

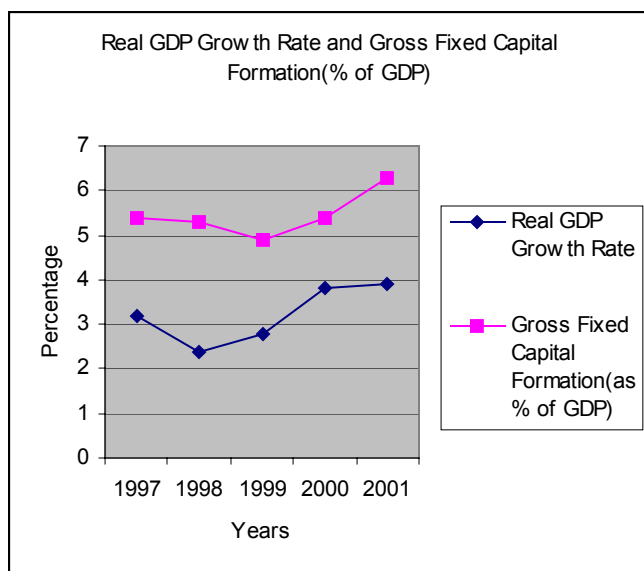
Private Sector Response to Reforms in Nigeria

By

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Nigeria ushered in a new administration in May 1999 amidst turbulent social and economic condition, resulting from decades of military dictatorship. The new administration immediately focused on creating a new social and economic order that would promote sustainable development and reduce the level of poverty. The aim has been to enthrone good governance, accountability and transparency and the reduction of the level of corruption. These have been at the core of the reform process, which together with reinvigorated economic policies were expected to create the environment for private initiative to drive the growth process. One of the expected dividends of democracy in Nigeria is the boom of the private sector, which was expected to result from the liberalised environment which democracy ushered in. The most enduring dividend of democracy should be sought in the vitality of the private sector and the strength, which this sector exhibits to propel the economy in the long run.

Preoccupation with short-term indicators has obscured appreciation of some of the fundamental changes that has occurred in the economy since the current democratisation process. Despite the numerous challenges and difficulties faced by the economy, a more vigorous pursuit of the economic reform process in Nigeria in the last few years has yielded some dividends and has laid the foundation for long-term growth. The on-going streamlining and strengthening of key institutions, the provision of long-term strategic programmes for key sectors of the economy to guide investors, the pursuit of foreign investments by opening up the economy and providing the legal framework for protecting investments in the country, the refocusing of the role of government in the economy, the encouragement of private initiatives through various government policies, have created a new order in Nigeria which is yet fully appreciated. The overwhelming consensus in 1999 was in support of bold economic reforms that would fundamentally change the structure and performance of the economy. Events in the country have shown that the challenges to reform are enormous and require a determined administration, committed to reform to make progress.



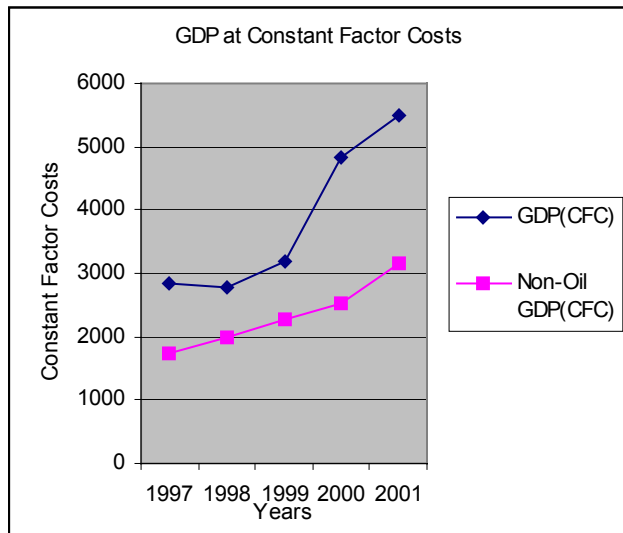
Source: Based on data from *CBN Annual Report*

The progress made so far demonstrates the potentials for success in the long run and the possibilities that could be taken advantage of in the short run. The proper role of government is central to success. Its prescribed role in the present economy is that of guidelines, and creating and maintaining conducive environment for rapid socio-economic growth. After decades of public sector control of the economy change has been slow and difficult. Public sector control of the enormous oil wealth still makes for excessive influence over economic decisions. A viable and sustainable mechanism for channeling oil resources into investment outlets is still not properly established. Efforts in this direction form part of the on-going reforms. Reforms have however reduced the presence of government in the economy. In this regard attention has been focused on infrastructure, social services, policy consistency and stability, policy implementation, security, law and order, good international image, and good governance. Short-term outcome has been mixed but prospect for the long term seems good.

SELECTED ECONOMIC INDICATORS

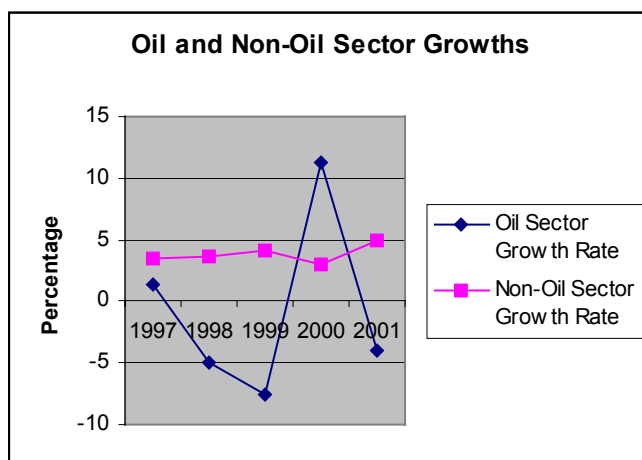
	1997	1998	1999	2000	2001
GDP (84 Prices)	111.1	113.67	116.84	121.33	126.03
Gross Capital Formation (N= billion)	5.98	6.01	6.13	6.72	7.91
Index of Industrial Production	140.6	133.9	129.1	138.9	145.3
Index of Manufacturing Production	138.5	133.1	137.7	138.2	142.2

Source: CBN; *Nigeria Investment Promotion Commission*



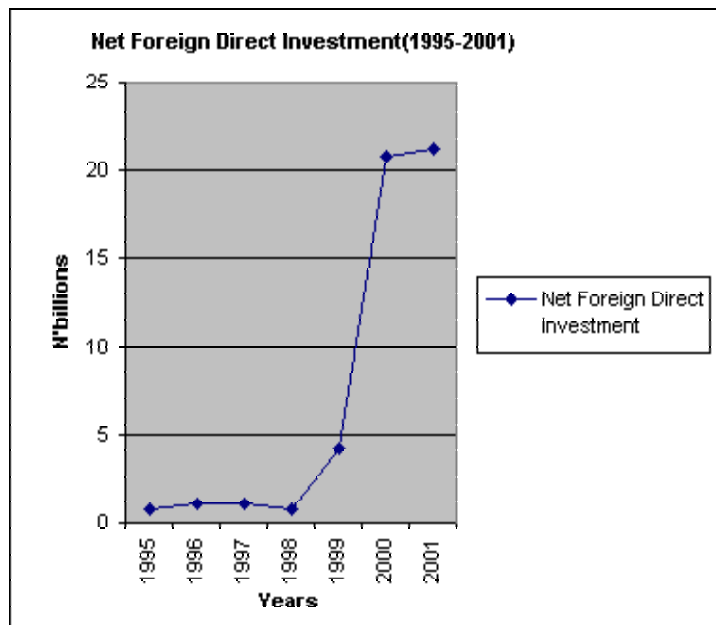
Source: *Based on Data from CBN Annual Reports*

The selected indicators point to the level of success achieved so far in halting the decline of the economy and reversing aggregate growth trends. They also point to the challenges that still face the economy. Whilst Nigeria has the pre-requisite of a populous market, private investments have been slow. The dominance and often crowding out effects of public investment had in the past posed serious constraint to private investment. Over the years investors were constrained by political and policy instability and worsening macroeconomic environment. Reforms have had to deal with stifling and sometimes hostile bureaucratic environment with a measure of success so far but with great challenges ahead. Real growth has recovered from the mid 1990s decline although projections for 2002 show a dip.



Source: *Based on Data from CBN Annual Report*

The events of 2002 have sent a powerful signal to policy makers and other actors that fluctuations of the oil sector and procrastination over policy could be costly to growth. The modest performance of the economy since 1999 despite the challenges posed by decades of neglect can be attributed to the confidence of the private sector in the reform process. The performance of the private sector is a major indicator of confidence in the economy and the efficacy of public policy. The response of the private sector to reforms is key to the success of the new economic order. Gross Fixed Capital Formation, Index of Industrial Production and Index of Manufacturing Production are all experiencing an upward trend. Domestic investment is the key to economic growth and poverty alleviation. Nigeria must improve on the speed of domestic investment in key sectors of the economy. Massive government expenditures in most of these sectors have not resulted in new investments. Long-term investment resources must be made available to local investors at affordable rates to spur local investment. Recent attempts by government to streamline development banks are an encouraging step in this direction. These institutions should provide an outlet for resources bottled up in the public sector. The prospects for long-term growth provided by these institutions are great.



Source: Based on data from NIPC

Nigeria has always had problems attracting significant foreign direct investments (FDIs) since the 1970's. The only exceptions are investments in oil and gas and real estate sectors. Since the present administration efforts have been intensified to reverse this trend. Government has tried to streamline the regulatory process to reduce unnecessary permits and licences required for doing business in Nigeria. The President has personally undertaken visits around the world to drum up support for foreign direct investment. Nigeria has entered into a number of agreements aimed at facilitating FDIs in the

country. The results so far have been encouraging. Net foreign direct investment has been on the increase in Nigeria.

Another indicator of the growth of business confidence in the Nigerian economy is the level of development of the Nigerian Capital Market. The Nigerian Capital Market has the potential of becoming a major player in the economy. It can meet the urgent requirement of equity capital for sustained economic growth. The experience of emerging democracies has shown that capital market development has been a major growth driver. The new economies of South East Asia have also demonstrated that capital market development has been a force in the rapid expansion of local investment. Capital markets attract the attention of international investors. An efficient market has the potential of attracting capital from around the world and provide much needed domestic investment. In Nigeria, a number of critical questions have been raised for policy makers one of which relates to how to make the capital market a growth driver both in the short and the long run. There are enough evidence around the world to link stock market and economic growth. Despite the investment climate in Nigeria, which, however has been improving rapidly in the last three years, the capital market is now in a position of contributing significantly to economic growth.

The major indicators of the Nigerian Capital Market demonstrate the growing confidence in the Nigerian economy. Reforms are expected to attract foreign business interest into the country and a strong capital market would facilitate their movement into the country. Within the last three years the stock market has shown signs of becoming a major growth driver. The various actors in the market have worked hard to reposition it for international competitiveness. The Nigeria Capital Market is now responding not only to domestic reforms but, to the unfolding global business trends. The Exchange is presently in a position to play a major role in the drive for foreign investment, particularly foreign portfolio investment (FPI). The capital market through the NSE trading window now provides the gateway for foreign investment inflow.

The Nigerian Stock Exchange: All-Share Index (Month-end Value) 1996-2002.

YEAR	1996	1997	1998	1999	2000	2001	2002
MONTH							
JANUARY	5135.07	7668.28	6435.62	5494.77	5752.9	8111.01	10649.96
FEBRUARY	5180.36	7699.28	6426.17	5376.48	5955.73	8794.22	10581.86
MARCH	5266.2	8561.38	6298.5	5456.22	5966.24	9180.53	11214.38
APRIL	5412.35	8729.79	6113.9	5336.52	5892.79	9159.83	11399.05
MAY	5704.12	8592.32	6033.9	4916.21	6095.35	9478.18	11486.70
JUNE	5798.72	8459.29	5892.08	5977.89	6466.72	10153.79	12440.65
JULY	5919.43	8148.8	5817.03	4964.34	6900.73	10937.26	12458.23
AUGUST	6140.95	7681.99	5795.71	4946.16	7394.05	10576.43	12327.91
SEPTEMBER	6501.88	7130.79	5697.67	4890.77	7298.88	10274.16	11811.55

OCTOBER	6634.78	6554.77	5571	5032.45	7415.34	11182.98	
NOVEMBER	6777.61	6395.76	5688.19	5133.2	7406.02	11165.57	
DECEMBER	6992.1	6440.51	5672.76	5266.43	7141.43	10963.11	12137.72

Source: Nigerian Stock Exchange Fact book.

The NSE all share index grew by 10.7 per cent to close the year 2002 at 12,137.72 points. The highest point for the year was 12,440.65 which, was recorded in the first half of the year. In 2001, the index had closed at 10,963.11 point with the highest level of 11,339.61 points recorded in October of the same year. This is a good measure of confidence in the economy indicating that the private sector is increasingly responding to the challenge of taking over the economy from the public sector. The core of reform policies is shifting the locus of growth from the public to the private sector. This will not happen if the private sector is either unwilling or unable to accept the challenge.

OPERATIONAL HIGHLIGHTS OF THE STOCK MARKET (1996-2002)

	1996	1997	1998	1999	2000	2001	2002
Market Capitalization. (₦ billion)	285.6	292.0	263.3	299.9	478.6	662.6	721.8
Shares Traded (billions)	0.882	1.3	2.1	3.9	5.0	5.16	5.8
Value Traded (₦ billion)	7.1	11.1	13.6	14.1	28.2	34.99	50.7
Daily Ave. Volume (in millions)	3.5	5.3	8.4	15.6	19.9	6.0	
Daily Ave. Value (₦ million)	28.4	44.3	54.3	55.7	112.2	5760	
Listed Securities (in millions)	276	264	264	269	260	261	257

Source: Nigeria Stock Exchange

The total market capitalisation of all listed securities in 2002 grew appreciably by 13 percent to close the year at N748.7 billion. This is an encouraging development in light of developments in other parts of the economy. The year 2002 was a difficult one for the economy. That the market continued to grow implies that investors have faith in the long-term strength of the economy. Market capitalisation in 2001, however grew by 38.4 percent, while the all share index rose by 35.2 per cent compared to the year 2000 levels. Major developments in the market likely to further its ability to contribute to economic growth include the launch in April 2002 of the Nigerian Stock Exchange (NSE) e-Business Platform/Internet Portal. The planned privatization of the three key parastatals - The Nigerian Telecommunications Limited (NITEL), National Electric Power Authority (NEPA), and the Nigerian National Petroleum Corporation (NNPC), all of which are to be executed through the Nigerian Stock Exchange should give the market added boost.

The Nigerian Stock Exchange signed Memorandum of Understanding (MOU) with the international Stock Exchanges of London, Egyptian Stock Exchange, Nairobi Stock Exchange, Ghana Stock Exchange, and the SSE Securities Exchange of South Africa, amongst others. This would provide needed linkages with other markets and facilitate the opening of the Nigerian market to foreign investors. These developments are surely dividends of the current reform process and the confidence, which the democratisation process has produced. The capital market is voting for the current reforms in Nigeria and in democracy.

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