BAB IV
THE IMPLICATION OF THE IMPLEMENTATION STRUCTURAL ADJUSTEMNT PROGRAMS IN NIGERIA

In this chapter, I would like to discuss and examine the the implementation of Structural Adjustment Programs in Nigeria. This chapter divided into three sections namely implication on agriculture sector, manufacture sector, and foreign direct investment.

A. The Massive Increase on Agricultural Production

Agriculture is one of the major economic sectors in Nigeria before the discovery of oil fields. The main problems is the agricultural sector in Nigeria was neglected due to poor contribution on national GDP. Therefore, SAPs intended to improve the agricultural sector in order to the following goals (National Centre for Economic Management & Administration (NCEMA), 2004):

1. Increasing the domestic food supply and domestic industrial inputs supply securities.
2. Increasing production of exportable cash crops for the intensification of Nigeria's export base diversification.
3. Raising rural employment generation opportunities for increased income generation and the need to halt the rural-urban migration.
4. Attainment of regional optimal crop production mix reflecting the comparative advantage of each agro-ecological zone.

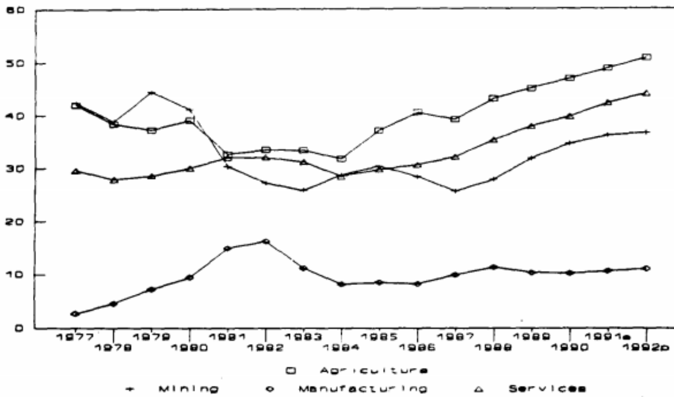
In order to make these objectives achievable, the followings programs were taken to improve agricultural sector. The SAP policy measures in agriculture included the following items (Tackie & Abhulimen, 2001):

1. The removal of all government subsidies on food and other agricultural products.
2. Promotion of the production and export of nontraditional agricultural products.
3. Restriction measures of imports on food and other locally produced agriculturally based raw materials.
4. The establishment of the Directorate of Food, Road, and Rural Infrastructure as a major instrument for fostering rural and agricultural development.
5. Increase of the budgetary allocation to the system of agricultural development projects as a major instrument for agricultural development.

The overall objectives of implementation of structural adjustment in agricultural sector was to increase production and export. Despite the difficulties in implementation and overspending policies in corporated with the SAP, it produced some results. In contrast to an average decline of 2-3 percent per annum between 1980 and 1986, Nigeria's real GDP grew 5 % year between 1986 and 1992, primarily reflecting a recovery in agriculture and manufacturing. Consistent with Nigeria's comparative advantage, the agricultural sector experienced a long-awaited comeback. Following a SAP-related shift in relative prices in favor of the rural sector, the production of traditional food crops and cash-crops increased, and agricultural output grew at an average rate of 4 percent per year (The World Bank, 1994).

After the SAP was adopted, Nigeria's agriculture, industrial and service sectors began to revive. The recovery of non oil sectors started somewhat earlier than that of the oil sector. It could be seen in the below figure.

Figure 4.1 Sectoral Performance, 1977 to 1992



Note: Billions of naira in 1987 factor costs.

Source: Federal Office of Statistics.

Source: World Bank Report

During the adjustment period, the real depreciation of the Naira improved producer prices, while the elimination of marketing boards and liberalization of trading had a very positive impact on a variety of agriculture. In the mid 1986s, agricultural production expanded. The real sector's value added more than 25 percent between 1986 and 1992, which meant an average annual growth rate of 3.8 percent.

Figure 4.2 Agriculture Production, 1982 to 1992

Year	Cocoa	Palm kernel	Rubber	Cotton	Ground nuts	Cassava	Yams	Rice	Maize	Millet	Sor-ghum
1982	156	89	83	127	72	38	103	75	57	65	68
1983	140	89	75	400	62	33	78	51	44	68	60
1984	150	97	97	360	92	77	88	55	88	81	85
1985	110	103	100	380	97	88	91	69	90	90	92
1986	100	100	100	100	100	100	100	100	100	100	100
1987	105	101	85	107	103	92	94	105	90	95	95
1988	253	156	352	647	159	202	175	735	394	125	95
1989	256	268	220	623	182	238	184	1,167	375	116	133
1990	221	342	245	920	161	235	262.	883	432	125	77
1991	180	344	358	997	205	247	307	1,125	435	100	98
1992	167	376	223	1,127	220	263	357	1,086	418	97	95

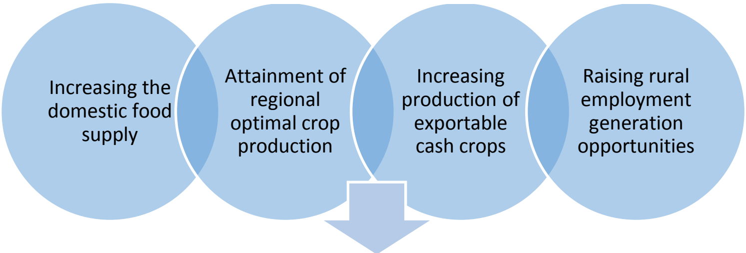
Note: 1986 = 100.

Source: World Bank Report

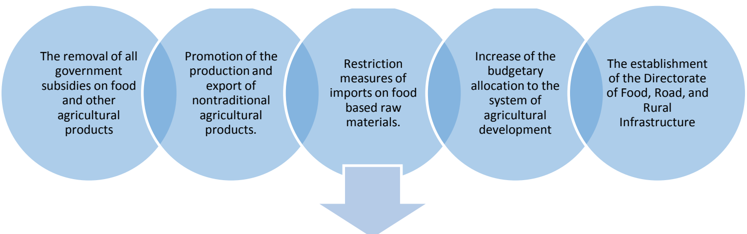
From the above table, it can be seen that agriculture production increased significantly significantly from 51,300 tons to above 200,000 tons in 1991. Cassava production showed the largest increase, from an average of 923,000 tons in the pre-SAP period to 2,139,000 tons in 1986-89, reaching a level in 1992 that was 160 percent higher than that of 1986. Cocoa production in the pre-SAP period (1982 – 1985) were only 139,000 tons, then increased by almost 100,000 tons through 1990. Maize production grew from an average of 902,000 tons in the pre-SAP period to 1,311,500 tons in the years immediately after the SAP was introduced. It reached even higher level since 1991-92, with production more than 300 percent of the 1986 level. (The World Bank, 1994)

Today, Nigeria is the largest producer of cassava in the world about 50 million metric tons annually from a cultivated area of about 3.7 million ha. Nigeria accounts for cassava production of up to 20 % of the world, about 34 per cent of Africa's and about 46 % of West Africa's. The national average yield of cassava is estimated at about 13.63 MT per ha, as against potential yield of up to 40 metric tons per ha. Close to two-thirds (66 %) of total production is in the southern part of the country, while about 30 % is in the north-central, and 4 % in other parts of the north.

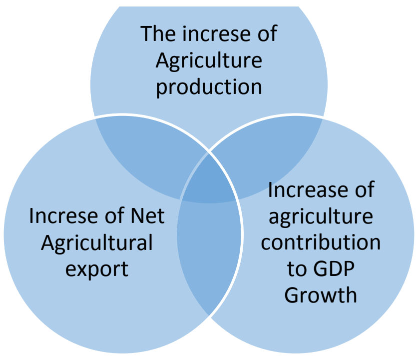
Objectives of SAP in Agriculture



Programs of SAPs in Agriculture



Implications of SAP Agriculture



At the end, SAPs had a positive impact on agricultural production that impacted positively the net agricultural exports, which in turn, had a positive impact on the contribution to GDP, which ultimately led to a positive impact on real GDP growth rate. This indicates that overall SAP is beneficial to the Nigerian agricultural sector and economy. Therefore, the Nigerian authorities should keep the SAP policies in the agricultural sector in place. Since agriculture is very important to the Nigerian economy, any improvements in this sector ultimately influences growth of the overall economy.

B. The Fair Improvement on Manufacture Sector

In the late 1950s, Nigeria had a very measurable level of optimism toward the manufacture sector. The country's present mainstay, oil industry, was in its beginning and the Nigerian economy was mainly industrial and agrarian. It believes Nigeria became the next an industrialized country that will bring positive impact on national economy. In fact, Nigeria has never attained sufficiency in generated power, despite her huge energy resource endowments. The direct impact has always been an unhealthy competition between locally manufactured goods and imported goods. Moreover, when the oil industry grew, the other industry sectors were ignored. (Mama, 2016) Thus, Structural Adjustment Programs was adopted in 1986, as an alternative framework for addressing the weaknesses and ineffectiveness of previous development planning efforts.

A critical review of the SAP document shows that it actually recognized the major problems in the country's industrial sector. The problems that identified included (National Centre for Economic Management & Administration (NCEMA), 2004):

1. The inadequacy of the supply of imported inputs culminating in capacity underutilization of plants, un-employment, scarcity of good and inflation.
2. The inadequacy of approved import licenses coupled with the little spread of its allocation for the purchase of improved industrial inputs.
3. Poor and un-reliable infrastructural facilities and in-appropriate tariff structure.
4. The generally weak structure of the industrial sector and the Naira over-valuation.

Based on the background, SAP proposed some policy strategies which included (National Centre for Economic Management & Administration (NCEMA), 2004):

1. The adoption of a realistic and flexible exchange rate policy reflecting the scarcity of foreign exchange.
2. The introduction of accelerated depreciation, duty drawbacks and the retention of foreign exchange earnings.

The policy strategies that proposed by SAPS above aimed at (National Centre for Economic Management & Administration (NCEMA), 2004):

1. Developing and utilizing domestic technology by encouraging accelerated development and use of local raw materials and intermediate inputs rather than imported ones.
2. The promotion of export oriented industries.
3. The promotion of small and medium sale enterprises to generate employment.
4. Liberalization of controls to facilitate greater indigenous and foreign investment
5. The removal of infrastructural, manpower and administrative bottlenecks in the process of getting the industrial sector structurally reformed.

6. Stimulating non-oil exports and providing a base for private sector-led development.

Another proposal for the industrial reform related to the privatization and commercialization is to improve production efficiency. Labour perceived socioeconomic implication of this proposal was the possible enlargement of the size of middle class which was dependent on capitalism for its privileges. Besides, there were critical issues on the number of assets and private interests that so called unprofitable to public ventures. All of these issues led to the suspicion on the government policy especially related to problems in industrial sector.

The SAPs also expected to stimulate some sub-sectors and divert resources move from production oriented shift toward export-oriented. To enhance the private sector's role in resource allocation, there were also measures to eliminate the lower market distortions and unnecessary public interference.

The most important effect of adjustment for the manufacturing sector was the realignment of relative prices induced by the devaluation of the Naira. The SAP's initial fiscal and monetary policies helped control inflation and ensured flexibility in the determination of the exchange rate, so that, in real terms, the devaluation was successful. A new auction-basedforeign exchange allocation system helped to ensure that foreign exchange (whose availability had been dramatically curtailed by falling oil prices) would be allocated among sectors on the basis of market incentives rather than government fiat. The SAP also included the removal of import licenses, the simplification of the tariff protection system, and the adoption of various export promotion schemes.

Adjustment helped the manufacturing sector reverse the decline that had brought it, by 1986, to 51 % of its 1982 level. From 1986 to 1992, under the SAP, manufacturing value increased by 33 % in real terms, or about 5 % per year, with most growth occurring between 1987 and 1990. Manufacturing growth was about equalto overall GDP growth, and the share of manufacturingin total output remaining roughly constantat 8 percent. In nominal terms, however, the share of manufacturing in Nigeria's non-oil GDP fell from 14 to 12 %, indicating a 13% fall in the price of goods relative to the overall price of non-oil outputs. In the early years of the SAP era, relative prices fell by over 25 % before recovery (The World Bank, 1994)

Furthermore, to encourage investment and provide incentives for certain types of activities, the SAP also introduced several tax changes. In 1987, the corporateincome tax rate was reduced from 45 to 40 %. In 1988, the Federal Ministry of Industries published its new Industrial Policy, which formalized the government's deregulation stance and included a broad incentive package for new domestic and foreign investment. Capital allowances were increased for plant and machinery. Special tax incentives were providedfor long-term R&D expenditures. To promote the development of local raw materials, exports, increases in domestic value-added, and investment in economically disadvantaged areas, special five-year tax holidays, and extra concessions were granted (The World Bank, 1994).

Figure 4.3 Local Sourcing in Nigerian Industry, 1987 to 1992

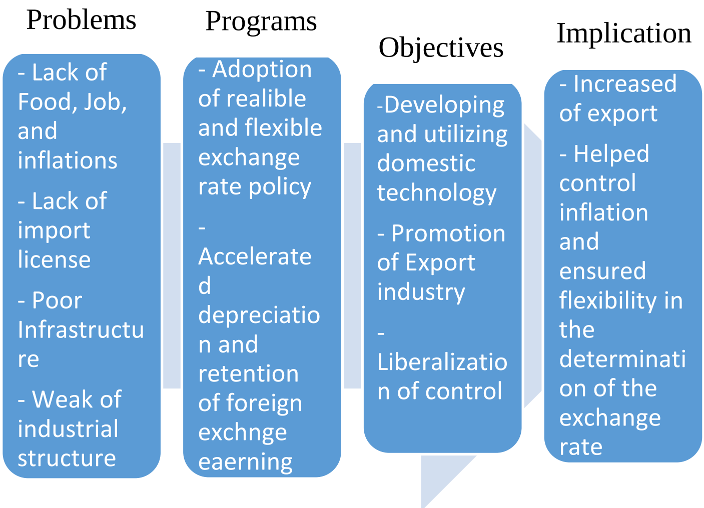
	1987	1988	1989	1990	1991	1992
			(Percentage)			
Food, beverages & tobacco	65	63	70	79	65	65
Textiles & leather, apparel, shoes & rugs	52	55	31	60	67	66
Wood & furniture	78	70	70	74	80	82
Paper & printing	14	29	40	42	39	33
Chemicals & pharmaceuticals	32	36	38	50	42	44
Non-metallic mineral	77	87	79	80	83	86
Plastic & rubber	21	51	28	28	37	46
Electric goods	19	20	32	28	36	58
Basic metals, iron & steel, & fabricated metal	50	35	42	19	25	47
Motor vehicle & misc. assembly	22	30	39	46	26	37
All sectors	43	43	42	51	47	53

Note: Value of local inputs as a percentage of sales.

Source: Manufacturers' Association of Nigeria.

Source: World Bank Report

In a few product group especially leather and textile products, manufactured exports also showed growth, but as recorded, manufactured goods remained below 2 percent of total exports. The actual exports, however, may have far exceeded what was officially recorded. It is believed that small traders smuggled large amounts of Nigerian goods across the country's borders. For example, the Nigerian textiles could be found throughout West Africa. This problems caused the manufacture sector did not maximally contribute to the economic growth.



During the SAP period, Nigeria manufacture showed some improvements. Despite its small size, manufacturing is still important to the Nigerian economy, although only little growth was recorded. Furthermore, manufactring had long been protected in one form or another, and many structural obstacles remained in place. The existence of SAPs helped Nigeria to tackle the problems. Growth in this sector must be attributed to a very strong response to trade liberalization and exchange rate adjustment by a relative small part of the sector. In view of the sector's structure in Nigeria, the magnitude of the economy reform of the structure since 1986 is worthy.

C. The Significant Improvement on Foreign Investment

The successful economic development is when the country is able to attract foreign direct investment. After implementing SAP, Nigeria could attract foreign direct investment that recorded by the table below. The foreign investment saw the Nigeria economic development was successful following the economic stability in the country. The agriculture and manufacture sectors was successfully sustaining in Nigeria.

The investment in Nigeria could be described as the below table about the FDI trends flow in Nigeria from 1986-2010. SAP in 1986 initiated the process of termination of hostile government policies towards FDI. Hence, in 1987 FDI inflow increased from Naira 432.5 million or 0.6% of GDP in 1985 to Naira 2,456.2 million or 2.3% of GDP. In 1989 it was Naira 13,877.4 million or 6.3% of GDP and almost 53 times of the 1985 pre-SAP figure. The figure rose further to Naira 75,940.6 and Naira 115,952.2 or 3.9% and 2.4% of GDP in 1995 and 2000 respectively. 2008 and 2009 witnessed an inflow of Naira 971,543.8 or 4.0% of GDP and 1 Naira 263,659.1 or 5.1% of GDP respectively. On the whole, FDI inflow formed about 3.15% of GDP over the whole analysis period. (Ogbonn, Uwajumogu, Nwokoye, & Nzeribe, 2012, p. 34)

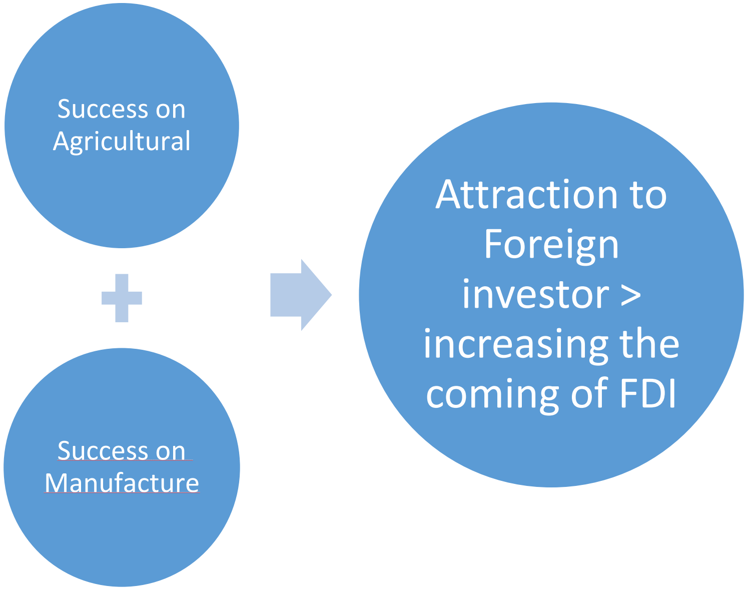
Figure 4.4 Nigeria: Foreign Direct Investment (FDI) and GDP 1986-2010 (million Naira),

YEAR	NOMINAL FDI	FDI % GDP	YEAR	NOMINAL FDI	FDI % GDP	YEAR	NOMINAL FDI	FDI % GDP
1986	735.8	1.0	1994	22,229.2	2.4	2002	225,972.0	2.3
1987	2,456.2	2.3	1995	75,940.6	3.9	2003	258,388.6	2.8
1988	1,718.2	1.2	1996	111,297.8	4.1	2004	248,225.6	2.1
1989	13,877.4	6.3	1997	110,456.2	3.9	2005	654,193.2	4.4
1990	4,686.0	1.8	1998	80,750.4	2.9	2006	624,520.7	3.4
1991	6,916.1	2.2	1999	92,792.5	2.9	2007	759,380.4	3.7
1992	14,463.1	2.7	2000	115,952.2	2.4	2008	971,543.8	4.0
1993	29,660.3	4.3	2001	132,433.7	2.2	2009	1,273,815.8	5.1
						2010	905,730.8	3.0

Source: CBN Statistical Bulletin 2010, CBN Annual Report and Statement of Accounts

The high of oil-prices in the 1970s generated massive savings and created investment booms. But when oil prices collapsed in the 1980s, both savings and investment collapsed. In 1981-83, the economy was unable to finance the diminishing investment, which called for foreign savings in the form of current account deficits. In the early 1990s, although Nigeria barely reached the investment rates achieved in the first half of the 1970s, this was largely compensated for by gains in the overall efficiencyof investment.

Between 1987 and 1992, Nigerians' real per capita investment expanded by more than 35 %. The quality of investment in Nigeria increased as well. Using three years moving averages, it was possible to see that Nigeria's GDP growth decelerated steadily from 1973 to 1983, until it turned to negative trends. Aggregate investment, on the other hand, increased dramatically in the 1970s more than 50 % of GDP. But then, in the next decade, the investment fell continuously. Fortunately, when SAPs began to be implemented, the positive growth resumed. By early 1990s, Nigeria had sustained GDP growth above 5 % and an investment ratio more than 15 percent. Compared with the high oil-price period, the quality of investment in Nigeria appears to have improved during the SAP era. One indicator of these trends is a comparison between the investment-GDP ratio and the rate of GDP growth. Given that the actual investment-GDP share and the growth rates have fluctuated sharply year to year, the numbers presented are based on trends-throe-year moving averages-rather than on actual figures for GDP and investment. These estimates show that as Nigeria began to enjoy the effects of improved terms of trade in 1973, GDP growth decelerated and kept falling steadily through 1983. While in 1974 GDP was growing above 6 %, in the early 1980s GDP growth turned negative. Aggregate investment increased dramatically in the 1970s, peaking around 1977-78 at more than 50 %. After that, this ratio fell continuously through 1989, when it was 14 percent, until positive GDP growth resumed after the mid-1980s. In the early 1990s, the investment/GDP ratio increased to more than 15 %, and GDP growth was sustained at average rates above 5 % (The World Bank, 1994).



Empirical studies shows that private investment and overall economic growth are closely related, and that private investment is significantly affected by macroeconomic stability. Macroeconomic stability, therefore, is a necessary condition for the sustained growth. To achieve macroeconomic stability, a country must establish a long-term policy strategy that is stable, responsive and seen as sustainable by the private sector. SAPs were successful to create a condition a Nigeria closely meet the all three conditions.