however this consolation for the nation builder that the process is highly educational - for the taxpayer, for his accountant and for the revenue officials - in a way in which indirect taxes can never be. The country which can work a successful income tax may reasonably consider itself on the high road to development."(1) In a recent report, referring to the decision of the Council of Ministers to abandon the arrears in respect of small income taxpayers amounting to a little over a million pounds, the Public Accounts Committee notes the unsatisfactory procedure in regard to small income taxpayers. Under the law they are required to be assessed in the same manner as persons with high incomes, "with the result that

(1) U.K. Hicks, "The Search for Revenue in Underdeveloped Countries", Revue de science et de legislation Financieres, Janvier-Mars 1952, p. 38.

both the collection and assessment procedures are extremely costly in relation to the tax collected. The Chairman of the Board of Inland Revenue has suggested that a fixed personal rate should be applied in such cases, that is to all persons with incomes under £300 per annum"(1)

Efforts to divert capital into productive channels by means of taxation can be nullified if after the imposition of taxes trade unions or other pressure groups succeed in obtaining a rise in wages and salaries to offset the rise in the cost of living. Funds disbursed on higher wages will also offset extra revenue collected and the expense of revenue collection and the costs of any agitation for higher wages will be an additional burden on the already burdened economy. On 8th December, 1960, the Federal Government announced a wide range of increases in import and excise duties "designed to encourage local production and industry and in some cases to damp down demand for imported goods in order to protect the country's overall balance of payments." In spite of a nationwide broadcast appeal by the Federal Minister of Finance that the new taxes should not lead to increased wage demands, which would only cancel the effect of the revenue measures, it was reported in the National press a few days later that labour leaders would demand a revision of wages and salaries. At the time, it was felt by some that the financial position of government, the largest employer of labour, did not warrant the increase. It is now thought that, whatever the official reason for the increase in customs and excise duties, the real purpose was to pay for the last round of wage increases. In the event, new wage increases were not secured. The latest (March 1962) increase in taxes, intended to assist the Governments' Six-year Development Plans may not raise any complaints from organised labour in view of the general sympathy for

(1) Public Accounts Committee, <u>Session 1960/61 Report</u> Lagos 1960, p. 10.

the policy of austerity being pursued.

The Nigerian Governments have financed their development programmes partly by means of loans, both internal and external, though the share of loan finance in total public spending has been modest. External Public Debt of the Federation at 27th May, 1960, stood at £16.75 million in funded loans and £7.35 million borrowed from the I.B.R.D. for relending to the Nigerian Railway Corporation (out of a total loan of £10 million). On October 1st 1960, an Exchequer loan of £3 million and a Commonwealth Assistance loan of £12 were granted.

Internal funded loans amounted to £2.655 million in May 1960 and the success in raising a £2 million loan in 1959 led to a decision to raise a Federal Government Loan of £10 million in 1961. This, too, was fully subscribed. A public loan of £ million is currently being floated. Unfunded internal loans stood at £12.788 million, more than £12 million of which were loans from the Regional Marketing Boards. In all, at 27th May 1960, total Public Debt amounted to £39,544,352.(1) The total annual charge on Federal revenue in respect of interest repayments and sinking fund charges was £2.45 million in 1960-61 or 2¼ per cent of the estimated total Federal revenue for the same year.

Government Spending on Development

The first attempts at development planning in Nigeria were the result of the Colonial Development and Welfare Act of 1940, which was passed with the primary purpose of promoting the social betterment of the colonies. The war delayed matters but in 1944, the heads of departments which would be principally responsible for the implementation of any development

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(1) Handbook of Commerce and Industries, pp. 181-182

programme were requested to submit proposals for schemes for expanding services based upon departmental policies and the recommendations made by Provincial Development Committees which had been set up in 1943. On the basis of those proposals, a rough outline plan for a ten year period was formulated. The Development Secretary and the Deputy Director of Public Works went to England for discussions with the Colonial Office.

As a result of these discussions, an approximate programme of expenditure for the eleven years beginning in 1945/46 and costing £35 to £40 million was agreed upon. The programme was mainly concerned with the development of urban and rural water supplies, expansion of the road system, improvement of education generally and technical education in particular, development of electricity services, and expansion of telecommunications - in short, development schemes "which are obviously essential as a preliminary to any form of social and economic development of the territory."(1) By taking steps to ensure that standards of agricultural methods and production were improved, an attempt was to be made to "ensure that there is not a gravitation of people to the towns. Country and village life must be made sufficiently attractive and sufficiently remunerative to keep the people in their own districts."(2) Alas for good intentions, the lure of the towns has proved no less attractive in Nigeria than in any other developing country.

Certain minimum targets were to be achieved by the plan, though it was thought that staff and materials shortages might result in the programme eventually taking fourteen or fifteen rather than ten years. Most of the improvements envisaged in this first Ten Year Plan for

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(1) Preliminary Statement on Development Planning in Nigeria Sessional Paper No. 6 of 1945, Lagos 1945, p. 3.
(2) op. cit. p. 4.

Development and Welfare were intended to be distributed over the country as evenly as possible. It was to be an attempt to raise the minimum standards of health, education and welfare, as far as possible, to bring everyone within reasonable distance of such amenities as roads and water supplies so that all might benefit equally from the disbursement of C.D. and W. funds and complementary Nigerian expenditure. In this respect it was a programme of welfare expenditure rather than of pursuing the most rapid possible rate of growth. The latter policy would have required expenditure to be more concentrated in key growing points rather than be so widely disseminated. It may reasonably be argued however that by concentrating on the provision of minimum services to each area of the country on a population basis, government was fulfilling its proper function of creating the infrastructure. The choice of the most suitable locations for concentrated development would then be left to individuals seeking their own profit. Or, it can be argued that it is only after providing a nationwide framework of services such as envisaged in this plan that government itself will be able to perceive more readily the lines on which further development ought to be pursued.

The plan eventually published as Sessional Paper No. 24 of 1945 contained twenty four schemes on which an estimated £55 million would be spent during 1946-56. £23 million was to be provided in the form of outright grants by the U.K. Government while £16 million was to be financed by loans floated on the London market and £16 million was to come from domestic revenue. The breakdown between categories of expenditure is as follows :-

Category	Amount £	% of Total
Agriculture and animal husbandry	6,897,395	12.9
Forestry development	918,636	1.7
Fisheries development	156,830	0.3
Transportation and Communications	11,384,240	21.4
Industries and Commerce	1,804,885	3.4
Local Development Schemes	2,000,000	3.8
Education	7,788,093	14.6
Health	10,438,837	19.6
Town and Village Development	4,392,000	8.2
Social Welfare	384,000	0.7
Miscellaneous	7,162,333	13.4
	£53,327,249	100.0

Source: Sessional Paper No. 24 of 1946.

The aim of this first plan was "the provision, extension or development of those services which will lead up to economic betterment, without which any other form of development and welfare may ultimately be nothing more than a liability with consequent national bankruptcy." The bias towards welfare schemes, which because of its political acceptability still continues, may have been too heavy. As will be seen, some attempts have been made in later programmes to redress the balance. But today both government and local government bodies find themselves hard put to find funds for recurrent services such as maintenance of roads and water supplies.

Although the Colonial Development and Welfare grants had strings attached to them in the sense that the Secretary of State for the Colonies had to approve the schemes for which they were used and that in many instances Nigerian counterpart funds were also to be used, they were a free gift from the United Kingdom Government and they are unlikely to be ever repeated. During the fifteen years between the end of the Second World War and Nigerian independence a total of about £40 million was provided under the various Colonial Development and Welfare Acts. Their use enabled Nigeria to enjoy a higher standard of welfare services than would otherwise have been possible during a period when much money was also being spent on capital development schemes. The Government was also able to accumulate large sterling balances which have begun to run down only in the last six years. These have helped to stabilise the economy and make it attractive to foreign investors who might have shied away from an economy with low reserves of foreign exchange and inability to finance much capital development. Although the welfare services have become a growing commitment on recurrent expenditure, it is likely that the effects on the health and mental outlook of the population resulted in a more than sufficient growth in the ability to meet that recurrent expenditure. An unfortunate result, but one that could hardly have been avoided, is a growing tendency to expect government to provide everything and general reluctance to engage in the community development activities which were so popular some years ago. This is a recent attitude and not universal. It could also be attributed to the fact that many of the development schemes now desired are of such a nature that it would be very difficult to undertake them with voluntary labour and that more people now work for cash wages, making it less easy for them to sacrifice a day's work periodically. However as will be contended shortly, the community effort can still make a valuable contribution to rapid economic growth in Nigeria.

The world wide shortage of materials in the post war period and Nigeria's inability to attract skilled personnel resulted in a lower rate of expenditure on the development programme than planned, although this had been envisaged. Changing needs also led to a revision halfway through the ten year period so that there were in effect a 1946-51 plan and one for 1951-56. Because of regionalisation in 1954, the second plan was curtailed and ended in 1954-55. Regional and Federal Plans for the period 1955-60 were then drawn up by the various governments. These were based to a considerable extent on the World Bank report of 1954. All except the Western Regional Governments eventually extended their plans to 1962, and the East actually published a new plan in 1958 for the new period. In the following pages, I shall discuss the emphasis placed on different branches of activity by the different Governments in the 1955-62 period. It is understood that there is a considerable change in emphasis in the forthcoming plans, but these have not yet (early April 1962) all been approved by the Regional legislatures and are therefore not available in final form. There will be a brief discussion of the possible effects on the economy of different approaches to the problem of distribution of capital expenditure and to the selection of projects. Special mention will be made of roads, agriculture, telecommunications and industry.

The case of posts and telegraphs development serves to provide an example of overzealous expansion in one field without any consideration of the rate of advance in other sectors of the economy. At the beginning of 1960, the thrice revised 1955-62 Federal Economic Programme included approved expenditure of £14.5 million for Posts and Telegraphs development, just under 10 per cent of the total programme which envisages capital expenditure of £146.72 million by 1962.(1)

(1) See Nigeria, Handbook of Commerce and Industry, Lagos 1960, p. 157.

Both postal and telephone facilities in Nigeria leave much to be desired. Off the main routes, letters may take several days to cover a hundred miles, and there are still some administrative centres where there is no telephone. Clearly, modern postal and telecommunications systems are great assets to a country endeavouring to achieve rapid economic growth, but it would appear that in Nigeria too much is being spent on the improvement of these facilities. Whereas in 1950, revenue accruing to the Posts and Telegraphs Department was only £620,000, in 1960 it was £3.59 million, a more than five-fold increase in ten years.[1] But, over the same period recurrent expenditure rose from £1.04 million to £5.23 million while capital development expenditure increased twenty four times from £159,000 to £3,912,000. The recurrent expenditure just mentioned includes no provision for depreciation or interest charges.

It is not evident that the subsidising by other parts of the economy of the colossal difference between income and expenditure in connection with the Posts and Telegraphs Department can be justified in terms of the contribution this development is making to the general growth of the economy. The number of exchanges has almost doubled from 72 to 130; the number of telephone instruments has risen from 9,000 to 37,000; the number of trunk calls has increased from 70,000 to 3 million; but the number of mail articles carried has only doubled from 53 million to 112 million. There is a sufficiently large waiting list for telephones to indicate that many subscribers would be willing to pay more than the current rates which have not been altered since 1958, despite large wage and cost increases since then. The raising of

(1) Nigeria Trade Journal, September 1960, pp. 31-32

rates, besides increasing revenue would ensure a more rational issue of telephones to high priority subscribers.(1)

The table below gives a comparative breakdown between sectors of government development expenditure in selected territories in Africa. The proportions may not be a completely accurate reflection of the weights given to different types of development in different countries, because in some countries other corporations are charged with capital development in certain sectors. But it provides a general idea of the importance attached by the authorities administering the various governments to the different sectors:

<u>Government Expenditure Under Development Plans</u>
<u>Selected Territories</u>
(Per Cent)

Main Categories	Ghana 1951-57	Nigeria 1955-60	Kenya	Uganda	Tanganyika	French Territories	Belgian Congo
Total development	100	100	100	100	100	100	100
Transport and Communications	31	25	13	14	29	45	46
Agriculture, forestry and fishing	7	9	26	4	19	15	6
Electricity and Water	9	7	16	29	17	4	11
Education	15	21	10	6	15	4	6
Housing (including Surveys and Town Planning)	6	3	7	12	8	1	4
Health	6	9	4	5	5	5	5
Commerce and Industry	3	5	1	11	1	3	2
Miscellaneous	23	21	23	19	6	23	20

Source: <u>U.A.C. Statistical and Economic Review</u>, March, 1958, p. 22

(1) It has recently been announced that in 1962-68 the Federal Government will spend £30 million on Telecommunications development to provide a further 100,000 Telephones, while only £2 million will be spent on new post offices. This would appear to be carrying the above described distortion even further for present annual rentals are not sufficient to pay the interest charges on the capital, for less repay part of the capital itself.

The emphasis by the Nigerian governments on transport and educational services is readily apparent, as also is the comparative neglect of agriculture. That this is in part due to the great share in agricultural production of the small peasant producer can be understood, but it can be contended that this places an even greater responsibility on government for agricultural improvements.

Forecasts of the development effects of different types of plan tend to be fairly vague guesstimates. Many development plans have been based on assumed capital output ratios which are at best informed guesses. So little is known of the development process, there are so many non-economic factors to consider, developments in one sector are so interrelated with those in others, not always in a predictable manner, that no blueprint guaranteeing the optimum rate of growth in return for a prescribed pattern of investment can be drawn up, especially in economies with large subsistence sectors. It is, however, generally accepted that investment in some activities is more productive than investment in others. Investment in roads, or in improved agricultural methods or in selected industries brings returns out of all proportion to initial capital investment.

When capital available for development is limited, priority should be accorded to investment in those projects which will bring a high rate of return. Recent improvements in agricultural techniques and in the quality of seeds have made possible very high returns on initial investment, properly supervised. Although traditional Nigerian peasant farming may be well adapted to the requirements of the climate and the soil, the techniques currently used are inferior to those which are possible.

Similarly, in associated spheres of activity, such as edible oil extraction, a comparatively small investment in improved hydraulic processes can bring rates of return as high as 25% per annum. It is now proposed to make a more detailed examination of government investment in transport facilities (principally roads) in agriculture and in industry. Finally, in the following chapter the role of government in providing credit to private enterprise over the past decade will be considered.

Investment in Transport Facilities

The economic importance of well developed communications is self-evident. Without them trade cannot flourish and enterprise is frustrated. It is of little consolation to know that one has rich timber resources if felled timber cannot be evacuated or to discover land suited to growing cocoa if the nearest road to world markets is twenty or even ten miles away. The exploitation of newly found sources of wealth has frequently been held up because doubt has been cast on its profitability when the cost of the necessary accompanying road and rail development is taken into consideration.

In a rapidly developing economy, it is not only the need for new road construction which delays possible development. Existing means of communication may not be capable of bearing up to current demands. Heavy vehicles for which the roads were never designed and in greater numbers than were ever anticipated threaten to cause a breakdown of the system, such as it is. Congestion grows in the ports and in the urban centres which have themselves grown rapidly and, generally, haphazardly. Severe strain is put on the fixed carrying capacity of the railways and goods pile up at the terminals. Potential investors are deterred and seek more favourable fields in which to employ their capital.

Conditions for the development of communications are unfavourable over most of the African continent and consequently they are still very rudimentary. The coastline is fairly straight and exposed and there are few natural harbours. Entrance to those which do exist is often limited by sand bars at their mouths. Hence one of the major obstacles to foreign trade is met at the coast. Passage on the large inland waterways is restricted by the frequency of rapids and shallows. The construction of roads and railways is made difficult and expensive by the topography, vegetation and precipitation. The prevalence of streams necessitates the building of numerous bridges and the high run-off, with consequent rapid erosion, makes maintenance very costly.

Communications have been typically difficult to establish in Nigeria and there is a great need for further development, both by improvement and extension. Governments and public alike realise this fact but naturally governments' executive capacities are limited by lack of capital. Considerable controversy exists on the question of priorities and different kinds of priority, political and economic, are recognised and advocated by different proponents. The standard of the existing road system is far from satisfactory in view of the tremendous increase in traffic in the postwar period and all the funds which are available could easily be spent solely on improving it. Many potentially rich areas exist which require roads as a prior condition of their development. Government are being continually petitioned by politicians, district councils, and village improvement unions to provide roads and construct bridges in their areas.

Of a total of 37,000 miles of road in Nigeria at 31st March 1958, 5,799 were Trunk 'A' roads. Those are the responsibility of the Federal Government. The main characteristics of the Trunk 'A' system are two roads running from south to north, from the ports of Lagos and Port Harcourt to the northern boundary of Nigeria, and four east to west roads. A further, uncompleted, Trunk 'A' road network is designed to link up Nigeria and the Northern and Southern Cameroons. Recent constitutional changes will affect this part of the programme.

There were in 1958 6,745 miles of Trunk 'B' roads connecting provincial and divisional headquarters and other large towns with the Trunk 'A' system, with one another, and with the ports and railway terminals. These roads are maintained mainly by the Regional Governments. The remainder are roads serving local needs, but also acting as feeders to the trunk roads. These are constructed mainly by local authorities and by means of community development. In the far North especially, they have formed a complementary system to the railway and are used to bring produce to the railhead.

The road network is still in a rudimentary state. Many areas are more than 30 miles from a motorable road and very little of the total area is within even $1\frac{1}{2}$ miles of such a road.(1) Goods are transported over most of Nigeria by means of canoe, pack animal and headload. In favoured areas, the bicycle is used. Of course, the main centres of population are fairly well served by the existing roads. There are comparatively close net-works in both the South east and South west and in the tinfields of the plateau. But the development of much potentially

(1) Buchanan and Pugh, op. cit., p. 211.

rich agricultural land in the vast North-East and in that area of the Eastern Region which lies east of the Cross River is handicapped severely by lack of communications. One timber company operating in the high forest around Obubra at one time gave serious thought to closing down because of the difficulties of evacuation.

	Area Sq. miles	1953 Miles	Density per 100 sq. miles	Miles	1958 Density per 100 sq.miles
EAST	29,484	7,628	25.8	10,257	34.8
NORTH	281,782	17,358	6.1	18,075	6.4
WEST	45,376	3,046	6.7	7,405	16.3
SOUTH CAMEROONS	16,581	711	4.3	1,124	6.7
LAGOS	27	62	240	116	450
TOTAL	373,250	28,745	7	36,977	9.9

Source: Derived from I.B.R.D. Report, p. 490
<u>Economic Survey 1959</u>, p. 123
<u>Digest of Statistics</u>, p. 63

The above table gives an idea of how poorly developed the Nigerian road system is compared with that in an advanced economy such as the United Kingdom where the average density per 100 square miles is well over 250 miles. In 1958, average Nigeria road density was scarcely 10 miles per 100 square miles of area. However, besides providing an illustration of the low absolute level of road development, the table also shows how considerable is the growth which has taken place since 1953 and how uneven it has been. While new road construction in the North has progressed at an average annual rate of less than 1% the rate in the East has been 6% and in the West an astonishing 30%.

Of a total national mileage of 28,807 in 1953, 1,631 miles were bituminuously surfaced. By 1958, 4,035 miles or 11% of the total were sealed with bitumen. Between 1958 and 1960, Eastern Region mileage rose from 10,257 to 14,000 but, whereas only 668 miles were tarred in the former year, by 1960 1,067 were so **surfaced**.

The rapid growth in the volume of traffic using the roads is shown in the table below which includes all vehicles relicensed and licensed for the first time in each Region.

Private Vehicles

	1st Quarter 1950	1st Quarter 1958
Lagos	2,700	7,440
Western Region	1,400	5,330
Northern Region	1,500	6,130
Southern Cameroons	—	580
	6,900	24,150

Commercial Vehicles

	1st Quarter 1950	1st Quarter 1958
Lagos	1,300	3,160
Western Region	2,300	4,370
Northern Region	2,200	6,220
Southern Cameroons	1,500	670
	7,300	17,900

Source: Table 100, Economic Survey of Nigeria, 1959.

Despite the inadequacy of the existing road system, the real challenge in communications development lies in opening up hitherto inaccessible and potentially rich areas. Traffic censuses can be used to determine the relative importance of roads already in use but can give no indication of the potential importance of a completely new, or vastly improved route. Therefore pre-investment surveys of an area's agricultural and mineral resources and potential for transit traffic are necessary before decisions can be taken about new road building. Only in the past two years have cost benefit studies begun to be made in connection with road investment.(1)

In Nigeria at the moment the choice of many routes for addition to the highway network has been left mainly to the politicians who, naturally, attempt to have the roads to their own home town tarred. Further they are subject to constant pressure from their constituents to attempt to secure as much development for their constituency as possible. This may not be so bad as it sounds since the governing party is always careful to select its Ministers from all areas of the country in an attempt to conciliate various groups. However, it is certain that the prime consideration in selecting priorities has not been economic rationality. For example, in the Eastern Region, the best developed system of roads in the whole Federation exists in what may be called the central Igbo system. However, more roads are currently being constructed or reconstructed in this area than in the peripheral

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(1) There has been much controversy over the relative importance which should be attached to road and rail development. The Stanford Research Institute study on the <u>Coordination of Transport Development in Nigeria</u> is to be published shortly. It is not proposed to discuss this matter here except to remark that road systems are clearly more flexible than railway networks.

areas where communications are poor and where the agricultural potentialities are great. This is quite a natural development, since it is in the central Igbo area that past community improvements have been concentrated and, in many cases, the roads being reconstructed were originally built by means of voluntary labour.

From the point of view of long term gains to the national economy, the present policy of concentration is unfortunate. It may be that those areas with sparse population and rich forest and agricultural resources can be developed rapidly in accordance with modern scientific knowledge and methods and can eventually provide both capital and knowledge for the development of the other areas where initially conservatism may frustrate or at least hinder rapid development. In the Eastern Region, the Obudu-Ikom and Ikom-Obubra-Calabar roads, the former under construction by direct labour, the latter being surveyed by a team of consulting engineers supplied by A.I.D., will eventually produce economic returns out of all proportion to their capital cost.(1)

Most of the area on the Eastern side of the Cross River is high forest area which has hardly begun to be tapped. The land around Ikom is one of the few places in the Eastern Region which have been found suitable for cocoa growing. Rich timber resources have begun to be worked but their full exploitation awaits the construction of new roads. Scanty population explains the lack of political influence, but makes the development of oil palm, rubber and cocoa plantations using advanced methods of cultivation comparatively painless socially, and consequently politically easier than in other areas. Dunlop are at present creating a 20,000 acre

(1) Although the roads are not being built solely for economic purposes. They will provide closer administrative control over backward areas.

rubber estate out of virgin forest in the Calabar hinterland and part of the inducement they required to invest there was the guarantee of a good all-weather road by the time they were ready to begin production. The Ahoada-Yenegoa road in the area of the Eastern delta of the Niger is also designed to facilitate the agricultural development of this sadly neglected region. The major limiting factor here is lack of capital.

The World Bank Report recommended that £25 million should be spent on capital road works during the years 1955-60.(1) The annual appropriation for maintenance would rise from £2.2 million (the level it was running at in 1953-54 plus 20% for overheads) to £3.4 million in 1959-60.(2) It is probable that the 20% for overheads erred on the conservative side, especially in the earlier years when more work was being done by the Public Works Departments themselves and less by contract. It was assumed that by 1960 there would be about 6,000 miles of Trunk Roads 'A'

Other estimates made by the Bank Mission were that there would be an increase of 10% per annum in revenue from import duties on motor spirit.(3) Owing to increasing vehicle registrations there would be an increase of 4% per annum in revenue from licenses and internal revenues.(4) The Bank underestimated both expenditure on all forms of communications and revenues over the period. However the percentage spent on communications is roughly the same as the Bank's recommendation.

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(1) I.B.R.D., The Economic Development of Nigeria, Johns Hopkins, 1955, p. 507. But note that from Table 1 to 5 of appendix C, one can derive a figure of £22 million approximating the quotation of £21 million given by the Economic Survey in the table above.
(2) I.B.R.D., op. cit., p. 508.
(3) I.B.R.D., op. cit., p. 645.
(4) I.B.R.D. op. cit., p. 646.

Sector	(£000) Governments Expenditure	I.B.R.D. Recommendation (£000)	% age of Total Govt. Expenditure	% of Total Expenditure recommended I.B.R.D.
Roads	37,248	21,000	19.3	16.3
Waterways & Harbours	11,239	8,275	5.8	6.6
Railways	8,869	3,600	4.6	2.3
Aviation	1,361	1,386	0.8	1.8
P.W.D. Organisation	5,454	10,940	2.8	8.7
Postal Communications and Broadcasting	12,590	4,791	6.7	3.8
Total	76,761	59,992	40.0	39.5

Extracted from Table 11A Appendix to Chapter 11, Economic Survey of Nigeria 1959.

In the planned expenditure of the governments of the Federation for 1955-62, it is anticipated that capital expenditure on roads will approach £55 million or almost £8 million per annum over the seven year period.

On the revenue side, import duties from motor spirit alone yielded £980,000 in 1951, £1.69 million in 1955 and over £4 million in 1960.(1) Substantial sums have been recovered also from import duties on vehicles; in 1954, approximately £388,000 and an estimated £1.05 million in 1961.

(1) Digest of Statistics, Vol. 10 No. 4, October, 1961, p. 13.

Revenues from Taxes of Fuel and Vehicles

	FEDERAL		WESTERN		(a) EASTERN		NORTHERN	
Import Duty on Motor Spirit	Actual 1958-59	Estimated 1960-61	Actual 1958-59	Estimated 1960-61	Actual 1958-59	Estimated 1960-61	Actual 1958-59	Estimated 1960-61
	12,400	630,000	1,246,027	1,665,000	490,964	945,000	540,594	1,125,000
Import Duty on Diesel Oil	-	988,000	-	384,000	-	360,000	-	576,000
Import Duty on Vehicles	850,000	275,000	250,000	275,000	250,000	225,000	250,000	275,000
Purchase Tax on Motor Spirit	-	-	-	-	205,412	160,000	-	-
Purchase Tax on Diesel Oil	-	-	-	-	157,038	43,000	-	-
Revenue From Licences and Registration Fees	249,614	300,000	494,598	580,000	389,633	384,000	471,716	579,000
Total	512,014	2,193,000	1,990,625	2,904,000	1,493,047	2,177,000	1262310	2,555,000

Actual Total 1958-59 .. £5,257,996
Estimated Total 1960-61 .. £9,769,000

Source: Regional and Federal Estimates, 1960-61.
(a) No purchase tax was levied on petrol or diesel oil in 1959-60.
(b) Import duty on vehicles estimated only using £850,000 as approximate revenue from this source in 1957 and based on growth in vehicles.

N.B. There is in addition an unknown amount from taxation of insurance companies, car dealers, commercial vehicle owners, etc.

When this is compared with expenditure on road construction it is evident that road development is not proving a very great burden to other sectors of the economy. The Regional governments together spent less than £1 million on recurrent expenditure in 1958-59. It would appear therefore that revenue and expenditure on road transport just about breaks even.

Given the importance for economic growth of a well developed system of communications, it is arguable that the first charge on those revenues accruing from existing traffic, import duties on cars, motor fuel, et cetera, purchase tax on petrol, licence fees, income tax from insurance companies whose main business is with car owners and so on, should be spent on maintaining existing communications properly. The surplus, together with whatever can be spared from general revenue or obtained in the form of grants, should be spent on new capital construction. Government cannot always determine how revenue shall be spent by a consideration of the source, and indeed, if each development project were to depend on a particular source of finance there might be chaos; but, in a country preoccupied with the problem of the "take off", it is imperative that more and not less funds than are derived from taxes on essential services should be spent on maintaining and developing those services. Otherwise, important though rudimentary services will be financing welfare services and "unproductive" forms of government expenditure. In the Eastern Region, it is well known that far less funds are allocated for normal road maintenance than are required, while vast sums are spent on maintaining a poorly designed primary education system. The importance of caring for expensive capital investment once it is in the 'finished' stage is not realised, but if future highway development is financed on deferred payment terms or long term foreign loans, it would be disastrous if the assets created were allowed to deteriorate rapidly.[1]

Among other countries, Kenya has recently attempted to escape heavy commitment of revenue on capital expendi-tureon road projects by entering into deferred payment contracts with large engineering and contracting firms. This simply means that the firms finance the construction and are repaid within, say, four years. It would appear that such attempts to lighten the burden on recurrent revenue of capital development are not very realistic. Most of the deferred payment agreements provide for repayment in four or five years from completion of the job. The interest charges which must eventually be met by the recipient country and the commission paid to the contractors for acting as intermediaries must weigh heavily on an economy which has difficulty in finding funds for actual development.

The only form of loan financing which appears suitable for this type of project is long term loans floated either abroad or at home. By the time the loan approaches maturity, one can expect, given sensible initial investment, that the return to the economy and the national purse from the road will have more than met the cost of the original loan. The returns from invest-ment in communications are not so easily measurable as those from investment in, say, a cement factory and the 'profits' can not so easily be channelled into repayment of the initial investment.

(1) A new government might feel very reluctant to repay a loan made for a project which has since disappeared.

Another very important source of 'finance' for new road construction is the large reserve of underemployed labour in the rural areas. In Chapter II, mention was made of the contribution to village development made by the village improvement unions. In the past, especially perhaps in the Eastern Region, a great deal of voluntary labour was used to build rural amenities, especially water points and roads. In some instances, maternity homes and town halls were built in that way. In Awgu, 30 miles from Enugu, there is a cottage hospital whose running costs are now met jointly by the East Regional Government and the Roman Catholic Mission, but which was built by the voluntary labour of villagers from miles around under the direction of the then District Officer. Many miles of roads in Udi Division were built by the people inspired by Mr. Chadwick, whose efforts led to the filming of "Daybreak in Udi". Between 100 and 200 miles of road are still being built every year in E. Nigeria by means of voluntary labour.

There is a feeling that community development has had its day, that most of the development schemes now required demand more sophisticated equipment than men with hoes and headpans. But I believe that, especially in those areas where development is lagging behind the more advanced parts of the country, labour can to a considerable extent be substituted for capital. In the Niger Delta, for example, road development is handicapped by the fact that costs of construction are more than double those in drier parts of the country. Furthermore, it is not possible to make useful estimates in advance of the amount of traffic which would use a road until the road is completed because of lack of bridges and annual flooding. Thus assessment of priorities between alternative roads is made difficult. It was suggested to me by the representative of a firm of consulting engineers operating in Nigeria that the first requirement in those difficult areas is to open the road to traffic all the year round by the cheapest possible method. At a later stage when the road is already contributing to the development of the area through which it runs, construction can be completed to take the proved volume of traffic.

There is no lack of communities requesting government to construct new roads in their areas. It should therefore be possible for government to make a bargain with applicants and give help according to the importance of the project subject to guarantees that land will be freely given, preliminary clearing will be done locally once the route has been selected, compensation for crops or buildings destroyed will be arranged by the community and a greater or lesser amount of labour will be provided free to work on the scheme. Scarce funds can then be concentrated on the provision of vital machinery and a wider programme of work can be undertaken. Of course, organisation on such lines would be far from simple, having regard to varying population densities, agricultural activities ant topographical features in different areas. In some instances in the past the Public Works Department found it difficult to maintain a stable paid labour force because of the attractions of seasonal farming activities, and this led to increased mechanisation even where paid labour was cheaper. But in those areas where there would be no likelihood of a road for many years unless assisted by community effort, that effort can be arranged to fit in with periods of comparative inactivity on the farms, especially during the months of June and July.

During surveys of possible traces, engineers are frequently surprised by the amount of effort made by local people to clear the trace. The mere indication that government is serious about bringing a road to the area is often sufficient to make the people begin organising themselves to assist. In Obubra Division, villagers have sought the advice of the manager of a timber company working there in connection with building roads to link up with and extend the country's own roads. Timber bridges cost about one-sixth of the price of permanent bridging and can last up to 15 years if built properly. This is what the timber companies use to carry their logging trucks and these impose a strain far higher than those likely to be imposed by any other traffic. It has been estimated that local construction of embankments, which experience has proved can be quickly constructed by unskilled labour using headpans, and site clearance can save government about 40 per cent of the capital cost of a project. That more attention is not being given to the savings or, better, the expansion of development, which could result from the widespread use of the community spirit, can be attributed only to inertia on the part of the governments. To ensure that the idea caught on and enthusiasm lasted would require skilful promotion but, if successful, the rate of development of the infrastructure of the economy would be increased enormously.

Investment in Agriculture

Mention has been made of the comparative neglect of agriculture by the governments of the Federation. There are five or six million farmers in Nigeria and if the income of each of those farmers were to increase by only

£10 per annum, national income would rise annually at a rate far in excess of the current estimated gross of 4 per cent per annum. No scheme of industrialisation could possibly achieve this result in the forseeable future. Total investment in processing or manufacturing industry over the seven years ending 1957-58 by Government, the development corporations and by the major companies is estimated to have been £17.7 million, or an average of £2.5 million per annum. As pointed out in the economic survey,[1] at a figure of £1,000 per person employed, capital investment of £90 million would be required to provide new industrial employment for one per cent of Nigeria's male labour force, which, incidentally, is growing by more than one per cent per annum. It is not, however, inconceivable that a vigorous campaign conducted by government and government agencies at the farmers' level could produce within an extremely short space of time considerable increases in farm productivity and in the incomes of individual farmers.

It is often said that much research must still be conducted before there can be any major advance in Nigerian agriculture. But the results of a great deal of research are at present available to those who know how to make use of them and I believe that the problem is one of communication and persuasion. The Federal Agriculture Research station, the Regional Ministeries of Agriculture and various specialised agricultural research stations have developed improved methods of cultivation and new and highly productive strains of crops. Methods of publicising new crops, new techniques of cultivation, higher yielding strains, improved implements and the advantages of fertilizers must be found and, with the rapid expansion of education, sound

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(1) Economic Survey of Nigeria, p. 65.

broadcasting and awakened political consciousness, can be found quickly.

At a lecture given by an official of the Eastern Region Ministry of Agriculture, a great deal of stress was laid on the innate conservatism of the Nigerian farmer. On being asked by the author whether an example might not be drawn from American experience and Young Farmers Clubs or Toc H clubs organised through the schools so that children who are more receptive to change might see the value of new methods and pass them on to their parents, the reply was given that Nigerian parents do not take their children so seriously as do European or American parents. They would not, therefore, consider anything done by the children or told them by the children to be worth emulating. I refuse to believe that when a Nigerian parent is shown by his child how he can double the yield of yams from his plot, he will completely ignore the advice. It appears as another example of conservatism on the part of officialdom, a situation which is probably as responsible for a modest rate of growth as the ignorance of the general population.

After all, parents do not consider the activities of the young so trifling that they refuse to send them to school. They send them there in order to acquire learning which may profit them. A sociologist has noted the influence of modern methods on traditional society, "... the keeping of written financial records has proved so popular that today even traditional village organisations will enlist the aid of a literate village-boy to help keep their financial accounts."(1)

Only 2.02 per cent of the governments' planned capital expenditure in the period 1955-62 is to be spent on agriculture and if expenditure on forestry and

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(1) S. Ottenberg: "Improvement Associations among the Afikpo Ibo," Africa Vol. XXV No. 1, January, 1955, p. 11

veterinary services is added, the percentage is still under 3 per cent. Of course, such capital works as roads and water points contribute to the development of agriculture. But that so little should be spent is rather surprising in view of the contribution agriculture makes to the economy. "It is anomalous that what is admittedly the most backward segment of development in Nigeria, namely agriculture, should at the same time be the backbone of the country, both from the standpoint of financial resources and essentials for living. No Federal Government should be content to let the burden of the underdeveloped and underprivileged segment of its population. Active co-operation and effective financial assistance are essential."(1)

In addition to providing about £76 million in the form of loans and grants to the Development Corporations, research institutes and governments, the producers of crops sold through the Marketing Boards paid over £100 million in taxation between 1947/48 and 1956/57;(2) yet in the seven years 1955-62 only an estimated £3.87 million capital expenditure on agriculture will have been undertaken by the various governments.(3) Of course, the Development Corporations have undertaken various agricultural ventures such as establishing coconut plantations, cattle ranches, rubber and palm oil plantations. However, very little of this expenditure has been of any benefit whatsoever to the ordinary farmer.

The Northern Region Government set aside £11.9 million for agriculture in its 1955-60 Development Finance Programme.(4) This is about 14 per cent of the total

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(1) Ashby, <u>Investment in Education</u>, p. 102
(2) <u>Economic Survey of Nigeria 1959</u> p. 44
(3) Ibid. p. 126.
(4) Government of Northern Nigeria, <u>Policy for Development 1955-60</u>, Kaduna 1955, p. 1.

provision of £79.13 million. But by 31st March, 1959, out of a total expenditure of £21.56 million, only £1.14 million or just over 5 per cent had been spent on agriculture.(1) In 1956-57 the West Regional Government spent only £832,000 on recurrent agricultural services, compared with £4.985 million on education and £1.282 million on health.(2)

It appears that the Government of Western Nigeria is foremost in its attempts to improve agriculture. It is currently distributing about 10 million seedlings of high-yielding cocoa varieties per annum. Annual distribution of palm oil seedlings is around the 250,000 level. Distribution of rubber seedlings of high yielding clones was only 90,000 in 1958; in 1959 it was 300,000 while in 1960 it was 2½ million. Many thousands of farmers have received instruction in pest control and rubber tapping. The Western Region Government spent £6.447 million, or 6.3 per cent of its total recurrent and capital expenditure during 1955-60 on Agriculture and Natural Resources.(3)

Through the Western Region Development Corporation, the Government is spending a considerable sum on the development of plantation and cooperative farming. At the beginning of 1960, the first of 12 farm settlements which are the first stage of the Western Region Government's co-operative farming programme, was started with a labour force of over 700 selected trainees. Each settlement will comprise 50 holdings totallings 1,500 acres which it is intended to expand later to 200 holdings totalling 4,000 to 6,000 acres. The capital expenditure

(1) Government of Northern Nigeria, Progress Report on the Development Finance Programme of the Northern Region 1955-60 up to 31st March 1959, Kaduna 1959, p. 3
(2) Annual Report of the Western Region Government 1957 Sessional Paper No. 2 of 1960, Ibadan, p. 20.
(3) Progress Report on the Development of the Western Region of Nigeria, 1955-60, S.P. No. 4 of 1959, Ibadan. p. 10.

inclusive of cost of land acquisition and compensation is estimated at £2,260,000 with a further £350,000 after 1954-65. At the same time, five farm institutes providing a two year training are being established, so that, by December 1962, five hundred fully trained farmers will be produced annually, the majority of whom will go onto the settlements as they are expanded.[1]

It is apparently intended to recover the costs of development from the farmers eventually, but bearing in mind results from the Mokwa scheme, one must be rather sceptical about this.[2] Here again the problem of a high degree of capitalisation crops up. It is just possible that the £2½ million intended for the initial development of this scheme would have produced greater results by being used to improve the productivity of existing farmers. Professor Lewis has made a case for large scale investment in peasant agriculture: "No one would expect to develop plantation agriculture without putting a great deal of capital into the land, and it is really extraordinary that while there has been much talk of developing peasant production, the fact that this cannot be done without investing much capital seems almost entirely to have escaped notice. It is a part of our tradition that while we think nothing of putting £25 million into a plantation scheme, we shrink with horror from the thought of putting up £25 million for peasant farm improvements in Nigeria, though it is by no means clear that the latter would not be more productive."[3] In the case of groundnuts, the crop cited by Professor Lewis, the high world prices for groundnuts have served in recent years to increase

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(1) Africa Digest Vol. VII No. 5 April 1960, p. 175.
(2) K.D.S. Baldwin, op. cit.
(3) W.A. Lewis, "A Policy for Colonial Agriculture", in Attitude to Africa, Pengiun 1951, pp. 95-96.

production enormously. In the first 9 postwar years, the crop was half as large again as in pre-war years, while over the five seasons 1955-59 it was nearly $2\frac{1}{2}$ times pre-war production. The table below shows the average annual commercial groundnut crop.(1)

	000 tons
1935	211
1945-9	320
1950-4	322
1955-9	501

Nevertheless, the general import of his remarks is quite true. "What is needed .... is the diffusion of improved techniques ove a wide area, rather than the development, here and there, of heavily capitalised undertakings to produce more export crops."(2)

In the Easte n Region, which relies on palm produce, for most of its income, the comparative lack of growth in production has been a cause for concern for more than twenty years, at least to observers if not to the authorities. It has been attributed mainly to the fact that most production is from self-sown palms and very little from plantations. The attempted solution has been the establishment of more plantations. But some of the Marketing Board's funds might have been diverted to propaganda designed to encourage farmers to make use of modern methods of planting and harvesting and to distributing far more seedlings than are currently being sold.

It is understood that the various 1962-68 Development Plans now being prepared make greater provision for agriculture, including such projects as palm grove

(1) United Africa Company, Statistical and Economic Review No. 23 September 1959, p. 4.
(2) H. Collins, "Economic Problem in British West Africa", The New West Africa ed. Davidson and Ademsla, Allen and Unwin 1953 p. 129.

rehabilitation schemes designed to improve the lot of the ordinary farmer. But a tendency to invest in highly capitalised settlement schemes mainly for political reasons is being exhibited, and it seems that the governments either lack advisers with sufficient strength of character to present the case against them forcefully, or have little confidence in their advisers.

Government Participation in Industry

As we have seen, the Nigerian governments are currently experiencing competing demands on their limited resources for expenditure on capital development and recurrent services. In particular, expenditure on educational services is high and mounting and would be politically impossible to reduce even if it were economically desirable. As a result, there is a very small amount of capital available to government for investment in industry. And yet, apart from the large expatriate firms there are hardly any non-governmental organisations with the resources to engage in the creation of large scale industrial enterprises. In view of the commitment of the various governments to rapid industrialisation therefore, it is clearly essential to consider methods of obtaining the necessary finance for industrial projects which would prove viable.

When £174,000 worth of shares in Nkalagu Cement Company were released to members of the public in 1959, a precedent was established which may be followed frequently in the next few years. If done systematically, a new method of building up the desired industrial complex will have been developed. People who may fear the collapse of a new private business venture after they have invested their savings will more readily invest in an establishment enterprise once it has proved itself. It might be thought that, as government undertook to establish a project with an uncertain future, once rewards began to accrue, they should of right accrue only to the government which could use the gains for expansion or diversification. However this would be a comparatively slow process. By selling off shares in newly established ventures to the public, government can raise the large amounts of capital required for other projects more quickly and a rapidly revolving fund for the establishment of new industry can thus be created. However, this will only work if virtually all new projects are rapidly successful.

In a paper on the role of the Federal Government in promoting industrial development in Nigeria, the government declared its policy thus, "The relatively small sum available for direct investment will be used as a catalyst in starting industrial projects; when sound plans, managerial and technical skill and most of the capital for a project are present, the smallest capital necessary to start the project will be invested for withdrawal again (preferably by selling shares to Nigerians) as soon as possible so that the same money can be used to bring to life another project."(1) All the governments of the Federation are strongly in favour of the mixed project, that is a partnership between overseas private and domestic public capital. Whether eventually most government shares will be sold off to Nigerian investors as implied in the above policy declaration remains to be seen. In view of recent buying over of some existing business by agencies of all three Regional Governments, it appears unlikely at the moment.

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(1) Federal Government Sessional Paper No. 3 of 1958, <u>The Role of the Federal Govt. in Promoting Industrial Development in Nigeria</u>, p. 12.

The Chairman of the Western Nigeria Development Corporation in an article in the independence edition of the Corporation's home Magazine[1] criticised the policy of releasing shares in proved ventures to the public. He pointed out that the case for capitalist gains was based on the risk factor. But here there would be no risk and "a specially protected class of indigenous capitalists would be created." Taking the example of his own Corporation, he claimed that if this policy was adopted, the funds available to the Corporation would get progressively smaller as a growing proportion of investments became tied up in unsuccessful or non-profit earning ventures.

A rather pessimistic report by the Federation of British Industries in 1955 was very dubious about joint ventures with the Nigerian Development Boards. "Private capital will not be forthcoming from Africans on a significant scale, and British investors will have to choose between doing without Nigerian capital and thus leaving themselves vulnerable to attack by ardent nationalists or accepting collaboration with the Production Development Boards in the West and North and the Eastern Region Development Corporation in the East. We should regard such arrangements with apprehension, unless the shares of these government bodies were very limited. Partnership with the C.D.C. might ease the situation, though we do not regard this as very attractive."[2] In the report of their latest mission however, the F.B.I. are more optimistic, "In general, U.K. investors would welcome Nigerian private or

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(1) Reprinted in the <u>Daily Express</u>, 8th July, 1961.
(2) Federation of British Industries, <u>Report on a Visit to Nigeria and the Gold Coast, 1955</u> p. 39

institutional investment in their industries, because this would bring with it an interest in fostering the development of the company and the market for its products."(1) The mission was in favour, however, of utilising the new Stock Exchange, once it is working properly, in order to pass on to the public the shares of Corporations and enable the capital released to return to the revolving fund.

The opinion is expressed in this and the next chapter that the immediate concern of those responsible for the direction of Nigeria's development effort should be to seek ways and means of improving productivity in agriculture and to provide fundamental service, especially roads, to the community. The revolving fund idea to stimulate industry is a good one, provided the fund does revolve and too much urgently required capital is not locked up in industry. Furthermore, anxiety to intensify industrialisation should not lead to government support being lent to any industrial venture. The Western and Eastern Regional governments have each recently through their development boards invested about £250,000 in pepsi-cola factories.(2) This is clearly folly and when the management of the E.N.D.C. attempts to justify the expenditure by pointing out that it will give employment, the claim is ludicrous. Not more than 200 people will be employed and it is not hard to think of more useful ways of employing them more cheaply. It should never be forgotten that the funds the Development Corporation are using for their schemes were obtained by taxing the producers of cash crops. If this were constantly kept in mind, Corporations might use the funds more wisely.

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(1) Federation of British Industries, <u>Nigeria an Industrial Reconnaissance, February 1961</u>, p. 34.
(2) All of them are presently running at a loss.

An example will serve to demonstrate the dangers of too great an anxiety to industrialise and to support the argument that, so far as is possible, industrial development should be left to those with experience in it. In April, 1951, the Western Region Production Development Board voted £50,000 for a pilot fruit canning factory at Lafia, Ibadan, to be managed jointly by the Board and by the Department of Commerce and Industries. According to the Board's annual report, "The aim was twofold; first, to absorb the large unsaleable surplus of grapefruit from trees which had been planted with official encouragement in the Ibadan area before the war; and, secondly, to give farmers confidence in the intentions of the Board before asking them to plant oranges and lemons for the much larger factory contemplated."(1) On page 21 of the same report it was stated that in December 1951 the Board set aside £300,000 for a citrus processing factory to be established on the lines recommended in a 1950 report submitted by Mr. J.W. Seymour of S. and S. Services Limited, who were, incidentally, to be the sole managing agents for ten years. Thus after spending £50,000 on a pilot project, and without waiting for the results of a few years' operation, a full scale factory was built and put into operation.

The factory has been a disastrous failure.(2) In 1956, the cumulative loss was £100,000. By 31st March 1960 £320,000 had been lost in addition to much of the £300,000 initial investment, and the drain continues.

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(1) Western Region Production Development Board, Annual Report 1951-52, p. 20

(2) This example of lack of foresight and experience has been described more fully in A.H. Hanson, Public Enterprise and Economic Development Routtedge, 1959, pp. 443-6.

All sorts of reasons have been given for the failure of this scheme, including the surprising statement that it was never intended to make a profit! In the last Annual Report available, the Board says, "The basic cause of the factory's financial difficulty is the chronic under-supply of fruits and this fact, coupled with depressed world prices for canned fruit products, has led the management to give serious consideration to the alternative uses to which the plant and equipment may be put."(1) It may be noted here that, however depressed world prices for canned fruit have been, canned fruit from South Africa, West Indies and Japan has been freely available in Nigerian shops.

In a publication issued in September 1960, the Western Regional Government presents the latest official apology. "The pre-1952 Western Region Government established this cannery mainly as an outlet for citrus fruits from rehabilitated cocoa farms which were destroyed because of "swollen shoot" disease. It was, initially, therefore, not conceived as a business proposition, and this has made it to be operated at a loss over the years. Other contributing factors to this deficit are the highly seasonal nature of fruit supplies which has never allowed the factory to operate at full capacity, and the continued low world price of citrus products."(2) If the real reason for establishing a canning factory was to help impoverished farmers, why was the pilot project not sufficient? Or why not begin by subsidising incomes from citrus product; it would have been far cheaper than wasting over half a million pounds on a white elephant. The "highly seasonal

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(1) Annual Report, 1958-59, p. 31

(2) Directory of Industries and Allied Trades in the Western Region of Nigeria, p. 12.

nature of fruit supplies" does not appear to have been anticipated. Why? One is left with the impression that the real reason for establishing this project was the optimistic outlook engendered by the report of Mr. Seymour, an illustration of the need to employ independent consultants as well as those who are naturally inclined to paint a rosy picture of a project for which they have something to sell. "If to these grave faults of commercial policy, we add the fact that the enterprise has been poorly organised, and was managed for a considerable period by a private agency working under an agreement which gave it little real incentive to achieve efficiency, we have before us an almost classic example of would-be economic 'development' practically indistinguishable from economic waste."(1)

Just as government should only participate in large scale industry after careful consideration of the need to do so, so it should decide on a firm policy with regard to the encouragement of rural industries. In Eastern Nigeria, sales from Okigwi pottery amounted to £758 in 1957-58.(2) No costs are mentioned, but a staff of twenty-two was employed. Sales were therefore just over £34 per employee. Sales from Mbiafun pottery brought in £145 while costs of running were £385; sales from Ikot Abasi were worth £144 while the costs of running the pottery were £241. By 1959-60, the running costs of the latter had risen to £635 while revenue was only £238. These costs do not include the costs of supervision by staff employed by the Ministry of Commerce. Again, according to the Report, "it has long been apparent that small rural potteries are not a

(1) A.H. Hanson, <u>op cit.</u>, p. 446
(2) Ministry of Commerce, Enugu, <u>Annual Report Secondary Industries</u> 1957-58, p. 2

commercial proposition... It is not the policy of the Department to encourage the establishment of any more rural potteries."(1)

There are extra-economic objectives in continuing to support these unviable projects. Some of them are located in backward areas and the government support constitutes a small subsidy to that area. It is rather disturbing that in the Report no indication of future policy with regard to the existing potteries or of how the government proposed to make them self-supporting was given and it seems unfortunate that at present negotiations are going on with a German ceramics manufacturer for the establishment of a modern pottery.

It would be wrong to give the impression that all the industrial ventures of the various governments have been failures, far from it. Each Regional Government can boast more than one project which has lived up to expectations.

In the Northern Region, the Government is participating with expatriate concerns in a large modern textile mill in Kaduna. In the West, government has interests in the manufacture of cement, asbestos cement products, pre-stressed concrete, textiles, plastics and metal windows. In the East a large financial interest in the Nigerian Cement Company at Nkalagu is held by both Federal and Regional governments while the Regional government has shares in Williams & Williams metal window factory and other firms managed by expatriate enterprise. Indeed, it is notable that, with few exceptions, those ventures in which government capital has been successfully invested are being managed by expatriates from firms with considerable experience in their respective fields and that a large part of the initial capital was

(1) Ibid.

provided in each case by the managing partner so that there is every inducement to run the enterprise in an efficient manner.

Although there may be a case for government investment in a few industries in Nigeria to help them get off the ground or because government feels that their establishment is essential, the idea that government should have a share in any and every new factory which is built is not to be encouraged. As has been seen, such a policy can lead to the investment of scarce funds in projects which properly conducted pre-investment surveys would have indicated were unviable. The present executive capacity of virtually every Government department is at present very limited, both physically by lack of numbers and qualitatively. Consequently purveyors of machinery, for example, do not find it difficult to persuade either Government officials or political leaders to enter into a "partnership" which eventually results in the foreign partner subscribing his capital solely in the form of equipment. In many instances, the management fee, for this type of person generally undertakes the management function, is related to turnover and not to profit so that, irrespective of the success of the project, this new type of foreign investor makes a profit.

On reviewing government expenditure in various fields, it is difficult to escape the conclusion that the limited funds which are at the disposal of the Nigerian governments are not being utilised to the best advantage. Although on occasion policy makers admit publicly that the country is poor, the statement is usually followed with the contention that it is potentially rich. That before this potential can be realised scarce resources must be carefully husbanded is not, in practice, understood. Extravagant allowances for Ministers and members of the legislative houses are only typical of the present attitudes to jobs in the public service. It is here, rather than in the peasant sector that we should look for the examples of conspicuous consumption so much emphasised by writers on underdeveloped countries. Too much capital is tied up in car advances. The high rewards to youg men in various corporations such as the Broadcasting Corporations seem to be out of touch with actual needs. The introduction of television in a country where only a few hundred can afford it and only 10 per cent of population is literate is another example of values which are grossly distorted.

Much controversy is centred on whether more money should be spent on secondary education and less on primary education, or whether too much is being spent on communications and insufficient on agricutural schemes. This controversy is necessary, and indeed there ought to be far more public debate on these issues than exists, but we must consider not only where the emphasis of development expenditure is to lie. The quality of those schemes which are undertaken is of vital importance. To take an extreme example, an item in the development programme might be listed as 'public buildings', and of course the expanding civil service which is a concomitant of modernisation, must be properly housed in public offices. But the public buildings may turn out to be Ministers' houses to be constructed at £30,000 a time, or a new governor's lodge to cost £250,000. The amount voted for a project signifies less than an examination of how the execution is to be carried out. Money spent on an "agricultural improvement programme" may either be used to finance a scheme for introducing to peasant farmers the benefits of proved new methods or it may be used for the construction of an agricultural station where up to date research work is conducted but where there is no means of communication between the researchers and the local farmers. Ideally, of course, it should include both.

An example of fairly common overexpenditure or misuse of funds which I have just described is provided by the history of the Ijebu Ode-Benin Road project. This road is a new Federal Trunk 'A' Road which will open up a large part of Western Nigeria while reducing distances to Lagos from points East of the Niger by over one hundred miles. Work commenced on a pilot trace as long ago as 1946-47. Initially, the Public Works Department carried out the work by direct labour, but later it was let out to contract. At the end of 1957, it became clear that work on the project was not progressing smoothly and that there was something radically wrong. The Minister of Works ordered the cessation of the work and appointed a Working Party to conduct an investigation into the matter. It was discovered that work, estimated by the Public Works Department in 1953 to cost £870,000 had been only partially completed by the end of 1957 at a total cost of £1,235,000. The difference between those figures was attributed to lack of proper planning and a very inadequate survey of the proposed road, as well as to storm damage. However the Working Party also found "that there had been considerable variation in standards of work, and that in certain sections these fell below what might reasonably be expected, and that there were a number of defects in construction which could have been avoided. In all, it was estimated that there was an expenditure of some £257,000 attributable to these causes, which could have been avoided."(1)

(1) First Report of the Public Accounts Committee, House of Representatives Session 1960-61, Lagos 1960, p. 5.

In his statement before the Public Accounts Committee, the Permanent Secretary of the Ministry of Works and Surveys stated that the inadequate planning and surveying resulted from political pressure to commence the work. He gave an assurance that it would not now be possible for work of this magnitude to be undertaken without the most detailed and careful planning being first undertaken.

The Public Accounts Committee, reporting on the year 1958-59 also cited other, perhaps worse, examples of unauthorised expenditure which ill-befit the Government of such a poor country as Nigeria. A sum of £2,998,007 was incurred by the Ministry of Finance without the authority of the Legislature.[1] The Report gives details of purchases of buildings at what the Public Accounts Committee regarded as excessive prices without seeking the authority of the House of Representatives.[2] Special Warrants for purchase were issued by the Ministry of Finance although it is not clear what necessitated such haste. The recommendations of the Office Siting Committee with regard to the purchase of those buildings were not accepted and in at least one instance the Chief Federal Lands Officer was not instructed to make a valuation prior to purchase. These revelations caused allegations of financial chicanery on the part of Government Ministers to be made by the Opposition but the matter appear to have been covered up very quickly. The implications of such practices, if widespread, for a poor country are obvious, and it is to be hoped that in future higher standards of public morality will prevail.

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(1) Ibid. p. 2.
(2) Ibid. pp. 7 - 8.

Lack of public morality combined with lack of administrative competence have been mainly responsible also for the modest results achieved by the Government sponsored credit institutions, the Development Loans Boards and their successors whose work is discussed in the next chapter.

CHAPTER IV

Government Utilisation of Domestic Capital
II Credit for Enterprise

Government began to take an interest in the provision of credit for various development projects in 1946, when the Nigeria Local Development Board was created. The Board was provided with an allocation from government loan funds of £1.25 million to be furnished in instalments of £250,000 over a period of five years. The Board was empowered to use these funds for making loans to Native Administrations, as local government authorities were then called, Co-operative Societies, and other approved bodies for prescribed development purposes. The monies were to be regarded as a revolving fund. To enable Legislative Council to exercise control over the Board's activities, administrative expenses were budgetted for separately in the annual Government Estimates.

In its second annual report, the Board expressed disappointment at the few applications received for assistance despite the publicity given to the purposes of the Board and the proceedings. Such applications as had been made did not come within the Board's compass. Facilities were therefore extended to include companies registered in Nigeria and persons working in partnership. By the end of 1948 the Board had received £750,000 from the Government and had committed approximately £300,000. On 31st March, 1949, the Board was wound up and separate boards were established in the Colony area and in the three regions as joint successors.

Considering the limited funds at their disposal, the Regional Development Boards were given broad cunctions.

For example, the enabling law of the Eastern Regional Development Board made provision for the assistance of "any person or body of persons engaged in schemes of public works, or the industrial development of Nigerian products, or in developing village crafts and industries; the Board can also assist in schemes of land settlement and agricultural and forestry development and can give aid to any Nigerian product." Priority was to be given to projects which would improve the supply of foodstuffs and to applications for assistance from people desirous of improving facilities for transport maintenance. All the enabling laws were similarly worded.

So far as the activities of the Development Boards are concerned, the period 1949 to 1960 falls into two distinct parts divided at 1955 when there were changes of both names and functions, as a result of the World Bank Report. From the following account of the history, however, it will be seen that the problems encountered by the first loans boards continued to be encountered by the development and finance corporations which succeeded them, and even today great difficulty is being experienced in administering these government sponsored credit institutions successfully.

By April 1955, the Eastern Regional Development Board had advanced loans varying in amount from a few hundred pounds to several thousands and totalling almost £380,000. Loans were made for a variety of purposes, such as the purchase of cassava graters, rice and corn mills, the manufacture of soap, the purchase of pioneer oil mills, for lime manufacture and for show repair. The bulk of the money was however lent for community development purposes (£211,000) and for agriculture (£55,000). Most of the money for community development was lent to the Calabar-Mamfe Road Area Planning Authority which was engaged in the establishment of a settlement. The Scheme, named the Bamenda-Calabar-Cross River Scheme, later failed badly like most settlement schemes in Nigeria and the palm plantations which had been begun were taken over by the Eastern Region Development Corporation. Many of the socalled agricultural loans were used for purposes very different from what the Board intended, and most of the £21,000 which had been advanced for river transport was also wasted when the launches which were bought on higher purchase from the E.R.P.D.B. Boatyard proved defective or broke down through bad handling.

In the 1953-54 Annual Report, the view was recorded that attention tended to be drawn to a monority of probable failures rather than to the "far larger number of businesses which by the promptitude of the repayments appear to be running successfully." It was thought that failures were due, not to the inherent weaknesses of the schemes themselves but to "a lack of supervision by the owners of the business, the employment of unqualified managers, the dissipation of the loan on purposes entirely foreign to the business, and in partnership disagreements left unresulved" - in fact to all the different causes of business failure. However, the default ratio on loans by E.R.D.B. and its successor fully justified the views of the pessimistics and it is very difficult to find one example of a successful business which was assisted by the E.R.D.B. in its infancy.

During the six years of its existence, the Western Regional Development (Loans) Board granted loans to individuals, partnerships, limited liability companies, local government bodies and co-operative societies for many projects, including corn-milling, cassava graters, rice mills, piggeries, tyre-retreading, motor parks, buses, and rubber crepeing and spraying equipment and a scheme for making available loans for cocoa cultivation and occasional foodcrops was begun. Thus a rather wider variety of project was assisted by the W.R.D.B. than by the E.R.D.B. By 31st December 1955, the W.R.D.B. had made loans totalling more than £526,000 for 98 projects. Loans ranged in size from £30 to £70,000 and were to be repaid over periods varying from two to twenty years at rates of interest varying from 3% to 5%.

Loans granted by the Northern Region Development Board ranged in size from £30 to £70,000 and were advanced for such diverse purposes as the purchase of hand looms and of buses, the establishment of a sugar crushing business, dairy scheme and, largest of all, a fish farm. Loans were to be repaid over periods varying from two to twenty years at rates of interest varying from 3% to 5%. The sums involved were much larger on average than those loaned by the other development boards. By 31st December 1955, the Board had lent for 98 projects sums of money totalling £526,689. However 10[1] of these loans accounted for £350,600 or 66% of the total advanced while the remainder averaged £2,000.

The Colony Development Board was established to undertake the functions of the former Nigeria Local Development Board in the Colony area. The assets of the former Board had been divided among the Northern, Eastern and Western Regions in the ratio of 40:30:30. Therefore special provision was made for a separate grant of £50,000 to the Colony Development Board.

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(1) Seventh Report 1955.

Interests in old loans totalled £33,920 and obligations of further loans for £36,850 were met. Hence, the Colony Board started with £13,150. Since the government gave no further grant and since no previous aid had been given to rural areas, the Board refused to consider any further request from Lagos itself. The Oil Palm Produce Marketing Board granted the Board £285,000 which was set aside for grants.

The 1951 Report of the Board noted with regret that more than half the applications received for loans were in respect of projects which had no real productive aspect at all, most being for the provision of various kinds of service to the public or for the manufacture of finished goods from imported commodities. It is questionable whether the latter should be criticised since finishing goods enables the working up process to be done in the country, providing work for local people and making a beginning in introducing the industrial skills, although the value added may be very little. The report goes on to say that of those projects which could be said to involve actual production, regrettably few involved the real development of the agricultural sources of the area. "Most of such applications came in fact from already insolvent farmers who apparently viewed the Board purely and simply as a charitable organisation; thus the most frequent plea was that a loan should be granted for the sole reason that the applicant was able to produce an incontestable record of steady failure for a number of years - a plea hardly calculated to fill any would-be lender with confidence." Further, people in a position to make full use of more normal financial sources were attracted by the lower interest rates and better repayment terms of the Board. The Board came to the conclusion that not lack of capital but lack of knowledge and determination was the chief problem.

The experience of the Colony Development Board serves to illustrate problems which all the development boards came up against in varying degrees and which they and their successors have continued to meet in the past decade. Debtors who disappeared; loans spent on building family dwelling house instead of improving a domestic industry; poultry farms whose sole stock consisted of a duck and two hens. Those things are to be expected and can only be guarded against by more exacting scrutiny of applications and more effective supervision of the projects for which loans have been granted. The reports of the E.R.D.B. in particular carry the admission that due to lack of staff it was unable to arrange to visit many of the projects for which monies had been loaned. People may be more circumspect in the manner in which they utilise a loan if they know that periodically they will be held to strict accountability for funds expended. Referring to the Industrial Development Corporation in the Gold Coast in his "Report on Industrialisation and the Gold Coast," Professor Lewis says, "Its relations with debtors should be those of the family doctor rather than the policeman. All the same, most people dislike being given good advice, even by the family doctor. If the debtor finds the relationship onerous this may spur him to pay off the debt all the sooner."

The World Bank made some recommendations regarding future organisation and policy of the Development Boards. The Bank Mission's criticism was that they had too broad a field of action and it recommended that they concentrate their efforts entirely on the provision of credit for private business.(1) Public bodies should finance public

(1) p. 92.

works from tax revenues and from local development funds. This would apply to all those who sought loan finance for community development. The Report took note of the high default ratio on loans to industrial and agricultural enterprise. "Many of the mistakes stem from a laudable desire to get a flow of loans to Africans under way."(1) It was recommended that the loans boards should be incorporated as loans departments into new development corporations which would succeed the Regional Production Development Boards. They should have no authority to make grants and they should lend only to private enterprise, especially co-operatives and other forms of business association. They "should supplement and not compete with other sources of credit and therefore should not make loans which commercial banks or other lenders are willing to handle on reasonable terms."(2)

The feeling that people who had good credit in the commercial banks and who would have been able to obtain bank assistance for their projects, were attracted to the Development Boards because of lower interest rates and better repayment terms has been mentioned above and the Bank mission reiterated it. It is natural to seek credit on the best terms available and it is really difficult to see what can be done about it. The Loans Boards and their successors have been inundated with requests for loans for doubtful schemes and have been glad when feasible projects offered themselves. It would be difficult to turn a prospective client away by telling him in effect that his scheme was so promising that he could obtain a loan from the bank although at higher interest rates, and I suspect that this has never happened. In fact the Mission realised

(1) p. 93.
(2) p. 93.

this difficulty implicitly by also recommending that interest rates, which had varied from 2% to 5% per annum, should be in the region of 7% to bring them more into line with the rates charged by the commercial banks.

The Mission recommended[1] that in no instance should a loan be refused merely because the project would compete with one operated directly by the development corporation, for this would defeat the main objective of the corporation, that is to assist Nigerian entrepreneurs.

The loans boards had in the past met no more than three or four times annually, and, as the Bank pointed out, the Eastern Board actually met only once in 1951-52. There are many instances of considerable delay in considering loan applications. The Mission felt that action on applications should be taken by three or four-member committees, meeting possibly every fortnight and that applicants ought to be dealt with in person, as in normal banking practice, rather than by correspondence alone.

More expenditure by the new development corporations on the evaluation of loan proposals and the supervision of assisted projects would, it was thought, be warranted by both the reduction in the number of the defaults and more intangibly, but more important, by the resultant development of the entrepreneurial class. Borrowers prepared to provide a substantial proportion of capital from their own resources should be favoured, since this would ensure continued interest on their part and would be at least as valuable an insurance against defaults as security or guarantees. This policy might also encourage prospective entrepreneurs to form partnerships and co-operatives with a view to pooling their resources.

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(1) p. 182.

As a result of the Mission's recommendations, the Eastern and Northern Region Development Corporations were formed to take over the assets and liabilities of the former Regional Production Development Boards and Development Boards. The reorganisation of the loans department has been most extensive in the Western Region where a separate corporation, reconstituted as the Western Region Finance Corporation, was retained and concentrated its efforts on the provision of credit for private business. Its capital was £2.25 million and it was required to pay interest to the government on this sum. Loans were to be confined to "those able and willing to put some of their own money into the business and who possess personal experience of the field in which they wish to engage or can guarantee the securing of the necessary technical or managerial staff."(1) Powers were extended to enable the Corporation to take up shares in and participate in the control of any enterprise but not to establish any on its own initiative.

The old Western Regional Development (Loans) Board had towards the end of its existence created forty-two local Committees scattered over all the divisions of the Region. Through these Committees, loans were made available to small farmers for cultivation of cocoa and seasonal foodcrops and cocoa spraying equipment loans were experimented with. After the establishment of the Co-operative Bank in 1956 no loans were to be made by the W.R.D.B and its successor to co-operative societies and the Ministry of Local Government just prior to the creation of the Finance Corporation assumed responsibility for loans to Local Government Councils. The Finance Corporation was thus enabled to "confine its attention exclusively to

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(1) <u>The Economic Programme of Western Region 1955-60</u> S.P. No. 4 of 1955.

loans for agricultural, commercial and industrial enterprises by partnerships, individuals or companies and thus became the sole vehicle for stimulating private enterprise with loan assistance"(1) - sole public vehicle that is.

The Finance Corporation dispensed with the 42 committees used by its predecessor and split the W. Region into 209 Local Board Areas based largely on Local Government Council areas. Members with local knowledge and resident in each Area were appointed after consultation with the local government authorities and local farming interests and these Boards with the assistance of an increased field staff were made responsible for the administration of agricultural loans to peasant farmers. These loans fall mainly into three categories, loans for seasonal foodcrops and inland fishing, loans for cocoa cultivation and loans for spraying equipment enabling farmers to buy the pump and chemicals to combat the various virus and capsid diseases of cocoa. The Loans Boards can consider loans for other economic crops, such as rubber, kola-nuts, oil palms, citrus and coffee once the Corporation has been satisfied that suitable seclings are available through the Agricultural Department. Major agricultural loans continued to be administered by the Corporation Headquarters. The small agricultural loans advanced through the Local Loans Boards were by their nature intended to assist peasant farmers who could rarely supply tangible security. The main security required was the ability of the farmer to cultivate as guaranteed by two other non-borrowing citizens. For major loans, borrowers are required to mortgage their farmland.

Like its predecessor, the Finance Corporation gives loans for woodworking factories, leather work and shoe-

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(1) Fifth Annual Report and Accounts of the Western Region Finance Corporation 1959-60, p. 3

making, sawmills, food processing machinery such as corn and rice mills, pepper grinders, cassava graters and nut crackers and stockfish dressers. The smaller loans are investigated internally by the Headquarters and field staff of the Corporation itself while the technical investigation of the feasibility of industrial applications is undertaken by the Industries Division of the Ministry of Trade and Industry and similar investigations in relation to major agricultural loans, including the forestry and machinery aspects of sawmill applications, are undertaken by the Ministry of Agricultural and Natural Resources.

The recommendation of the World Bank that interest charges on loans should be raised was adopted. The interest rate on industrial loans is generally 8% but where the loan is "rather large or the enterprise appears to have a pioneer aspect, the charge is reduced to 7%. Loans for cocoa cultivation are made at 10% interest, while other loans administered by the Local Loans Boards bear interest charges of 20% because of the comparatively high administrative cost of management and collection. At first the high rates of interest charged by the Corporation occasioned a lot of complaint. But it is felt that the high rates in themselves result in fewer frivolous applications being made. The charging of fees for the issue of application forms also ensures that the would-be borrower thinks twice before applying. The loan funds of the predecessors of the Finance Corporation were provided by a free grant and consequently loans could be made for as low as 2%. But the Corporation itself now pays 5% for loans from the West Regional Government and borrowers must pay rates which can support the Government interest charge and the administrative expenses of the Corporation.

Despite the expanded administration, the recovery of loans has not been satisfactory. "The book figure of debtors on Corporation loans in judgment debtors as well as on Local Loand Boards loans becomes increasingly alarming and whilst it would not be advisable to call a halt, a lot of attention has to be given to recovery of outstanding debts.(1) The Finance Corporation was, however, in a position to give loans totalling £652,000 to 32,000 borrowers in 1959-60. £489,000 was for agricultural loans issued through the Local Loans Boards while £163,000 was for industrial projects issued direct by the Corporation. About £914,000 of loan funds were recovered in the five years 1955 to 1960. Approximately £1.7 million was made available in loans funds for all kinds of project during this period.

In 1959-60 the Finance Corporation initiated an intensive drive for loan recovery in the area of Local Loans Boards. Local Government Councils, Presidents of Local Customary Courts, past members of Local Boards, were all asked to cooperate. Headquarters representatives attended Local Board meetings to emphasise the importance of loan recovery.

Some of the difficulties experienced by the early Regional Development Boards continued to be met. In some instances loan defaulters were alleged to have migrated to other parts of the Region. In other cases, Board members had either collected loan repayments without accounting to field staff or had obtained loans through fictitious persons, or had been bribed by defaulters. Some Board members have been imprisoned for embezzling loan repayments collected by them. Some Customary Courts, out of sympathy for defaulters, or where the judge himself was a past member of the Local Board, were alleged to have protracted court hearings or proved unco-operative in other ways.

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(1) <u>Ibid</u>. p. 6.

The advantages of having an organisation with many other branches staffed by people who are familiar with the area must be weighed against the disadvantages of such familiarity being used for unscrupulous purposes. The recoveries made by W.R.F.C. annually are at least sufficient to enable a substantial number of new loans to be made every year whereas in Eastern Nigeria virtually no small loans have been made by the E.N.D.C. and those which have been awarded would appear to have been made for political reasons. The Bank Mission's Report seems to have had little effect as yet on the E.N.D.C. Board, although, as will be seen, the staff of the Corporation are aware of the problems. During 1956-57, only one Loans Committee meeting was held. During this meeting, loans totalling £55,530 were awarded to 45 persons. Loans outstanding at 31st March, 1959, amounted to £1.5 million which included loans inherited from the former E.R.P.D.B., for example the special loan of £428,000 to Onitsha Urban District Council for the reconstruction of the market, and £550,000 to Statutory Corporations. During 1957-58 only one new loan of £30,000 to Onitsha U.D.C. for the market, was approved while in 1958-59 and 1959-60 no new loans were approved.

The 1959-60 Annual Report stated that "there was a comprehensive review of past policy with the object of applying the lessons learned from experience." The first of a series of conferences of Loans Officers in Nigeria was held in Lagos in January, 1960, under the auspices of the Federal Loans Board.

At 31st March, 1960, there was £1.54 million of outstanding loans, but only £.55 million other than loans to Statutory Corporations and Onitsha U.D.C. At 31.3.61, total loans outstanding were £2.328 million out of which more than £206,000 was overdue. Only about one sixth of the outstanding loans were for agricultural or industrial purposes. £1.876 million appears in the 1960-61 accounts under the title "Community Development" but £800,000 of this amount is a loan to a firm called African Real Estate which is engaged in land speculation and whose Chairman is also Chairman of the E.N.D.C. At 31.3.59, about £59,000 was overdue in principal and interest on a loan of £120,000 originally granted in 1953 to N.E.M.C.O., a company whose four directors were all prominent figures in Nigerian politics and business. Dr. Azikiwe, the present Governor-General was one; Sir L.P. Ojukwu, who only in 1960 gave up the Chairmanship of E.N.D.C. was another.

The Loans to Persons Scheme of the Northern Region Development Corporation had by 31st March, 1959, granted loans totalling almost £490,000 to 2,578 borrowers. Interest rates have been held down and vary from 3% to 5% per annum while repayment is spread over three to five years. From the point of view of repayment, the N.R.D.C. has proved by far the most successful of all the Corporations. In only 17 cases has there been disappointment and, even here, in most cases part of the original loan has been repaid by guarantors.

The success may reflect the structure of the Corporation's Loans Department. The thirteen Provincial Loans Boards receive applications through Native Authorities (local government councils) and after considering them they submit their recommendations to the Corporation Loans Committee, which sit at least four times annually to allocate loans. The Minister in charge of Corporation Affairs gives final approval to all loans before they are offered to successful applicants. This procedure may be placing considerable administrative burden on different bodies, limit the amount of credit which can be extended at any one time and the I.B.R.D. in its Report felt that the requirement of the sanctions of the Minister was an unnecessarily bureaucratic measure.

It will be noted that the Northern Regional Development Corporation has provided much less credit than its counterparts in the other Regions. On the other hand, by their own admission much of the credit given by these other Corporations has been misused. It is possible, therefore, to argue that the Loans Division of the N.R.D.C. has fulfilled its purpose more successfully than the others.

It is clear from a study of the loans made (by all the Development Corporations) during the period since the inception of the Local Development Board that the majority were given for ill-conceived projects. In many cases, the applicants had no intention of using the loans for the stated purposes. Some, who genuinely desired to establish new ventures, attempted to do so without any idea of the potential demand for their products, the actual investment required for their projects and the rate of return to be expected on their capital. The loans have assisted many people to acquire valuable real property but have not achieved the original objective, the improvement of agriculture and diversification of rural industry. The reason for this failure is lack of supervision by the staff of the Development Corporations. If the task of providing rural credit is taken seriously, then it is not sufficient to merely grant loans to applicants without ensuring that a stringent check is kept on the utilisation of the loans and the success of the assisted projects. If this is not done, there can be no economic justification for withholding a portion of the farmers' income on the grounds that Government is better placed to invest the money wisely. From the composition of the Boards, it is clear that political considerations were paramount in the appointment of members and in such a state of affairs the hands of even the most senior executives are tied. Stricter supervision by an expanded staff is the only way to improve the productivity of loans made by both Eastern and Western loans divisions. In all Regions, there should be a period of grace to allow the project to be properly established. The practice of charging 2/- to 10/6 for all application forms is a useful means of singling out the fairly feasible project. This is already being done by the W.R.F.C. A processing fee (W.R.F.C. charges £2.10/- or $\frac{1}{5}$% whichever is the greater) should also be introduced by all the Corporations, to defray at least part of the cost of initial investigations.

Loans should be granted in instalments; for example, the initial portion of an agricultural loan could be limited to the cost of the tools required and the cost of developing that amount of land which could be developed in the first year. Subsequent instalments would be advanced only on the basis of satisfactory progress reports.

In an effort to check the misapplication of funds, that portion of a loan intended for the purchase of machinery should be paid direct to the supplier of the machinery while, for necessary buildings sufficient money should only be advanced to facilitate the completion of one stage of the building at a time. The borrower should not be permitted to put up buildings when there are suitable buildings available for rent. This might limit the tendency to sink the greater part of a loan in a magnificient edifice, caring nought for the other items which are required to set up the industry properly. However in many cases the available buildings may not prove suitable or the rent may be excessive.

It is interesting to note that the terms of some of the former agricultural loans resulted in farmers resorting to the very money lenders whom it was intended should be put out of business by the activities of the Corporation. A loan which required repayment of capital with interest in three years would have to produce a net profit of almost 40% per annum, or 20% if the farmer put up half the capital. During the period when the project is getting under way, interest only should be charged. The farmer will be able to meet this from the sale of materials won from clearing, and covercrops.

In 1956, the Colony Loans Board was succeeded by the Federal Loans Board. The Board was empowered to make loans for projects designed to further industrial development in Nigeria. In the 1955-60 Economic Programme of the Federal Government there is provision for £300,000 for the issue of loans to be administered by the Federal Loans Board. The vetting of applications is conducted at a very high level. The approval of the Federal Minister of Commerce and Industry is required for any loan in excess of £5,000 and of the Federal Council of Ministers for loans exceeding £30,000. The maximum loan is £50,000. Loans between £10,000 and £50,000 may be made anywhere in the Federation while sums less than £10,000 can be given to borrowers in the Federal territory of Lagos or within ten miles of its boundaries. Up to the end of March 1960 almost £185,000 had been issued to thirty-one applicants. The Board's capital is in the region of £450,000 which is a comparatively small sum, but since all the credit institutions are as yet in an experimental stage it is wise to curtail the amount of capital initially available.

The other publicly sponsored credit institution is the Revolving Loans Fund. This was established in 1959 to assist in the establishment, expansion or modernisation of industrial enterprises of a productive character within the Federation. The capital of £200,000 used to establish this Fund was provided to the Nigerian Government from funds provided under the Economic Cooperation Act of 1948 to promote productivity in industry within the U.K.

Normally loans from the Fund are within £10,000 to £50,000. The recipient, preferably a limited liability company partly owned by Nigerian interests, is required to enter into an agreement with the Federal Government to apply the loan for the purpose for which it was granted. Repayments may be made by means of equated annual instalments over a period not exceeding ten years. Interest charges are at current commercial bank rates. Applications are considered by an advisory committee appointed by the Federal Ministry of Commerce and Industry, composed a Chairman, non official Regional members and two officials of the Federal Government. I have been unable to obtain information on actual loans made by this Fund.

CHAPTER V

THE ROLE OF FOREIGN CAPITAL

(i) Private Investment

Historically, expatriate commercial enterprise in Nigeria was interested only in trading, first in slaves and ivory, later, in the 19th century, mainly in palm oil.[1] In the 20th century, with the advent of the British Administration and the increase in Christian missionary activity, trading activities spread inwards from the coast and became greatly diversified. Until the creation of the Marketing Boards in 1946 virtually all the produce buying was conducted by the (mainly British) expatriate companies, using Nigerians as middlemen. Even now much of the palm produce and groundnut buying and some of the cocoa buying continues to be done on behalf of the Regional Marketing Boards by expatriate firms, principally the United Africa Company. Similarly, the retailing of imported goods was done by expatriate enterprise, although some Nigerians acted as factors.[2] Before the Second World War there was scarcely any processing of exports, let alone manufacturing enterprise. It is only recently that the foreign firms and indeed, any firms have ventured into other fields of economic enterprise. This is the result of several factors. The attitude of Nigerians to the land was respected by the British Administration and the first Lord Lever's dreams of a Nigerian agricultural

(1) Detailed accounts of this period may be found in U.K. Hancock, Survey of British Commonwealth Affairs, R.I.I.A. Oxford 1942, Vol. II Part 2, pp. 154-298, and in K.O. Dike, Trade and Politics in Niger Delta 1830-1885, Oxfor, Clarendon Press 1956.

(2) See P.T. Bauer, West African Trade, Cambridge 1954, for a fuller description.

empire were effectively dampened by the then Governor, Sir Hugh Clifford in 1924.[1] As a result, there was little scope for the investment in plantations so characteristic of foreign enterprise in tropical countries. A comparatively small acreage was under plantation cultivation prior to the War.

Since the War, however, several oil palm and rubber plantations have been established by expatriate enterprise because of the more favourable attitude adopted by Nigerians themselves and of the willingness of Government to assist in the negotiation of leases. In an address to the Federation of British Industries Mission in January 1961, the Federal Minister of Trade said "we welcome plantation investment from reputable companies."[2] So far, foreign investment in plantations, palm and rubber, has been purely British, but the American Booker Brothers, McCannell and Company is currently finalising arrangements for participation with the Nothern and Federal Governments in a £3.75 million project for commercial sugar cane growing and milling in Northern Nigeria.

It was noted in the 1959 Economic Survey that since 1956 investment in plantations by new overseas commercial interests had virtually ceased. The main reason for this was attributed to the application to the plantation producers of the price fixing practices of the Marketing Boards. Most plantation investors would prefer to carry marketing risks themselves, and in fact, two Regional Governments have now decided that in future plantations selling produce to the Boards shall receive the equivalent

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(1) See A.N. Cook, British Enterprise in Nigeria, University of Pennsylvania Press 1943, pp. 261-266.

(2) Quoted in F.B.I., Nigeria an Industrial Reconnaissance February, 1961, p. 45.

of the Marketing Boards' net receipts.[1] Since, as has been seen in Chapter III, there is a large element of tax in the funds retained by the Marketing Boards and the plantation companies are already subject to Company Tax, this is a fair decision.

Prior to the last World War, the demand for most of the consumer goods imported was insufficient to warrant the creation of a domestic industry. Since the war, with the great increase in disposable income of a large part of the population resulting from high cash crop prices, more and more imported goods have be regarded as essentials and their consumption, as illustrated in Chapter I has increased considerably. The very great increase in capital expenditure by the Governments has led to an enormous growth in imports of construction materials and capital goods. In some instances the increase in consumption alone has been sufficient to encourage the establishment by expatriate firms of local manufacturing units - soap manufacture, brewing and cement production are examples.

Similarly, the processing of goods for export has been taken further with growth in volume of production, rises in freight rates and technical advance. An outstanding example of this is the creation by the United Africa Company of a £2½ million sawmill and plywood factory at Sapele in Western Nigeria. It is one of the largest factories of its kind in the world and employs more than 1,000 people. The establishment of this factory was made possible by the increased popularity of West African timber in Europe and America and by the considerable freight economies made possible by the export of sawn timber and plywood. "Even in

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(1) Economic Survey of Nigeria 1959, p. 38.

efficient sawmills, over half the weight of a log is lost as waste in the process of converting it to sawn timbers."[1]

Again, probably as a combined result of political pressure and the growth of competing Nigerian retailers, the expatriate firms have for several years now been withdrawing from much of the internal marketing of imported merchandise and from some of the produce buying. Many of their rural stations have been closed down and there has taken place, as it were, a retreat to the coast. In the larger towns, the expatriate firms have, however, modernised the retailing side of their businesses and built large multi-purpose stores similar to those in Europe and America. The shift of emphasis to industry has therefore been partly in order to find a new outlet for surplus funds and partly to satisfy popular sentiment. A great deal of even the retailing is now concentrated on technical goods, stocking of which requires considerable capital outlay, but where returns are quick and high.

Perhaps the other factor inducing the old-established expatriate trading firms to branch out into manufacturing has been the new entries, not into trading, but into manufacturing during the past three or four years, by firms of world wide repute. The expansion in this direction by existing firms may be seen as an attempt to retain their dominance. Of interest is the frequent association by, for example, the United Africa Company with another partner, well known in the new field, who puts up some of the capital and most of the technical expertise. The government is not alone in its dependence on outside managerial and technical skills.

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(1) United Africa Company, Statistical and Economic Review No. 23 September, 1959, p. 14.

The nationals of many countries are demonstrating their interest in the growing Nigeria market by investing in new industries and assisting in the execution of development projects. British, French, Italian, German and Dutch contractors are currently engaged on construction work. A cosmetics factory was established in 1950 by a Swiss. Americans have set up a plant in Kano for the production of household cutlery and aluminium ware and silver plating. The new cement factory at Ewekoro, costing £4-million, was financed jointly by the Western Nigerian Development Corporation, Amalgamated Portland Cement Manufacturers Ltd., and the United Africa Company Limited.

Another former merchant trader, John Holt (Liverpool) Ltd. has shares in factories producing metal windows and doors, asbestos cement products, beer, stationery and in a tannery. The Compagnie Francaise de L'Afrique Occidentale has a share in the Nigerian Pre-stressed Concrete Company Ltd., as does one of the large contracting firms, Taylor Woodrow. An Italian/Belgian group has a 57 per cent share in the £450,000 Asbestos Cement Products (Nigeria) Ltd. Canadian interests provided most of the capital for the two factories of Aluminium Products Ltd.

Much of current British investment is coming from firms which are world famous in their fields. The Dunlop Rubber Company's Nigerian subsidiary has invested £3 million in a 20,000 acre rubber plantations near Calabar, part of which will shortly come into production. The same firm is building a £2-million tyre factory near Lagos, while Michelin is investing £3-million in a similar factory in Port Harcourt. Turner & Newall are constructing a £1 million asbestos cement factory in the

East, 80 miles from the Nkalagu cement factory. Whitbreads are to build a brewery in Abeokuta costing £1 million and there is talk of establishing another one in Eastern Nigeria. British book and stationery printing firms are going into partnership with the Western and Northern governments in the establishment of two projects costing £300,000.

By far the largest expatriate concern in Nigeria is the long established United Africa Company, with an investment which amounted to £48.5 million at 31st March, 1961.(1) An additional £12.75 million is invested in Palm Line, a fleet of merchant ships trading between Europe and West Africa. The company has the advantages of its association with the parent Merchants. As indicated above, merchanting continues to be the main activity of the U.A.C., but it is becoming more specialised, concentrating on large retail stores, machinery sales and wholesaling (there are indications that the latter may also be falling off as Nigerian traders achieve closer personal contact with overseas exporters). There has recently been considerable diversification into manufacturing and processing and such ventures include sawmills, plywood and soap factories, the manufacture of plastic products, cotton weaving and motor vehicle assembly. A United Africa Company associate, Pamol, has 10,000 acres of oil palm and rubber plantations in the old Calabar Province.

Israel is making a bid for a share of the Nigerian import market by granting loans tied in great measure to Israeli goods. This has also led to some Israeli investment in Nigeria. The largest building and construction firm in Israel, Solel Boneh, owned by the federation of

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(1) Daily Times, May 4th, 1961

trade unions, Histadrut, has gone into partnership with both the Eastern and Western Nigeria Development Corporations to form the companies of Eastern Nigeria Construction and Furniture Company and of Nigersol Ltd. As indicated in chapter IV, financial control is to be retained by the Nigerian partner in each case, but the Israelis provide the general managership. Another Israeli firm has joined the ENDC to form the Eastern Nigeria Water Planning & Construction Company. It has recently been announced that a drug factory costing £300,000 is to be built by an Israeli firm at Aba.

There is currently considerable interest in the United States at both private and governmental levels in investment in Nigeria. The joint £600 million capital development programmes of the various governments are expected to be financed to a very great extent (at least £80 million) by the United States Government and there are many private investment schemes in the offing, the largest being the establishment of an iron and steel complex.

In January 1961 the Federal Government gave a consortium led by the Westinghouse Electric International Company permission to carry out a detailed study, before plans and specifications and propose the capital structure for such an industry. The survey was financed jointly by the Westinghouse consortium and the Rockefeller Brothers Fund. The report of the survey has been presented to the Federal Government who are at present giving it careful consideration while at the same time retaining a firm of German consultants to make an independent study of the possibilities.

Should the American proposals be accepted by the Government, it is estimated that an investment of about £28 million will be required.

The company will be registered in Nigeria and will make provision for equity participation from Nigerian sources, but in view of the large scale nature of the investment, it is thought that most of the capital will be found by American organisations and perhaps the U.S. Government. The establishment of an iron and steel industry has long been desired by Nigeria's political leaders and indeed there has already been some mild controversy over the choice of location. A steel scrap smelter and rolling mill is at present being built seven miles from Enugu. This is preliminary to what the East Regional Government hopes will be a fully fledged iron and steel industry at or near Enugu based on nearby iron ore and limestone deposits and using Enugu coal, the demand for which by both Nigerian and Ghanaian railways has dropped in recent years. Overseas steel interests have during the past two years been exploring the possibilities of basing the industry on Enugu deposits, at the behest of the East Regional government. Extensive deposits also exist near Lokoja and it is to be hoped that eventual decisions on location will not be bedevilled by political rivalries. The Federal Government has already stated its position. "In considering the location of industrial enterprises in which the Federal Government participates, only economic factors will be allowed to influence the location."(1)

If the industry is established as envisaged, the participation of large American engineering interests with heavy capital backing will ensure that the enterprise is run efficiently. Before promising to put up

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(1) Federal Government Printer, The Role of the Federal Government in Promoting Industrial Development in Nigeria Lagos 1958, p. 12.

such a large amount of money, they would naturally make completely certain that the project is viable and will subject it to more searching scrutiny than would be likely to come from a Nigerian government sponsored investigation, almost committed before it began to a favourable verdict. The proposed financial backing is also preferable to any managing agency agreement which might have been advocated and which has proved disastrous in other cases. Westinghouse International's Regional Director for Tropical Africa stated when the survey was begun that it was hoped that the final proposals would provide a basis for increased trade between Nigeria and her West African neighbours. This intention is also in accord with the wishes of most of the new African governments to improve inter-regional trade.

The investigation into the possibility of establishing an iron and steel industry is only one of many evidences of American public and private interest in Nigeria. As noted in chapter II, the Chase Manhattan Bank of New York opened its first West African Headquarters in Lagos in February 1961. Chase International Investment Corporation is putting up a third of the share capital and 35% of the debenture capital in the new £1¾ million textile factory on Ikeja Industrial Estate in which the Western Nigeria Development Corporation and an Italo-Swiss group are also participating.(1) The National Bank of America was the first American Bank to open a branch in Nigeria, in late 1960. The Southern Star Shipping Company of Texas is investing £2 million in a flour mill at Apapa, Lagos. The interest

(1) West Africa, 7th January, 1961, p. 1.

of Booker Brothers in commercial sugar cane growing has already been mentioned.

An office opened in Lagos in 1958 by the Rockefeller Brothers Fund will help to prepare and document schemes which might otherwise be too small to interest overseas investors. As the National Economic Council points out, "the future industrialisation of Nigeria will depend to a large extent on the starting up of what initially will be comparatively small businesses and it is not an economic proposition for overseas investors to spend the time and money required to obtain and analyse all the necessary information about local conditions, sources of material, market prospects etc. unless the project in question is a substantial one. If however, this work has already been done by bodies of international repute, it may help overseas enterprises to consider participating in somewhat smaller businesses."[1]

At the government level, there is an increasing number of Agency for International Development personnel in Nigeria. Several are demonstrating new techniques of poultry raising to farmers in different parts of the country, while others are helping carry out soil surveys. Michigan State University has provided much of the advice and initial staff for the new University of Nigeria at Nsukka. A.I.D. is aldo connected with this scheme and is interested in participating in the agricultural department to be set up there. The United States Development Loan Fund is considering applications for assistance with road development schemes.

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(1) Economic Survey of Nigeria 1959, p. 67

The Ford Foundation has now a resident Representative in Lagos. So far it has been mainly concerned with the training of personnel for public administration. The present resident Representative, first visited Nigeria in July 1958 at the request of the Western Region Government to study its problems of public administration training. As a result of his survey, further instructors came out to train Nigerian instructors. Similar surveys of training needs more subsequently conducted in the East and North. A Ford grant of \$65,000 was made in February 1960 to enable the Institute of Public Administration at Zaria to expand its training programme for local councillors. The A.I.D. will, jointly with the Northern Region Government, provide much more money for the scheme as it gets under way.

Grants have also been made by the Ford Foundation to University College, Ibadan for, among other things, the expansion of library facilities and buildings for visiting lecturers, and to the Nigerian Broadcasting Corporation to help develop a broadcasting programme for secondary schools and teacher training colleges. Two American economists have been seconded by Ford to the Federal Ministry of Economic Development to help prepare the next development programme. Three economists sponsored by Ford made an economic survey of the Eastern Region during the wet season in 1960 and one is continuing to work with the Economic Adviser for a further 18 months. According to a recent article, "in no other territory in Africa has similar concentration of activity thus far been attempted."(1)

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(1) F.X. Sutton, "The Ford Foundation's Development Programme in Africa", African Studies Bulletin Vol. III No. IV. December, 1960, p. 6.

The American magazine, Time, normally rather caustic in its remarks about African leaders and trends in newly independent African states, has adopted a very benevolent attitude to Nigeria. The conservative nature and moderate approach of the Prime Minister is praised and the apparent political stability of the country commended. This approach by papers widely read in the American business world has helped foster a favourable attitude to Nigeria among potential investors. It is likely that the United States Government sees in Nigeria a possible ally on the African continent. A high official in A.I.D. informed an acquaintance of mine that their entry into Nigeria was "geared to Britain's withdrawal." This may be a metaphorical manner of speaking but it nevertheless illustrates the current attitude in American government circles.

The Greek, Syrian, Lebanese and Indian trading companies have long shared a considerable part of the market for imported goods. They have not been so quick to diversify as the British and French firms, although two have entered motor vehicle retailing and one, A.G. Leventis, is a leading figure in the hotel business and is connected with the new luxury Federal Palace Hotel in Lagos. The Report of the Advisory Committee on Aids to African Businessmen complained of Syrian and Lebanese speculation in real estate and recommended that foreigners be prohibited under the Immigration or Aliens Ordinance from participating in real estate business other than properly planned new building estates such as that at Palmgrove Estate at Ikeja, built by the Italian contracting firm Cappa d'Alberto.

There is a general dislike and suspicion of Levantine traders in Nigeria similar to the suspicions of minorities manifested in most countries, particularly when they are engaged in commerce. There are allegations that they are secretive, dishonest, and that they have been unfairly assisted by the banks at times when they had no more security to offer than many Africans who were unable to obtain credit. That they have attracted more dislike than the European trading enterprises probably emanates from the fact that they in many instances compete with the African trader on his own level. Many arrived in Nigeria with little or no capital and achieved their present eminence in trading by extreme thrift. Where an Englishman generally requires a standard of living many times higher than that of the average Nigerian, the Syrian or Lebanese businessman, when starting is content to sleep on a mat on the floor of his little shop until he has turned over his capital sufficiently often to have expanded his business considerably. He is prepared to spend all his waking hours at work. Similar reasons for success have been advanced in the case of a few European, though not English businessmen. One of the wealthiest contractors in Nigeria, an Italian, was, it is said, cycling about the streets of Enugu only five or six years ago. The Syrian is thus disliked simply because he is a more efficient businessman and ploughs most of his money back into his business. It is something for which the consumer might be grateful.

The Report mentioned above attacks Syrian and Lebanese enterprise as being essentially a form of family partnership "into which it is inconceivable that the African will ever be admitted even at the lower level."(1) The Committee was unable to find a single instance of genuine partnership between African and Syrian or Lebanese businessmen. This antipathy to the Levantine creates a favourable attitude to the European businessman. "It is really to him (the European expatriate) that Nigeria must look for partnership which can truly be of mutual benefit.(2)

(1) Report op. cit., p. 50.
(2) Report op. cit., p. 51.

Mr. Zarpas, a Greek, sold his Lagos bus service to the Town Council in 1958, while more recently the West Regional Government has bought up the Southern part of Arab Brothers, a company which operates garages and acts as manufacturer's agents for Hillman, Humber and Sunbeam cars. The Northern Government has bought up the Northern part of the business. However, it is interesting to note that three or four of the seven board members of the Bank of the North, established in 1959 are Levantine. All the others are of Northern Region origin. The common bond of Islam may matter here more than nationality.

(ii) Domestic Attitudes to Foreign Private Investment

With current international interest in the problems of underdeveloped countries, there has been much discussion of the possible role which may be played by foreign funds in the acceleration of economic development. Historically, foreign capital has been of immense importance to the economic growth of virtually every country, including Russia and Japan, and especially to the United States of America, the Argentine, Canada and Australia. Today it is still responsible for a great deal of the investment activity in Australia and Canada, where it is beginning to be resented. The countries of India and Southeast Asia are extremely anxious for foreign capital, and western commentators are equally anxious that it should be provided. It has clearly become very important to the economic growth of such countries as the Union of South Africa and the Federation of Rhodesia and Nyasaland, as witness the concern of businessmen in the former country at the capital control flight of the past two years, and the various stringent exchange control measures taken by the Government of the latter in view of the constitutional uncertainty.

In Nigeria, as we have seen, indigenous enterprise in what may be termed modern economic activity is only in its infancy and is confined to certain well-defined occupations. The onus of the development effort has fallen on Government's shoulders almost by default. However, because even government has comparatively limited funds and most must be disbursed on recurrent social services and on the provision of basic facilities such as roads and schools, the amount of finance which government can provide for investment in commercial undertakings is strictly limited.

A description of the activities of the Federal and Regional Governments in the establishment of plantations and new industries has been given in Chapter III. Some of the projects financed from government funds have already given proof of their inherent profitability. Others show promise ofeventually becoming viable. Some have been lamentable failures for various reasons, including choice of the wrong project or poor management. But, taken together far less money has been invested in industrial and other commercial projects by government than was spent by Shell Petroleum Development Company over the past twenty years in its search for oil. The total acreage of the Eastern Nigeria Development Corporation's plantations for example is only three quarters of the area covered by foreign private concessions in the Region. The area planted is less than the 10,000 acres planted by the Dunlop Nigerian Rubber Company alone on its 20,000 acre estate near Calabar.

Plantations in the Eastern Region

Company		Location	Area in acres Planted	Total
Rubber -	Dunlop Nigeria	Calabar	10,016	21,061
	Oban	"	6,342	11,578
	Pamol	Ikotmbo	3,436	3,696
Oil palms	PAMOL	Calabar	6,729	6,852
	ENDC	Calaro	3,658	11,749
		Kwa Falls	2,700	5,871
		Elele	-	3,200
Cocoa	ENDC	Ikom	922	1,496
		Umuahia	-	2,000
		Abia	-	4,000
Cashew	ENDC	Udi	-	1,804
Coconut	ENDC	Bonny	865	1,200

Source: Investment Opportunities in Eastern Nigeria, p. 30

Backed by organisations able to draw on worldwide resources, the two companies mentioned are outstanding examples of the relative wealth and strength of enterprises based in the more developed countries. The vast investments in Nigeria of the United Africa Company have just been mentioned. In view of the virtual lack of any sizeable indigenous enterprise, the scale of the efforts of the governments shows just how short of capital Nigeria is.

It is of course possible for a country to pursue a policy of economic development while excluding foreign capital. Many factors determine the rate of economic growth. Some economies have more varied or richer resources than others and are therefore less dependent on availability of foreign exchange. Some have entered a phase of intensified economic growth with greater reserves of skilled manpower than others. The ability to mobilise the labour force effectively has varied from country to country. A government may prefer to adopt a passive attitude to economic development rather than permit any foreign commercial influence to enter. Probably the extent to which the government of a poor country will encourage foreign investment will be a measure of the speed with which the government desires to modernise the economy. It is arguable that by pursuing a policy of economic nationalism which frowned on foreign intruders, a self-reliance might be developed which would stimulate economic growth, but, unless popular sentiment is already strongly xenophibic, this result is unlikely.

Pursuing a closed door policy is bound to impose limitations not only on the amount of capital available for development, but on the availability of the technical knowledge without which any structural change in the economy is bound to take a very long time. The intangibles which accompany private foreign investment can contribute considerably to the rapid growth of the economy. Managerial skill is even scarcer in Nigeria than is administrative talent.(1) The attitudes of foreign private business management may have a profound effect on both its own labour force and on rival indigenous

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(1) Although see A.O. Hirschman The Strategy of Economic Development 1958, pp. 154 - 155 for the view that administrative processes "are intrinsically harder to master than production jobs."

management. For example, those at the head of a foreign firm are generally sufficiently articulate to make government aware of their opinions on matters of policy which affect them. Indeed the expatriate commercial lobby has often been accused, in Nigeria as elsewhere, of being too well organised and too articulate. But it is evident that there are possibilities for good as well as bad in this facility to express oneself. Measures inimical to the climate of business in general can be demonstrated to be so and a service thus rendered to the economy.

The labour force of the expatriate enterprises will normally be more strictly disciplined than in indigenous enterprise and will acquire the characteristics of punctuality, good workmanship and eventually pride in doing the job properly which are the necessary attributes of a good labour force anywhere. A pool of skilled labour will be built up much more quickly than it would if reliance were placed solely on those enterprises established by government or its agencies. Additional employment will be provided and this is important not so much because population is rapidly increasing but because the number of school leavers is constantly growing.

As with any investment, foreign investment stimulates subsidiary activity, for example in the transport and materials supply industries. Shell Nigeria, for example, makes over £1 million worth of local purchases per annum and employs many local contractors and sub-contractors, hires a great deal of Nigerian-owned transport and so on. Thus, there is a chain reaction caused by the initial foreign investment, the expansion of other enterprises is facilitated and new employment is created by this secondary growth also. The products of the foreign firms supply the domestic market, replacing, possibly at lower cost, imported goods and thereby contributing to the conservation of scarce foreign exchange. The strain on the ports is reduced. This is a very important factor in Nigeria where there are presently only two harbours capable of handling large quantities of goods - Lagos and Port Harcourt - and where, despite a great deal of recent expansion, delays in turn round are frequent. Finally, the taxes paid by the foreign firms help the exchequer. (This is offset to some extent by any tax concessions made to induce the firm to establish in the first place and by the reduction in revenue received from duties on the previously imported goods.)

Given the objective of the most rapid economic growth compatible with the maintenance of national sovereignty, government policy must be to encourage as much foreign investment, both public and private, from as many sources as possible, while at the same time attempting to ensure that there are effective safeguards against future domination by foreign interests. Judging by recent events in other parts of the world, it is obviously undesirable to permit all or most foreign private investment to come from a single source. Many of the developing countries who are eager for foreign assistance in their development effort are encouraging investment from countries whose nationals and indeed governments are unlikely ever to combine to exert political pressure on the recipient country.

If it is to attract maximum attention and consideration from would-be investors or benefactors, the low-income country must go out of its way to advertise its resources and needs to the outside world. Legislation must be tailored to suit ambitions in the field of economic development. Immigration policy with respect to foreign companies and their employees, for example, must be in accord with government's attitude to the foreign entrepreneur. Government must make as explicit as possible the terms on which it is willing to permit foreign enterprise to establish undertakings.

Not only government but private conduct is relevant here. Regularly appearing newspaper articles abusing the activities of foreign capitalists with no specific allegations against anybody can create an atmosphere of hostility towards foreigners, or at least, foreign businessmen. Even if not prepared to silence such commentators, if the government of a low-income country earnestly desires foreign investment it must take steps to make its own stand clear in the national press also, since silence may be taken for assent.

Fears of expropriation are enhanced by the unguarded statements of people who, to the outsider unfamiliar with the local political set-up appear as spokesmen of their respective governments. The speed with which President Nkrumah sought to rebut allegations by a section of the press that Ghana was ready to nationalise foreign trading companies and the severity of the measures reported to have been taken against those responsible for the rumour, are an indication of how sensitive national leaders are on this subject.[1]

There is a possibly not unnatural ambivalence in the attitude of Nigerian politicians to new private foreign capital investment. On the one hand, we have joint government statements of 1958 which welcome such investment, subject to certain conditions, and the frequent speeches of the Federal Minister of Finance, Chief Okotie-Eboh in

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(1) For full text, see "Dr. Nkrumah Re-states his Policy," West Africa, October, 15th 1960, p. 1179.

which he almost demands it, and on the other we have cries from members of the NCNC, the junior partner in the Federal Coalition as well as from the opposition, that the country is being sold to foreigners. Some of these utterances may increase the fears of potential investors, unsure of the strength of government and of the weight of official statements on the safety of investments.

In October 1960, the Publicity Secretary of the Eastern Working Committee of the NCNC published a pamphlet,(1) immediately disowned by the Party, in which he stated that it was the policy of his party to nationalise "all enterprises exercising a dominant influence over the people's livelihood". This immediately created a furore in government circles in Nigeria and brought blunt denials from the National President of the NCNC and Premier of the Eastern Region, Dr. Okpara. In both Federal and Regional Houses, questions were asked and the leaders of the NCNC reaffirmed that no new nationalisation was contemplated by the party. In January 1961, the Federal Minister of Trade, addressing the Federation of British Industries Mission in Lagos, stated that, "we have no plans whatever for nationalising industry to any greater extent than it is already nationalised. As you are aware, our public utilities are statutory bodies, but apart from these I can assure you that nationalisation plays no part in our plans for the future."(2) It is to be hoped that this is the last word on the subject at the present time, for all the glossy pamphlets produced with the aid of the Economist Intelligence Unit or British or American advertising agencies will be of little avail in

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(1) On the Party, Enugu 1960

(2) West Africa, 21st January, 1961

attracting foreign investment if irresponsible statements continue to occupy large space in the press.

At the first publication of the alleged NCNC plan to nationalise, the unofficial mouthpiece of the Action Group, the "Daily Express" complained that the statement would frighten off foreign investors. Yet recently, now that the NCNC has denied that this forms part of its programme, the Leader of the Opposition in the Federal House of Representatives, Chief Awolowo has been addressing rallies throughout the country saying that nationalisation in the future cannot be ruled out. However, in his autobiography(1) Chief Awolowo says, "we must do everything in our power to create conditions in all parts of Nigeria which will be favourable to the admission of foreign capital and technique. But in the interest of ourselves and of the foreign investor himself, certain conditions must be stipulated for the admission of foreign investment. First, the foreign investor should undertake to train Nigerians in modern industrial and business techniques with a view to their taking over, at an early date, the operation and management of the ventures concerned; secondly, he must be prepared to admit Nigerian capital into partnership with his own, such capital being provided either by the government or any of its agencies or by Nigerian private businessmen; and thirdly, he must agree that if the interests of Nigeria so dictate he will readily and voluntarily surrender his shareholding in the venture concerned on payment to him in full of the prevailing market value of his shares." This is a straightforward statement and is not likely to frighten off the potential investor.

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(1) <u>Awo</u>, Obafemi Awolowo, Cambridge University Press 1960, p. 315.

It seems likely that the opposition is merely opposing the stated policies of the parties in power for the sake of opposing. It is interesting to note that the Action Group Government of the Western Region is actively seeking foreign investment in the Region, preferably in partnership with West Regional capital.

Some well-known and popular Nigerians are at present on the Boards of expatriate firms established in Nigeria. Indeed, this is a form of "window dressing" in which many expatriate enterprises indulge in order to counter allegations that their commercial policies are directed from outside the country. Of course, the allegation is not really answered by such a practice and the practice may be dangerous if it becomes too obvious that those appointed know nothing and care less about the activities of the concerns on whose board they sit. This is true in several instances and has already led to personal attacks on the Nigerians involved who are accused of permitting their desire for money to cloud their sense of responsibility to the nation. If on the other hand, as in some other cases, the appointment is made because the individual is well known and respected and eagerly sought after for his experience, this new policy can be valuable to all concerned. The Advisory Committee on Aids to African Businessmen criticised the practice of creating what it called 'paper Directors'. Its view was that the relationship between foreign and indigenous businessmen should be such that Nigerians became more experienced in the actual practice of business. "What is needed is the more genuine form of partnership in which the indigenous partner has some of the equity or risk shares and can learn how business decisions are made."(1)

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(1) Report, p. 52

The fact that many of the most influential politicians have accepted Board appointments is mentioned to show that suspicion of expatriate firms is frequently sentimental rather than deep-rooted.

The dangers of a strong commercial lobby are well known. But as Professor Higgins has said, "certainly big business tends to exert an influence on government policy in any country where it exists; but this fact is no less true when the big business is owned by nationals than when it is owned by foreigners and the foreigners are often easier to handle, just because they are foreigners with less influence on the elctorate, than nationals would be."(1)

In Nigeria, it is well-known that indigenous businessmen, especially the large contractors have considerable influence with the political parties and it is widely believed that this influence has at times been used improperly to secure concessións which should normally not have been granted and contracts which would have been executed far more competently by other contractors. As far as contracting firms in Nigeria are concerned, for large projects it is often positively desirable that foreign firms with reputations to keep should be invited to undertake the construction work.

Complaints from indigenous contractors can be nollified by retaining certain classes of work purely for them. In fact, all the governments keep a classified register of contractors and invariably the expatriate organisations occupy the first two categories. It obviously would not pay a foreign firm to enter the market for as small stakes as individual Nigerians. Because of the difficulties encountered by Nigerians in obtaining capital, technical skills and good management, they have rarely been

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(1) B. Higgins <u>Economic Development</u>, Norton 1959, p. 432.

able to acquire the ability to undertake the more expensive projects. In the East those who in the past secured large government contracts, almost invariably executed the work poorly or ran out of funds before completing the contract, thereby costing the Regional government large sums of money and ensuring that projects were not completed for years after the envisaged date. Obviously, the award of those contracts to some expatriate foreign firms would have been far more beneficial to the economy. This is being realised increasingly by politicians who have previously allowed their nationalist sympathies to sway their judgment.

As Maurice Zinkin has said in another context, "the countries of Asia themselves must recognise that the foreigner can help; they must cease to see in every foreigner bearing gifts (or simply an investment on which he hopes to make a handsome profit) a Trojan horse came to infiltrate their new independence."(1) There is no doubt that the foreign firms at present operating in Nigeria and those considering establishing businesses there, are concerned primarily with profit. There is also little doubt that they will not be content with profit margins as low as they would accept in the industrialised countries where they have hitherto operated, in view of the political hazards and comparative lack of external economies. To balance against these considerations, there is of course the desire to capture a large part of growing market. This has been noticeable for example in the tender bids made by the large firms of contractors. In an attempt to break into the market these firms have often bid low on their first contracts and succeed in obtaining the job. But since overheads are

(1) Maurice Zinkin, Development For Free Asia, Chatto and Windus, 1956, p. 53.

heavy and it is difficult to obtain a consietently high level of work, there has been a tendency to raise bids for later contracts replying on good past performances to secure them.

Against the high profit margins sought must be set the relative efficiency of the enterprises and, in the case of contractors, their speed in execution of work. A road which is anxiously awaited because of the impact it will have on the economy of an area will obviously be worth paying more for if it is completed in 12 months instead of 24. The delays in implementing a programme should be regarded as involving net losses to the economy in terms of the benefits which would have resulted from earlier investment.

As mentioned in the joint Government statement on foreign investment, the Federal Government has introduced various fiscal measures to encourage industrial development. Companies engaging in what are declared pioneer industries are granted income tax relief. Where it is considered that Nigeria's economic requirements are not being fully met by existing industry and where it is considered in the public interest to encourage that industry, a declaration of pioneer status is made. The following is a selection of only of industries which have been declared pioneer:

Growing and processing of sugar cane
Milling of cereals
Hotel keeping and catering
Manufacture of cement
Canning of foodstuffs
Manufacture of salt, textiles, pharmaceuticals, carbon dioxide gas, agricultural fertilizers from materials of Nigerian original or substantially the product of local processing, iron and steel and their processing, rubber goods.

The Industrial Development (Income Tax Relief) Ordinance 1958 provides tax holidays for companies granted pioneer certificates. A pioneer company qualifies for income tax relief for two years from the date on which it begins production. Extensions of one year where the qualifying capital expenditure is £15,000 or more, two years for £50,000 or more, and three years for £100,000 or more are granted while additional periods equivalent to each accounting period in which a company enjoying relief suffers a loss may be given. The trade of a company operating a plantation is deemed to begin on the date when planting first reach maturity. In accordance with the Industrial Development (Import Duty Relief) Ordinance 1957, relief on import duties may be given for an agreed period <u>not exceeding ten years</u> through the repayment of the whole or part of the duty payable on materials to be used to manufacture or process goods or to provide services if this is considered to be to the overall economic advantage of Nigeria. These refunds may be made if,

(a) without such repayment the goods in question could not be produced at prices competitive with comparable imported goods, or at prices at which an adequate market could be found in Nigeria;

(b) it is shown that the duty on the materials used is a greater proportion of their landed value than is the duty on the imported article made from the material in relation to the landed value of the imported article;

(c) the imports consist of fixed plant or materials for such capital assets.

In addition to the reliefs mentioned above, generous allowances on capital expenditure enable the early writing down of most capital expenditure and expenditure qualifying for capital allowances during the tax-free holiday period for pioneer industries is deemed to be incurred on the first day after that period. The normal provisions for allowance then apply so that the benefits of both forms of relief are obtained.

A guarantee has been given that profits and dividends arising from sterling and non-sterling capital investment in approved projects may be freely transferred to the country of origin and that such capital may be repatriated at will.(1)

There is, of course, a danger that the tax and other concessions made to many companies to induce them to establish what are considered to be pioneer industries may be unnecessary. It is difficult once such inducements are available, to know whether without them the enterprises would have been established in any case, at far less cost in lost government revenue. The 1957/58 Annual Report of the Eastern Region Ministry of Commerce, Heavy Industries section, mentions the anxiety of representatives of Messrs. Williams & Williams when negotiating to set up the metal window factory in Port Harcourt, that a pioneer certificate be granted them. It is not clear whether they would have been prepared to go ahead without it, but if they were, then this concession represents unnecessary loss. Subsidies or protective tariffs to enable newly established industries to 'compete' with overseas manufactures are also frequently not in the interests of the community at large. The consumer has to pay more for the domestic substitute. Against this may be set any costs of otherwise maintaining or employing those given new employment, the saving in foreign exchange, the secondary developments resulting from the establishment of the new project and the possibility that after the tax relief period the industry will no longer be an

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(1) See The <u>Role of the Federal Government in Promoting Industrial Development in Nigeria</u>, Sessional Paper No. 3 of 1958, Lagos, p. 7.

inexperienced pioneer but a sturdy independent. Some new expatriate firms have made their appearance in Nigeria as manufacturers' agents and this has been attacked as a backdoor means of adding to the number of expatriates engaged in retailing. The following extract from the Report of the Advisory Committee on Aids to African Businessmen shows clearly how strong Nigerian[1] feeling is on this matter:

> "There are consistent complaints by African traders that, contrary to the declared policy of the Government of Nigeria, expatriate firms in the guise of manufacturers' agents are actively engaged in retail trade throughout the country. Government should devise ways and means of enforcing its policy in this respect and effectively exclude expatriate firms from ordinary retail trade. Even the long-established expatriate firms which have licence to engage in general retail trade should be persuaded to restrict their activities in this connection, and not indulge in cut-throat competition with small African traders in the local markets."(2)

That this sentiment may not be in accordance with a policy best suited to the needs of Nigeria as a whole must be stressed. The Report is an attempt to advise Government on policy which would favour the growth of a class of Nigerian businessmen. It goes without saying that a measure introduced to help a businessman of whatever nationality, may adversely affect the situation of the ordinary consumer who may be constrained thereby to purchase goods in a dearer market than might otherwise have existed. Professor Bauer has remarked that "it is often overlooked that the African interest vis-a-vis the activities of the expatriate firms is not homogeneous.[3]

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(1) The Committee was composed solely of Nigerians but for one expatriate who did not sign the final report because he had not been present at most of the meetings.

(2) Report op. cit., p. 67

(3) P.T. Bauer, "Concentration in Tropical Trade: Some Aspects and Implications of Oligopoly," Economica, 1953, p. 219.

In the same article after showing that in 1949 about 85% of the import trade was handled by European firms, he points out that the share of African firms would have been even smaller had not for reasons of policy preferential treatment been accorded them in the allocation of import licences for those commodities like flour and sugar subject to specific licensing.(1) "Since about 1949, the operation of specific licensing in the import trade in certain staples has increased materially the shares of the African traders in this activity. Perhaps paradoxically, the system has served to reduce the degree of concentration, but in a manner which has secured guaranteed and riskless profits to all recipients of licences, large and small."(2)

Import Licensing is now abolished, but the Immigration Ordinance still operates to keep new entrants out of retailing business. While this may possibly help struggling indigenous firms, it certainly has the effect of permitting the continued concentration of most of the trade in the hends of the existing expatriate firms. For it must not be thought that there has been a wholesale retreat from trading and redeployment of all capital in manufacturing industries. This is only a discernible trend and stated intention.

There have been Trade Missions from Nigeria to America, Europe, Israel and Japan intended to interest local businessmen in Nigeria and visits from German, Japanese, Italian and American Trade Missions to Nigeria, and in January 1961, the Federation of British Industries sent a strong team to examine possibilities for increased participation by British Industry in Nigeria's economic development. During the summer of 1961 the Federal

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(1) P.T. Bauer, op. cit., p. 208.
(2) P.T. Bauer, op. cit., p. 219.

Government sent a strong team consisting of representatives from both Federal and Regional governments to visit Russia, Czechoslovakia, Poland, China, Pakistan, Hong Kong, Japan, United States, Canada and the United Kingdom. The second stage of the tour was to Netherlands, West Germany, Scandinavia, Yogoslavia, Switzerland, Italy, Lebanon and Israel. The aim was to explore the possibilities of expanding trade between Nigeria and the countries visited and to facilitate the flow of investment capital into both private and public sectors of the Nigerian economy and widen the scope of technical assistance.

In view of the number of missions by Ministers of the various governments in the past, it is not clear why all those countries mentioned, some of which have been visited before, should have been on the itinerary for the most recent Mission. Nor is it clear that a team containing so many people is the best organisation for discussing investment in specific industries. It would seem that permanent officials rather than Ministers would be the most suitable people to visit other countries with a view to establishing commercial contacts. The three Regional Governments have all recently published guides to investment possibilities in their respective regions,(1) and negotiations are at present under way for the establishment of a considerable number of enterprises. There are, it would seem, many projects under consideration, for the Federation of British Industries in its report mentioned that the Minister of Commerce had been urged to "undertake a fresh review of the backlog of cases (being considered for pioneer certificates) already in his hands, and to

(1) Investment Opportunities in Eastern Nigeria, prepared by the Economist Intelligence Unit; Industrialists' Guide to Northern Nigeria, compiled in the Industrial Section, Office of the Agent-General for Northern Nigeria in the U.K. and designed and produced by John Brown and Carden Ltd.; Western Nigeria Gateway to Africa, printed and published by Patrick Dolan and Associates for the Government of Western Nigeria.

restate his policy in the matter in the simple but positive form we had advocated."[1] From personal experience, I am aware of the disappointment expressed by many visiting businessmen over the lack of essential services at the Trans-Amadi industrial layout at Port Harcourt. I would suggest that it is now high time that the efforts of the Ministers and their staffs were concentrated on the improvement of facilities in Nigeria itself, including rationalisation of legislation, and clearly stated policies on rents, which are more likely to result in increased foreign investment than are costly foreign tours.

(iii) Public and International Investment

As is the case with private foreign investment, by virtue of the former solonial ties, foreign public investment and lending in Nigeria has for long been prdominantly British. Only four years ago, the World Bank commenced lending, guaranteed by the U.K. Government, to Nigeria. During the forthcoming Six-year Plan it seems likely that public funds from the United States will far exceed any from either British or international sources.

The Colonial Development Corporation has, since its inception, been quite active in Nigeria. In 1959 it either owned or participated in 15 companies or projects.[2] It has pursued a twin policy of assisting with the provision of basic equipment for the economy and of participating in commercial projects intended to facilitate economic growth. In its early ventures, the C.D.C. did not meet with much more success in Nigeria than it did elsewhere. It was an equal partner with the Nigerian

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(1) Nigeria and Industrial Reconnaissance, op. cit., p. 37.
(2) Colonial Development Corporation, Report and Accounts 1959, House of Commons Paper No. 211 1960, p. 92.

Government in the management of the unsuccessful Niger Agricultural Project Ltd. at Mokwa, subscribed capital for which was £450,000. Baldwin considers however that if the project is viewed from its value from the research point of view rather than from the profitability aspect, the expenditure will not have been wasted, provided the lessons are learned.[1] Another Company, The West African Fisheries, was closed in 1953 after an unsuccessful attempt to develop a trawling industry. In 1950, the Corporation joined with some Nigerian and expatriate interests to form Omo Sawmills of Nigeria Ltd. to operate forest concessions in Western Nigeria. The cumulative loss to 31st December 1959 was £112,001. Profit for 1959 was £11 ![2]

The World Bank Report refers to the case of a factory planned at Onitsha in 1950 to make two million lbs. of cotton yarn and six million jute sacks annually. The scheme was abandoned in 1953, as recommended in an independent technical report made two years earlier, but not until £300,000 of the planned expenditure of £990,000 has been wasted.[3]

By far the most profitable of the Corporation's ventures has been its investment in the Nigerian Cement Company Limited, although it has only 187,500 of the 1.75 million £1 shares.[4] The first full financial year's trading to 31st March 1959 resulted in a net profit of £423,679; an interim divident of 7½ per cent was followed by a final of 2½ per cent in November 1959. Incidentally, this project is by far the most successful

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(1) K.D.S. Baldwin, The Niger Agricultural Project, Blackwell 1957, p. 183.
(2) C.D.C. op. cit., p. 99.
(3) I.B.R.D., The Economic Development of Nigeria, Johns Hopkins, 1955, pp. 384 and 386.
(4) C.D.C. op cit., p. 98.

of any in which the Governments of the Federation have invested. The first year's net profit reflected a profit of almost 4/- on each bag of cement. This profit was made possible by the cost of the large quantities of cement still imported and was achieved despite a considerable lowering of the price of cement inland from the ports. At the end of 1953, while the cost of cement dockside at Port Harcourt was 13/6, prices were 16/- at Onitsha and 18/6 at Enugu.(1) Today, prices in Enugu are around 10/6 per hundredweight bag.

Although the Southern Cameroons is no longer in Nigeria, it is worth noting that the C.D.C. has undertaken to invest up to £3 million to finance development of Cameroons Development Corporation plantations. In Nigeria, the C.D.C. is participatin equally in Ilushin Estates Ltd. with the West African Joint Agency and the Western Nigeria Development Corporation. When fully paid up, the C.D.C. share in this enterprise, which plans to grow 5,000 acres of rubber, will be £265,000. The C.D.C. owns the greater part of Coast Construction (Nige ia) Ltd. which has established a reputation for fine performance on Federal road contracts. However, it made a loss of £61,445 in 1958 and £30,890 in 1959.(2)

At Ikeja Industrial Estate, being opened up by the Western Region Housing Corporation, the C.D.C. will make available up to £500,000 for loans on mortgage for new factories. The Corporation has interests in housing developments and hotel companies and in land reclamation and development, but perhaps the most interesting ventures of recent years are in various companies which have been established to help foster investment. The Industrial and Agricultural Company Ltd. was opened in Enugu in

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(1) I.B.R.D. op. cit., p. 396.
(2) C.D.C. op. cit., p. 95.

Eastern Nigeria in October 1959. The share capital will eventually be £1,036,000 held by the C.D.C. and the Eastern Nigeria Government in the ratio of 32 to 68. The purpose of the company is "to assist the economic development of Eastern Nigeria by investigating, initiating and supporting commercial schemes in industry and agriculture."(1) The Corporation also holds 100,000 shares of issued share capital of one million shares in the Investment Company of Nigeria Ltd., sponsored by the Commonwealth Development Finance Company Ltd., at the request of the Nigerian Federal Government to stimulate and assist industrial investment in Nigeria.(2) Another development company is being set up by the C.D.C. and the Northern Region Government.(3) Since Nigeria is now independent, no new funds will be available for commitment and it appears that the investment in the development companies is an attempt to provide some assistance for the near future without yet having to take a decision as to what projects the funds are to be invested in.

United Kingdom Colonial Development and Welfare grants have been discussed in Chapter IV. These will not, of course, continue now that Nigeria is independent. In any case, the results of large doses of free money can be decidedly unhealthy for both recipient and donor. Once they begin, they may become regarded by the recipient country as their due and consequently, should the flow begin to slacken, the grantor becomes decidedly unpopular. The recent offer by the U.K. Government to subsidise the cost of employing British personnel in Nigeria, has been rejected by the various governments. For it is felt that

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(1) C.D.C. op cit., p. 96.
(2) Ibid.
(3) <u>Economic Survey of Nigeria 1959</u>, op. cit., p. 67

such subsidies may result in divided loyalties on the part of expatriate civil servants and that it would also be rather humuliating for a newly independent nation to accept such charity. An editorial in West Africa has suggested that, had the offer been made and considered prior to independence, it might have been more acceptable.(1) Other forms of assistance such as scholarships, are very welcome, for Nigeria has far more candidates eligible for entry into her universities than she can provide with scholarships or places.

Borrowing money abroad is probably the most acceptable form of obtaining external assistance for the development effort. The Commonwealth Assistance and Exchequer Loans obtained on October 1st, 1960 have already been discussed. Chief Awolowo, the leader of the Opposition in the Federal House criticised the "borrowing spree" during the debate on the 1960/61 Estimates. By 1960, the Federal Government would have borrowed £39 million. But such a level of external public debt is very inconsiderable and the charge on public revenue is still light compared to that of most countries. Of course, as the internal public debt rises, care will have to be taken to ensure that the economy is not saddled with a very high service commitment. Frequent criticisms have been made of foreign borrowing while Nigeria's sterling balances were so high. However, those balances are now falling as the balance of trade moves against Nigeria and as cocoa prices slump. Provided the loans are utilised for projects which will bring a high return to the economy, no fears need be entertained about the level of public debt. This proviso is an

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(1) There is a rumour that the subject has recently been reopened.

important one and several more instances of over-expenditure and mismanagement as occurred on the Ijebu Ode - Benin road project mentioned in Chapter III would result in a situation where the economy was forced to pay highly for the temporary relief of loans ill-spent.

International organisations are another source of economic assistance which Nigeria may be expected to use more in future than she has in the past. The United Nations Special Fund is currently aiding investigation of the proposed multi-purpose dam on the Niger, which the government hopes to be the central feature of the next development plan. The World Bank provided a loan of £10 million for the railway extension in North-Eastern Nigeria and Eugene Black and other representatives of the Bank visited Nigeria last year, lending support to the view that further assistance will soon be sought from this quarter. The United Nations Technical Assistance Board voted £450,000 for technical assistance to Nigeria in 1961/62.

The various six-year development plans have not yet been published in detail although some brief statements have appeared in the press, noting that there will be considerable emphasis on both agricultural and industrial development and that a very large part of the foreign assistance required is likely to come from the United States. Already the Agency for International Development has awarded a very large contract to the firm of Arthur D. Little to act as their industrial consultants in Nigeria.

It seems quite clear that the United States Government is making an early bid to capture the political allegiance of Nigeria. Even if much of the capital provided by the United States is in the form of grants or low interest bearing loans, many of the projects will require heavy recurrent expenditure once they have been established, and these current funds may not be found from within the economy for a good number of years to come. The only likely source is the donor of the original capital. It is to be assumed that Nigerian politicians on both sides of the Federal House are aware of these implications, but little comment has yet been aroused. The dependence on the United States may result in considerable friction in the near future and may well be responsible for the formation of political parties on more ideological lines than at present.

CHAPTER VI

Conclusion

The very small but rapidly growing industrial sector has caught the imagination of politicians and others responsible for spending government revenues. In some instances the growth in domestic production has been quite startling. The expansion of locally manufactured cement provides a ready example. The Nigerian Cement Company Works at Nkalagu produced 96,000 tons of cement in 1958. In October 1960, it began producing at the rate of 220,000 tons per annum and a second extension to bring capacity to over 300,000 tons has recently been approved. In 1960, the West African Portland Cement Company at Ewekoro began producing at the rate of 200,000 tons per annum. Only in 1961 did imports of cement begin to decline somewhat constantly rising residential and commercial construction and projects like the proposed Niger Dam which would alone use 300,000 tons of cement, provide a guarantee of support to an expanded domestic industry in the next few years.

A textile mill in Northern Nigeria, begun only in 1958 is currently producing about 32 million yards of cloth, while that being built at Ikeja in Western Nigeria will have a capacity of 18 million yards per annum. Large mills are being built at Onitsha and Aba in the East. There is ample room for continued expansion. Cotton production is growing in Northern Nigeria and in

1960 imports of cotton materials amounted to 208 million square yards worth £22 million.[1]

Two factories capitalised at £5 million are being built in Western and Eastern Nigeria to produce rubber tyres and tubes. Locally produced building materials, reconstituted milk products, margarine, canned food, soft drinks, beer, furniture, shoes, steel drums and tanks, have all recently made their appearance and so many projects are at present being mooted that it is difficult to forecast future industrial growth. If agricultural improvement is made the centre of the new Six-year Development Plans, no doubt there will be some petrochemical development based on the new refinery.

But current interest in the establishment of secondary industries by foreign investors ought not to be used to lend weight to the argument that industrialisation is the answer to economic growth. Statements suggesting this abound. For example, N. Chukwuemeka considers that "... for an undeveloped country like ours, industrialisation overshadows all other aspects of economic planning."[2] Such statements are evidence of wishful thinking. By comparing the economies of most poor countries with most rich ones it is immediately evident that the rich countries support large scale industry while, as a rule, the poor do not. It is too easy to conclude from this that industrialisation is a sine qua non of economic

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(1) Digest of Statistics

(2) Industrialisation of Nigeria, Washington D.C. 1951, p. 4.

development. While, as has been seen, the general reliance on an agricultural economy whose products are subject to the vicissitudes of a world market where the terms of trade tend to favour the producers of manufactured goods, is decidedly hazardous, the immediate solution to this state of affairs is not an all out attempt at industrialisation. In the first place, where are the resources to finance such a step? They must, obviously, come from either within or without the economy. If from within, then they can only be provided by agricultural surpluses. This, as was shown in chapters III and IV has been one of the main sources of finance for government sponsored development in Nigeria in the post-war period. But, as was also indicated, most of this revenue was used for general development of basic services and a little was put back into agriculture. Not more than £20 million has been spent by public agencies on industrial development in the post-war period. Some of that, as for example, the investment in Lafia cannery cited in chapter III, has been wasted. A few thousand people only have been given employment in those industries. Considerable investment by foreign private enterprise has been mentioned, but although a start has been made in the building of an industrial sector of the economy, the base remains agricultural.

Part of the difficulty in the way of rapid industrialisation lies in the high capital intensity of modern industry. In 1954 the United Africa Company conducted investigations into the initial capital required per worker in various industries.

Below are some of the results:

Project	Initial fixed and working capital required per worker £
Cement works A	13,150
Cement works B	6,500
Vehicle Assembly Plant	3,000
Plastics Factory	2,800
Textile Mill	1,375
Canning Factory	550
Singlet Factory	100 (excludes working capital)

Source: U.A.C., Statistical and Economic Review No. 23, September, 1959, p. 6.

Professor Lewis made what he considered to be a conservative estimate of £1,000 capital investment required per industrial worker in Ghana in 1953.(1) Inflationary tendencies must have increased this considerably since. The new textile factory at Ikeja will employ an estimated total of 1,000 workers at a cost of £1,750 per head. Thus, for investment in industry to have any significant effect on employment in Nigeria, the capital outlay would have to be enormous. It is estimated that all persons employed by government and by private businesses with more than ten employees numbered 447,370 in 1956 and 472,695 in 1958. There was thus a net increase of 25,000

(1) W.A. Lewis, Report on Industrialisation and the Gold Coast, Accra 1953.

in these categories in three years. Employment in manufacturing industry increased by just over 11,000, while almost 9,000 jobs were made available in plantation agriculture. Opposite is a breakdown by industry groups for the four years 1956 to 1959.

A brief look at figures such as this suggest that the line of development to be pursued may not be as self-evident as the Premier of Eastern Nigeria claimed when laying the foundation stone of an iron and steel rerolling mill in early 1961. The following extract from his speech shows an attitude of mind very common among enthusiastic developers with little knowledge of the technical aspects of the projects they espouse:

> "While therefore we agree that it may be prudent to give careful consideration to the learning of experts, there are some cases in which the line to be pursued appears to us to be completely self-evident. In such cases it is our duty to destroy the paralysis the experts' yellow files have injected into the country's industrialisation programme."

It is interesting to note that this very factory should have begun production in December 1961 but in April 1962 it was still not ready.

Dr. Aluko has remarked(1) "How often do we find that poor countries desire up-to-date factories, parliaments, buildings, universities and other trappings of a modern nation, not so much for the strictly material returns they are expected to yield,

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(1) S.A. Aluko, Economics in an Immature Society, Nigerian Journal of Economics and Social Studies, Vol. 2, No. 1, 1961.

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Industry Groups	1956	30th September, 1957			30th September, 1958			30th September, 1959		
	Total	Government (a)	Non-Government (b)	Total	Government (a)	Non-Government (b)	Total	Government (a)	Non-Government (b)	Total
Agriculture etc.	36,852	11,148	31,532	42,680	10,248	35,168	45,416	12,681	32,846	45,527
Mining & Quarrying	58,929	-	53,630	53,630	-	49,506	49,506	179	41,070	41,249
Manufacturing	21,387	6,005	25,569	31,574	5,535	24,158	29,693	4,758	27,637	32,395
Construction	101,944	56,345	54,863	111,208	62,926	60,920	123,846	67,033	35,864	102,896
Electricity	7,755	2,839	5,977	8,816	4,289	5,833	10,122	10,392	6,022	16,414
Commerce	45,070	1,792	54,773	56,565	407	45,291	45,698	1,281	40,894	42,175
Transport Communications	56,799	10,419	34,613	45,032	11,114	37,542	48,656	10,841	36,791	47,632
Services	118,503	112,853	11,029	123,882	109,858	12,931	122,789	114,178	30,228	144,406
Miscellaneous	131	1,276	915	2,191	2,243	375	2,618	-	-	-
Total	447,370	202,677	272,901	374,478	206,620	271,724	478,344	221,343	251,352	472,695

<u>Note</u> (a) Includes Federal Regional and Local Governments.
(b) Includes Public Corporations, Commercial and other.

<u>Source</u> Digest of Statistics October, 1960 and April, 1961.

as for the fact that they are taken as symbols of national prestige and economic development...." If the reason for misplaced emphasis is an inferiority complex rather than ignorance, there is hope that prudence will impose restraints before public investment becomes too distorted. All indications are that the new Development Programmes, while shorn of prestige projects, will concentrate on increasing productivity in agriculture.

"At any time, in any country, rich or poor, there is a conflict between the demands of growth itself and the demands which growth is supposed to serve."(1) Although Nigeria, like other underdeveloped countries, is anxious to achieve as rapid a rate of economic growth as possible, it should not be thought that this rate will be so rapid that there will be economic transformation overnight. The financial limitations to increased employment in what may be called the modern sector of the economy, whether in industry or in plantation agriculture, which tends to be highly capital intensive, have been pointed out. It has been suggested that a more radical approach to the problem of modernising the atomised, predominantly peasant, agriculture might achieve startling results.(2) But it is realised that the problems of communicating the possibilities of new methods to the illiterate farmer, although not insuperable, are extremely difficult. The prospects of

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(1) Eugene Black, The Diplomacy of Economic Development, Harvard University Press, 1960, p. 34.

(2) For example, whereas the average yield of cassava in Nigeria is about four tons per acre, new varieties have been produced yielding up to 30 tons, while new varieties of yam yield up to 9 tons per acre compared with the normal yield of two or three tons. See Nigeria Trade Journal, September 1960, p. 61.

the growth of cooperative activity among producers and of raising community development work to the level of a national campaign have been mentioned.

It is clear that there are many possibilities of growth in the Nigerian economy and that there is a growing awareness that rapid economic growth implies a choice between more or less productive ways of utilising saving, which, although small, is growing. But the 'demands which growth is supposed to serve' are also growing and because of this, policy which involves restrictions on social services and 'consumer services' such as health services and primary education will not be made easily. Here lies the difficulty; for it is difficult and probably impossible to decide how much primary education the economy can afford and how much is necessary for increased growth. It is of course, in a wider sense, desirable that everybody benefits from at least primary education, but when primary education costs take up more than half the Government's annual budget, as they do in Eastern Nigeria, or almost half, as in Western Nigeria, it is evident that universal primary education is being provided only at the expense of other services which may have a stronger case if the criterion for public expenditure is rapid economic growth.

There is a great danger that with the beginnings of industrialisation a realisation of the possibilities of economic development will force itself on the mind of the average peasant long before the process has been able to absorb a large proportion of the labour force or have much effect on the mass of the population apart from a psychological one. The saving factor may, perversely enough, be the structure of Nigerian society with its general lack of class barriers and the social mixing of all groups, whether Ministers of State or farmers and labourers. This and the systems of redistribution of income among members of the extended family which was referred to in Chapter II helps to blur the otherwise very high income differentials which are present in Nigeria today.

In conclusion, it may be said that Nigeria, although poor, has considerable potential for development both by effectively utilising growing domestic savings and attracting external investment.

"Probably at no previous time in history has there been available such a network of private and public international agencies seeking to assist in the exploitation of the natural resources of the world and experimenting in the problems of training and technique in order to do so."(1) It is up to the Nigerian governments to ensure that they take every advantage of the opportunities available, but in the last analysis, economic development will depend on internal efforts to create a society receptive to innovations and with a consistent attitude towards development problems. At this stage,

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(1) S.H. Frankel, "Economic Aspects of Political Independence in Africa", Oversea Quarterly, December 1960, p. 107. Reprinted from International Affairs, October 1960).

as I suggested in Chapter III, government has the greatest part to play in directing expenditure into channels which will affect everyone, not least the peasant farmer who is the backbone of the Nigerian economy.

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