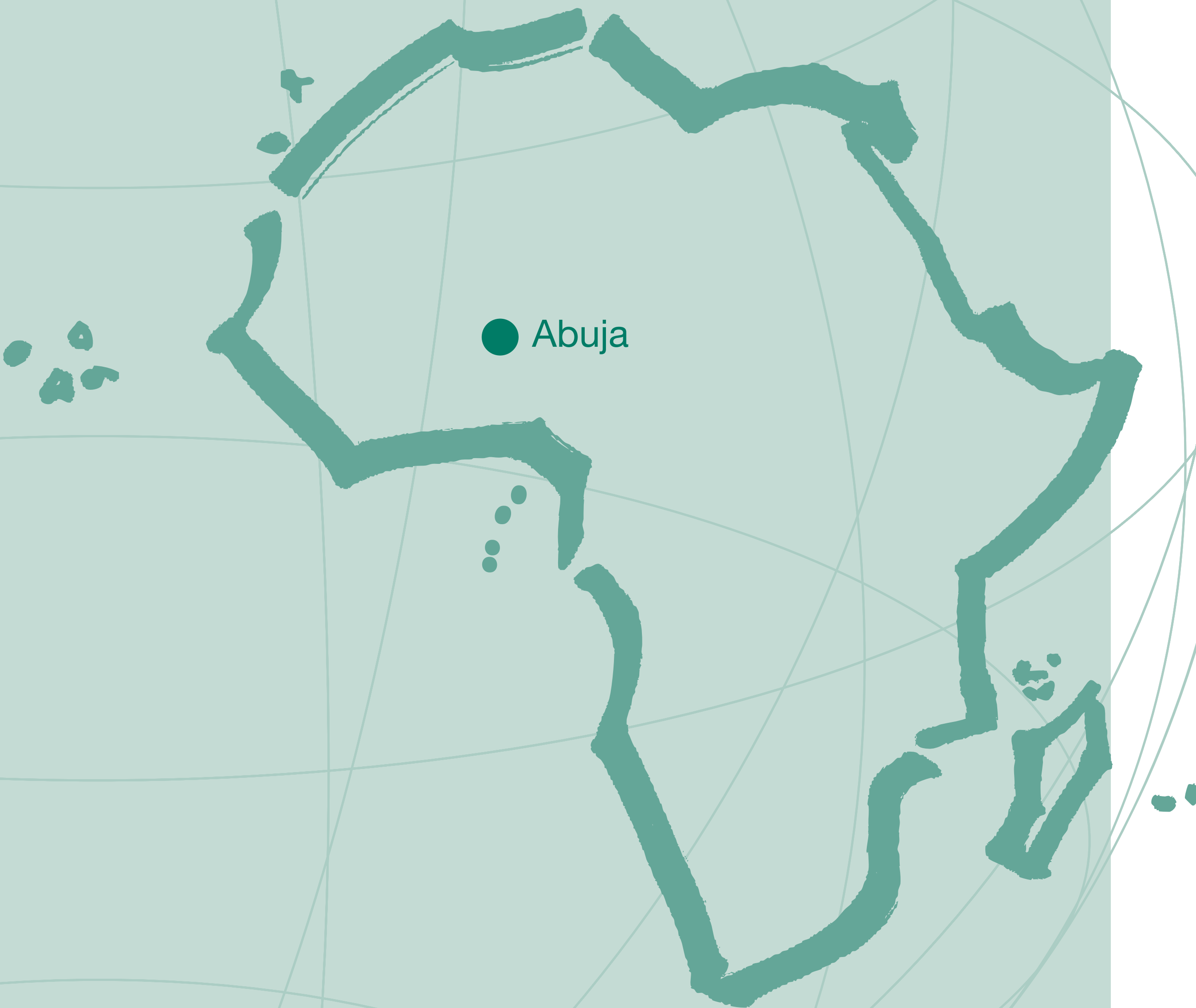
Nigeria



key figures

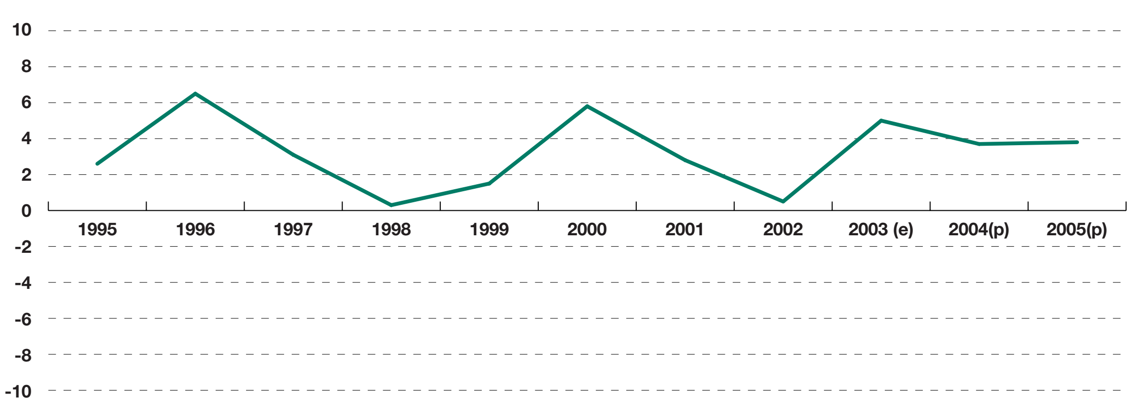
• Land area, thousands of km²	924
• Population, thousands (2002)	120 911
• GDP per capita, \$ (2002)	366
• Life expectancy (2000-2005)	51.5
• Illiteracy rate (2002)	33.3

Nigeria

NIGERIA'S HEAVY DEPENDENCE on the oil sector and the recent uncertainty in the international oil market have brought mixed economic results. In 2002, the weakening international oil price and a subsequent revenue shortfall culminated in relatively low real GDP growth, deterioration in the fiscal account and pressure on external payments, resulting in a debt crisis. Generous supply by monetary authorities to the government led to excess liquidity in the economy that contributed to rising inflation and demand pressure in the foreign exchange market. The upturn in the oil market in 2003 brought about the anticipated upswing in real GDP growth, which rose to 5 per cent. Also, a better fiscal position and lower external pressure, with Nigeria resuming regular payments of its external debt, were observed in 2003. The economy's performance will revert to lower levels, with a projected GDP growth at 3.7 per cent in 2004 and at 3.8 per cent in 2005, as a result of low exports and insufficient investment. Nigeria's uncertain macroeconomic performance also stems from its persistent structural bottlenecks, which the government has tried to remove by deregulation and privatisation. Whilst the oil products market was deregulated in 2003, privatisation is progressing slowly. The highly important energy sector is marked by inadequacies and inefficiencies. The lack of a coherent national energy policy has made the supply of oil and gas inefficient, as revealed by the fact that about 72 per cent of gas associated with crude oil production in Nigeria is flared. The supply of electricity has also been unreliable. Politically, Nigeria achieved a major political feat in 2003 with successful elections marking the first civilian-to-civilian transfer of political power in the country's history. However, governance problems continue and have contributed to pervasive poverty in the country. As a result, poverty is entrenched, and the key health and education services have failed to improve significantly over the years in spite of increased budgetary allocations.

Nigeria faces persistent structural bottlenecks, which the government has tried to remove by deregulation and privatisation.

Figure 1 - **Real GDP Growth**

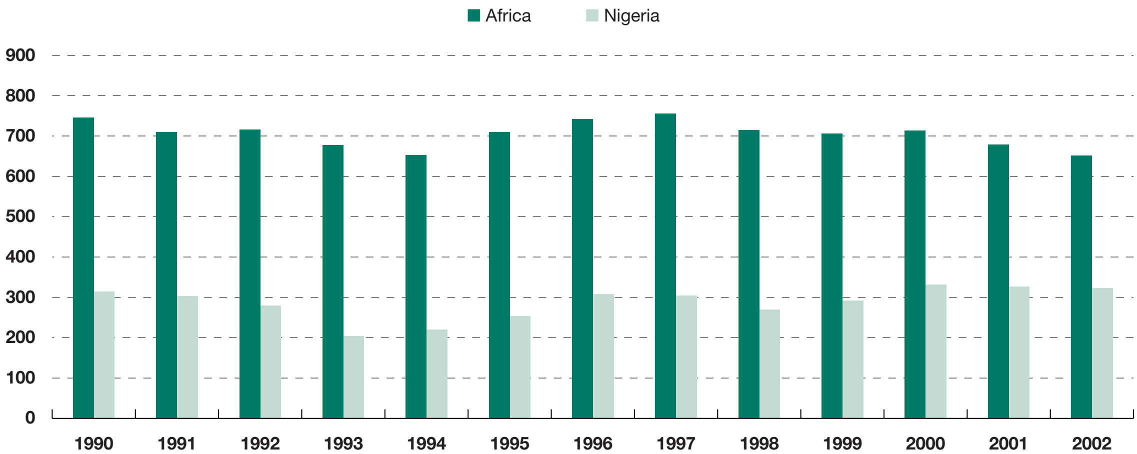


Source: IMF and domestic authorities' data; projections based on authors' calculations.

Recent Economic Developments

The Nigerian economy continues to demonstrate mixed performances marked by macroeconomic imbalances. While the economy weakened in 2002, some economic fundamentals improved. The rate of real GDP growth slowed dramatically from the revised 4.2 per cent in 2001 to less than 1 per cent in 2002. Growth performance, however, rebounded in 2003 to an estimated 5 per cent and is projected at 3.7 per cent in 2004 and 3.8 per cent in 2005.

Figure 2 - **GDP Per Capita in Nigeria and in Africa** (current $)



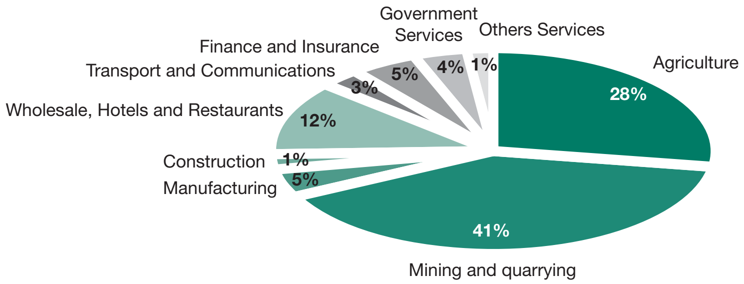
Source: IMF.

In 2002, low economic growth was attributed to the significant fall of crude oil production. In 2003, both an increase in the volume of crude oil exported and a 16 per cent increase in oil prices helped boost economic activity. In 2004 and 2005, low exports are expected to constrain an upswing in investment to levels that would boost growth.

In 2002 the performance of all sectors apart from crude oil improved relative to the preceding year. Agricultural output increased by 4.2 per cent in 2002 compared with 3.7 per cent in 2001. Crop production in particular was strong in 2002, with the output of food staples rising by 4.2 per cent after a 3.5 per cent increase in 2001. The output of potatoes, beans and yam, for example, increased by 9.5 per cent, 8.4 per cent and 5 per cent respectively, while output of sorghum and maize increased by 3 per cent and nearly 2.0 per cent respectively. Cash crop production also improved, rising by 2.2 per cent compared with 0.5 per cent in 2001. The rise in output was derived from favourable weather conditions, rainfall having been timely, adequate and well distributed throughout the country. The government's renewed active support for the sector also benefited production, especially in 2003, when its new agricultural policy encouraged the private sector to invest in agriculture. In that year, output was also helped by the adoption of new strategies of credit delivery, particularly the Trust Fund Model, which included the Micro Credit Scheme for Agricultural Development (MICSAD) of the Shell Petroleum Development Corporation, the Green Card of the Nigerian Agip Oil Company, and the Jigawa State Trust Fund for Agricultural Development. Weather conditions in 2003 remained favourable for agricultural production and livestock. Such improvements will, however, stagnate unless Nigeria finds solutions to some of the perennial problems confronting agricultural production, such as inadequate supply of fertiliser. Locally produced fertiliser remains virtually non-existent as a result of the continued shutdown of the National Fertilizer Company of Nigeria (NAFCO), which accounts for over 85 per cent of total local production.

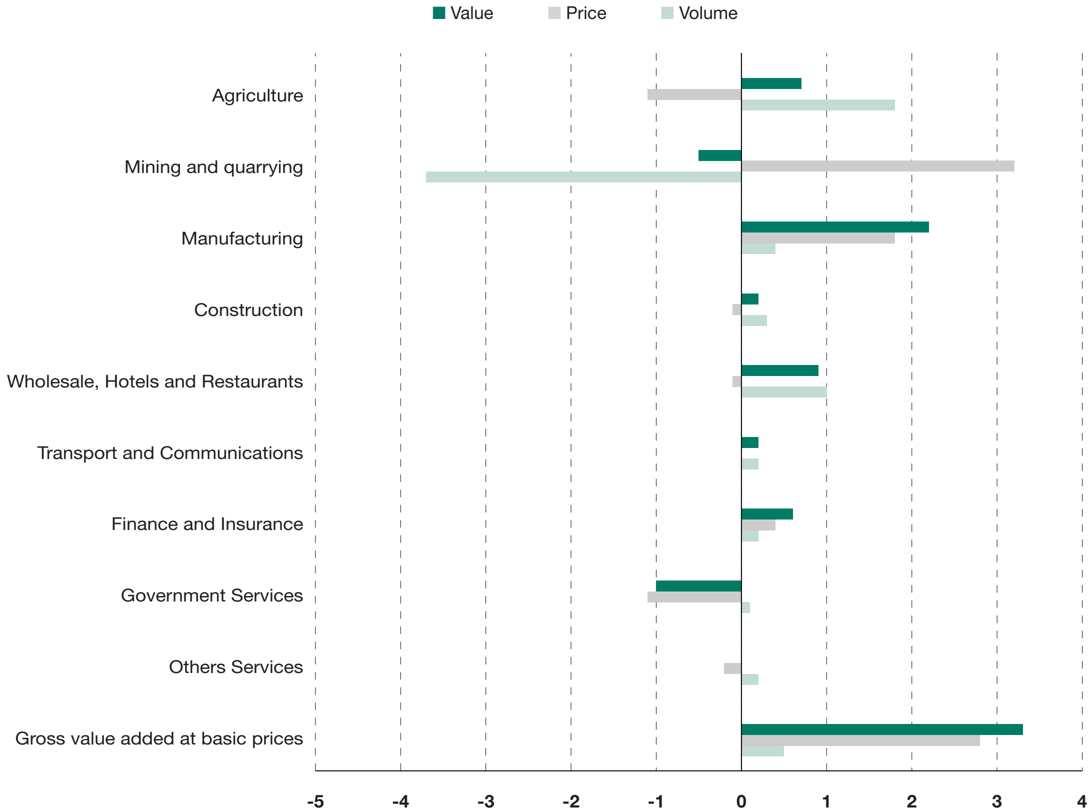
Industrial production in 2002 fell marginally by 0.1 per cent, compared with the 3.3 per cent increase in 2001. The sector appears to be recovering slowly in 2003, with production in the third quarter of the year increasing by 1.5 per cent since the corresponding quarter in 2002. The slight decline in industrial production in 2002 was attributable to the 7.8 per cent fall in crude oil production, offsetting the respective increases in manufacturing and electricity of 3 and 1.5 per cent. The reasons for the manufacturing activity increase included the policy of physically inspecting all imported goods at the ports. This compelled importers to pay duties, which in turn improved the competitiveness of local manufacturers. Furthermore, enhanced surveillance by the National Agency for Food, Drug Administration

Figure 3 - **GDP by Sector in 2002**



Source: Authors' estimates based on domestic authorities' data.

Figure 4 - **Sectoral Contribution to GDP Growth in 2002**



Source: Authors' estimates based on IMF data.

and Control assisted in curtailing the influx of sub-standard goods. Increased availability also of electricity contributed to improved manufacturing output. The improvement in electricity output was largely due to the restoration of generating equipment, as well as the higher use of existing capacity.

In 2003, the government has continued to attempt to prop up local industrial activity through outright bans on competing imports. Following a ban on rice and poultry products in 2002, the government in 2003 placed a ban on imports of textiles, drugs and other pharmaceutical products, as well as some food products competing with the local food processing industries. Nigeria contentiously argues that these measures are justified by WTO provisions that, under certain circumstances, allow such bans for a period of up to five years.

The downturn in oil production had significant effects for the industrial sector in both 2002 and 2003. Crude oil production declined by 7.8 per cent in 2002, mainly due to OPEC's cut of Nigeria's production quota to 1.787 mbd, according to official sources. However, independent observers measured actual production in 2002 at about 1.94 mbd, substantially above the quota. In early 2003 production was estimated at 2 mbd, consistent with the quota for February. However, following the communal crisis in the Niger Delta area, especially in Warri, oil output took a downward slide. In March 2003, oil multinationals had shut down practically all their operations in the western delta, with a total production loss of nearly 40 per cent at the height of the violence. Thereafter, oil output increased gradually, reaching 1.98 mbd in May as a result of government interventions directed at ending the crisis. Since July 2003 output has been estimated at 2.2 mbd, although some disturbances and resulting closures of production facilities in the Niger Delta area have continued.

The services sector maintained a growth rate of 4.8 per cent in 2002, the same as in the previous year. Distributive trade (wholesale and retail), the largest contributor to the services sector, grew by 3.5 per cent in 2002, accounting for 12 per cent of total GDP. Transport and communications expanded by a significant 2.5 per cent in 2002 and accounted for 2.5 per cent of total GDP. In 2002, major developments took place in the construction and telecommunications sub-sectors. Reconstruction work at the Lagos port complex and work on flood control and restoration of the stacking areas of the Ijora lilly-pond progressed significantly. In telecommunications, the total number of telephone lines of the incumbent operator NITEL increased by 20.3 per cent, from 767 862 in 2001 to 932 424 in 2002. Deregulation in the sub-sector has improved communication services. Since the introduction of GSM technology in 2001, the two private operators, MTN and ECONET, have increased telephone lines from 300 000 in 2001 to 1 660 000 in 2002. In 2003 a further private operator, GLOBACOM, entered the telecommunications market with its mobile service glo-mobile.

The data for demand composition of GDP show that the government's share in economic activity (both consumption and investment), which increased in 2001 and 2002, subsided in 2003. More importantly, for the first time in several years, gross capital formation exceeded 20 per cent of GDP in 2003 and is expected to remain above 20 per cent in the foreseeable future. This resulted from a very strong increase in private investment, demonstrating renewed private sector confidence following Nigeria's democratisation.

Table 1 - **Demand Composition** (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Gross capital formation	**16.2**	**21.5**	**15.9**	**18.5**	**22.3**	**22.0**	**22.9**
Public	5.5	7.8	9.2	13.5	10.7	10.4	10.8
Private	10.7	13.8	6.7	5.0	11.6	11.6	12.2
Consumption	**82.3**	**81.0**	**63.4**	**73.9**	**79.2**	**73.5**	**74.3**
Public	9.8	18.5	22.5	29.5	26.2	23.4	23.2
Private	72.5	62.4	40.9	44.4	53.0	50.1	51.1
External Sector	**1.6**	**-2.5**	**20.7**	**7.7**	**-1.5**	**4.5**	**2.8**
Exports	43.5	37.9	58.7	47.8	43.9	48.3	47.5
Imports	-42.0	-40.4	-38.0	-40.1	-45.3	-43.8	-44.7

Source: IMF and domestic authorities' data; projections based on authors' calculations.

Macroeconomic Policy

Fiscal and Monetary Policy

Fiscal policy has remained expansionary and continues to be shaped by developments in the oil sector, rendering the fiscal situation fragile. In 2002 the government widened the fiscal deficit to the equivalent to 5.7 per cent of GDP compared with 3.3 per cent GDP in the preceding year. In 2003 government expenditure remained large, with a 1 trillion *naira* ($7.6 billion) budget. The overall deficit, however, contracted to an estimated 3.1 per cent of GDP thanks to marginal increases in revenue. The deficit ought to remain stable in 2004 and is expected to marginally contract in 2005.

The fragile fiscal situation has resulted mainly from Nigeria's inability to adapt to fiscal federalism, making the control of expenditures difficult. In addition international oil price volatility has made it difficult to maintain fiscal discipline. In 2002, high government expenditure was based on overly optimistic expectations regarding revenues, particularly in regard to oil prices. Total federal revenue fell by about 22.4 per cent from 2001 levels, as reflected in both oil and non-oil revenue. Receipts from the oil sector declined by 27.9 per cent, due to reduced export volumes, and revenue from non-oil sources declined by 4.4 per cent. Non-oil revenue had been overestimated in two regards. First, privatisation brought less revenue than expected, with the government failing to privatise NITEL to raise an anticipated $1.3 billion. Second, the anticipated recovery of $1.2 billion that former president Abacha and his family had stashed away in foreign banks did not materialise. On the expenditure side, personnel costs rose significantly as a result of an oversized civil service and related pension costs. Capital expenditure, on the other hand, declined by 26.7 per cent below its 2001 level.

The government's budget in 2003 was prudently based on anticipated revenue, with crude oil price estimated below their high point at the beginning of the year. However, by the third quarter of 2003 a shortfall in revenue, due to mishaps in crude oil production during the first half of the year, forced the government to rely on the excess crude oil reserve account at the CBN. Nevertheless, the revenue situation in 2003 improved as the oil production increase late in the year was met by a higher international price. Government expenditure remained large in 2003. Along with increased expenditure to complete existing infrastructure projects – principally in the provision of water and power, the maintenance and construction of roads and the improvement of infrastructure in the federal capital territory – the government found it necessary to spend more on national security, given the increase in ethnic and religious violence during recent years. Furthermore, the organisation of prestigious events, including the All-African Games and the Commonwealth Heads of Government Meeting held in December 2003, contributed to high expenditure. The All-African Games necessitated a new sports stadium, estimated to cost $472 million, which was more than the 2003 budget estimate for either health or education.

The principal objective of Nigerian monetary policy remains maintaining price and exchange rate stability. The main policy thrusts have been *i)* the reduction of excess liquidity in the banking system; *ii)* the achievement of single-digit inflation; *iii)* the

Table 2 - **Public Finances** (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Total revenue and grants[a]	**22.5**	**44.5**	**46.4**	**39.5**	**39.8**	**39.7**	**39.5**
Tax Revenue	9.2	14.7	18.1	14.9	15.5	15.5	15.5
Oil Revenue	2.9	7.7	8.5	6.0	6.8	6.6	6.6
Total expenditure and net lending[a]	**18.3**	**38.1**	**49.7**	**45.2**	**42.9**	**42.9**	**42.2**
Current Expenditure	7.6	15.2	15.5	16.7	14.4	14.4	14.0
Excluding interest	*3.9*	*8.7*	*9.4*	*9.8*	*8.8*	*8.7*	*8.6*
Wages and salaries	1.6	6.4	5.9	7.2	6.2	6.0	5.8
Interest	3.7	6.4	6.0	6.9	5.6	5.6	5.4
Capital expenditure	5.3	11.6	16.6	13.0	12.6	13.0	13.0
Primary balance	**7.8**	**12.8**	**2.8**	**1.2**	**2.5**	**2.5**	**2.7**
Overall balance	**4.2**	**6.4**	**-3.3**	**-5.7**	**-3.1**	**-3.2**	**-2.7**

a. Only major items are reported.
Source: IMF and domestic authorities' data; projections based on authors' calculations.

maintenance of exchange rate stability; *iv)* the sustenance of a market-based interest rate regime; and *v)* the maintenance of financial sector stability. The Central Bank of Nigeria (CBN) uses market-based techniques for liquidity management, with Open Market Operations as the primary instrument, complemented by the Cash Reserve Requirement. In 2002 the CBN adopted a medium-term monetary policy framework, covering 2002 and 2003, in recognition of the time lag between the implementation and the effects of a particular policy. The CBN aimed at 15 per cent growth in broad money supply and a 9 per cent rate of inflation. Monetary policy has faced considerable challenges, notably persisting excess liquidity and intense demand pressure in the foreign exchange market. In 2002 and 2003 monetary growth was excessive, largely due to monetary financing of the fiscal deficit. Broad money supply (M2) rose by 21.5 per cent in 2002, and by September 2003, M2 had expanded by a further 24.2 per cent. The objective of attaining single-digit inflation remains elusive. The average rate of inflation ended 2002 at 12.9 per cent, which, though representing a decline on the previous year's 18.9 per cent, remained above the CBN target. In 2003, good harvests dampened food prices, keeping inflation moderate. At the end of December 2003, the annual inflation rate was estimated at 10.7 per cent. It is projected to fall to 6.8 per cent in 2004 and 6.4 per cent in 2005, following subdued economic activity and good food harvests in both years.

The CBN maintains a market-based interest rate regime whereby it proactively adjusts the Minimum Rediscount Rate (MRR) to align interest rate movements with market conditions. In 2002, the MRR was twice adjusted downwards, from 20.5 per cent in January to 18.5 per cent in July and 16.5 per cent in December. The rationale was to respond to falling inflation and boost private sector investment. The MRR was further adjusted downwards to 15.0 per cent in August 2003. These reductions, coupled with excess money supply in the financial market, have allowed interest rates to fall. The Treasury Bill (NTB) issue rate, which stood at 20.5 per cent at the end of 2001, declined to 13.8 per cent in December 2002. It rose to 16.75 per cent in August 2003, prior to the downward revision of the MRR, and has remained stable since. Similarly, commercial banks average deposit and lending rates generally declined in 2002 and remained stable in 2003.

On the foreign exchange market, Nigeria has maintained its system of four exchange rates, namely: the Inter-Bank Foreign Exchange Market (IFEM) used for CBN transactions; the Nigerian Inter-Bank Foreign Exchange Fixing (NIFEX) quoted by a group of commercial banks; the bureaux de change rate; and the parallel market rate. In order to realign the *naira* exchange rate and stem the depletion of external reserves, the CBN reintroduced the Dutch Auction System (DAS) in July 2002 to replace the IFEM. Further, the government gave bureaux operators access to IFEM funds. This policy has made the exchange rate of the *naira* more market-determined. However, the segmented nature of the foreign exchange market continues to cause problems of cumbersome administrative procedures and documentation. The exchange rate of the *naira* has remained under pressure since 2002. The *naira* depreciated at the IFEM by about 13 per cent against the US dollar in 2002 and by a further 3 per cent by October 2003, caused mainly by the excessive spending of the government. As a result of the economy's heavy dependence on imports, any increase in spending tends to create demand for foreign currency. The *naira*'s depreciation, however, helped to narrow the differential between the official and parallel rates from 20 per cent in October 2001 to 10 per cent in October 2003.

External Position

Nigeria aims to liberalise trade. However, it is frequently accused of not fully complying with WTO obligations, particularly those requiring more transparent rules and regulations. Currently there are at least seven trade taxes, with customs duties of up to100 per cent.

Nigeria's external payments are extremely dependent on oil revenues and have remained under pressure since 2002 as a result of adverse external shocks, particularly the reduction of the country's crude oil production and the external debt service burden. This led to a reduction in external reserves and a deferment of scheduled debt service obligations. Largely spurred by a fall in the trade surplus, the 2001 current account surplus of 5.6 per cent of GDP was reduced to a 0.2 per cent in 2002. An improved trade account in 2003 probably helped the current account deficit to catch up with the 2001 level. Lower exports and higher imports are, however, expected to reverse this improvement in 2004, but the outlook for 2005 is better.

A sharp reduction in exports in 2002 reduced the trade surplus. This reduction was caused by a drop in crude oil exports from 674.9 million barrels in 2001 to 545.1 million barrels in 2002. The share of non-oil exports increased remarkably, from 1.4 per cent in 2001 to 5.1 per cent in 2002, reaching their highest level in a decade thanks to rising world prices of Nigeria's scheduled export commodities, especially cocoa and palm oil. In 2003, exports rose sharply, due to an increase in crude oil prices to an average of $28 per barrel.

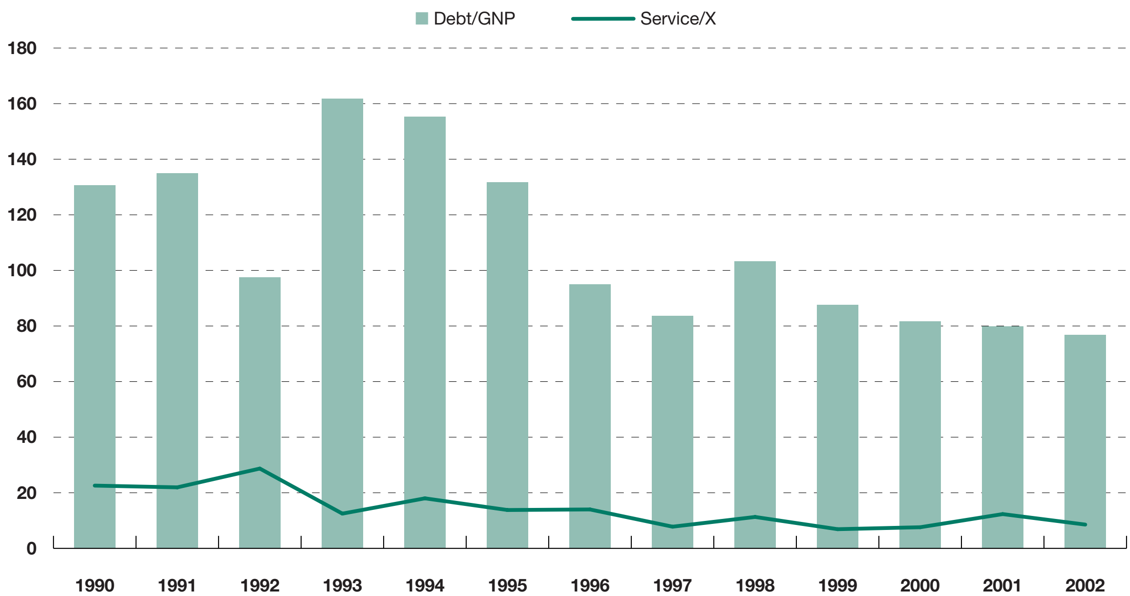
At the end of December 2002 Nigeria's external debt stock stood at $29.8 billion, 5.1 per cent higher than the preceding year due to the capitalisation of unpaid interest and charges on Paris Club debt. The Paris Club accounted for 81.2 per cent of total debt, while the London Club's claim represented 4.8 per cent. Since 1999, Nigeria has campaigned unsuccessfully for the cancellation of some of its bilateral foreign debt and

Table 3 - **Current Account** (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Trade balance	11.2	29.7	16.5	9.4	15.0	13.5	13.8
Exports of goods (f.o.b.)	41.7	56.7	45.8	41.2	45.8	44.9	45.0
Imports of goods (f.o.b.)	-30.6	-27.0	-29.3	-31.8	-30.7	-31.4	-31.2
Services	-10.5	-18.1	-6.9	-5.3			
Factor income	-7.9	-9.3	-7.1	-7.1			
Current transfers	2.6	3.7	3.1	3.2			
Current account balance	**-4.6**	**6.0**	**5.6**	**0.2**			

Source: IMF data; projections based on authors' calculations.

Figure 5 - **Stock of Total External Debt** (percentage of GNP) **and Debt Service** (percentage of exports of goods and services)



Source: World Bank.

in 2002 the country faced a debt crisis. Scheduled repayments were estimated at $3.3 billion, but the country's budget for the year earmarked only $1.7 billion for debt servicing.

Following the sharp fall in oil revenue, as well as the 20 per cent fall in external reserves between December 2001 and August 2002, Nigeria suspended some of its debt payments. Since then, however, it has made significant progress, with the government indicating in July 2003 that it had been making prompt payments. Nigeria's debt management office (DMO) indicated in 2003 that multilateral debt had been fully repaid without arrears, and that it is regularly servicing all commercial instruments.

Structural Issues

Nigeria continues to pursue reforms, deregulation and reorganisation to remove the persistent structural bottlenecks that hamper economic recovery and growth. The government made what is considered by many as its most significant reform by deregulating the oil products prices in November 2003.

Energy plays a critical role in Nigeria, which is rich in energy resources and is currently Africa's largest producer and exporter of petroleum and gas. The country's major energy resources include crude petroleum and gas, as well as coal, bitumen, hydropower and fuel wood. In addition, solar energy is important, particularly in northern Nigeria. The petroleum and gas sub-sectors are intricately linked to the electricity sector as most power stations are based on gas thermal processes.

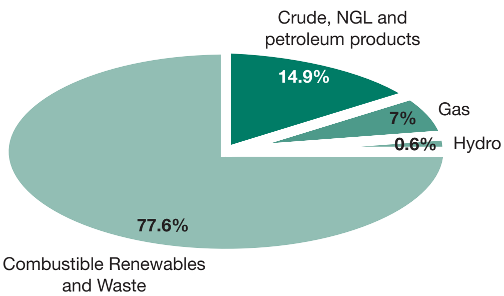
In spite of the critical role of the energy sector, energy policy has not been systematic. Further, there has been no statutory blueprint on the basis of which energy plans and programmes can be implemented. Efforts to fashion out a comprehensive energy policy in 1993 were curtailed. However, a draft policy document on energy policy was concluded in 2002.

Nigeria's energy supply faces a number of problems: *i)* the absence of an integrated national policy for the energy sector; *ii)* the existence of a multiplicity of energy related agencies whose roles are oftentimes uncoordinated; *iii)* the government's dual role as operator and regulator; *iv)* the weak legal and legislative framework; *v)* the lack of funds, due to reliance on government subsidies and a sub-optimal tariff system; *vi)* the social conflicts in oil producing areas such as the Niger Delta, and sabotage of energy facilities in different parts of the country; *vii)* the over-concentration on exploiting non-renewable energy resources at the expense of renewable sources, such as solar and hydro power; and *viii)* the poor record on corporate governance and associated high corruption levels in energy producing enterprises.

The Federal Government dominates the energy sector, the key institutions being the ministries for Mines and Power, Petroleum Resources, and, to some extent, the Forestry Department of the Ministry of Agriculture. Other special government agencies in the sector include the Energy Commission of Nigeria, the Nigerian National Petroleum Corporation (NNPC), the Nigeria Electric Power Authority (NEPA), the Nigerian Coal Corporation as well as a number of other energy research and development institutions. The Ministry of Science and Technology also provides inputs into energy policy formulation. Nigeria's energy sub-sectors have until recently operated as public enterprises. The oil and gas sub-sector is still largely state-controlled, with the NNPC, the major government investor, owning a large number of subsidiaries. Since the early 1980s, however, the Federal Government has made several efforts to deregulate the sector.

The petroleum and gas sub-sector sustains the Nigerian economy. Oil and gas reserves are currently conservatively estimated at 26 billion barrels and 157 billion cubic feet respectively. By the end of 2004 four giant deepwater fields - Borga, Erha, Agbami and Akpo – representing 6 billion barrels of additional oil reserves, will come on stream, bringing total oil reserves to 32 billion barrels. Crude oil production capacity currently stands at 2.6 million barrels per day and is expected to reach 3.3 million barrels by the end of 2004. Aiming to raise its crude oil reserves in October 2003, Nigeria opened bids for nine oil blocs in the Joint

Figure 6 - **Structure of Domestic Energy Supply in 2001**



Source: International Energy Agency.

Development Zone (JDZ) of the Gulf of Guinea. The JDZ is administered by Nigeria and São Tome and Principe, and the area opened for exploration is said to hold about 6 billion barrels of crude oil. Major oil companies including Shell, Chevron/Texaco, Total and ExxonMobil as well as indigenous firms are known to be in contention for the blocs.

The oil and gas sub-sector has become inefficient in recent years due to the absence of a coherent national energy policy, rendering it unable to satisfy the growing demand for energy. Government owned oil refineries have failed to supply refined petroleum products. Efforts to increase efficiency have concentrated on increasing the role of both foreign and local private sectors. In spite of strong opposition to privatisation, the government is determined to deregulate the downstream oil and gas sub-sector. In November 2003, the petroleum prices were deregulated when the government fuel-price regulator lifted the cap on petrol, diesel and kerosene prices and thus opened the market for competition. In the past, fuel subsidies have cost the government at least $1 billion a year and fostered corruption. The deregulation of the oil market ought to reduce graft and pave the way for sale of state refineries. However, the resulting freedom for marketeers to determine prices at retail outlets means that deregulation has occurred without an appropriate institutional anchor. In addition to the lack of refinery capacity, the downstream sector of the Nigerian oil and gas industry has suffered from the crisis in the Niger Delta (Nigeria's main oil producing zone), sabotage of oil facilities, environmental hazards, and poor management practices.

Institutions in the gas industry are also rather weak. It is estimated that every barrel of crude petroleum produced in Nigeria is associated with 1000 cubic feet of gas. For a considerable time, most of the gas produced in association with crude petroleum has been flared. Estimates indicate that during the period 1970-1979 about 97 per cent of associated gas produced was flared; for the period 1980-1989 the average flaring rate was 79 per cent, falling marginally to 72 per cent during the period 1990-2000. Regulations have imposed insufficient sanctions and incentives for key oil operators in respect of gas utilisation schemes. However, some oil operators, particularly Shell, have established gas plants that supply natural gas to factories for industrial use. The Nigerian Gas Company (NGC), which is a subsidiary of the NNPC, also supplies both domestic and industrial gas to consumers. In October 2003, the government and three of its joint venture oil partners – Conoco Phillips, Nigeria Agip Oil Company (NAOC) and Chevron/Texaco – took the final investment decision to execute the Brass LNG project. Contracts for parts of the project are due to be awarded in 2004, with the rest expected to be awarded by the first quarter of 2005. The Brass LNG project is one of three new liquefied natural gas projects being floated in a bid to end gas flaring and raise new revenues. In 1995, a review of the national gas policy required all operators to ensure that gas flaring was eliminated by 2005. At a later stage, this deadline was brought forward to 2004 in a mutual agreement between the Federal Government and the oil operators. However, studies carried out by some oil operators indicate that this target has only slim chances of success.

Nigeria's electricity supply is generated through a national power grid system by means of hydropower, gas turbines and steam processes. The electricity supply is controlled by the National Electric Power Authority (NEPA), a public monopoly accounting for about 98 per cent of total supply. The total generating capacity of Nigeria's existing power stations is estimated at 5 400 megawatts (MW). However, only 1 600 MW (29 per cent) of this is actually being generated. Electricity supply has been unreliable, leading to high production costs for companies, which are forced to procure and run their own power generating facilities. Average households and small businesses have their own standby electricity generating sets.

Since 2000, the Federal Government has been working to rehabilitate the electricity system. It has emphasised the expansion of rural electrification as part of its programme to enhance efficiency in the informal sector and alleviate poverty. The following measures are being pursued: *a)* rehabilitating and maintaining existing power stations to ensure that installed effective capacity of 5 400 MW is actually available for distribution; *b)* constructing additional power stations; *c)* encouraging independent power producers (IPPs); *d)* sourcing for funds from different avenues, including technical assistance under the Lome IV programme; and *e)* deregulating the power supply industry. Although these measures have had some success, frequent power surges and occasional total system collapses have continued. As a prelude to eventual privatisation NEPA has now been split into 18 subsidiaries in electricity generation and distribution, with changes expected to come into full force during 2004. Discussions on independent power producers (IPPs), which some state governments had promoted as a method to supplement NEPA's electricity supply, are yet to yield outcomes. The government has, however, continued to encourage foreign participation in order to make the electricity supply for both residential and industrial consumers more efficient. In October 2000, for instance, NEPA signed a partnership agreement with South Africa's ESKOM to help develop NEPA's repair capabilities, to execute transmission line projects, and to participate in the restoration, operation and transfer (ROT) schemes for Nigerian power stations. Similar schemes were established between Shell and NEPA for four Afam power plant units over a 15-year period and between NEPA and some Chinese firms.

In spite of these efforts to improve electricity generation, transmission and distribution, access to electricity supply in Nigeria remains very low – only 10 per cent of rural households and 40 per cent of the total population have access. NEPA aims to increase access to 85 per cent of the population by 2010. However, based on NEPA's record, it is safe to suggest that this will only be achieved with complete deregulation of the electricity sector and the privatisation of NEPA. In addition to reducing its role, the government must prepare the sector for deregulation, enabling small IPPs to enter the market, particularly at the rural community level.

Nigeria's coal resources are estimated at about 2.5 billion tons. The Nigerian Coal Corporation (NCC) is the statutory body responsible for the development of the coal sector and runs most of the existing coalmines. The Enugu mine, the country's largest, has a production capacity of 150 000 tons per annum. The share of coal in total commercial energy consumption is very small, the cement company NIGERCEM PLC being its only major commercial consumer. The country's major steel plants, particularly the Delta Steel Company, potentially large consumers of coal, have been in a state of neglect since the 1980s. The industry is gradually being privatised and, in order to further develop the sector, the government has signed its first production sharing agreement with Nordic Industries, a consortium of Danish, British and local firms.

Privatisation has been progressing slowly. In early 2002 some 117 public enterprises were on sale in sectors such as communications, energy, fertiliser, steel, transport, paper, sugar, cement, automobiles, finance, insurance and media. The programme was scheduled for completion by the end of 2003. In 2002 the government listed 24 enterprises for privatisation, but met with serious opposition, causing the Nigerian Senate to halt the privatisation of NEPA. The National Assembly followed suit in opposing the privatisation of key public enterprises such as the Nigeria National

Petroleum Corporation (NNPC), Nigeria Security Printing and Minting Company (NSPMC), Niger Dock, Sadiq Petroleum and Nigeria Telecom Limited (NITEL). By early 2003, the government had thus not made any major headway with the major public concerns such as NEPA, NITEL, and NNPC. However, it later announced the conclusion of a pre-agreement with Pentascope, a Dutch Company which will take over management of NITEL and prepare its eventual sale. The government's failure to sell the large enterprises raises questions about its commitment to the privatisation programme. Furthermore, there have been difficulties in finding buyers for these enterprises, as the cost of restructuring them and the volatile political environment have deterred foreign investors.

Financial sector liberalisation is progressing. The sector is now performing reasonably well although routine CBN examinations have revealed problems in some banks. In 2002 they discovered incidents of poor management, weak internal control systems, under-capitalisation, and inadequate collateral. Cases of fraud and forgery, of which 1 000 were unearthed in 2002, also continue to undermine the smooth operation of the financial sector. The CBN has continued its policy of free entry and exit into the banking system. In 2002 there was backlog of 21 private sector applications to set up new banks. There were also signs of inconsistency, as the CBN issued an operating license to one bank (Bond Bank Ltd.) while revoking that of another (Savanna Bank Plc.). A new mechanism for dispute resolution was introduced by the CBN in 2002. The CBN also initiated a private sector funded "life boat" facility for banks with temporary liquidity problems.

Major changes in capital markets have continued to bring improvements. The Nigerian Stock Exchange (NSE) has made progress in improving its market infrastructure. In 2003 it completed the upgrading of its trading, clearing and settlement systems. It has also commissioned its e-business platform. The modernisation of the market infrastructure has improved market performance. Total market capitalisation increased by about 15 per cent in 2002 and had risen by nearly 50 per cent by the third quarter of 2003. Also, the NSE All-Share index, which appreciated by about 10.7 per cent in 2002, had further gained about 35 per cent by the end of September 2003.

Political and Social Context

In 2002, the prospective 2003 elections created a climate of political uncertainty, with violence and even political assassinations intensifying fear and casting doubt over whether the elections could be completed successfully. Indeed, since independence Nigeria had never successfully held a transition from one elected government to another. However, in a major political milestone, history was made in April 2003 when President Obasanjo was re-elected to a second term.

Nevertheless, governance problems continue. In particular, corruption continues to hold sway, with social, political and economic costs. According to the Transparency International Corruption Perceptions Index 2003, Nigeria is second only to Bangladesh in the list of countries perceived to be most corrupt. The commission to fight corruption, one of the first bodies set up by President Obasanjo after assuming power in 1999, has led to the conviction of just one public official. Significantly, the commission's investigation into the activities of the most influential politicians was met with staunch opposition from Parliament in 2002.

On the international stage, Nigeria's relations with neighbouring Cameroon now appear brighter. Relations between the two countries had stalled in late 2002 when Nigeria refused to hand over the disputed oil-rich Bakassi peninsula to Cameroon, in contravention of a ruling of the International Court of Justice in The Hague. During 2003 one village was handed over to start the process of redrawing the disputed border between the two countries. In early 2004, another 32 villages along the northeastern border were due to be exchanged. However, agreement has yet to be reached on the Bakassi peninsula itself, though both countries now say they are committed to a peaceful resolution of the issue.

In spite of Nigeria's oil wealth, poverty is entrenched. Government efforts at poverty alleviation have suffered from political tension and communal, ethnic and religious violence. In 2002, the government strengthened its National Poverty Eradication Programme (NAPEP). Budgetary allocations to core ministries and agencies for poverty reduction were pooled into a Poverty Eradication Fund. Key social services have not performed well despite increased budgetary allocations. The slow pace of the restoration of basic facilities and the high incidence of strikes in the education and health sectors continue to hamper service delivery by key institutions established to improve the living conditions of vulnerable groups. Health sector performance remains mixed even though its budgetary allocation increased to nearly 5 per cent of total government expenditure in 2002 – its highest share since 1998. This enabled house-to-house visits by medical staff to immunise children against six major childhood diseases to continue, contributing to a rise of the immunisation rate from 74 per cent in 2001 to 75 per cent in 2002. That year also saw the introduction of the government's National Health Insurance Scheme (NHIS). The government intensified surveillance to rid Nigeria of fake, expired and sub-standard drugs and other products, a serious problem that has been giving the country a bad image in the sub-region. Other health indicators, however, including those calculating the number of people per physician, hospital bed and nursing staff, have failed to improve, due in part to frequent strikes by doctors, nurses and midwives.

HIV/AIDS continues to pose problems, with its prevalence rate at 5.8 per cent in 2002, having risen from 1.8 per cent in 1991 to 4.5 per cent in 1995, and to the exponential threshold of 5.4 per cent in 1999. While this rate may not appear high in a continent where double-digit figures are not unusual, Nigeria's population of 120 million implies that nearly 4 million citizens are infected. This represents more than 10 per cent of all infected Africans, or over 8 per cent of the global figure. In 2003, the National Action Committee on AIDS established that about 1 000 Nigerians die daily from the HIV/AIDS scourge. On a positive note, the government continues to combat the problem. It is pursuing an initiative for the treatment of infected people. Under the programme, which started in 2003, the government is distributing imported generic antiretroviral drugs from India at less than 10 per cent of the cost of brand names - less than one US dollar per day.

In the education sector the government continues to pursue its Universal Basic Education (UBE) policy. Education is to be free and compulsory for all children at the primary and junior secondary school levels. The education sector's budgetary allocation rose by 9.5 per cent in 2002, constituting 7.9 per cent of the total budget. This enabled the restoration of schools and improved enrolment rates by 8 per cent in primary schools and 7 per cent in secondary schools. The government's focus on UBE poses challenges for higher education. In 2003, the National Universities Commission estimates that a potential 6 million students may wish to enter university education in 2010, the year in which the "Obasanjo UBE children" are scheduled to leave secondary school. Currently, Nigeria's 53 existing universities can only absorb about 166 thousand new enrolments per annum.